



MEDIA RELEASE

Regional banks call for level playing field

Friday, 22 September 2017: Australia's most recognised regional banks have called on a major competition inquiry to level the playing field and put consumers and the economy first.

In a joint submission lodged with the Productivity Commission, AMP Bank, Bank of Queensland, Bendigo and Adelaide Bank, ME Bank and Suncorp highlighted five key areas that require policy reform to achieve sustainable competition and competitive neutrality:

- 1. Further policy reform to reduce the artificial funding cost advantages enjoyed by the major banks.** While the new Major Bank Levy has reduced this advantage, it only recoups a small proportion of the overall credit rating uplift enjoyed by the majors;
- 2. Further reform of risk weights to address the significant gap that still exists between the capital requirements of the major banks and standardised banks.** While there has been some risk weight narrowing following the FSI, the gap remains significant, and is particularly stark for loans with the lowest risk;
- 3. A review of macro-prudential rules to better balance macro outcomes such as stability, without undermining banking competition. One option would be for APRA to give greater policy weight to minimum capital requirements.** Macroprudential rules set by APRA have effectively 'locked-in' market share of loan books at current levels, thus leaving smaller banks with no room to challenge the already dominant position of major banks;
- 4. Mortgage aggregators and brokers owned by major banks should publicly report on the proportion of loans they direct to their owners.** While we do not suggest that major banks should be banned from owning broker networks, we do believe that where this occurs it should be managed in an open and transparent way to ensure customers are able to make fully informed decisions; and
- 5. Before any new regulations are introduced, greater consideration should be given to the impacts on smaller banks.** The unprecedented pace and volume of new regulation and compliance has a disproportionate impact on smaller banks which stifles sustainable competition.

The banks also support the ABA's submission calling for more care and attention into the shadow banking sector, which continues to compete free of many regulations and APRA oversight.

The CEOs said while Australia had been well served by a strong and highly regulated banking sector, it was important that stability did not overshadow competition and good consumer outcomes.

Suncorp Banking & Wealth CEO David Carter said: "We believe there can be a balanced and fair framework allowing banks of all sizes to compete on a level playing field, while still meeting all sound, prudential principles. We would like to see more attention on macro-prudential rules to promote customer choice and competitive pricing, as opposed to maintaining the status quo - which is in effect similar to the 'yellow flag' being waved at the Grand Prix, where all drivers are then prohibited from overtaking one another."

ME CEO Jamie McPhee said: "Regulatory imbalances have allowed a small group of banks to dominate the Australian market. Reform is needed if we want to create a fairer banking system so smaller banks can compete. A more competitive banking system is about improving customer choice and promoting economic growth."

AMP Bank Group Executive Sally Bruce said: "Access to cheaper funding plus lower capital requirements for like-for-like loans gives the big banks a huge advantage over smaller players. Combined with the blanket



approach to compliance and macro-prudential limits, we have a system of issues which impede competition and the best outcomes for customers. We are at risk of keeping big banks big and small banks small unless we address.”

The CEOs said improving competitive neutrality will deliver better customer outcomes and drive greater innovation in the sector.

“A strong banking system is good for all Australians and smaller banks bring vital competition and choice to the market,” they said.

“While the market is competitive today, it is vital this competition is fair, productive and sustainable.

“The bottom-line test must be: what is good for customers is good for the economy.”

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To arrange an interview or obtain a copy of the report please contact the below bank media representatives:

- AMP Bank: Simone Pregellio 0466 518 858
- Bank of Queensland: Tracy Hicks 0439 540 960
- Bendigo and Adelaide Bank: Silvana Arena 0402 110 445
- ME Bank: Matthew Read 0432 130 338
- Suncorp: Alexandra Foley 0419 794 294