

NEWS RELEASE

31 March 2014

Regional banks launch joint submission to the Financial System Inquiry

Four of Australia's leading regional banks have today launched a joint submission to the Financial System Inquiry making a number of recommendations aimed at delivering improved long-term competitive outcomes for consumers.

Although Australia's banking system is strong and stable, developments since the Global Financial Crisis have re-shaped much of the competitive and regulatory environment resulting in inefficiencies which provide significant advantage to Australia's largest banks.

The submission is a collaborative effort between Bendigo and Adelaide Bank, BOQ, ME Bank and Suncorp Bank with Pegasus Economics. It calls for competitive neutrality to level the playing field for the benefit of consumers.

Domestic and global regulation is currently constraining competition, meaning changes are needed to ensure non-major banks can continue to deliver competitive tension across all segments and geographies including small business and agribusiness.

The submission's recommendations do not rely on government handouts or greater regulation, in recognition that such intervention has created the market distortions which significantly advantage the largest banks in the country.

The submission analyses competitive anomalies which include:

- The significant disparity between the application of risk weightings under the standard and advanced prudential capital adequacy framework;
- The increased access to funding and the cost advantage available to banks deemed systemically important; and
- The higher cost for regional banks, in relative terms, of the constant flow of new regulatory and prudential requirements.

The submission makes the following recommendations:

- A 20% risk weighting be applied on residential mortgages under the standard prudential capital adequacy framework. 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;
- 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.

-2-

Bendigo and Adelaide Bank CEO Mike Hirst said: “The regional banking sector is a critical part of Australia’s banking system. The sector offers high levels of customer satisfaction and service particularly in regional and rural Australia.”

ME Bank CEO Jamie McPhee said: “Currently regional banks are competitive in spite of the capital and funding anomalies in the market. By levelling the playing field and giving regional banks the same competitive landscape as major banks, they will deliver improved competitive tension in the market for the benefit of customers.”

Suncorp Bank CEO John Nesbitt said: “We’re not advocating for government handouts or additional regulatory overlay because this type of intervention creates market distortions as evidenced by the funding and capital advantages afforded Australia’s largest banks. Our submission recommends changes to the regulatory settings which have created illogical competitive anomalies.”

BOQ CEO Stuart Grimshaw: “We also believe that our recommendations would help redistribute capital to the areas of our economy that are crying out for investment such as small business and agribusiness.”

The regional banks look forward to working with the Inquiry to further explore the issues raised in their submission and help develop solutions that provide genuine long-term benefits to the Australian economy and consumers.

ENDS

Submissions and supporting documents

Joint regional submission: www.pegasus-economics.com.au

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

Media enquiries:

Michelle Barry, Suncorp Phone 0402 892 789

Ingrid Purcell, ME Bank Phone 0412 009 079

Jamin Smith, BOQ Phone 0478 333 316

Lauren Andrews, Bendigo & Adelaide Bank Phone 0408 340 283