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Media release

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Profits up, market share up, interest rates up – it's good to be an Australian bank

Australia's banks are exploiting official interest rate rises to gouge ever increasing profits from customers, according to The Australia Institute.

A new Institute study, *A licence to print money: bank profits in Australia,* reveals that since deregulation in 1983 banks have increased their share of the lending market from 50 to 90 per cent.

In 2009 this earned the big four banks $35 billion in underlying profits; or the equivalent of just under three per cent of GDP.

Senior Researcher, David Richardson, said the rush by the banks to increase their lending rates this week following a rise in the official cash rate is a prime example of how banks are able to exploit their market share at the expense of customers.

"The banks are using the RBA's decisions on official rates as a pretext for profit-taking," said Mr Richardson.

"While the banks suggest that their borrowing costs increase directly in line with official interest rates this is not entirely accurate. Banks rely on funds from a range of sources, including the zero interest savings and other accounts of their customers, so to suggest that their costs increase directly with increases in official interest rates is clearly an exaggeration.

"The banks also rely on foreign sources of funds which are unaffected by RBA policy. International lending rates have remained very low over the last year, so again it is spurious to suggest the banks need to match the official interest rate increases to cover rising costs," said Mr Richardson.

While the banks keep the exact figures confidential, it can be estimated that only about a third of bank deposits are genuinely market sensitive and even they will take a while to adjust.

Of the $35 billion in underlying profits earned in 2009, around $20 billion represents the advantage the banks have as a result of their monopoly over the payments system in Australia.

"With a 90 per cent share of the lending market banks are immune from competition which means there's little to stop them from passing on or increasing costs for customers and growing even more profitable over time," said Mr Richardson.

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"It is becoming increasingly clear that simply relying on market forces to reign in the profitability of the banks is doomed to fail. Their market share has risen steadily since they were deregulated. It is time for governments to control access to the payments system including caps on the fees banks charge their customers. If necessary it may be useful to introduce a bank rent tax modelled on the resource rent tax," concluded Mr Richardson.

Notes for Editors

- A copy of *A licence to print money: bank profits in Australia* is available at www.tai.org.au, under 'Publications'

- Underlying profit refers to banks' reported profit plus the provisions for bad and doubtful debts. The provisions for bad and doubtful debts increased markedly as a result of the global financial crisis, but they will largely disappear as the impact of the crisis wanes.