Secretary
Senate Economics Committee on
Banking Competition
Parliament House
Canberra

25 November 2010

Inquiry into competition within the Australian banking sector

Thank you for your email dated 01 November 2011 inviting me to make a submission to the above Inquiry.

Accordingly, I have attached my submission.

If you need any additional information /clarification, I will be happy to provide the same.

Thanks for the opportunity to make a submission.

Yours sincerely

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SUBMISSION TO THE
Inquiry into competition within the Australian banking sector

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Submission to the Inquiry into competition within the Australian banking sector

Issue a: The current level of competition between bank and non-bank providers:

The level of competition in the banking sector is analysed using data presented in Tables below. Table 1 shows the statistics of number of ADTIs in the market, Table 2 shows statistics of market share of major banks in the banking market and in Table 3, I have computed the traditionally used Herfindahl-Hirschman Index, (HHI) to assess level of competition in the market[i].

Statistical data about non-bank providers like Aussie Home Loans, for example, is not readily available for comparison.

Data about credit unions and building societies is available only for the year 2010 unlike for other banks which is available from 2002 onwards at the Australian Prudential Regulation Authority (APRA) website.

In the St George Westpac merger analysis, the ACCC stated that the market for many retail products including deposits and loans was national in character given that these services can be provided online. For assessing competition, the data of all providers of services such as deposits and loans needs to be considered.

Interestingly, such data is not available readily. It will help if it is compiled and regularly published by the APRA or RBA.

Currently, at APRA website the statistics of banks is available from 2002 onwards. As for other deposit taking institutions like Credit Unions and Building Societies, it is available for the current year only. Consequently, the available data have been analysed in following tables.

Table 1: Number of ADIs in Australia

	2002-03	2010
Australian owned banks	**14**	**12**
Foreign subsidiary banks	**14**	**9**
Branches of foreign banks	**25**	**35**
Building societies	**16**	**11**
Credit unions	**200**	**105**

Source: 2002: Hogan et al. 2010: APRA List of ADI, http://www.apra.gov.au)

The mergers among Australian owned banks, building societies and credit unions have seen a decline in number of ADIs in Australia. Some foreign subsidiary banks exited during the GFC. Overall, the competition that was posed to Australian owned banks declined albeit the number of branches of foreign banks has increased - mainly the HSBC.

Table 2a: Concentration in the banking market (as of June 2002)

Bank	Depo. ($b)	% depo.	Loans ($b)	% loans	OO Home loans	% OOHL	Inv. HL	% IHL	CC loans	%CCL
ANZ	57	12	86	14	33	15	14	14	4	22
CBA	112	23	123	21	54	24	22	23	4	22
NAB	78	16	120	20	38	17	20	21	3	17
WBC	76	15	89	15	42	19	19	20	4	22
Majors	**323**	**66**	**418**	**70**	**167**	**75**	**75**	**78**	**15**	**83**
Others	**170**	**34**	**181**	**30**	**56**	**25**	**22**	**22**	**3**	**17**
TOTAL	493	100	599	100	223	100	97	100	18	100
HHI		1154		1262		1451		1566		1741

Table 2b: Concentration in the banking market (as of June 2007)

Bank	Depo. ($b)	% depo.	Loans ($b)	% loans	OO Home loans	% OOHL	Inv. HL	% IHL	CC loans	%CCL
ANZ	122	14	177	16	72	18	30	15	6	19
CBA	166	19	211	19	89	22	48	24	7	22
NAB	127	14	207	19	70	17	42	21	4	13
WBC	138	15	187	17	72	18	36	18	7	22
Majors	**553**	**62**	**782**	**71**	**303**	**75**	**156**	**78**	**24**	**76**
Others	**344**	**38**	**322**	**29**	**100**	**25**	**47**	**22**	**8**	**24**
TOTAL	897	100	1104	100	403	100	203	100	32	100
HHI		978		1267		1421		1566		1498

Table 2c: Concentration in the banking market (as of Sept2010)

Bank	Depo. ($b)	% depo.	Loans ($b)	% loans	OO Home loan	% OOHL	Inv. HL	% IHL	CC loan	%CCL
ANZ	195	15	250	16	108	16	41	14	8	21

CBA	289	22	347	22	169	25	79	26	9	23
NAB	217	17	278	18	101	15	50	17	5	13
WBC	277	21	367	23	185	27	82	27	9	23
Majors	**978**	**75**	**1242**	**79**	**563**	**83**	**252**	**84**	**31**	**80**
Others	**318**	**25**	**334**	**21**	**114**	**17**	**49**	**16**	**8**	**20**
TOTAL	1296	100	1576	100	677	100	301	100	39	100
HHI		1439		1593		1835		1890		1668

Table 3: Herfindahl-Hirschman Index (HHI) Summary

	Deposits	Loans	OOHL	Inv HL	CCL
2002	1154	1262	1451	1566	1741
2007	978	1267	1421	1566	1498
2010	1439	1593	**1835**	**1890**	1668

(Source: For Tables 2 a to c, APRA, Monthly Banking Statistics, various years. Available at www.apra.gov.au. Percentages computed by the author. For table 3: authors calculations)
OOHL: Owner occupied home loans. Inv HL: Investment home loans. CCL: Credit Card Loans.

As for small business, reference may be made to the submission made by the author to the Senate Economics Committee on Access to Finance by Small Business.

As could be seen from Table 3 above, other banks could pose competition to major banks only in the deposit and credit card market. The HHI declined from 1154 (2002) to 978 (2007) in the deposit market and from 1741 (2002) to 1498 (2007) in the credit cards market. These banks also posed competition in the OOHL market but could not make much dent to the hegemony of the major banks.

Interestingly, the dramatic rise in HHI in various markets as above in 2010 (after the financial crisis) is noticeable. In 2002, the market was moderately concentrated if we use the US Department of Justice criteria. It became less concentrated in deposit market segment in 2007 (pre-crisis) and became moderately concentrated again in 2010 in all markets –much more than 2002- and actually became a concentrated market in OOHL and Inv.HL market segments (in excess of the safety threshold of 1800).

Other banks posed a strong competition to major banks in the deposit market as their share rose from 34 per cent (2002) to 38 per cent (2007). The hegemony of the majors in the loans market was, however, unassailable. To weed out growing competition from other banks such as the St George, the majors resorted to aggregation as a counter strategy. The GFC too helped the majors to consolidate their market power. The takeover of BankWest by the Commonwealth Bank and the deposit guarantee saw funds flowing from non-banks to banks especially the majors.

With 75 per cent of the deposit market and 79 per cent of the loans market, 83, 84 and 80 per cent respectively of the OOHL, InvHL and CCL markets, majors wield unprecedented market

power never seen in Australia's banking history before. The Government too admitted that major banks used GFC to consolidate market power. 'Treasury secretary Ken Henry has raised concerns about the growing market power of Australia's major banks…..' (Business Spectator, 2010).

Banking assets (mainly majors) pre Wallis (June 1996) were $487 billion which rose more than five times to $ 2612 billion (June 2010) or as a percentage of GDP from 62 per cent to 215 per cent. These were 115 per cent for Britain and 87 percent for Canada. In the US the proportion was 84[ii].

Even though there is lessening of competition, the market could still be contestable. It was found in the UK that while the banks increased their market power at the same time there was in increase in contestability. 'This could explain the decline in the profit margin ….(and) particularly, the net interest margin relative to the percentage of total assets decreased…… (Gola and Roselli, 2009) p.59).

As can be seen from Table 4 below the NII to TA ratio has remained constant while profit margin has significantly increased. It indicates that simultaneously with the lessening of competition the market is now less contestable.

Table 4: Key financial ratios of major banks quarter ending June

	2004	2007	2010
Net interest income/Total Assets	1.9	1.9	1.9
ROA	1	0.9	1
ROE	13.7	16.8	16.1
Share of non-interest income	43.7	40	31.1
Profit margin	28.9	30.4	33.3
Personnel exp to operating exp	49.6	52	58.5

(source: 2010: APRA Bank Quarterly Performance Statistics, http://www.apra.gov.au/)Yearly ratios are for earlier years are not available at APRA website consequently quarterly data has been used.

Bank performance data is available on yearly basis only for the years 2009 and 2010 at APRA website. It will help if APRA also provides such yearly data for earlier years to facilitate research and also for comparison purposes. Transparency and disclosures are important elements of any effective regulation. Besides this data, information on by-bank funding cost, margins, revenue should also be made available on quarterly basis. Currently, the lack of such publicly available information is a handicap in properly assessing claims of banks on funding costs on a regular basis. APRA and RBA are the only organizations that could officially obtain the data from banks and then make it available publicly for greater transparency.

In conclusion, major banks have considerably increased their market power and concentration in the banking market after the GFC in all market segments. Importantly, in the owner occupied

home loan market and investment home loan market it has crossed the safety HHI threshold of 1800. It implies severe concentration which can be detrimental to stability of the financial system as discussed in later paragraphs.

Major Banks weeded out competition posed by smaller banks like St George by the strategy of aggregation.

Issue (e): the ease of moving between providers of banking services;

To analyse the above issue, I examine the current switching choices available to the bank customers and thereafter the empirical studies in this area.

Current switching choices:

Reacting to the recent rise in mortgage rates by the Commonwealth Bank, the Prime Minister advised bank customers to go elsewhere.

But where can the bank customers go? What are the switching options available to them?

If a customer is unhappy with one of the majors, the natural option would be to switch to another major.

Lower mortgage rate at another bank may be appealing at first blush but what is the guarantee that the other institution wouldn't increase its interest rate? We have seen this happen before. Why should one then take the hassle of switching banks?

Customers generally purchase banking products from a single bank for convenience and to limit their transaction cost. For example, when banks started charging account keeping fee, consumers consolidated their accounts.

In many cases, though consumers may wish to switch, close substitute may not be available. Also banks often lock in the customer by offering loyalty rewards.

Furthermore, switching decision would need careful comparison of the products and costs. The time and physical difficulties involved in actual switching are additional barriers.

Switching to the regionals or mutuals poses further difficulties as their operations are generally confined to a particular region or products.

Importantly, how would smaller financial institutions fund their needs if a large number of customers decide to switch to them from major banks? These institutions relied on the

residential mortgage backed securities market (RMBS) for their financing needs. As the market dried during the crisis, these institutions faced enormous difficulties and continue to do so even now despite government pouring in billions in the market.

Alternatives such as Australia Post are not available immediately. A full-fledged post office bank, may take a while if the government wants to pursue the option.

Obviously, there are limited choices for switching at present.

No wonder major banks have become arrogant as their market position is unassailable.

The Treasurer has hinted at two possible measures to increase competition pending comprehensive reforms to be announced next month.

First measure is the scrapping of exit fee. Looks fine prima facie, but the customer could end up paying establishment fee at the other bank or banks could also impose other fees under a different garb.

Further, switching costs are more than simply financial costs like exit fee. They include non-financial costs as indicated above.

Evidence whether abolishing switching costs results in increased competition is not certain.

Overseas studies have shown that competition is alive and well, in a wide range of markets despite the presence of switching costs. Why it is not so in Australia then?

In Australia, though switching rates are already higher than overseas we have competition issues.

So abolishing exit fee per se would have little impact on increasing competition.

Second measure is to impose heavy penalties to forestall price signaling or collusion.

Investigating, proving collusive behavior and prosecution will cost the tax payer. It is also difficult to prove that collusion has actually occurred. ACCC has lost cases in the past, for example, petrol prices.

Unless radical measures are taken banks wouldn't wake up from the deep slumber. Government would do well to follow two possible strategies as under.

First, change the competition policy so that if necessary de-merger of banks is possible.

The current competition policy was suitable for pre-crisis years. Banking world has changed considerably in the post -crisis era.

Mega bank sizes were perceived to be providing stable banking system in the past. Such banks have now become tax payers' headache as one never knows when they would stuff it up and call on the taxpayer.

A recent overseas study has found that bigger banks can actually become size inefficient (Ray, 2007) and better outcomes for the community are possible by breaking the banks.

Measures to break banks have been suggested in the US and in the UK. Australia too needs to ensure that the financial system does not develop pockets of dangerous concentration. Two majors each have assets about half of the GDP.

Second, scrap the deposit guarantee for major banks but continue it for the mutuals along with a wholesale funding guarantee. Banks use the weapon of size to weed out competition and such institutions suffer.

Without stringent measures, all warnings would fall on deaf ears.

Radical reforms are overdue. Due to callousness, banks have brought this up on themselves.

Empirical studies on switching:

Empirical studies on switching behaviour of bank customers in Australia have been few. I came across a study by Fujitsu Australia (2007). This study of 26,000 customers found that 80 percent wanted to switch bank. Matthews (2008) has done extensive work in bank customer switching in the context of New Zealand. She finds that '.. respondents were neutral about how easy switching banks would be, with those expecting it to be easy being matched quite closely by those who expected it to be difficult' Matthews (2008).

Issue (f): the impact of the large banks being considered 'too big to fail' on profitability and competition;

'Too big to fail (TBTF)' essentially means that unsecured creditors of banks who are not entitled to government assistance (such as bail out) get one when needed if emergency arises. The GFC has demonstrated that an implicit guarantee exists for TBTF banks that the tax payer would rescue them. A recent statement by a senior RBA official provides support to such opinion being formed. 'But in terms of insurance of the system as a whole, at some point, it has to be provided by the public sector' (Debelle, 2010). With 75 per cent of the deposits and 80 per cent of the loans under their control, the four banks essentially form the financial system. A failure of one of the banks could be a disaster for Australian economy and the TBTF status would mean tax payer has to rescue the bank. What this means is the tax payer is essentially underwriting the risks to which the bank is exposed. It naturally creates problems of moral hazard.

The costs it imposes on the society could be astronomical. For example, US Congressional Budget Office (1992) found that though the fiscal and accounting costs were $150 billion in the above collapse the cost of poor resources allocation induced by TBTF was estimated at $500 billion. 'By the year 2000, the total cumulative loss in forgone GNP is almost $500 billion (in 1990 dollars) (US CBO, 1992, p. 35).

Coming to the question of how does TBTF impact profitability and competition in the market place, it is discussed below.

Impact on profitability:

- Excessive risk taking would generate abnormal profits in good time by assuming which would essentially lead get siphoned off by higher pay packets and higher shareholder value – all at the tax payers' expense.
- In bad time, the TBTF would dip into the pocket of the taxpayer as happened in US and UK during the crisis. 'The US Government raised $153 billion or about 2 per cent of US GDP from the banking industry and taxpayers to fund losses associated with the savings and loan debacle'(Stern and Feldman, 2004, p. 23-24).
- Importantly, as moral hazard risk increases suboptimal decisions are more likely. In chasing returns, banks focus only on profitability as we witnessed during GFC with large US banks.

Impact on competition:

- TBTF puts small financial institutions (SFIs) at a disadvantage. When SFIs fail they are shut down and unsecured creditors would suffer but when TBTF closes down tax payer suffers as the taxpayer has to rescue the TBTF. It creates incentives in the market for resources to gravitate towards the TBTF thereby giving TBTF institutions an advantage at the cost of SFIs.
- There are two strands of thoughts in the academic literature about TBTF, competition and stability/fragility of the financial system. As per the competition-fragility view excessive banking competition could result in lower profit margins which reduces bank's market value and encourages banks to take on more risk (Carletti and Hartmann, 2003 for review of literature in this area). However, the competition-stability strand of literature states that concentration can lead to destabilization of the system. More market power in the loan market may lead to higher interest rates for bank customers making it harder for them to repay loans. This can potentially create moral hazard and adverse selection problems (Boyd and De Nicolo 2005, Schaeck, Cihak and Wolfe 2006). Berger, Klapper and Turk-Ariss (2009) claim that these two strands need not give divergent results. It could be possible for banks with market power to take risk mitigation measures and increase capital to mitigate risk, suggesting thereby that concentration is not necessarily welfare reducing. However, the analysis considers the issue from bank perspective only. For the consumers such has households and small businesses higher market power results in higher interest rate burden and so businesses

that cannot afford such rates are thrown out of the market creating unemployment and thus reducing societal welfare.

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

Competition in banking is important as banks provide the essential input – credit- in the production of goods and services. Competition encourages innovation and improves efficiency which could lead to favourable outcomes for businesses. Consequently, governments around the world take policy measures to promote competition.

There is always a trade off between regulation and competition**.** Competition is desirable as it encourages innovation and improves efficiency. There are dangers in excessive competition as well as excessive market power (Vive, 2001).

Excessive competition could erode margins and promote risk taking but excessive market power on the other hand could lead to excessive margins, 'quiet life', and sapping of innovation.

Further the ensuing concentration could contribute to financial fragility. Banks may charge excessive interest rates and in turn firms would take excessive risk to generate profits leading eventually to increased bad debts. Australian banks witnessed high impaired assets during the financial crisis.

In a multi-product market like banking it is hard to determine theoretically or empirically what constitutes an optimum level of competition in a particular product market.

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

Several barriers exist for the creation of new banking services in Australia.

First, it will be hard, well-nigh impossible, for the new entrant to create a vast network of branches like that of the Big 4. These banks have already developed long-term relationship with customers and it would be hard to make inroads in to this strength of the banks. Online financial service provision is a possible alternative and it is being used effectively in the deposit market by some of the banks such as the ING Direct. For registering a bank in Australia one

needs a capital of $50million which under the current circumstances it is highly unlikely that any foreign banks would be interested in investing at a time when they are facing problems in their home country.

Second, it has been suggested that Australia Post Bank (APB) could be an alternative. Prima facie it looks to be so given the network of Australia Post. However, it is likely that the Post may actually pose competition only to small financial institutions. Such a bank could be organised on the lines of Kiwi Bank in New Zealand. Though a possible solution, it will take a while for the bank to get going and pose real competition to the Big 4.

Third, alternative could be promoting credit unions and building societies to take on the Big 4. For that to happen, government needs to take positive discriminatory steps in favour of the small financial institutions through measures such as continuation of deposit guarantee and also wholesale funding guarantee as indicated above. In several countries of the world including Europe cooperative institutions get favoured treatment
at the hands of government.

Fourth, the mutuals could be permitted to use the word 'bank' in the name as has already been requested by them. It may help change public perception about the mutuals.

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

I reproduce below the op-ed that I wrote and which appeared in the Age Melbourne on 06 April 2010 in which I have discussed at length the issue of bank funding cost – one of the elements of the cost of capital.

'THE chairman of Westpac in a recent interview signaled that lending rates would continue to rise in the next five years - no matter what happens to the official cash rate. He said there was a permanent shift in the driver of interest rates on loans and deposits to international wholesale money markets.

Nothing could be further from the truth.

International wholesale funding constitutes only about 26 per cent of total bank funding. The cost of this funding has in fact declined below pre-crisis levels.

Analysts measure banks' reluctance to lend by comparing the London interbank offer rate (LIBOR), which is based on the rate banks charge other banks to borrow money without security,

to the overnight indexed swap (OIS) rate, which is derived from the central-bank-defined overnight rate.

Over the five years preceding the financial crisis, the LIBOR-OIS spread averaged 0.11 percentage points. Last week it stood at 0.08 percentage points, that is, below pre-crisis levels. The story of the cost of other sources of funding is no different. Deposits constitute more than 52 per cent of bank funding, and the cost has declined, except for special-rate deposits (see table).

Another test to debunk the rising deposit cost argument is the actual interest expenses on deposits. Interest paid by banks on deposits declined from $74 billion (June 2008) to $70 billion (June 2009), according to the latest data from the Australian Prudential Regulation Authority.

Interestingly, the outstanding bank deposits rose from $1.4 trillion (June 2008) to $1.6 trillion (June 2009), a rise of $203 billion. Consequently, the cost of deposits to average deposits fell from 5.75 per cent to 4.59 per cent over the period. Importantly, transaction accounts that constitute 9 per cent are free of that cost. Yet banks continue to harp that their deposit costs after the crisis are higher than before the crisis, and to justify higher lending rates on this basis.

Domestic debt constitutes the remaining 22 per cent of bank funding for which another spread, comparing the bank bill swap rate to the OIS, is often used as a gauge. That spread was about 0.1 of a percentage point before the crisis, blew out to about 1.5 percentage points during the crisis and is now down to 0.27 of a percentage point. For long-term domestic borrowing, the pre-crisis spread was 0.15 of a percentage point, which rose to 2.61 percentage points but is now down to 0.86 of a percentage point.

But the best indicator of overall cost of funding is what banks actually pay for wholesale borrowing. The overall cost of funding measured by the proportion of total interest expenses to total liabilities fell from 5.29 per cent to 4.30 per cent, using statistics published by APRA. And the Reserve Bank study on bank funding costs, published in its June 2009 bulletin, has a graph of major banks' average funding costs that shows a clear decline in overall funding cost.

Interestingly, banks tell only one side of the story - the funding cost story - and never the combined story of cost, revenue and profits at one place. For example, the Australian Bankers Association fact sheet in February made a case that funding costs are rising. Curiously, the association forgot the cost of borrowing from international markets altogether; there was no mention of this cost.

But there is one set of numbers that has certainly gone up - that of bank profits. The operating profit of banks rose by $6 billion in the year ending June 2009, compared with the year ending June 2008, and it was not because banks became more efficient. The ratio of operating expenses to total assets (an indicator of efficiency) of the majors remained unchanged at 1.4 per cent in the two years, according to APRA.

The Treasury secretary recently admitted the major banks consolidated their market power due to the crisis. The government policy in the crisis actually helped the big banks consolidate market power.

The fee structure for the bank guarantee put in place by the government helped banks make record profits at the cost of the taxpayer. It also discriminated against community institutions such as credit unions. The fee was risk-based (0.7 of a percentage point for the majors and up to 1.5 percentage points for others) instead of market-based as in Denmark or debt maturity-based as in the US or Britain.

Banks raised about $106 billion by June 2009. As the KPMG Financial Institutions Performance Survey 2009 shows, in the six months ending June 2009, banks' spread (the difference between average borrowing cost and average lending rates) increased by 0.21 of a percentage point. Accordingly, over a three-year period, the profit made by banks works out to $1.34 billion out of the wholesale funding guarantee alone - leaving aside the deposit guarantee.

Putting it another way, $1.34 billion is a taxpayer-funded subsidy for banks - mainly the majors, the main issuers of the debt.

The government now wants small financial institutions to pose competition to major banks after having done everything they could to benefit the majors. The major banks need to be made accountable. The solution lies in making the information on bank funding costs, lending rates, margins as well as fees and the international comparisons publicly available.'

(Source: Reproduced from Sathye, M. (2010) Let's see the flip side of bank funding costs, The Age, Melbourne, Business Day, April 06, p. 1).

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

In order to enhance competition, it is necessary to remove some of the barriers that exist at the market place. These are as under:

Lack of price transparency: A consumer would be better informed by a transparent price mechanism. A better informed customer can then make a decision to switch if the price differential is found attractive. Currently, there is no official website/data resource where such information could be available at one place. As has already been stated above the price data by provider of financial products and services needs to be compiled on a regular basis. The current government announced 'Fuel Watch /Grocery Watch' in 2008 but it was abandoned for various reasons.

Price changes in the above sectors could take place literally on daily basis and it may be hard to monitor those. This is not the case with banking. Price changes (interest rates and fees) do not take place on daily basis. There may be changes around the time of RBA cash rate changes. Consequently, it should not be too hard to monitor prices of banking products and services.

'Bank Price Watch' could be monitored by the RBA /APRA/ACCC. It should be mandatory on banks to provide full information on prices of products and services including interest rates and fees and other charges if any on a regular basis and whenever a change is made. If the actual price charged differs from the one reported then there should be provision for appropriate remedy for the consumer.

Abolishing of exit price: This remedy has already been suggested by the Treasurer and also acted up on voluntarily by some banks. There are issues with this course of action as has been indicated in earlier paragraphs. However, if introduced simultaneously with the 'Bank Price Watch' it could complement each other.

Interest on current/transaction accounts: At present, the Big 4 do not pay interest on the transaction accounts which form about nine per cent of bank deposits. Credit unions pay 0.05 per cent and building societies pay 0.10 per cent (RBA B4 statement). By not paying interest on transaction accounts the small business's are disadvantaged. It is important that provisions are made so that small business are remunerated for the transaction account balances. The Competition Commission in the UK went even further by and suggested that banks 'banks remunerate business current accounts at a rate equal to at least the base rate of the Bank of England minus two-and-a-hlf points' (Gola and Roselli, p. 66).

RECOMMENDATIONS

Based on the above analysis following recommendations could be made to the Committee:

Government needs to take radical steps to increase competition in the banking market. The proposed abolishing of exit fee and more powers to ACCC to investigate price signalling may not make a significant impact on competition.

Any further take over/merger/acquisition of bank or non-bank providers by the major banks may not be permitted. Though at the time of allowing St George-Westpac competition, ACCC was of the view that it would not lead to substantial lessening of competition, subsequently it did.

That the ACCC policy be changed so as to allow for de-merger break-up of banks if circumstances change which lead to lessening of competition in the banking market

The mutuals (credit unions and building socities) need to be given 'favoured financial institution' status in order to promote cooperative/community institutions by providing government assistance. The assistance could take several forms (a) guarantee in the RMBS market (b) deposit guarantee upto $60,000 for mutuals till they become large (capital level of $50 million or other such threshold to be decided) and operate as banks on their own accord.

Bank performance data is available on yearly basis only for 2009 and 2010 at APRA website. It will help if APRA also provides such yearly data for earlier years to facilitate research and also for comparison purposes.

'Bank Price Watch' could be set up and monitored by the RBA /APRA/ACCC.

To create competition in the small business finance market, a refinancing agency may be established by the Commonwealth. The agency would raise finance from wholesale market – domestic and international – and on lend the money to small financial institutions. For details please refer to author's submission to the Senate Economics Committee on Access to Finance by Small Business.

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[i] *""HHI" means the Herfindahl-Hirschman Index, a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. For example, for a market consisting of four firms with shares of thirty, thirty, twenty and twenty percent, the HHI is 2600 ($30^2 + 30^2 + 20^2 + 20^2 = 2600$).*

The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1800 points are considered to be concentrated. Transactions that increase the HHI by more than 100 points in concentrated markets presumptively raise antitrust concerns under the Horizontal Merger Guidelines issued by the U.S. Department of Justice and the Federal Trade Commission. See Merger Guidelines § 1.51. '(source: US Department of Justice, http://www.justice.gov/atr/public/testimony/hhi.htm)

[ii] [ii] RBA F2 statistical tables: total assets in June 1996 $486,624 million in June 2010: $2612,051 million) which rose more than five times to $ 2612 billion (June 2010). British GDP 3288 billion pounds (http://www.statistics.gov.uk/instantfigures.asp) while banking assets were 3785 billion (Table B1.4 Bank of England) or 115 per cent and was 87 percent for Canada. In the US the proportion is 84 (p 59 13 bankers the wall street take over and the next financial meltdown by Johnson and Kwak). For Canada, computed from Statistics Canada. US (pl refer Johnson S. and K. Kwak 2009, 13 Bankers: The Wall Street take over and the next financial meltdown, p 59)

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