Commonwealth Bank

Commonwealth Bank of Australia
ACN 123 123 124

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Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir

Inquiry into Family Business in Australia

Thank you for inviting the Commonwealth Bank of Australia ("CBA" or "the Bank") to make a submission to the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into Family Business in Australia.

The Bank sees this as another opportunity to update the Parliament and broader community on current conditions in the business sector, on this occasion, about family businesses in Australia. The Bank has participated in several Parliamentary Inquiries on business matters, including those specific to small businesses such as this Committee's *Inquiry into Access for Small and Medium Business to Finance* (February 2011) and a similar Inquiry by the Senate Economics Committee (April 2010).

We wish to make it clear to the Inquiry that the Bank is intent on serving businesses as a priority particularly through our significant investments in and delivery of world-class technology to ensure that business customers experience excellent facilities in managing their day-to-day business.

The points below demonstrate how the Bank has met and continues to meet business customer priorities.

Definition of Family Business

The Bank recognises that a family business is not necessarily a small business. Often, one or two family members own and manage the family business making it a difficult balancing act between business and family interests. Generating adequate financial returns is a real priority. How the returns are distributed among family members is of serious interest for a family business compared with a small business that may have a different legal structure that appropriately compensates different parties. Moreover, ongoing development and control of the business may rest with a small number of people, making it even more important that succession planning is carried out well in advance to ensure sustainability of the firm.

Nothwithstanding these real differences, it is difficult to distinguish a 'family business' from a 'small business' from a policy perspective. As several submissions to the Inquiry note, there

is no formal definition of a 'family business' in the official statistics collected by the Australian Bureau of Statistics. As the RBA's recent *Small Business Finance Roundtable* concluded, even the definition of a small business varies depending on employee numbers or revenue/turnover figures depending on the policy purpose for which the data is being collected (for example, for tax collection purposes, small businesses include companies with revenue less than $2 million while for unfair dismissal laws under the FWA, small businesses includes companies with less than 15 employees).[1]

Certainly, the Commonwealth Bank does not categorise information from our customers on the basis of 'family' as opposed to 'small' business. The Bank, however, does define small businesses in line with the *Corporations Act 2001* and the *Australian Securities and Investments Commission Act 2001.* We are also consistent with the APRA monthly reporting standards which define small businesses as those with a loan balance of less than $2 million.

Given there is currently no statistically measurable definition of a family business, the Bank considers that an appropriate definition is one that has turnover of up to $2 million. This also reflects the fact that nearly two-thirds (64%) of family businesses are relatively small and have less than 20 employees (although we acknowledge that other family businesses are larger organisations that may be publicly listed).[2]

We support family businesses in many ways

The Bank's highest priority is to ensure that our customers experience excellent service when engaging with us. We do this by:

- servicing approximately 500,000 family small businesses;[3]
- having over 60 business banking centres and more than 1000 branches nationally that serve these customers;
- providing over 400 Business Bankers dedicated to serving the needs of small businesses;
- having 24 hour/7 day access to a team of business banking associates through a market leading telephony platform. The Associates have full view of business customers' accounts and can assist with a large range of enquiries; and
- providing the market leading online banking platforms, NetBank and CommBiz, which enable small business customers to self manage their banking 24/7.

The Bank's customer satisfaction rating amongst these customers has been equal 1st amongst the major banks for the past two years in customer satisfaction surveys.[4] Our support for business is very practical and relevant for businesses, for example:

- running roadshows with Peter Switzer to educate businesses on a wide variety of topics such as how to manage business cashflow through to developing a business website with online tools to enable our clients to produce a business and financial plan;

[1] Reserve Bank of Australia 2012, *Small Business Finance Roundtable*, papers available at www.rba.gov.au
[2] Family Business Australia.
[3] This includes our local business, regional and agricultural, and retail microbusiness customers.
[4] Based on DBM survey.

- regularly informing our customers via reports such as the Business Sales Indicator and the Future Business Index of the spending trends in the economy and the challenges for businesses in the coming months;
- providing information via webinars, toolkits, plans, templates and reports on the CommBank website to assist business to develop and grow their business;
- running the *Women in Focus* program dedicated to women in business to inspire, inform and connect women across Australia; and
- promoting a Facebook Better Business Booster campaign to reward Australian business with a $10,000 cash injection as well as a Peter Switzer Business Coaching Program and mentoring from senior executives within the Bank.

In addition, the Bank has the ability and the expertise to meet both the business and family needs of these customers. Through the vast range of specialists including insurance, superannuation, succession planning and wealth management, the Bank is able to understand the complexities of family businesses and provide the right people to meet their needs. Coupled with specialists in business, trade, foreign exchange and merchant facilities the Bank is equally able to meet their business needs.

In the midst of the GFC, for example, we led the market with our comprehensive range of initiatives to further support small businesses including the business 'health check', the Small Business Investment Package, asset financing stimulus and risk management solutions. These initiatives were highly valued by small businesses.

World-leading technological investments to deliver customer needs

Our strategic direction is about investing in technology to provide world-leading financial services and products.

By investing in this technology, we were the first major bank in Australia to offer real-time banking for our customers. Real-time banking is available for all of our business customers and enables customers to view their accounts and transaction in real time. This greatly assists customers with cashflow and the time taken to reconcile accounts. In addition the Bank now offers merchant facility customers (those who use EFTPOS and PayPass facilities) everyday settlement from their merchant facility to their CBA bank account. This means that businesses see the finances hit their account the same day, including weekends and public holidays. No longer do our customers need to wait overnight or 48 hours to be able to access the cash that is rightfully theirs. The benefits for business customers are significant as it allows our customers to better manage their cashflow. We know from experience that small businesses often face difficulty when they are unable to manage their cashflow. These investments by the Bank ensure that cashflow management is not a major barrier to our business customers' operations.

We recently revolutionised the point-of-sale experience by introducing Pi, Albert and Leo.

- Pi enables application developers and businesses to easily create product applications for business use and distribute them through CommBank Pi's AppBank to merchants.
- Albert is a new Android based omni-commerce device, features an interactive touchscreen which provides secure pin interface, printer, and merchant terminal functionality. Albert will be available to customers for use during next calendar year.

- Leo attaches to several compatible Apple devices to enable Pi to transform them into a fully functioning portable merchant terminal.

CBA lends to viable family businesses

The Commonwealth Bank has lent, and continues to lend, to credit-worthy businesses.

In fact, CBA lending to businesses (with turnover of less than $2 million) has grown by 7.1 per cent whereas lending by other financial institutions has only slightly increased by 1.4 per cent (for the year to 30 June 2012).

The Bank has over $28.5 billion outstanding in loans and asset finance facilities to these customers of which $7.5 billion was new funding issued (for the year to 30 June 2012). This includes our local business, regional and agricultural, and retail microbusiness customers.

Our lending to the sector has grown because our lending criteria have not changed before, during or after the GFC. This is despite other competitors exiting or scaling back their lending to the small business market during some of this period. In addition, businesses in general have been deleveraging and demanding less credit over the past four years and some businesses have failed due to economic conditions (A good summary of these two effects can be found in the RBA *Small Business Finance Roundtable* papers).

We are also committed to offering competitive interest rates to our customers. The Bank's residentially secured business loan reference rate is 7.10 per cent. This reference rate is very competitive among the major banks.

Conclusion

Australia has been well served by our stable, well regulated and prudently managed banking sector, particularly during recent episodes of severe turbulence in global financial markets.

The Commonwealth Bank has deliberately aimed to support family businesses and thereby support the Australian economy during a period when many other economies have faltered.

Our priority is to ensure that our customers experience excellent service during their interaction with us and we are determined to serve our customers better.

If there is any further material that may be of assistance to the Inquiry please contact .

Yours sincerely

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Local Business Banking