Appearance before Senate Economics Committee, Inquiry into Competition within the Australian Banking Sector, 15 December 2010

Mike Smith

Speaking Notes

Good afternoon and thank you Chairman. I have a short opening statement.

First, Australia's banking system is regarded as a standout globally having weathered the GFC remarkably well.

Australia's banks maintained the flow of credit to the economy both through the height of the instability triggered by the collapse of Lehman Brothers in September 2008 and subsequently. Our strong banking system underpinned the economy and employment.

This is in stark contrast to the position in many developed countries and was aided by swift action on the part of the Australian Government and our regulators to deal effectively with systemic risk that threatened the banking sector, the health of the Australian economy and jobs.

The introduction of the Deposit Guarantee instilled confidence in depositors and the Wholesale Funding Guarantee ensured banks continued to access international funding on reasonable terms at the time of crisis.

The Government's action was necessary at the time and the Wholesale Funding Guarantee has subsequently been withdrawn in an orderly and appropriate way.

Australia is one of the few OECD countries where the Government will be a net beneficiary of revenue from its banking system as a result of the GFC. Around $5.5 billion will be paid by banks to the Government for credit enhancement by the time the last of the guaranteed wholesafe funding expires.

Second, the nature of competition has changed.

Competition in the deposit market has never been so intense. Deposit rates have been bid up as financial institutions compete for stable sources of funds.

Our Asian operations have been an advantage to us, allowing the savings pool of customers in Asia to be accessed, thereby supplementing the deposits we raise in Australia. Depositors in Australia are presently benefitting from interest rates of up to 7 percent and there are more depositors than mortgage customers and we should remember we have four times as many deposit customers as mortgage customers

The higher cost of this funding is of course flowing through to lending. This means lending rates are increasingly less related to the RBA's official cash rate.

The GFC exposed the business model of some of the non-bank lenders as unsustainable in that they did not price adequately for liquidity and credit risk. Those lenders have exited the market. Other, small lenders reliant on securitisation for funding have been affected by a sharp drop in demand for RMBS. This created a gap in the market that has been filled by the major banks.

Third, Government policy measures appropriate to smooth adjustment to the shock of the GFC are those that facilitate competition without imposing unnecessary costs on our customers.

The Government's banking package includes some measures which fit this description.

Further support for the securitisation market through the AOFM will assist funding of smaller lenders. Australian RMBS are of high quality and this approach can be easily 'switched off' when no longer needed.

Diversifying funding sources is also appropriate. Developing a significant Australian corporate bond market, attractive to retail investors, and allowing the issuance of 'covered bonds' are directionally right.

Turning to customer ‘empowerment’, active, well informed consumers help lift competition.

In the short to medium-term, more transparent fee structures and shorter, more effective disclosure requirements would allow customers to more readily compare products and assist informed decision making.

The idea of the proposed mortgage fact sheet is to provide a simple statement which will help consumers compare the costs and features of mortgages. Financial institutions can also assist here by providing simple, transparent products.

In the longer-term, more financially literate and informed customers will grow competition in the market.

ANZ has made a significant investment in understanding the issues related to low levels of financial literacy, which groups in the community are most affected and in developing programs aimed at building the skills of the more vulnerable in the community.

Our programs are delivered in partnership with the Government and with community organisations such as the Brotherhood of St Lawrence. Some of those organisations have made submissions to this Committee.

That concludes my opening statement and we are now very happy to answer the Committee's questions.