Competition within the Australian banking sector, including:

(a) the current level of competition between bank and non-bank providers;

“Industry structure drives competition & profitability”

There are barriers to entry in the Australian Banking industry and significant incumbent advantages.

The larger domestic banks enjoy supply side economies of scale this was evidenced when the government guarantee favoured domestic banks.

There are significant demand-side benefits and network effects at play in the Australian banking market with the Big Four

Capital requirements are large and the market is specialised.

In general a market buyer for a bank is another bank.

Towards the end of the 1990’s there appeared to be some very healthy competition with broker based transactions cannibalising the large bank loan portfolios.

The halt in the liquidity of the global securitisation market in 2007-2008 and ensuing global credit crisis but an end to that in spectacular regressive fashion.

The market impact has been negative but Australia’s largest banks as evidenced by record profits recorded found a positive footing.

We have seen the large banks purchase the main brokerage players.

Statistics gathered must take into account the final beneficiary of a brokerage based loan and ultimately the large bank ownership of the brokerage.

There has been significant rivalry within the Australian banking sector since 2007 to date with a number of mergers & takeovers.

Initially this may lead to some profit from integration of the previous competitor. Ultimately this may open the way in the future for competition from new innovative entrants.

Consumers may also demand less perceived risk from a Government backed institution.

Overall the Australian banks are profitable due to the outlined advantages and there is room for competition or incentives for innovative new entrants.

(b) The products available and fees and charges payable on those products;

Products are differentiated and are being sold on the basis of perceived need across the Australian banking market. However, there is a profusion of products and costs that make it difficult to compare offerings simply between rival institutions. To do so effectively takes even a savvy consumer too much time as a cost.

Suggestion: A regulated central comparison website across all financial products, by type & features with full disclosure of fees & charges.

It is hard for consumers to make choices

(c) How competition impacts on unfair terms that may be included in contracts.

No Comment tendered.

(d) The likely drivers of future change and innovation in the banking and non-banking sectors;

- Customisation of banking products based on the actual need that a client can tailor via technology & choice navigation will shift from products designed by banks to products designed by clients similar to selecting a customised computer.
- Portability of banking services is leading to a “utility” style model with 24/7 channel access so the key competitive advantages will be based on needs, value & trust.
- Disruptive change is already emerging outside the traditional banking model collective social networking intelligence will lead to fast experimental & agile products.
- Branch banking might become part of a community hub or kiosk style rather than full service so space & style to reflect client demand will be needed they will be the human point to technology.
- “One Time password combined with RFID technology & e paper” could help as a simpler password solution to current token & authentication steps.
- Removing cheques along with physical currency from the system to support AML & tax evasion strategies of existing government agencies.

(e) The ease of moving between providers of banking services;

A retail client with simple accounts & a home loan it is very easy to switch banks for minimal fees.

A business with complicated structures several securities and well established banking for several thousand plus clients paying in monthly it is a nightmare to change banks.

(f) The impact of the large banks being considered 'too big to fail' on profitability and competition,

The moral hazard in a global context was that the entire monetary system suffered market failure.

The lack of understanding and prudent risk mitigation by the majority of global investment banks of fat tail risk associated with <u>credit default swaps</u> & associated collateralised debt obligations lead to a halt in the liquidity of the global securitisation market in 2007-2008 and ensuing global credit crisis.

It is interesting to note that "Financial derivatives of $800 Trillion USD was the estimated size of global positions in 2008, more than 12 times the value of World GDP" in synthetic instruments or manufactured debt.

The global failure has contributed to an overseas taxpayer funded nationalised banking system in the UK & the US to some extent.

It is time to bury the "zombie ideas that lead the world into crisis...to produce.. Socially useful body of thought"

<u>How will any Australian bank compete with a nationalised international bank on equal terms?</u>

(g) Regulation that has the impact of restricting or hindering competition within the banking sector, particularly regulation imposed during the global financial crisis;

Smaller Australian Banks had a higher cost impost to gain the deposit guarantee during the crisis. They also have a higher impost to raise funds due to global ratings agencies applying lower ratings on perceived risk.

Is there a better way to risk rate banks & their contributions to communities?

(h) Opportunities for, and obstacles to, the creation of new banking services and the entry of new banking service providers;

There are some real disruptive opportunities for an agile bank to enter a small market like Australia & drive change. Banks with large hub supermarkets combined with technology and mobility in rural areas could compete due to efficient cost distribution.

Is it time to create a nationalised bank with low entry costs or provide incentives for rivals?

The recent grant by the "Aboriginals Benefit Account to the Traditional Credit Union" to establish banking and financial literacy is a start.

Development of the National Broadband network will assist any technology based banking & necessary.

(i) Assessment of claims by banks of cost of capital;

The global cost of capital is transparent and convincing. However there are probably some more efficiencies to be gained by banks examining their existing security portfolios.

Checking what is actually secured & mark to market values allocated or pledged. Adjustment of Tier One capital positions to take pressure off cost of funds.

I have yet to see a really tidy bank portfolio and the bigger they are the more risk associated. An added benefit to this is enhanced risk management & highlighting anomalies.

There has been a lot of growth that tends to camouflage systemic failures in the security process driven by outsourcing & third party origination. The Storm fiasco was an example of this ungoverned growth.

Despite the cost of capital our banks made exceptional profits in the crisis. Partly through disciplined management but also due to extraordinary opportunities in a distressed market combined with a tax payer funded Government Guarantee.

Is there going to be a one off impost for the associated windfall?

(j) Any other policies, practices and strategies that may enhance competition in banking, including legislative change;

Consider legislative change for removal of negative gearing incentives on residential housing. No one will like this but what benefit is there for our economy by providing that tax concession.

What was the spirit at the time the law was enacted & what is the reality now.

Leave the concessions in place for commercial business properties shares etc. Consider for a controversial legislative change to ensure that banks are more rigorous in their assessment of client's tax positions and income at the point of finance.

This could be accomplished with an information share via the Australian Tax Office.

To facilitate the information share a common reporting language with efficiency benefits across the whole of financial community.

An example would be (X B R L) extensible business reporting language if used across the financial & tax sectors of the economy could lead to efficiencies & standardisation & make a client move between banks simpler.

Consideration to abolishing the fees for ATM's banks have increased their networks that work 24/7 on the basis of service with significant accrual cost savings & depreciation benefits over human capital

ATM's that are strategically placed can generate significant revenue from competitor customer transactions say $70,000.00 plus PA after costs.

A $2.00 charge for a $50.00 withdrawal contains an explicit finance charge of 4% daily (the Annual Percentage Rate is harsh and unconscionable).

A fair warning disclosing the implied finance rate would be more responsible rather than the small dollar value.

The majority of clients incurring such fees do not have the financial skills to calculate the finance rate.

(k) Comparisons with relevant international jurisdictions;

United Kingdom ATM interchange fees were phased out in 1998.

X B R L seems to be a popular format for US Government financial agencies.

(l) The role and impact of past inquiries into the banking sector in promoting reform;

Past enquires Wallis, Ralph etc have some great ideas

(m) any other related matter.

No comment

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