

## Competition within the Australian banking sector

“Commonwealth” is a funny name for a bank to have in these times. It suggests that the organisation has a community purpose, somehow sharing its profits with the common people. That it is not just there for those that can afford to buy part of it or for those at the top who justify their income as if they are personally responsible for the wealth the very old organisation has created.

The current level of competition between bank and non-bank providers is difficult to assess as many non-bank providers are funded by the major banks. Meaning there is a lot of smoke and mirrors in the market place.

The banking sector products are “on demand” and fixed interest rate deposit accounts and loan accounts. The banks either pay no interest on their demand deposits or else the interest will be far lower than the interest they themselves can earn on their loans. Secured loans are normally a cheaper product than unsecured loans.

Only Authorised Deposit taking Institutions’ (ADI’s), such as building societies and credit unions, from the non-bank sector are able to offer deposit accounts to their clients. Deposit accounts may or may not have monthly fees and transaction fees depending on the type of account access and associated products a customer has.

Loans are provided by ADI’s which includes banks, building societies and credit unions. Mortgage managers are intermediaries who sell loans for wholesale funders and retain the interest margin between the funder’s rate and the delivery rate the borrower pays. Loan accounts from all these providers charge varying rates of interest and a range of fees for establishing the loan, ongoing fees, transaction fees, and exit fees.

Due to the terminology used to describe the fees applied to loan accounts it can be very difficult to capture them all to compare apples with apples. I would like to see all fees (excluding fixed rate break costs) converted into the interest rate, including any deferred establishment or exit fees, so that the true cost of the facility at any point in time is known and borrowers are not hoodwinked about how much they are really paying for the use of the lenders money for a period of time.

If a deferred establishment fee was applicable an interest rebate could be given to the borrower when the charging period expired.

People with mortgage loans tend not to move due to the cost and they have no guarantee that once they have moved to the competitor that the competitor is not going to raise the interest rate or add additional charges.

Interest rates for fixed loan facilities are advertised at a rate that is only available for that day. Very rarely does a loan settle on the day it is applied for. Most lenders charge a rate lock fee to secure the advertised rate for a period of time usually up to 90 days. This fee was rare 10 years ago and is now standard for borrowers wanting to fix a rate. I question its legality as really something is being offered that is not available to most people when they apply.

The major banks in Australia today are not too big to fail they are too powerful and unreasonably protected by government and regulators to fail. They can do what they

want through commercial contracts that protect their interests and screw the other party. They can hide the truth of situations by uttering “commercially sensitive”.

In the current market place the small player does not have much chance to compete as the rules are made by and support the big guys. Corporate culture in the financial services sector displays a bully culture that has come about through greed and an ability to easily swallow up or exclude smaller competitors.

Credit rating systems and credit scoring systems need to be outlawed or at a very minimum tested in their ability to be honest, fair and efficient. As seen during the GFC credit ratings are a dangerous tool to be relied upon. Both tools are someone’s opinion based on a lot of non proven data and can be manipulated to give any response a company wants to either champion for or discriminate against anything they want at the time. In no way are they an honest assessment of someone’s current financial position and the ability or commitment to repay a debt.

Credit scoring is anticompetitive as it discriminates against consumers who shop around various credit providers. Too many enquiries results in a declined application.

The banks are a major supplier of wholesale funds for securitised intermediaries. Through this they have the capacity to manipulate the market to make the selling of these loans more profitable for them and more expensive for the consumer. This can make their proprietary channels appear cheaper.

Consumers do not understand that when they obtain a loan from Aussie Home Loans or a credit union or other intermediary home loan provider that the real lender may be the Commonwealth Bank or ANZ or ING or NAB or Westpac depending on where and at what price the home loan intermediary can secure wholesaling funding from.

The intermediaries at face value appear to be a competitor of the big banks but this is not necessarily true. When they are funded by a big bank they are not a competitor of that bank they are merely a distribution channel using a different name and competing against other similar product sellers in the market place.

Government needs to understand that the independent finance broker has been eliminated from the market place and the reason for this is that they had too much effect on competition and the big banks did not like this.

Independent to credit provider Finance Brokers are in competition with banks and other finance brokers for clients who want to borrow money.

Finance Brokers are very important facilitators for borrowers who are seeking to enjoy the benefits of having an independent person provide them with a side by side comparison from a range of different options, including different credit providers and credit product features.

An independent finance broker does not have a lending function as do ADI’s and mortgage managers rather they research the market place for a potential borrower to ascertain what products at what price and at what service delivery are available from a range of credit providers. Their clients’ current financial situation and the credit providers’ offerings are married together and the potential borrower makes a choice depending on their wants and needs and the availability of a suitable product.

I used to be an independent finance broker but am unable to practice the trade effectively any more due to volume hurdles that have been introduced by the credit providers. The individual accreditation system allows finance brokers access to credit product and policy information and is controlled by the credit providers. This system determines who can or cannot introduce business directly to them.

I feel the behaviour is restricting outputs in the supply chain and exclusionary; I am not free to choose whom I deal with in the market place and it denies consumers the right to choose what they can buy, and from whom and it safeguards inefficient business from competition at the expense of efficient operators.

The major credit providers via ownership of aggregators, such as NAB (Advantega owns PLAN, Choice) and CBA (30% share of Aussie Home Loans) have access to information relating to around 80% of market operators and their businesses.

Banks unlike other businesses in the Australian economy are in a win the entire time situation. If the economy is booming they make huge profits. If the economy is in a state of turmoil they make huge profits while at the same time they send other businesses to the wall by calling in debts or not advancing credit when they know exactly what the consequence of their actions are and they do not care.

Anyone who is familiar with how the modern banking system works knows that any one of our major banks could go bankrupt at any time and very quickly if their depositors lost faith and started a run. None of them are immune from that fact.

Certainly even a government guarantee of bank deposits could not save them from the reality of a bank run if the depositors lost faith in the government promise and the bank that was holding their cash.

Government need not be so frightened by that that they over protect these organisations at the expense of smaller players and consumers. The banks need to understand and be reminded of their weakness and vulnerability to ensure that they operate humbly and honorably in the market place to earn the respect and faith and business of the Australian people.

The government did recently guarantee bank deposits to ensure the Australian people did not lose confidence in our banking system and no run occurred as a result. However many innocent Australians did lose all or a lot of their investments as a result of the government action to “save the banks”.

Capital is said to be the financial heart on which the strength of a banking institution and the whole banking system is built. Capital offers flexibility; it is a base for future growth and is a symbol of muscle power to markets and customers.

Capital is a critical shock absorber which enables an institution to continue operating soundly through unanticipated losses and it keeps the organisation operating while resolving any problems if and as they arise. The capital held suggests strength and represents a permanent and unrestricted promise of funds.

Australian and Prudential Regulation Authority (APRA) require the capital to:

- provide a permanent and unrestricted pledge of funds so that the capital is available when it is most needed

- be freely available to absorb losses- it needs to shield creditors from losses
- be efficient in service charges against earnings – it need not act as a drain on cash flows when funds are needed to meet obligations to creditors (It ranks behind the claims of depositors and other creditors in the event the institution insolvency or wind-up).

The government stepped in and guaranteed deposits as I see it due to the prudential capital adequacy requirements of APRA. As the value of ordinary shares dropped dramatically I imagine that would have had a huge effect of the value of Tier 1 capital held. By increasing their depositors' balances they could then use this money as general reserves to stay within their capital adequacy requirements.

An alternative would have been to allow the capital adequacy requirements to be flexible to ensure that lending to business was not so severely contracted.

Did the capital adequacy requirements cause many successful businesses in the economy to be forced against to the wall during the GFC? I suspect so.

Surely the capital required to be held as a demonstration of financial strength and soundness to support an unexpected period of turmoil needs to be able to be used to get through the unexpected difficult period. Why have it there in the first place if the reserve is locked away in a vault without its key. The reserve will not stop a bank from going bankrupt, it is the customers' faith in the bank and the system that will keep the bank safe from a run. Depositors need a conviction that they are not going to lose their money.

In a competitive market place with a good number of banks competing with each other for savings and loans the balance between redemption of demand deposits and credit expansion is kept in check.

It is no accident that banks in this country are disliked by many in our community as they display an intolerable arrogance. No other business is guaranteed a profit like they are. No other type of business can force people to lose their home, investments or make a business become insolvent in the ease that they can. They have a history of understaffing branches, call and operation centers, ignoring complaints about inefficient service and product pricing and yet their profit increases every year.

As organisations the major banks in this country and their leaders demonstrate poor ethical and moral values. They justify their behaviour by saying it is what their shareholders expect them to do. Well I am a shareholder of a couple of the major banks and it is not what I want to see them do.

Once upon a time I remember watching ads on the television that spoke about "free enterprise between seven Australian banks" and how good that it was for Australians to have banks competing with each other for our business. They were; Australian and New Zealand Bank (ANZ), Commonwealth (Savings, Trading and Development) Bank, Commercial Bank of Australia (CBA), Commercial Banking Company of Sydney (CBC), Bank of New South Wales (BNSW), English Scottish Australian Bank (ESA) and National Australian Bank (NAB).

CBA and BNSW became Westpac, ESA merged with ANZ, and CBC merged with NAB. So then there were four major banks in Australia.

In this country smaller competitors when they start to encroach on the bigger boy territory are excluded by refusal to deal with or swallowed up.

What has been happening in this country for far too long is the process of vertical integration whereby the bigger players simply buy out the competitor to ensure market dominance of the distribution chain and the unknowing vulnerable consumer. It is a different concept to vertical integration whereby a company maintaining absolute control and is never dependent upon products manufactured to quality standards less demanding than its own. These companies reshape their business operations through efficiency to be independent from inefficiency in the supply chain.

The second example of vertical integration creates cheaper products. The first example creates great big inefficient organisations that charge what they want and the consumer has no option but to pay as the competitive market place has been demised.

Back in the olden days I started my working life with the Commonwealth Bank. In those days we were rewarded for being efficient. We were taught that customers were like gold. We needed to value them, know their name, provide efficient and friendly service and treat them with respect or they would go to a competitor. Loyalty was gained through the provision of better product and service offerings. At Christmas time we were given many presents from happy clients in appreciation for our efforts. We considered ourselves to be bankers not product sellers.

We started work at 8.45am in the morning. One task we did each morning was the sorting of customer issued cheques presented for payment. These were sorted into alphabetical order of customer names from the signature on the cheque before they were posted to the account ledgers. We did not have computers in branches. We manually calculated the interest earned on the balance in a saving account by converting the minimum monthly balance in decimals to be converted annually into an interest payment amount. Tellers added up in their head and as soon as the day's work was finished and balanced we all went home. The air conditioning in summer was opened windows and the heating in winter was oil filled bar heaters and an extra layer of clothing.

It was expected that a human answered the phone by the third ring. In the branches it was not unusual for an efficient team to leave our full time jobs to go home at 3.30pm a couple of days a week. On Friday's we worked later as the doors closed at 5pm and it was normally 6pm before we left for the day.

When I had my first son in 1979 I was paid maternity leave at my normal salary for 7 ½ months. I was paid again for approximately the same length of time when I had my two other children. I had a rostered day off every three weeks which allowed me, when the children started school, to do tuck shop duty and attend class excursions with my children. For its staff the bank subsidized health costs and provided generous interest rate concessions to buy a house to live in.

The remuneration system of bank executives today is based on greed. Greed is a negative motivator and does not produce long term positive outcomes for anyone. The more free labour they can obtain and the higher fees they can get away with

charging for services the more money the banking executives personally earn. This behaviour certainly can be identified as similar to the slave trade in the American south. People at the lower end of the power pole are expected to work harder and longer for less consideration. Stress, depression and a feeling of hopelessness are the reward.

If you are an accredited loan consultant you are expected to complete outsourced loan writing tasks for credit providers for no pay and still cover your overhead costs. The banks pay a commission for the introduction of new business and takes all or part of it back for a period of up to 24 months if the borrower repays the loan.

Unlike bank staffs that are paid a salary and commissions and bonuses on top, a finance broker's sole remuneration may be the commission payment which is normally split with an aggregator. Unlike finance brokers' banks staffs do not have to reveal any commission they are paid. Internet product comparison sites are paid a referral commission without processing any loan writing tasks or prequalifying borrowers with lender policy.

Out of commission payment the accredited loans consultant needs to pay the cost of running the business before they can take a wage. How does the law allow this sort of remuneration system to exist? Through commercial contracts of course! Businesses only have to be fair in consumer contracts.

For this to be a beneficial inquiry for the Australian people I feel that the big picture of the Financial Services Industry has to be investigated not just the banking sector.

Australians as individuals and collectively need to be allowed to be responsible managers of their own financial world and not be treated like financially illiterate ning-nongs. The self-interested stakeholder groups that our current legislation makers listen to, behind closed doors, camouflage topics and have too much influence on policy that has become overall detrimental to the building of a financial savvy nation.

So called government funded "consumer advocates" that have guided policy makers for the National Consumer Credit Protection Act 2009 call a mortgage against household goods a "blackmail security". How irresponsible and naive is that! They are basically saying to the world that in their opinion consumers buying goods on a secured basis are being blackmailed into repaying a legitimate debt of their own making. Is it no wonder that the new National Consumer Credit Protection legislation has caused many competitively priced, respectable and consumer needed credit products to disappear from the market place?

The consequence will be backyard rip of fringe lenders operating and high interest credit cards will become more prevalent and providers will have a field day. The disadvantaged credit worthy group of consumers are normally on the lower end of the socio economic pile and they will be forced to seek "hard money" loans or credit cards and the cycle of high interest and repayment burden will continue for the people who can least afford it.

Another consequence of this legislation is Australians at the lower to medium end of the socio-economic scale are being denied access to credit products for property purchase at good rates and are being trapped into credit card debt. Listen to the

catch cry “we are being responsible lenders”. “You fail capacity to purchase a home loan but we will give you a credit card.” “Take out a credit card as that will help you qualify for a home loan as it improves your credit score.” “We will lend you less on a home loan because we want to send you a pre approved credit card offer with the loan documents and as responsible lenders we have to factor that into our assessment, if you do not pass the capacity to service the home loan debt with the credit card factored in we will decline the home loan.”

My opinion is the law is designed to protect the banks rather than protect the everyday Australian consumer and if positive credit reporting is introduced well we may as well just hand our pay packet to the banks and let them completely operate our personal financial world.

It is an unreasonable expectation that a credit provider is given an absolute all of the financial information available to them to make a credit risk decision about a personal ability to repay a debt. It is improper and unbalanced for the consumer if the credit provider is to solely determine whether the consumer is overcommitted.

What sort of consumer protection is a law that allows a lender to determine if a borrower can afford a loan with no regard to the consumers own opinion and calculations. I say that there are very few consumers who deliberately take out a loan that they know they can ill afford.

Recourse loans get their name from the fact that lenders have power. Power of sale, who does that protect? The credit provider of course, it does not protect the consumer. There is no balance all the power is with the lender if something goes wrong. The consumer is charged a penalty interest rate for defaulting, loses their equity first, the lender can increase the debt outrageously with fees, legal costs, selling costs etc. Then the banks are allowed to go after the consumer for amounts that they still owe. Great! The bank may have lost nothing. They have been placed in the winner’s circle. The consumer loses everything and the banks say they are the risk taker and need to be remunerated accordingly.

How does the consumer benefit from the 100% proven financial position? It does not guarantee a lower interest rate as the perceived risk of non disclosure has been eliminated. Nor does it guarantee that the consumers’ financial position will not change through unexpected events after the loan is funded and they find themselves in a financial pickle.

The consumer has no say in if they can afford to take out a loan or not. The legislation has been formed with a focus on responsible lending based on a minority of fringe lender examples. Balance needs to be restored to protect consumers against unfair discrimination through credit providers desire to only approve what they see as fail proof loan applicants.

Responsible borrowing is the other half of the coin and Australian consumers have a right to expect loans are available in a balanced system with responsible borrowing and responsible lending being the joint expectation.

The Australian people are not so stupid and reckless that banks and government need to more and more dictate how they use their assets and money.

If things keep going the way they are headed the banks will soon be asking me why am I drawing out my own cash from my bank account as it is their responsibility to ensure I only spend what I need to spend today so that I have enough to live on when I retire many years from now.

Modern banking sells the one bank principal so that they can access all there is to know about the daily spending of their customers. They check spending patterns and income to offer more products. The more products a client has with them the harder it is for the client to leave.

It is a strategy to stop their products being compared in an open market product comparison.

A question that needs to be answered is how much of the Australian Financial Services sector is owned by our major banks. I noticed with interest this week on the television that a part of ING has just become part of ANZ. The ad says Ho! Ho! Ho! Nothing has changed except the name. Ha! Ha! Ha!

Without a focus on the big picture of the financial services industry the making of our laws will become more blurred and confused.

*Money* is a tool, a basic instrument of exchange. *Finance* relates to managing money and money resources. *Wealth* is a product of using resources wisely. In a competitive market place it is consumers who decide which products and services are in demand and which products and services will be extinguished.

Consumers need quality education in basic financial acumen so they can positively connect with their financial world and assert confidently “no thanks” that product or service or get rich quick scam is not for me.

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