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31 March 2014

Financial System Inquiry  
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SYDNEY NSW 2001  
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**Mr David Murray AO**

Dear Mr Murray

### **Financial System Inquiry – shifting the focus to efficiency by creating a level playing field**

BOQ welcomes the opportunity to respond to the issues set out in the terms of reference for the Financial System Inquiry. We have been keen to make a contribution to the Inquiry, with the aim of ensuring a healthy and sustainable future for Australia's financial system, with particular focus on the banking sector. We firmly believe that a healthy, multi-tiered banking sector is the best model to guarantee Australian consumers and business will be able to access innovative and better value financial products and services into the future.

Given the significance of this Inquiry, BOQ and a group of other regional banks who share similar views - Bendigo & Adelaide Bank, ME Bank and Suncorp Bank – commissioned independent economics consultancy Pegasus Economics to separately prepare a joint submission to the Inquiry. The joint regional bank submission provides detailed background analysis and highlights a number of specific issues that are relevant to the Inquiry, in the context of delivering the most efficient financial system possible for the Australian economy. We fully support the findings and recommendations of that submission.

As such, we did not see the need to trouble the Secretariat and Panel members with another detailed submission, so instead take this opportunity to highlight the key issues which were identified in the regional bank submission, and reinforce our support for the recommendations included in that submission.

As a regional bank, BOQ aims to compete by providing customers with a unique banking alternative, predominantly through our relationship-based service model. We do so in an environment that has been shaped significantly by regulatory forces that have resulted from the impact of the global financial crisis. Given the events of the crisis, these regulatory forces have been aimed at ensuring stability of the financial system. Indeed, Australia's financial system has served the economy well in terms of stability during and since the crisis. We think the time is right now though, for the Inquiry to review whether efficiency of the financial system has suffered as a result of this focus on stability.

Competition is one of the key drivers of efficiency and we believe the evidence clearly demonstrates that competitive neutrality is not achieved in the current market, with a number of regulatory settings favouring larger banks. This means that regional and smaller banks face significant disadvantages in trying to provide an important alternative and element of choice to Australia banking customers. We

believe a number of changes could be implemented to level the playing field in the banking sector, to ensure that consumers and small businesses are provided with a better range of banking options in the long term. If no changes are made to the current regulatory settings, the future for customer choice is under serious threat.

The key areas that we believe should be examined closely as part of the inquiry are:

- The inequity created by the current regulatory risk-weighting regime for residential mortgages, which requires Standardised Banks to hold up to three times as much capital against the same loan as an Advanced Bank; This also includes the process for achieving Advanced Accreditation and the impact that this regulatory regime has had on the allocation of capital in the economy;
- The “too big to fail” guarantee provided by government to the major banks only, which provides a significant funding cost advantage through credit rating notch upgrades;
- One-size-fits-all regulation that doesn’t recognise the competitive impacts of change;
- Market concentration due to increased levels of horizontal and vertical integration;
- Ensuring that bank account switching is made as simple as possible in design of the New Payments Platform; and
- Small business (start-ups) financing, which seems to have suffered as a result of the regulatory regime that significantly favours residential mortgage financing over business financing.

A number of recommendations have been made in the regional bank submission which seek to address the above issues. We strongly encourage the Inquiry to consider those recommendations along with any other solutions proposed as part of the Inquiry, which seek to create a level playing field which will in turn help to drive efficiency of the financial system and the broader economy.

We would welcome the opportunity to discuss these matters with you further and look forward to being involved in the inquiry as it progresses.

Yours Sincerely



**Stuart Grimshaw**

Managing Director and Chief Executive Officer  
Bank of Queensland Limited