



Australian
Competition &
Consumer
Commission

OPENING STATEMENT

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Opening statement

Introductory comments

- Thank you for the opportunity to provide an opening statement. I look forward to this morning's discussion with Commissioners' and my APRA and ASIC colleagues.
- In this year's Budget, a number of measures were announced with the aim of improving competition in the banking and financial sector. This included resourcing the ACCC to establish a dedicated Financial Services Unit to undertake regular in-depth inquiries into competition issues in Australia's financial system.
- Our antitrust, merger and consumer protection responsibilities mean that the ACCC is exposed to a range of specific matters in the financial sector. However, until now, we have not had a broader mandate to regularly examine and report on competition issues in the financial sector as a whole.
- As you would appreciate, it is still early days for the ACCC. Since the announcement in the May Budget, we have established a Financial Services Unit headed up by Molly Choucair.
- On 9 May, the Treasurer directed the ACCC to undertake a price inquiry into the prices charged or proposed to be charged on residential mortgage products by five Australian Banks. This residential mortgage inquiry is the Unit's first task. During, and at the conclusion of the residential mortgage inquiry, the Unit will be considering competition issues in the financial services sector more broadly. We expect that the PC's inquiry will provide useful insights and lines of inquiry that will assist with this broader consideration.
- I will briefly discuss our residential mortgage inquiry and our broader competition role by way of context, before turning to some areas of interest for the ACCC in terms of the PC's Inquiry.

Residential mortgage price inquiry

- On 9 May, the Treasurer directed the ACCC to undertake a price inquiry into the prices charged or proposed to be charged on residential mortgage products by five Australian banks – the four largest and Macquarie Bank.
- This inquiry is underway. As part of this inquiry, the ACCC will be asking the five banks to explain decisions about fees, charges or interest rates in relation to their residential mortgage products.
- We are required to have regard to the Government's view that banks need to fully and transparently account for their decisions, and how the needs of borrowers, savers, shareholders and the wider community are balanced by the banks.
- This pricing inquiry is an exercise in transparency. The ACCC cannot stop the banks from increasing or decreasing their prices as they see fit (provided they do so independently). Instead, we will seek to understand and explain how each bank makes their pricing decisions and report on whether there are any changes to the prices of their residential mortgage products over the next year and the factors considered in making those decisions.

- We have no pre-conceived ideas about what we will learn during the course of our Inquiry. We are required to report our findings to the Treasurer at the conclusion of the Inquiry and may also do so through the Inquiry.

ACCC's financial sector competition role

- The Financial Services Unit also has a broader mandate to examine specific financial system competition issues. The exact scope of this body of work is still being determined. However, I expect the Unit's work will allow for increased and more regular scrutiny of competition issues in the financial sector as whole, not just in retail banking.
- I see our broader role as complementary to the Productivity Commission's Inquiry – in many ways we will use the findings of this Inquiry as a starting point for the ACCC's new functions.
- If the PC identifies competition issues either through or at the end of its Inquiry we welcome referrals of those issues.

The Productivity Commission's Inquiry and its Terms of Reference

- Turning now to the Productivity Commission's Inquiry and its Terms of Reference.
- The financial services sector is broad and encompasses a number of products (including products which are bundled with many other goods and services). In our view, we think the PC's Inquiry should focus on particular markets with significant concentration levels, high barriers to entry and where there is the greatest potential to improve consumer outcomes.
- There are two key areas which I would like to touch on:
 - The ACCC's perspective on the level of competition in the financial sector.
 - The importance of 'consumer switching' and access to data to improve competition.

I will also briefly mention other areas of interest to the ACCC.

The ACCC's perspective on the level of competition in the financial sector

- As the ACCC Chairman has commented in the past, 'There seems a lack of very robust competition in banking...We are not seeing as much robust competition as we would like'.¹
- A number of businesses complain to the ACCC about the lack of competition in the financial sector. In many cases, these complaints don't relate to specific anti-competitive allegations but relate to a perception of a general lack of competition.
- It is widely acknowledged that Australia has a concentrated banking sector particularly when compared with international comparators. Of course, the degree of competition in the financial system is not just measured by the number of players in the market – changes in market structure, the ease of customer switching, innovation and contestability can also determine effective competition.

¹ Mr Rod Sims, Chairman of ACCC, *Committee Hansard*, Review of the Four Major Banks, 14 October 2016, p.2.

- The larger banks have increased their market share for corporate and household loans over the past ten years.
- This has come at the cost of others in these markets, whose share has fallen over the past decade. There are a range of factors which might explain this drop – the global financial crisis, consumer and business behaviour, consolidation in the market, acquisitions of smaller banks, consumer behaviour, industry culture and barriers to entry for new entrants.
- A key issue of interest to the ACCC is whether the major banks are achieving levels of profitability that is in excess of what we might expect in a competitive market. If they are, this could indicate lack of competitive constraint in many of the sectors in which the banks compete.
- We would welcome the PC examining why the market is as concentrated and highly profitable as it is and the level of contestability within different product markets and for different segments. To do this, the PC will need access to timely and accurate data from participants in the sector.
- Our residential mortgage price inquiry may provide some insights into the level of competition in the residential mortgage sector.

Consumer 'switching' to improve competition

- One way to improve competitiveness in the sector is to ensure consumers can operate as agents of competition. Consumer behaviour can have a profound impact on the banks' competitive responses. Improving consumer mobility is key. Account number portability, consumer switching and access to meaningful data are all important drivers of competition by making consumers as mobile as possible.
- The UK Government, through the Competition and Markets Authority, has put consumer switching and access to data at the heart of its approach to increasing competition. It regards this step as critical to open and competitive markets with the minimum of regulation. An overview of its report can be located at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544942/overview-of-the-banking-retail-market.pdf.
- If consumers are engaged, have the ability and are willing to switch to another bank which can offer them a better deal, it provides an incentive for the banks to compete – whether on price, quality, or to innovate. On the other hand, where consumers are not engaged or the barriers to switching are too high, customers are locked in and it reduces the need for banks to compete.
- The proposals should also help consumers switch between providers, particularly for more complex products like insurance and loans, where there can be a reluctance to change. The work of the ACCC and the AER in the energy, telecommunications and private health insurance sectors has highlighted the difficulties that consumers can experience in trying to meaningfully compare them.
- The ACCC also considers the following issues may warrant scrutiny by the PC:
 - the level of vertical integration in the sector, including:
 - ability of consumers to compare prices when products are often bundled with other goods or services, and

- how bundling can impact a consumers willingness and ability to switch (i.e. “stickiness”).
- The evidence we have seen in the our investigations in the financial sector (and our international counterparts in benchmark rate and foreign exchange investigations) indicates that there is a culture of collaboration and even collusion between traders across financial institutions instead of the rigorous competition we would expect to see in vigorously competitive markets. We consider that this culture of collaboration may arise from systemic issues which warrant further analysis. We note that there have been reforms to benchmark setting procedures but this remains an area in which further regulatory reform might be warranted.
- The ACCC has also considered issues relating to access to digital wallets and Fintech acquisitions (among others) and would be pleased to elaborate further if required.

Closing remarks

- I would like to thank you for the opportunity to address this roundtable.
- The ACCC looks forward to continued and close engagement with you during this Inquiry.
- We stand ready to engage with any specific issues that you identify in the course of the inquiry that you consider might be best dealt with by us either as an enforcement investigation or in one of our market studies.