

MyState calls for regulation changes to encourage bank competition

Thursday 18 October 2018: MyState Limited reported a net profit after tax of \$31.5 million for the year ended 30 June 2018, up 4.6% on the year before. This strong result was supported by benefits from its investment in digitisation which have improved services for customers, as well as by productivity gains and cost management.

Speaking at the company's 2018 annual general meeting, MyState chairman Miles Hampton and managing director Melos Sulicich again called for the Federal government and regulators to take positive action to level the playing field.

Mr Hampton said regulation tightening bank lending had favoured the growth of the shadow banking sector, which a recent estimate suggested already had 7% market share and, helped by lighter regulatory oversight, was thought to be growing at 4 to 5 times the rate of bank lending. This was despite higher borrowing rates for consumers.

"Constraints imposed on banks through regulation are paving the way for this shadow banking growth," he said.

He said the Productivity Commission had reported pointedly that regulatory emphasis on larger banks being 'unquestionably strong' at the expense of competition was not serving the consumer well.

"The Productivity Commission observed that larger financial institutions have the ability to exercise market power to the disadvantage of consumers. Part of that ability stems from the regulatory requirements placed on smaller banks which inhibit our ability to compete effectively with the larger players," he said.

Large banks benefiting from funding and capital cost advantages

Mr Sulicich welcomed the Productivity Commission's finding that the larger banks gained an unfair funding advantage from their 'too big to fail' status, combined with capital benefit from advanced accreditation.

"While regulations require all banks to hold capital against loans, smaller banks hold 56% more capital than larger banks even though the risk of issuing mortgages is the same. Consumers are demanding the competition that smaller banks provide, but we are hobbled by capital constraints which let larger banks lend much more with the same capital. We urge the government to increase the average mortgage risk weights which govern larger banks' reserves to reduce their lending advantage."

He noted that wholesale funding markets were tightening with the bank bill swap rate currently trading at significantly elevated rates compared to historical levels. “While wholesale costs are higher, larger banks benefit from issuer credit ratings that recognise an implicit government guarantee which enables access to funding at lower cost, increasing their advantage.

“Although our result shows we are well placed to adapt to competitive challenges, we believe we are unfairly constrained by regulations that benefit larger banks. We want to compete and provide much needed competition in the Australian banking landscape. We are simply asking for a more level playing field so that our customers and shareholders are not disadvantaged,” he said.

Media Enquiries

Ashley Rambukwella, Financial & Corporate Relations, 0407 231 282 and a.rambukwella@fcr.com.au