
The Parliament of the Commonwealth of Australia

Review of the Four Major Banks (Third Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

Since the House of Representatives Standing Committee on Economics commenced its inquiry into Australia's four major banks in October 2016, the Government has announced significant reforms to the banking and financial sector to implement the committee's recommendations.

In the 2017 Budget, the Treasurer announced the Government would be broadly adopting nine of the committee's 10 recommendations for banking sector reform. These recommendations include putting in place a one-stop shop for consumer complaints, the Australian Financial Complaints Authority (AFCA); a regulated Banking Executive Accountability Regime (BEAR); and, new powers and resources for the Australian Competition and Consumer Commission (ACCC) to investigate competition issues in the setting of interest rates. The government also adopted the committee's recommendations in relation to establishing an open data regime and changing the regulatory requirement for bank start-ups in order to encourage more competition in the sector.

In October 2017, the four major banks appeared before the committee in the third round of public hearings. The banks were scrutinised on various matters, including banks not giving merchants and consumers the option to select which network processes a dual-network debit card payment. In Australia, dual-network debit cards payments can go through either the eftpos network or via MasterCard or Visa networks, known as the 'international schemes'. If a customer uses the increasingly popular 'tap-and-go' function – rather than inserting the card and selecting an eftpos or credit option – the payment will typically default to the international schemes.

The committee is concerned by the increase in transaction costs merchants face as a result of the shift to tap-and-go payments. While the eftpos and international schemes deliver the same outcome for customers, there is a marked difference in the cost to merchants. As of September 2017, the average total merchant fee for an eftpos debit transaction was 0.26 per cent, compared to 0.58 per cent with the

international schemes. It has been estimated that processing tap-and-go transactions through the international schemes costs merchants an additional \$290 million annually, which will ultimately be passed on to customers.

During the public hearings, ANZ was the only bank that committed to give merchants the option to route tap-and-go payments through the lowest cost channel. The committee acknowledges ANZ's commitment, and recommends that the other banks give merchants the ability to send tap-and-go payments from dual-network debit cards through the channel of their choice. If the banks do not do this voluntarily by 1 April 2018, the Payments System Board should take regulatory action to require this to occur. Merchants should be able to choose whether to route these transactions through eftpos or another channel, although consumers may override this merchant preference if they choose to do so.

The committee also examined the banks' decision to increase rates on existing interest-only loans, despite the Australian Prudential Regulatory Authority's (APRA) new regulatory measure only targeting the quantity of new interest-only loans. Following the rate increases, the major banks' media releases indicated that the rate increases were primarily, or exclusively, due to APRA's regulatory requirements. While it is accepted there may have been a range of factors that led to the banks increasing the interest rates of interest-only loans, there is significant concern that the public statements made by the banks may have led customers into believing that the rate increases were solely due to regulatory requirements.

Noting the ACCC's current inquiry into residential mortgage products, the committee recommends the ACCC analyse the banks' internal documents to confirm whether or not they are consistent with their public statements. It is important that this analysis is conducted at a sufficiently granular level to enable the ACCC to understand whether or not the banks' internal financial analysis was consistent with their public statements.

The major banks have failed Australians in relation to implementing comprehensive credit reporting (CCR). The CCR system gives financial institutions access to an improved set of data about customers, encouraging competition for small businesses and retail customers with positive credit histories. In addition, the CCR system allows financial institutions to better serve customers, and assess their borrowing capacity. Despite some banks making commitments to implement CCR as early as 2016, this has not yet occurred. The committee recommends that the Government introduce legislation to mandate participation in CCR as soon as practicable.

The Commonwealth Bank of Australia (CBA) is currently responding to serious allegations in the Federal Court made by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in relation to CBA's alleged failure to comply with

Australia's anti-money laundering and counter-terrorism financing laws. Given the importance of the case, the major banks were scrutinised on their compliance activities in this area. To ensure that AUSTRAC continues to respond effectively to money laundering and terrorism financing in Australia, the committee recommends that the Attorney-General review the major banks' threshold transaction reporting obligations in light of the issues identified in AUSTRAC's case against the CBA.

The committee will continue to hold the banks to account in future hearings and will take further action as necessary.

David Coleman MP
Chair



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Membership of the Committee

Chair	Mr David Coleman MP
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Terms of reference

On 15 September 2016, the Treasurer requested that the House of Representatives Standing Committee on Economics undertake – as a permanent part of the committee’s business – an inquiry into:

- the performance and strength of Australia’s banking and financial system;
- how broader economic, financial, and regulatory developments are affecting that system; and
- how the major banks balance the needs of borrowers, savers, shareholders, and the wider community.

In undertaking its inquiry, the committee was asked to hold at least annual public hearings with the four major banks, with a particular focus on the banks’ perspectives on:

- domestic and international financial market developments as they relate to the Australian banking sector and how these are affecting Australia;
- developments in prudential regulation, including capital requirements, and how these are affecting the policies of Australian banks;
- the costs of funds, impacts on margins and the basis for bank pricing decisions; and
- how individual banks and the banking industry as a whole are responding to issues previously raised in Parliamentary and other inquiries, including through the Australian Bankers’ Association’s April 2016 six point plan to enhance consumer protections and in response to Government reforms and actions by regulators.

The committee was also asked to, as appropriate, engage with Australia’s key economic regulators and give due consideration to the Government’s Financial System Program and other relevant financial sector reforms and reviews.



Abbreviations

ABA	Australian Bankers' Association
ACCC	Australian Competition and Consumer Commission
ADI	Authorised Deposit-taking Institution
ANZ	Australia and New Zealand Banking Group
APRA	Australian Prudential Regulation Authority
AML/TF	Anti- Money Laundering or Financing of Terrorism
ASIC	Australian Securities and Investments Commission
ATM	Automated Teller Machine
AUSTRAC	Australian Transaction Reports and Analysis Centre
BEAR	Banking Executive Accountability Regime
bps	basis points
CBA	Commonwealth Bank of Australia
CCR	Comprehensive Credit Reporting
CEO	Chief Executive Officer
FSI	Financial System Inquiry
IDM	Intelligent Deposit Machine
NAB	National Australia Bank
NPP	New Payments Platform
PSB	Payments System Board
RBA	Reserve Bank of Australia
TTR	Threshold Transaction Report



Recommendations

Recommendation 1 (paragraph 2.1)

The committee recommends that banks be required to give merchants the ability to send tap-and-go payments from dual-network debit cards through the channel of their choice.

Merchants should be able to choose whether to route these transactions through eftpos or another channel, noting that consumers may override this merchant preference if they choose to do so.

If the banks have not facilitated this recommendation by 1 April 2018, the Payments System Board should take regulatory action to require this to occur.

Recommendation 2 (paragraph 2.30)

The committee recommends that the Australian Competition and Consumer Commission, as a part of its inquiry into residential mortgage products, analyse the repricing of interest-only mortgages that occurred in June 2017.

Recommendation 3 (paragraph 2.62)

The committee recommends that the Government introduce legislation to mandate participation in Comprehensive Credit Reporting as soon as practicable.

Recommendation 4 (paragraph 2.92)

The committee recommends that the Attorney-General review the major banks' threshold transaction reporting obligations in light of the issues identified in the CEO of AUSTRAC v Commonwealth Bank of Australia case.