

NEWS RELEASE

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Regional Banks urge timely implementation of Financial System Inquiry recommendations

Four of Australia's leading regional banks have today made a fourth and final submission to the Financial System Inquiry (FSI) process, calling on the Federal Government to act now to restore competitive neutrality in the Australian banking sector.

The four regional banks – Suncorp Bank, ME Bank, BOQ and Bendigo and Adelaide Bank – welcomed the Inquiry's acknowledgement of the recommendations outlined in previous regional bank submissions, in particular the need to level the playing field in banking.

They also welcomed APRA Chairman Wayne Byres' recent comments indicating a preparedness to potentially move ahead of international regulators in relation to capital requirements and urged the Federal Government to implement the FSI's key recommendations without delay.

Throughout the Inquiry process, the four regional banks maintained a consistent framework for guiding their joint and individual decisions. As a group, the regional banks advocated for a set of financial system rules and regulations that would strengthen confidence in Australia's financial system and deliver sustainable competition for the benefit of consumers.

The regional bank's final submission reinforced three specific issues they believe need to be addressed to support a healthy, multi-tiered banking system:

1. An inequitable regulatory capital framework giving some banks a huge advantage in risk-weighting of home loans. The regional banks strongly support the Inquiry's recommendation for an average advanced housing risk weight of between 25 per cent and 30 per cent on 'advanced' banks and would like to see this expedited for the benefit of Australian consumers.
2. The significant funding cost advantage delivered to the major banks due to an implicit Government guarantee and taxpayer support. The Inquiry's final report makes a series of recommendations that would assist in addressing this problem, including setting a capital benchmark, introducing greater loss absorbency instruments and enhanced crisis management toolkit.
3. Acknowledged weaknesses in the current disclosure regime. The Inquiry's final report makes strong recommendations, and the Regional Banks support clearer and more effective product disclosure and communication with consumers, particularly with regards to fees, risks and ownership in the mortgage broker and aggregator market.

While not a formal recommendation, the regional banks also supported the Inquiry's observation that APRA could consider how to make the accreditation process less resource intensive to promote incentives for banks to develop IRB capacity. This includes potentially decoupling operational risk from credit and market risk accreditation in the 'advanced' accreditation process.

Finally, with the FSI Report's strong focus on bolstering banking competition, the regional banks would be disappointed by any Government decision to ignore David Murray's recommendation against introducing a bank deposits insurance levy.

Smaller banks rely more heavily on deposits for funding and, as a result, could proportionately be impacted more by this tax than the major banks that have greater levels of wholesale funding.

Further, a deposit tax will make saving less attractive for customers.

Regional bank CEO responses to the report

Suncorp Bank CEO John Nesbitt said: "We ask for bi-partisanship support for Mr Murray's recommendations which go to the heart of competitive neutrality. The Report recommends a 25% to 30% average mortgage risk weight be applied for those banks with advanced accreditation.

This would simply narrow the gap between the capital held by smaller and larger banks over like-for-like mortgage portfolios. This will allow Australian consumers to benefit from a fairer, healthier, multi-tiered banking system well into the future."

ME Bank CEO Jamie McPhee said: "Given the alignment between local and international regulatory changes, in particular the need to set a floor on capital requirements, there's no reason why Murray's reforms can't be implemented in advance of the Basel process. Australian banks have led the world on regulatory reform, which stood us in good stead during the GFC – let's continue that approach. For consumers, the sooner we improve the competitive banking environment the better."

BOQ CEO Jon Sutton said: "We'd like to see the Government give clear guidance on implementation time-frames around Mr Murray's recommendations. As APRA has indicated, there are no policy or operational reasons why recommendations 1 and 2 can't be implemented as soon as possible, with appropriate transitional arrangements if deemed necessary."

Bendigo and Adelaide Bank CEO Mike Hirst said: "We welcome the recommendations of the Inquiry that go some way toward levelling the playing field in banking. We also support the Inquiry's view that there is scope to accelerate the risk accreditation process."

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Submissions and supporting documents

Bendigo and Adelaide Bank documents: www.bendigoadelaide.com.au

BOQ documents: www.boq.com.au

ME Bank documents: [ME Bank letter to the FSI](#)

Suncorp documents: www.suncorpgroup.com.au

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