



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Australia's four major banks and other financial institutions: four major banks

(Public)

THURSDAY, 15 APRIL 2021

CANBERRA

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS

Thursday, 15 April 2021

Members in attendance: Mr Falinski, Dr Leigh, Dr Mulino, Mr Simmonds, Mr Tim Wilson.

Terms of Reference for the Inquiry:

To inquire into and report on:

The Standing Committee on Economics will review Australia's four major banks and other financial institutions. Specifically, the committee will inquire into matters relating to:

- how financial institutions deal with their customers, including indigenous customers, on specific issues and ensure they do not charge default interest on loans secured by agricultural land when there is a drought or natural disaster declaration (recommendations 1.8 and 1.13), and to deal appropriately with distressed agricultural loans (recommendation 1.14);
- the approach taken by financial institutions to review and regularly assess culture, governance and remuneration arrangements, as required under recommendations 5.4 and 5.6, to ensure that these not only comply with the law but also meet community expectations;
- implementation of the recommendations of the Sedgwick Review as they concern staff remuneration (recommendation 5.5);
- remediation of customers in a fair and timely manner following conduct that has fallen short of the law or community expectations; and
- actions being taken by institutions to put customers at the heart of their business and to achieve the letter and spirit of the Royal Commission's recommendations.

WITNESSES

COHEN, Mr David Anthony Keith, Deputy Chief Executive Officer, Commonwealth Bank Group 1

**COMYN, Mr Matthew Peter, Chief Executive Officer and Managing Director,
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KING, Mr Peter Francis, Chief Executive Officer, Westpac Banking Corporation 33

**VANCE, Mr Leslie Wilson (Les), Group Executive, Financial Crime, Compliance and Conduct,
Westpac Group 33**

COHEN, Mr David Anthony Keith, Deputy Chief Executive Officer, Commonwealth Bank Group

COMYN, Mr Matthew Peter, Chief Executive Officer and Managing Director, Commonwealth Bank Group

Committee met at 09:16

CHAIR (Mr Tim Wilson): I declare open this hearing of the House of Representatives Standing Committee on Economics for the review of the four major banks and other financial institutions. Representatives of the Commonwealth Bank of Australia and Westpac will be appearing today, followed by the appearance of NAB and ANZ at tomorrow's public hearing. These hearings provide an important mechanism to hold the banks and other financial institutions to account before the parliament. It is crucial that financial institutions are treating consumers fairly during what is a difficult time for many Australians but also of course off the back of the Hayne royal commission and everything that needs to be implemented off that, which is still ongoing because of the COVID-19 pandemic.

Australia's economic comeback is well underway. Taxpayer funded temporary emergency support programs such as JobKeeper have come to an end, as the economy has strengthened, but have been replaced by targeted measures. In March the government announced that it had moved to the next stage of its economic recovery plan, with around \$100 billion of the \$251 billion in unprecedented economic support still to flow through. The committee is keen to hear what the initial data is showing on the recovery of the economy and household balance sheets with the phasing out of taxpayer funded emergency support programs and mortgage deferrals. Surging property prices—that's not your fault, though—fuelled by historically low interest rates—that's the RBA's fault—have left many Australian first home buyers high and dry, and many young families are being forced to save for larger deposits while also paying increasingly higher rents and having their savings forced into superannuation ahead of home ownership. That's called super over homes. The committee is also interested in discussing the role of the banks in empowering hardworking Australians to purchase property and invest in their own future and build a life and security for themselves and their family.

In addition to the response of the four major banks to the COVID-19 pandemic, the committee will examine their progress in implementing recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The committee will scrutinise the banks on how they're improving their practices and rebuilding trust in the financial sector. In particular, the committee will question banks regarding compliance issues that have continued to come to light, such as allegations that CBA charged monthly access fees to customers when it was not entitled to do so. It's disappointing that compliance issues continue to shake the committee's trust in financial institutions. These hearings give the committee an opportunity to follow up on these matters and hopefully prevent them in the future through accountability, not just to customers but ultimately through to the parliament, and hopefully regain community trust.

I would like to outline a number of matters related to the conduct of today's hearing. The hearing is being held in person and via videoconference and teleconference, with members and witnesses appearing together online from across Australia. The hearing is being broadcast and can be viewed by members of the public from the parliament's website. The proof and official transcripts of proceedings will be published on the parliament's website. I remind members of the media of the need to fairly and accurately report the proceedings of the committee.

We now have representatives from the Commonwealth Bank of Australia appearing for today's hearing. I remind you that although the committee does not require you to give evidence under oath the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Comyn: Thank you, Chair, and good morning. When we last appeared before this committee in September, Australia was six months into a global pandemic and facing great uncertainty, both on the health front and economically. As I address you today, much uncertainty remains, yet we also see significant cause for optimism. Foremost, Australia has continued to manage the risk of community infection effectively. Outbreaks have been contained. In terms of the economic recovery, we are far more advanced than we had anticipated. The employment numbers have been very encouraging, with over 87,000 new jobs created in February alone, bringing the unemployment rate below six per cent. Equally, indications of consumer confidence have lifted strongly, in some cases to more than decade highs. When combined with surplus household savings, estimated at more than \$120 billion, this points to strong growth in retail spending over coming months. Australia's economic resilience

speaks to the sensible policymaking of successive Australian governments, which has left our economy able to respond to shocks.

For customers of the Commonwealth Bank, of the 158,000 home loans where payments were put on hold, almost all have exited deferral. This is equally true of the approximately 83,000 business loans. This is a remarkable outcome and a strong testament to the hard work and commitment of our customers. We are proud to have been able to support them through that challenging period, not just financially but also by making information available about benefits and support, including sending COVID-related support messages via our CommBank app. We are conscious that some of our customers still face difficulties. While they are a small proportion compared to where we were this time last year, each represents a family, an individual or a business. They include those touched by extreme weather in New South Wales, Queensland and Western Australia, those rebuilding from last year's fires and those businesses more dependent on the flow of tourists or students from overseas or on workers returning more regularly to our cities and towns. We are focused on providing targeted assistance to customers, whether that be so they can stay in the family home or because they are experiencing a form of vulnerability. We and the industry put substantial support in place throughout COVID. We remain focused on providing targeted assistance to customers who need it most.

Turning to the outlook for the economy, understandably, economic policymakers will be very focused on the appetite for private investment as the key engine of recovery. We have seen business owners thinking carefully about making additional investments and taking on more debt. However, we have also seen great ingenuity, resilience and resolve among the businesses we serve. With Australia's continued success in combatting the virus, we believe that the high levels of business confidence we have seen will translate into additional investment and jobs in the coming months. Our economics team are forecasting 45,000 additional jobs to have been created in the month of March, reducing the unemployment rate to 5.6 per cent. Based on the positive momentum that we are seeing, our economics team have also upgraded our forecast for GDP and employment and expect to see unemployment at five per cent by the end of calendar 2021 and 4.7 per cent by the end of 2022. Vital to this will be effective access to finance. We are proud to have been the leading partner in the government's small and medium loan guarantee scheme, with the Commonwealth Bank accounting for around half the loans that were extended. This last year has seen us make fundamental improvements to underlying processes so that we can expedite the process for approving business loans. At the same time we have grown our exposure to a range of industries, including health, agri and transport. Our intention is to continue to support our business customers, and so we're continuing to talk to businesses around the country about what we can improve further.

Equally of interest to this committee, I know, is the impact of the low interest rate environment. While we continue to monitor housing demand closely, conscious as we are of any build-up of systemic risk, a number of factors distinguish this period from price increases we have seen in prior cycles. Some of the largest price gains have been outside of the major cities—areas which had seen subdued price increases or even falls in the preceding years. Also, a much greater share of demand in this instance is coming from first home buyers and owner-occupiers. These factors are positive, not least because they mean that more Australians are buying their first home but also because they point to greater stability in the market through the current cycle. We also hear regularly from customers about the effect of the low interest environment on returns that are available to depositors. The task of balancing the multiple factors that determine the economic trajectory of the nation is as challenging as ever; however we see many encouraging signs. We are committed to continuing to play our part in realising Australia's ongoing economic recovery. Thank you.

CHAIR: Thank you very much, Mr Comyn. From where you sit, in a word, what would you describe is the state of the Australian economy?

Mr Comyn: Very strong.

CHAIR: That's two words!

Mr Comyn: It is!

CHAIR: I'll say strong-plus.

Mr Comyn: Strong-plus.

CHAIR: Strong-plus is one word. From where you sit at the moment, what you see is an economy that's clearly part of a recovery or a comeback. You're projecting a continued decline in unemployment over what time frame?

Mr Comyn: Just in the last week we upgraded our economic forecast for both GDP and unemployment. As I said, we expect that today's jobs figures, which I think come out at 11.30, will see unemployment fall to 5.6 per cent. Our economics team has upgraded that for the end of the calendar year to five per cent and 4.7 per cent

unemployment by the end of 2022. If you contrast that with the unemployment rate in February last year, pre-COVID, which I think was 5.1 per cent, I would say the recovery in the labour market is, in a word, miraculous.

CHAIR: Before we go onto some broader issues around the economy, I'm just wondering: what measures are being taken by the Commonwealth Bank around Hayne royal commission implementation, and how are you progressing against the recommendations and implementation—obviously acknowledging that there are always measures that require parliamentary approval?

Mr Comyn: Sure, and David perhaps might add the specific numbers. We look across three categories. There are the ones that we can complete in and of ourselves. There is a second category where work is underway but we're waiting for finalisation of some of those details. The third category is where there is outstanding legislation that still needs to be passed. We have continued to implement all of the recommendations that are available to us to implement today. I don't know, David, if you want to add anything specific.

Mr Cohen: That's correct, Matt. In particular, we've implemented all the recommendations around remuneration on the front line, the brokers' best interest duty. We have implemented recommendations around agribusiness and how to deal with loans in distress. We've also implemented all of the reforms around superannuation where the legislation has been released and where it is now clear. In short, we have implemented everything that is capable of being implemented at this stage, pending some regulatory progress to be made.

CHAIR: Mr Comyn, you said in your opening statement—I can't remember the exact words—that you have essentially transitioned distressed loans or deferred loans as a consequence of COVID-19 to negligible levels. For clarity, what was the total number of loan deferrals required at the start of the pandemic by the Commonwealth Bank?

Mr Comyn: It was approximately 158,000 home loan accounts.

CHAIR: What is it now?

Mr Comyn: It would be between 3,000 and 4,000, depending on how we categorise. I think my words were 'almost all', which obviously, on the basis of that, over the denominator, is true. But of course we recognise that, while the numbers and the totality of what we're anticipating are small, each one represents an individual or a family, which is still a very difficult and distressing situation. We expect that we'll continue to support customers as best we can during the course of the year. Particularly in housing, one of the things that is benefiting is robust prices. We have seen some customers take the decision to voluntarily look to sell their property.

CHAIR: Sorry, does that include the 3,000 to 4,000, or does it include people who are transitioning towards selling assets if they can't afford to have them?

Mr Comyn: The 3,000 or 4,000 would be those that are either remaining in deferral or requiring further assistance. That would be excluding the customers who have already sought to create a solution, perhaps by selling an investment property and reducing their debt, and therefore put themselves on a more sustainable footing going forward.

CHAIR: For clarity then, how many of the people who have chosen to dispose of a home because of distress and the loan deferrals would be owner-occupiers versus investors?

Mr Comyn: The mix is quite consistent with the rest of our books. It is about 70 per cent owner-occupier and about 30 per cent investor.

CHAIR: How many does that 70 per cent equate to those who have sadly disposed of their owner-occupier residence?

Mr Comyn: In the hundreds—300 to 400. In the ordinary course of events—outside of any pandemic—over the last 12 years, there would be customers that would be at various stages of difficulty all the way through to a property sale. The range would have been somewhere between 700 and 1,500 from the period 2008 to 2020.

CHAIR: Annually?

Mr Comyn: Yes.

CHAIR: So you're actually saying that there is a decline in the number of people who have had to sell their homes?

Mr Comyn: No, that is the overall process. There will be a higher proportion of customers that will go through the process of ultimately coming to some arrangement with the Commonwealth Bank during the course of this year. So it is not to say there isn't distress; it is more that the magnitude of the distress is so much less than we, and I suspect many people, would have anticipated given the pandemic that we have been through.

CHAIR: What early data do you have around people coming off JobKeeper? Banks obviously watch very closely consumer behaviour—and, of course, you see that through credit card statements but also withdrawals. The end of JobKeeper at the end of March has meant that people have had to adjust their household finances. Do you have any data that gives any indication about what impact that is having, how many people it is impacting on and the flow-through consequences for household finances?

Mr Comyn: It is still very early, but at this stage there is nothing that we're seeing that is giving us particular cause for concern, although, as you would expect, it will take some time. For example, in the case of a business, they often will have run up some form of cash buffer. What you would expect in subsequent months is a depletion of those cash reserves. Then you might see something like an overdraft utilisation. They are the sorts of indicators, but we won't see those for some months. When we look at it at an industry level, insolvencies are still at about 40 per cent below COVID levels. As we sit here today, whilst we expect there will be some degradation in the coming months, there is nothing that gives us particular cause for concern. On the basis of a number of the positives, and in the context of a substantial surplus savings position, which we think provides a big tailwind to consumption, our economics team have upgraded GDP forecast to 4.4 per cent this year and reduced the unemployment rate, because they think the rate of the recovery will continue during the course of the year, notwithstanding the withdrawal of support in JobKeeper, as you mentioned.

CHAIR: What about household expenditure? Has there been a significant shift for some households, particularly if we look at the 3,000 to 4,000 people or families who are already under some form of mortgage distress or have been on deferrals? Has there been an any impact from the end of JobKeeper on those households and their expenditure?

Mr Comyn: Not significant in the totality, as you would expect. We are fortunate to have a relationship with approximately 10 million Australians. So we have a lot of customers that would have a transaction deposit account with us—in the order of seven million. So, in the totality of that, we haven't seen a significant change. The most noticeable change to customer behaviour last year was quite significant shifts in expenditure and at various points in time, particularly—

CHAIR: From service based activities towards goods?

Mr Comyn: Exactly. Of course, early on in the pandemic there was some caution and substantial income that was then run up. So we have seen a big increase in savings over the course of calendar 2020, which is one of the reasons why we estimate that in the order of \$150 billion is the surplus savings balance that sits across the consumer base in the economy. I think consumption in the near term will be favourable, and that will produce a tailwind for at least the next couple of years.

CHAIR: Would you say that expenditure has returned to a normal or new normal?

Mr Comyn: We're constantly thinking about the new normal or just next. There are a number of structural shifts that have occurred during the course of the last 12 to 15 months. So we're really just looking at the way people are spending—yes, with some benchmark to pre-COVID but, more importantly, just looking to see how parts of the economy are recovering in real time and making sure that we're supporting and facilitating economic growth, where possible.

CHAIR: For clarity, because you obviously have the hard data, which sections of the economy would you say are currently under distress?

Mr Comyn: Clearly anything that is related to international travel. If you think about tourism, in particular, many parts of regional tourism are actually doing very, very well. It tends to be areas that are far more concentrated or reliant on international tourism—Far North Queensland being an obvious area. Also, clearly, education and some of the adjacencies around education and things like student accommodation, for example. We have seen stresses in sectors like aged-care and health care and in businesses in CBD areas—Sydney and Melbourne probably being the most pronounced—like cafes, restaurants and some aspects of hospitality. But in some of those sectors, there are some businesses that are doing extremely well. Unfortunately, in some cases, it is well outside the control of the business. It can be geographical areas which are more challenged, particularly CBD versus regional locations.

CHAIR: You just raised an important point, which is the discrepancy of the Melbourne CBD versus the Sydney CBD and perhaps against the rest of the country. What data are you seeing around the performance of businesses in the Melbourne CBD, which went through a long and prolonged lockdown period last year? I imagine there's still a higher degree of caution than the Sydney CBD, or is that a false assumption?

Mr Comyn: No, I think that is directionally right. I think the Sydney CBD would still be well down on pre-COVID levels, just simply as a function of the number of people that are commuting and working within the CBD, and I think that would be slightly worse in Melbourne as well.

CHAIR: Are you expecting a slower recovery on the Melbourne CBD?

Mr Comyn: Generally, that is what we have seen to date. Going forward, that will be dependent on whether there are any further interruptions, ongoing effective management of the virus, the avoidance of further lockdowns and ongoing confidence, beyond just consumer confidence which we have seen at now 12-year highs, but also people being more comfortable with public transport and returning to higher density locations.

CHAIR: Let's touch on that—higher density locations and housing and monetary policy. Are house prices going up or is money's value just going down?

Mr Comyn: A little bit of both. The low-interest rate environment is one of the factors that's contributing to an increase in house prices. I am happy to talk about housing and some of the factors leading to that and what we're seeing in whatever detail you would like.

CHAIR: What share would you say of the current increase in house prices is proportionate or weighted towards the lowering of interest rates by the Reserve Bank and also the devaluation of money through different quantitative easing measures?

Mr Comyn: It is very hard to create a causal breakdown between those factors. Perhaps I will start with some of the observations we are seeing and a contrast of perhaps what we saw in prior cycles, particularly most recently in, say, 2015. One of the reasons—and I alluded to this in the opening statement—that we are not overly concerned with what we're seeing at the moment in the context of broader financial stability is the recovery in housing. I should say that the recovery in housing is very much a positive. We were one of many organisations that, early in the pandemic, were expecting a fall in house prices in the order of 10 per cent. The fact that they only fell two per cent and there has been a recovery, is clearly a preferable situation to the alternative.

CHAIR: Well, let's be candid: it's good for the Commonwealth Bank. You have the biggest home loan book in the country. You would certainly not want to see the reverse. But it is not necessarily great for first home buyers.

Mr Comyn: Let's come to first home buyers. One of the things that is interesting—and this is not of course unique to Australia; we are seeing this in many other markets—is that there is a much higher concentration to owner-occupier in terms of applications, fundings and purchases. More than 75 per cent would be owner-occupier. Let's call it about 15 per cent of that would be first home buyers. So the remainder—let's call it 24 or 25 per cent—would be investors. That's quite different to what we had seen previously. It's rational to expect that owner-occupiers and first home buyers, given the function of the interest rate environment, are provided some degree of certainty by the Reserve Bank about the direction of interest rates for several years, as well as substantial incentives and programs that were deliberately put in place to help customers access their first home, such as the FHLDS program, which I think has been a very successful policy. There are a number of incentives. If you're a first home buyer in New South Wales, you can avail yourself of around \$60,000, in terms of both federal and state based incentives. In the west, it's slightly higher than that. We are also seeing quite a broad based recovery in housing. It hasn't been concentrated in one or two capital cities, which is what we have seen in the past. Darwin is still the best performing capital city, followed by Perth. They're still below their peaks. More recently, Sydney and Melbourne, in the last two months in particular, have rebounded quite strongly. If you look more broadly, both regionally and across the states, it's been quite a broad based recovery. Compositionally, we see that as a much lower risk than in prior cycles, but, as I mentioned at the outset, that's something that we're watching closely to see whether there are any changes to underlying borrower circumstances, the mix of borrowers and particularly how investors might choose to participate in the market going forward.

CHAIR: What activity are you seeing in terms of investors in the market place? Are you seeing an increase in applications? There have been reports that a shift has started and that investors are back in the market, or not yet?

Mr Comyn: There is a very slight uptick but it's still at low levels. Overall, we would be seeing about 23 or 24 per cent of applications from investors. In a market like Sydney, it would be slightly higher than that. If I contrast that with, say, 2015, about 60 per cent of applications across the whole market were from investors. It is quite a substantial reduction relative to where we were only a number of years ago. If you look at overall credit growth—let's call it 5½ per cent—about seven per cent are owner-occupiers and probably 1½ per cent are investors. It is reasonable to expect a slight uptick in investors, but we're not seeing something that would give us cause for concern at this particular point in time.

CHAIR: This raises a bigger issue: if you have devaluation of money by the Reserve Bank, it suggests to me that the new prices for housing are likely to stay roughly at these levels or will continue to grow. You're not likely to see some decline, as some people are projecting. You're certainly not modelling a decline, I presume.

Mr Comyn: We expect house prices will continue to grow during the course of this calendar year and next, but not at the rate that we have seen in February and March, which was quite a rapid uptick.

CHAIR: This is the new normal or new baseline for house prices in Australia?

Mr Comyn: Housing as an asset class has performed strongly for many decades.

CHAIR: When the Reserve Bank keeps devaluing money in global marketplace, you can't have inflation anywhere else. It has to go somewhere—right?

Mr Comyn: I think the Reserve Bank is responding to the priority that we would agree with, which is recovery in the labour market and broader economic growth. Unfortunately, a low interest rate environment causes real difficulties for depositors or savers, particularly those that are reliant on their retirement income from interest rates. It has the effect of increasing house prices just as a function of that low-rate environment.

CHAIR: Let's go to that, then, because it is an interesting topic, particularly from the practical side, which you experience. If you keep cutting interest rates, the theory at least is that it's supposed to stimulate economic activity and growth and make sure there is liquidity in the system, but at the moment would you say that you're seeing increased business activity as a consequence of cutting interest rates or just inflation in house prices?

Mr Comyn: The other thing I should say on housing is that, clearly, supply and demand are the biggest factors. Even if we look at house price appreciation, broadly we've seen the volume of properties on the market down by, let's say, about 20 per cent versus prior years, and clearly there have been about the same number of buyers up, 20 per cent, so of course there is a squeeze of prices up. To your broader point about monetary policy settings, as I outlined in our opening statement, seeing a continued uptick in business investment during the course of this year and next is a critical driver of broader economic recovery. We saw quite a strong performance in terms of lending to businesses in the first half. Lending growth was the highest we'd seen in four years. We believe that there's going to be an increase during the course of the year, in terms of business lending and investment. It remains to be seen how significant that is. Non-mining business investment was subdued pre-COVID; hence it was the clear focus for the Reserve Bank. I'm sure it will be for the government. It's incumbent on financial institutions to support as many creditworthy businesses as we can.

CHAIR: Continuing with the devaluation of money, are you surprised at the high level of people getting out of traditional currency and into bitcoin?

Mr Comyn: That's a very interesting space. There is enormous innovation and interest in that particular area, in crypto and bitcoin, both the technology and the investment class—whether it's a better store of value going forward. We believe there will be continued interest in that asset class going forward.

CHAIR: Why do you think that is?

Mr Comyn: A variety of different reasons. Clearly, there are mixed views on the underlying value of the product, but the pure investment returns have been very strong, so that will continue to attract investment dollars and speculation. There are certainly cohorts of people, albeit small cohorts, who believe that it's a better store of value than having exposure to direct currency. Then, of course, there's the technology that underpins that in the form of distributed ledger technology, which goes by various names. There are a number of benefits that products that rely on that can deliver. There's purely an enormous amount of investment going into that particular space at this point in time, globally.

CHAIR: Ultimately it comes down to trust.

Mr Comyn: Absolutely.

CHAIR: Some people have trust in an algorithm more than that they do in their governments, or at least the architecture of our financial systems and those who are responsible for money.

Mr Comyn: I think the proportion of people who feel that way at this stage is very small.

CHAIR: That doesn't mean it can't increase.

Mr Comyn: It doesn't.

CHAIR: Going back to house prices and particularly first home buyers, do you have any evidence of an increase in the number of parents being guarantors for their kids to be able to buy their first home? I know that during the pandemic there were at least some media reports suggesting that there were parents who had FOMO for their children—whether they would be able to get into the market, particularly as prices increased.

Mr Comyn: We've seen for some time an increase in guarantors and parents supporting their children to enter the housing market. If a parent chooses to give their child a gift to help them build their deposit, that's harder for us to distinguish. I talked about owner-occupiers and, let's say, 14 or 15 per cent were first home buyers. The overall proportion that was reliant on guarantors was in the order of 20 per cent, and probably half of those would be guarantees provided by parents.

CHAIR: Or grandparents, I presume.

Mr Comyn: Sure.

CHAIR: Family members.

Mr Comyn: More rarely, but, yes, family members.

CHAIR: Continuing on with house prices, you said before that ultimately it's a function of supply and demand. To verbal Judith Sloan in a column recently: increasing the number of houses in Penrith isn't going to cut the price for an apartment in Elizabeth Bay. Would you agree with that?

Mr Comyn: Yes. I'd say there is supply and demand in individual markets which are quite different.

CHAIR: Supply as a solution is kind of treating the house prices with a bit of contempt?

Mr Comyn: When we think about housing, for example, we break that down to more than 2,000 postcodes across the country.

CHAIR: Submarkets.

Mr Comyn: Absolutely. There's very different performance across those submarkets and there will continue to be, and there is between, let's say, apartments and dwellings. Apartments in particular performed more poorly over the last 12 months, particularly in CBD areas, whereas freestanding detached housing has performed much better.

CHAIR: If superannuation funds use Australian funds to invest in property, residential or retail or commercial, the Commonwealth Bank would provide them finance to do so?

Mr Comyn: To the superannuation funds?

CHAIR: To the superannuation funds. I'm not talking about self-managed super funds, although you can answer that as well; I'm talking about superannuation funds generally, if they came.

Mr Comyn: We do not at this stage.

CHAIR: You do not at this stage, but you would be open to having a discussion around a product if the superannuation fund wanted to purchase assets and wanted to finance debt and the like?

Mr Comyn: A retail product or—

CHAIR: A retail product. You don't have any bans against providing superannuation with retail funds, I presume.

Mr Comyn: It's not a business that we're looking to develop.

CHAIR: That's a separate point. But there would be no reason why you wouldn't do it if someone came to you and said, 'We want to purchase assets', would there? Some superannuation funds invest hundreds of millions of dollars in residential property and commercial property. You wouldn't be against being engaged in that space?

Mr Comyn: I'm sure we'd be prepared to take a preliminary meeting to understand what the idea would be.

CHAIR: And there would be no scenario if superannuation, as an individual, were able to be used as a form of guarantee or security, that you couldn't develop a product to address how to utilise it to assist first home buyers?

Mr Comyn: Are you talking specifically at an individual level again?

CHAIR: At an individual level.

Mr Comyn: If there was a dedicated vehicle that was set up within a superannuation structure for them to purchase a house, that's something we would consider.

CHAIR: You could develop a product? Obviously we would have to create legislative provision and then, in addition to that, you would have to assess the risk profile and how you would then manage that against savings rates and the like.

Mr Comyn: Yes, there would need to be legislative changes, as you said, but that is something that we could explore.

CHAIR: If you were to see more people being able to access their capital to be able to purchase their home, such as superannuation, that would have some sort of influence on price, I presume, or the overall market?

Mr Comyn: Yes.

CHAIR: So, in the same way as superannuation funds currently spend hundreds of millions or invest hundreds of millions of dollars of Australian superannuation savings in purchasing commercial or residential property—and certainly on the residential side—would that also have an effect in increasing house prices?

Mr Comyn: If that's what they were doing, yes.

CHAIR: Yes, that's what they are doing. So we have super funds that are allowed to invest in housing but we have individual who are not. So, if you were to adjust that and provide a pathway for individuals, you would be levelling the playing field, where you would have at least the capacity for both to be able to act on a level playing field?

Mr Comyn: Just so I'm clear: so you're suggesting that someone would be able to keep that money within super but a structure that enabled them to invest in housing without withdrawing funds and potentially undermining their savings for retirement?

CHAIR: There are many scenarios, but that's one scenario that we could assess. On small business lending, how would you say small business lending—which you addressed in your opening statement—is going at the moment? It seems to me that a lot of small businesses don't want more credit.

Mr Comyn: As I said, for the first half ending 31 December—and perhaps I'll be less specific in the last three months because our quarterly result goes to market on 12 May—broadly, in terms of credit growth for businesses, it's been close to zero over that six-month period. But, as I said, our credit growth to businesses and small businesses in aggregate was running at about six per cent for the first half, which was our strongest result in four years and clearly is a multiple faster than the rest of the system.

CHAIR: On neo-banks, how do you say their place in the market at the moment?

Mr Comyn: In what regard?

CHAIR: Just in terms of competitiveness. Are they viable? There's the Big Four, smaller and regional banks and then there are neobanks that are trying to compete—and some other banks have purchased or acquired neobanks because of issues around prudential regulation and the products they can offer. Is the CBA looking at the purchasing of neobanks?

Mr Comyn: We wouldn't comment on any current or future M&As. I'm not sure I would characterise the poor performance of some neobanks in the way that you did as it relates to regulation. Perhaps if one looked at the business model that they were offering, in a very low rate interest environment, I think that made it difficult.

CHAIR: The low interest rate environment?

Mr Comyn: Insofar as they offer one side of the balance sheet being liabilities and deposits. In a very low interest rate environment, it's (a) hard to attract customers and (b) it's very expensive when they're paying a deposit rate that is well above what you're able to economically—that is, every deposit is loss-making and you don't have the other side of the balance sheet or a business model that would be viable into the future. But that's clearly a matter for individual neobanks.

CHAIR: Would you accept that at the moment that we have modest wage growth?

Mr Comyn: Yes, I would.

CHAIR: But we have significant inflation in the price of assets.

Mr Comyn: There's certainly increases in the price of assets, yes.

CHAIR: How would you then see the role of the capital gains discount as part of a just tax system and whether it's fair that you have significant increases in the value of assets from holding capital versus the tax rates that are applied to income?

Mr Comyn: I think the taxation policy is more a matter for government than financial institutions.

CHAIR: But I'm asking for your opinion.

Mr Comyn: I'm sure you have a well-formed opinion.

CHAIR: I most certainly do. I'll hand over to the deputy chair.

Dr LEIGH: Thanks very much for appearing before us today. I just want to ask about a branch, ATM and staff numbers. You kindly provided some figures to me at our last hearing on branch numbers going back to 2000. From 2015 to 2020, the number of Commonwealth Bank branches fell by 181. Over that same period, the number of ATMs fell by 803—from 3,822 to 3,019. What are the numbers now and where do you see the trajectory for branches and ATMs in the future?

Mr Comyn: The number of branches as at 31 December 2020 was 938, including both CBA and Bankwest. I don't have the numbers that we provided—

Dr LEIGH: So you have closed another 30 or so?

Mr Comyn: I am happy to come to that. I don't have the numbers that we provided to you in front of me, but the numbers that you mentioned sound correct. What do I believe is the trajectory? I think there will be reductions in both branch numbers—and clearly we've seen that more recently—and in ATMs, for a couple of obvious reasons. One, there's been a significant structural shift in customer behaviour, not just in banking but across a number of different sectors. It is, of course, important, and will continue to be so, to be able to support customers directly on a face-to-face basis. We have the largest branch network. We also, of course, have a relationship with Australia Post, which gives us another 3,500 points of presence to be able to support customers.

But, clearly we were seeing more customers move their banking interactions either to digital. Particularly during the pandemic that has accelerated, and we haven't seen a return to pre-COVID levels. Similarly, notwithstanding a higher amount of cash that's in circulation, there's been quite a substantial reduction in terms of cash used for payments and over-the-counter transactions. That's also reflected both in transactions that we see coming into our branch network as well as the number of interactions that our customers are having with ATMs, which are substantially down over a 10-, five-, three- or one-year period.

Dr LEIGH: How many ATMs do you have?

Mr Comyn: I think the number that you've mentioned, Dr Leigh, was, I think, 2,700 or so, from the 3½ thousand.

Dr LEIGH: No, 3,019 was the number you gave me for 2020. So, if it is down to 2,700, that is 300 ATM closures.

Mr Comyn: Perhaps I'll take the question on notice. It's certainly in that order, which is still, I think you'd agree, a substantial fleet of ATMs around the country.

Dr LEIGH: What work do you do to ensure that particularly vulnerable populations aren't left without a branch or without an ATM in the community?

Mr Comyn: There are a number of things and, of course, that's on an ongoing basis. For example—and I think you may want to ask about some of the temporary closures of branches during the pandemic—for the 114 branches that we closed, the vast majority of those were within five kilometres of another branch. So, clearly, that's one of the considerations. We look at the underlying customer demand in each of those micro markets, alongside either our existing branch network, facilities such as ATMs but also proximity to the 3½ thousand Australia Post offices around the country as well.

Dr LEIGH: Do you ever reach out to the customers in a community where you're considering closing a bank and try and find out what share of those people would have difficulty in moving online?

Mr Comyn: I'm sure we do. Our team in branches spend a lot of time trying to make sure that we're understanding customer preferences and how we will best support customers, both pre and certainly post various branch closures. I can remember, when I was leading the retail bank, when we were putting on, for example, supplementary bus services between one branch and another, which did have a very low take-up. Notwithstanding that the volume of customers coming into a particular branch has reduced substantially, we accept that there may be instances where it is inconvenient if a branch of ours is closed. We will look to and continue to support customers as best we can, but we recognise that that's not going to be perfect in all instances.

Mr Cohen: To add to that, one of the measures we took fairly early on in the pandemic, recognising that they had a preference for attending branches in order to withdraw money, was that we issued some older customers with debit cards so that they didn't have to go to a branch to withdraw money. They could use those debit cards, for example, for tap and pay and in shops but also online if they wanted to go online.

Dr LEIGH: Would you keep branches open or ATMs going in a loss-making situation in areas such as remote Indigenous communities?

Mr Comyn: In some instances we do that today.

Dr LEIGH: What about staff numbers? How have your staff numbers changed over the last 12 months?

Mr Comyn: In totality across the organisation, they have increased significantly on a one-, two- and three-year basis. If I just think about the last 12 months, where those branches were temporarily closed, that was a function of (a) a clearly reduced number of customers coming into branches, particularly in some of the locations where there was a lockdown, but also (b) we used those existing staff to assist our customers, particularly around the deferrals that Mr Wilson was asking about—the scale of calls and contacts. We saw an 800 per cent increase

in the number of phone calls that we were dealing with during calendar 2020, so we had an enormous amount of contact with customers. As an example, just during the repayment deferral period, after that first six months, we did in the order of 270,000 outbound calls to customers to make sure we understood their needs and circumstances as their repayment deferral was coming to an end. From our perspective, it was very much around redeployment into some areas, particularly in our operational areas, to support our customers through a variety of different support measures.

Dr LEIGH: I want to switch to another topic—market concentration. The banking sector is one of the most concentrated sectors of the Australian economy and is very highly concentrated compared to other countries. You're the largest of the four big banks. There's been talk recently that Suncorp might spin off its banking business. If it did, would the Commonwealth Bank look to acquire it?

Mr Comyn: I don't think it would give you any surprise to hear me say that we're not going to comment on current or future M&A activities. What I would add is that Suncorp is a meaningful contributor, so we would expect that any move to acquire it by a major bank would be reviewed very carefully by the ACCC.

Dr LEIGH: So you'd be open to extending your reach by acquiring smaller players? That doesn't seem to be a responsible way of ensuring that Australia has a competitive banking market.

Mr Comyn: Dr Leigh, I think I said I wouldn't comment on current or future M&A. I wouldn't then infer that to mean that we were considering a direct acquisition of anything in particular. If you're asking a question about—

Dr LEIGH: I'm suggesting that you could just rule it out. You could just say, 'We're big enough already.'

Mr Comyn: If you're asking specifically around, let's say, fintech, fintech itself is a very broad category. It's everything from neobanks, which Mr Wilson was asking me about—

Dr LEIGH: I was going to come to that, but I wanted to ask you about Suncorp first. I think you could just rule out the Suncorp acquisition. You're the gorilla in the room. Do you really need to be buying some of the smaller banks?

Mr Comyn: I think my answer is quite clear: we're not going to comment on M&A activity. They're a meaningful player, and I'm sure that the ACCC would closely scrutinise any acquisition. I'll allow you to draw your own conclusions from that comment.

Dr LEIGH: You alluded to fintechs. One of the concerns that market watchers have raised is that some of the larger banks are making fintech acquisitions not in order to grow in that space but in order to quash potential competitors. Can you rule out the Commonwealth Bank taking those sorts of actions?

Mr Comyn: Fintech itself is a very broad category. A number of technology providers are deliberately trying to build capability without an ability to scale or with a viable business model, but they may accelerate innovation if it were scaled. I wouldn't rule out an acquisition of that nature. Fundamentally, a number of fintechs rely on being acquired by a player, and I think any suggestion that they were unable to be acquired by a financial institution would hamper their ability to raise capital, both on an up-front and an ongoing basis.

Dr LEIGH: You would be open to acquiring a fintech in order to quash competition?

Mr Comyn: Dr Leigh, again, that's not what I said. I said we might be open to acquiring technology if we thought that it was truly innovative, it was going to augment our capability and offering, and it was going to bring innovation and competition to the market. I'm not aware of any anything that we've been looking at that would fall into the former category that you spoke of.

Dr LEIGH: But it's clearly something which would raise the profits of Australia's largest bank—to have a potential competitor out of the way. What I'm asking for you to do is to rule out on principle that kind of acquisition—an acquisition motivated by taking down a potential threat rather than by growing profits.

Mr Comyn: At a principle level, that's clearly an issue for the ACCC. That's specifically their remit and what they would be looking at. We will do well as an organisation if we serve our customers well today and into the future. A big part of our strategy is digital and technology. We certainly are innovating and intend to continue to innovate. Much of that we will do organically internally, but there may be opportunities where it's advantageous for us and for the company, with no impact on competition at a market level at all. There may be offerings that we can look at to enhance our existing customer base. I think that is good for the broader market and you will see further innovation and continued improvements to products and services across the industry.

Dr LEIGH: The chair referred before to the impact of monetary policy on housing prices. What's your view on central banks focusing on asset price inflation—the so-called 'leaning against the wind strategy'?

Mr Comyn: I think the Reserve Bank's made it clear that they don't focus per se on asset prices or on housing. Clearly, they have multiple elements to their mandate. They and others, including ourselves, are watching the housing market closely and will continue to do so.

Dr LEIGH: I think that's being overly generous to the Reserve Bank. I think they have been concerned about asset prices in the past and have at times taken the view that macroprudential policy wasn't sufficient to contain an overheated housing market. But my reading of the academic literature is that the cost of leaning against the wind is many times the benefits and it's better for central banks to focus on macroprudential. Is that your view as well?

Mr Comyn: As you said, in the past, via the Council of Financial Regulators and ultimately through the prudential regulator, macroprudential policies have been implemented, most notably to restrict the proportion of investment lending and the proportion of mortgages that rely on interest-only, when there have been specific concerns in the past. Those steps were taken to enhance or increase lending standards but also to reduce the amount of investment activity in particular in the market. As I said to Mr Wilson, we're not seeing the same sorts of compositional signs or areas of concern at this point, but I have no doubt that would be considered if that were necessary at some future point.

Dr LEIGH: You said in February that your estimate for house price increases over the course of the year was an eight per cent increase. Does that translate roughly into an eight per cent increase in the size of the Commonwealth Bank's home loan book?

Mr Comyn: No, it does not. There are obviously a number of factors that support credit growth as distinct from asset prices. Clearly a proportion of balances are increasing over that period of time. We're seeing credit growth between four and five per cent. We've been growing above system for the last two years, but I think it's highly unlikely that credit growth would go anywhere near eight per cent.

Dr LEIGH: How should I think of the elasticity? I'll keep the numbers easy. If I have a 10 per cent increase in house prices, by what rule of thumb do you think that would increase the size of your home loan book?

Mr Comyn: There's also an underlying activity, because clearly a falling interest rate environment over many years has accelerated the amortisation or the repayment of loans, so you have to look through the proportion of variable and fixed rates. When you have things like surplus savings across the economy, as we've seen, customers are in many instances accelerating their rate of repayments or they're holding substantial deposits in, say, offset accounts, which, as the name suggests, offset the balance that's outstanding.

Dr LEIGH: I get that it's complicated; I get there are lots of things going on, but what rule of thumb should I think about in the relationship between house prices and the size of your mortgage book?

Mr Comyn: Maybe to make it even easier, we're anticipating credit growth of about five per cent over the course of the year. I would say our forecast for housing would be—you mentioned eight per cent; I suspect it's probably closer to 10 per cent at this particular point in time. As I said to Mr Wilson, February and March were clearly very strong. We think April will be slightly softer than March in terms of house prices but will still be very strong. But we're not seeing any significant shifts in the underlying composition of the book or a rapid acceleration in terms of new fundings, particularly no reduction in terms of repayment profiles. In fact, we've seen a continuing increase in the number of customers who have been ahead on their repayments during the course of the last 12 months.

Dr LEIGH: So, a 10 per cent increase in house prices leads to about a five per cent increase in your loan book. Presumably margins don't change, so there's an increase in profits of about five per cent as well. That would be reasonable, wouldn't it?

Mr Comyn: No. We're seeing very substantial price based competition. If you go through our net interest margin that we disclosed in our half-year results in February, you will see a reduction in margins from a couple of different factors. First, there's increased discounting across the market, which is clearly a good thing for customers. There's lots of competition to secure new borrowers. We've seen the highest level of refinancing in the market that I think we've ever seen, which I'm sure will please the governor, given it's been a topic of focus for him for some time. We've also seen a high proportion of customers moving to fixed rates, where they were being offered. Particularly three- and four-year terms had a much lower margin. That has the impact of reducing margins at that point in time.

Dr LEIGH: We might be thinking more about a three per cent increase in profits flowing through from a five per cent increase in the loan book?

Mr Comyn: The other element you'd need to consider is loan impairment expense, which I accept for housing has been very low. Notwithstanding—

Dr LEIGH: But three per cent would be in the ballpark?

Mr Comyn: It could be in that order.

Dr LEIGH: Let me jump to a different topic. In terms of the decision recently made by Colonial First State to shut down its Wholesale product, my understanding is that customers were then moved to a loss-making option. Is that correct? There was a story by Michael Roddan in the *Financial Review* to that effect.

Mr Cohen: I'll answer that for you. First of all, no customer has been moved. I just make that clear. We have informed financial advisers who service customers who currently have cash on deposit in two particular products that those products will close down in due course. We've recently told them that the closure will occur no sooner than August. To dimension it for you, there are approximately 1,500 customers in particular to whom this applies. About 1,370 of those 1,500 are actively advised by an adviser. We've approached those advisers, informed them of the impending closure, and they in turn will work with their customers in order to ascertain another cash product to go into, if they wish to reinvest in a cash product.

The article that you're referring to talked about automatically putting people into a different cash product, which is not run by the CBA. That's actually not correct. What happens is that only in circumstances where a customer does not move before the product closes will they be parked, if you like, in that alternative product so that they are not left without their money somewhere.

Dr LEIGH: That sounds automatic to me. That would be my definition of automatic.

Mr Cohen: As I said, it is only if they don't move with the help of their adviser, which we would expect all advisers and customers to do. We expect that the numbers involved would be very small. The other point—and you might have read it in that article—is that, by going into the replacement product, which is run by an external company, people will make a loss. That's not correct at all. In fact, that product has returned about a 0.41 per cent margin and the fees are significantly less than that, at about 0.29. So it's not correct that they would be making a loss by being put into that product for a temporary period.

Dr LEIGH: The Commonwealth Bank operates 92 per cent of school banking programs. A report last December from ASIC was pretty critical of the way in which the Commonwealth Bank's school banking programs operate. They've called for more transparency around relationships with schools—an arrangement where they have said schools are paid more, depending on the number of deposit accounts opening and transactions made. They have also criticised the use of marketing materials, saying:

...Young children are vulnerable consumers and are exposed to sophisticated advertising and marketing tactics by school banking program providers.

We all understand the benefits of financial literacy for young people, but strongly branded financial literacy programs could end up damaging young consumers, couldn't they?

Mr Comyn: What I would add is that we've been in schools for about 90 years. I think you mentioned 92 per cent of programs in schools. There are no barriers to entry, so others choose not to, presumably for commercial reasons. The third point that I would add is that there have been a number of improvements to our school banking program over many years that we think substantially address a number of the comments in the ASIC report. It has proven to be a popular program, with high participation rates, as evidenced by the number of, the thousands of, volunteers around the country, which are predominantly parents, who give up their time to administer the program. Lastly, we don't agree with that characterisation by ASIC—I can't remember the exact words—of something along the lines of 'sophisticated advertising tactics'. If I showed you some of the materials, I'm not sure I would describe them in that way.

Dr LEIGH: You say you've made improvements, but this is a report that just came down, in December. Have you materially changed the program since December?

Mr Comyn: I think we had been improving it for some time. If you would like a breakdown of the changes that we have made over the last several years, as well as our reconciliation against the recommendations from ASIC, I'd be happy to provide that to you separately.

Dr LEIGH: My point is that you say you're changing, but the way in which the program currently operates is captured in ASIC's report, which is very critical. They're not your only critics. The Consumer Action Law Centre has been critical of the way in which it sees your school programs like Dollarmites as effectively creating customers rather than educating young people.

Mr Comyn: On that basis, we would disagree with that assertion.

Dr LEIGH: Do you have any evidence that branded programs in schools do a better job of boosting financial literacy than unbranded programs?

Mr Comyn: We have some evidence, but I would agree that there isn't sufficient empirical evidence to support that. But, I think, based on their popularity and certainly anecdotally—I'm not suggesting that 'anecdotal' is going to be sufficient, but we don't have a longitudinal quantitative analysis to causally show the impact from school banking on financial literacy, as much as it would be helpful to have that. But we have responded and worked with critics of the program for some time. We think that fundamentally it is a good product and service that on balance has delivered improvements to financial literacy. It is certainly popular across participants. As I said, there are no barriers to entry. There is no mandatory participation. Schools and parents choose to participate because, we believe, they see benefits. It's not to say that some of that criticism isn't something that we should take into account. We've certainly tried to do so over some time.

Dr LEIGH: But you're primarily in schools for customer acquisition, aren't you?

Mr Comyn: As I said, we've been in schools for more than 90 years. Of the customers that we acquire that we would consider to be youth in Australia—we do very well with younger customers—more than half of those have never had any association with school banking.

CHAIR: I still remember my Dollarmites plastic—

Dr LEIGH: No-one is saying these programs aren't memorable, Chair.

CHAIR: It was yellow.

Dr LEIGH: Your own superannuation funds—what's the ballpark annual profit that you receive from them?

Mr Comyn: Dr Leigh, are you referring to our superannuation platform, of which we announced the sale of 55 per cent, or the asset management, of which we completed the sale to Mitsubishi UFJ Financial Group?

Dr LEIGH: The one that you owned 55 per cent of.

Mr Cohen: As at last year, there was about a \$240 million net profit after tax.

Dr LEIGH: How does that compare with previous years?

Mr Cohen: It is lower than previous years.

Dr LEIGH: Roughly, what was the ballpark over prior years?

Mr Cohen: I can come back to you with the exact details. In broad terms, as a result of changes to product and changes to fees—reductions in fees—it's been steadily decreasing over the last 18 to 24 months, but we can give you the details of that.

Dr LEIGH: Thank you. If it's possible to get the profit figure for each of the last five years, I would be grateful.

Mr Cohen: Certainly.

Dr LEIGH: In previous hearings we discussed buy-now pay-later and the Commonwealth Bank's acquisition or investment in Klarna. You've now set up your own buy-now pay-later platform—curiously one that's in competition with Klarna. What share of the profits from the Commonwealth Bank's buy-now pay-later scheme do you expect to be coming from late payment fees?

Mr Comyn: With the product that we have announced and we're yet to operate, it's a very small proportion. I believe it's a \$10 late payment fee but capped at a maximum of \$120 over the course of the year. We're certainly not launching the product on the basis of a fee-generation motivation. As you mentioned, we're actively involved in the buy-now pay-later sector, and I'd be happy to answer any questions in that domain that you would like to ask.

Dr LEIGH: You do still have a higher cap on annual fees than Afterpay, though. Afterpay caps at \$68. You cap at \$120. Given that you're charging similar merchant fees, it would seem likely to me that you'll end up having a larger share of your revenue coming from late payment fees than Afterpay will.

Mr Comyn: I think that's wrong in a couple of areas. Let's come back to the late payment fees. Most importantly, we should discuss something that is often overlooked, which is the cost to businesses and merchants from a buy-now pay-later service. Let's contrast a few different data points. The weighted average interchange for our credit card is 50 basis points. In our new product—the buy-now pay-later one—including the merchant terminal, it's slightly over one per cent. The buy-now pay-later sector, which obviously includes a number of other players, charges a fee of somewhere in the order of three to seven per cent. You could imagine that the smaller merchants are the ones that are paying a much higher fee than the larger merchants. Actually, the cost from the buy-now pay-later sector is significantly more than the costs that are incurred in the existing payment system. One of the motivations for the product that we've launched is to come in substantially under other buy-now pay-later

products to the business, which we consider to be of equal importance as a customer alongside the consumer, at roughly one-quarter of the price.

Dr LEIGH: Is that because you're doing less on creating a customer ecosystem than Afterpay? My sense is that one of Afterpay's main pitches to merchants is that they will attract new customers and bring them into quite an attractive purchasing ecosystem which they might hope would rival Amazon's. It sounds as though you're thinking of producing something that's much more similar to a standard credit or debit card, where you're simply taking a small share of transactions but you're not building special relationships with merchants?

Mr Comyn: We certainly intend to build special relationships with merchants, but let's just separate the payment versus what's commonly referred to as marketing and lead generation that's provided by buy-now pay-later providers. The research that I've seen, and you may have seen some other research from COSBOA, was that about 45 per cent of businesses report any uptick in new sales or leads. One of the listed buy-now pay-later providers, in their most recent disclosures, referred to a 17 per cent uptick. It's highly questionable exactly what that number is, but I accept that what buy-now pay-later provides, or certainly seeks to provide, is more than the payment. That's not to say you couldn't unbundle the payment from the lead generation and compare and contrast and regulate effectively for the payment. Let's just come back to the lead referral that I mentioned. Because of the much higher cost, the maths will broadly work out that 70 per cent of the customers that are coming through buy-now pay-later need to be new incremental customers to offset the higher cost to the business.

Dr LEIGH: Thank you very much. That's the end of my time. I will come back with more questions if there's time at the end.

CHAIR: I'm sure there will be, Deputy Chair. Just for clarity, even though I did get my Dollamites account with the Commonwealth Bank as a child, when I went to get my first mortgage, the CBA declined, so I switched over to St George. St George now is, of course, Bank of Melbourne.

Mr Comyn: Responsible lending in action!

CHAIR: It was prior to responsible lending. There was nothing untoward about it. We had the cash in the savings and CBA was not fulfilling—we will leave that to one side. But I'm back. Mr Falinski.

Mr FALINSKI: Mr Comyn, given the number of times I have to pay for Mr Wilson's coffee, I think you made the appropriate lending decision all those years ago! Mr Comyn, how often have you appeared or has the Commonwealth Bank appeared before this committee?

Mr Comyn: Mr Falinski, is it four or five as CEO? I accompanied the former CEO a number of times.

Mr FALINSKI: Half a dozen times?

Mr Comyn: Yes.

Mr FALINSKI: Are you sick of it?

Mr Comyn: No. We look forward to attending.

Mr FALINSKI: Can I be honest: we're sick of seeing you! I mean, you're a very nice guy and all, but is it because you're not answering questions that we keep calling you back here?

Mr Comyn: I'm not aware of your motivation for calling me. We attend when we're asked to and we answer the questions that you put to us as best we can.

Mr FALINSKI: Do you not have better things to do with your time? Is that why you keep coming here?

Mr Comyn: We certainly have a number of competing things for our time.

Mr FALINSKI: Would some of those things be providing services and products to other Australians to help them live better lives?

Mr Comyn: Yes.

Mr FALINSKI: Would some of those things be dealing with shareholders and other stakeholders to make Australia a better nation to live in and make a better contribution to the world?

Mr Comyn: Yes.

Mr FALINSKI: Yet you keep appearing before us. More than half a dozen times the Commonwealth Bank and you, Mr Comyn, have come here and appeared before us to be asked questions, which are not terribly penetrating, if I'm honest, yet you do so without resentment. Why is that?

Mr Comyn: We're asked by the federal parliament to appear and respond to your questions and we're happy to do so.

Mr FALINSKI: When superannuation funds resent the fact that they're asked to come once or twice and write unctuous letters when we dare to ask them questions, do you have any advice for them?

Mr Comyn: No, I don't, Mr Falinski.

Mr FALINSKI: Would it be that they own a lot of your bank?

Mr Comyn: No. I simply wouldn't presume to speak for another company, whether they're an investor in the CBA or not.

Mr FALINSKI: That's fair enough. Do you pay any journalists?

Mr Comyn: No.

Mr FALINSKI: Do you own a newspaper that you publish?

Mr Comyn: No.

Mr FALINSKI: Do you think it would be appropriate for you to pay a finance journalist that appears on television and reports on your company?

Mr Comyn: That's not a priority for us.

Mr FALINSKI: But would you consider it to be an appropriate use of shareholder funds?

Mr Comyn: No, but in the past we've had CommSec appear and provide economics updates and be regular guests for market commentary.

Mr FALINSKI: But you have never attempted to sponsor or pay someone on a national television network who reports on your company regularly?

Mr Comyn: No, not that I'm aware of.

Mr Cohen: No.

Mr FALINSKI: The parliament at the moment is trying to reform responsible lending laws. Some evidence has been provided to the Senate Economics Committee on this by consumer advocate groups. If the responsible lending laws were to be repealed, as sensibly they should be, would there be anything stopping you from increasing people's credit card limits?

Mr Comyn: Yes. It is currently and would remain illegal to proactively increase credit.

Mr FALINSKI: So, if the parliament were to repeal what is commonly referred to as responsible lending laws, it would still be unlawful for a bank to offer people increased credit on their credit cards?

Mr Comyn: Yes. It's a separate part of the act which isn't being amended.

Mr FALINSKI: What impact is responsible lending having on your capacity to lend to businesses and consumers in Australia at the moment?

Mr Comyn: As I've said, and I've provided evidence in the past, we've added a lot of resource and we've invested in our systems such that I think we've had far less impact operationally than some other institutions, which is one of the reasons why we've been able to continue to lend and support customers over the last couple of years. As I said earlier, we've been growing well above system—about 1½ times the rate of the market growth in the first six months to December—and I think we'll lend more than \$100 billion to housing over the course of the year.

Mr FALINSKI: Has it stopped you from lending to anyone that you otherwise would have?

Mr Comyn: No. As I said, the operational constraints and the time to reach a decision has impacted some other institutions much more dramatically than it has us. Principally, one of the areas where we would agree that there is little utility in the current laws and guidance is expense verification and the granularity that is associated with that. In our experience, it's not a causal factor in whether a customer is able to repay their loan. As I said, we have invested heavily to operationalise some of those processes and we've been able to operate effectively during that time, but we do see opportunities to streamline the process for the benefit of customers following the legislative change that you're referring to.

Mr FALINSKI: Some of these expenses include Uber Eats receipts. Is that right?

Mr Comyn: They can be very granular in detail—yes.

Mr FALINSKI: Do you have examples of that?

Mr Comyn: It's expenditure for us. We break it down across about 13 different categories, providing evidence. I think in many people's experience after the purchase of a home, they sometimes change their discretionary expenditure to reflect that. A number of the examples that are cited in the media included

verification of dining, alcohol consumption—a whole range of what you would consider to be very much discretionary expenditure.

CHAIR: Takeaway coffee.

Mr FALINSKI: Hairdressers?

Mr Comyn: I guess it would depend on how much one was spending on hairdressers, but it's more specifically about trying to understand, in a very granular level of detail, current expenditure. Of course, there are always difficulties extrapolating current expenditure as the right level of proxy for future expenditure. On the other side, we spend a lot of time on income verification and I think that's time well spent.

Mr FALINSKI: That wouldn't change if responsible lending laws were repealed? You would still spend time on trying to verify people's income?

Mr Comyn: Yes. There would be very modest changes to our operational processes. Certainly in the areas that you're mentioning, such as income verification, we wouldn't anticipate making any changes whatsoever, which is why we have said that we do not anticipate an increase to borrowing capacities as a result of the laws changing. We're quite familiar with the prudential guidance and what's required.

Mr FALINSKI: For example, ASIC has prosecuted financial institutions because they did not verify things such as how much people had spent on Uber Eats.

Mr Comyn: I couldn't comment on that particular matter. They haven't prosecuted us.

Mr FALINSKI: Financial institutions have been prosecuted because they didn't verify how much money a particular person spent at the hairdresser.

Mr Comyn: Again, that hasn't been our experience, so I'm not familiar with that particular matter.

Mr FALINSKI: You had a situation in Port Macquarie where you had to pull someone's preapproved loan because they'd been promoted and they needed to have three months of income statements to verify their income.

Mr Comyn: You're asking me that question or telling me that's the case?

Mr FALINSKI: I'm asking you a question that I know the answer to.

Mr Comyn: Okay. I'm sure we are diligent in income verification. I accept, I think, the broader proposition, that the current guidance is quite prescriptive and has been interpreted as such.

Mr FALINSKI: What are the three major reasons why people fall behind on their loans, besides COVID-19?

Mr Comyn: Ultimately, the biggest factor is a change in their employment circumstances.

Mr FALINSKI: Also divorce and serious illness?

Mr Comyn: Correct. They would be the next two—absolutely.

Mr FALINSKI: And they're not covered by responsible lending laws, are they?

Mr Comyn: No.

Mr FALINSKI: At the moment, are you worried about the increase in house prices?

Mr Comyn: Per se. We're watching it closely. I was surprised with the amount of acceleration last month. As I said to Mr Wilson, I think it will still be strong but less so for the month of April. More broadly, given the composition and a number of different risk factors that we look at on a monthly basis, it doesn't give me particular cause for concern at this point in time.

Mr FALINSKI: When you look at these things more broadly as part of, for example, your ESG policies, are you not worried that there's a particular cohort of Australians that seem to be increasingly priced out of the housing market in Australia?

Mr Comyn: We, as I'm sure you do, worry about inequity and housing affordability, both currently and into the future—absolutely.

Mr FALINSKI: What do you think are the best things to do about that?

Mr Comyn: As we covered earlier, ultimately getting the balance between supply and demand, recognising that there are very different markets and subsectors of the Australian housing market and there are parts that I think will remain very strong. Post COVID, we will see an increase in population growth. That would be desirable in many areas. There would be continued investment and infrastructure changes to facilitate faster planning and construction of new dwellings, adding more supply, particularly affordable housing, onto the market next to efficient and productivity transport corridors to help people move to different parts of the country.

Mr FALINSKI: Honing in on one thing you said—and please tell me if I'm honing in on something that's a bit transient in your view—at the very time that we've had an increase in demand for housing, why is it that Queensland, New South Wales and Victoria have seen building approvals decrease and, in the case of New South Wales, we've seen building approvals decrease by 36 per cent?

Mr Comyn: I don't think I could give a good explanation for that. I'm not sufficiently close to the proportion of that is just a reduction, in terms of pipeline. You could imagine some building and construction would be responding to concerns about the outlook and the rate of population growth. I'm not sure whether there have been any changes to planning or approvals during that time.

Mr FALINSKI: Talk me through that. You've got a situation where there are more people who can afford housing than ever before because of the decrease in the cost of borrowing that banks such as yourself have provided. Yet you're suggesting that maybe builders, because there's more demand for their product, are actually supplying less of it.

Mr Comyn: Even if we talk about the last 12 months, it has obviously been an extremely uncertain time. There were huge concerns over the economic recovery and trajectory during much of the last calendar year. The housing market really bottomed in, I think, either September or October last year. During certainly the first half or the first two-thirds of the last calendar year, I spoke to a number of development companies, who were quite concerned about the outlook and the shape of the recovery in the housing market and about whether there would be ongoing demand. That's why there have been a number of different programs, from HomeBuilder and the First Home Loan Deposit Scheme to changes at the New South Wales level around stamp duty—deliberate incentives for first home buyers. Those packages have worked in tandem to in some cases bring forward purchases but certainly stimulate demand, which I'm sure is giving property developers greater confidence about the outlook and, therefore, adding to supply.

Mr Cohen: The only thing that I was going to add there was that, in terms of that rate of decrease in building approvals, from memory and from the last figures that I saw, we saw quite a discrepancy between approvals for apartments or multidwelling buildings on the one hand and single dwellings on the other. There has been a big drop-off in building approvals for apartments, partly due to the fact that we don't have overseas students or their parents buying apartments in city areas, partly because of the drop in immigration and also partly because of the pandemic effect, where people have tended to look elsewhere to live rather than in high-density, inner-city areas.

Mr FALINSKI: But the bigger issue seems to be that, at a point when you have seen demand increase, supply has decreased, and that's not how markets anywhere else in the world operate. Mr Comyn, you suggested that it might be regulatory or planning specifically.

Mr Comyn: I'm speculating because I'm not close enough to it. I'd be happy to undertake some inquiries, but I haven't specifically looked at that issue more recently. Clearly, there's a time delay. It's not that supply can react instantaneously to demand when it comes to the construction of new dwellings. As Mr Cohen alluded to, there has been quite a compositional shift. If you were talking about property developers who were building house-and-land packages, I'd say they were responding as directly and as rapidly as they could in some instances to what they see is ongoing and strong demand. I would need to undertake some further inquiries to understand if there were any barriers beyond that that were slowing them down.

Mr FALINSKI: Aren't you as an institution worried, given that you have been gaining so much market share in the financing of housing, that these prices are artificially being held high because of regulatory failure? One of the things I would direct you to is an analysis undertaken by *The Economist* recently about planning law reforms in Japan, which led to an 80 per cent drop in homelessness. I would also make the point that Australia, apart from the South Pole, remains the least populated continent in the world, with housing prices that are more akin to the most densely populated city-states in the world. That can't be explained by first home buyer schemes. It clearly can't be explained by the cost of financing, because we have some of the most sophisticated dwelling financing in the world. You also pointed out the inequality of younger Australians not being able to get into this market at the moment—or for quite some time actually.

Mr Comyn: To your first question, I am not worried, or we are not worried, about the underlying risk characteristics of our mortgage book, either the stock of loans or the new loans that we're originating. If we put that to one side, perhaps I could go away and have a look at a couple of the things that you mentioned. I don't have a sufficiently well-informed view about the current state of planning laws in individual states and the relativities across them, nor how they could be particularly improved. But I recognise that it's a topic, and sometimes a topic of frustration, for some property developers.

Mr FALINSKI: It's a topic of frustration for this parliamentarian, too, who cares about younger people being able to afford the things that you and I could afford—and I'm sure Mr Cohen as well—when we were starting off in the workplace. It just seems to me to be a complete and absolute failure. Chair, how long do I have left?

CHAIR: You have 10 minutes of this joy.

Mr FALINSKI: Fantastic. I want to move to cryptocurrencies, which the chair mentioned earlier on. Besides buying Teslas, what can you do with a cryptocurrency?

Mr Comyn: Currently?

Mr FALINSKI: Yes.

Mr Comyn: Clearly you can purchase it as an asset class, so you can speculate on future price appreciation, which I think at the moment is a record high. From an acceptance perspective, using it is not limited to Teslas. The cryptocurrency bitcoin is but one. There are many, many currencies, with varying characteristics and degrees of stability. In that broad category there are also non-fungible tokens, which are being experimented with in some industries as an alternative way of issuing funding or capital. Then, of course—

Mr FALINSKI: Mr Comyn, have you recently bought any NFT art?

Mr Comyn: No, I have not, nor is it—

Mr FALINSKI: You missed out on a very, very lucrative asset class, then!

Mr Comyn: I'll have to take your word for that.

Mr FALINSKI: You saw the painting that sold for \$70 million recently, didn't you?

Mr Comyn: Yes, I did see that.

Mr FALINSKI: You can't buy milk with cryptocurrency. Can I deposit it at your bank?

Mr Comyn: No, you cannot.

Mr FALINSKI: Are you looking to set up accounts where people would be able to deposit or hold cryptocurrencies in your bank?

Mr Comyn: Not specifically, but we're certainly interested in that area and trying to stay across a space that is rapidly evolving. As you may know, we're working with the Reserve Bank on a wholesale version of a central bank digital currency, which a number of central banks around the world are looking at. It's clearly an area of interest for financial institutions and regulators.

Mr FALINSKI: At the moment, it's in some ways a bit like gold: it's a good hedge against inflation.

Mr Comyn: I think many people characterise it as a good hedge against inflation, yes.

Mr FALINSKI: But it could be used to do more useful things as well?

Mr Comyn: It certainly has use cases that extend beyond that, absolutely.

Mr FALINSKI: That's something you're working with the RBA on, but it's not something that you're thinking about internally as an offering, a product, for individual retail investors.

Mr Comyn: To the latter, no, at this time we are not. Yes, we are working the Reserve Bank on it. I think the Reserve Bank had already announced some months ago that they were just exploring—there's a paper that they issued some time ago about a central bank digital currency and the pros and cons associated with that.

Mr FALINSKI: Would you like to see the parliament take a more proactive role on this, or are you more comfortable with the 'Let a thousand flowers bloom' approach that's been used in places like Florida, for example?

Mr Comyn: The area of payments and the store of value is an extremely important topic, and the parliament and the Treasury should have a very well-formed view. There are important implications for how that industry evolves over time, not just related to cryptocurrency. It's a complex area which is moving very rapidly. But it's certainly a priority from our perspective, and I think it should be for the parliament.

Mr FALINSKI: There have been some recent articles in niche magazines that China is trying to use an e-currency to undermine the reserve currency status of the US dollar. Is that something you could explain to us—how that might work.

Mr Comyn: I'm familiar with the e-yuan, but I wouldn't like to comment more broadly. I've seen the application and how it was applied within China. As I said, I've read the paper that the Reserve Bank issued. I think it's appropriate for our central bank to be looking at that as an alternative to notes. A central bank digital currency could come in many different forms. I do think it's an important topic, perhaps not necessarily for now, but certainly for over the medium to long term.

Mr FALINSKI: The other thing I wanted to ask you about was merchant fees on credit cards. Some time ago the Reserve Bank made a decision to allow merchants to charge fees so that consumers could see the underlying cost of using a particular credit product. In doing so, what the Reserve Bank did was stop banks such as yourself from saying that merchants couldn't pass on fees and charges to consumers. Am I characterising that accurately?

Mr Comyn: Yes, I'd say the Reserve Bank has for some time looked at the cost of fees to merchants—when I say 'some time' I mean for at least the last 20 years—and have sought to bring down the cost that is borne by the merchant, most recently credit card interchanges, which I referred to, at 50 basis points. There are different interchange rates that can apply to different cards, and one of the primary reasons the Reserve Bank would have cited was innovation as well as competition. They sought to introduce merchant surcharging such that a business that was wearing the costs of a higher card that was being presented by a customer could pass that cost on to the customer. There are a multitude of reasons for that, including the business not wanting to or being forced to absorb the cost. But, secondarily, if a customer is paying with a more expensive input cost to the business then clearly other customers are cross-subsidising that.

As I said earlier, buy now pay later would be in the order of at least four times more expensive than a credit card. At this stage, as is the case for many other aspects of the buy-now pay-later sector, they are exempt from important parts of regulation that apply to other financial institutions. Merchants who are wearing that cost are unable to pass those costs on to customers. So, they are either absorbing those costs themselves or passing those costs on to consumers in the form of higher prices, and definitively non-buy-now pay-later users are cross-subsidising buy-now pay-later users.

Mr FALINSKI: One thing that would be a pro-competition policy or a pro-consumer policy would be to allow merchants to show consumers how much it is actually costing them to use a particular payment channel.

Mr Comyn: Yes, that's right. As I said earlier, the response from the buy-now pay-later sector presumably would have a number of elements to it, but one of those would be that they provide more than just the payment; they provide lead generation. That's not to say that you couldn't unbundle the payment from the lead generation and then allow transparency and merchant surcharging. Perhaps, while I'm at it, in terms of regulatory areas that could be considered for the buy-now pay-later sector, they are also exempt from comprehensive credit reporting, the consumer data right. They are a credit product. They are considered a credit product in the NCCP Act, but they rely on an exclusion that was drafted many years before the category existed.

Mr FALINSKI: Mr Comyn, thank you very much for your time. I hope that we don't see you again at this committee hearing, but I look forward to seeing you anywhere else. But I am genuinely interested in what the bank's view is in terms of how we can shift regulation on the cost of housing so that markets and builders can respond more flexibly and more definitively to surges in demand, that less money in Australia goes into housing and more people can afford it and that we have a more efficient and fairer economy for the future.

Mr Comyn: I'd be happy to take that away. Admittedly on a slightly unrelated note, one area that we would certainly appreciate the support from the committee on is for broader digitisation and particularly the acceptance of digital signatures for business lending. Unfortunately the workload in the Senate was quite congested, and the changes that were before it, which would have effectively enabled us—not just the Commonwealth Bank but all financial institutions—to both issue and accept electronic signatures, had to be wound back. That would have quite a substantial impact on turnaround times for business loans, in the order of 24 days to six days. I do think it would be a meaningful point of assistance, if the committee could do it. I'm not aware of any objections to pushing that through, on a legislative front. I think that would benefit small-business customers, which, as I said earlier, are absolutely the lifeblood of the Australian economy and critical to the recovery.

Mr FALINSKI: Just for clarity: it was from 24 days to six days, if we allow digital signatures?

Mr Comyn: That has been our experience, because clearly it takes a lot longer for a customer to go and print out the document that we provide them, for them to sign it, send it back to us and then for us to process it. An electronic signature simply enables a much faster facilitation of documents and ultimately gives customers greater certainty in a much shorter time frame.

CHAIR: Mr Falinski, you can approach the Treasurer.

Mr FALINSKI: I was going to say, 'And cost less'. We did allow that during COVID-19, and the Senate just didn't extend the exemption.

Mr Comyn: Exactly. Disappointingly, we've had to wind back that change.

CHAIR: Mr Falinski, you're out of time. The other thing I'd stress, Mr Falinski, is that while you occasionally pick up my coffee bill, and you do, I often pick up your whisky bill, and I can assure you I know which side the ledger is in favour of—and it's not mine. We will now take a brief break.

Proceedings suspended from 10:57 to 11:11

CHAIR: We will resume this hearing of the House of Representatives Standing Committee on Economics, looking at the big four banks. We have before us the Commonwealth Bank of Australia.

Dr MULINO: Thanks very much for coming to give evidence today. I have a couple of questions to follow-up on Mr Falinski's questions in relation to responsible lending. Is it fair to say that in earlier evidence you gave, I think to the Chair, you said that the economy is growing strongly and that you expect that to continue?

Mr Comyn: Yes, that's right.

Dr MULINO: You also indicated that credit growth was strong and that you expect that to continue.

Mr Comyn: Yes, that's right—housing credit growth, if I can just be clear, Dr Mulino, which I think is what you were referring to.

Dr MULINO: It's probably credit growth across quite a few categories.

Mr Comyn: As I said earlier, notwithstanding the fact that we're growing for the first half at approximately six per cent, it's more muted in lending to businesses but, for housing, it's in the order of five per cent across the system.

Dr MULINO: You also indicated—I think in your opening statement—that you have accepted all of the royal commission recommendations.

Mr Comyn: Yes.

Dr MULINO: Do you agree with royal commission recommendation 1.1?

Mr Comyn: To the best I can recall it, yes. I'm sure that's referring to responsible lending.

Dr MULINO: Yes, basically that the NCCP laws shouldn't be watered down.

Mr Comyn: Yes, in the spirit that it was drafted and to the best I understand exactly what Commissioner Hayne was getting at, yes.

Dr MULINO: I just wanted to get some of those contextual matters reaffirmed—so thanks. I want to go into a bit of depth on some of your modelling of the economy. Can you just remind me what the GDP growth was that you're forecasting?

Mr Comyn: Our economics team earlier this week updated the forecast to 4.4 per cent GDP growth for this calendar year.

Dr MULINO: Generally, with any economic model or median forecast that would involve, depending on how you put it, error bounds and risk factors on the upside and the downside.

Mr Comyn: Yes. Economic forecasting is challenging at the best of times—and, as my economics team would remind me, even more so over the last 12 months.

Dr MULINO: Exactly. I think any sensible economist would affirm that. I just want to explore a couple of the risk factors or uncertainties. Some of these risk factors could go either way and some are more kind of upside or downside. The first one I want to talk about is marginal propensity to consume. We're coming out of a period where there was substantial stimulus for income—JobKeeper and JobSeeker supplement—and that clearly had an impact on consumption. Obviously there's a range of determinants of an individual or household's marginal propensity to consume. But one would imagine that one of the major factors would be income level, and that one would have a higher marginal propensity to consume the lower one's income. Do you think that's fair to say—as a general observation, obviously, accepting that there are idiosyncrasies?

Mr Comyn: Yes, I think there are, as you alluded to, a number of different factors that would impact marginal propensity to consume.

Dr MULINO: But, holding all other things equal, that would generally be a factor. That is one reason why we might imagine that some aspects of the stimulus, like a flat JobKeeper payment and JobSeeker supplement going to people on low incomes, would have had quite an impact on consumption during the period in which they were being paid.

Mr Comyn: Yes, that's fair.

Dr MULINO: Now we're heading into a different period in that the extent to which JobSeeker is above its pre-COVID levels is going to be less and JobKeeper's obviously come off. But you've alluded to the fact that there's this significant amount on household balance sheets. I think you said \$150 billion. Others have estimated different amounts but I think pretty much everybody estimates it at a significant amount and that this comes from a number of sources. I am interested in your thoughts on what we might imagine the marginal propensity to

consume out of that is over the next six, 12 and 24 months. Is it fair to say that that's probably going to be a bit more complicated and more difficult to model than might be the marginal propensity to consume out of short-term income supplements? I imagine that there are a lot of factors that come into play—for example, a household's indebtedness, a household's perception of its employment security and so on. Do you think it's fair to say that it's a more complex phenomenon to model?

Mr Comyn: Absolutely. You mentioned a couple of factors. I think the fact that consumer confidence is at a 12-year high is a real positive. One could argue that's almost surprising given the context. If you look at countries that were much more heavily impacted from the global financial crisis you see that savings rates remained high for many years—that is, people had a very conservative posture towards consumption for many years post that. As to exactly over what period that \$150 billion—or whatever; it is certainly of that magnitude—certainly job security, consumer confidence and, more broadly, wealth effects would play a role, as I'm sure many others would.

Dr MULINO: Yes, there are a lot of factors coming into play. Do you think it's fair to say that the marginal propensity to consume out of a stock of savings like that is more uncertain and more difficult to model than the marginal propensity to consume out of a short-run stimulus to income?

Mr Comyn: Yes.

Dr MULINO: Again, acknowledging all the difficulties, do you think it's probably fair to say that the marginal propensity to consume out of a large stock like retained savings at the level we're talking about is likely to be lower than the marginal propensity to consume, particularly for low-income households, out of something like JobKeeper or JobSeeker supplements?

Mr Comyn: We have not specifically studied that but certainly I've seen research insofar as the ability to consume particularly some of the subsidies or income supplements that were provided and the time period over which that expenditure was used. So, I think broadly what you're saying is logical to me, but I haven't specifically studied it.

Dr MULINO: One of the risk factors, I imagine, over the next six, 12, 24 months, in terms of the rate of GDP growth and everything that hangs off that, is likely to be the speed of the vaccine rollout, isn't it?

Mr Comyn: Yes, that would be one of the factors, absolutely, and also just clearly the level of the virus and some of the containment measures, whether they are or aren't taken over the course of the year. There are certainly a number of risks to the down side and there is considerable uncertainty, but, overall, as I mentioned at the outset, we're optimistic about the economic prospects over the next couple of years in particular.

Dr MULINO: We saw over the last six to 12 months that when there was a minor outbreak from hotel quarantine, for example, or some other source that led either to a short lockdown in a city or, more broadly, a border closure, it had economic consequences. Is that something you've looked at?

Mr Comyn: Yes, at various points in time we've looked at particularly the flowthrough into consumption or expenditure in areas that have been locked down, and, as you would expect, there was a contraction over that period of time.

Dr MULINO: It's fair to say that, again, holding all other things equal, the slower the rollout of the vaccine, the more likely it is that events like that, should they arise, will have a negative economic impact.

Mr Comyn: Yes, as one input into broader economic activity. If the economy remains open, there's mobility, there aren't undue restrictions on business and there are good health outcomes, clearly that will have an impact on confidence and underpin a robust economic recovery.

Dr MULINO: Obviously, if we get to the point, whenever that might be, where you have high levels of vaccination and herd immunity, if that's something that people want to use as a benchmark, then a small breakout from hotel quarantine, for example, would have a much smaller economic impact than it would at this point?

Mr Comyn: Yes, I think that's fair.

Dr MULINO: With your modelling, how do you factor in that kind of risk? Do you undertake any scenario analysis or sensitivity analysis for things like, for example, the extent to which household balance sheets will be affected or, for example, the speed of the vaccine rollout—do you undertake quantitative sensitivity analysis?

Mr Comyn: Not specifically as a variable in any of the modelling around the vaccine rollout. But, as you would expect, in our economics team, there are a number of different factors that they model, which then underpin their economic forecasts—a couple of the forecasts that I have spoken about before. From a banking perspective, we also regularly perform multiple economic scenarios as an input into any forward-looking adjustments to our loan impairment expense. Typically, across those economic scenarios, there are a range of

different variables, from GDP growth and unemployment to assumptions around asset prices. None of the models are run in isolation. I mean that insofar as judgement is always applied. Often there is a base case and there are a range of different things. There are risks to the upside and the downside, which we then monitor closely. There's not a model that uniquely spits something out after computationally considering all of the available variables.

Dr MULINO: But, at the very least, it's fair to say that something like the speed of the vaccine rollout is a material input.

Mr Comyn: The vaccine, containment of the virus and health policy have underpinned the successful economic recovery, and clearly that's an important priority for all of us.

Dr MULINO: This is more of a question on notice. It would be of great interest if you were able to provide any sensitivity analysis that you can that speaks to any of the things we've just discussed or any others and the extent to which that sensitivity analysis might point to even roughly estimating their potential impact on the speed of the economic recovery.

Mr Comyn: I'm happy to take that on notice.

Dr MULINO: More broadly, what are some of the upside and downside risks that keep you awake at the minute?

Mr Comyn: Specifically to the economic recovery?

Dr MULINO: Yes. You've got this central forecast, which is pretty good. But, as you say, we're in a particularly uncertain time. What are some of the things that you're looking at that could go better or worse and that you're looking at very closely?

Mr Comyn: The labour market, as we outlined earlier. That's obviously a key determiner of economic activity. As well as the social impacts, it has a very significant impact on the banking system. That is the case for many variables that relate to consumer and business confidence. We've spoken about house prices and housing generally. There's also credit growth, specifically to businesses and small and medium-sized businesses, particularly where that lending goes towards incremental investments or investments that could reasonably underpin productivity and growth. I think that's going to be one of the critical leading indicators over the course of the year. Also, as we've seen over the last 12 or 15 months, it's just the intertwined nature of the health outcomes that have a significant impact on the broader economy.

Dr MULINO: That's great, and thank you for looking into how much detail you can provide on the modelling. I have a few questions about superannuation performance. There was some reporting in the *AFR* on 19 November around some underperforming funds, and Commonwealth Bank Group Super—I think it was the Accumulate Plus Balanced product—was nominated as one of the MySuper funds that was underperforming. I think the net return benchmark was minus 1.01 per cent. Have you seen that report? It's based on APRA numbers. Do you accept those numbers?

Mr Cohen: I do recall the report. That was part of the APRA heatmap report, from memory. Group Super, as you're aware, is our employee super fund, our internal super fund. I don't recall the exact figures for that, as you've quoted. I'm not disputing them; I just don't recall them specifically.

Dr MULINO: Do you have at hand the fee structure for that MySuper product?

Mr Cohen: No, I don't. We can certainly give you the detail, the fee structure, of that. From memory, the MySuper product is not one of the more popular products amongst the products offered by Group Super, but we can give you the breakdown of fees and costs.

Dr MULINO: That would be great. I'd also be curious to get a bit of guidance on the corporate structure, if you will. Does CBA own a corporate entity which owns the trustees? Is that the way it works?

Mr Cohen: Yes, that's correct. For the Group Super fund, yes, that's correct.

Dr MULINO: Are you able to provide information on the ways in which the returns that are earned in that product are distributed to members and then ultimately to CBA?

Mr Cohen: Yes.

Mr Comyn: We'd be happy to. What David's alluding to is the Group Super product, which is available to all employees—my superannuation is in that product. So, we'd be happy to provide it.

Mr Cohen: Dr Mulino, if I understand you correctly, you might be asking whether there is a portion of the returns earned by that fund that is distributed to members and another portion that goes to the CBA corporate group. Is that correct?

Dr MULINO: Yes, as a dividend, I suppose you could describe it.

Mr Cohen: My understanding—and we'll confirm this to you in a follow-up—is that there is no profit dividend returned to the CBA Group.

Mr Comyn: That's my understanding as well but we're happy to confirm that.

Dr MULINO: What's the name of the company beneath the CBA that owns the trustee?

Mr Cohen: Off the top of my head, I cannot remember. We can tell you on notice.

Dr MULINO: Would it retain some of the earnings on the investment products as a dividend or as profit?

Mr Cohen: It incurs costs, as you would expect, in maintaining and operating the fund. So it draws funds for that purpose. I'm not aware that it actually retains a pool of profits, if you like, for future dividend into CBA.

Dr MULINO: Thank you for taking that on notice. I'd be interested to get a sense of the flows from that product. Based on your understanding of the Your Future, Your Super Bill, what are the ways in which a member could be stapled to a product that is underperforming, and what do you see as some have the risks for members of that outcome?

Mr Cohen: Again, Dr Mulino, are you referring specifically to the Group Super or to super products generally?

Dr MULINO: To products generally, if the body's a member of it. But obviously your observations would apply for generally.

Mr Cohen: Yes. In very general terms, the intention, as I think you'd be aware, is that, in effect, stapling means that a member would be able to travel from role to role and from job to job and the super fund would effectively follow. Rather than opening up a separate fund for each role or defaulting into a new fund every time somebody takes a new role, the idea is that they would follow. The risk that you're alluding to, perhaps through apathy or lack of awareness or just not knowing what's going on, is that somebody is stapled to a fund that underperforms. One of the changes that will benefit and help individual members is the reporting that APRA has commenced—the heatmap reporting, if I can call it that. There is a fair bit of publicity that is now attracted to those heatmaps. That is actually highlighting the performance of particular funds. As you know, the intention there is that, where funds underperform by more than 0.5 per cent over two consecutive reporting periods, that fund is prevented from taking further contributions. I think that proposal and the way it has started to be rolled out is starting to raise awareness amongst super fund members of the performance of their fund. The intention obviously is to ensure that people take action and know enough to be able to take action in the first place. So I think that's one measure that is addressing the risk that you're alluding to.

Dr MULINO: You've touched on the fact that there is a trade-off here or a balance to be achieved. One of the goals of this stapling reform is to try to reduce duplicate accounts—and I think everybody's supportive of that. But, as you alluded to, one of the dangers is that disengaged members may end up lumped with an underperforming product for their entire careers or, indeed, their entire life. You've talked about the heatmap. It is gaining more prominence over time. I've asked APRA for information around who's using the website. I think it is growing, but they have acknowledged that they don't really see it as a website that millions of Australians are likely to log onto frequently. I think it has simplified some of the comparisons but they remain quite complex for the ordinary member. I agree.

Mr Cohen: I agree.

Dr MULINO: This remains a risk, doesn't it? We have a laudable policy goal but the devil in the detail is really important here: that we don't have people, through their understandable disengagement with some of the complexity of these products, stuck with products for long periods of time which could have very significant impacts on their end balance.

Mr Cohen: I think the question of engagement by super fund members generally is a very real one that the industry has faced for some time. You'd be aware that the general level of engagement, particularly amongst younger members, is low. It has proved difficult over successive years to engage younger members in their super. For many it is, unfortunately, a set and forget situation. Typically, we often see that engagement level lift only as people get older, and particularly in their 50s as they start realising that retirement is looming. It is a general problem that you're talking about there. The industry as a whole is seeking to engage people more and make superannuation a more engaging offering, but it is, I think hampered somewhat by the complexities. Even the most straightforward superannuation product is not easy to explain in a way that people find engaging—far less so than, say, equity markets or investments in shares.

Dr MULINO: Or home ownership.

Mr Cohen: Or home ownership.

Dr MULINO: I will just finish with a gratuitous comment before my next topic. We're broadly in agreement that more engagement would be a good thing, but I feel that there are probably limits to how much most people are going to be able to understand some of these very complicated issues like risk return trade-off. So we really need to make sure that we don't end up with a system which staples people through their inaction.

I have a final question on this topic—and, again, to follow up on some issues that have been raised by other committee members in relation to super funds. The Commonwealth Bank spends money on advertising, doesn't it?

Mr Comyn: Yes.

Dr MULINO: Why do you do that?

Mr Comyn: To promote awareness, engagement with and understanding about the Commonwealth Bank and the products and services and the role that we play in the economy and the community.

Dr MULINO: And, to a degree, to get new customers in a competitive environment where there's churn?

Mr Comyn: Yes.

Dr MULINO: That advertising takes a number of forms: It could be high-level brand recognition. It could be engagement in the community in all sorts of ways, which is partly motivated by the greater good but partly again motivated by brand recognition. It could take many forms, couldn't it?

Mr Comyn: Yes. This week we became the major sponsor for women's football, including the Matildas, which is a multi-year program. That's something that we wanted to do to support women's sport. We believe it makes us the largest investor in women's sport in Australia.

Dr MULINO: Do you disclose how much you spend on advertising and these various forms of community engagement?

Mr Comyn: Not specifically. It would be aggregated in one of our expense lines, which I would need the financial accounts in front of me to identify.

Dr MULINO: If you could provide that on notice, that would be much appreciated.

Mr Comyn: Sure; no problem.

Dr MULINO: Thanks. My last couple of questions go back to buy-now pay-later services. You've talked about the fact that your product will have a limit of a \$10 fee per missed payment and that is capped at \$120 a year. It's also fair to say, isn't it, that the degree to which firms charge late fees varies considerably across the sector?

Mr Comyn: Yes, it does. I've realised that I didn't answer fully Dr Leigh's question. So, in case I don't get another chance, I would make a comment. What you said is correct. Dr Leigh also made the contrast with a particular buy-now pay-later provider and suggested that our fees were more expensive. Our fee, capped at \$125, is on a per annum and a customer level. The other provider that was referenced is actually the lower of \$68 or 25 per cent of a single purchase. So each purchase could attract a late fee of up to \$68. I think I said to Dr Leigh that his assertion was incorrect, but I just wanted to support that with the actual figures. But, yes, the late fees do differ widely. There are, of course, a number of players, but there are also a couple of large players in that particular sector.

Dr MULINO: There's the variation in fees, but there's also the fact that a recent report by ASIC showed that 21 per cent of BNPL users surveyed—in the previous year I think it was—had missed a payment within the previous 12 months. Twenty-one per cent is quite a high proportion. Some people would argue that the variation of fees is, in one sense, a sign of innovation and product differentiation. I would be interested in your observation about the sector more broadly, where there is clearly a lot of innovation occurring. Given that there's a high level of users who have missed payments, given that there's a high degree of variation in products, which can often confuse people, given that, with the degree of regulation that we see at the moment, individuals can use multiple products at once without it necessarily being obvious to each provider and given that we are seeing some offerings of quite significant debt levels, how do you see the balance between enabling innovation on the one hand versus consumer protection through more regulation on the other?

Mr Comyn: I agree with all of the comments that you made, and I'll add to some of them. I'm quite familiar with the ASIC report about the 20 per cent of consumers missing payments and the same 20 per cent perhaps cutting back on essentials. We see buy-now pay-later users having roughly twice as much credit on their credit facilities, typically on their credit cards. They often have more credit products. That's what we can see. But, as you said, a number of buy-now pay-later providers don't actually contribute to things like comprehensive credit reporting. We know that about a \$10 billion per annum spend is going through buy-now pay-later. In my view,

that's clearly significant. We also see hardship rates for buy-now pay-later that are roughly double those for non-buy-now pay-later users. We see higher arrears rates for customers who are falling behind on their credit facilities.

To your point, clearly innovation and competition is a very important feature of any market and should be embraced, and it has been in this particular case. Payments globally are, I think, probably one of the most innovative areas of financial services. To tie the point that you're making back to a comment I made to Mr Falinski, from our perspective, the sector has become very significant, in terms of size. We're not talking here about a couple of small start-up companies that are unfunded; we're talking about an ASX 20 company. To put it another way, they were recently about 85 per cent of the market capitalisation of Macquarie Bank. To your point, where do you draw the line? I would suggest that the line around innovation at the moment, particularly in this area, is skewed to a complete absence and lack of regulation in a number of areas related to credit products and facilities; comprehensive credit reporting; the consumer data right; and facilitating competition and rights for merchants to be able to pass on higher input costs to consumers, as they're able to do for other debit and credit products.

Dr MULINO: That's my time. Thank you both for your attendance and evidence.

Mr SIMMONDS: Mr Comyn, thank you for your time and candour before the committee today. Are you hearing me alright, Chair?

CHAIR: You're sounding and looking very good, with a very well curated background as well!

Mr SIMMONDS: That's very kind of you. Thank you. Mr Comyn, one of the dangers of going last is that most of the questions have been asked! But I will tie up a few issues where I can, and I have a couple of my own. To go back to how the bank sees the general economic outlook, I know it's early days for JobKeeper coming off, but are you seeing any early signs of an increase in distressed borrowers?

Mr Comyn: At this stage, no, we're not seeing any meaningful sign. We would expect some degradation over the next few months, but, as I said, in terms of all of the credit indicators that we can see through our business, there's nothing that gives us particular cause for concern. We have, as mentioned earlier, quite an optimistic outlook. I think our economics team would be one of the more optimistic in the market. Clearly, we're seeing a very strong and ongoing economic recovery.

Mr SIMMONDS: You're not predicting, then, a strong change in the unemployment figures—or, if you are, it will be temporary?

Mr Comyn: Yes, that's right. As we've been sitting here, the jobs numbers have come out, and I think our economics team were pretty well spot-on in their forecast. I think it's down to 5.6 per cent. As I said earlier, we're still forecasting five per cent. There is some variation and fluctuation on a month-on-month basis—and we'd anticipate that—but getting down to five per cent by the end of the calendar year would be an exceptionally strong result.

Mr SIMMONDS: Were you aware of the loans that were attached to those who were receiving JobKeeper? Is that data that the bank has asked for from its borrowers or that it possesses?

Mr Comyn: It's certainly data that we've sought to understand, yes. We've analysed our customer base. We would have wanted to understand what assistance they might require going forward, but we also wanted to identify customers that we think would be eligible for the latest version of the SME loan guarantee. It supports customers with larger borrowings that are coming off JobKeeper, and we're able to refinance existing debt to lower rates. I think the prices that we published are 2.65 per cent for secured debt and 3.25 per cent for unsecured debt. We're in the process of contacting all of those customers to make sure that they're aware of the products that will benefit them. For many of those customers, that would result in an interest saving per month—and quite a substantial one for some of them.

Mr SIMMONDS: If you're aware of loans that were attached to those receiving JobKeeper, when it came off did you reach out proactively to them about the support that was available, which you're obviously aware of?

Mr Comyn: Yes. As you would expect, there's been quite a regular dialogue with in this case our business customers, in the context of the offer of deferrals. We processed a large number of deferrals across the customer base. As we've worked through that, and as support has either tapered off or been withdrawn, we've tried to be in as proactive contact as we can be with customers.

Mr SIMMONDS: If somebody comes off JobKeeper and transitions to JobSeeker because their job is no longer there in the market—they have lost their job—are they required to tell you about their change of circumstances in terms of their borrowing capacity?

Mr Comyn: From a consumer perspective?

Mr SIMMONDS: As a consumer, yes.

Mr Comyn: In the ordinary course, customers wouldn't be obligated to, at that particular point in time, but generally people do—and we would encourage people to contact us—if there's been a change in circumstances. That's clearly one of the features and benefits of the strength in the labour market and new jobs that are being created. Notwithstanding there are some pockets of the economy, some of which I referred to earlier, that are still very constrained, many of our customers who have been directly impacted have been able to secure alternative employment.

Mr SIMMONDS: In that case, if they're confident, given the opportunities that exist in the labour market, of moving quickly to another job, they wouldn't necessarily be required by the terms of your product to tell you?

Mr Comyn: Yes, that's right.

Mr SIMMONDS: I want to move to another issue that I spoke to you and others about previously, which is technology-facilitated abuse on your messaging platforms. I saw some figures that you were able to give us back in June last year that over a three-month period you found that over 8,000 customers had been affected by this kind of messaging, ranging from nasty jokes to the much more serious DV and threats on their life and that kind of thing via small payments of a dollar and all the rest of it. You've obviously made some changes. You're aware of it now and you've tightened it up since you gave those figures, but I'm keen to understand what the last figures were like, given that you're monitoring those figures.

Mr Cohen: You're correct on the numbers that we gave the last time we appeared with. When we first started looking into it, yes, we saw 8,000 instances of low-value transactions with threatening or abusive descriptions. Since then, I think as we alluded to in September when we last appeared, we've introduced new terms and conditions to our products so that the use of NetBank or our app for abusive transaction descriptions was going to be a breach of terms and therefore we could off-load customers if that continued. But we also introduced our filters. Currently we have around a list of 70-odd words that, through analysis, are the most frequent abusive messages. We've implemented a system whereby, if a customer does seek to send such an abusive description, the transaction is actually blocked.

Mr SIMMONDS: How many transactions have you blocked?

Mr Cohen: In the period between 29 October and 29 January, so a three-month period, somewhat alarmingly we've blocked 162,000 transactions. When a transaction is blocked the sender receives a message saying that the transaction is blocked because of an offensive term used in the description field. They can then try to send the transaction again. Of those 162,000 that were blocked, customers tried again, and 115,000 of those were blocked completely. So that's really alarming.

Mr SIMMONDS: Very significant.

Mr Cohen: That's 115,000 in three months. Those 115,000 represents about 100,000 customer accounts that had blocks applied to them.

Mr SIMMONDS: If you're identifying so many customers, if they're doing it repeatedly, what steps are you taking? How many have you actually kicked off the system or asked them to leave the bank as a customer? , the customer?

Mr Cohen: I would need to come back to you with the exact numbers on how many we have offboarded or unlisted, as we call it—that is, where the customer is no longer able to remain a customer. The challenge that we face there is that there is a risk therefore of people being unbanked as well. So we have to balance up the harm that is caused through attempts to send abusive messages and the harm that is caused when people cannot access banking facilities. One of the things that we have talked about with community leaders and New South Wales Police is what can be done when there are repeated instances of this type of abuse. The difficulty or the challenge that we face is that, broadly speaking, most of the abuse that we see is not illegal per se. It's not a criminal issue.

Mr SIMMONDS: What percentage of the 180,000 transactions that you blocked would be in the criminal realm?

Mr Cohen: As far as we're aware, none—and this is the issue that I'm drawing to your attention. At the moment there is no legislative basis, no regulatory basis for, for example, a description that calls somebody a derogatory name or says they want to harm. That, per se—

Mr SIMMONDS: Sure, but I find it hard to believe that, of 180,000 transactions, some of them aren't related to coercive control or DV elements. How do you know that if you are not referring it to the police or getting some

advice from the police about which might be related to DV instances where there's an AVO order in place or something like that? What assistance are you seeking from the police as to what's criminal or not?

Mr Cohen: We've been in touch with New South Wales Police in particular (a) to let them know about the problem that we discovered and (b) to seek some guidance as to what can be done. One of the issues we have is we don't have real time—we don't have people, for example, who are scanning as they occur for this type of abusive transaction. So we can't actually immediately alert someone to the fact that somebody has attempted an abusive transaction. Our systems are set up so that we have a list of words that we automatically scan and that trigger the transaction that is to be blocked. But the challenge for us is being able to then intervene at a personal level and be able to see the degree of harm or abuse that is being caused and, as you say, being able to link that back to known situations of domestic or family violence, for example.

Mr SIMMONDS: Without wanting to sound too adversarial—because I recognise that you're doing your best to answer the questions as best you can—can I put to you that I think that that is a very poor excuse; that that is an excuse that is very similar to what the big tech companies like Facebook used to say when they made huge profits, and then they throw up their hands and say, 'Oh, sorry, but we can't employ people to monitor content on our sites'? I put to you that the Commonwealth Bank makes significant profits and is a significantly large company and that it would not be out of the realms of your ability to hire people to monitor some of those transactions, particularly from individuals that you identify are using it repeatedly, and then to liaise in a more proactive manner with police, who already have legislation in place around coercive control, where this could fit into a wider investigation. So my question is: do you think that's a fair categorisation and would you consider being far more proactive in this space?

Mr Cohen: First of all, I'd say that, at a general level, we would absolutely agree that more needs to be done around the problem. The fact that we have 160,000 attempts to send abuse to people is shocking. From the bank's perspective, in the context of domestic and family violence, it's an area where we have spent significant funding, time and energy because it's an issue that we think needs to be addressed urgently. So, at an overall level, I completely agree with you that it's something that we need to do more. We are trying to do more. We think we are leading the way—and I don't want to pat ourselves on the back in saying that—in identifying the issue, but more needs to be done.

We are talking with the New South Wales Police. I wouldn't want to give you the impression that we're just blocking transactions and leaving it at that. Our challenge—and it's a challenge that we've had very open discussions with the police about—is how to identify those very dangerous abusive messages that do represent imminent harm and bring those to the attention of the police. The police are equally concerned that their resources are not stretched by alerts that prove to be false positive. So trying to find that right balance is something that we're working on right now. But I agree with your premise directionally, absolutely.

Mr Comyn: Perhaps I could very briefly underscore a couple of things that David said. This has been an area for us as an organisation in terms of domestic and family violence for some years. We've invested tens of millions of dollars in both education and support services. As you probably know from the history of this particular thing, it was one of our team members who actually discovered it. Frankly, we had never contemplated that people were using bank payments as a sort of carrier service to deliver profanities or threatening abuse. It's a huge priority for us.

There is not a constraint from a profit perspective. Without going into too much of the nuance, I think there are very big differences with financial institutions versus social media companies. But I accept your point more broadly, which is: can more be done? I'm sure there can be. Why don't we take that away both for the Commonwealth Bank and others—and I know this has been a priority at the overall industry level—see what more can be done, make sure we can get clarity, seek advice from law enforcement and come up with something that is suitably constructive and proactive?

Mr SIMMONDS: I'd appreciate that. I don't want to leave you and those listening with the impression that I don't appreciate and accept that the Commonwealth Bank has led the way in this space, albeit I want to see more occur. So I appreciate those elements. This not new space for us, in the sense that we are dealing with it across a number of sectors—and I know you're engaging with the Office of the eSafety Commissioner. I think there is the potential to look at some kind of proactive scheme whereby people could nominate where this is occurring to them, even if it's bullying that's occurring or something like that, via these small transactions and then that could be reported to the eSafety Commissioner. They could then liaise with the bank, and you could take some proactive measures to stop people. I think they have to take some responsibility for it, even if it means having their privileges with the Commonwealth Bank removed. But I will stop pontificating and actually ask a question, Chair, because I know you're about to say that!

I want to go to the other issue that's been explored already in some form, which is financial literacy education. I'm a great believer in this. I went through the Dollarmites program. I still have my Dollarmites account today, if that means anything—I declare a little bit of a conflict of interest. But I'm also a big believer in financial literacy. I know that Victoria has banned the Dollarmites program. What do you see is the future of the Dollarmites program? Are you going to continue to roll it out in its tweaked form?

Mr Comyn: We would certainly like to, but, as you mentioned, Victoria made a decision to force the cessation of that product in that state. It's unclear in other states. It's certainly possible that other states may form a similar view. We, of course, hope that that is not the case. We obviously think financial literacy is very important. We continue to support financial education in a variety of ways. As an example, we've been the principal sponsor of the teaching awards. It's a little unclear to us as to whether we will be able to continue to provide school banking services and play a role in financial literacy and education in schools for the next 90 years, as we have for the last 90, but we would certainly like to, and we will continue to explore different alternatives to do so.

Mr SIMMONDS: What's the kind of feedback you get from parents? Do they appreciate your being in this space? Do you track some of the feedback from parents around the program?

Mr Comyn: We do, and it's very positive. It's entirely voluntary in nature, so, as you'd, expect, the people who are participating—and there are several thousands giving up their time to effectively administer the program to try and teach good savings habits to their children in that school. So, we do get very positive feedback from the participants in the program. As Dr Leigh mentioned earlier, there have been some critics, but we believe that it still plays a very important role. Given a choice, we'd certainly like to continue to provide the program.

Mr SIMMONDS: That's certainly been my experience, Mr Comyn, with parents in my electorate. I think it's cancel culture gone mad, frankly. If you were to exit this space, do you have a view on other financial literacy programs that might fill it? Victoria, in banning your program, have said that they would offer their own financial literacy program. Do you have a view on the relevance of their program and whether it would achieve the same aims that you would be able to?

Mr Comyn: I don't have a view. I haven't seen any detail of the substitute or alternative program. Clearly, financial literacy is a priority in many countries, as it should be, as it is in Australia. There are a number of providers that seek to play a role, from regulators, in the context of ASIC, as well as a number of not-for-profits. Financial literacy and understanding and developing good behaviours are so important. The curriculum in our education is, of course, very broad, so I think there's certainly a role and a space for a number of different mechanisms and ways to try and teach people to at least understand what good behaviours look like and for them to learn through experience as soon as possible.

Mr SIMMONDS: Personally, I don't understand how encouraging young people to save in this day and age could be seen as a negative. Honestly, I think the argument that says, 'If the Commonwealth Bank wants to encourage them to save, they're stuck with the Commonwealth Bank,' assumes a level of stupidity amongst consumers, when they get to a certain age, in managing their own affairs. I want to talk to you about the buy-now pay-later space, which is one that other members have touched on. How is your take-up of the zero-interest credit card product that you're offering going? I'm interested in your demographics around that. Are you finding it's skewed towards younger people, who might otherwise have been using buy-now pay-later?

Mr Comyn: Yes, we spoke about it at our half-year results in February. From memory, for the first half it was about 35 or 40 per cent of our total applications. The take-up had been very good and very strong. Clearly we were targeting it as a fixed-fee product where no interest is charged. It does skew to the demographic that you're suggesting, certainly sub-35. Again, to underscore a point that I made, we treat that product as a regulated product. If we cut the fee on a \$1,000 credit limit to \$10 a month, we could rely on the same exemption in the National Consumer Credit Protection Act that many buy-now pay-later providers rely on. That would mean we wouldn't need to conduct any personal or reasonable inquiries. There would be no credit checks that would be required. Again, that is not what we're doing. I simply raise that to illustrate the point between what is occurring in the unregulated market versus the regulated market. Regrettably, the time taken to apply for our card is substantially longer than what it would take in an unregulated space, which the buy-now pay-later area largely is.

Mr SIMMONDS: Are you finding that, because it's a fixed-fee product, people are taking longer to pay off that credit card bill than they would with other credit card products?

Mr Comyn: No. The nature of it is, of course, that they pay no more than the monthly fee. What we are seeing—and credit to some of the providers who've innovated in this space—is that there is a preference. Many people are becoming more confident and happy about paying a subscription fee, whether it be for Netflix or Kayo. It's similar for a buy-now pay-later product or card. Some people find it more appealing to have a fixed and

recurring fee rather than any variation. We think that's a consumer preference and trend that's likely to continue and may well be integrated into some of our products and services going forward.

Mr SIMMONDS: A subscription model for banking—that's a novel way of looking at it. I want to go back to your point about credit checks. What's been out there in the press is that, as part of putting together your buy-now pay-later product, your plan is to conduct credit checks, which is obviously different from other buy-now pay-later provider models. Why have you made the decision to do that, if that is indeed how you're intending to structure it?

Mr Comyn: It is. In some instances it's not what we would be required to do but what we've elected to do, in the context of undertaking reasonable inquiries about a person's financial situation, in terms of their income liabilities and any outstanding debts. Often this is used interchangeably with reporting to credit bureaus and understanding what existing facilities or debts may be outstanding. We don't do that in a way that marks someone's credit file or gives them a negative impact on their overall credit standing, but we think it's important, obviously, to act responsibly, even if currently the legislation wouldn't require us to do so.

Mr SIMMONDS: You've said in response to questions from other committee members that you think that there should potentially be more regulation in this space. If that were to occur, would you like to see all participants in the space conduct some form of credit check, even if it were something that, as you said, didn't mark a person's credit file?

Mr Comyn: Yes, I would. I don't think it's unreasonable, given the size of the market and the scale of the individual players—in one instance an ASX 20 company—to make an investment in understanding their customer's circumstances and financial position and to be able to report appropriately to credit reporting agencies. I also think it's appropriate for merchants or the businesses who are accepting buy-now pay-later providers, who are effectively incurring costs of somewhere between three to six per cent, to be entitled contractually to pass on some of those costs to the consumers who are incurring those costs for them, as they are, and as the Reserve Bank has allowed under credit and debit. There's a new piece of legislation, which is going to be a very important one going forward, around the consumer data right. We've seen that roll out across open bankin I think we will see that roll out across many industries. Some of these payment provider companies have enormous amounts of data. It's not obvious to me why they're exempt. I acknowledge the work and innovation that they've undertaken to build, in some instances, such a large and successful company, and avoiding all of that regulation is quite a feat.

Mr SIMMONDS: I'm essentially out of time. So thank you very much, Mr Comyn. Any information you can provide me on notice around the numbers and trends for the messaging service, how many customers are using it and your interaction with the police or other way that you are taking action against individuals internally with the bank—any information along those lines—would be appreciated.

Mr Comyn: Happy to do so.

CHAIR: Thank you, Mr Simmonds. I will go to Dr Leigh for five minutes, then I will have five minutes and then we will suspend.

Dr LEIGH: Thank you, Chair. Mr Cohen, I just want to take you back to your comments on the returns proclaimed by the First Sentier cash option into which investors were automatically switched. You said they were one per cent, but isn't it true that, in the most recent quarter, on an annualised basis they were 0.29 per cent?

Mr Cohen: Dr Leigh, I don't think I said it was one per cent.

Dr LEIGH: I'm sorry; 0.12 per cent in fact—lower still.

Mr Cohen: I don't think so, Dr Leigh. I thought I said that the return on that particular product was 0.41 per cent, and that was after fees of 0.29 per cent.

Dr LEIGH: That's for the 2020 year, is it not? If we just look at the most recent quarter, this is a product that's producing a negative return, isn't it?

Mr Cohen: No, not as far as I'm aware. As I've said, as far as I'm aware on the latest numbers that I have, the return is 0.41 per cent annually after a fee that has recently been reduced to 0.29 per cent. I think, from memory, the article that you referred to earlier today looked at purely a quarterly return.

Dr LEIGH: It's the return in the last quarter annualised as I understand it.

Mr Cohen: Yes, but I am not too—

Dr LEIGH: Isn't it appropriate to look at the latest returns?

Mr Cohen: I'm not too sure exactly what the journalist looked at. We have informed the journalist that the information was incorrect and, as I understand it, the journalist has corrected the story today.

Dr LEIGH: On the number of branches that were temporarily closed, Mr Comyn, I think you said there were 114 of them that had been temporarily closed and that, of those, a handful have now been permanently closed. Do you expect the rest to reopen or do you think the temporary closures will, in the majority of cases, turn into permanent closures?

Mr Comyn: Yes, 114 were temporarily closed. As I recall, I think 35 have either been closed or we've announced that they are going to close. So hopefully that leaves 79 branches. I don't have the exact split. I think it's reasonable to expect, based on what we're seeing in customer behaviour, that not all of those branches will reopen. Some of those branches will reopen. We would like to be able to redeploy the staff that are currently still assisting our contact centre teams predominantly back into those branches. Hence, we want to make sure we can return as many people as possible back to where they were working.

Dr LEIGH: ASIC's taken the Commonwealth Bank to court over the overcharging of account fees. The action's pretty significant. It involves \$55 million of fees and nearly a million customers. Many of those customers are people in pretty vulnerable circumstances—newly arrived migrants, students and people with low balances. Doesn't this suggest that your record-keeping processes were defective, if you were in a position to overcharge some of the most vulnerable Australians for their accounts?

Mr Comyn: As I recall, the contraventions relate to a period from 2011 to 2018. I certainly accept that the inadequate systems and processes to ensure that the right fees were charged. As I recall, about 80 or 85 per cent of those fees relate to two particular exemptions, which is the sum of deposit waiver. We agree that it's unacceptable. There are many aspects of the claim from ASIC that we agree with and would not contest. We don't actually agree with the way the contraventions are drafted, but there are many aspects of the contraventions, as they are, that we do agree with and we wouldn't contest. We've made investments to ensure that that doesn't reoccur. We and ASIC absolutely agree and recognise that we need to make sure that we've got adequate systems and processes to ensure that we're charging in this case, but not limited to this, the right fees to customers in all circumstances irrespective of what complexity may be underpinning that. So I certainly agree that it is very regrettable.

Dr LEIGH: I understand there is a technical point over whether the breach occurred when the contract was created or each time you've mischarged the fee. But, more broadly, I don't see a great deal of contrition from the Commonwealth Bank for this overcharging—for people being stung with \$4 or \$6 monthly account-keeping fees again and again, particularly when we're talking about some of your most vulnerable consumers.

Mr Comyn: Dr Leigh, I'm not sure how you're measuring contrition. In no way am I suggesting that the conduct is either excusable or that there is an adequate explanation. It's simply completely unsatisfactory. As I said, notwithstanding the way some of the contraventions are drafted, we agree with and wouldn't seek to contest some of the allegations and contraventions that ASIC have put forward. This is a matter—and there have been a number of historical matters—where we have worked constructively with ASIC. As you would probably be aware, a number of those have gone through to court based penalty outcomes. We haven't sought to defend the proceedings because we do not disagree that the conduct was simply unacceptable.

Dr LEIGH: And the timing flows through until after the royal commission, doesn't?

Mr Comyn: Yes, it does. There are a number of historical matters that we have worked through. There are still some to work through, and we're committed to trying to resolve those as expeditiously as possible.

CHAIR: Mr Falinski, you have one minute—and I'm counting!

Mr FALINSKI: Fantastic. Mr Comyn, you've been talking about the buy-now pay-later sector and how it's unregulated. Is it totally unregulated or just compared to your credit products?

Mr Comyn: Compared with our credit products in the areas that I mentioned they would be.

Mr FALINSKI: Do you think, therefore, that it might give the parliament pause to think about whether we should relook at some of the regulation of your credit products? If this product is able to work so effectively and is so popular, maybe some of the regulation we have on your credit products isn't necessary to assist or even protect consumers.

Mr Comyn: Possibly. I think both could be true. I think the government does and should have a posture towards new players to facilitate and encourage innovation. My point, based on the size and the scale, is that I think they are beyond the point where at least the legislative and regulatory framework that's applied to that sector needs to be comprehensively reviewed. But, of course, there may be opportunities to streamline the regulatory environment for large financial institutions.

Mr FALINSKI: In the absence of there being any demonstrable evidence of consumer harm—and, let's face it, ASIC are up to eight inquiries where they haven't been able to find anything—maybe it demonstrates that a lot

of the regulation we have on financial institutions is not helpful to consumers and in fact has the opposite effect of not subjecting you to new entrants and keeping you on your toes—not that you don't look like you're on your toes often—and that that regulation could actually be acting as a barrier to entry for new competitors.

Mr Comyn: Yes, that's possible. If the reforms that are proposed around responsible lending do pass through and become legislation, as I understand it, Treasury would then be drafting a set of principles or law to be enforced by ASIC by non-ADIs. I think that would be substantially based on the prudential guidelines that are set out in APG 223. We've spoken about payments an area that should be of national importance, and I do think that the parliament should be looking closely at that. We've touched particularly on merchant surcharging and the very substantial costs that merchants are currently bearing. But, over the medium and longer term, there are some substantial issues. I think there is a review underway at the moment by the Treasury, with Mr Farrell assisting.

CHAIR: Mr Falinski, you're well and truly over your time.

Mr FALINSKI: Thank you.

CHAIR: Finally, Mr Comyn, I want to ask a couple of questions related to prudential regulation. As you've no doubt noted, people have raised concern about what high house prices mean in terms of lending standards. In recent history, when prudential regulation has been tightened, it has been targeted towards investors, but there's a broader discussion around whether there may need to be further efforts around prudential regulation if house prices get too hot: That would be fair, yes?

Mr Comyn: Yes. As I said, I don't think it's necessary at this time.

CHAIR: I understand that. But, if we were to get to a point where prices were deemed to be too excessive, particularly in the context of owner-occupiers—which itself would bring into question the decisions of the Reserve Bank and the consequences of monetary policy—could you see how prudential regulation tightening would not have any material impact on those who already have capital—obviously people who already own their own homes and may merely be upgrading—in comparison to the impact it could have in denying access to capital for asset prices for first home buyers?

Mr Comyn: Inevitably, with macroprudential policies, or any actions that are taken by any institutions, banks such as ours have an important role to play in terms of self-regulation—not to always rely on regulators. No measure that we can take is perfect, whether it be investor interest only, whether it be to cap higher loan-to-value ratios or whether it be to cap or restrict the maximum that people can borrow as a function of their income. As I think you're suggesting, typically those measures do tend to impact first home buyers, who are typically younger and borrowing higher proportions of their income. They've got fewer savings to be able to provide a larger deposit. I don't think there's any perfect macroprudential tool that we can implement to adequately slow the market. That may be necessary, but, at this stage, as I have hopefully covered today, I think there are a number of different factors that mean it's not necessary, certainly at this point in time.

CHAIR: I accept that it's not necessary at this point in time, but is there a way that you think that APRA could look at prudential regulation as a way of addressing the broader issues that may come up, depending on what happens with house prices? As I'm sure you're aware, a lot of the growth in house prices has been at the end where people have been upgrading their existing homes, addressing things like wanting larger space, particularly as a consequence of things like lockdowns and the like. Could there be a tightening of prudential regulation which constrains the growth at the larger end of purchasing assets but does not diminish the capacity for first home owners to get into the market?

Mr Comyn: Yes, there are measures that we could introduce for subsequent home buyers—

CHAIR: Such as?

Mr Comyn: The same sorts of caps or restrictions but more targeted—for investors for example, or even for subsequent buyers, if we were particularly going to protect first home buyers or new entrants to the market.

CHAIR: You do accept then that in the tightening of prudential regulation we can, even within the owner-occupier space, bifurcate the application to make sure that it needn't become a pathway that diminishes the capacity for first home buyers?

Mr Comyn: Yes, there can be unintended consequences, so we could look to ways to bifurcate or target those measures to have as few unintended consequences as possible.

CHAIR: In terms of the time to 'yes' for the approval of home loans, what is the current time line for time to 'yes' for the CBA?

Mr Comyn: It would be within two days. Certainly, in the broker channel, it would be slightly longer than that at the moment. For the best part of the 18 months up until the end of last calendar year we wouldn't have been

too far out of that—maybe a couple of extra days. We have been under operational pressure over the last few months simply because application volumes are up somewhere in the order of 40 per cent, year on year.

CHAIR: From personal experience, I can say that if your average at the moment is two days then not everybody is getting that outcome. That is not a criticism of the service I've received; it's just simply an observation. Has that grown in the past decade?

Mr Comyn: The time to 'yes'?

CHAIR: Yes.

Mr Comyn: At an industry level, quite markedly.

CHAIR: As a result of?

Mr Comyn: I think it has been particularly post royal commission and more responsible lending guidance. For us, we've been quite consistent, but I have certainly heard reports of some institutions' time to 'yes' being 20 or 30 days.

CHAIR: You've taken exception to me suggesting in the past that you've invested in your systems to give you a competitive advantage in approvals of loans as a consequence of responsible lending, but, in practice, you have done that.

Mr Comyn: Yes, we have sought to invest to improve the customer experience.

CHAIR: But that's given you a competitive advantage.

Mr Comyn: Where others have not done so, yes.

CHAIR: That's fine. There you go: we finished on a yes. Thank you for your appearance before the committee today. The committee secretariat will be in touch with you in relation to any other matters arising out of today's hearings. Of course, you will be sent a copy of the transcript, to which you can make corrections of grammar and fact. Hopefully you're not as petulant as some people in the super sector. But that's by the by. That's not a comment on you; it's a comment on them. We appreciate it, and it has actually been quite useful. As you said, the jobs figure going down to 5.6 per cent from 5.8 per cent has been realised and is in your words 'miraculous'. I will now suspend proceedings.

Proceedings suspended from 12:26 to 13:15

KING, Mr Peter Francis, Chief Executive Officer, Westpac Banking Corporation

VANCE, Mr Leslie Wilson (Les), Group Executive, Financial Crime, Compliance and Conduct, Westpac Group

CHAIR: I resume this hearing of the House of Representatives Standing Committee on Economics. We're not going to do the whole blurb again; we're just going to be as succinct as possible so that we have time to grill you! We have representatives from Westpac present for today's hearing. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament, and we don't want that. I now invite you to make an opening statement.

Mr King: Thank you, Chair. More than a year on from the start of COVID, Australia has done a very good job navigating both the health and economic challenges. When I speak with overseas based CEOs, Australia's relative success is well recognised. In looking at domestic economic performance, a key measure we track is the number of people employed. In the December quarter, it was back at pre-COVID levels. We know we may see this come back over the coming quarter, as we transition off JobKeeper, but overall we are positive about the outlook for the labour market. As the recovery proceeds, the eventual removal of physical distancing rules will be an important milestone because it will allow domestically based businesses to return to full activity. For the economy, we are forecasting GDP growth of 4.5 per cent this year, which is a solid result and will more than recover the lost GDP from 2020.

The better economic circumstances mean the vast majority of our customers are also much better positioned than we expected last year. Most customers with COVID loan deferrals have returned to making repayments. However, we know some will need more time and ongoing support. Our focus now is working with those customers needing tailored financial assistance plans, which are based on each customer's individual circumstances and needs. Options may include further repayment deferrals, loan term extensions, and interest rate reductions. As always, our message to customers needing help is: 'Please contact us as early as possible. Early notification gives us more time to support you.'

Recently, Australians in different parts of the country have also experienced floods and cyclones, and we've put in place emergency support measures for affected small-business and retail customers. We've offered grants for affected customers, and to date we have paid out nearly \$8 million under these measures for flood affected customers. Thank you, and we'd be pleased to take your questions.

CHAIR: That was pretty fast. Do you have anything else to report on?

Mr King: I'm sure we're going to have lots of discussion.

CHAIR: That's true, even with our diminished number of committee members. We started today asking the CEO of the Commonwealth Bank of Australia, Matt Comyn, how he would describe, in one word, the state of the Australian economy. He started with 'very good'. We succinctly put it down to 'strong-plus'. Then he eventually got to the word 'miraculous'. How would you describe the state of the Australian economy in one word?

Mr King: Robust.

CHAIR: 'Sustainable' is, I think, what's probably sitting behind that. Do you want to give us a quick update on how the Hayne royal commission implementation is going? Obviously there are still things you're no doubt waiting for guidance on, from us and from regulators, but where are you getting to, so that we can fulfil the basic functions of this inquiry?

Mr King: The key point is that there are 47 recommendations that will apply to the bank. Fifteen have been implemented, another 19 are in progress, and we're waiting for guidance on 13. But, for example, the ones around the mortgage broker market and the ones around a banking code of practice are well underway.

CHAIR: What's the time frame for you to be able to give us a more comprehensive report on that?

Mr King: We actually published a progress report on our website. The April one is up, so we could—

CHAIR: Yes, flick that to us—take it on notice. Apologies, apparently you've provided one already.

Mr Vance: For all of those that have legally commenced, we've implemented them in full, and we're on track to implement in accordance with the timetable for those that are underway.

CHAIR: Right. You're feeling good about it?

Mr King: It's underway.

CHAIR: Let's just quickly go to the bank itself. Out of the big four, how would you rate Westpac's performance against your three major competitors?

Mr King: Performance can be looked at in different ways. If I look, firstly, at our capital strength and credit quality—the strength of the balance sheet—which is very important for a bank, I think, broadly, the system's pretty close. On that scale, on the safety, I think, we're doing very well. If we look at growth in mortgages or business lending, we're probably not as good. We've had some issues in our processing, so we have work to do there. If I look at credit quality, in terms of growth, you may have seen in our quarterly result that we had a large write back of credit provisions. I think that goes to the economic performance as well as the solid performance of customers during the COVID period.

If I think about COVID itself, we had about \$55 billion in mortgage packages and \$10 billion in small-business packages. We've come to the end of March, and the majority of those are pretty much finished. We've now moved from the phase of what I would describe as 'general help'—the same packages available to every customer—to tailored help or individual help. Help has not stopped post the general packages being available, and that's the phase we're in with COVID now.

CHAIR: We've been talking about help with loan deferrals. What was the maximum in loan deferrals that you had at the peak period?

Mr King: In dollars, \$55 billion. That's about 148,000 customers.

CHAIR: What are you down to now?

Mr King: We're down to virtually zero. It would be a couple of billion, but it's virtually run off—

CHAIR: 'A couple of billion' and 'virtually zero' aren't quite the same thing.

Mr King: From \$55 billion down to a couple of billion.

CHAIR: What about numerically in terms of the number of mortgages themselves?

Mr King: It's 4½ thousand.

CHAIR: How would that break down, because that's quite a lot higher—sorry, that's consistent with the CBA, but they have a much bigger loan book than you do, at least with mortgages, so I would have thought that 4½ thousand is quite a lot. How much in total mortgages do you have?

Mr King: It's \$440 billion of mortgages. In the big scheme of things, the deferrals are very low, and they'll be run off. What we're looking at now—

CHAIR: But it's not low or small for those people whose houses—

Mr King: That's what I was going to get to. We're looking at who we're individually helping in the next phase, which is probably the thing we're more focused on now. Around three per cent of packages have asked for further assistance, which we call 'hardship'.

CHAIR: Of that 4½ thousand?

Mr King: Of the \$55 billion.

CHAIR: Which is 4½ thousand mortgages—so, three per cent?

Mr King: Yes.

CHAIR: So it's a relatively small number.

Mr King: It's small in the context of the bank, but for individuals it's very important.

CHAIR: Sorry, does that mean the other 97 per cent are going off loan deferrals and just moving on?

Mr King: They're back to repayment.

CHAIR: So why are they included in the 4½ thousand?

Mr King: I beg your pardon?

CHAIR: There are 4½ thousand people who are still in the deferral state. Is that correct?

Mr King: There are 4½ thousand in hardship. We think about it as the second version of packages. They're the people that have come off—

CHAIR: They've moved from deferral onto hardship—4½ thousand onto hardship—hardship being that they can't necessarily go back and repay the unpaid interest and so it would have to accrue?

Mr King: No; they're not able to meet their previous repayments, for whatever reason.

CHAIR: Okay; so they've gone back to some form of payment. Is that from P&I to I?

Mr King: It's all that. It could be that they have gone to interest only. It could be that they need a bit more time until they get their job back. It could be any of those factors.

CHAIR: Still, it's not an insignificant number of people; it's a lot.

Mr King: Yes.

CHAIR: How many have trended towards disposal of their asset or their home?

Mr King: Not many at this point.

CHAIR: We heard from the CBA a small number but, nonetheless, that there were 300 to 400 families who were in a position where they've either had to off-load their investment property—which is a very different conversation from the principal place of residence, of course. Do you have similar numbers?

Mr King: Those conversations are ongoing at the moment. In terms of us agreeing to sell, there are not many of those. But it's ongoing. I think the point about this is we have an individual conversation with those customers at that point and we're working through what's best for them, including potentially a reduction of debt through sale—and, with the housing market the way it is, that's something that has to be considered.

CHAIR: So, taking from that, though, the preference surely of the bank is to aid and assist those people to get back onto a repayment schedule which enables them to maintain their ownership, at least in the case of principal place of residence—it's very different if it's an investment property—so that their lives and security aren't disrupted?

Mr King: We need to keep people in their houses as long as we can. That's what we need to do and give them the longest period of time we can to get them back on their feet.

CHAIR: What's the time frame when that would cease?

Mr King: It depends on the individual conversation. There's not a set time frame.

CHAIR: You guys collect data on consumer behaviour. What adjustment have you seen since the conclusion of JobKeeper?

Mr King: In fact, the last reading of, say, credit card spend over the Easter period is still above pre-COVID levels, if we take that as an example. If we look at the Westpac consumer sentiment survey, which was released yesterday, that's one of the highest readings in 15 years. It's up near 119 in terms of that index. That's why I used the word 'robust'. Everything that we're looking at at the moment for the averages of the outcomes has been pretty good. Again today the unemployment rate was down a little bit, to 5.6. Our economics team had forecast unemployment at 5.7 per cent at the end of the year. There's some chance that that could need to be lowered.

CHAIR: I was just going to say that we've just dropped from 5.8 per cent to 5.6 per cent—and now you're saying it's going to be 5.7 per cent. Does that suggest to me that you got it wrong, or does that suggest to me that you were being conservative in your estimates?

Mr King: Forecasting is an art, not a science, as I talk to our economics team. I think generally the outcomes in the last year have been a little bit better than what we thought.

CHAIR: Even those who were optimistic about the direction would have said that there was likely to be an uptick in unemployment as there's some degree of adjustment occurring at this time, and probably over the next coming months. What's the high you're looking at this year, if you're saying 5.7 per cent by the end of the year?

Mr King: That's probably the question that everyone's asking at the moment—about what happens in April and May as we come off JobKeeper. Some of the ranges of increase in unemployment I've seen are from 50,000 jobs to 150,000 jobs. So there's a pretty wide range.

CHAIR: Is that the range that you have within the bank?

Mr King: We're probably in the 50,000 to 100,000 jobs. That would be the range. That's why I say, if I put it together with where we're at today, it probably looks better than the forecast we had by the end of the year.

CHAIR: I asked the following question of the CBA this morning. House prices are obviously going up—you read it everywhere—apart from perhaps inner-city apartments, which are going through a difficult period at the moment. Are houses becoming more valuable or is money just being devalued?

Mr King: I think it's houses are becoming more valuable.

CHAIR: Don't you think they were worth more—when we have no immigration, no change to laws to incentivise investment in capital, while we have a devaluation of money?

Mr King: If I look at the dynamics in the housing market—and one of the metrics I look at closely is new listings to sales—we've still got new listings lower than sales or, to put it another way, we've got excess buyer

demand versus stock in the market. Market prices clear by going up when that happens. Across Australia we're seeing that dynamic in terms of housing prices going up. As I get out into the regions—mostly in New South Wales at the moment—to the Riverina in New South Wales or the central part of New South Wales, everyone I talk to is saying (a) there's a bit of a shortage in employees and they can't get the employees that they need to get, and (b) there are also problems with accommodation. We're in a market where there's not a lot of turnover in the market—it's pretty tight—and, therefore, the stock that's coming up is well bid. There's probably a COVID impact in there as well. As you said before, the housing prices are a bit stronger than the apartment prices, and I put that down to people wanting to be in bigger houses.

CHAIR: What are you seeing in terms of data around first home buyers?

Mr King: They're very active. If you look at any of the stats—the stability report from the Reserve Bank is a good report, I think—you can see slightly higher usage of higher LVR, and that's normally a first home buyer. Generally, the market is being driven by owner-occupiers as opposed to investors. That's why I think we should be cautious and watch what's going on with the market, but it's people buying owner-occupied places that is really driving the market at the moment.

CHAIR: Particularly in regional areas. What percentage of new loans being approved at the moment are for first home buyers?

Mr King: It's broadly, 15 per cent, I think.

CHAIR: So the same as CBA. That was the number they gave this morning. One argument around house prices—and you may have seen discussion; in fact, I'm sure you have—is that there may have to be a tightening of prudential regulation to make sure that the market doesn't overheat and, of course, people don't overextend. One of the concerns that I have around tightening prudential regulation is you could end up in a situation where it favours capital interests or those who have existing capital and harm first home buyers, who need a greater share of their income to borrow. Is there a way that Westpac believes that prudential regulation can be tightened if required—and accepting that it may not be required at the moment—where it might stop what could be deemed to be of people upgrading their homes versus avoiding the risk that it becomes a barrier for first home buyers to get into the market?

Mr King: I think there are two issues in there. The first is: how do we help first home buyers get into the market? Is that an issue? I do think that is an issue. Getting people into the market is very important. I think the macroprudential issue is: what role is leverage playing in housing prices? If we look at things like high-LVR lending, the amount of interest-only lending and the amount of investor lending—they're three areas that are good indicators of leverage playing a role—those three areas are much lower than what we saw in the last peak of housing prices, and generally up a little bit but not too much in the last six to 12 months.

CHAIR: This raises a concern, including for myself, in that, with the devaluing of money, what we're actually in a situation of is a new normal for house prices. There are, of course, always differing views about when we reach peak, but my concern is that we've reached a new floor, where the likelihood of house prices staying around these levels, or greater, is likely to increase over time. Would that be your view?

Mr King: I think the fundamental thing is supply and demand. Can prices go up forever? The answer to that is probably not.

CHAIR: Technically, yes, but unlikely.

Mr King: One of the things in the assessment process for lending is we put an interest rate floor into the assessment process. Broadly, that's at about five per cent.

CHAIR: Sorry, five per cent of the value—

Mr King: You have to pay a five per cent interest rate on the loan when we assess how much you can borrow. Obviously, the fixed rate is now below two per cent, as the best—

CHAIR: Apparently it's got a one in front of it if you go for five years on principal and interest.

Mr King: I think that's coming to a shorter maturity! But the point is: what role is leverage playing in the housing market? There are interest rate floors in the calculations that prevent the lower interest rates being capitalised into how much you can borrow, effectively. That's often something that is considered in a macroprudential sense as to where you want to set it. In the longer term, the asset value will move with financing costs. We've already seen interest rates increase at the longer end of the curve, to 10 years. With RBA policy, they're obviously not going to at the shorter end of the curve, out to three years. But that will be a driver of asset prices in the economy, including housing prices, in the longer term.

CHAIR: There have been reports of parents who have become concerned about their children not being able to purchase a home, including the concept of FOMO, fear of missing out—from parents more than their children—because they fear their children will miss out on purchasing a home, and have therefore been either gifting and/or going guarantor on first home mortgages. Have you seen an uptick in recent months?

Mr King: I don't think there's an uptick. I'd just say that the hard data is probably guarantees on first home buyers. I think it's about 15 per cent as well, actually. But you've got choices. Children can live in rental properties without paying rent, to build up their deposits. People can have half of houses gifted. They can also have guarantees. The 'So what?' of that is that it's hard to get an exact feel on all of those because we're in part of the chain, where we're lending and there are guarantors, but we're not in the whole chain.

CHAIR: But, when you say '15 per cent', you're only talking about going guarantor, right?

Mr King: Yes.

CHAIR: So you're saying that it's bigger than just the 15 per cent, either through direct financial gifts, which may or may not be declared to the bank—but, nonetheless, that's a possibility—or through inheritances and other vehicles where people might get access to capital or equity as well as going guarantor. So, it's not an inconsiderable part of many first home buyers being able to secure their own home.

Mr King: It's part. I come back to the point you made before, though. It is hard for first home buyers in some circumstances to get into the market, and therefore that wealth transfer from one generation to another is probably starting earlier.

CHAIR: That's fine if you've got parents in a position to do so. How do people from low socioeconomic backgrounds and new Australians get a chance?

Mr King: That's fair. I think that we as an economy, as a country, as policymakers really need to stare into that question.

CHAIR: Good. I'm glad we agree. To come to the broader issue, in your experience what's the biggest financial barrier for somebody getting into their first home?

Mr King: Building their savings—

CHAIR: For a deposit?

Mr King: I should say that, first, it is the job they're in. If you think about how we lend, we lend on cash flow—what's the job, how much are they paid, and then how do they save for a deposit? The job in particular is one of the key things that we think about when we lend money.

CHAIR: When it comes to the difference between the deposit and financing the debt that is lent by the bank, do you find that financing the debt is as big a problem as securing the deposit for most first home buyers?

Mr King: If I think about what we're lending against, or what we are looking for, we're looking for a savings history when we lend. That's really what we're looking for—demonstrated savings to build your deposit or to repay your loan down the track.

CHAIR: Sure. But do you get many defaults or people in distress who are first home buyers?

Mr King: Defaults tend to be loss of job, sickness or divorce, unfortunately. Often the default is because the future hasn't played out as we expected when we provided the loan.

CHAIR: I asked this question of Mr Comyn from CBA this morning, and he said that they were open to developing products around using superannuation as a contributor in some way, whether it's a form of security or some like financial product, to enable young Australians to be able to buy a home earlier and more cheaply. Would that be the sort of thing that Westpac could develop a product around?

Mr King: We'd have to have a look at it. The law—

CHAIR: It would also require legislative change; I do accept that.

Mr King: It would, because of: how do you think about savings? But, also, hopefully we can get to a situation where people not only own their home in retirement but have an income stream. So how we achieve—

CHAIR: Absolutely, but have you ever heard of somebody saving for a home in retirement?

Mr King: I beg your pardon?

CHAIR: What's more common—somebody saving for retirement after they buy a home, or saving for a home in retirement?

Mr King: I accept your point. The normal phases in your life are going to uni, probably borrowing to buy a car, getting married, buying a house and then thinking about your retirement.

CHAIR: People, including myself, buy a home before they get married all the time.

Mr King: Fair enough.

CHAIR: That's also because I couldn't get married, but let's leave that to one side! The real point, though, is that the benefits of homeownership transcend both your working life and your retirement, assuming you purchase during your working life, correct?

Mr King: Well, you continue to use the house.

CHAIR: Whereas the benefits of superannuation principally rest in retirement. Would that be fair?

Mr King: That's the idea of the super system.

CHAIR: Exactly. Somehow I think homeownership takes precedence, perhaps, in overall value, in terms of both quality of life in working life and retirement. Would that be fair?

Mr King: Most likely for most people.

CHAIR: That's not a definitive answer. I do accept there could be some bizarre scenario where that isn't the case, but I'll accept that point! What is Westpac doing and what trends are you experiencing in small business lending?

Mr King: Just over the last 12 months we've seen a big build-up in deposits in the business sector. That's meant less need for borrowing and that's why business lending in the economy has pretty much gone sideways. It hasn't grown a lot. But, as we look forward, we would expect businesses to spend some of those savings, and then, if they see growth opportunities, to borrow. We're certainly seeing more interest or higher borrowing intentions—we call it 'pipeline' within the bank—a higher pipeline of people who are looking to borrow.

CHAIR: Do you see a reticence at the moment from small businesses about wanting to take on more debt, being particularly mindful of the fact that many small businesses have gone through a difficult time—some are reluctant, or some may be reluctant, to take on more debt—and whether that's going to hamper their future expansion or growth?

Mr King: It really depends on the industry and the region. When I went out to some of these regional areas, there was very strong demand to grow their business. Where they had deposits they were using those, and some were borrowing to stock up. Where it's been a bit harder—CBDs, for example—I don't think people will be borrowing to expand their business.

CHAIR: To go back to that again—and I asked the same question of Mr Comyn this morning—what are you seeing in terms of the discrepancies between the Melbourne CBD and other CBDs, particularly those comparable to Sydney's CBD, in terms of the business activity of your customers who are based there?

Mr King: Both CBDs have been impacted. Melbourne has obviously had a longer period of low activity, which has been pretty devastating for a lot of people. It hasn't translated into large losses in the bank, if you think about it that way. But the question is: what's driving it? We're seeing two things: one is that social distancing requirements in buildings are still having an impact, so when we can reduce the social distancing requirements in the cities it will be good. A lot of our customers saw an immediate impact in hospitality in Sydney when people were able to stand up in their venues rather than sitting at a table. So, that's an example there. Transport is the other thing—just being confident on public transport about the virus. Both are different issues, in terms of the way you solve them. But, in the end, on the trajectory we're on and getting the vaccination program done, we're in a much better position than we thought we'd be 12 months ago, and we'll work through it. Then social distancing can be reduced, and confidence in public transport will, I think, improve as well.

CHAIR: To go more broadly to the challenges facing the economy, would you consider tax reform to be one of the biggest issues that is holding the country back?

Mr King: It depends where it is. If we're looking at getting international investment into the country then tax rates are something that investors look at when deciding between doing something in Australia versus somewhere else. So, that's an example where it does play a role.

CHAIR: Sure, but I could have told you that. The question is: is the failure to reform tax holding the country back?

Mr King: And other areas. Stamp duty in New South Wales is an example where you reduce the cost up-front for a house or building a house. That's an example that help.

CHAIR: That's true. What about broader taxes—discussions around capital gains tax and income tax?

Mr King: Again, it depends on the policy of the tax. If you look at what you are incentivising, homeownership—

CHAIR: It wouldn't mean paying more. It might be rebasing.

Mr King: It could be, but that is a policy decision for the parliament.

CHAIR: It is. How much money are you as a bank spending on cybersecurity now?

Mr King: Cybersecurity is in everything we do, so it's hard to put a specific figure on it.

CHAIR: But you must have a team.

Mr King: It's everything. One example is: who do we recruit? So we've got to do background checks to make sure that we're not getting the wrong people into the company. That's an example of recruitment. It is: how do we train our people? One of the big challenges is email phishing and people clicking on links. We run internal tests to see how well people have understood what they can and can't do and when they click that on that email when they shouldn't.

CHAIR: How many cyberattacks have you had in the past 12 months?

Mr King: Lots.

CHAIR: What does that mean?

Mr King: We get them every day.

CHAIR: Serious ones, then, rather than—

Mr King: Cyberattacks are—

CHAIR: Every one is serious, I understand, but some are very serious and require a reinvestment in your existing practices and/or in some extreme cases effectively require publicly listed companies to pay people to stop their activity. Have you had any examples of that?

Mr King: No, we haven't. In terms of attacks on the bank, they happen all the time. I don't want to go into specifics about what they are and how we respond, but I would say that we have processes, from people to technology. This is an area within the banking system that we share information on and work collaboratively on to make sure that the system can respond to these types of things.

CHAIR: Are you confident about the state of cybersecurity in the bank?

Mr King: I am, but we are up against pretty sophisticated businesses, some offshore, and so we've got to continue to build our defences.

CHAIR: Offshore—from entities associated with foreign governments or competitors or blackmailers?

Mr King: I don't want to get into who, what, why and how we deal with it. I would just say that there are businesses that look to get a financial return from cyber activities and there are other sophisticated players in this market that have other motives.

CHAIR: Elaborate on 'other motives'.

Mr King: They may want to impact the functioning of the system. What I would say is that it is a very important topic. The bank is very active across all facets of cybersecurity. It's one of the top risks for us, but it's also one that we like to not publish how we respond to it.

CHAIR: When we raised this topic this morning with Mr Comyn he said that the failure of the parliament to permanently pass capacity for e-signatures meant that the delay for approving business loans went from six days up to 24 days. What would be it be on average for Westpac?

Mr King: Actually, I don't know. We can have a look.

CHAIR: Would you say that's a fair assessment of the situation that Westpac faces? I'm not going to hold you to the number of days—in contempt of parliament.

Mr King: I would say at a guess 10 days.

CHAIR: It adds 10 days.

Mr King: Producing a document, either couriering it or mailing, handle times—

CHAIR: So what would it normally be?

Mr King: and then getting it back and, if there's any issue with it, the process starts again, versus an electronic process over email with digital acceptance. They're chalk and cheese processes.

CHAIR: Sure, but are you saying that it adds 10 days to the process, or it would be 10 days ordinarily plus another 10 days?

Mr King: I'm guessing 10 days ordinarily.

CHAIR: Is 10 days standard or it is what is added on?

Mr King: From producing the document to having it signed and getting it back. I am guessing, but—

CHAIR: So are you saying that it adds about 10 days?

Mr King: Yes.

CHAIR: Finally, I have a question on bitcoin. We've been asking about what's happening with bitcoin and particularly the demand. How does Westpac see bitcoin, apart from the fact that it's obviously a form of artificial currency? Do you see the drift towards people wanting to use bitcoin as a reflection of people's concerns associated with the credibility of traditional currency?

Mr King: No, I don't. Bitcoin is an asset, in my mind. It's not a great sort of store of value, if you think about the Australian dollar. The Australian dollar is pretty stable in its value, if you like. Bitcoin is very volatile. That's why I think of it as an asset. It's attractive for some people to use because of that volatility and the return that you can get. It's also risky because you can get a pretty big negative return. That's why I think it's more in the asset class. From our perspective, it's a very opaque way to transfer value. You can't track it, and certainly we see in our frauds and scams department an increasing use of bitcoin as a way to pay for fraud and scams.

CHAIR: I'll hand over to the deputy chair for 30 minutes.

Dr LEIGH: Thank you, Chair, and thank you, Mr King, for appearing today. I want to start with the issue of branch closures. If I look at the numbers that you supplied me with last time around, from 2015 to 2020 Westpac's number of branches fell from 1,103 to 918—a loss of 185 branches—and your ATMs fell from 3,073 to 1,429, a loss of 1,644 ATMs, although I accept that 700 of those are the Westpac-Prosegur sale. How many branches and ATMs have you closed over the last year? What is your current number of branches and ATMs?

Mr King: We've got 879 branches. That's down about 40, I think. In terms of ATMs, we still include Prosegur, because they are Westpac branded ATMs. We've got 2,088.

Dr LEIGH: So how many ATMs have you closed in that period?

Mr King: It would be in the order of 45.

Mr Vance: Most of them ATM closures have been associated with branch closures, Dr Leigh.

Mr King: How many branches are temporarily closed and, of those, how many do you expect will be permanently closed?

Mr King: From memory, around 80 temporarily closed, and I believe 50 of those have been reopened.

Dr LEIGH: Do you do any special modelling to ensure that vulnerable communities aren't hurt by branch and ATM closures?

Mr King: When we look at the regional areas we think about our overall capability—so our digital capability as well as our call centre capability. We think about our Australia Post relationship, because there are 3½ thousand points of presence under that relationship. We think about other things that we can do. During COVID, for many passbook holders, we also provided debit cards, which helped people when a lot of the branches were closed. Then for specialist teams, such as Indigenous, we have a specific Indigenous call centre in Adelaide which deals with the specific needs of those industries. We think about the service that we provide as well as the branch footprint.

Dr LEIGH: Of the branch and ATM closures you've mentioned, how many are predominantly in Indigenous communities?

Mr King: I don't think many would be, but I don't know specifically. The call centre that we have down in Adelaide has a number of people in it who can speak the different dialects of Aboriginal people. That's a way that we found is a good way to help the remote communities.

Dr LEIGH: Westpac has a Walk Out Working performance and reward framework. To what extent is that aimed at incentivising branches to stop their customers using branches? Put another way, to what extent is Walk Out Working aiming to ask branches to make themselves redundant?

Mr King: I think you can actually turn it around: customers would expect that if you can go into the branch and open up an account that you can walk out and the account's working. The name of that program is to meet customer need. When they open up an account, we want them to walk out of the branch with it working. Increasingly what we're seeing is that around 40 per cent of those types of transactions are being done digitally now, so we're getting fewer coming into the branches and more being done online. As I look to future trends, I think it will increasingly be the case that people will open up their banking facilities online because there's more

ability to identify people digitally. In working with some of the new fintech providers, they certainly provide different capabilities for us in the way that we open up and identify people.

Dr LEIGH: So you don't think that the passage of Walk Out Working, which encourages branches to get customers to use smart ATMs, kiosks and become digitally active, is going to accelerate the rate of branch closures?

Mr King: The overall trend of digitisation in the economy is actually increasing. If I look at government services, more and more of them are going online. If I look at financial services, we're moving our business online. We're competing with new business models that are digital only. Then you've got other sectors of the economy that are also moving to digital. The trend is more digital, and the challenge for industry is how we help people move into the digital economy.

Dr LEIGH: In terms of acquisitions, you're one of Australia's biggest banks. Can you rule out acquiring Suncorp were it to come up for sale?

Mr King: Like you, I've seen those media articles that speculated. I'm not aware that that is going to happen. But, in terms of any future M&A activity, it wouldn't surprise you that I really can't make any comments on what we may or may not do in the future when we haven't even thought about it.

Dr LEIGH: You could rule it out on the basis that you're big enough already and that growth should come internally rather than from snapping up smaller competitors. That would be a reasonable, principled approach to take, I would have thought.

Mr King: Well—

Mr FALINSKI: Mr Chair, on a point of order: I normally wouldn't interject during the deputy chair's questions, but, in asking witnesses to reply to that, wouldn't that put them in breach of ASX listing rules and the Corporations Law?

CHAIR: Mr King is not obliged to answer any question that is put to him by a committee member. If he feels that way, he's entitled to give that exact answer.

Mr FALINSKI: Okay. Sorry.

Mr King: The only thing I would add to my answer is that there are clear competition rules in this country, and any future activities that the bank undertook would need to meet those clear competition requirements.

Dr LEIGH: Of course you'd always look to stay on the right side of the law, but there are also ethical questions as to how you might behave—

CHAIR: There's no such thing as an unethical merger of acquisition, is there, if it's done in a fair—

Dr LEIGH: But I'll move to another question. You set a new record last year for the largest ever corporate penalty—a \$1.3 billion penalty—for 23 million breaches of the Anti-Money Laundering and Counter-Terrorism Financing Act. In a report at the start of December, APRA said that Westpac has 'an immature and reactive risk culture, unclear accountabilities, capability shortfalls and inadequate oversight.' What have you done to rectify that?

Mr King: The first thing is we accept that we didn't meet the requirements of AML/CTF. We've completely accepted that. There are a number of responses from the reviews that we've undertaken into what happened. The first is in relation to a new operating model, which we call 'lines of business'. We've changed the way that we are running the company so that there is more end-to-end management of our key businesses and processes. That was one of the key findings from our reviews as well as APRA's comments. We've also undertaken, as we said at the time, a multiyear program to uplift our financial crime capabilities. That is well underway, in terms of reviewing our processes, our controls and our reporting to AUSTRAC. The other large program of work that we have is what we call the CORE program. That program is looking at how we lift our governance processes, our risk management processes and our control processes across the company, and that program is well underway. That is the program that we have a court enforceable undertaking on, and we've now agreed the scope of that program with APRA.

Dr LEIGH: Potentially, these issues go beyond the AML/CTF realm and go to the way in which Westpac has traditionally been run, don't they? You could add your self-assessment report in 2018, which said:

- An organisational tendency to cultivate complexity—

And, also:

- A tendency to privilege upfront conceptual work over execution and implementation—

In other words, you were good at starting things, but they quickly became complex and the follow-through was lacking. Is that an issue that you feel has been addressed to your satisfaction?

Mr King: I probably didn't explain myself well enough. The Financial Crime Program is a specific program. The CORE program is a much broader program, as you just referred to. It looks at how we run the company across all its aspects of managing risk from the board and from the management in all aspects. It is looking at non-financial risk, it's looking at financial risk and it's multi-year in its assessment. The other move that we've made is to simplify our portfolio of businesses. We're in the process of exiting from the group our insurance businesses, both general and life insurance, auto finance, some of our international operations in the Pacific and in Asia, as well as superplatforms and investments. When we've finished those divestment programs, the group will be narrower in its scope—predominantly banking—and we feel that is another way that we can execute our priorities better.

Dr LEIGH: You've become a simpler bank and I think that's good, but certainly a number of market analysts suggest that the issues that were raised in the 2018 self-assessment review still remain. Let me turn to the impact of house prices on Westpac's bottom line. Matt Comyn said that, as a rough rule of thumb, a 10 per cent increase in house prices flowed through to about a five per cent increase in the size of the mortgage book and about a three per cent increase in profits. Would that hold broadly true for Westpac?

Mr King: On the relationship between housing prices and debt, we have a forecast of 10 per cent housing price increases for this year and next year and growth and mortgage outstandings in the country of five to six per cent. That ratio for the foreseeable future is not unfair. The research I've seen looks at nominal GDP to debt in the economy over time. I wouldn't use the next 12- to 24-month relationship as an ongoing relationship. In relation to what that means for the group's earnings, that's much more complicated because we have Consumer Business Bank, Institutional Bank, and our Specialist Business group which houses the businesses I spoke about before, and New Zealand. We haven't published any sensitivity to mortgage growth and the group's earnings and I wouldn't want to do that now.

Dr LEIGH: In terms of other acquisitions, could you rule out making fintech acquisitions that were motivated by squashing a competitor, as distinct from finding new synergies with fintech?

Mr King: I think we undertake our business in the right way. We talk about it. 'Can we do it? Should we do it?' is the test that we do internally, in terms of ruling out M&A activities. I can't do that, because that's a hypothetical and we have to look at everything on its merits against competition rules. Often fintechs actually come to us to partner. There are myriad ways that the fintechs think about their businesses. We have some very big success stories in this country. We can see some overseas, but often fintechs want to partner with banks, and certainly we get lots of requests to review investment opportunities.

Dr LEIGH: Sorry, Mr King, but I find that a pretty extraordinary answer. You're telling me you cannot rule out acquiring a fintech for the motivation of quashing a competitor?

Mr King: As I said, we run our business ethically. We are not in the business of quashing competitors, if you like, but from my perspective we will meet the criteria of the board.

CHAIR: Would it be fair to say, Mr King, if I understand what you're saying correctly, that you would not be afraid to acquire to enhance your market or competitive position?

Mr King: We'll always assess future opportunities—

CHAIR: I don't think it's hard to say yes to that.

Mr King: Yes; we will always look at opportunities.

Dr LEIGH: Chair, that's a different question to the one that I'm asking. There's a range of questions that I need to cover in the limited time. Let me move on to the challenge of first home buyers, which the chair has touched on already. The issue for first home buyers at the moment is entirely the opposite for Westpac, is it not? As prices rise, Westpac's bottom line gets better. As prices rise, it becomes tougher yet for first home buyers to break into the market. You've been quoted in the press as saying that it's important to increase housing supply. What particular proposals would you like to see governments adopt?

Mr King: I think one of the big drivers of housing prices is the fact that a lot of people are based in cities. If you think about Sydney, it's pretty landlocked in terms of the available land, if you think about the different features of Sydney. You can either go up or not. Density is an option. The other one is that maybe we can have people spread around the country a bit more—more in the regions. That will need good transport infrastructure as well as more dwellings to move in, and telecommunications. They're the two in the medium to longer term that have some opportunity.

Dr LEIGH: High-speed rail and a better NBN?

Mr King: They would be part of the solutions.

Dr LEIGH: In terms of mortgage approval times, the February 2021 Broker Pulse survey found that Westpac rated the worst of the reported banks. Your time to the initial credit decision was 20 days. There was some suggestion that this was to do with an offshore processing centre being shut down. Is that all that was going on or are there more systematic issues that lead to your approval times being so long?

Mr King: We have a job to do in improving our mortgage processing times and we're well underway. As that report referred to, we did have issues in our offshore processing areas, but we actually made the decision last year that we would bring 1,000 roles back to Australia and they include call centre roles and the critical mortgage processing roles. At the moment we're nearly at 500—476 roles—so we're nearly halfway in terms of bringing those roles back in, and that will make an improvement to our process. We also have looked at our processes to approve the mortgage—how can we improve the processes? We put in a lot of checks and balances for responsible lending. Probably on the verification side we had too many checkers, so we have opportunities to speed up the time through having one check, not multiple checks.

Dr LEIGH: You would appreciate that this is an extraordinarily long amount of time to be taking. The best performers were ING and Macquarie Bank. They were taking four days. You're more than two weeks behind them. Your approval times are five times as long as the best performers. That must really make you worry, mustn't it?

Mr King: It's a very big focus for me to improve. We're doing about 12 per cent of loans within two days. If someone says to us, 'I need an approval within two days,' we will have a fast-tracked process as well. But we're too long across the board.

Dr LEIGH: If distribution is symmetrical then, if you've got 12 per cent within two days, presumably you've also got 12 per cent that are taking more than 38 days?

Mr King: If it's taking a long time, they're very complex loans. Not every loan is the same. When you get into family trusts or complicated families, they can take a long time. Simple loans are much quicker, but we look at the distribution of those outcomes. But I should say that I want this improved, and it's a goal for the company to improve it.

Dr LEIGH: I'm less worried about customers who find that they're waiting too long and they go down the street and go to another lender. I'm more worried about those who are, perhaps, more vulnerable and who might miss out on getting the home that they want as a result of those approval delays. Do you look at the number of people that actually miss out on buying their first-choice property because of your delays?

Mr King: As I said, if a customer says to us that they need a quick turnaround then we respond to that. So, in terms of customer complaints on mortgages, I'd have to take that one on notice.

Dr LEIGH: So it's only if people complain? You don't track, systematically, the number of people who miss out on a home? It would seem to be something that a CEO would want to know.

Mr King: As you can see, we're tracking the bifurcation. I'm not sure that we would know every time someone misses out on a house. Often they're getting finance from multiple places.

Dr LEIGH: You don't follow-up with the customers in that situation?

Mr King: Sorry?

Dr LEIGH: You don't follow-up with customers in circumstances in which they choose not to take up finance?

Mr King: The team—the people that support the customers—would be looking at that, but it's not something that I look at. I look at the complaints when they come in.

Dr LEIGH: In terms of the state of the economy, we had the Treasurer saying last year that state government lockdowns would cost the economy \$4 billion a week. The cost of Australia not being vaccinated surely isn't \$4 billion a week, but it must be pretty considerable, mustn't it? Have you done any modelling on what the decision not to vaccinate the country by October will do to GDP growth?

Mr King: I don't believe our economics team has put out any research on that, but I can check. The way I would think about that is that, at the moment, the event that seems to have the biggest impact on domestic activity is local lockdowns. If we can manage the situation without having local lockdowns then that's a good path for us. If we look at things like the consumer confidence index, which was published yesterday by Westpac, confidence is pretty high. But I will check if we have put any research out on that particular question.

Dr LEIGH: It seems strange. So you're saying that what really matters is local lockdowns, not the lockdown of the entire economy?

Mr King: Sorry, no, you're fair: the closure of the borders, the international borders, is important—that is right—but I was thinking of domestic activity.

Dr LEIGH: Sure. But surely delaying the reopening the borders has a direct impact on the resumption of economic activity, doesn't it?

Mr King: I wasn't aware that there was a target for opening the borders.

Dr LEIGH: Well, we need Australia to be vaccinated before we can open the borders, so delaying the vaccine delays the opening of the international borders. Surely that's self-evident?

Mr King: That's fair. But, from my perspective in running the company, I'd assumed the borders would stay closed for the majority of the year.

Dr LEIGH: The majority of the year, I think, is settled. The question is whether we're reopening in October, December or March next year, and all of those have significant consequences for economic activity. There was a story last year about a review of short-term bonuses within Westpac. Could you update me on whether any decisions have been made on that.

Mr King: What are you referring to, sorry?

Dr LEIGH: There was a story in *The Age* in December last year suggesting that there would be some review of remuneration procedures at Westpac, dealing particularly with the issue of short-term bonuses. Has there been any change on that score?

Mr King: No, there hasn't been any change on that score. One of the recommendations from the royal commission was on remuneration reviews. APRA's been active in developing some policies and putting out proposals, but that's yet to be finalised. Most likely we'll wait for that to be finalised before we review the executive short-term bonuses.

Dr LEIGH: The government's moving to water down responsible lending laws. Have you been lobbying in favour of that?

Mr King: Certainly we've been providing feedback on responsible lending to both sides of parliament. That's what we would normally do in terms of different laws.

Dr LEIGH: Tell me more about that feedback.

Mr King: We highlighted that there are often two regulators involved for the banks, APRA and ASIC, and the rules are not always consistent; we highlighted that when people are borrowing for personal houses and businesses—what are called mixed loans—they can get confusing; and we highlighted the speed of approval times and the impact on that from some of the processes that we were asked to do.

Dr LEIGH: Have you highlighted any of the risks to customers if responsible lending laws are watered down?

Mr King: Yes. One of the other areas that I think the country needs is a comprehensive credit bureau and a truly comprehensive credit bureau. If I think about the process to lend, we do a lot of due diligence on income, on expenses and on the amount of debt, and often we're trying to find out whether people have forgotten to tell us their full financial picture. Having a truly comprehensive credit bureau that captured all commitments would be good for the country. Likewise, in income, the ATO now has the Single Touch Payroll System. If, with customers' consent, we could have access to that information—and for a lot of businesses, one of the first questions we ask is for their tax returns. Again, it's about how we can digitise and how we can get a single source of truth for the economy. I think that would be a more complete system and deal with the intent of the responsible lending requirements in an industrialised way.

Dr LEIGH: It was a recommendation of the Hayne royal commission that responsible lending laws not be watered down. Aren't you concerned that there might be blowback against the way in which Australians see the major banks if you're seen to be lobbying against the first recommendation of the Hayne royal commission, recommendation 1.1?

Mr King: For us, the way we need to think about it is that we want to lend to people that can pay us back. We have people giving us their deposits and we lend to them, so we want to lend to people that can pay us back. As we started off previously in the committee, often the reasons for not getting paid back are unemployment, sickness and divorce—they are the big things—when the future doesn't play out as we expected. But in relation to the royal commission recommendation, Les?

Mr Vance: In relation to the royal commission recommendation, it was recommended there be no change to the current law. That recommendation had three components that underpinned it. The first was around inquiries and the expectation that we would make reasonable inquiries and take reasonable steps to verify. To the points that Peter just raised, we support the idea of verification, particularly around income and liabilities, and we are supportive of any processes that make it more convenient and more robust to get that verification. We support the principle that underpinned the Hayne commentary in that respect. Our view has consistently been: can we simplify the process of particularly those two key elements?

The second element that Hayne touched on was around 'suitable' versus 'not unsuitable'. He recommended maintaining the standards for the bank and the balance between banker and customer. In terms of the third, around unsolicited credit card offers, we absolutely support retaining that restriction.

Dr LEIGH: It seems pretty dangerous to pick and choose among the Hayne royal commission recommendations. You would be aware, wouldn't you, Mr King, that consumer groups opposed the watering down responsible lending laws?

Mr King: I've certainly met with those groups, and, yes, for people that aren't as financially literate in the economy, we do need to do proper assessments of their capacity.

Dr LEIGH: I'm happy to leave it there and return if there is time at the end.

Mr SIMMONDS: Mr King, thanks for your time and your candour. I want to ask you about your bankers service agreement that you've gone into with Afterpay. Could you explain to the committee a little bit about how you envisage that working. Essentially, are your products, as offered to other bank customers, going to be pushed to Afterpay's customers now?

Mr King: What we can see in terms of trends in banking around the world are partnerships developing between licensed banks and other providers of service in economies, and there are a number of examples around the world of that. We are investing in a banking-as-a-service platform. You're right: we have a couple of providers that we have signed up to it. At this stage, it is transaction accounts—deposits—that will be provided through that platform. That's where we're at.

Mr SIMMONDS: So an Afterpay customer who is making a deposit will essentially be depositing into a Westpac account?

Mr King: For the deposit account, it's a Westpac product provided by the licensed bank.

Mr SIMMONDS: In relation to the terms and fee structure, is it offered on the same basis to the Afterpay customers as it is to those walking into a bank?

Mr King: It may not be. The banking-as-a-service platform is set up separately to the main bank's technology platform. That's the other thing. The technology platform that it runs on is a new cloud-developed technology that has been developed specifically for the cloud. It has the potential for use in the bank more broadly, if it proves up.

Mr SIMMONDS: Would customers accessing your products via a buy-now pay-later provider expect to pay more or fewer fees than if they walked into a branch?

Mr King: It's a deposit account, so that's more about the specific product features. Generally transaction accounts are for everyday activity, so it's about how you access them through the digital channels.

Mr SIMMONDS: Will they undergo any credit checks or anything of that nature? Will the bank be undertaking a credit check or anything like that?

Mr King: It's a deposit product, so it doesn't need a credit check for that particular product. But, in relation to what we do need to do, there's the requirement to know your customer. We have to verify customers and identify them, so that will be part of opening an account in that platform.

Mr SIMMONDS: What is the bank doing in relation to technology-facilitated abuse, and what steps have you taken since the last hearing in order to look at the prevalence of it on your own platforms?

Mr Vance: In response to that, we have looked at this through two lenses. The first is our customers sending abusive messages. Unfortunately, we became aware of this in looking at some of the messages that were being sent, and it's unfortunate that people had found a way to take something that was intended to be useful and misused it. We have put in a facility to detect and block payments from being sent to other people from our customers that have abusive messages in them. Those transactions are caught and rejected. We contact the customer to tell them that the payment has been rejected on the basis of abusive language. Since we introduced that blocking on scale in January, we have blocked approximately 4,700 transactions from about 3½ thousand customers. The second aspect, because that stopping of payments is something we can only do for our customers making payments, is that we've provided a facility. If a customer gets a payment they consider abusive or

concerning from a customer of another bank, they have the ability to report that. We will then respond by taking action, advising the other bank and authorities around those sorts of complaints. We allow the customer to report that online to us. We will contact the customer and then take action accordingly.

Mr SIMMONDS: How many payments have you blocked? Was it 4,000?

Mr Vance: About 4,800 transactions from about 3,500 customers.

Mr SIMMONDS: That's significantly less than the Commonwealth Bank reported earlier today. How narrow are your search terms? Do you think that your customers are just doing it less than the other banks? I find that hard to believe.

Mr Vance: I'm not aware of CBA's numbers or the other banks' numbers. We have a fairly broad filter on these payments. I can't comment on relativities.

Mr SIMMONDS: Who's advised you on the terms to search for and block as part of the filter? Is it the eSafety Commissioner or Banking Association?

Mr Vance: No. It is internal. We have been consulting with the ABA as well through this exercise because it is an industry issue.

Mr SIMMONDS: Of the customers that have had payments rejected because of abuse, how many have then tried to do it again, or how many have you taken action on under your terms and conditions to exit them from the bank?

Mr Vance: In the context of the first number, of the 4,800 transactions, they belong to 3,500 customers. That gives a feel for it. There's not a heavy instance of repeat behaviour, but, still, 1,300 that have come from a person who's done it before is way too many. I would have to come back with numbers, in terms of both customer exits and the numbers that we've reported to authorities, but we have done both.

Mr King: We've reported around 10 customers to authorities, so it's not a big portion but it's still a lot of people.

Mr SIMMONDS: Sure. I would appreciate you taking those numbers on notice. I would also be interested in the numbers of people you have exited from your own institution because of that behaviour. Do you have people continuously monitoring it?

Mr Vance: Yes. We have a team that monitors this, frauds and scams. It's done in the same sort of area that's looking for the detection and the refinement of algorithms in that space.

Mr SIMMONDS: How actively are they monitoring the payments that are blocked? Are they doing it in real time or are they reviewing it several weeks—

Mr Vance: Yes.

Mr SIMMONDS: They're doing it in real time?

Mr Vance: There is a real-time screening on the payment. All of these payments come through the new payments platform, which is a real-time platform. For us to be able to intercept the payment before it leaves the bank does require real-time intervention and real-time review.

Mr SIMMONDS: Sure, but is it real-time review by a person? That is what I'm getting at.

Mr Vance: It's a real-time—

Mr SIMMONDS: The reason for the question is that the previous institution indicated that it was difficult to ascertain whether the payments that they were blocking were in relation to abuse of a mischievous nature or ongoing abuse related to DV or coercive control, and the difficulty in deciding that was the fact that there weren't actually people looking directly at it. I'm trying to ascertain from you whether you have people looking at what the abuse is that is being blocked and trying to ascertain whether it's of an ongoing and personal nature or a threatening nature.

Mr Vance: Yes, we do have that review, but, as I said, that one isn't done in real time. The real time is done in the moment to block the payment, but then it is reviewed by people.

Mr SIMMONDS: Okay.

Mr Vance: There is still an element of supposition that you have to make, in terms of the behaviour patterns and where it goes, but I think most of the payments, once there has been a block, haven't been repeated, which does give you an element of feel that those people are probably being stupid, but this is a behavioural pattern that must stop.

Mr SIMMONDS: Obviously, if you're referring people to the police, you're obviously establishing that some of them are malicious and that further action needs to be taken, and you're actively doing that. Do you know how many referrals you are getting from people receiving—did you say receiving it from other financial institutions?

Mr Vance: Yes. We've had 10 notifications of people and all of those are obviously sufficiently serious that the recipient is concerned about those. While I would have to confirm it was all, certainly the vast majority of those would have been passed on.

Mr SIMMONDS: Are you able to break down for me which institutions those 10 are from so that I can understand which institutions are not proactively monitoring this enough?

Mr King: On that question, we know as an industry that this needs to improve, so we will be engaging with each other to make sure everyone's getting to the standard. We will check whether we can provide it, but, certainly from an industry perspective, we all want to get this right.

Mr SIMMONDS: That's great. Any information you could provide in that regard is greatly appreciated. You mentioned earlier, in broad terms, the loans that were in financial distress during COVID and how much of that has come back. Are you aware of how many people were seeking financial assistance for their loan because they were on JobKeeper?

Mr King: Not specifically in the way that you ask. Often it's because the payments look like salary when they come through into the person's account, because the company is receiving the money, if you like. The way that we track it is through our hardship processes, where customers call us, and, if people miss payments, then we'll contact them.

Mr SIMMONDS: So, if a customer moved from JobKeeper to JobSeeker but then, because of the strong labour market, found another job, and if that happened in a period of time that didn't require hardship, that wouldn't necessarily be available to the bank's knowledge?

Mr King: No, assuming they've met their repayments. We encourage the customer to come and talk to us early because we think that's the best way to help them through, but, if they prefer not to and they meet their repayments and they've got a new job, then that's good and they continue to meet their repayments.

Mr SIMMONDS: It's early days following the removal of JobKeeper, but do you forecast that the labour market is still likely to be strong? We've seen the figures today.

Mr King: We touched on this in the introduction. The economics team had an unemployment forecast for the end of the year of 5.7. We're probably in the period when the roll-off of JobKeeper is going to have the maximum bit, but, then, we're creating lots of jobs. That's why I said that the outlook is robust.

Mr SIMMONDS: Thank you, Chair. I am out of questions. I'm happy to leave it there.

CHAIR: I will hand to Dr Mulino.

Dr MULINO: Thank you, Mr King and Mr Vance, for attending today and providing evidence. I want to revisit one of the issues that the deputy chair raised which was the work that you've done since the AML breaches were identified. I want to drill down on a couple of aspects of risk management more generally. There was an Ernst & Young report in, I think, 2017. I will just talk about a couple of specific episodes, if you will, over the last couple of years. That talked about the fact that there was less involvement from Westpac's board compared to peer institutions in relation to model approvals, and that might have been in relation to some of the liquidity modelling. It also made reference to the fact that data from the bank's commercial property portfolio was drawn from annual spreadsheets and paper based files. That obviously is more time consuming, but it also raises risks of inaccuracy. I'm wondering when those practices ended, if they have fully ended.

Mr King: Sorry—I don't have it in front of me. In relation to modelling of liquidity, that's a piece that's specifically covered in our CORE program. We've obviously improved it over time, but it is specifically covered in our CORE program. On commercial property, the portfolio historically has actually performed very well. It's not very stressed, so the outcome in that area has been as expected, in terms of the credit quality. But, as I said, a lot of the information was with the bankers, in their physical files, so we're in the process of digitising that information so we also have a digital record. That will help us with modelling of overall outcomes.

Dr MULINO: It's good that the overall results are good, but that obviously doesn't necessarily mean that risks don't remain. You're saying you're basically still transitioning from some of the practices that they identified as problematic?

Mr King: I haven't got the report in front of me, but we're still working on the digitisation of data in our business bank and that would include commercial property.

Dr MULINO: If you wouldn't mind providing an update on notice, that would be great.

Mr Vance: Could I clarify: is that Ernst & Young report the independent review of our risk management practices for the purposes of Prudential Standard 220, so we know what to look for?

Dr MULINO: Yes.

Mr Vance: Thank you.

Dr MULINO: You've already touched briefly on this, but I just want to drill down a little bit into some of the comments that APRA had made. The deputy chair talked about the comment around some of the risk systems being immature and reactive, and there is obviously a range of other comments. That was what led to the work of Promontory. They undertook a review of board committee papers and executive committee papers. Is that correct?

Mr King: Are you referring to the Promontory review of the AUSTRAC matter?

Dr MULINO: Yes.

Mr King: Yes, they did do a review.

Dr MULINO: How far back did they review paperwork?

Mr King: I would probably need to take that on notice, but it was for the period of the AUSTRAC issues, so it would have gone back into the early 2000s.

Dr MULINO: Again, it would be great if you could provide specifics on that.

Mr Vance: Apologies, but could I clarify because we've had two major exercises involving Promontory which would have covered this territory. Is that specific to AUSTRAC or the broader review that they're doing in conjunction with our non-financial risk management?

Dr MULINO: There was a report which was referred to, on 21 January, which involved reviewing board papers and board committee papers. Did they both undertake that desktop analysis?

Mr Vance: Both would have covered that, but 21 January, I expect, would have to have been—

Dr MULINO: It was a 22 January meeting between yourselves, APRA and Promontory.

Mr King: We might follow up with you offline and take it on notice.

Dr MULINO: Yes. It might be specifically in relation to AUSTRAC, but there is reference in some media coverage of a meeting that occurred on 22 January 2021 between Westpac, APRA and Promontory. I'm interested as to whether AUSTRAC was at that meeting.

Mr King: I will take that on notice.

Dr MULINO: Thanks. In the process of working through with Promontory and APRA, specifically in relation to your AML processes, how was AUSTRAC involved?

Mr Vance: I think we've conflated two processes, both of which involve Promontory. Promontory did a review for us looking at our AML practices as historical, as an investigation, but haven't been looking specifically at the remediation of those practices. We have Deloitte providing assurance over our program to rectify those practices, given independence considerations with Promontory. Promontory more recently—and this is where the ongoing independence issue would arise—has been looking at our broader risk management practices. They have been the assurer of our CORE program since that was established mid-last year and have continued as the independent assurer for the purpose of the enforceable undertaking. That's looking at our broader risk management practices and risk management frameworks. It's not specific to AML.

Mr King: That is the CORE program I referred to before.

Mr Vance: That's correct.

Mr King: Mr Mulino, what I would say on AML/CTF matters is the team definitely deals with AUSTRAC, given they're the primary regulator for AML/CTF.

Dr MULINO: I'm sure they do deal with them. It is that latter process, the broader process, that I'm interested in. I suspect it's that process which the 22 January meeting relates to.

Mr Vance: That would be correct.

Dr MULINO: I am interested in whether AUSTRAC was present. Promontory has been working with you across risk management broadly, but obviously AML is one of the key elements of that, given that it involves such significant amounts of money when systemic breaches occur. I'm interested in the way in which AUSTRAC was involved. Obviously APRA was involved in a lot of that work. They instigated it and, in a sense, vetted it or approved it. I'm interested in specifically how AUSTRAC was involved, given that they have a lot of very specific expertise on that particular important risk.

Mr Vance: I can confirm, upon the basis of that, the meeting on 22 January would have been solely between ourselves, Promontory and APRA, not AUSTRAC, given that it would have been focused very much on the finalisation of the integrated plan that we needed to prepare under the enforceable undertaking. It was focused on the APRA response. In terms of those two processes, we have been keeping AUSTRAC informed of our AML program and our progress on the AML program. That is a much narrower piece than APRA is interested in. They are interested in our broader risk management practices. The two have not conflated, but obviously our progress on AML and our continuation—Dr Leigh referred earlier to staying the course and executing on things like that—is an aspect that will be relevant to us satisfying APRA and ourselves that we have made the necessary substantive changes that we needed to make, and Promontory will be involved in that part of the process.

Dr MULINO: Great. Thank you. In relation to that broader piece of work, my understanding is that five additional streams have been added: credit risk, financial risk, liquidity risk, technology risk and data risk. How are you approaching this in a way as to avoid silos and ensure that you're reflecting the interdependency of a lot of these risks?

Mr Vance: That's a fantastic observation, because that is actually the key to executing this well. We have a program that sits across the top. Each of those areas has dedicated onus and there is a series of governance mechanisms designed to assess the design and make sure that's coherent and then make sure the interdependences in implementation are being actively managed. That program assurance level is also one where Promontory is providing oversight into the process, but that is the critical element—that this is executed holistically and produces sustainable change for the organisation. That is not an area which we have structures in place to manage that, but it is one where we're going to need ongoing focus on. That's probably the key issue for the program itself.

Dr MULINO: There have been some suggestions, and I think this might have even come from your organisation, that some of these issues take years to fix, and that, in a sense, is a realistic reflection of the complexity of some of these issues, but how does that leave the organisation potentially exposed on some fronts? How do you juggle the need for urgent action and the need to do it well?

Mr King: The first thing we'd want to do is add additional manual controls so we get some of the residual risk ratings down. Then you want to follow it up on sustainable controls and sustainable processes with technology. But, yes, they'll take years, but we want to see some progress early on implementing controls to reduce the risk. We don't back-end everything; we want to see progress along the way to reduce risk.

Dr MULINO: Going back to AML specifically, there was the significant breach which we've already referred to. You talked with Dr Leigh about it. You're not alone in having experienced breaches in this space. I'm interested in your observations about our regulatory settings in Australia and whether we have the balance right in terms of the regulator relying too much on the major actors—in this context, the four banks—indicating to the regulator when breaches have occurred versus it being more proactive and reaching out and becoming aware itself. What's your understanding of international regulatory arrangements? Where do we sit? Do we have the balance right?

Mr King: That's obviously a complex question because you have different regulatory regimes. Probably the best way I could summarise it would be to say that, in some regimes, you're required to report suspicious activity, so the focus of the institution is going to suspicious activity. In other regimes, such as in Australia, you do a lot more reporting on transactions as well as suspicious matters. If you think about some of the information that's used for the reporting here in Australia, there is suspicious activity and lots of transactions, so it's a little bit more complicated. The other point I would make, though, is that regulators often want access to transactions, so it would be good if we could do it once. Regulators are increasingly looking at getting the individual transactions so they can run their analytics over the top of them. If we had a coordinated way to provide data once which all the agencies could use, that would be useful for both this organisation and the regulators.

Dr MULINO: This will be my last question on this before we go on to another topic. I don't want to get too much into the weeds, but my sense is that this is a rapidly changing area and all four big banks are investing ever larger amounts in this area, and that's on top of significant existing investments. It seems to me that one aspect of that balance between a regulator that receives, say, reports of suspicious activity versus one that is arguably a bit more proactive, if that's the right term, is perhaps a regulator that gets more data and then does more analysis at its end versus one that relies on your analysis to identify where activity might be suspicious. That analysis can be quite complicated and could rely on finding patterns where they're not necessarily obvious. Is that part of the challenge—that it comes down to the capacity of the regulator and whether they're able to, in fact, undertake some of the work that you're currently having to do?

Mr King: Maybe if we look at things like 'know your customer', where a company banks at different banks—they'll often have multiple banking relationships—all the banks are doing the same things to 'know your customer'. We're probably not talking about the regulator but the whole economy. If there's a way that we can have an identity process for individuals and for companies, that would be more efficient for the economy. That would be an example. Some of the reporting that we do is based on data, but some of it's based on observation—people saying, 'That doesn't feel right' or 'I'm not getting the right explanation.' That couldn't be done by the regulator. Where the regulator does add value is when it's looking at patterns across organisations. We can't see inside competitor banks, but the regulator can. They can come to us and say, 'Gee, have you noticed that this is happening in the system and that it's part of your bank?' and that does happen.

Mr Vance: In terms of AUSTRAC, that is an area where we are finding that they are engaging well with industry—taking their amalgam of data and then working with us and the other major banks, through the Fintel Alliance, to try and improve the scenarios and the detection by providing us all with some requests for information and then using that data to help refine the scenario. It is certainly a role. If I look at AUSTRAC and I look at APRA, you certainly see them looking at how they play that role as the collector and having the ability to look across the system.

Dr MULINO: Great. That's useful. Yes, it would be great to get a sense of the extent to which AUSTRAC was involved in that broader commentary piece.

Mr Vance: I can confirm they have not been involved. AUSTRAC has not been involved in that discussion. Now that we've sorted out which one we're talking about, I can confirm that for you.

Dr MULINO: I want to go to some of Westpac's MySuper products. There was a story—I think it was in the *AFR* on 19 November 2020—that looked at the performance of quite a number of funds right across the sector. This is based on APRA data. Westpac Group Plan MySuper, Retirement Wrap and BT Super MySuper were underperforming by more than a percentage point. Are you aware of that story, and do you accept those figures?

Mr King: Yes, we are. Up-front, I talked about us simplifying the portfolio. One of the businesses that we have decided that we don't want to be in, because we think it needs a bigger scale than we have, is super investments and platforms. From our perspective, it's not a big business and it's one that we won't be in, in the future. But I'll let Les comment on the performance.

Mr Vance: That's coming from the APRA superannuation heatmaps. I believe that's the story you're referring to.

Dr MULINO: Yes.

Mr Vance: Yes, we are aware of those.

Dr MULINO: I have a couple of questions here, and they are the same questions I asked the Commonwealth Bank earlier today. Firstly, I'm interested in any guidance you can give on the way in which the returns on the investments are being distributed to members, on the one hand, and to the corporate entity which owns the trustee, or indeed back to Westpac, on the other. I'm interested in the way those returns end up being divided.

Mr Vance: I think I understand. If I'm going in the wrong territory, please steer me back.

Dr MULINO: Please fix my terminology, if need be.

Mr Vance: Whether it's us or another corporate supplier or an industry fund, we are only authorised to take certain costs out of the fund. We charge fees into the fund to cover administration investment, and there are certain costs that we are entitled to recover directly from the fund. Those are all fixed. They're not dependent upon investment returns. All of those are prescribed and have to be consistent with the superannuation regulations. They're not entitled to be based on fund performance, in that sense.

Mr King: So, the returns not the costs go to the members.

Mr Vance: The returns on the fund are all going to members.

Dr MULINO: What about dividends going back to Westpac?

Mr Vance: Our superannuation trustee, BT Funds Management, charges an administration fee and recovers certain costs. The fees that it charges are fixed in amount, so they're a specified amount per member or for the total value of the fund. It takes those, and, yes, those fees do provide dividends up to Westpac Banking Corporation, but the actual returns on the funds all belong to members.

Dr MULINO: Okay. I think there's an issue of getting the right terminology—

Mr Vance: Sorry, I just wanted to make sure we're level set and talking about the same thing.

Dr MULINO: For those funds that were identified in that report—there are only three of them—it would be great to get a breakdown of the different fees you're talking about.

Mr Vance: APRA also publishes, in that sense, a guide on fees and a heatmap on fees for those. It breaks those down by administration fees, which is only one component, but it also then publishes a table on the total fees, which covers investment fees, administration fees and cost recoveries from the fund. From our point of view, it is the most meaningful way to look at the cost to members of running the fund, because they look at what the all-up amount is that's coming out from their investment returns, essentially.

Dr MULINO: I think that's right. I think those total admin fees are critical. On a separate point, that's why a number of people have been saying they should be included in benchmarks, which is part of the debate around the current bill. It might be that this could be backed out of information already in the public realm, but it would be interesting to see a breakdown of how much is going back to Westpac, for example, versus other types of fees.

Mr Vance: We can provide that and also the benchmark data. As I said, if you look at it in a relative sense, we've done a lot of work on this, trying to make ourselves more efficient for members. We were very pleased with the December results, which showed, for an average-size member, we are now in what APRA calls the 'white zone', which is the lowest rate of total fees for a member of \$50,000, which is comparable to an average-size member.

Dr MULINO: You've already had a discussion with the deputy chair around the vaccine and its impact on the macroeconomy. You've indicated a forecast for end of year of 5.7 per cent for unemployment, although I imagine that might be subject to a bit of change—I fully understand the science and the art of forecasting. What's your GDP forecast for the calendar year?

Mr King: It's 4½ per cent.

Dr MULINO: Another aspect that I think is a material matter, which I imagine is a tricky one to model—and I'm curious about the extent to which you can comment on this, and, if not, feel free to take it on notice. Obviously we're at a bit of a fork in the road now, where we're seeing JobKeeper end and JobSeeker settling in at a lower level than it was when it included the supplement. There was quite a period where the economy benefited from very high consumption by people with a high marginal propensity to consume out of these income supplements, and that had a very positive impact on the economy when it was needed. We're now going into a period where a number of commentators have said that there are a lot of savings on household balance sheets. Some people have estimated it at 150 and some at 120. It's significant, and I think everybody agrees with that. I'm curious as to your thoughts on what some of the challenges are in estimating people's likelihood to spend out of that over the next six, 12 or 24 months, because that's going to be one of the big macroeconomic uncertainties, I would have thought. If anything, I would have thought it's more difficult to model people's consumption out of an income supplement.

Mr King: If we look back at the GFC, we saw a big increase in the savings rate, which is one of the key metrics that I watch. It took a little while to unwind, but I think that was because it was related to debt and liquidity, in terms of the outcome of the GFC. If we roll forward to COVID, we've also seen a very big increase in the savings rate, and that generated the savings you referred to. In part, the liquidity and the systems also increased, because of Reserve Bank activity, and that's boosted deposits as well. But I think that people can see a path out of this because of the vaccine. We can debate times, but generally the direction of travel is clear. A lot of people think that the vaccine will get rolled out. Yes, it mightn't be as fast as what we want, but there's some ability to see that conditions will get better, social distancing will disappear and eventually international borders will open up. So the confidence we should have that some of these savings will be spent should, I think, be a little bit higher than what we saw in the GFC.

The other important impact will be employment. If people are employed, if they're doing more hours, if they can do more hours, then that will be good for the outlook as well. I see both the savings rate and the unemployment piece as being important. Then, if you look at the sentiment surveys, both business and consumer sentiment have been pretty positive.

Dr MULINO: My last question goes more generally to the way you model GDP. Do you undertake sensitivity analysis around your central case forecast, or do you undertake scenario analyses? How do you think through the uncertainty that we're facing at the minute?

Mr King: When we're thinking about the bank, we do what's called a stress test, which I would describe as 'deep recession'. We're probably not scenario testing, but we're stress testing. That's the big one. We need to do that when we're thinking about our provisioning and our capital levels in the bank. Scenarios about what I would

say are smaller changes in the outlook are not something we tend to publish, but we do from time to time have a look at them.

Dr MULINO: If there is anything you can provide on that, that would be interesting—

Mr King: I think we got a question on notice about whether we have done any economic modelling on the different scenarios from COVID, so we will have a look.

CHAIR: Dr Mulino, we are now going to take a break, and when we resume the hearing, Mr Falinski, you're going to be first up.

Proceedings suspended from 15:01 to 15:17

CHAIR: The committee will resume. Mr Falinski?

Mr FALINSKI: Mr King, how often have you appeared before this committee?

Mr King: A few times as CEO and previously assisting the CEO.

CHAIR: I would have thought it was twice.

Mr King: One via video and one in person.

Mr FALINSKI: Mr King, so you've appeared roughly about eight times before this committee?

Mr King: It sounds like you have done the numbers, Mr Falinski.

Mr FALINSKI: I try to as best I can. In that time, what has been the purpose of your appearance before this committee?

Mr King: It's because we've been requested to come and report to the parliament.

Mr FALINSKI: Is it that you just have nothing else to do that you keep turning up?

Mr King: No; we've been asked to turn up so we will.

Mr FALINSKI: Fair enough. Does this parliament require people to use your bank?

Mr King: No.

Mr FALINSKI: Does this parliament require people to deposit 9.5 per cent of their wages and salaries with your bank?

Mr King: No.

Mr FALINSKI: Are you in the habit of paying journalists?

Mr King: No.

Mr FALINSKI: Are you currently paying, sponsoring or otherwise remunerating a journalist on a television network at the moment?

Mr King: No.

Mr FALINSKI: Does your bank own and run a newspaper, whether it be online or otherwise?

Mr King: No, that is not part of our business.

Mr FALINSKI: Oh, really—it's not part of your business? That's interesting. That doesn't stop other financial institutions from doing it. If you were in the habit of paying financial journalists who appear on a publicly funded broadcaster and in the habit of hiring journalists and running your own newspaper—which puts out highly bias and factually incorrect information—and if you were as an organisation the beneficiary of the laws of this country that compel Australians to deposit at least 9.5 per cent of their salary with you, would you complain if we asked you to come before this committee?

Mr King: I can only comment on our situation. I will leave it to you to draw conclusions as others. As I said, we're required to attend so we do.

Mr FALINSKI: Do you think it's appropriate that financial institutions fund, pay or otherwise remunerate journalists who report on financial matters on a television network?

Mr King: I don't know the specifics. So I would not want to comment on their reasons.

Mr FALINSKI: Fair enough. I understand. Can we talk about responsible lending for a minute?

CHAIR: Yes.

Mr FALINSKI: Mr King, the parliament is currently considering removing responsible lending obligations on financial institutions such as yourself. What impact do you think that will have on consumers and potential customers and potential customers that your bank services?

Mr King: Broadly, we would see that there would be limited impact on borrowing capacity, because the rules between APRA and ASIC are fairly aligned. We do see that there is an opportunity to simplify our processes, and we hope that that would see turnaround times improve. From our perspective, we probably have too many controls in our responsible lending piece—and we were after those in any case. But having one regulator that we're dealing with rather than two, we think can improve the process.

Mr FALINSKI: This is really your fault, isn't it, that we're doing this—because Westpac got involved in a case that became known as the wagyu and shiraz case?

Mr King: Certainly the regulator ran a test case on an area of responsible lending called expenses and, yes, it has become known as that court case. It is an important area and one that has given judicial clarification on how to assess borrowing capacity.

Mr FALINSKI: In that particular case, you initially wanted to settle it, didn't you?

Mr King: We had different conversations with the regulator along the way and, yes, we did want to settle.

Mr FALINSKI: And you were willing to pay a fine of \$25 million to settle that case?

Mr King: It was commercial in confidence, so I can't talk about the specifics.

Mr FALINSKI: Pardon me. I take it back. But it was more than a dollar, wasn't it?

Mr King: It was a significant amount of money.

Mr FALINSKI: And, in the end, Justice Perram said that he didn't believe that you had broken the law. Is that right?

Mr King: That was the conclusion.

Mr FALINSKI: As part of that case, Westpac was asked by the court to offer up some lending data, both before and after the introduction of responsible lending obligations. Is that correct?

Mr King: We did tender evidence such as lending data.

Mr FALINSKI: And that data showed that, in fact, responsible lending obligations had had the impact of making credit worthiness or credit defaults worse, not better?

Mr King: I'd come back to—

Mr FALINSKI: Actually, that is an unfair question. I should it was a correlation rather than a causation.

Mr King: That's right. The data produced wasn't conclusive—is probably the best way. Stepping away from the court case, it's still the case that people losing their job, getting sick, getting divorced or having a big change in personal circumstances are often the drivers of what happens when people can't repay their loans.

Mr FALINSKI: Indeed. In the history of banking, has anyone failed to be able to repay their loan because you didn't ask for their Uber receipts?

Mr King: That's a very specific and broad question. I go back to my—

CHAIR: How can it be specific and broad?

Mr King: Uber has been around only for a little while, but the broad question is, for specific categories of expenses, have they ever not been able to meet their loan repayments—

CHAIR: Because of an Uber receipt?

Mr King: The fourth category I would put is people getting overcommitted because they haven't declared all their debt or their commitments, and that's what we try to find through our assessment processes.

Mr FALINSKI: Indeed, because you don't want to lend money to people who can't repay it. Has that become good banking practice in Australia in the 21st century?

Mr King: I think that is good practice in banking full stop.

Mr FALINSKI: Fair enough. Has someone getting their hair coloured ever been an indicator of whether they'll be able to repay their loan?

Mr King: I wouldn't think so in an individual expense case.

Mr FALINSKI: What in the responsible lending laws requires you, as a bank, to ask someone if they're going to get divorced, if they're going to get sick or if they're going to lose their job? They are the three big reasons why people default, aren't they?

Mr King: In a sense, that is right, in terms of the three big reasons. We do that assessment on the type of employment that people have, the nature of their income, whether they are more permanent or less permanent,

and the predictability of that income over time is what we do. That can be wrapped up in the thinking of requirements and objectives, but it's definitely part of our process. The other thing I'd say on responsible lending is that there's the need to do due diligence, thinking about the requirements and objectives, but also to check income expenses and commitments. I made this point before: we can actually get income for salaried people electronically now through ATO data and commitments. We need a comprehensive credit bureau in the country that is comprehensive and captures all debt. They are two important things that would help in our assessment processes.

Mr FALINSKI: Let me ask you this particular question. Recently, when people have been trying to get their home loan from an institution such as yours, they've had to provide, where they can, a tax return and the last three payslips, and now their bank account showing the money going into that bank account. Why is that? Is that due to responsible lending? What is the purpose of that requirement?

Mr King: That's part of our verification process. When people say they earn an amount of money, we want to see the documentation of the payslips. That's an example where, for a lot of people in the country, there is the payroll data that the ATO has. We'd be able to automate that. In relation to the bank statements, that's so that we can also do our due diligence on both the income going in and the expenses.

Mr FALINSKI: So, in fact, some of that is completely unnecessary?

Mr King: We've always verified payslips, but we're certainly looking at more information as we work with regulators on what the minimum standards are.

Mr FALINSKI: But do you really need to look at their bank account as well as their payslip and their tax return?

Mr King: In some cases, yes, because, if you take bank statements, it helps us understand if they've forgotten to give us debt that we don't know about or—

Mr FALINSKI: That's fair enough. Why not just ask for their bank statement? Why are you also asking for their payslips and their tax return? You may want to take that on notice rather than—

Mr King: I think any lending process will require you get access to income and therefore payslips, and tax returns are particularly important when you've got a business, because often that's what we look at, and there are opportunities for the country to automate some of these processes so we can get access to the digital records rather than sending the paper records around the country.

Mr FALINSKI: Great. That gets us onto digital signatures. During COVID-19, we gave financial institutions and indeed other corporations relief from requiring paper based documents. Do you think the Corporations Law should be changed to recognise a record as being electronic as well as physical?

Mr King: Yes, we would support that because, increasingly, we are becoming a digital economy and we need to move our contract system to be digital as well.

Mr FALINSKI: Would that include state government-run land registries that still require wet signatures?

Mr King: Certainly—I think wherever we can. If you think about the home lending process, security and the movement of security and the registration of security is very important. We've already got settlement processes that are electronic, so, if we can get security processes that are electronic, that will be a benefit for the country, I think.

Mr FALINSKI: Can we go to house prices for a moment?

CHAIR: Just do it.

Mr FALINSKI: Alright. Are you worried about the acceleration in the cost of buying a home?

Mr King: The acceleration in the cost of building a home or buying a home?

Mr FALINSKI: Definitely, in terms of the discussions we've had in the committee today, the cost of getting people into their own home, where they choose to, is getting hard for some parts of the community. If we can bring down the cost of building and the costs that relate to buying a house or spread them over time, then that would be useful.

Mr FALINSKI: But that is not really the issue, is it? The cost of borrowing has declined substantially.

Mr King: The cost of borrowing has declined substantially, but, when we assess loans, we've got a floor interest rate in the loan at five per cent, so we assume people can afford five per cent effectively in assessing the loan. The other way of saying it is we haven't capitalised lower interest rates below five per cent into the borrowing capacity.

Mr FALINSKI: But you see the situation where the demand for housing has increased over the last nine months. What's happened to building approvals in New South Wales?

Mr King: I think building approvals got soft, but they've come back.

Mr FALINSKI: Would it surprise you to hear that they have declined by 36 per cent?

Mr King: Possibly over a certain period, but I think, more recently, they're coming back.

Mr FALINSKI: Do you know of any other market where, when demand increases, supply decreases?

Mr King: In the housing market, you've got a lag. If someone can look to build, there are approvals and then they have to get construction going and whatnot. It's not like supply will respond instantaneously to extra demand.

Mr FALINSKI: I absolutely understand that, but building approvals don't require a supply chain, do they, or a pipeline?

Mr King: To get the approval itself, yes, but some people may not have progressed with approvals.

Mr FALINSKI: When you're seeing councils and state government planning systems decreasing the number approvals at the very moment that they should be increasing them, isn't that what is driving the cost of housing through the roof in this country?

Mr King: There are a lot of factors in a housing market. Right at the moment, we've got less supply than demand, so I think the dynamics of markets will drive that price up. Where you want to buy is important. If you're trying to buy close to the city, certainly that's an area that is well bid and therefore prices go up, but, more generally, we have a trend post COVID of people with families wanting to live in detached houses as opposed to apartments. It's complex, Mr Falinski, and—

Mr FALINSKI: It's not really, Mr King. Markets throughout the ages have operated on supply and demand. That fundamental principle of economics hasn't changed recently, has it?

Mr King: No, it hasn't, but we haven't got unlimited supply close to the city or in the eastern suburbs of Sydney or the North Shore—it's well built.

Mr FALINSKI: I love how whenever you talk to someone in Sydney about real estate, it always turns to the eastern suburbs and the Lower North Shore. There are other people. You know those places you fly over on the way to Singapore? There are people down there too! But I will ask my question. We live on the least densely populated continent in the world, unless you want to include the South Pole, and yet we have housing prices that have more in common with the most densely populated city states of Singapore and Hong Kong. That clearly is a market failure, isn't it?

Mr King: I think that is the opportunity. How do we get people to have the ability to work outside of the major cities in the regional towns or up and down the different parts of the different coasts? That will require transport, telecommunications and the ability to work remotely.

Mr FALINSKI: But, isn't it just a matter of local councils and state governments allowing people to build more houses when the demand for those things happen?

Mr King: You also need developers wanting to develop, and they'll look at all those factors as well.

Mr FALINSKI: So the problem is not the lack of people being able to get approval; the problem is builders don't want to build?

Mr King: No, I'm not saying that. I'm not a complete expert in the planning cycle and there are certainly other industries that will be better placed to give you that information, but it is a fair question to be asking.

Mr FALINSKI: Westpac has, for quite some period of time, had a really robust and effective what is now called ESG. Ever since the mid-90s, Westpac has been very good on environmental issues and sustainable governance issues. Is inequality one of the principles that your organisation is worried about?

Mr King: Certainly, we focus on what we call the material sustainability issues, and one of those is cost-effective access to housing.

Mr FALINSKI: Great.

Mr King: We do have a focus on financing, where we can, low-cost housing.

Mr FALINSKI: Do you think that young Australians should have better opportunities to buy their own home than we did when we were their age or that their opportunities should be less than ours?

Mr King: It's a different economic period. I think it's hard at the moment for some young Australians, and we have to look to see what we can do to help them get into a house. I don't think we can compare it to ourselves, because it was a very different situation and the economies have changed very rapidly. But I agree with the point

you make, which is that it is tilted against some people getting into the house, because of where the housing stock is, how it transfers between the different age groups and then how we can bring down the cost of housing.

Mr FALINSKI: Has your bank taken a view on land tax versus stamp duty?

Mr King: In the sense of do we think it's a good change?

Mr FALINSKI: Yes.

Mr King: We think it makes sense to look at the New South Wales developments, to transition away from it all being upfront and look towards a more gradual payment over time.

Mr FALINSKI: So you support the replacement of stamp duties with a broad-based land tax?

Mr King: We think it is definitely worth looking at. The ACT have gone that way, and it seems to work—

Mr FALINSKI: I can you as someone who owns a property in the ACT that they haven't gone that way; they've simply introduced a land tax and kept the stamp duty where it is.

CHAIR: But that doesn't take us anywhere, Mr Falinski. You need to ask a question.

Mr FALINSKI: My point is this: you are a very important part of the housing affordability question. Would you agree with that?

Mr King: We're a very important part of financing housing. That's our job.

Mr FALINSKI: You've said that part of your corporate mission is to ensure—was it material equality?

Mr King: No, we look at material ESG risks, and one of those is access to housing.

Mr FALINSKI: Access to housing?

Mr King: We're part of the process. The price of housing—the policy—is not something that the bank undertakes.

Mr FALINSKI: What I am trying to say is that you constantly wear the program of increasing prices of housing; however, there are a lot of people who come to this equation. For example, recently, the Victorian government announced a \$9.5 billion program to build 11,000 social houses. How many houses could be built if they rolled out a \$9.5 billion land release? Is it 43,000 or 44,000 dwellings?

Mr King: Sorry?

Mr FALINSKI: My point is: where are the banks on the fact that planning reform and local government intransigence is what is causing the problem of us not being able to increase the supply of housing for everyone?

Mr King: I think the quicker we can make planning processes and release land and get people going, the better.

Mr FALINSKI: *The Economist* ran a lead article about 12 months ago on planning reform in Japan that showed that, when the Tokyo government reformed their planning laws, they were able to reduce homelessness in Tokyo over a decade by 10 years. Do you think that planning reform could actually do a lot to drive a reduction in not only the affordability of housing but also the supply of housing that would allow a lot of people who currently find themselves in dangerous situations to then go and actually find a home—that is, not be homeless?

Mr King: I'm not around that Japanese report. I will have a look at that. But I think the point you're making is that, if we can get more houses built cost-effectively, that is good, and I agree with that.

Mr FALINSKI: It would be good if Westpac and other banks, who are so critical to the housing equation in Australia, could maybe have some suggestions for the federal parliament that didn't just involve marginal tinkering with the tax system but rather the fundamental reform that can drive lower prices in terms of housing and dwellings.

Mr King: I think that's a statement.

Mr FALINSKI: Can we talk about cryptocurrency for a moment?

CHAIR: Go ahead.

Mr FALINSKI: Can you actually use cryptocurrency for anything useful, besides buying a Tesla?

Mr King: Cryptocurrency is accepted by some organisations but not a lot.

Mr FALINSKI: Does your bank accept cryptocurrency?

Mr King: No.

Mr FALINSKI: Are you intending to accept cryptocurrency?

Mr King: It's a volatile way of transferring value, so we think of it more as an asset than a way of transferring value.

Mr FALINSKI: Rather than as a supply of money, as such?

Mr King: Yes.

Mr FALINSKI: Would you allow people to deposit that 'asset'—in inverted commas—with your bank?

Mr King: We don't offer that capability. We don't offer an exchange in cryptocurrency.

Mr FALINSKI: Is it something that you think the federal parliament should be looking at, in terms of creating frameworks that would allow Westpac to easily accept and store cryptocurrencies?

Mr King: Over time, I think. But, as I said, we think about it as an asset. It's got a price that's quite volatile, so it needs to be for people who are sophisticated enough and understand the risks both ways—the up and the down. The other thing with cryptocurrency is it is actually hard to understand the transaction, the parties and what it's being used for.

Mr FALINSKI: Is that something that we should potentially look at coming up with frameworks for so that an organisation such as yours could do that more—

Mr King: It's going to be increasingly important. It will be an alternative channel to traditional ways of transferring value. So I think at some point the regulators should have a look at it.

Mr FALINSKI: You might prefer to take this on notice. What are some of the elements that we, as a parliament, need to look at in terms of creating a regulatory framework to enable organisations like you to make these assets available—or more easily stored, at least?

Mr King: The key thing, from our perspective, is we're not always clear on each side of the transaction and whether we can meet our reporting requirements under things like the AML/CTF Act.

Mr FALINSKI: So that would need to be something that we would need to have a look at?

Mr King: Yes.

Mr FALINSKI: But that's even with the blockchain technology that allows you to track the ownership of the currency?

Mr King: It won't always be clear for us how we see the value move.

Mr FALINSKI: In terms of merchant fees, credit cards and other credit products that are offered by retail outlets, at the moment they're allowed to pass on the cost. What has been your experience over the 10 or so years that they've been allowed to do that in terms of the cost of those payment systems?

Mr King: Generally, interchange on credit cards has reduced, so it's now around 50 basis points on average. It's come down materially. It's general practice now for most merchants to add on a cost for the different types of payments channels, whether that be credit cards, debit cards or EFTPOS, with the latter two being nominally free.

Mr FALINSKI: So your evidence would be that the price discovery mechanism has created a transparent market in which people have sought to reduce the cost of the use of those payment systems?

Mr King: That, and also, I think, for people who use the more expensive payments mechanism, it's reflected in their cost as opposed to being spread over the whole customer base.

Mr FALINSKI: So it's also fairer as well?

Mr King: It's also fairer.

Mr FALINSKI: Do you think that we should also apply that to all kinds of payment methods, such as buy-now pay-later providers?

Mr King: I think the Reserve Bank is looking at that at the moment. At a certain point, you want to incent competition, but there will be a tipping point where people will become large enough such that they should be treated in the same way.

Mr FALINSKI: So if, for example, someone's using a Westpac credit card versus Zip, which I know is the most expensive method of payment, in the case of your credit card, if it is a Mastercard, they are aware of the cost of using that Mastercard, whereas at the moment the cost of using Zip is in fact spread across everyone using credit cards, buy-now pay-later or, indeed, cash.

Mr King: That's right, for the merchants. If you've got a payment mechanism—I won't focus on any particular company—where there is a charge to the merchant, but there's no ability to pass that on to the end user, then that gets averaged into their costs and spread into their business.

Mr FALINSKI: So, it's unfair.

Mr King: I think the Reserve Bank talks about needing to incent competition, and that's right: competition's good for the market in the long run. But there comes a point when you've got to treat people consistently, and I understand that is what the Reserve Bank is looking at in their latest payments review.

Mr FALINSKI: That process—the review that the Reserve Bank is looking at—is something that you'll be involved in?

Mr King: We have been, yes.

Mr FALINSKI: APG 223 is issued by APRA. If the responsible lending laws are removed, would you expect to see APRA change some of its prudential guidance?

Mr King: I'm not aware that that is the case, but, certainly, if we believe there are parts of that particular standard that could be improved, we would provide that feedback to APRA.

Mr FALINSKI: Okay. When you've done that in the past, have they been responsive to that feedback?

Mr King: Sometimes yes. Generally on changes to any standard, they consult, take feedback and take some of it on and not others. But they are very transparent. They normally release a report that says, 'This is what we've done with the feedback.'

Mr FALINSKI: Mr King, what do you think are the biggest issues facing global banking at the moment?

Mr King: Obviously the recovery from COVID for the financial system globally. Countries are in a different position, so how that is navigated is very important. Cyber risk—and I think we touched on this earlier today—is definitely a risk for the system. Probably the third one—not in the near term but at some point—is that, as interest rates go up, that will be something that the banking system will have to focus on as well.

Mr FALINSKI: What about us winding back some of the extraordinary stimulus that has been provided to organisations such as yourselves through the Reserve Bank loan facility?

Mr King: Broadly, our institution hasn't raised a lot of wholesale money in wholesale markets because of the availability of the TFF. I think the benefit of the TFF has actually been in reducing interest rates for the whole economy, and that's brought down lending rates. I'm pretty confident about the ability to manage through refinancing of the TFF, because we actually haven't raised a lot of money recently and there's still good demand for Australian bank paper.

Mr FALINSKI: The problem, though, is that we've seen some gyrations in the bond market recently. As the TFF gets pulled back and you have to go back into the bond market, are you not worried about the volatility that is currently being experienced in that market?

Mr King: I see that more as an interest rate risk, actually. I think we'll be able to borrow money. The cost of the money will be the question. Depending on your view of how strong the recovery is in the global economy, interest rates is the one I think we've got to watch and particularly what happens in the US market.

Mr FALINSKI: What happens if the global bond market decide that you broadly loan a lot of money to the most indebted household sector in the world and they start pricing that risk more heavily than in a more risk-averse capital market?

Mr King: If the cost of funds for the country goes up, that means, all things being equal, the cost of loans, the interest rate on loans, would go up.

Mr FALINSKI: Given that you are lending so much money to the household sector for owner-occupier loans at the moment, and therefore that interest rate increases, doesn't that put an extraordinary stress on our household sector?

Mr King: That's why I said before that the floor interest rate in serviceability calculations at five per cent is a quite important setting. It is considered when we do new loans. I think the point to make, though, is that we think that interest rates will stay low for a little while, but they can go up over time. So people should be thinking about that in time when they're budgeting.

Mr FALINSKI: Is that your floor or is that APRA's?

Mr King: The five per cent floor is our floor.

Mr FALINSKI: Are other financial institutions using similar floors?

Mr King: I believe they're all around that level.

Mr FALINSKI: Are there any other lenders in the market not using a floor of that nature that you're aware of?

Mr King: I don't know. I wouldn't think so, but I don't know.

Mr FALINSKI: So you're pretty confident about the stability of the Australian economy moving forward because the major financial institutions have set that margin for error into their lending practices?

Mr King: Yes, and the historical performance of the household sector has been very solid in Australia. We look at how people are paying down their debt. We're looking at LVR settings. So we do take a lot of measures in thinking about the risk in that portfolio.

Mr FALINSKI: Chair, I think that's my time.

CHAIR: We will go to the deputy chair for 10 minutes.

Dr LEIGH: Mr King, do you advertise financial products on your personal banking apps and, if so, which product do you advertise.

Mr King: Do we advertise? We certainly have available the products that Westpac or St George make available.

Dr LEIGH: Does that include your BT Super product?

Mr King: Super is the product that we would make available through the app.

Dr LEIGH: Do you advertise it on the app?

Mr King: What do you mean by 'advertise'?

Dr LEIGH: Promote it and have little pop-ups there telling people about it.

Mr King: Certainly the super product is available through the app.

Dr LEIGH: If someone logs into the live chat function, do you use that to promote BT Super?

Mr King: I actually don't know. Do you know, Mr Vance?

Mr Vance: They would have to ask and be referred off. That's not a chat that's done through our standard banking channels. That can only be done through BT.

Dr LEIGH: What do you mean by 'be referred off'? They're on the Westpac banking app and they ask a question about super and they say, for example, 'What should I do with my super?' what happens then?

Mr Vance: We would generally have to have someone call them back. We would not deal with that sort of advice question through the app.

Dr LEIGH: So there's no promotion of BT Super through the app?

Mr King: Well, it's available, so you could call that promotion. But, generally, given the specialist nature of it, they would be referred off to someone to speak to.

Dr LEIGH: So they wouldn't engage in a conversation using the live chat function in which BT Super would be promoted?

Mr King: Not that I'm aware of, but I'm happy to check that.

Dr LEIGH: I would be grateful if you could check that and get back to me. Are you looking at the rise of live chat as a potential challenge in ensuring that you're not falling foul of regulations around hawking and responsible banking?

Mr King: Yes. In relation to super, as I started with today, one of our portfolio simplification initiatives is that super platforms and investments won't be a business that we'll be in. That will be a business that we will have someone else exit.

Dr LEIGH: Staying on BT Super, Anthony Klan had an article on his Klaxon website about BT Super's performance over the past decade, suggesting that, from 2010 to 2017, the return to shareholders had been some 600 per cent—about 10 times the ASX return and significantly more than a BT Super customer would have received over that time. Are the claims made in that article broadly accurate?

Mr King: We've responded to Mr Klan several times, and we don't agree with his analysis.

CHAIR: Is that a no?

Mr King: No.

CHAIR: Just before you proceed, Deputy Chair: I asked was that a no, as in do you agree. And you said no/ Does that mean that you do not agree or you do agree—

Mr King: We don't agree with his analysis.

CHAIR: Okay; thank you.

Dr LEIGH: So you don't agree with the 600 per cent return for BT investment management?

Mr King: We didn't agree with his analysis and we did provide him feedback.

Dr LEIGH: Yes, but let's break it down. So we've got the return to BT investment management. Was that or was that not about a 600 per cent return from 2007 to 2017?

Mr King: I haven't got the specific details with me right now on that particular response. But I can say that we did respond on the article and we didn't agree with the analysis. If I need to respond to specific questions, I'll have to do that on notice.

CHAIR: Just for clarity—because I know some people are ridiculously obsessed with this—could you provide on notice a response to the committee about your response to the allegations?

Mr King: Okay.

CHAIR: Thank you.

Dr LEIGH: Mr King, I would like to extend on the chair. I'm keen to know for a relevant period—ideally 2007 to 2017, but you may want to take it from 2007 to the present—what the return was for BT Investment Management and what the return was for the typical BT Super customer. It seems that those numbers should be straightforward to obtain and would be important for customers in knowing whether they were better off investing in BT Super or having them manage the money.

Mr King: Okay.

Dr LEIGH: It's a reasonable question for someone to ask about a for-profit fund, isn't it?

Mr King: The analysis is quite detailed when you get into super, so we will see what we can do.

Dr LEIGH: Would you think it inappropriate if the profits of a super fund were rising more rapidly than the balances of the typical member of that fund?

Mr King: In what way?

Dr LEIGH: If the profits of the manager of a fund were growing faster than the balances of those who entrusted their savings to the fund, that would be a problem, wouldn't it?

Mr King: I would need to get underneath it, but it would be hard for that to happen.

Dr LEIGH: It's one thing to click the ticket; it's another thing to earn such large returns that the management company is doing better than the superannuation investors. Wouldn't you agree?

Mr King: It's a very complex area. I will take that on notice and have a look at it. I need to do the analysis.

Dr LEIGH: BT Super hasn't been a stand-out performer in superannuation funds over the last decade. You'd agree with that, surely?

Mr King: Mr Vance answered that question before. While the funds have broadly hit the targets that were in the offer to investors from a heat map perspective, no, we've been not at the top.

Dr LEIGH: More to the bottom, one might say. You were one of 25 funds about which it was suggested that they would be likely to fail the new performance tests, according to a piece by Jessica Sier in *Investment Magazine* last October.

Mr King: Part of that is that we run a lifestyle-stage approach to funds as opposed to a balanced stage, and a lot of those heat maps are really on a balance basis, so it's difficult to compare them.

Dr LEIGH: But it's also difficult to imagine that the typical Westpac customer would be best off having their super with BT Super, isn't it?

Mr King: Under a lifestyle approach, those who are lower risk and therefore want to protect capital typically get a lower return, so they're not investing in a balanced portfolio; they have a different skew. So it does depend on the proportions that you have in your life stages.

Dr LEIGH: You're saying that they might choose to have a lower return, but that tends to admit they would get a lower return.

Mr Vance: I think the key is we balance return and volatility targets in that and that may give different outcomes compared to different funds, but we do not try and accelerate the returns. We value and tailor our funds with a target of limited negative returns.

Dr LEIGH: If your goal is not to accelerate the returns, I guess you've succeeded in that. I have a final question on net interest margins. When I look at a graph of the major four banks' net interest margins, I can see ANZ net interest margins dropping quite considerably and NAB's have dropped a little, but Westpac, in the first

half of 2020, had the highest net interest margins of the majors—higher than over the average from 2013 to 2015. Why are the net interest margins so high?

Mr King: In terms of revenue, you have the net interest margin and fees. In terms of net interest margins, it's mainly because of the book mix that we have.

Dr LEIGH: What is it about your book mix which sees other banks cutting the net interest margin at the moment and Westpac increasing them, compared to 2013 to 2015?

Mr King: We don't have as much institutional business as some of the other banks which typically have a different margin.

Dr LEIGH: So you have legacy customers whom you're able to hold onto and charge higher interest rates because they don't put the energy into switching?

Mr King: No. As an example, trade finance is an institutional product. That's typically a shorter maturity product, and therefore the margin on it is a little bit lower. We don't have as much of that as other banks.

Dr LEIGH: We've had massive central bank rate cuts. We've got interest rates as low as they've ever been. It seems strange to me that the RBA can have the cash rate substantially lower than it was in 2013 to 2015, yet Westpac's net interest margin hasn't fallen.

Mr King: There are lots of things that go into margins other than cash rates. We disclose a lot of that in our results and we will very shortly as well. I would also point out that fees haven't grown as fast as the industry on the other side of the revenue equation.

Dr LEIGH: That's good to hear. Thank you, Chair.

CHAIR: Thank you, Deputy Chair. In the final moments left, there is a question I asked one of your competitors this morning in the context of time to yes for approvals for mortgage products. I was given the answer, which I contested spectacularly, that it was two days on average to yes. To me, it seemed pretty surprising. What is it for Westpac?

Mr King: We do approximately 12 per cent within two days. Customers that need fast approvals can ask for them, and within—

CHAIR: Faster than two days?

Mr King: Yes. And, within 10 days, we do 50 per cent.

CHAIR: That's quite a big discrepancy, though, between two days and 10 days.

Mr King: It depends on what customers want and the types of deals. As I think I said before to the committee, more complex deals take longer. When you get into trusts or complex family situations, they will take a bit longer. We want to improve this, as I said before.

Dr LEIGH: Is there a discrepancy in time to yes if I go directly to the bank versus the alternative of going via a mortgage broker?

Mr King: There will be differences because it's a different process.

CHAIR: Sure. I understand that, if I go to a mortgage broker, then I suddenly become dependent on the application through the mortgage broker. Let's discard that time. If I make the application direct versus a mortgage broker providing it for me and we both—myself and the mortgage broker—time stamp it at the start when the application goes in, would they deliver the same result in the same time frame?

Mr King: No. We have different processes for each—for people applying through, say, our Westpac brand or applying through the mortgage broker.

CHAIR: Which one's faster?

Mr King: At the moment, applying to the bank.

CHAIR: Directly.

Mr King: Yes.

CHAIR: What's the discrepancy between the two?

Mr King: Volume. There have been different volumes and different processes. There are volumes that go through the channels and they're slightly different processes that we have.

CHAIR: Yes, but is there an inherent bias in favour of people going directly to the bank versus the mortgage broker?

Mr King: No. We'd ideally like both to be fast.

CHAIR: If you said you do 12 per cent by two days and 50 per cent by 10 days, going direct, what is it if I go via a mortgage broker as an alternative?

Mr King: I haven't got the first part—

CHAIR: Could you get that data for us? From the basis of the evidence presented this morning about the idea of two days, you just need to look at Commbank's own averages—you'll probably enjoy this because it's about your competitor—which they publish, based on their various products. It suggests it takes substantially longer than two days. Obviously there are some that never get approved, but what would be deemed to be the maximum time frame for approval for a product through Westpac, either directly or through a mortgage broker?

Mr King: We'll aim to do it as fast as we can. As an example, when you're dealing with complex loans, often there's time back and forth to get information and lead times.

CHAIR: Yes, but I'm talking about a relatively standard product. I realise there's complexity. People have different incomes, existing assets and all those sorts of things. I'm saying that, for someone who's got a, politely, boring job like mine and who wants to purchase a single asset, assuming they have no pre-existing assets, surely there must be some sort of ceiling or cap or point at which internally alarm bells ring, where people say, 'This is taking too long'?

Mr King: For a more simple loan like that, which is a straightforward, PAYG, we want to do it quickly—under two days.

CHAIR: Right. But that's not the same as having point at which alarm bells ring, or don't you have alarm bells?

Mr King: We look at our service levels every day, and the operations teams look at resourcing in those areas.

CHAIR: You've been passed a note.

Mr King: I have.

CHAIR: You can read it.

Mr Vance: Sixteen days is the longest at the moment in the queue.

CHAIR: Okay. Thank you. So it takes a little over two weeks for you to get to 'yes'. That's what you say is the worst case scenario, unless it's particularly fidgety, yes?

Mr Vance: That's at the moment, yes, although that time does vary.

CHAIR: Have you seen an increase in the overall time it's taken over, for example, the past decade?

Mr Vance: Yes.

Mr King: We would have, post some of the changes on verification in responsible lending. I think it has gone up.

CHAIR: How much by?

Mr King: It goes up and down with volume. It would be a few days.

CHAIR: When you think about the volume of the products that you would sell to customers, times by a few days, that can add a significant amount of time to the growth of the economy, if there are delays.

Mr King: To come back to a couple of points I made before, a comprehensive credit bureau and access to ATO data, including pay slips, would be helpful in digitising the mortgage process.

CHAIR: But it raises questions—and the deputy chair has politely reminded me that this is not exactly an area of strength for your bank. But I think, in light of the time and the fact that we're all slightly exhausted, we will close the hearing at this point and thank you for your attendance and participation today. There may be committee members who have further questions on notice that they wish to submit, in addition to the ones we've already asked you for. We look forward to them being responded to thoroughly, comprehensively and swiftly, if possible, but I understand if you have other obligations as well. I'd like to thank you for your attendance here today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. I declare this public hearing closed, and we look forward to ANZ and NAB tomorrow.

Resolved that these proceedings be published.

Committee adjourned at 16:12