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MyState calls for action to promote banking competition

Hobart, Thursday 19 October 2017: Speaking at today's MyState Limited annual general meeting MyState Chairman Miles Hampton and MyState Managing Director and Chief Executive Officer Melos Sulicich called on the government to address four factors which reduced effective competition and reinforced the dominance of the major banks.

Mr Hampton said that effective competition would benefit consumers through improved choice and greater innovation and that smaller banks, which provide competition, remained disadvantaged by a playing field heavily skewed in favour of larger banks.

He said that the government needed to address the impact of regulation on competition, the way the regulatory burden fell in a disproportionately large manner on smaller banks, funding cost advantages, and risk-weighted asset differentials which reduced competition in the market.

Regulators to consider impact on competition from regulation

Mr Sulicich said "As a smaller bank, MyState has been successful in increasing market share and building our loan book. This is despite recent regulatory changes which we believe have benefited the big banks in an unexpected way. APRA's 'speed limit', restricting all banks' investor lending to 10% annual growth and interest-only lending to 30% of flows, has disproportionately constrained smaller banks' ability to grow. The larger banks' investor loans are typically 35-45% of their mortgage portfolios, while smaller banks' investor loans are around 20-25% of their loan portfolio. Instead of creating competition, this regulation has handed larger banks an advantage as rates on investor and interest-only loans increased."

Mr Hampton said "We believe that Australia's regulatory regime should include a mandate to promote competition. This would ensure regulation encourages competition and benefits consumers, rather than exacerbating the already dominant positions of the major banks."

Disproportionate regulatory burden on smaller banks

Noting the rapid increase in regulation of the banking sector, Mr Sulicich said that the cost of regulatory compliance had risen significantly in recent years.

"Further, regulatory changes are having a disproportionate impact on smaller banks. We are heartened by recent comments by Federal Reserve Chair Janet Yellen, who has acknowledged the burden on smaller banks in the US.

"Regulations have been imposed in the interests of financial stability to protect consumers. However, more regulation is not necessarily better regulation. The impact on smaller banks, which provide competition in the market, has disproportionately restricted them from being able to operate competitively," he said.

Funding cost advantage

"As a result of the implicit government guarantee, major banks pay lower interest rates on their borrowings. The value of this guarantee is recognised by global ratings agencies which recently reduced the ratings of many smaller banks. This distorts competition and, although the recent bank levy decreased this advantage, it will not have a significant impact on the major banks' dominant market share," said Mr Sulicich.

Risk-weighted asset differentials

Mr Sulicich continued, "We urge the government to increase the minimum average mortgage risk weight for internal ratings-based banks from 25% to at least the upper limit of the Murray report's recommendations of 30%. This would reduce the inequality of smaller banks which need to hold 56% more capital against loans than larger banks, reducing our ability to lend despite carrying the same individual risk. Smaller banks are required to use more conservative standardised rating systems to measure risk weights, thus favouring larger banks.

"In the key low loan-to-valuation, owner-occupied household lending market, this results in a significant advantage for larger banks and lower margins for smaller banks. Further reform is needed."

Need for government action to promote banking competition

Mr Hampton said there was a role for the regulator to play to promote competition, which would enable a more level playing field, and regulators should have a more specific competition requirement in their mandate.

"While there has been discussion about the conflict between targeting of financial stability and competition, in our view effective competition should not increase risk to the financial system in a well-regulated environment. Promoting effective competition should be added as a key consideration for the regulatory framework.

"We challenge the notion that it is natural for a few large players to dominate the banking market. It is the smaller banks like MyState which are nimble, achieving productivity benefits through technology, and providing competition in the market. The market is crying out for that competition. But smaller banks are being hamstrung by additional regulatory intervention.

"We call on the government to include effective competition as a secondary objective of the regulatory framework, alongside stability of the financial system. This will benefit consumers and provide a level playing field for banking participants. We need a strong and healthy banking system, but the unfair playing field means we also need a more effective way of improving the competitive environment," he said.

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About MyState Limited

MyState Limited is the ASX-listed non-operating holding company of the diversified financial services Group consisting of MyState Bank (including The Rock – A division of MyState Bank) and Tasmanian Perpetual Trustees, a trustee and wealth management company. MyState Bank is regulated by the Australian Prudential Regulatory Authority. MyState Bank and Tasmanian Perpetual Trustees hold Australian Financial Services Licences issued by the Australian Securities and Investments Commission.

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