

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

2017 - 2018

**Division/Agency:** Financial System Division

**Question No:** 207

**Topic:** Bank tax

**Reference:** Written

**Senator:** Ketter, Chris

**Question:**

1. Does the Government's reference to the PC review into competition in the banking sector include within its scope government policy levers like prudential regulation and tax?
2. Has the PC been directed to specifically exclude the major bank levy from its review?
  - a) If no, so the PC will be able to examine the competition impacts of the bank levy?
  - b) If yes, so the PC won't be able to examine the competition impacts of the bank levy?
3. Why wasn't the decision to introduce a bank tax made after the PC review had been completed?
4. In what ways will the bank levy improve competition? Can you explain in detail how the levy effects competition and consumer choice?
5. Do you agree that the only way the competition can be improved is if the levy is passed on to consumers either in part or all of it?
6. Do you agree that you can either have more competition or banks not passing on costs to customers but it's impossible to have both?
7. Does this levy "level the playing field"? If yes, how can you level the playing field without the cost of the levy being passed on to consumers?
8. Is the levy "a charge for the implicit guarantee of the major banks"? If so does that mean the mid-tier and smaller banks are not guaranteed?

**Answer:**

1. Yes, the terms of reference ask the Productivity Commission (the Commission) to examine the barriers and enablers of innovation and competition in the system, including policy and regulation.
2. No. It is a matter for the Commission as to whether it examines the levy within this context.
3. The major bank levy targets a number of policy objectives, including contributing to long-term budget repair, that are unrelated to the PC review.
4. The levy will provide a more competitive level playing field for smaller banks as the levy only applies to the largest banks operating in Australia.

The Coleman Report concluded that Australia's banking system is an oligopoly and that the major banks' use their size and market dominance to the detriment of consumers and competitors. The levy will erode the major banks' funding cost advantage and, over time, reduce the major banks' pricing power.

5. The bank levy improves competition by eroding the funding cost advantages of the major banks. How the banks respond to this is a commercial decision that does not necessarily involve passing these costs on to consumers.
6. Please refer to part 5 above.
7. Yes – Please refer to part 5 above.
8. No. As noted by the Treasurer in his media release of 9 May 2017 on *Building and accountable and competitive banking system*, the levy is similar to measures imposed in other advanced countries and will complement prudential reforms being implemented by the Government and APRA to improve financial system resilience, including:
  - setting bank capital levels such that they are ‘unquestionably strong’;
  - strengthening APRA’s crisis management powers; and
  - ensuring our banks have appropriate loss-absorbing capacity.