

Media release

15 November 2010

Big four banks – winners take all

The latest round of interest rate rises beyond the Reserve Bank has added \$1.2 billion to the big four banks' profits, according to analysis by The Australia Institute.

The combination of the cost of the official interest rise and the banks' new higher profit margin will cost mortgage holders an additional \$3 billion in annual repayments.

Senior Research Fellow at The Australia Institute David Richardson said the excessive market power of the big four banks allowed them to operate much as a monopoly would.

"There is no doubt that these banks are exploiting their market power to gouge excessive profits from their customers," said Mr Richardson.

"This year, the big four banks earned pre-tax profit of around \$1,300 per annum for every man, woman and child in Australia. The latest round of interest rate rises shows just how insatiable their thirst for profits is.

"Banking in Australia is essentially a rogue market in which a small number of winners take all. There is a clear case for government to take action with a combination of regulation, structural reform and improving competition.

"The Greens have announced that they will introduce into Parliament measures to prevent banks from moving their interest rates outside RBA movements for the next two years. This is a positive step that so far the major parties have been unwilling to take.

"But of course more is needed. At the moment banks are free to vary at will the contractual interest rate in over 95 per cent of housing loans. In just this round they have chosen to extract another \$1.2 billion in annual profit over and above what the Reserve Bank increase would warrant," said Mr Richardson.

The Australia Institute is proposing that interest rates be set in mortgage contracts as a mark-up on the official interest rate. These mark-ups should be fixed, at least for the period in which mortgage exit fees apply.

"This would ensure that bank executives, motivated by huge bonuses, can't decide the day after someone takes out a home loan that their interest rate will go up," Mr Richardson said.

Notes for editors

- The figures above are based on APRA figures for the big four banks housing loans, adjusted down by the total value of fixed-rate home loans granted over the last three years. It is assumed fixed-rate loans are made only by banks and they are spread pro-rata among all banks.

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