

## Business Spectator Tuesday 15<sup>th</sup> July

### Bankwest could bankrupt CBA's reputation



- **Robert Gottliebsen**
- 1 hour ago
  
- **Industries**
- **Financial Services**

Commonwealth Bank chief executive Ian Narev and his board suddenly find themselves in dangerous territory. A mistake could cost Narev his job and trigger a board spill.

Narev is a great CEO and he has positioned the Commonwealth Bank so that it's ahead of its opposition in facing the new competitors entering the banking space lead by **Coles**, eBay and PayPal (***The big four banks can't afford any more IT mistakes***, July 4).

The financial advice scandal substantially reduced the bank's goodwill, leaving it vulnerable to any second disaster. That's why Steve Keen's commentary on the Bankwest affair is so important (***CBA's Bankwest burden fuels the allegation fire***, July 14).

I emphasise that I have no knowledge as to whether or not the bank acted improperly in regards to Bankwest, but a large number of small WA businesses believe the CBA unjustifiably pulled the rug out from under them in decisions that were linked to the nature of the purchase deal it had with the troubled British bank HBOS.

It's important to understand why Narev and his board got into so much trouble in financial advice, and for all companies to learn the lessons (***A CBA scandal wake-up call to all banks***, July 4). And for CBA that means taking the necessary steps to prevent the same thing happening at Bankwest.

In financial advice, the CBA was trapped by one of the oldest and most common management mistakes: after the initial error is made, the managers of a particular operation claim the problem is small and can be fixed. Divisional management endorses that conclusion and so then has a vested interest in 'containing' the problem because executive jobs are at stake. So the problem gets bigger before senior management and directors have started to deal with it.

As we saw in financial advice, the process can take years and it took a Senate inquiry to show the CBA board that they had been deceived.

Without passing judgement, there is a clear danger that exactly the same thing happened at Bankwest -- businesses that were paying principal and interest on time were sent to the wall by bad managers, and those actions were concealed in the same way as occurred in the financial advice scandal.

The mistake Ian Narev made in financial advice was not to send independent people in to have a good look at what really happened before the Senate inquiry did the job for him. So don't make the same mistake at Bankwest. Go and find out what really happened on the ground. If bad things happened then fix them. If they did not happen, or were very isolated, then Ian Narev and the board know that they are on strong ground.

The real disaster of the financial advice scandal to the Commonwealth Bank was not the monetary loss -- whether it is \$100 million or \$1 billion -- but rather the loss of goodwill. That means that if there is a problem in Bankwest then the CBA, with damaged goodwill, will be assumed guilty rather than innocent. The cost will be very high.

That's why it's so important to find out what really happened -- and the financial advice experience means the executives have to be bypassed.

Fascinatingly, a few weeks ago I ran into a guy whose new job encompasses vetting management reports with on-the-ground checks in difficult situations that could create bad publicity or, worse, government body investigation. The plan is to take counter action quickly. The company has been burned on a couple of occasions and so has seen its goodwill run down and is taking action. Ian Narev is not alone in facing problems like this in today's new world.

Other companies are waking up to the fact that management will defend their position until it is too late. In this case I referred to one person with staff who can do the job. In the CBA it is more complex but the principle is the same.

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