

NEWS RELEASE

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Regional Banks respond to FSI Interim Report

Four leading regional banks have responded to the Financial System Inquiry's (FSI) Interim Report by highlighting areas of positive change that would improve financial services and level the playing field by addressing the regulatory, capital and funding anomalies that unfairly advantage Australia's major banks.

The regional bank submission highlights five specific issues they believe should be addressed to foster a healthy, multi-tiered banking system, which in turn, will benefit customers by enabling fairer competition between major banks and the rest of the banking sector:

1. A more risk-reflective system of setting regulatory capital for housing loan assets through the simple extension of the current 'standardised' system of risk weight tiers to include one additional 20% tier for lower risk loans. This relatively small change to the current approach would deliver material benefits in terms of competition without additional risk;
2. Establishing a more efficient and staged process to assist regional banks achieve accreditation under the 'advanced' capital framework, particularly in relation to housing;
3. Addressing the funding cost advantage for banks deemed 'too big to fail' (TBTF);
4. Improving the disclosure arrangement for mortgage brokers to ensure customers of brokers are fully aware of a broker's ownership structure and potential conflicts of interest; and
5. Lowering information asymmetries through an improved system of collecting important financial data relating to credit histories of bank customers (known as Comprehensive Credit Reporting).

The regional banks commended the FSI Panel for identifying key issues around competitive neutrality in Australia's banking system.

While an observation in the Interim Report was that the banking system is 'competitive, albeit concentrated', the regional banks believe this statement does not give enough consideration to the likely future state of competition given the current inequalities that exist in the market.

They also suggested that the Inquiry's final recommendations should include clear guidance on priority issues and outline timeframes in which they should be introduced to reduce the risk of recommendations being undermined through a protracted implementation process.

Suncorp Bank CEO John Nesbitt said: "The FSI Panel has stated clearly that the capital regime as it applies to housing loans is not competitively neutral. Regulatory change is needed to underpin competition and deliver good outcomes for customers. Our focus has, all along, been on ensuring an efficient and competitively neutral set of regulations. This provides the sort of impetus needed to help motivate regulatory change."

ME Bank CEO Jamie McPhee said: “ME Bank is looking to the FSI inquiry to put forward some concrete proposals to level the playing field. The Interim Report has raised appropriate policy options and is a positive step toward a more competitive operating environment. This is consistent with ME Bank’s growth objectives and will ultimately reward all banking customers.”

BOQ CEO Stuart Grimshaw said: “The FSI Panel has put the too-big-to-fail issue on the table for further discussion. While a critical issue to resolve, it is difficult to find a solution that both reduces the funding cost gap and yet minimises unintended consequences. The Panel has also raised the important issue of increasing ownership of mortgage brokers by large banks. Ensuring customers are offered complete transparency is a key issue and we look forward to engaging further on that matter. ”

Bendigo and Adelaide Bank CEO Mike Hirst said: “The FSI Panel, in its Interim Report, warns against complacency, and I think that is critical going forward. There is now an opportunity to really focus in on the problems and get some positive outcomes for customers and the Australian economy generally.”

The regional bank submission can be found at the following link:

http://www.pegasus-economics.com.au/SiteAssets/academic-papers-conferences-and-submissions/Regional%20Bank%20FSI%20Interim%20Report_Submission_Final%20260814.pdf

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