

Chapter 1

Introduction

1.1 The acquisitions of St George Bank by Westpac and Bankwest by the Commonwealth Bank in 2008 increased the market share of the 'big four' banks. Around the same time the global financial crisis weakened the position of some non-bank lenders, who competed with the banks by raising funds in securities markets. These events have led to concerns that increasing concentration from bank mergers may be significantly reducing competition in the Australian market for financial services.

Referral of the Inquiry

1.2 On 24 November 2008, the Senate referred a number of matters relating to aspect of bank mergers to the Senate Standing Committee on Economics for inquiry and report by 26 February 2009. The Senate later extended the reporting date to 17 September 2009. The terms of reference setting out the matters to be investigated during the inquiry were as follows:

- (a) The economic, social and employment impacts of the recent mergers among Australian banks;
- (b) The measures available to enforce the conditions on the Westpac Banking Corporation/St George Bank Ltd merger and any conditions placed on future bank mergers;
- (c) The capacity for the Australian Competition and Consumer Commission (ACCC) to enforce divestiture in the banking sector if it finds insufficient competition;
- (d) The adequacy of section 50 of the *Trade Practices Act 1974* in preventing further concentration of the Australian banking sector, with specific reference to the merits of a 'public benefits' assessment for mergers;
- (e) The impact of mergers on consumer choice;
- (f) The extent to which Australian banks have 'off-shored' services such as credit card and loan processing, information technology, finance and payroll functions;
- (g) The impact 'off-shoring' has on employment for Australians; and
- (h) Alternative approaches to applying section 50 of the *Trade Practices Act 1974* in respect of future mergers, with a focus on alternative approaches to measuring competition.

Conduct of the inquiry

1.3 The Committee advertised the inquiry in the national press on numerous occasions and on its website. It also wrote to relevant organisations and academics to inform them of the inquiry. The Committee received 21 submissions, which are listed in Appendix 1.

1.4 The Committee held public hearings in Canberra (12 and 13 March and 10 August 2009), Brisbane (1 July 2009) and Perth (2 July 2009). The witnesses who appeared at these hearings are listed in Appendix 2. The Committee thanks those who contributed to the inquiry.

Outline of the report

1.5 The role of mergers in creating the current banking landscape is highlighted in Chapter 2. As further background to the analysis of the recent Australian mergers in Chapter 4, the economics of bank mergers is discussed in Chapter 3. Current and possible alternative regulatory responses to Australian bank mergers form the focus of Chapter 5. The extent of 'offshoring' and its impact on employment is discussed in Chapter 6.