

Appendix

Social Obligation

- To what extent do the licences granted to the bank bring with them social obligations and what is, or should be, the nature and extent of these obligations?
- Should not the protection of APRA with its regulations and roadblocks for new entrants require the banks to accept wider obligations?
- Should not the oligopoly status and the parallel behaviour mean the same thing?
- Should any social obligations be articulated in the licence and who should supervise their fulfilment or otherwise?

Concentration & Economics

- Is our banking sector too concentrated for a market of our size and by way of comparison with overseas markets?
- The so-called concentration should be broken down into divisions or product groups and what are the competitive issues in these divisions or product groups?
- Are our banks achieving returns which are too high and how do they compare with overseas markets? What is the criteria by which this should be measured beyond ROE?
- Is the concentration nature of our banks being exacerbated by too much parallel behaviour? For instance, note that it is the retired bank executives who are becoming Directors of their former competitors.
- Who owns the shares in the banks and is there any risk that the custodian shareholdings of foreign banks like HSBC, JP Morgan and Citi (established at 30% to 40%) have too much influence?

APRA

- Does APRA define and limit the way our banks compete?

- Because of the cosy and friendly relationship between APRA and the banks, the bank CEO's do not want APRA to take on the potential adversarial role of supervising bank Directors.
- Should APRA be re-vamped so that its activities can be more balanced with the need for competition?
- To whom is APRA accountable?
- To what extent should we understand the activities of APRA, for instance, should there be more disclosure of its:
 - Objectives?
 - Should APRA have a Board like the Reserve Bank?
 - Decisions on risk and the underlying rationale?
 - Justification for the information and regulation it is imposing on the bank?
 - To what extent is APRA measuring the cost impact of its regulation and information demand on the banks? Is a cost benefit analysis done?
 - Do the banks have a reasonable chance of influencing APRA on the regulation and information demands?
- Should not APRA justify in the public arena its capital allocation rules?
 - Have the capital allocations rules led to greater concentration risk?
 - Is not there a huge gap in the amount of loans being made to business as opposed to residential mortgages leading to what Don Argus says, claims the banks are fundamentally building societies?
 - Should not customers have a better understanding of APRA's view on risk?

The Market

- To what extent is there unsatisfied demand for banking services and banking products and why is this so? *1
- What would surveys of rejected requests for loans reveal?
- Are not the bank customer satisfaction surveys limited because they merely deal with existing customers and not the unsatisfied or rejected customers?
- Are the banks aware or care about the enormous frustration in the community when customers cannot get reasonable satisfaction because of an incredible lack of choice?

Credit

- Have the banks credit silos become too powerful:
 - Are they too metric driven and fill the box?
 - Are coalface employees having any influence on decisions?
 - Are their geographies or potential customer sets that are being deprived?
- Should not credit policies of the banks be more available to customers?
- Should credit executives be more available to customers to explain their decisions?
- Is not credit regulation expanding so the lowest common denominator of risk emerging?
- Does not the current level of bad debt provisioning so low that the banks are being too tough on credit?
- More generally, has not big data submerged small data and the regulatory rules means that there are no exceptions?

Fintech

- A study of the fintech sector and where it is impacting the banks:
 - What parts of the banking system are more vulnerable than others?
 - What are the special issues that apply to each area for instance, mix of technology / capital?
 - What steps can be taken to help the fintech movement beyond present good measures?

Architecture

- Do we need to re-visit the overall architecture of the banking system, as to the Reserve Bank, Treasury, the Treasurer, ASIC and the Competition Regulator?
- What are the ways of inducing competition beyond some of the excellent measures undertaken so far by the Government?
- Clearly competition is a key issue but how is that best achieved?
- This must be analysed against the future not the current shape of the sector.

- How can ASIC, the competition regulator, the RBA and APRA work better together rather than through their current silos where decisions are being made in one silo to the detriment of another? Are the reconsiderations of the Murray Panel adequate?
- Given the dominance of residential mortgages and related products, would it not be more efficient to ring fence these activities?

One Model for Change

- Ring fencing in a separate and self-contained entity, with the retail deposits relating to the retail loan products, the entity would have a different Board reporting separately and could be another listed entity or de-merged.
- This limits the Governments \$250,000 guarantee to retail depositors in a company with retail deposits where it is more appropriate for in-direct Government assistance. The benefit of the Government guarantee would be generally in favour of less sophisticated depositors.
- Better designed capital requirements and risk policies for the assets and liabilities will enable a different pricing and different profile of risk.
- With different entities and different risk profiles, pricing and risk could be better matched. This may enable greater competition leading to new areas of lending.

Culture & Values

- How do you define culture, reputation and values in the context of the banking sector?
- What steps are being taken by the banks to achieve change and how long will this take?
- Is not the senior executive salaries an example of greed that effects the whole organisation?
 - Gail Kelly said she would have worked for half the salary.
 - Does this not set a very poor example in the community?
 - Is not the market agreement about salaries and benefits a myth?

- To work for a lower salary, as Paul Simons did at Woolworths, was a huge morale booster for the organisation setting an excellent example. Is not the institution more important than the individual.

***1**

Unsatisfied Demand

- I have checked with academics at UoM and my understand is that there has been no realistic study undertaken on unsatisfied demand in the banking sector. Although there are difficulties in doing this, it can be done with statistic validity. It would need to be done by product group and product group would be very important to understand the reasons for dissatisfaction, whether it be:
 - no suitable product,
 - rejection by a bank on the grounds of credit history,
 - excessive demands of security by the bank.

Geography is also very important as there is a perception that Regional Australia is disadvantaged.

There could well be other reasons but such a study would provide ground breaking information as to the problems with the banks. It would probably prove that the banks are substantially supply or production driven and there is little flexibility or willingness to make exceptions where a transaction is clearly safe but doesn't fit into the banks rigid requirements or boxes. This frustration is accentuated by the limited choice available to customers and the difficulties for new entrants.