

30 November 2010

Mr John Hawkins  
The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600  
By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Mr Hawkins

**Economics Committee: Competition within the Australian banking sector**

Thank you for the opportunity to make a submission to the committee on competition in the banking sector. Suncorp Bank, as the only remaining A+ rated retail bank in Australia and largest of the second-tier banking sector, is the natural proponent to facilitate competition and is best placed to contribute to this debate and support solutions. The reality at present is that the ability of the second-tier sector to offer long-term, sustainable competitive consumer propositions is undermined by a constrained and expensive funding market. The gap between the cost of funds for major banks and that of all other financial services institutions has been greater in the past few years than for decades prior to the GFC and it threatens to drive further consolidation and a further diminution in competition.

Economic, funding and environmental events have fundamentally changed the operating environment for all banks, more significantly for non-majors. The global financial crisis led to a series of events which served to strengthen the position and market power of major banks - at the expense of regional banks and non-bank financial services institutions. Current domestic and global industry dynamics are further constraining competition, meaning structural reform is urgently needed in order to ensure there are increased competitive alternatives for Australian consumers of financial services products. This reform needs to be well constructed to avoid unintended consequences.

How events evolve over the coming six months will determine the banking landscape, the type and number of providers and the level of competition going forward.

The Global Financial Crisis created a cost of funding differential between the majors and all other players that was virtually non-existent three years ago and for decades prior to that. A protracted period of such disparity has the potential to drive consolidation and significantly impact competition going forward.

## **Regional banks**

Events of the past two years have changed regional banks. BankWest and St George have become part of major banks leaving Suncorp Bank as the largest regional bank, occupying a unique space between the majors, with their AA ratings and other regional banks which have BBB ratings. We have a larger balance sheet and high credit rating than other regionals but a lower rating than the majors. The shutdown of wholesale markets, on which Australia is so heavily reliant, put the majors in a difficult position but placed us under added pressure.

We've responded appropriately. We've had to adapt and drive significant change in the shape of our bank. The bank we operate today is a far different organisation than it was in 2008. This has been driven by a change in funding dynamics, highlighting the criticality of funding in competition.

## **Mergers and competition**

It's in the best interests of consumers and our economy for a robust multi-tiered banking system to exist. The threat right now is that limited access to funding markets and securitisation will restrict the ability of regionals and non-banks to create necessary competitive tension. There are plenty of participants in the market right now but at question is their ability to offer a sustainable competitive proposition. Additionally, I am strongly of the view that competition reform should support multiple smaller banks and non-bank financial services institutions rather than simply replicating another big corporation, a fifth pillar.

There are a number of options and initiatives which would open up the market and support competition. Underpinning these options are common objectives across the industry that with goodwill and negotiation on all sides can be adapted to deliver long term policy reform while at the same time avoiding unintended consequences. The key objectives of enhancing competition and advancing any reforms should be to deliver:

- enhanced funding diversity and system stability;
- cost effective funding for the economy with mortgages as the underlying security, and;
- the creation of securities that meet eligible liquid asset rules under the new Basel framework.

There are solutions that exist and there are models for funding that could be adapted to the Australian environment. I would welcome the opportunity to contribute further to the development of initiatives which support these objectives and deliver a more competitive Australian banking sector.

Yours sincerely

**David Foster**  
**Chief Executive Officer**  
**Suncorp Bank**