HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SMALLER BANKS SECTOR

Bank of Queensland

BOQ46QON: **CHAIR:** I have a number of questions in the context of ME Bank, but you are not in a position to be able to answer them. If I were to submit them on notice to you now, in light of the fact that later in the day you would be in a position to answer them, would you be happy to answer them then?

Mr Frazis: Yes.

CHAIR: The first thing I am curious to know is this. ME Bank paid a dividend just before this merger. It's the first dividend they have ever paid. We have asked for it previously. I want to know the total and then the dividend that was paid to each of the shareholders, broken down, because it has never done so before, including when we have raised this previously in front of the committee.

The question in addition to that is what the attitude of BOQ is in terms of the value of the purchase of ME Bank and, as a consequence, the payment of that dividend and also the attitude of BOQ in the context of the 62 charges that have been made against ME Bank over its mortgage issues, which I can submit formally on notice, if you wish, around the adjustment of home loan rates and the like which led to the former CEO essentially having to resign after questioning from this committee.

Answer: BOQ became aware of matters relating to the criminal charges and the redraw issues faced by ME Bank during our due diligence processes.

The Committee will appreciate that BOQ cannot comment further on the criminal charges against ME Bank as the matters are before the courts.

However, BOQ considers that the acquisition of ME Bank is both strategically and financially compelling for the BOQ Group, including because it is expected to deliver material scale, broadly doubling the BOQ Group's retail bank and providing geographic diversification, it combines two strong complementary trusted brands, with shared customer-centric cultures and differentiated customer segments and provides a clear pathway to a scaled, common, cloud based digital Retail bank technology platform.

The acquisition has been positively received by BOQ's investors and the market generally.

Questions relating to the dividend paid to ME Bank shareholders are answered in question **BOQ47QON.**

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SMALLER BANKS SECTOR

Bank of Queensland

BOQ47QON: **CHAIR:** Was BOQ aware that ME Bank was paying a dividend to its shareholders during the process of its sale to BOQ?

Mr Frazis: We finalised the actual acquisition terms in February this year. There was then a period where ME Bank continued to operate and deliver its profits. All those adjustments are made today. Those are the things which finally get settled today in terms of the ins and outs of that adjustment. We knew that there was an intent to pay a dividend if the performance of the bank continued the way it did, and that's actually adjusted in our purchase price.

CHAIR: So you knew it was to be the case. What's the adjustment in the purchase price?

Mr Frazis: I'd have to come back to you on that specifically, because that's all being worked out today. I'll take that question on notice.

CHAIR: Okay. You'll give clarity on the totality of the dividend, the dividend to each of the shareholders and the adjustment price it has for ME Bank on notice and come back to a committee. That would be very helpful.

Answer: The dividend paid to ME Bank's shareholders was from profits during the period prior to BOQ's acquisition of ME Bank, which completed on 1 July 2021.

BOQ is aware that shareholders of ME Bank were paid a dividend of $60,000,000 in aggregate which was paid to the shareholders in proportion to their respective shareholdings in ME Bank. As this was paid from capital prior to the completion of the acquisition, this amount was deducted from the final purchase price.

BOQ did not provide any oversight of the dividend or how it was paid as the payment occurred prior to the acquisition of ME Bank.

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SMALLER BANKS SECTOR

Bank of Queensland

BOQ48QON: **Dr LEIGH:** Your organisation was technically eligible for JobKeeper in the sense that you didn't pay the major bank levy, so you weren't ruled out like the major banks. Your annual report talks about a 30 per cent revenue job but then says that you didn't pay JobKeeper. Was that because you just fell short of the threshold, or did you make an active decision not to opt in to the JobKeeper program? **...**

Dr LEIGH: I appreciate that. I'm just going to BOQ's particular decision, though, given the short amount of time we have the pleasure of your company. You're telling me you were technically eligible but you chose not to take it?

Mr Frazis: I'm not sure we were technically eligible, but I would say we would have actively chosen not to take that regardless.

Dr LEIGH: Could you take that on notice for me, please, and get back to me as to whether you could have claimed it if you chose not to?

Answer: While BOQ does not pay the major bank levy, there were other eligibility requirements included in the JobKeeper program. One of these, for businesses with revenues in excess of $1B, was to have a fall in turnover of more than 50%. While BOQ's cash earnings and statutory profit fell, BOQ did not meet the JobKeeper eligibility criteria. BOQ was not, therefore, eligible to claim the JobKeeper payment.

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SMALLER BANKS SECTOR

Bank of Queensland

BOQ49QON: **Ms HAMMOND:** Very quickly on least-cost routing, has BOQ made a submission on this or have a view on the current discussions that are taking place?

Mr Frazis: We are supportive of least-cost routing, and we do provide that through our service providers. In fact, we were one of the first banks to do so. I should state that a bank our size can handle the additional cost of providing choice. I would understand that if you had either a fintech or a smaller player coming into the market it is an additional cost and additional complexity to provide that choice. But, from our perspective, we're supportive. But, from our perspective, we're supportive.

Ms HAMMOND: Can you explain to me what sort of costs we're talking about here?

Mr Frazis: It depends. The costs can be quite substantial. I'd have to take that on notice. It would depend on the fintech and what operations they had in place, but the costs can be quite substantial, in millions of dollars. So, for a startup, that would have an impact.

Answer: In conjunction with FiServ, BOQ was one of the first to market in October 2018 that developed least-cost routing (**LCR**) functionality. BOQ encourages our merchant customers to utilise LCR where it is suitable for them to do so.

BOQ primarily is an issuing bank and understands the complexity and inefficiency in managing dual schemes. A high-level estimate of the incremental cost in managing dual schemes is several million dollars per year largely due to compliance, technology changes, and dual processes.

BOQ maintains providing choice of schemes to issuing banks can be cost prohibitive for smaller financial institutions such as new digital banks. BOQ continues to engage with the Reserve Bank of Australia on the review of the retail payments regulation.

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SMALLER BANKS SECTOR

Bank of Queensland

BOQ50QON: **Mr Frazis:** We did participate in the Term Funding Facility. I should start by saying that that was a very important initiative by the Reserve Bank. It was a facility that was provided to all of the banking sector. It effectively translated to roughly 12 months worth of the wholesale funding requirements of the bank. While we had a dislocation in wholesale markets, it meant that we were able to actually continue our operations and support our customers through the COVID crisis. If I contrast that to the global financial crisis—where it wasn't as clear, as a smaller bank, during that crisis—we were less able to lean into supporting our customers. So, the TFF has been a great initiative from the Reserve Bank.

Dr MULINO: Are you able to, on notice, provide some details around when you accessed it and how much and some of those more technical details?

Answer: BOQ made a number of drawdowns on the Term Funding Facility (**TFF**), as follows:

Trade Settle Date	Principal Amount
25/06/2021	$400,000,000.00
23/06/2021	$514,332,569.36
09/11/2020	$418,445,176.96
09/11/2020	$1,506,120.64
05/05/2020	$319,998,950.32
06/04/2020	$499,991,996.08

ME Bank made a number of drawdowns on the TFF, as follows:

Trade Settle Date	Principal Amount
14/04/2021	$197,883,077.31

10/12/2020	$100,161,000.00
29/09/2020	$146,790,574.79
27/08/2020	$149,988,993.28
26/05/2020	$74,995,245.38
28/04/2020	$199,985,324.37

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SMALLER BANKS SECTOR

Bank of Queensland

BOQ51QON: **CHAIR:** My final question is consistent with the question I asked before around electronic signatures. We have heard from BOQ as well as other smaller banks that, firstly, the impact of deregulation disproportionately hits you because, particularly in a space where you need specialists, the bigger banks are able to employ people earlier and faster—and geography also plays a role in that. The trade off is that, often, you get the benefit of a lot of their systems design work—for want of a better word, you freeload on their work. But that means it's delayed for you. What are the areas of red tape and regulation that are presently holding the bank back from being more competitive and servicing customers better? I'm happy for you to take the question on notice on the basis that you provide a more detailed response to the committee so that we can get the parliament making a recommendation to the government focused on specific areas. In this last minute, is there anything that stands out that you want to make a point about?

Mr Frazis: I am happy to take the question on notice to provide a fuller answer.

Answer: BOQ has advocated for, and continues to advocate for, change in respect of a number of important competition issues to ensure that smaller and regional banks are able to effectively compete with the major banks. A more level-playing field between the major banks and smaller banks would allow for smaller banks to provide Australians with cheaper, quicker access to credit, aiding Australia's recovery from the COVID-19 crisis.

Some of the most important issues for BOQ include risk weights, covered bonds, regulatory burdens and the responsible lending obligations.

In respect of risk-weighted assets, BOQ continues to engage with APRA on this important issue relating to the amount of capital BOQ is required to hold for lending on its books. This is a matter for APRA, rather than the Government.

In respect of covered bonds, BOQ observes that by increasing the amount of funding banks can access from covered bonds from 8% to 15% of a banks' Australian assets, non-major banks would be able to raise funds at a lower cost, reducing average funding costs across our entire wholesale funding base by roughly four basis points and provide a more reliable source of funding.

By increasing the covered bonds cap for smaller banks, BOQ would be on a more level playing field with the major banks by neutralising some of the funding cost benefits that the major banks receive due to the implicit government guarantee, and could offer more competitive pricing to our customers. The Government can achieve this by amending the *Banking Amendment (Covered Bonds) Act 2011* (Cth). We understand that the prudential regulator is not opposed to this change. BOQ continues to engage with Government on this matter.

Thirdly, BOQ observes that smaller banks often struggle to keep pace with the fast pace of regulatory change that is occurring across the economy. Smaller banks are in some cases constrained by resourcing issues and it can be difficult for smaller banks to keep up with the rate of change that is currently occurring.

In some instances, BOQ considers it would be helpful for regional and smaller banks provided with lenience in implementing regulatory reforms to ensure we can implement reforms in a way that delivers the best outcomes for our customers.

Finally, in relation to responsible lending, BOQ supports the Government's reforms to amend the *National Credit Code* as they will:

(a) improve the customer experience by streamlining the application process and collection of customer financial information;
(b) retain customer protections, including rights of action for individual customers; and
(c) simplify the framework by no longer having multiple regulators dealing with banks on the issue.

BOQ views the reforms as a means of ensuring the efficient flow of credit to assist the economy recover from the effects of COVID-19.

Other areas for regulatory reform which BOQ is interested in include matters which assist with the digitisation of the Australian economy. Examples include:

(a) allowing ADIs to access customer data with the Australian Taxation Office, with the customer's consent, to verify a loan applicant's income;
(b) the phasing out of cheques as a payment method;
(c) the introduction of legislation to support electronic signing of documents and the hosting of virtual annual general meetings by corporations;
(d) the digital delivery of documents under the *National Consumer Credit Code*; and
(e) removal of the obligation of banks to publish changes to product terms and conditions in newspapers.