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Inquiry into the Bank Funding Guarantees

The Finance Sector Union of Australia (FSU) welcomes the opportunity to make a brief submission to the inquiry into bank deposit guarantees.

The finance sector provides essential services such as banking, insurance and superannuation to the Australian community and employment for approximately 400,000 people. In addition it underpins many other business activities.

The FSU has two broad areas of comment in relation to the guarantees:

1 – the effect on competition in the sector; and

2 – the need for conditions to be attached to those institutions that access the guarantees.

The global financial crisis has obviously impacted on all financial institutions and the FSU supports the introduction of the deposit and wholesale funding guarantee to promote financial system stability and ensure the continued flow of credit through the economy.

The pricing schedule charged to institutions for these measures has been designed to differentiate on the basis of risk profiles as determined by ratings agencies such as Moody's or Standards and Poors. However, the current fee structure has resulted in the smaller banks being charged 80 basis points more than the major banks[1] to access the guarantees therefore significantly impacting upon their ability to be genuine competitors to their bigger rivals.

It is arguable that a differential pricing structure for the deposit guarantee is not consistent with the accompanying prudential framework which aims to give equal protection to all regulated deposits. Part of APRA's mission statement is to ensure that "financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system."[2]

The first priority of the guarantee was understandably to ensure stability and confidence in the banking system at a time of crisis (which it achieved); however it is critical that competition in the sector not be further eroded due to unintended ongoing consequences of the guarantee.

The FSU is aware of a number of institutions that believe that the fee structure is anti-competitive. We note (and endorse) the comments by ABACUS that it "does not reflect the prudential regulatory framework that aims to give equal protection to all

[1] http://www.guaranteescheme.gov.au/rules/pdf/schedule-5.pdf
[2] Taken from http://www.apra.gov.au/aboutApra/

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deposits held by Authorised Deposit-taking Institutions"[3], and that the "differential fee arrangements make it impossible for mutual ADIs to compete effectively in the market for deposits from depositors who want the guarantee."[4]

The FSU is on record as strongly supporting the role of medium size or "non-major" banks in delivering competition and consumer choice in Australia and believe it is vital that the regulatory framework does not actively disadvantage them.[5] The GFC significantly impacted upon the ability of the smaller banks to compete against their bigger rivals – it is critical that measures to address the GFC do not further impact upon their ability to compete.

Successive Australian Governments have endorsed the 4-pillars policy that prohibits mergers between the major banks. The FSU endorses this policy but has ongoing concerns that Australia appears to be moving slowly but inexorably towards a banking system that has only 4 pillars. The major banks largely dominate the Australian market – the guarantee should not assist them to become even more dominant.

> **Recommendation: that the fee structure for the guarantee be reviewed to ensure that smaller banks are not competitively disadvantaged and continue to play their vital role in the Australian market place.**

In late 2008 the financial system was in crisis and the market was unable to deliver stability and confidence by itself, as a result the Government provided the guarantee scheme. The banks were not obliged or compelled to access the guarantee; however the vast majority obviously did due to the benefits they could derive. Consequently, we believe it would be entirely reasonable for the Australian Government to attach mutual obligations to demand better corporate behaviour from the banks if they choose to access assistance such as the guarantees.

The FSU believes such conditions should include measures to safeguard Australian jobs against practices such as off-shoring, maximise Australian employment, lend responsibly and effectively to all market segments and require the observation of social obligations ensuring that banks do not withdraw services to disadvantaged communities or groups.

As the Committee is aware the FSU has grave concerns for the finance industry due to activities such as off-shoring which have resulted in over 5,000 jobs being transferred overseas[6] and continues despite massive profits and the stability brought by the guarantee. The is no doubt that banks in Australia have weathered the GFC much better than many other countries due to a number of factors (including the guarantees). Consequently we find it particularly offensive that many banks continue to use the GFC as an excuse to retrench workers, downsize Australian operations or increase their interest rate margins.

The Australian Bankers Association has argued against any condition being attached to the guarantee and has asserted that "No taxpayers' funds have been used to bail out

[3] *Abacus submission to the Australian Financial Centre Forum*, 30 December 2008.
[4] *Abacus submission to the Inquiry into Aspects of Bank Mergers* – Senate Economics Committee, March 2009.
[5] *FSU submission to the Inquiry into Aspects of Bank Mergers* – Senate Economics Committee, March 2009.
[6] *Ibid*.

banks".[7] The banks do pay a fee for the guarantee; however it is still ultimately underwritten by taxpayers and the banks derive a substantial benefit (real and perceived) from being able to use the Australian Government's sovereign debt rating.

Recommendation: that conditions be attached to the guarantee. These should include commitments to:

- **End off-shoring and maximise Australian jobs;**
- **Lend responsibly and effectively to all market segments; and**
- **Observe basic social obligations.**

If you have any questions in relation to this submission please contact Rod Masson, National Communication and Policy Manager, on (03) 9261 5330 or James Bennett, Senior Policy and Research Officer on (03) 9261 5405.

Yours sincerely

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24 July 2009

[7] *Facts missing from FSU claims in media release,* ABA press release, 20 March 2009.