

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS

Commonwealth Bank of Australia

CBA57QON: Mr SIMMONDS: Okay. In terms of recovery from the COVID recession: obviously, different states are at different stages and have different policies in place. I've got a view around the Queensland border closures, my state, and how that is particularly hurting the tourism industry. What's the CBA's experience with distressed businesses in Queensland, particularly around the tourism industry?

Mr Comyn: At the moment the substantial federal income support is probably masking some of the underlying stress and so I think it will become more evident, if the borders remain closed, as that income support reduces. There's no question that the Queensland economy has a higher proportion of reliance on tourism and a significant reliance around hospitality, so there have to be some sectors of the business community there that would be suffering from the ongoing border closures and lack of clarity about when those borders may reopen.

Mr SIMMONDS: Have you got any data around insolvencies that you're expecting broken down by state?

Mr Comyn: We don't necessarily have a forecast of insolvencies by state per se, but we have in-depth reviews of individual sectors. Within tourism, retail, hospitality, we look at our exposures and our customers all around the country and, based on what we see as their outlook and forecast, we will then provide for future credit losses accordingly.

Mr SIMMONDS: If any of that data could be provided to the committee, I'd appreciate that...

Answer: The CBA Results presentation and Investor pack released on 12 August included analysis of conditions in the Accommodation, cafe and restaurant sector; the Retail trade sector; and the Cultural and recreational services sector.

Accommodation, cafes and restaurants

- The closure of international borders and restrictions on domestic tourism, combined with social distancing rules, have materially impacted the sector.

- Pubs, clubs, cafes and restaurants are trading subject to social distancing in most states, with the severity depending on the state and regional restrictions.
- Accommodation spend has materially declined due to low tourism activity and business travel. Whilst domestic tourism is expected to increase, it will be insufficient to offset the lost \$45bn annual spend from overseas tourists.
- Stage 4 lockdown in Victoria highlighted the risk to the industry of “second waves” with restrictions re-introduced.
- CBA has increased its forward-looking provisions for COVID-19 losses within core hospitality segments.

Retail trade sector

- The retail trade sector remains challenged by COVID-19 and ongoing, long term competitive pressures.
- COVID-19 has increased sector challenges particularly in discretionary segments where some store networks remain closed.
- Trading conditions, particularly in the discretionary retail sectors, are expected to continue to be challenged by fragile consumer confidence, higher competition and downward pressure on prices and profitability.

Cultural and recreational services sector

- Diverse industry with many sub-sectors (including Casinos and Cinemas) impacted by government restrictions, including shutdowns and social distancing initiatives.
- Certain sectors, particularly those focused on entertainment remain vulnerable to the level of discretionary spend combined with a material reduction in tourism.
- Essential services such as waste collection and corrective services, whilst more resilient, will be affected by lower volumes (former) and a higher vulnerability to outbreaks (latter).
- Media sectors expecting lower advertising revenues.
- Outlook remains weak. Continued COVID-19 related operating restrictions combined with a decrease in JobKeeper subsidies and potentially higher unemployment are likely to result in further stress across the portfolio.