

## **Submission to Senate enquiry on 'Competition within the Australian banking sector'**

Thank you for providing this venue for public discussion.

I believe that any bank enquiry should have a wider Terms of Reference that includes a thorough examination of actual products subject to competition. Merely reviewing ways to increase or streamline competition of products is too narrow to prove broadly fruitful.

Before making a recommendation I would like to say something about bank products in general.

When a product is proven to be either defective or outright dangerous it is withdrawn from sale to the public. I would like to nominate two bank products, namely Interest-only loans and Equity loans (especially as they relate to finance of existing residential property) as qualifying for this category. Both are dangerous products if not handled correctly. Both have proven to be little more than fuel on the fire of property speculation in Australia.

The irresponsible promotion of these products by banks has now exposed the Australian economy. With one of the highest private debt ratios in the world, any debt deleveraging process could result in wide range of unintended consequences. Debt deleveraging has already occurred in US, Spain, England and Ireland. The economies of these countries were set up to fall - the result of poor banking and regulatory practices. Borrowers were allowed to bet the house based on the urban myth that property always goes up – and they lost. Australia now courts the same fate.

Other than these two products, which in my opinion have done more harm than good, I would mention the following points in need of attention in any future enquiry:

- Lack of supervision by regulatory bodies including RBA, APRA & ACCC;
- Capital inadequacy evidenced by Loan to Valuation Ratios (still up to 97.5%);
- Possible collusion in the setting of interest rates by banking cartels; and,
- Low interest paid to transaction accounts

Recommendation:

Call a new enquiry to identify fundamental areas of concern in the wider banking industry – in particular, bank products and ways to regulate these products.

Thank you for taking the time to read this submission. Have a nice day.

Ren

22 November 2010