

26 May 2015

The Hon. Bruce Billson MP
Minister for Small Business

c/- General Manager
Small Business, Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Minister,

Thank you for the opportunity to make a submission to the Commonwealth Treasury as part of the consultation on the recommendations of the Final Report of the Competition Policy Review. This submission is made on behalf of the Regional Banks - Bank of Queensland, Bendigo and Adelaide Bank, ME Bank and Suncorp Bank. These four banks made a comprehensive submission¹ to the Government's Financial System Inquiry (FSI) last year which covers many aspects of competition in retail banking.

The Final Report of the Competition Policy Review has made significant recommendations to reform competition policy across a number of priority areas. The purpose of this submission is to highlight key issues in our FSI Submission that we believe are also relevant to the Competition Policy Review.

While these issues have not been specifically addressed in the Competition Policy Review Final Report, we believe they are important to achieve genuine competition in retail banking, fostered through a fair, transparent and open banking system. We believe that consumers, small business, and the wider economy will be the primary beneficiaries of a stronger banking industry comprised of vibrant competitors of differing size and business approaches, competing on a level playing field.

Traditionally, Australia's banking system has proven robust and stable. However, developments since the Global Financial Crisis have re-shaped much of the competitive and regulatory environment resulting in inefficiencies which provide significant advantages to Australia's largest banks.

The Regional Banks believe now is the time to identify, acknowledge and discuss these issues in a constructive way with a view to improving the system for the future. The best means of mitigating the trend towards further concentration is to refocus banking regulation. Competitive neutrality is about ensuring all service providers compete on an equal footing and that regulatory arrangements do not favour some service providers over others.

¹ http://fsi.gov.au/files/2014/09/Regional_Banks.pdf

With some key regulatory changes, Australia's financial system can evolve and be characterised by healthy competition between institutions of various sizes and business strategy. A healthy, multi-tiered system is preferable to one of increasing concentration and dominance by large institutions.

As outlined in our previous submission to the Competition Policy Review, the Regional Banks recommend the following initiatives to achieve competitive neutrality in the retail banking sector:

- A more equitable and risk-reflective means of setting regulatory capital. Currently, standardised banks are required to hold almost three times as much capital as banks accredited under the advanced approach over mortgage portfolios with comparable risk;
- Removal of the 'too big to fail' taxpayer subsidy enjoyed by the largest banks by increasing the amount of capital they are required to hold. As the FSI recommends, increased capital requirements will remove the subsidy which results in a funding and pricing advantage for those banks deemed by Government, and therefore credit rating agencies and investors, as systemically important;
- A change to the process for achieving advanced risk management status. A de-coupling of the approval process for operational, market and credit risk to achieve advanced accreditation under the Basel accord;
- Increased transparency and disclosure of the ownership structures of advisory and mortgage aggregation providers; and
- A regulatory environment that recognises the disproportionate impact of regulation on smaller banks.

The Regional Banks believe the Competition Policy Review is a good opportunity to improve competition in retail banking. As discussed above, we believe the best way of delivering consumer and small business benefits is by ensuring a level playing field in banking that will foster a healthy, multi-tiered system.

We are available for any follow-up questions or other consultation opportunities.

Regards,



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