AUSTRALIAN INDUSTRY

GROUP

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Senate Economics Committee
Department of the Senate
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Competition within the Australian Banking Sector

Dear Sir

The Australian Industry Group (Ai Group) is a leading national industry association representing businesses of all sizes in a growing range of industries, including manufacturing, construction, business services, transport and logistics, defence and information and communication technology (ICT). The level and effectiveness of competition within the Australian market is of keen interest to Ai Group and our members and we appreciate the opportunity to write to the Committee on issues related to its terms of reference.

Since the Global Financial Crisis (GFC) our members have become more concerned about the availability of finance and its costs. A recent Ai Group survey of CEOs found that around twenty per cent of the businesses surveyed consider the inability to obtain finance and the lack of capital to invest as a very important factor impacting their profit growth in 2010-11.

Ai Group recognises the central importance to the smooth operation of the overall economy of well-functioning and competitive financial markets that maintain the confidence of business and household depositors and borrowers. We also recognise the critical role of effective regulation of the financial markets to minimise the risks of dysfunctional financial market behaviour and the disruption to the broader economy that can result from this behaviour. These risks were clearly apparent recently when inadequacies of the framework of US regulation in particular exposed not just that country's economy but the broader global economy to a severe crisis the recovery from which is far from complete.

The relative stability of the Australian financial sector and the comparative success of domestic regulatory arrangements have been demonstrated strongly over the past few years. Given a choice, most would opt for the Australian financial market experience of this period ahead of that of just about any other developed country.

That said it is clear that the market position of the leading four domestic banks has strengthened considerably due to the retreat of foreign banks, the consolidation of domestic institutions and the uneven impacts associated with the guarantee provided by the Commonwealth government in response to the GFC.

It is reasonable to assume that this greater dominance has decreased competitive pressures and allowed the big four banks to impose more stringent terms and conditions on lending.

Our members, particularly our smaller members, feel that they are in the firing line and report greater difficulties in accessing external funding. They also feel that they are paying more for funds than has traditionally been the case relative to the cash rate, to home mortgage rates and to rates paid by larger businesses.

Ai Group would therefore welcome measures aimed at ensuring that there are no undue regulatory impediments to the entry of new banks, the resurfacing of foreign banks and the relative growth of second or third tier banks and other lending institutions. These measures could include the better and more pro-competitive design of government guarantees for deposits whether explicit or implicit.

While supporting increased competition in financial markets and the removal of barriers to potential competition, Ai Group is opposed to ill-considered measures that would impose excessive regulatory costs on the financial sector. We are, for instance, very wary of suggestions that new legislative measures should be introduced to address the perceived problems associated with so-called "price signalling" behaviour. Our concern is that this will embroil not just banks but all businesses in additional regulatory burdens without generating discernable benefits.

Regulatory measures that impose costs of compliance or of a direct monetary nature with little or no social benefit should be resisted as a matter of course. When they are targeted at sectors insufficiently constrained by competitive forces, they run the additional risk that associated costs would, paradoxically, be directly or indirectly passed onto customers in the business and household sectors rather than borne by the targeted businesses themselves.

An area of financial market regulation that is worthy of very close consideration is the proposal to ban commission selling by financial advisors and to require financial advisors to act in the best interest of their clients. At present the wealth management arms of the major banks are the leading beneficiaries of commission selling and this practice is likely to be a factor that will tend to reinforce their market position over time.

Please do not hesitate to contact me or Ai Group's Director – Public Policy Dr Peter Burn (peter.burn@aigroup.asn.au) if you would like to follow up on these issues.

Yours sincerely,

Heather Ridout
Chief Executive