Australian Banking Association

Transcript of Anna Bligh's Address to the Competition in Banking Conference

Anna Bligh, CEO, Australian Banking Association
Opening Address to the Competition in Banking Conference
Melbourne Business School, 6 June 2018

Thank you very much Ian Harper for that introduction and also to the Melbourne Business School for the invitation to be here with you this morning.

Can I also acknowledge that there are two CEOs of member banks of the Australian Banking Association here this morning, Mike Hirst, the CEO of Bendigo Bank, the sponsors of today's event -- and I know of the great work they do in a lot of educational institutions around the country -- and Mary Reemst, who is CEO of the Macquarie Bank. Great to see you both here.

As Ian Harper said in his introduction, I am CEO now of the Australian Banking Association. That means I represent an industry that is sophisticated, that is competitive, is profitable and has a strong regulatory system.

The four major banks in Australia all rank in the top 25 globally for safest banks. Australia's financial services sector is the largest contributor to the national economy, and the sector, as a whole, employs some half a million Australians, and together they are the country's largest taxpayers.

I also represent an industry that is, on a daily basis, being excoriated in a Royal Commission inquiry. The conduct, complacency and customer harm are being highlighted and examined in excruciating detail. In these circumstances, it's hard not to reach the conclusion that competitive forces have to be part of the solution going forward.

While all eyes are on the Royal Commission, there are some important reforms that are already either in preparation or underway. Many of these go to conduct, stability and competition and, in my view, we can't afford to take our eyes off the ball.

Some of those reforms are proposed in the Productivity Commission's Report into Competition in Banking in Australia. And I know that that will be very much the focus of the work here today, and I'll make some comments on that report, but I also want to highlight some of the other things that are already underway or will have an impact on competition in Australian banking.

Australia is a relatively small economy, with a disperse population over a large geography and a federated system of governance that increases regulatory complexity. These factors mean that many industries here in Australia, like telecommunications, energy, aviation, supermarkets and major retail tend to have several large players with a number of smaller competitors.

Banking is no different. And the circumstances of all these industries demand a very close eye on competitive forces.

Australia has more than 100 ADIs, authorised deposit-taking institutions, offering banking services. These ADIs offer more than four thousand home loan products, just by way of example of one product offered by the sector. Four thousand products in that one category is an awful lot of choice. However, we shouldn't mistake the number of products, or the number of providers, or we shouldn’t believe that that necessarily equals real choice or variety.

As the Productivity Commission itself has commented, too many products and too many offerings can often be very overwhelming for the customer. And that often means that customers then turn to others and third parties -- in banking, for example, to mortgage brokers -- to help them decipher what might appear as bewildering market.

I want to comment today on three areas where some of the reforms that are happening -- or will be moving into their next phase in the next 12 months -- will be important to competition.

First of all, I'm going to talk about that old chestnut in banking, switching. When it comes to competition among Australian banks, few topics have had more scrutiny by the public or more airplay than switching.

Customers who vote with their feet are the most powerful competitive force in any market. Yet, bank customers are regarded as consistently sedentary and very sticky.

Banks, on average, enjoy very high customer satisfaction ratings. These ratings are not to be confused with the same customers' views about the industry as a whole, or the same customers' views about the trustworthiness of banks. But it does speak, in some ways, to the low levels of motivation for many customers to even want to shift if they are relatively satisfied with their bank.

However, even at 81 per cent, that means that just on one on five customers are dissatisfied.

To better understand customers views and behaviour around switching, the ABA recently engaged Galaxy to undertake a national survey of people around their switching experience.

What they found was that one in six Australians have switched their main bank in the previous three years. That means almost three million people over three years have switched their main bank. That is much more than we had understood or imagined.

When we asked those people who had switched how difficult they found it, 68 per cent said they found the process very easy. Twenty-one per cent said they found it very difficult.
Of those who said they found it difficult, a little more than half of them attributed this difficulty to the difficulty they had in changing automatic payments and direct debits. And it's that issue around direct debits that we really need to focus our attention on if we want to give customers more incentive and eliminate some of those hurdles to being able to switch when they are unsatisfied with the services they're getting from their own bank.

One of the opportunities that I think we'll see over the next 12 to 18 months is the potential offered by the New Payments Platform.

The New Payments Platform provides a technology solution through an infrastructure that may facilitate an end to this long-term problem around the direct debit hurdle.

One of the areas that will intersect with that is the next issue I want to raise and that's the introduction of Open Data in Australia.

In the second half of this year, the Treasurer will bring a Bill before Parliament that will confer a data right on Australian consumers for the first time.

It will be a transformative transfer of power from the hands of institutions into the hands of consumers. It will be ultimately an economy-wide data right, but it will start with banking data.

Because banks don’t have enough to do this year, banks are going to lead the way on what I think will be a very, very big reform. What it means is that customer transaction data and data about the products they are using is an incredibly rich source of information. It is a source of information that has long been regarded as the commercial property of the bank, and banks themselves have seen that commercial property as competitively significant.

This legislation will confer the right to ownership of that data from the bank to the customer. What that means in practice is that customers can, in turn, require their bank to provide their data electronically, in full, to another financial institution that is a competitor institution.

Customers can then use that data to shop around for the best deal, whether that's for interest on their deposits and savings accounts, or whether it's mortgage rates or other products. They can use it to shop around for that deal, in most cases, without even having to hit the pavements.

They can also test their own credibility or eligibility at prices from other providers without necessarily changing their own bank. As you can see, it will be a very powerful tool that will drive stronger competitive behaviour in the sector.

I think that it's important to be realistic. While it will become legislatively enabled this year, the sector doesn't expect it to go off with a big bang on day one. It will be one of those technologies that will slowly start to be used by customers, but it could accelerate quite quickly and become a normal part of banking and accessing financial services and products relatively quickly.

Banks, as I said, will be the first part of the economy to undergo this transformation, but the government will be bringing in, in the next phase, telcos, utilities and other parts of the financial sector and other parts of the economy.

If you think about how people might use that data, you can also very quickly think about it could be misused and the sorts of issues that have to be resolved at the public policy level.
It is imperative to get it right. And banks, at the forefront, are very, very conscious of the role they have to play in getting that right.

Some of the complexities that have been worked through include, who can participate in this? That is, what organisations should banks provide customer data to? What, if any, accreditation should they have? The government has resolved that you can only receive this data if you are a participant and providing the opportunity to your customers to put their data on to the same platform.

What does all that mean for a customer? On the one hand, you can see how they can use their data to shop around and be much more competitive about how they make choices. But you can also see, the fintech side, for example, could encourage customers to provide them with all their transaction data, banks sign that data over, and customers then find themselves in a situation that perhaps turns out to be not in their interest.

So, there are some very complex issues around privacy to be managed. There's also the question of who is liable for a data breach if something goes wrong.

On the one hand, you can see how this might be a very beneficial initiative and technology. A platform for fintechs who are offering customers a better deal and different kind of service in a way that's disruptive to the industry -- but you would also want to be certain that customers would be protected.

The fintech that a customer may go to needs to have at least the capability to remediate and compensate a customer or a very large group of customers should there be a breach.

These issues are not insurmountable questions, but they are complex, and work is happening right now to solve them as the legislation and associated regulations have been drafted.

The current plan is for this to start with banking in 2019. So, quite apart from the Royal Commission and all the other things that are happening, when you think about what Open Data might do for customers, and how that might drive more competitive activity by customers and between banks, it's a very big shift around the corner.

Not only could that shift spark competition but also innovation in the sector and between banks. For example, Australians are very multi-banking users when you look at global comparisons. They might have what they consider their main bank, where their savings account or their mortgage is, but they are very likely to have a credit card product from another bank or a personal loan from a third or fourth bank.

It doesn't take much to think about how Open Data could be used by disrupter companies or app developers to allow you to quickly aggregate all your accounts in the one place and use that to aggregate tax data, to use that as a way of effectively having one banking portal, even though you might have several banking services.

I think that's going to be a very interesting development and something to keep our eyes on, especially those of us who are interested in competition in the sector.

I would like to finally touch on some of the prudential issues where there are initiatives happening, and over at the panel we'll be looking at stability versus competition, and obviously some of what APRA is doing, at the moment, should be part of our thinking in this space.

APRA has developed a new approach to licensing for Australian banks. They reviewed bank licensing arrangements and have now formally established a new pathway for an entity to become an authorised deposit-taking institution.

What the new framework is designed to do is to assist potential new entrants to banking -- particularly small firms -- to navigate the licensing process.

They have developed new, it's called a restricted, banking licence. It's now available, and, as a result, Australia has a new bank. Volt Bank, a bit of a play on words, was approved in May and will be able to accept deposits up to $2 million a year, so it can focus on testing its system with its own staff before it obtains a full licence and goes public at the end of this year.

Volt is the first completely new start up to be licensed as a retail bank since the 1980s. It is a fully online offering, has no legacy system, no bricks and mortar, and is coming into the market at the same time as Open Data.

So that's the first cab off the rank under the new licensing system. It will be very interesting to see what success others might have soon after.

There's also a review of the capital adequacy framework being undertaken by APRA. It's the first significant, major review of the system in 15 years. Among the many other things that it is looking at is a narrowing of the risk-weight assessments on credit. So, for example, standardised banks, which are the smaller banks in Australia, which are required to use standardised credit risk assessments, currently have to allocate 100 per cent of risk to a small business loan.

Under a discussion paper that APRA has put out to the sector at the moment, there's a proposal to reduce that to 80 per cent. Now, in the internal ratings-based (IRB) banks there is still a gap. On average, they rate their small business lending between 50 and 60 per cent, but it is a narrowing of the gap. It means that those loans, if the new initiatives come in as proposed, won't be as expensive, for the non-IRB banks.

APRA also is in the process of changing the rules for what it might take to call yourself a bank. They are eliminating the financial capital hurdle. There will be no capital requirement for someone to call themselves a bank. There will be no formal approval process by APRA. However, APRA will retain the veto power to prohibit an organisation from calling itself a bank.

So, the gateway has got a lot wider, and it makes it easier for a number of existing financial players, particularly in the credit union space, to call themselves a bank.

Right now, in 2018, that might not seem a terrific marketing tool, but I think, with the history of the financial sector in Australia customers still attach a strength, stability and safety rating to the word 'bank', and I do think we are going to see more people and more organisations in that group starting to use this new gateway and cutting through and picking up the name 'bank'. And that then makes them potentially our competitor in the market as well.

So, they are the three things that I want to put on the table in addition to many issues around competition, and many of those are spoken about in the Productivity Commission's report. But they're the three, from the perspective of the ABA, that a number of our members are really focusing their attention on at the moment. It's where they see potential competitive forces coming to disrupt them, and there some very exciting and significant opportunities for enhancement of consumer power.

And, as I said at the beginning, the willingness of consumers to vote with their feet is, I believe, still the most powerful competitive force in any market, and these are tools that they'll be able to use to do that.