Chapter 1
Introduction

Background

1.1 The Banking Amendment (Keeping Banks Accountable) Bill 2009 seeks to amend the *Banking Act 1959*. It aims to encourage banks to set mortgage interest rates in line with movements in official interest rates (defined as the Reserve Bank's overnight cash rate).

1.2 The mechanism by which this is done is that if a bank moves interest rates contrary to movements in official interest rates, it must explain to the treasurer why it is doing so. If the treasurer considers that the bank's action (or inaction) is 'contrary to the public interest', and the bank persists, then the treasurer may revoke the guarantee applying to the bank's deposits under the Financial Claims Scheme.

Conduct of the inquiry

1.3 On 12 August 2009, the Senate referred the Banking Amendment (Keeping Banks Accountable) Bill 2009 to the Economics Legislation Committee for inquiry and report by 24 November 2009.

1.4 The committee advertised the inquiry on its website and in a national newspaper. A number of organisations, commentators, academics and stakeholders were also invited to make submissions to the inquiry.

1.5 The committee received 7 submissions. These are listed in Appendix 1. A public hearing was held in Melbourne on 5 October 2009. The witnesses appearing are listed in Appendix 2. The committee thanks those who participated in the inquiry.

Outline of the report

1.6 The issue of whether it is reasonable to expect banks to move (and only move) their home loan interest rates in line with movements in the official cash rate is discussed in Chapter 2. Whether the bill represents an appropriate response is discussed in Chapter 3, which concludes that the bill should *not* be passed.