166a Gleeson Road, RD3, Waiuku, 2683, New Zealand

Submission to the Senate Economics Committee

Competition within the Australian banking sector

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I have worked in the banking sector for over twenty years in both the UK and New Zealand.
I fell very strongly about this sector and the way it behaves and continues to be so profitable in the face of such recession.

It is a service industry that has forgotten how to serve.
It is an industry that has made us so reliant on it that there is no viable alternative.

It is an industry that overall encourages high level of debt and shows very little duty of care to it's customers.

I would be honoured for the senate to consider my submission.

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The current level of competition

It is basic economics to understand that if an industry has no competition it is considered a monopoly, and with two major players a duopoly. However, it seems currently that the major Banks currently have a cartel, equally as unacceptable.

To have true "competition" within an industry there must be clear alternatives and suppliers. I cannot believe I am the only one who has recognised, looking past the clever marketing, that all the banks do the same thing, provide the same services and eventually charge the same price?

If I do not want to use a major player where do I go to have a "bank" account, get a credit card, a debit or EFTPOS card? Where is the true alternative to a Bank?

There is a certain sub level of competition in specific product areas:

- Home loans
- Invoice finance/factoring
- Insurance

However, to facilitate these you need a "bank" account.

We are victims of our own apathy though. There is no reason to create a true competitive environment. A disgruntled customer will simply change banks and the merry go round of market share begins.

The banks have to account for their actions to the "ombudsman" a body that looks at complaints. However, of those submitted, many cannot be upheld as the ombudsman does not consider the morals or ethics, simply whether the code of banking practice has been broken or law broken. There is so much room for "manoeuvre" within the code of banking practice; the banks really do not have a watchdog.

The products available and the fees charged

As alluded to before all products available and fees charged are similar.
I think it is difficult for any individual to fully understand the products available, even some CFO's of large businesses struggle. I do not believe there is need for further product diversification. However, has anyone wondered as to why the banks can continue to make huge profits?

Usually when an industry invests in technology to reduce its overheads it enjoys increased efficiencies, profits and ability to grow and expand. But the banks have been even cannier. Their slow technology advancement has been heralded by their customers as facilitating banking; making it more accessible and wow aren't they great.

Let me take some examples in isolation.

Cheques
Carrying and using cash was expensive for banks, by getting customers to use cheques this need was reduced – bank saves money
Business customers charged to pay in cheques – bank makes money
Cheques became a convenient way to spend money – customer sort of wins; customers spend more money, making more transactions – bank makes charges, makes money

ATM Machines
Reduced the need to carry cash in branches – bank saves money.
Reduced the need to have branches and supplied money to remote locations – bank saves and makes money
Reduced staffing – bank saves money
Bank makes charge for producing cards (that are needed to use the machine) – bank covers manufacturing costs and makes more money
Occasional charge for using cash machines – cartel behaviour of restricting availability of cash machines, bank makes money.

Internet Banking – processing of APs
Internet banking makes banking more convenient for customers – customers win

More customers processing online, bank reduces staff needs especially back office – bank saves money
Customers set up their own APs online, bank charges for this process, making money; yet reduces paper, no longer processes and saves overheads, so saves yet more money.

Hopefully I have illustrated just how these huge profits continue to be made despite a global recession and apparent investment into the banking industry?

How competition impacts on unfair terms that may be included in contracts

Lets talk credit cards here.

Banks are the issuers of most well known credit cards. Credit cards are unsecured funding therefore the banks have justified abnormal interest rates.

If the average business can secure cash flow funding today at 14% (unsecured) then what is the justification for the 24% - 26% interest rates and the huge annual fees for simply producing a new plastic card every three years?

By reading the credit card terms and conditions (buyer beware) you can often find that if your mortgage is with the same bank then your credit card debt is actually secured funding. (Check NAB). Why, in this case, are you not given housing rates?

I also believe that the credit card terms and conditions are produced too small and too complex for the ordinary person to read and understand fully and the banks go no way to explaining them in full.

Where is the duty of care?

The ease of moving between providers of services

Actually this is the easiest thing to do. Most of the major players can help all types of customers do this with ease. The problem is that they don't advertise this (cartel behaviour) because this would cause every complaining customer to be able to change institutions.

This would also show huge holes in they way Banks deal with complaints.

Once again though, the banks charge extraordinary charges to a client setting up new DDs and APs and accounts. In what other industry, when you get a new customer, do you charge then an "entry" fee?

Opportunities for, and obstacles to, the creation of new banking services and the entry of new banking service providers – including regulations.

Given the regulations around banking, the need for capital adequacy, the Basel regulations for global standards, a new banking player seems almost impossible.

However, there are smaller companies that could merge to meet the rigid regulations. The problem with this is that it usually means losing some competition in the industry sector the smaller companies are leaving. There are also the restrictions and approvals needed on the leaders of the proposed new bank, their directors and shareholders.

Dung the global crisis heights banks stopped lending. They cited shortage of capital, poor liquidity, cost of funds. I note they still made their huge profits – why was this not ploughed back into liquidity?
In reality the banks stopped trading with each other and started charging each other more. Who was regulating this? This behaviour only contributed to the crisis and lengthened it.
Why weren't the reserve banks assessing country risk and imposing lending activity accordingly? Why was no one bank held to account?

Another obstacle to entering the banking sector would be what would a new company offer to entice a customer to join? There are hardly any new products to offer and few nuances or enhancements to existing products that haven't already been made. Without serious government backing a new bank could fail simply for lack of custom.

And lastly what else the Banks should do to help the economy

My last point looks at the internal policies and procedures of the Banks themselves.

When businesses are in difficulty all banks have a "bad bank" department to where a customer is transferred to help the bank mange the risk.

Of fall the cases my company deals with, the bank is not helping the company into recovery, it us instead hell bent on getting it's money back. You can't blame them until you see the other side. My company helps the business recover and get back on its feet. Invariably the bank gets repaid in full, if not I guarantee it gets more money back than if it had taken it's own policy action.

Not withstanding this, the Bank also gets fees and interest paid whilst the company recovers, so the impact to their own profit line is even greater.

Why do they not do this? A few reasons I believe:

- No one is trained to do this
- It would cost more in overheads to properly manage a recovering company (low customer to staff ratio requirement)
- They make enough money with their harsh recovery procedures
- the banks have so much perceived power not enough clients complain.