



5 August 2009

Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary

Inquiry into Aspects of Bank Mergers

I respond to the invitation to provide a submission to the Inquiry and offer the following comments in relation to the Terms of Reference.

- a. **the economic, social and employment impacts of the recent mergers among Australian banks**
- Takeovers by Westpac and the Commonwealth Bank of Australia (CBA) of St George Bank and BankWest respectively have undermined real competition in the sector.
 - With the severely diminished role of non-bank financial institutions as a result of the current financial crisis, the rising dominance of Australia's big four banks' has consolidated their market power and further reduced the competitive environment.
 - The banking sector should be opened up to further competition by ensuring that there are no unreasonable impediments to gaining authorisation to act as a bank.
 - The Government should re-evaluate the Four Pillars Policy and move to strengthen legislation relating to the authorisation and regulation of banks, currently the responsibility of the Australian Prudential Regulation Authority.
 - The Reserve Bank should be authorised and empowered to oversee the financial sector and to **intervene** when banks overcharge or abuse their position, ie failing to pass on interest rate cuts.

- c. the capacity for the Australian Competition and Consumer Commission to enforce divestiture in the banking sector if it finds insufficient competition**
- The ACCC needs real legislative power to oversee competition, or lack of, between banks and to take effective remedial action when competition is lacking or has been undermined.
- 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 benefit' assessment for mergers**
- There needs to be a demonstrated, specific public benefit, ie customer benefit, in relation to any proposed merger. Mergers are currently for the benefit of banks, not customers or the wider community.
- e. the impact of mergers on consumer choice**
- As a result of the concentration of market power following the takeovers by Westpac and CBA, and the subsequent consolidation of face-to-face (or Customer Physical Service Points), consumer choice has been reduced.
 - Despite technological advances, retail bank customers still utilise and rely upon branch, or face-to-face, services. In South Australia the reduced competition and increased market concentration is evident: prior to the mergers, the big four banks operated 46 per cent of Customer Physical Service Points; in the post merger environment they control 69 per cent¹.
 - That convergence of market share is also apparent in figures for home lending where the four major banks have 86.6 per cent of the mortgage market. The size and long-term nature of these loans and customers' disinclination to change banks can only reinforce the dominance of the big four banks and perpetuate the anti-competitive environment.
 - Despite recent amendments, it is expensive and difficult to switch banks. This needs to change so that customers can switch banks more easily and with minimum cost.
 - There is no real choice between banks. It is a difference in name only! Credit card charges and other fees are exorbitant.
- f. the extent to which Australian banks have 'off-shored' services such as credit card and loan processing, information technology, finance and payroll functions**
- Bank customers should be advised in simple terms of the extent to which services have been 'off-shored' so that they can decide whether to do business with the bank or not.

¹ APRA ADI Points of Presence, June 2008, issued 13 November 2008, in Submission by CHOICE to the Senate Economics Committee Inquiry, 30 January 2009, p 9.

- Banks should be required to detail annually, including via the web, their commitment to using Australian-based, as opposed to overseas-based, services.
- g. the impact 'off-shoring' has on employment for Australians**
- Once again, bank customers should be advised of the bank's commitment to Australian employment and this should be detailed in annual reports and via the web

Yours sincerely



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