

## Media release

21 October 2010

# Many options available to curb bank power

The Australia Institute welcomes the Federal Opposition's recent statements about the behaviour of Australia's banks.

"This is a healthy debate to have about the super profits of the big banks and what we should do about them," said Senior Research Fellow David Richardson.

"It's good to see the Coalition finally join the debate in earnest rather than advocating competition as the only solution to the problems in banking. Joe Hockey's reference to a 'social compact' with the banks reflects what many people in the community have been arguing for years.

"At the moment the big four Australian banks are gouging about \$20 billion more out of Australian customers than they should be if the industry were more competitive.

"Increasing capital requirements, as Mr Hockey suggests, is one option available to policy-makers. On its own, however, this could merely provide the big banks with another excuse to increase their interest rates and charges. Additional action is required to bring bank profits back to acceptable levels and encourage them to serve their customers better," said Mr Richardson.

There are a range of options available to policy-makers, including:

- Investigating whether the public statements by banks signalling their intention to move interest rates beyond official Reserve Bank movements amount to collusion
- Ensuring that interest rates are advertised, and specified in credit contracts, as a mark-up on the official rate rather than a nominal rate
- Mandating that bank account numbers be 'portable' from bank to bank, much like mobile phone numbers can be carried from one provider to another
- Establishing a separate licensing regime to cover the payments system, to encourage new entrants into this market
- Capping certain fees and interest rates at levels which better reflect the true cost of providing services
- Using existing government infrastructure, such as that overseen by the ATO, RBA, Centrelink or Australia Post, to provide an alternative to the commercial banks
- Restricting the marketing of debt and debt products
- Removing conflicts of interest on the part of bank workers and affiliates
- Investigating whether interest rates on unsecured credit (especially credit cards) actually reflects the underlying risk to the lender