

Chapter 3

IMPACT OF DEREGULATION ON THE AUSTRALIAN FINANCIAL SYSTEM¹

Deregulation of the financial system is generally taken to mean the variety of legislative and economic events that took place in the early to mid 1980s, in large part as a result of the recommendations contained in the Final Report of the Campbell Committee of Inquiry into the Australian Financial System, released in late 1981.² “Deregulation” broadly meant there was a move away from regulating a range of financial activities directly so as to achieve monetary policy, public sector financing and sectoral assistance objectives. Instead an approach was adopted where banks and other financial institutions had much greater freedom to respond to competitive market signals and customer requirements, subject to meeting minimum prudential standards designed to protect depositors and maintain the stability of the financial system.

The success or otherwise of past deregulation should be gauged against this Inquiry’s objectives of having an efficient and competitive financial system, providing consumer choice, and maintaining the overall stability and integrity of the system. Also relevant is the Inquiry’s concern with fairness, or the equitable treatment of the various users of the financial system. Consequently, the focus of this discussion is restricted to these aspects of the impact of deregulation on the Australian financial system.

According to all the above criteria, deregulation has been successful:

- the outcome of deregulating savings and deposit rates, removing lending controls and opening the financial markets up to greater competition has generated billions of dollars of benefits to Australian savers (in more interest earned) and to Australian borrowers (in lower rates paid);
- deregulation has resulted in significantly greater competition, convenience and diversity of choice for both individual and business users of financial services; and
- the stability and integrity of the financial system has largely been maintained.

¹ The focus of this submission is on the banking sector. In addition, this submission does not attempt to gauge the broader effects of deregulation on growth and the economy at large.

² For a full account of the historical background to deregulation and the deregulatory measures which were implemented during the 1980s see *A Pocket full of Change, Banking and Deregulation*, House of Representatives Standing Committee on Finance and Public Administration, November 1991, chapter 2; and *Fast Money 3, the Financial Markets in Australia*, Edna Carew page 1 - 30.

3.1 Impact on Efficiency

3.1.1 *The impact of removing interest rate and lending controls*

Prior to deregulation, Governments sought to use the banking system as a means of achieving monetary policy objectives. Some of the restraints that were imposed on banks included:

- controls on interest rates which banks could offer on their deposits and charge on certain loans, particularly housing loans³;
- limits on the maturity of deposits on which banks could pay interest⁴; and
- limits imposed from time to time on the overall growth of their balance sheets.

A direct consequence of these restraints was the rationing by banks of funds available for lending. Lending rate controls made banks a cheaper source of funds than finance companies and building societies, which only increased the potential bank borrower demand, further exacerbating the loan demand/supply imbalance. In this environment:

- lower income earners were often excluded from borrowing from banks and were forced to borrow, if they could, from more expensive alternative sources;
- housing loan borrowers able to obtain bank finance were often forced to “top up” their borrowing with more expensive second mortgages or personal loans from banks, credit unions and finance companies;
- there was widespread depositor cross-subsidisation of lending for housing and other purposes. Interest rate ceilings on bank deposits meant that customers wanting a better yield had to seek out higher rates from more risky institutions outside the banking system. However, customers who wanted greater security (particularly low and middle income earners and groups such as pensioners) or had cheque accounts had no option but to keep their funds in no interest or low interest bank deposits and hence, indirectly, subsidised those fortunate enough to be borrowers; and
- there was little or no price competition between banks.

With deregulation, rationing of funds by banks ended and the dismantling of cross subsidisation between bank customers began. Both led to greater efficiency in the workings of the financial system and more equitable treatment of all bank customers.

³ There were a variety of prescriptive limits on interest rates that banks could apply to loans, including ceilings on rates charged on small overdrafts, which resulted in the rationing of overdrafts to the most credit-worthy business customers. Interest rate ceilings on new owner-occupied housing loans of less than \$100,000 were the last of the lending rate controls and were maintained until April 1986.

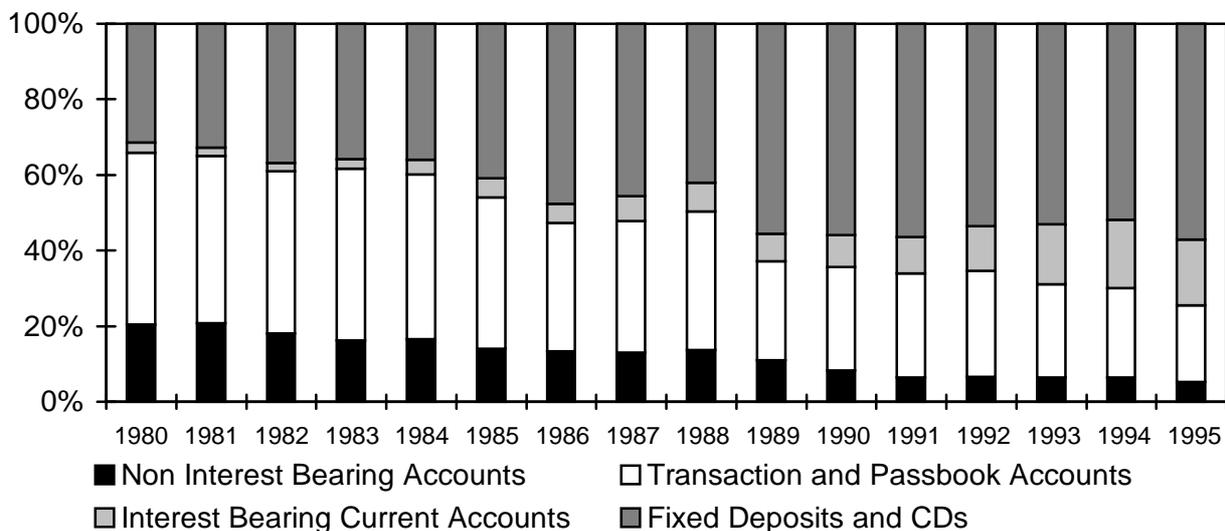
⁴ For example, prior to August 1984, there was a rule applying to trading bank deposits which disallowed banks from paying interest on deposits taken for less than 14 days or to pay interest on cheque accounts.

3.1.2. User benefits from removal of lending and interest rate controls

With the removal of lending and interest rate controls, bank customers began to receive competitive market-related rates on their deposits and were offered a greater variety of deposit products. As interest was paid on cheque accounts, and bank depositors became more interest rate sensitive, a shift occurred in balances out of accounts which traditionally had paid a zero or low interest rate to higher yielding accounts, as shown in Figure 3.1.

As a result, the proportion of funds in current accounts not bearing interest has declined significantly, from 20.5% in 1980 to 5.4% in 1995. Meanwhile the funds in high interest fixed term deposits and CDs have increased from 31.5% to 57.2% of total deposits over the same period.

Figure 3.1
BANK DEPOSITS REPAYABLE IN AUSTRALIA (%)



Note: Low interest accounts are non-interest bearing accounts and transaction and passbook accounts.

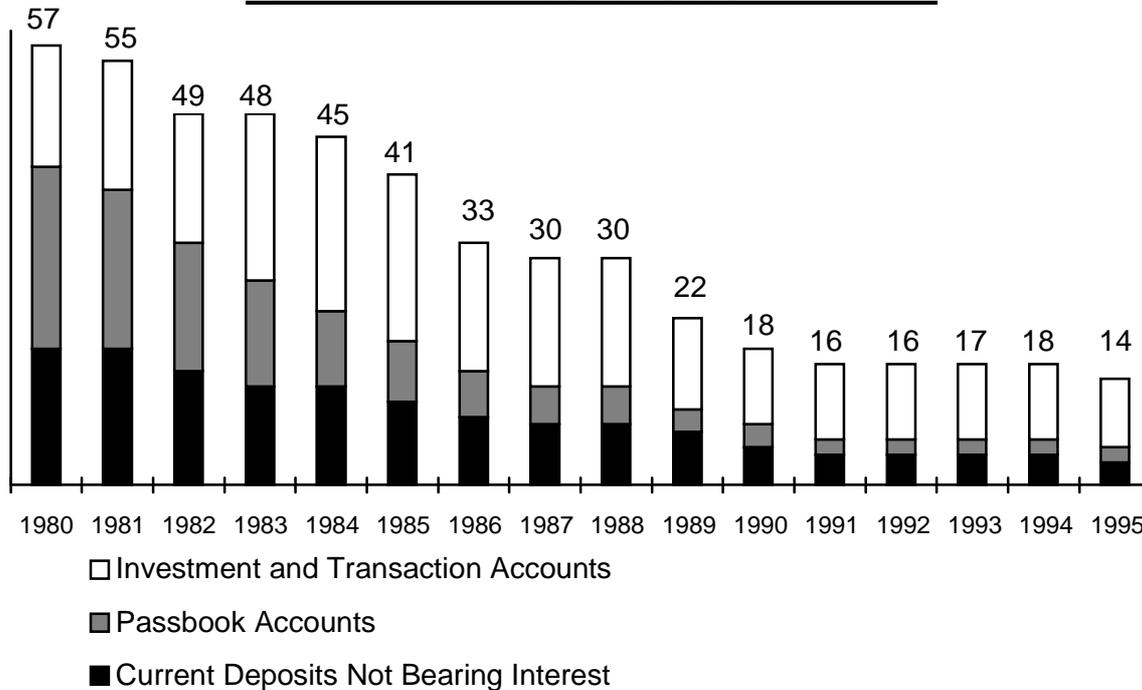
Source: RBA Occasional paper No. 8.

With the removal of lending controls, banks were in a position to meet a greater share of the borrowing needs of ordinary Australians. Customers in turn benefited from improved access and many also benefited from lower cost borrowing, than had been generally available from non-bank sources pre-deregulation. Not all borrowers, however, paid lower interest. The unwinding of the cross-subsidy to borrowers from those depositors who, prior to deregulation, were receiving no or low interest rates and the removal of interest rate ceilings, saw those borrowers fortunate enough to get controlled rate bank loans prior to deregulation begin to pay market rates. These changes resulted in a significant improvement in the equity of access to bank financing.

Banks' share of lending relative to lending by other financial intermediaries has risen from 58% in 1980 to 77% in 1995. However, it should be noted that the increased share also reflected the conversion of building societies to banks and the absorption of money market corporations and finance companies by some banks. Without these conversions and absorptions, banks' share of lending would have remained unchanged at 58%.

Following deregulation and the lifting of controls on lending, banks turned to borrowing in the professional markets to increase the overall availability of funds for lending purposes.⁵ This development, in association with the payment of market-related interest rates on deposit accounts resulted in the overall cost of funds increasing for banks. Banks' shrinking reliance on low interest deposits for lending purposes, from 57% to 14% of liabilities between 1980 and 1995, is clearly illustrated in Figure 3.2.

Figure 3.2
LOW INTEREST DEPOSITS AS % OF LIABILITIES



Source: *The Evolving Structure of the Australian Financial System*, M. Edey & B. Gray, 1996, forthcoming and RBA Occasional paper No.8.

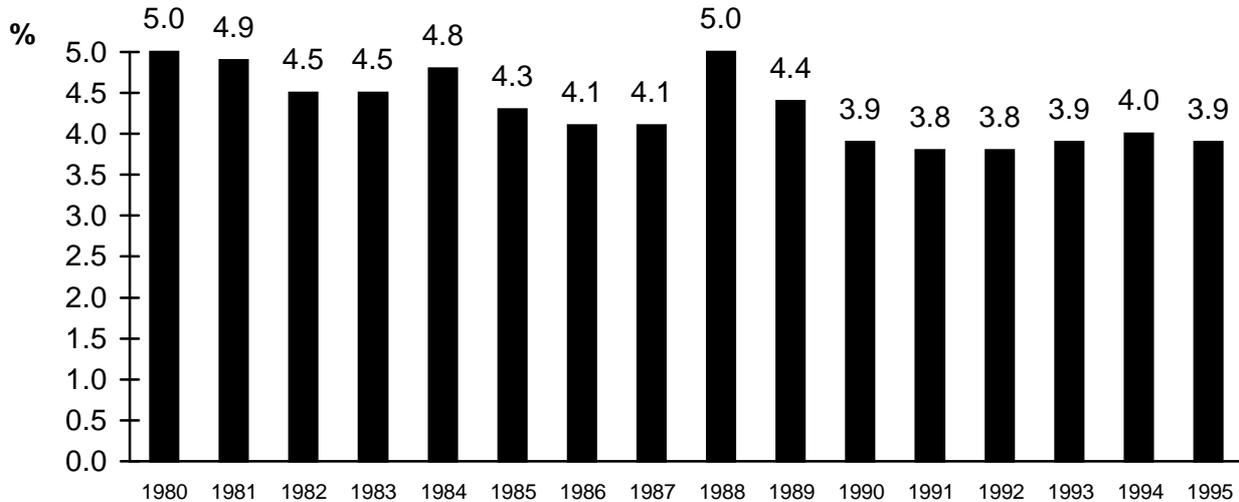
The diminishing level of low interest deposits has meant that the level of cross-subsidisation between depositors and borrowers has greatly decreased, although the unravelling of cross-subsidies, particularly as they still apply between transaction account holders and borrowers, still has some way to go.

The deregulatory measures implemented in the early to mid-1980s, the increased competition in both the lending and deposit markets (between banks and other financial institutions), and banks' greater reliance on the more expensive professional money markets for funds, have, in combination, resulted in a reduction in net interest spreads⁶. Between 1980 and 1995, domestic net interest spreads reduced from 5.0% to 3.9%, as can be seen in Figure 3.3.

⁵ Professional market borrowings (bill acceptances, other Australian liabilities and foreign currency liabilities) have risen from 11.4% of funding in 1980 to 29.1% in 1995.

⁶ The net interest spread is the average interest rate received less the average interest rate paid.

Figure 3.3
DOMESTIC INTEREST SPREAD - MAJOR BANKS



Source: RBA, Annual Report 1996.

This 1.1% reduction cannot easily be quantitatively attributed to its various causal factors. However, it is clear that the Australian economy is more efficient by having the net cost of intermediation, as measured by the interest spread reduced by this amount.

In simple terms, the benefit today to bank savers and borrowers of a 1.1% reduction in interest spread would be equivalent to more than \$3 billion. In anyone's language, this is a very large amount.

3.1.3 Improved operational efficiency and reduced costs

The large bank mergers in 1981 between, on the one hand, the Commercial Bank of Australia and the Bank of New South Wales, and, on the other hand, between the National Bank of Australasia and the Commercial Banking Company of Sydney, provided the initial impetus for the resource rationalisation that has taken place since the early 1980s. In addition, the decline in margins, the poor experience with loan losses in the early 1990s (see Section 3.3) and the more recent disaggregation of the banking market that has been taking place (see Chapter 4), have all acted as inducements to bank management to reduce operating costs and increase efficiency.

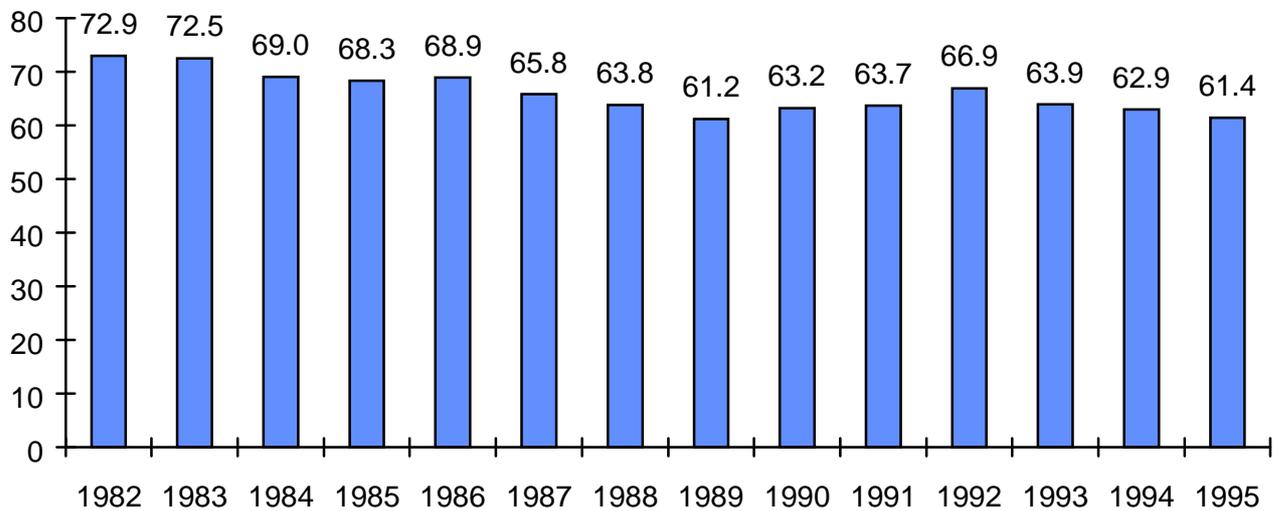
In the period since deregulation, the major banks have reduced costs in numerous ways. Between 1983 and 1994, they closed 15% of their branches, particularly in areas where revenues were insufficient to justify their retention. The most significant reductions have occurred between 1990 and 1994, when 12% of branches were closed. Branch closures are still taking place.

Staff numbers in the retail operations of banks have reduced by almost 5% between 1983 and 1994, despite a 25% increase in the volume of retail transactions and a significantly broader product and service base. Between 1983 and 1990, retail banking employment rose by 37%, reflecting the entry of new banks and substantially increased business levels. The main efficiency gains have thus come in the 1990s, with a decline in employment levels of 30% between 1990 and 1994.

These efficiency gains are associated with large-scale reorganisations by banks in the way their personnel provide banking services to personal and business customers. They have outsourced activities that can be provided more cheaply and efficiently by external parties⁷. Finally, they have generally pursued a variety of means to exploit the economies of scale which can operate in many sectors of the financial services market, particularly through the centralisation of certain processing functions and the judicious use of new technology⁸.

These initiatives have resulted in measurable increases in efficiency. The proportion of domestic non-interest expenses make up of the net income earned by banks has declined from approximately 73% to 61% between 1982 and 1995 (see Figure 3.4).

Figure 3.4
NON INTEREST EXPENSES TO NET INTEREST AND OTHER INCOME
- MAJOR BANKS (%)



Source: Annual reports of major banks.

Another measure of efficiency improvement is that of operating costs as a percentage of total average assets. Between 1980 and 1995, the banking industry saw an improvement from 4.2% to 2.9% in this ratio as outlined in Figure 3.5.

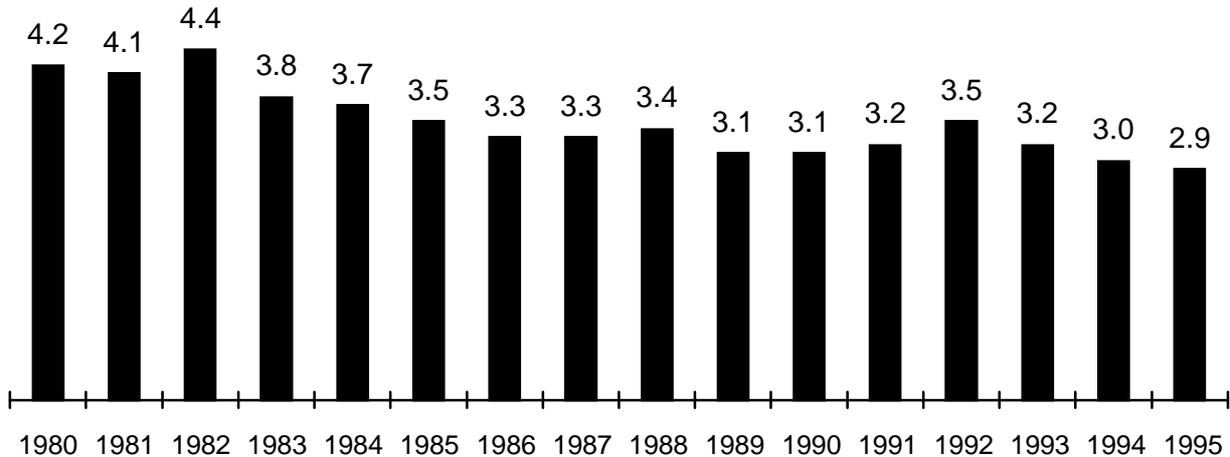
As total bank Australian assets currently amount to some \$456⁹ billion, each 0.1% that can be shaved off this ratio is equal to about \$456 million in cost savings a year, relative to that level of assets.

⁷ For example cash distribution, voucher storage and computer maintenance.

⁸ The new telephone banking services set up by banks are an example of using technology and centralisation to be able to have a smaller number of specialists deal with a large number of customer inquiries.

⁹ May 1996

Figure 3.5
NON-INTEREST EXPENSE/TOTAL AVERAGE ASSETS - MAJOR BANKS



Source: Annual reports of major banks.

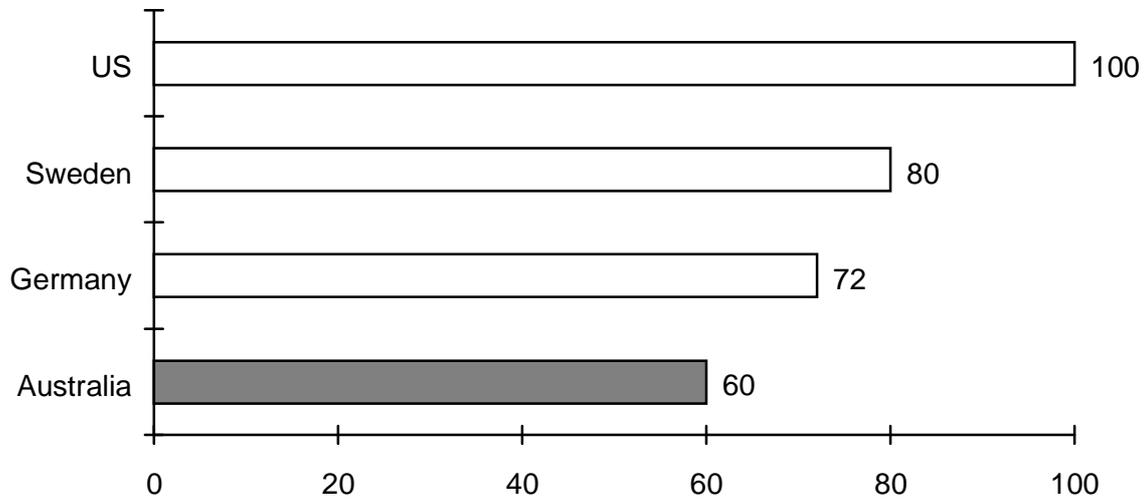
Attributing the above significant efficiency improvements across the range of changes that occurred throughout the 1980s is not possible. For example, rapid asset growth, particularly in overseas markets where corporate lending dominated activities and there was no requirement to build extensive branch networks, also contributed to the improvement in the expense/asset ratio.

What is evident, however, is that around 70% of the efficiency improvements occurred between 1981 and 1986. This period coincided with the two major mergers that created Westpac and the National Australia Bank. The resulting rationalisation benefits contributed to the above efficiency gains. This is evident from the operational efficiency measures for the merged banks. The reductions of 33% in the expense to asset ratio for both Westpac and the NAB between 1982 and 1986, compared to reductions of 14% for the Commonwealth and 9% for the ANZ, suggest that the mergers contributed to the efficiency improvements through this period, to the benefit of users.

Although significant efficiency gains have been achieved since deregulation, these gains are not yet enough. Australian banks still need to become more efficient if they are to be globally competitive. The 1995 study undertaken by the McKinsey Global Institute (referred to in Chapter 2), showed Australian retail banking productivity as up to 40% behind the levels achieved in the USA (see Figure 3.6).

Figure 3.6
RETAIL BANK PRODUCTIVITY - ACTIVITY PER FTE

(Index US = 100*)



Note: Composite index of productivity for payments, deposits and credit services, weighted by functional labour input; US, Swedish and German data are for 1992, Australian for 1994.

Source: *Growth Platforms for a Competitive Australia*, McKinsey and Company Australia and the McKinsey Global Institute, page 102.

As the McKinsey report says: “Australian activity levels per capita are well below those in the United States, but are similar to European levels. Transactions per capita are around 47 per cent of the US level, while estimated loan accounts outstanding are around 60 per cent of the US level. These relatively low per capita activity numbers, when combined with Australia’s high number of branches per capita, result in low activity per branch. Our research suggests that the major cause of lower labour productivity in Australian retail banking is high branch numbers”¹⁰.

The report notes that “Australia has more branches per million population than the United States and many European countries (see Figure 3.7).¹¹ This is mainly due to the low population densities outside major cities and regional centres, and nature of competition before deregulation, when the convenient location of branches was one of the few competitive levers available to banks. Although industry participants have long recognised the benefits of industry consolidation and the value of alternative distribution channels, they have been deterred from pursuing large scale closures because of historical market and regulatory factors”, such as Trade Practices Act and competition policy restrictions on the extent to which consolidation is allowed to take place in the industry¹².

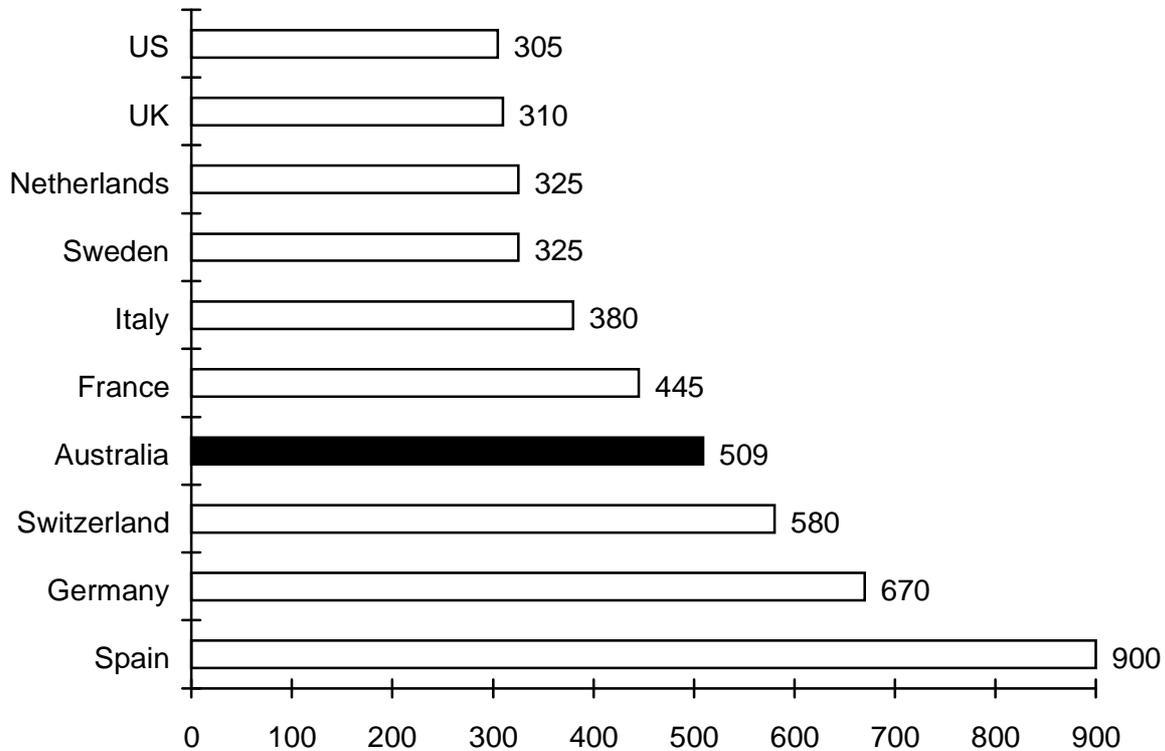
¹⁰ *Growth Platforms for a Competitive Australia*, McKinsey and Company Australia and the McKinsey Global Institute, page 103.

¹¹ A 1996 Baring McIntosh survey which included only banks showed that Australia had 372 bank branches per million inhabitants compared to 282 in Canada, which is also relatively sparsely populated, and 229 in the UK.

¹² *Growth Platforms for a Competitive Australia*, McKinsey and Company Australia and the McKinsey Global Institute, pages 103 - 106.

Figure 3.7
BRANCH DENSITY

(Branches/million population, 1993)



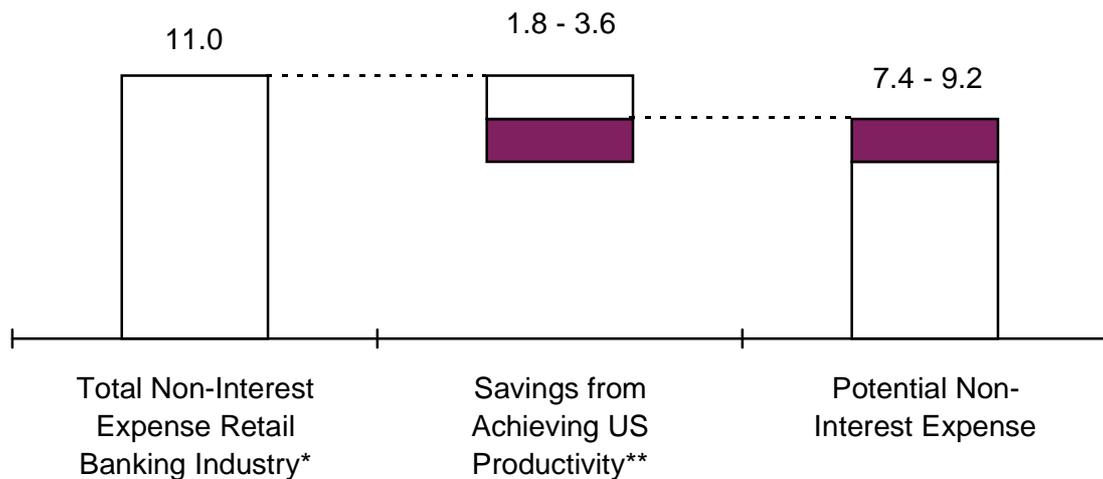
Note: 1994 Business Establishment Survey. All branches of banks, building societies and credit unions included.

Source: *Growth Platforms for a Competitive Australia*, McKinsey and Company Australia and the McKinsey Global Institute, page 105.

To be able to compete in an increasingly global marketplace and to continue to bring real benefits to customers, both borrowers and savers, domestic banks need to reduce their expenses further, and in particular, the number of branches. Consumers are already benefiting from new ways of transacting business other than by going into branches. However, they are not prepared to pay the costs of operating both the old and new technologies. For increased efficiency, the number of branches in the Australian banking system needs to be reduced, both through individual bank efforts and through merger rationalisation.

McKinsey have estimated that the benefits to the Australian economy of achieving US retail productivity levels could be between \$1.8 and \$3.6 billion (see Figure 3.8).

Figure 3.8
PRODUCTIVITY IMPROVEMENTS AUSTRALIAN BANKING (\$bn)



* Assumes that average non-interest expense for a branch is \$1.6 million for major banks and \$0.8 million for all other institutions.

** Upper bound assumes branch closures spread proportionately across major banks and others. 50% expansion in employees per branch assumed to be required in remaining branches. Lower bound of saving assumes that productivity improvements takes form of employment reduction without savings in premises cost. Employment accounts for around 50% of non-interest expense.

Source: *Growth Platforms for a Competitive Australia*, McKinsey and Company Australia and the McKinsey Global Institute, page 102.

3.2 Increased Competition and Diversity of Choice

Increased competition in the financial marketplace has come about as a result of the dismantling of some of the previously described controls, the entry of new competitors as licensed banks and heightened competition among existing players. This has resulted in significant benefits for consumers and businesses through greater convenience and choice.

3.2.1 Greater choice of institution

With the exception of building societies and finance companies that have converted or been absorbed into banks, the choice of institution with which consumers and businesses have been able to conduct their financial services transactions has significantly increased, as demonstrated in Table 3.1.

Table 3.1
NUMBER OF FINANCIAL INSTITUTIONS

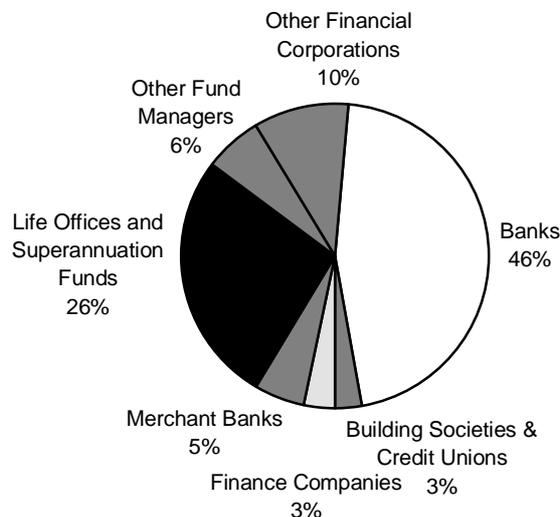
Type of Institution	1980	1995
Banks	19	43
Building Societies & Credit Unions	765	321
Finance Companies	117	103
Merchant Banks	59	83
Mortgage Originators	0	26
Funds Managers	35	93

Source: Council for Financial Supervisors, Annual Report 1995, CANNEX, Campbell Inquiry, Interim Report, ASSIRT.

The share of assets currently held by each of these different category of institution is shown in Figure 3.9. This illustrates the importance of the roles played by banks and life offices and superannuation funds in the financial system.

Figure 3.9
ASSETS BY INSTITUTION TYPE
(as at June 1995)

100% = \$956 bn



Note: Other funds managers include cash management trusts, common funds, friendly societies and public unit trusts. Other financial corporations include authorised money market dealers, pastoral finance companies, general financiers, general insurance offices, other FCA companies, securitisation vehicles and co-operative housing societies.

Source: RBA Bulletin, April 1996.

3.2.2 Greater convenience and choice

Convenience

There has been a dramatic increase over the past two decades in the ease with which banking business can be transacted, brought about both as a result of increased competition in the deregulated market and as a result of the technological innovations that have been introduced.

No longer do bank customers physically need to visit a branch between 10.00 am and 3.00 p.m. (or 5.00 p.m. on Fridays) in order to deposit or withdraw cash, pay off credit cards or transfer amounts between accounts. Not only are the branches open longer hours, but all of these functions can be carried out at the now ubiquitous automatic teller machine, located in shopping malls, in airport terminals and outside most banks. Goods can be paid for and funds often can be withdrawn at more than 100,000 EFTPOS terminals, even more conveniently located at service stations and in supermarkets and other stores. Banks have also begun opening compact banking kiosks at which a broad range of transactions can be carried out in supermarkets or shopping malls during extended hours, seven days a week.

Increased consumer convenience has also come about through innovations that allow customers to pay bills over the phone with a credit card and to carry out a variety of banking transactions any time of the day using the new phone banking services. Home loans can be initiated over the phone or with a mobile banker that visits the customer's residence.

The number of points at which customers can carry out transactions has dramatically increased (see Table 3.2) as have the number of hours per week customers can have banking facilities readily available (see Table 3.3).

Table 3.2
BANK POINTS OF ACCESS

	1980	1995
Bank Branches	5,859	6,655
ATMs	25	7,178
EFTPOS	-	107,702
Telephone	-	11,600,000 *
Internet	-	up to 800,000 **

* This is the number of telephone and mobile phone connections. There are currently 13 banks with extensive phone banking facilities.

** Estimated number of Internet users in mid 1996. Usage growing rapidly, with an estimated 1.9 million households having a PC and 950,000 having a modem in 1995/1996. Most banks have Internet 'home pages' with Advance bank being the only one yet to allow value transactions on the Internet.

Source: RBA Bulletins, Annual Reports, ABA Submission to Campbell Inquiry, Australia Payments System Council Annual Report 1994/95, Telstra, Paul Budde Communications and www.consult.

Table 3.3
BANK HOURS OF ACCESS PER WEEK

	1980	1995
Bank Branches	27	33.5-42.5
ATMs	112	168
EFTPOS	-	168
Telephone	-	168
Internet	-	168

Source: Westpac

Businesses are also far better served now than they were 15 years ago, with increasing penetration of desk-banking from the large corporate level to small businesses, allowing customers direct electronic access (via PC and modem) to their bank accounts. Customers review their statements, organise payments to suppliers, receive funds from customers and transfer funds, all via electronic means in their own offices. Banks, particularly the large ones, have also established specialist small business service units. Management information systems are provided to help small business owners run their businesses better and in many cases mobile managers visit small business customers at their workplaces, taking banking services directly to them.

Choice of Product

Product and supplier choice has increased enormously for consumers of bank products. For example, before deregulation, if a customer was eligible for a bank home loan, there were 26 different types of mortgages available. However all were of a credit foncier type with equal monthly payments made up of an interest and principal component. Today there are over 1800 different mortgage products available. Home loan customers can choose between fixed rate and variable rate loans or a combination of both, between loans which afford customers considerable flexibility in their repayments and may even have credit card and savings account options attached to them, to less flexible, lower cost loans. And the loans are available from banks, building societies, superannuation funds, life companies and mortgage originators.

Cheque accounts provide another example of the enormous proliferation of choice. Before deregulation, the 10 different cheque accounts offered charged a minimum fee as well as a "per cheque" fee and they paid no interest. Today there are 533 cheque account options available, most of which pay interest on credit balances. Many have no fees except government charges.

Similarly credit and debit card choices are now numerous and include value added benefits and services via the associated loyalty programs that come with many cards. Australians now hold over 7 million credit cards compared to 3 million in 1980 and they can use them at over 350,000 different merchants.

Savings accounts and transaction accounts (all 1,700 different product types compared to almost 700 in 1980) can be chosen by customers on the basis of their specific needs and transaction patterns. All manner of financial products and services now can be tailored very specifically to suit an individual customer's requirements.

The enormous increase in diversity of choice, both of supplier and product, has come about as a result of a more competitive financial services market. The amount of choice will increase further as technology enables providers to match their products and services more closely to individual customer requirements. In addition, the level of the competition in the market cannot be gauged by reference to one particular type of institution and the number of competitors of that type in the market. Different categories of institutions are now marketing the same product types.

3.3 Maintenance of the Stability and Integrity of the Financial System

From the mid 1980s, banks were free to set their own interest rates on all lending, and were relatively unrestrained in their ability to grow their balance sheets and increase market share. Like their international counterparts, Australian banks pursued growth strategies, in part reflecting the inflationary and high growth economic environment, driven by (inter alia) overly expansionary monetary policy. The combination of conditions resulted in excessive lending to business (to the property sector and to offshore borrowers in particular) and, subsequently, in large loan losses.

These loan losses did not flow from deregulation itself. They flowed from the combined effect of monetary policy that inadequately adjusted to the impacts of deregulation; an economic environment in which escalating asset values came to be considered the norm; and inadequate credit and operations risk management in the banks. Banks were evolving from the managerially simple world of regulation to the managerially complex world of deregulation. Inadequate risk management was a common institutional failing in a rapidly deregulating environment across the world.

Consequently, in excess of \$16 billion of loan losses were written off by the major banks and other financial institutions over the period from 1990 to 1993. Two State banks failed, resulting in additional losses of over \$5 billion, as well as a number of non-bank financial intermediaries. Collapses sometimes lead to a loss of confidence in other institutions. For example, the Farrow / Pyramid Building Society situation was a factor in an unjustified depositor run on the Bank of Melbourne. While the Federal Government did not pay directly for any of the collapses, there were tax impacts in connection with the State bank failures. State Government budgets and the taxpayers of those states bore the direct costs.

Despite all of this, the integrity of the financial sector has been maintained and, it could be said, subsequently even strengthened as a result of the adversity. No depositor lost money, and the stability of the payments system was never in question.

Regulators have successfully engineered bank reconstructions or judicious amalgamations of strong and weak banks and, together with action by governments, both in Australia and overseas, have maintained depositor confidence, despite the enormous potential impact on the financial system.

In all instances, the reasons for the banking and payments systems having emerged intact reside in the prudential oversight of banks (including interventionist support when absolutely required), and the ability of banks from a systemic perspective to withstand such shocks because of their strong balance sheet and liquidity management.

The business of banking is about risk management and containment. The ultimate risk is always that the payments system will not operate with complete integrity. In the period since deregulation, the system has withstood some rigorous tests.

A less obvious, but equally positive outcome has been improvement in credit assessment and control and general risk management procedures that have been implemented in all banks in response to the experience.

3.4 New Regulation

Explicit controls on banks to assist the Government achieve its policy objectives have, for the most part, disappeared. In their place, however, a system of prudential supervision and regulation has emerged for each of the main financial participant groupings (banks, building societies, credit unions and insurance companies), and a growing body of consumer protection legislation. Competition policy and prices surveillance have also emerged as important dimensions of the overall financial system regulatory framework.

The regulation listed in Table 3.4, has all been introduced or strengthened in the last decade. Legislation and regulation are increasingly being put in place by Federal and State Government agencies that lack national coherence and deal with problems, or perceived problems, in isolation. These are discussed in later chapters of this Submission.

Over the past decade, the Reserve Bank has regularly released new prudential statements for the banking sector. Often issues are dealt with in a prescriptive manner rather than through a more outcomes-oriented approach. The risk is that the prescriptive approach can result in “average” regulation, which does not differentiate between the various participants as regards the calibre of their boards and managements, the strength of their balance sheets and their risk management systems. The challenge is to rely more on the managements and boards of banks to run their businesses within the broader prudential guidelines set by the Reserve Bank and its international counterparts.

The Reserve Bank, however, has recently signalled a modification to its approach and appears to be moving in the direction of placing more reliance on bank management to endorse compliance with pre-approved internal risk management systems, and with external auditors playing a more active audit role.

3.5 Conclusion

Deregulation has largely been very successful, bringing considerable efficiency benefits to the Australian economy, greatly improving the range and pricing of financial services to consumers, and increasing the competitiveness of the financial services markets while maintaining system stability.

However, there is room for still greater efficiency and flexibility. The financial system would be enhanced by a more efficient regulatory framework; that is more nationally consistent in its application across various participant groups; that has the capacity to vary the extent of supervision and regulatory oversight according to the level of risk; and that limits the build-up of increasing layers of regulation.

Table 3.4
REGULATION INTRODUCED OR STRENGTHENED SINCE MID 1980s

<p><i>Protection of Depositors</i></p>	<ul style="list-style-type: none"> • Risk based capital adequacy requirements • Liquidity requirements (6% PAR for banks, 7% PLA and 6% operational liquidity for credit unions and building societies) • Supervision of large credit exposures • Restrictions on bank involvement in funds management and securitisation activities • Guidelines covering bank asset quality • Primary objects tests for credit unions and building societies • Prior approval by AFIC or an SSA of service contracts entered into by credit unions • Intensive hands-on supervision of credit unions and building societies by SSAs.
<p><i>Protection of consumers</i></p>	<ul style="list-style-type: none"> • EFT code of conduct • Consumer Credit legislation • Codes of Banking, Credit Union and Building Society Practice • Expanded role of Australian Payments System Council to monitor and report on the compliance of banks, credit unions and building societies with their respective Codes • On-going monitoring of credit card pricing in anticipation of a substantial inquiry into the effects on consumers of the deregulation of credit card interest rates • Restrictions on account keeping fees on retail transaction accounts and pressure on banks to provide “affordable access” to their accounts.
<p><i>Other social objectives</i></p>	<ul style="list-style-type: none"> • Pensioner deeming accounts • Farm Debt Mediation Act (NSW) • Occasional and informal pressure on banks to lend more for small business and to lend less for housing • Localised pressure on banks not to close branches in rural areas • Deposit taking institutions unable to provide superannuation products on their own account • Industrial awards often require superannuation to be paid into industry funds • Extension of Privacy Act to financial institutions
<p><i>Competition Policy</i></p>	<ul style="list-style-type: none"> • Six pillars policy preventing mergers of the four major banks and two major life offices
<p><i>Banks as Agents of Government</i></p>	<ul style="list-style-type: none"> • Administration of the Tax File Number System • Cash Transactions Reports Act - points system for opening new accounts and reporting requirements for suspect transactions • Collection of non-uniform State transaction taxes

Source: *How Does Regulation Affect the Future Role and Competitiveness of Banks?*
Michael Waterhouse, Australian Banker, page 51, April 1996.