

SUBMISSION TO SENATE HEARING

a) the current level of competition between bank and non-bank providers	<p>This has never been a level playing field between banks and non- banks due to the former's special relationship with government and also due to size, which confers economies of scale and scope – non-bank providers also, have less access to qualified employees and only succeed by carving out niche markets. Unfortunately many of the mortgage brokers used unqualified staff and distorted reports. It should be realised that the most stable banking systems have a few large banks, public ownership and limits on single shareholdings. That is Australia has a stable banking system with a trade- off of less competition. The US banking system defies all the ingredients of stability promoting competition ahead of “safe and sound” regulatory systems – for instance allowing state governments to regulate, having conflicts between three different regulators with sub branches, so regulatory arbitrage occurs. There is an indicator of competition used in the US (Hirschleiffer) but it takes no account of the fact that a large number of institutions competing in a market can produce dysfunctional behaviour.</p>
(b) the products available and fees and charges payable on those products	<p>Banks tend to distinguish their products but as they all tend to take similar interest rate and liquidity gap positions their deposit and lending rates only differ in terms of fees, charges, security and bells and whistles. The Australian market is largely dependent on commodity prices so banks' asset and liability management must be conservative.</p> <p>Committee members should be aware that banks borrow from each other (up to 12% of funds); daily set the bank bill rate on which many lending and borrowing products are linked, and will turn to each other in a lender of last resort manner to close out positions. Hence what appears as collusion is normal banking practice.</p>
(c) how competition impacts on unfair terms that may be included in contracts	<p>Prepayment fees are based on the rationale that if a bank locks in to lend for a set period they will then borrow for a set period, and early exit by a lender involves them in costs of rearranging their assets and liabilities. Suggestions of transferable accounts would necessitate a lender and borrower having satisfied all identity requirements with each institution.</p> <p>Any proposal must be considered in view of banks' reporting requirements to the ATO, AUSTRAC and their own credit checks.</p>
(d) the likely drivers of future change and innovation in the banking and non-banking sectors	<p>This has always come about as banks have accumulated sufficient capital to expand. Hence it is essential that committee members recognise that banks are not extracting non-renewable resources, but adding value due to their continual response to a changing market. Hence a super profits tax on banks would be counterproductive, inhibiting their ability to grown and respond to external environmental changes, such as a greater superannuation</p>

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	pool and the need to create wealth products. Other external drivers could be government assistance to the farming sector which would allow banks to expand their lending in this sector, or tax concessions to small businesses.
(e) the ease of moving between providers of banking services	As mentioned above banks need to do due diligence identity checks, credit assessment and nothing should jeopardise the careful approach of Australian banks compared to their US counterparts.
(f) the impact of the large banks being considered 'too big to fail' on profitability and competition	Australia has always taken the approach of avoiding shocks to the system by using subtle arranged marriages or takeouts. To date this approach of using existing market players has worked and avoided burdening the tax payer, just shareholders.
(g) regulation that has the impact of restricting or hindering competition within the banking sector, particularly regulation imposed during the global financial crisis	The guarantee system introduced during the GFC should be rationalised by introducing a deposit guarantee scheme which distinguishes institutions on the basis of risk – hence it could be extended to any type of deposit taking institution but with the size of fee related to the size of the deposit guaranteed, the type of the institution, and its risk taking profile.
(h) opportunities for, and obstacles to, the creation of new banking services and the entry of new banking service providers	The tax treatment of the agricultural and SME sector, the lack of assistance to environmental protection role of farmers, the myriad of local, state and federal regulation that bind these sectors lead to complaints of underservicing. Also the role of credit card providers and their setting of interest rates should be subject to investigation. MasterCard and Visa have a virtual monopoly, and the size of payments to such providers probably exceeds mortgage costs for the population as a whole.
(i) assessment of claims by banks of cost of capital	Capital is always more expensive than debt, particularly when franking credits and high dividends are demanded. Committee members should be aware that banks are the mainstay of pension payments and superannuation returns. Capital has traditionally been assumed to cost a bank 22% whereas the average cost of debt is usually far below this.
(j) any other policies, practices and strategies that may enhance competition in banking, including legislative change	Investigation of the fees and charges imposed by credit card providers on both merchants and consumers and the encouragement of other providers of EFTPOS machines with a ban on fees charged at ATMs may promote more entrants to come into the industry.
(k) comparisons with relevant international jurisdictions	Our regulatory system has much to recommend it and has been reviewed in numerous publications by this author
(l) the role and impact of past inquiries into the banking sector in promoting reform	I initiated the Martin inquiry in 1990 when giving evidence as an officer of the Corporate Affairs Commission to a committee headed by Michael Lavarche - a standing committee on legislative and administration affairs. The recommendations of a "Pocketful of Change" contained several of mine – namely onsite bank regulations and a separate prudential regulator – set the stage for the stability of a banking system that we now

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	all appreciate. It would be a pity to jeopardise the track record of a past Labor government by paying too much credence to claims of collusive and - competitive behaviour, which are in fact due to the normal banking practice of banks borrowing and lending to each other.
(m) Any other related matter.	In conclusion, banks are not analogous to mining companies – they are not depleting non-renewable resources and should not have a super profits tax imposed on them.