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Ai Group Submission to the Financial System Inquiry

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About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

Australian Industry Group contact for this submission

Dr. Peter Burn, Director of Public Policy
Ph: 02 9466 5503
Email: Peter.Burn@aigroup.asn.au

Executive Summary

The Australian Industry Group welcomes the opportunity to make a submission to the Financial System Inquiry.

Australia has a strong and sound financial system, with the annual Global Competitiveness Survey conducted by the World Economic Forum ranking our financial system and the soundness of Australian banks among the top ten internationally. In large part this owes to previous rounds of reform that arose from past financial system inquiries. Reserve Bank of Australia Assistant Governor Malcom Edey recently noted these rounds of reform helped insulate Australia from the fallout of the collapse of Lehman Brothers in 2008.

> *"The post-Wallis framework that was put in place in 1998 established APRA as the integrated prudential regulator, affirmed the financial stability role of the RBA and set up the Council of Financial Regulators to ensure appropriate coordination among the regulatory agencies. Under APRA's leadership, Australian banks were held to much higher standards of resilience than many of their international counterparts. The banks remained profitable and well capitalised. Loan performance did deteriorate during the crisis period, but nowhere near as much as it did in the North Atlantic economies."*
>
> Address to the CFO Summit 2014, Gold Coast; 16 March 2014

Indeed, the RBA calculates Australia's major banks have recorded annual growth in profits averaging 15 per cent each year since 1993. The finance and insurance industry has grown to become one of the largest sectors in terms of economic activity and employment, especially in NSW and Victoria. The most recent National Accounts showed the sector accounted for 8.1% of gross value added in the December quarter, second only to the mining industry.

Importantly for Ai Group members, the strength of Australia's financial system in recent years has, for the most part, helped to provide a stable environment in which to do business. But many businesses now face challenges on other fronts which have hit their competitiveness, including high unit labour costs, steep rises in energy costs, a more rigid industrial relations framework and an elevated exchange rate. A major transformation is also underway in the Australian economy as the mining investment boom fades and we look to other sources of growth to fill the void left by the miners. Rebalancing within the Australian economy to find new drivers of growth is needed to address our heightened exposures to commodity prices and increased concentration of our export markets.

Ai Group sees banks and capital markets playing a vital role in enabling industry to reposition and set the economy on a new diversified growth path with a greater range of sources of competitive strength.

As part of this repositioning, businesses will need to take more risk and invest in new products, services, processes and business models. For this, businesses will need to source finance from banks, capital markets offshore or through venture capital, at a competitive cost. A key role of the financial system is to assist this by providing finance under sufficiently attractive terms and conditions.

The challenge now facing industry was captured by RBA Deputy Governor Philip Lowe in a recent speech titled *Demographics, Productivity and Innovation:*

> *"If we are to improve efficiency and advance technology then innovation is required and innovation requires someone to take a risk – the risk of trying a different process, the risk of changing workplace organisation and management practices, or the risk of spending scarce resources to explore a new idea. Sometimes the effort will not pay off, but just occasionally it will, and when it does, we find a better process, a more efficient organisational design or an idea that transforms how we do things."*
>
> Speech to The Sydney Institute, Sydney, 12 March 2014

Dr Lowe went on to note that Australian households and businesses have become risk averse following the financial crisis, which has implications for our future standard of living.

> *"Reducing risks is not always cost free – resources need to be devoted to the task and this means that these resources cannot be used for other tasks. And perhaps even more importantly, it might also be the case that a more risk-averse society is naturally less inclined to support and finance innovation, to implement new processes and to apply new technologies. If this is indeed the case, it has implications for future productivity growth."*

Given the challenges that lie ahead for the Australian economy, we ask the panel to consider:

- measures aimed at lifting competition for business lending;
- ways to improve the availability of venture capital in Australia;
- the role of private finance in public infrastructure financing;

- the benefits provided to the banking system of the deposit guarantee, and if any of this value can and should be recouped back to the taxpayer.

Summary of Recommendations

Ai Group recommends:

- the panel examines any barriers or policy settings that may disadvantage smaller and foreign lenders from competing in the business lending market;
- the panel assesses the risks to competition if there was a weakening in the "four pillars policy", which prevents mergers between Australia's largest four banks;
- the panel investigates the barriers for private investment in public infrastructure, and makes recommendations on how governments could better deliver projects to ensure greater participation by local sources of funding including superannuation funds;
- the panel explores the value of the deposit guarantee to banks, and if an appropriate pricing mechanism exists to recoup some of the benefit provided to banks.

On venture capital

- that the panel examines ways to simplify and harmonise existing support for venture capital to better address failures in the market providing venture capital and to accelerate the deepening of the domestic venture capital market;
- the panel examines and amend other government policies across portfolios that may unnecessarily discriminate against venture finance, including taxation, migration and corporations law;
- following from the above recommendation, that the panel examines the case for amending the existing "significant investor" visa to be open to venture capitalists;
- the panel examines employee share schemes arrangements, which may be discouraging local innovators from producing locally.

1. Industry and the Financial System

Businesses are generally able to borrow from a wider range of funding sources than households, including from debt capital markets, offshore, and through private arrangements. This section will focus on intermediated borrowing, given most small to medium enterprises rely on banks. [1] Banks are the most common form of debt financing for Ai Group members.

The financial crisis has changed the way banks lend to business and price the risk of lending to business. Lending to business tightened substantially following the collapse of Lehman Brothers in 2008. Banks across the globe rationed credit, and businesses' demand for finance plummeted owing to the uncertain economic outlook. Since 2008, growth in business credit has been tepid, while housing credit growth has been relatively steady. The reduction seen in competition in the business lending market since the financial crisis has led Ai Group members to experience difficulties accessing finance as well as paying higher interest rates, despite falls in official interest rates. These issues are explored below.

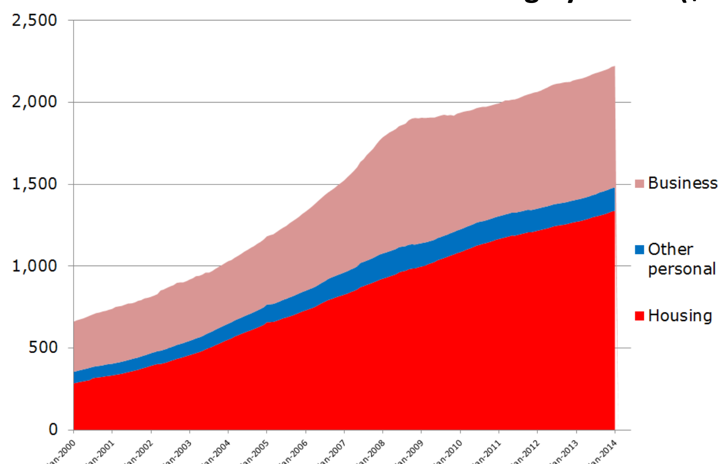
Credit outstanding

Australian businesses owed $732 billion of bank debt in January 2014, according to the RBA's monthly credit statistics (Chart 1). By contrast, household borrowing sat at $1.48 trillion (which includes housing and personal credit). The RBA noted the relative magnitude of housing credit compared to business credit was a unique feature of the Australian financial system.[2] Residential loans made up close to 60 per cent of Australian banks' total loan portfolios in 2009, but less than 40 per cent in the United States and Canada, and 15 per cent in the United Kingdom.

[1] Submission to the Inquiry into Access for Small and Medium Business to Finance, Reserve Bank of Australia, 7 February 2011

[2] Davies (2011); The Australian Financial System in the 2000s: Dodging the Bullet; Reserve Bank of Australia

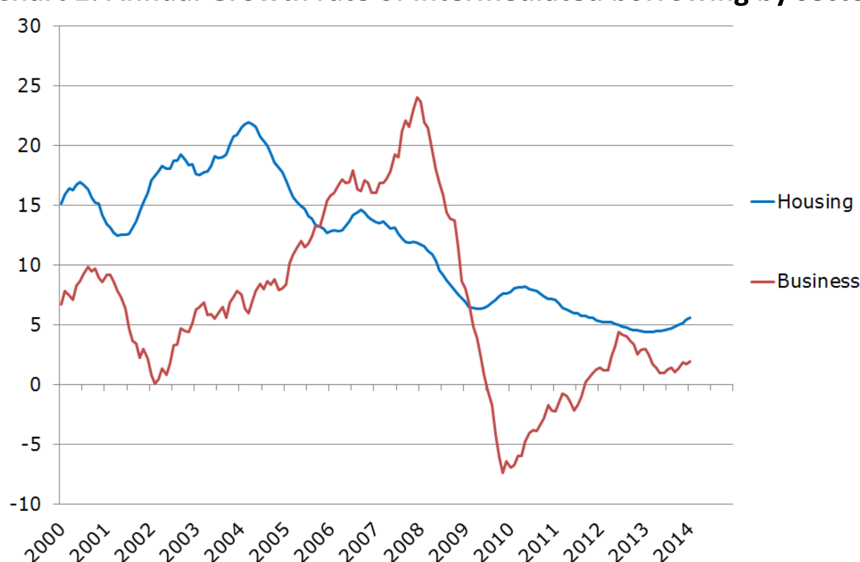
Chart 1: Total Intermediated Credit Outstanding by Sector ($s billion)



Source: RBA Monthly Lending Aggregates

Business credit grew at an annual pace of 24% over the year to December 2007 before the events of the financial crisis hit through 2008 and 2009 (Chart 2). Just a year later, business credit growth had slowed to an annual rate of 8.6%. By late 2009, business credit was contracting as new lending dropped and businesses repaid existing loans. This was not unique to Australia as deleveraging took place across most advanced economies. In Australia, business reduced debt for around two years through until 2011. Since 2012, credit has been rising, albeit at an anaemic pace. The most recent data for January 2014 shows credit is expanding at just 2%, which is still below nominal GDP growth recorded over the year to December 2013 of 4.8%.

Chart 2: Annual Growth rate of intermediated borrowing by sector



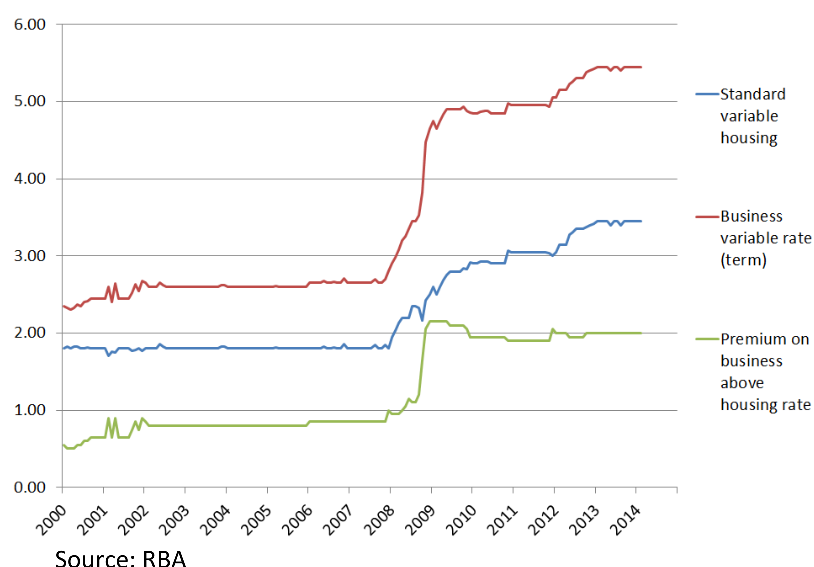
Source: RBA Monthly Lending Aggregates

Business borrowing rates

Over 70 per cent of Australian business borrowing is done at variable interest rates, whether it references the cash rate or other benchmarks like the bank bill swap rate.[3] From 1998 until the onset of the financial crisis, both business and housing variable interest rates moved in tandem with changes in the official interest rate, the RBA's cash rate (Chart 3). Strong competition between Australian and foreign banks meant the spread between actual variable rates paid by business and the cash rate slowly narrowed from 1998 through until global financial crisis in 2008. Small to medium enterprises, in particular, experienced a marked decline in spreads as they were offered products that enabled them to reduce the cost of finance by securing their loans against residential property. The majority of small business loans are now secured against housing.

However, in the aftermath of the financial crisis, there has been a noticeable increase in spreads charged on business loans, similar to the levels seen in the late 1990s. The RBA found the trend is similar across both small and large business lending, and attributed the wider spreads as "likely to reflect an increase in the sensitivity of banks to the perceived risks involved in different types of business lending".

Chart 3: Interest rate differentials on housing and business borrowing against the official cash rate



Source: RBA

[3] Stewart, Chris; Benn Robertson and Alexandra Heath; Research Discussion Paper: Trends in the Funding and Lending Behaviour of Australian Banks; Reserve Bank of Australia, December 2013

Competition in business lending

Competition among banks lending to businesses has fallen since 2008 as the major Australian banks have acquired smaller lenders, and foreign bank subsidiaries have reduced their exposures to the Australian market (Table 1).

According to the most recent monthly banking statistics collated by APRA, the big four Australian banks - ANZ, Commonwealth Bank, National Australia Bank, and Westpac – accounted for 75.4% of bank lending to Australian business in February 2014. While the major banks have dominated lending for a long time, their market share has grown since the financial crisis.

In February 2006 well before global credit markets came under pressure, the big four accounted for a market share of 65.2% of business lending, with smaller banks like Suncorp-Metway, St George Bank, Macquarie Bank and Bank of Western Australia accounting for a significant portion of the remaining market share. Foreign bank subsidiaries like HSBC, BNP Paribas and Rabobank were also noteworthy lenders during this time.

Table 1: Business lending by Banks

	Big Four	*with subs acquired post 08**	Total	Share	*with subs pre 08*
		$s billion			%
Feb-06	176.7	194.3	270.9	65.2	71.7
Feb-07	202.4	223.0	318.3	63.6	70.0
Feb-08	251.6	276.9	403.8	62.3	68.6
Feb-09	308.8	-	445.9	69.3	-
Feb-10	308.7	-	432.4	71.4	-
Feb-11	323.3	-	440.8	73.4	-
Feb-12	363.7	-	478.2	76.0	-
Feb-13	377.8	-	499.3	75.7	-
Feb-14	398.3	-	528.0	75.4	-

* including BankWest and St George pre 08

Source: APRA Monthly Business Statistics

By February 2008, before the collapse of Lehman Brothers in September that year, competition had intensified particularly from foreign lenders, and the big four only accounted for 62% of lending to business. But Commonwealth Bank went on to acquire Bank of Western Australia (or BankWest), the country's sixth largest business lender with business loans of $18.6 billion in late 2008. Westpac also took control of St George in that year including its $6.7 billion of business lending. Together, these two acquired banks had accounted for a market share of 6.5% of business lending.

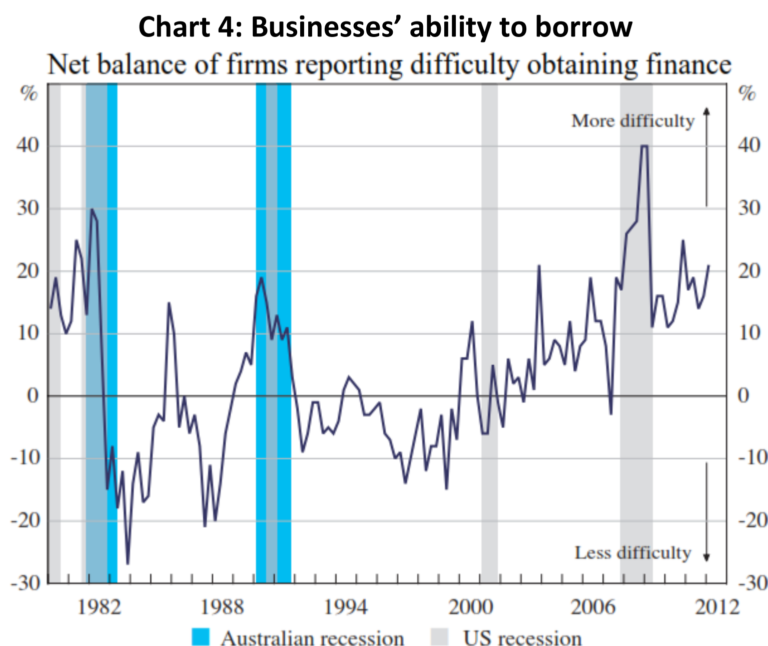
During the same period, the global credit crunch led many foreign bank subsidiaries to either leave the Australian market, or significantly curtail their lending to Australian businesses. This eroded competition and led to a reduction in access to finance.

Access to Finance

The RBA has noted on numerous occasions that a number of banks have reduced their lending to the business sector since the onset of the financial crisis (RBA 2011). This led to a reduction in competition by banks, especially for higher-risk business loans over recent years and more firms have reported difficulties accessing finance (Chart 4).[4]

Encouragingly, the RBA Governor Glenn Stevens told Parliament in March this year that "liaison suggests that lenders are becoming more accommodating to potential business borrowers and few complain about availability of credit." However, official data and anecdotal reports from Ai Group members indicate banks are still reticent to lend, particularly to manufacturers. This may pose difficulties for the economy when demand strengthens and businesses seek to finance investment to build capacity or diversify into new sectors.

Chart 4: Businesses' ability to borrow

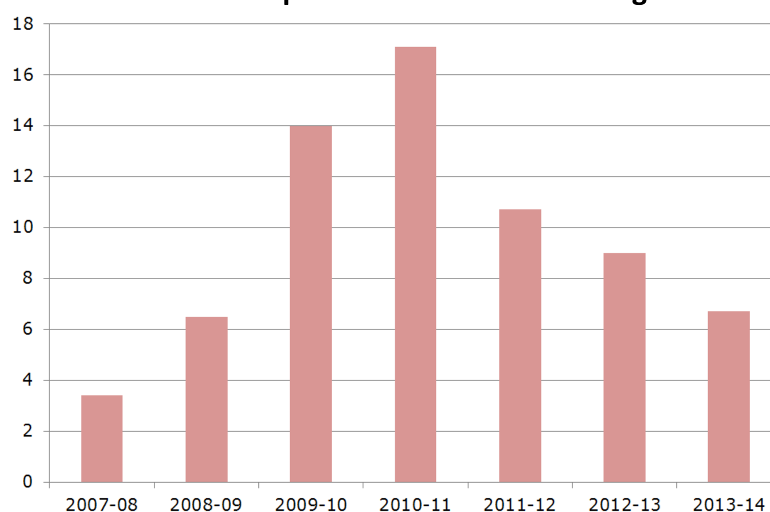


Source: RBA

[4] Jacobs, David and Vanessa Rayner: *Research Discussion Paper: The Role of Credit Supply in the Australian Economy,* Reserve Bank of Australia, May 2012, p11.

The annual Global Competitiveness Survey compiled by the World Economic Forum indicates access to finance remains a concern to both Australian and foreign business operating in Australia. Access to finance remained in the top five "most problematic factors to doing business" in Australia in the latest survey for 2013/14, accounting for 6.7% of responses (Chart 5). This was down from the peak of 17.6% seen in 2010-11 following the financial crisis.

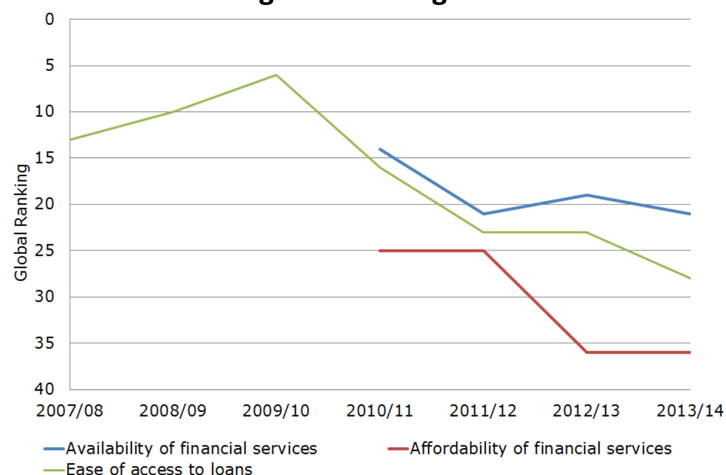
Chart 5: Access to Finance as a "problematic factor to doing business" in Australia



Source: World Economic Forum Survey, Global Competitiveness Survey Report 2013-14

The WEF data confirm that Australia has slipped in the global rankings for ease of access to finance (Chart 6). Before the credit crisis hit, Australia ranked 13th in the world for the "ease of access for loans" for business, and this has subsequently deteriorated to 28th place in the latest survey in 2013/14. Australia's ranking for the "affordability of financial services" sat at 36th place in the most recent survey, which will owe in part to higher official interest rates in Australia compared to other advanced economies. That said, on "availability of finance", Australia is ranked poorly at 21st place.

Chart 6: Australia's global ranking for Financial Services



Source: World Economic Forum, World Economic Forum Survey, Global Competitiveness Survey Report 2013-14

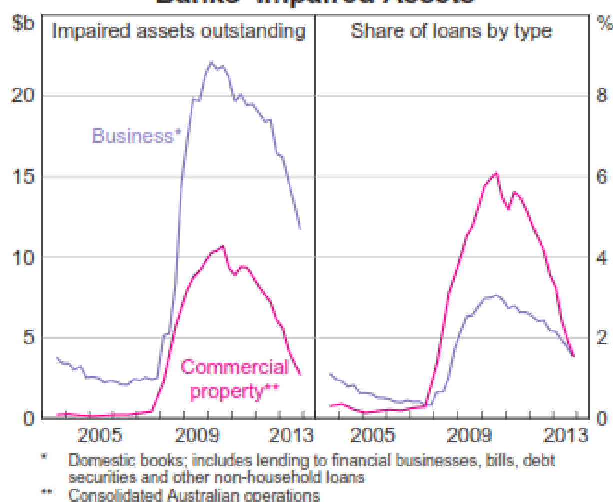
Ai Group has been concerned for some time that banks impose especially stringent lending criteria on the manufacturing sector. In a 2011 survey of members, we concluded that financial institutions, responding to the perception of higher risks facing the industrial sector, were downgrading manufacturing industries and making access to finance more difficult and expensive for businesses across the entire sector, regardless of their individual circumstances and risks.

This finding was also reached in the report by non-government members of the Prime Ministers' Manufacturing Taskforce, in August 2012. The report noted that access to finance for the manufacturing sector was one of the major challenges for the sector in the years ahead.

Most recently, automotive supply chain businesses are reporting similar concerns to Ai Group following the recent decisions by the three car assemblers to end local production. The supply chain companies have told Ai Group that difficulties accessing bank finance to invest in new machinery and equipment is one of the main barriers stopping them from transitioning to new markets instead of winding up.

While banks have grown increasingly reticent to lend to business, Australian business loan delinquencies remained relatively low through the financial crisis and aftermath. The RBA's semi-annual Financial Stability Review released in March showed that outside of the commercial property market, businesses continued to meet debt obligations through the 2008-09 crisis period. The impairment ratio for all loans peaked at just 3% of business loans outstanding in 2010 (Chart 7). Commercial property drove the pickup in banks' impaired assets, reaching a peak of 6% of total business lending in mid-2010, but has declined gradually since and, at 1.5%, is now at the same level as the impaired ratio for total business.

Chart 7: Loan Quality of Business Lending



Source: RBA based on APRA data

Ai Group does not suggest the panel propose regulating banks' lending standards, other than the appropriate APRA and international prudential safeguards. But it is worth highlighting that industry has demonstrated its ability in recent years to repay loans in a below-trend growth environment. Yet even today accessing finance remains a concern for Australian business. Consequently, Ai Group stresses the need for policies aimed at boosting competition among lenders. We support the continuation of the "four pillars policy" which mandates the four major banks are unable to merge. This should prevent further declines in the competitive environment. We would also ask the panel to examine other policies to encourage greater lending by smaller banks and foreign lenders.

Ai Group recommends:

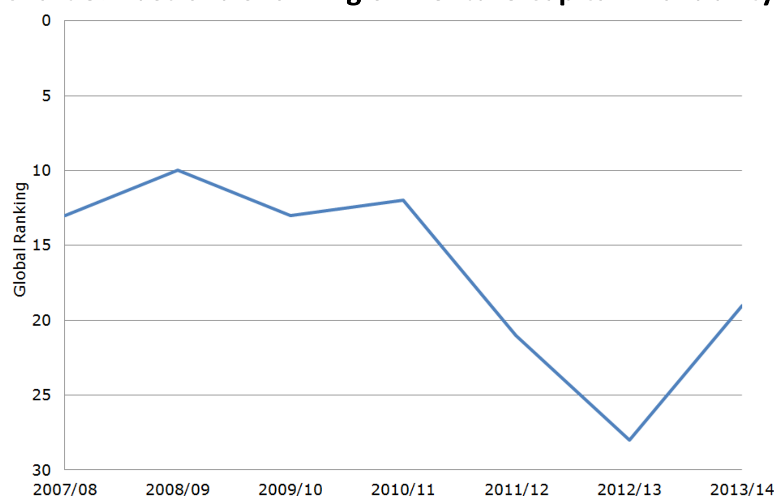
- **the panel examines any barriers or policy settings that may disadvantage smaller and foreign lenders from competing in the business lending market;**
- **the panel assesses the risks to competition if there was a weakening in the "four pillars policy", which prevents mergers between Australia's largest four banks;**

2. Venture Capital

Venture capital refers to the finance required by start-up companies that may have very good ideas or technology but not yet have revenues, as well as entrepreneurs who need seed financing for a new idea not yet commercialised. Late stage venture capital finance is provided to those new companies with a proven idea that need funds to expand production and enter new markets.

Australia must develop a deeper venture capital market so new ventures with innovative ideas are able to access finance to commercialise and develop these products locally without the need to shift production overseas. Australia lags behind many advanced economies when it comes to venture capital, which suggests the economy is missing opportunities to commercialize ideas from a workforce that compares favourably on skills and education. In 2013-14, respondents to the Global Competitiveness Survey ranked Australia 19th in the world for venture capital availability (Chart 8). This is in contrast to the overall ranking of our financial system at 7th place.

Chart 8: Australia's ranking on Venture Capital Availability



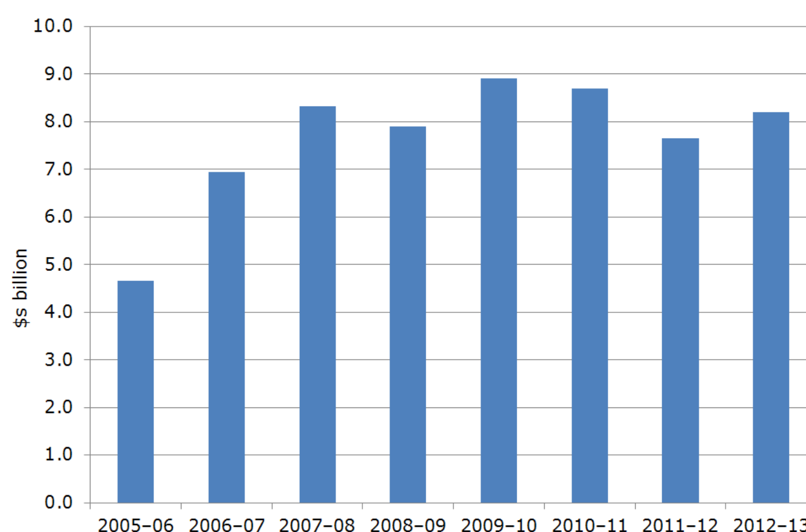
Source: World Economic Forum, World Economic Forum Survey, Global Competitiveness Survey Report 2013-14

The bulk of Australian venture capital finance is invested in late stage opportunities, which are those ventures with demonstrated potential, and therefore lower risk. Early stage finance is insufficient, on the other hand, which prevents Australian innovators from turning their ideas into a product that can be developed locally. It also limits the pipeline of good ideas that progress to the late stage private equity phase, where there is more appetite among private investors.

The ABS reports the stock of venture capital and late stage private equity market outstanding in 2012-13 sat at $8.19 billion, in an economy of nominal income of

$1.523 trillion at June 2013 (Chart 9). The market has grown however, at around 12% per year over the eight years of data, double the pace of nominal activity which grew around an annual pace of 6% over the same period. However it remains very small. Around $19.7 billion of new funds were invested in venture capital in the 2012/13 financial year before drawdowns were considered. This compares with the $268 billion nominal flow of private investment seen in the total economy in the same period, as measured by the *National Accounts*.

Chart 9: Total Stock of Venture Capital and Private Equity Outstanding, Australia



Source: ABS Cat 5678.0, Venture Capital and Later Stage Private Equity, Australia, 2012-13

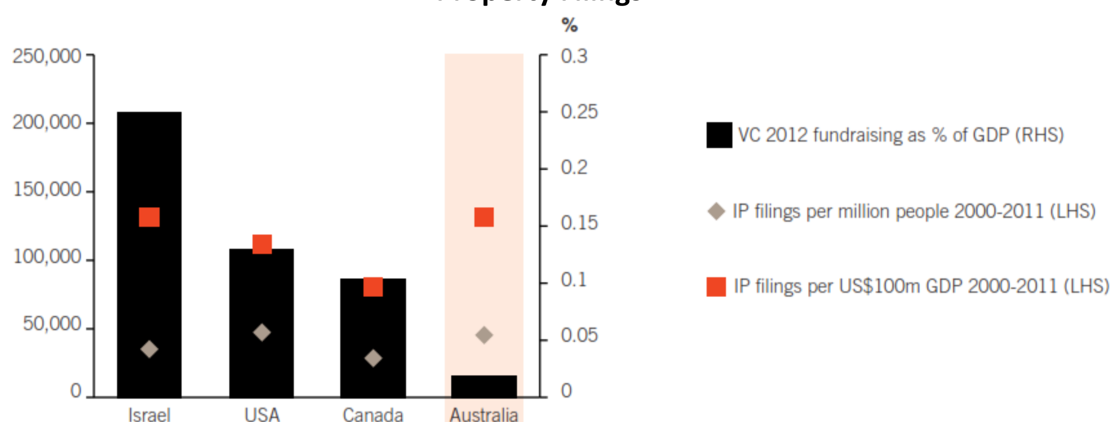
The Australian Private Equity and Venture Capital Association Limited (AVCAL), an association representing private equity and venture capital funds, estimates that only $1.5 billion has been invested in early stage venture capital in 250 companies over the past decade. This indicates the lion's share of the funding identified by the ABS cited above has been directed to late stage private equity.

Ai Group understands that early stage ventures that are successful in obtaining start-up capital tend to be low-capital lean start-ups, whose ventures are often software-based. The ventures particularly starved of early finance are in biotechnology, new materials, new manufacturing and energy efficiency that have larger capital requirements and longer developments cycles.

Despite our low levels of investment in venture capital, especially compared to the global leaders like Israel and the United States, the local industry earns a good return on its investment. Chart 10 shows that although Australia has a very low level of venture capital financing compared to overseas, we have the highest number of patents, trademarks and industrial designs filed per $US100 million of GDP, and per population. This suggests that Australia has been very successful with the limited

amount of venture capital we have invested. It also points to a pool of untapped opportunities that could be developed into successful products if more venture capital was invested.

Chart 10: An international comparison of Venture Capital raised versus Intellectual Property Filings



Source: AVCAL Venture Capital Factsheet, April 2013

Australia already has demonstrated its attractiveness as an investment location. Sydney and Melbourne are now the first and third-ranked start-up hubs in the Asia-Pacific region, according to AVCAL.

Recommendations

The different stages of venture capital financing have their own challenges and strengths. It is important that the panel considers this market holistically. Any improvement in early stage financing availability should translate to a greater pipeline of proven opportunities in which private financiers can invest at the later private equity phase.

The panel should direct its attention to examining:

- how more private capital can be attracted to start-up capital and seed financing; and
- the role that government financing should play.

One positive recent development was the launch of VentureCrowd earlier this year, which is an online equity-based crowd funding programme which attracts capital to invest in start-up companies. We will watch with interest how this site performs at attracting finance for start-ups.

Ai Group also supports other meaningful reforms advocated by AVCAL to encourage greater private capital to invest in new ventures. This includes expanding the eligibility of the Federal Government's **Significant Investor Visa category** to include investors who are willing to invest in Australian start-ups. This would encourage high net worth individuals who are able to migrate to Australia and commit to invest at least $100,000 in Australia. The current criteria exclude financing venture capital as an eligible investment. It is also at odds with other visa categories that enable migrants to come to Australia as entrepreneurs if they have sourced financing for their start-up idea.

Another concern is the existing **employee share scheme laws**, which Treasury is currently reviewing. We would support moves to wind back the provisions of these laws so they do not apply to start-up companies. Enabling start-ups to attract employees on the basis of paying them with equity ensures that innovative companies will be able to find and retain the highly-skilled employees they need to become successful.

Finally, given the inherent riskiness of early stage venture capital, it is understandable that private investors may not be prepared to fully meet the financing needs of the sector. We would encourage the panel to examine the existing Government funds that are available for venture capital financing.

To date it is uncertain if the Coalition Government is committed to maintaining existing venture capital funding arrangements. Ai Group recommends that the government maintains the following existing programmes and ensures they are adequately funded.

- **Innovation Investment Fund** invests in high-potential start-ups and other early stage investments to help commercialise Australian ideas. Over the three rounds to date, the programme has licensed 16 fund managers to invest in start-ups, supporting more than 100 new companies.

- Several tax concession initiatives exist for the venture capital sector including the **Venture Capital Limited Partnerships** (VCLP) and the **Early Stage Venture Capital Limited Partnerships** (ESVCLP) programmes. These programmes encourage investment in early stage ideas by enabling investors to operate in special structures such as exempting partners from tax on any share of the income derived by the partnership.

- Ai Group supports the work of the **Australia Renewable Energy Agency**, which funds and support research and development for renewable energy

projects. Ai Group recommends that the Government make no further funding cuts to this fund following the $40 million reallocation away from the fund in the Mid-Year Economic and Fiscal Outlook in late 2013.

We would also encourage the Government to continue to invest in later stage clean technology, notwithstanding the legislation currently in the Senate to abolish the **Clean Energy Finance Corporation**. There is an opportunity for the Government to earn a solid rate of return on those ideas that are already at the late stage of development. This would also broaden Australia's manufacturing base. Australia has the opportunity to position ourselves as a market leader in clean technology provided industry and governments work together.

Ai Group recommends:

- **that the panel examines ways to simplify and harmonise existing support for venture capital to better address failures in the market providing venture capital and to accelerate the deepening of the domestic venture capital market;**
- **the panel examines and amend other government policies across portfolios that may unnecessarily discriminate against venture finance, including taxation, migration and corporations law;**
- **following from the above recommendation, that the panel examines the case for amending the existing "significant investor" visa to be open to venture capitalists;**
- **the panel examines employee share schemes arrangements, which may be discouraging local innovators from producing locally.**

3. Infrastructure financing

Ai Group has been consistent in its calls across various inquiries for the need for more infrastructure in Australia so industry can produce at a competitive cost and access Asian markets.

A unique opportunity exists over the next few years to put in place a programme of infrastructure renewal, timed to phase in as the investment boom in mining-related infrastructure construction winds down. Even at a time when governments are facing acute budget constraints, sustained and strategic infrastructure investment is essential if governments are to avoid storing up a costly backlog of projects for the future.

Financing can be organised in a number of ways, such as:

- through direct investment from the private sector;
- investment by the public sector;
- debt instrument issuances;
- and a combination of these.

In some states, brownfields infrastructure assets owned by State Governments can be sold to help finance new investments that might in turn be offered for sale once they are established. This is termed “asset recycling”.

In a recent speech, Reserve Bank of Australia Deputy Governor Philip Lowe recognized the financing challenge facing Australia saying “as a society, we have a lot riding on finding a way to pay for the infrastructure that we need to boost our productivity and improve our living standards.”

Dr Lowe pinpointed access to finance as one of the major impediments to infrastructure projects in Australia and the need for governments and private investors to find innovative public-private partnerships to ensure projects are built. Dr Lowe noted many private sector investors told the RBA they had funds to invest in infrastructure but were sitting on the sidelines as they felt unrewarded for the construction and patronage risks posed by projects. This fully accords with Ai Group’s experience of the superannuation industry through its involvement in AustralianSuper. Industry super funds in particular are considerable investors in infrastructure and remain on the watch for appropriately-priced additional infrastructure investments. Dr Lowe called on the public sector to play a greater

enabling role, either through the use of its own balance sheet directly or through risk-sharing arrangements with the private sector.

Ai Group encourages the panel to examine financing approaches that could overcome the current barriers to superannuation investing in infrastructure. Treasurer Joe Hockey's announcement in late March following a meeting with state Treasurers is a step in the right direction. The Treasurer announced the Federal Government would include an "asset recycling pool" in the federal Budget that would provide funding to states that privatise existing infrastructure and use the proceeds to invest in new infrastructure. This would enable superannuation funds to invest in proven brownfield assets and enable states to fill the infrastructure hole that exists around the country.

Ai Group recommends:

- **the panel investigates the barriers for private investment in public infrastructure, and make recommendations on how governments could better deliver projects to ensure greater participation by local sources of funding like superannuation funds.**

4. Deposit Guarantee

Given the acute fiscal pressures facing the Australian Government it is important to explore sensible measures that can return the budget to surplus and free up funds the Government needs to invest in skills and infrastructure. One potential area is the panel could examine is the issue of applying a user charge, or levy, on the Australian Deposit Institutions for the benefit derived from Australian Government's guarantee of their deposit liabilities.

The Australian Government introduced a guarantee on deposits in 2008 amid the turmoil of the global financial crisis. It was a sensible policy response in the face of similar moves overseas, and it ensured confidence was maintained in our financial system and capital stayed in Australian banks. Without such a move, Australian depositors would have lacked the protection offered by banks overseas which would have placed the local banking system at a competitive disadvantage and may have led to capital flight. While the scheme has been wound back, the current Financial Claims Scheme still provides a government-backed deposit guarantee on deposits of up to $250,000. In the 2013-14 Budget, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately $696.9 billion, compared to $646.5 billion at 31 August 2012.

Ai Group does not advocate industry-specific assistance and would prefer all Australian businesses, regardless of the industry in which they operate, face a level playing field. As it stands, the Federal Government does not provide non-financial corporations or small business with a government debt guarantee, so it follows that the financial sector should bear some of the cost of the implied assistance on their deposit liabilities. Given the strength and profitability of Australian banks, the panel should investigate the value of the government guarantee to banks, and if an appropriate pricing mechanism exists, to recoup to the Government some of the cost to the taxpayer for providing this guarantee.

Ai Group recommends:

- **the panel explores the value of the deposit guarantee to banks, and if an appropriate pricing mechanism exists to recoup some of the benefit provided to banks.**