



Members Equity Bank Pty Ltd
ABN 56 070 887 679
Australian Credit Licence Number 229 500

Level 28, Melbourne Central Tower
360 Elizabeth St Melbourne VIC 3000
GPO Box 1345 Melbourne VIC 3001
t 03 9708 3000 f 03 9708 4799
w mebank.com.au

31st March 2014

Mr David Murray AO
Chair, Financial System Inquiry
Email: fsi@fsi.gov.au

Dear Mr Murray

I am writing to outline ME Bank's submission to the Financial System Inquiry (FSI). The Bank welcomes the opportunity to provide our view of the financial system, its key characteristics and challenges and to suggest recommendations for consideration.

This Inquiry occurs at an important time in our economic history as we emerge from the Global Financial Crisis (GFC) in a relatively strong position, having generated more than two decades of economic growth. Maintaining this performance will require greater levels of investment to overcome significant future challenges, including an ageing population, a decline in mining sector investment and excessive private debt levels. Key to generating increased investment will be policy reform in banking and financial services that encourages competition and efficiency while preserving stability.

ME Bank is a young bank, having acquired its licence in 2001. The Bank is owned by 30 of Australia's largest Industry Super Funds (ISFs) with collectively over \$200 billion funds under management and more than 5.5 million members.

Until the GFC in 2007 the Bank was primarily a mortgage manager drawing its funding from domestic and global investors. Through the high quality of its mortgage book the Bank was able to endure the financial crisis better than many other domestic securitisers, however it was immediately apparent the Bank needed to diversify its funding sources to sustainably fund its growth. Since the GFC the Bank has focussed heavily on building a more diversified balance sheet with a stronger reliance on deposit funding and less exposure to securitisation.

The Bank's current business plan highlights a need for close collaboration between the Bank and our shareholders around 3 strategic priorities:

- **Workplace Banking:** to build the largest branch network in the country where our customers are: ie. in their workplace;
- **Mass Customer Acquisition:** become the primary bank for ISFs and their members through the integration of fund and employer / union distribution channels; and
- **Network Deposits:** become the major provider of cash and fixed term interest products to ISFs and their members.

In the context of a market that is dominated by the major four banks our vision is to provide 'a genuinely fairer banking alternative' and our purpose is to add value to the ISFs, unions, employer associations and their members.

Our submission to your inquiry comprises four elements:

- this letter;
- the Australian Bankers' Association (ABA) submission;
- a submission by Industry Super Australia (Financing Growth); and
- a joint submission by Pegasus Economics for the regional banks (Suncorp, Bendigo & Adelaide Bank, BOQ and ME Bank).

Australian Bankers' Association

ME Bank is a member of the ABA and has been involved in the preparation of the ABA's submission.

While we support the submission, we believe the ABA has failed to address key structural issues that impede competition. Accordingly ME Bank, in conjunction with other regional banks, has prepared a separate submission (entitled 'Levelling the Playing Field').

In particular we are concerned with issues of market concentration, the funding advantages afforded by the major bank's status as being 'Too Big To Fail' and the differential treatment of risk weighted capital between major and regional banks.

Industry Super Australia

ISA is the policy think tank founded by a number of the Bank's shareholders. The Bank also works closely with ISA. We support ISA's submission generally and in particular endorse the ISA commentary regarding the banking market.

ISA argues that while the Australian banking system's stability and regulation have served the country well it would be a mistake to assume that this stability is without cost or that reform is not needed.

More broadly, ISA analyse the increasingly critical role of superannuation in the economy as it is projected to exceed \$4 trillion in assets by 2030. Superannuation is still maturing yet already pays retirement benefits double those paid by the Age Pension, acts as a macroeconomic stabiliser and invests heavily in the real economy, in particular infrastructure and private equity.

The Bank, given its ownership by ISFs, is acutely aware of the need for policy settings to comprehend the intersection of banking, superannuation and advice within financial services.

Regional Bank Submission

The four regional banks, concerned that our issues have not been adequately covered by the ABA, have agreed on a collective perspective driven by a shared commitment to policy reform that promotes a competitive, efficient and sustainable banking system - reforms that 'level the playing field'.

Material issues have emerged since the GFC that result in a significant competitive advantage for larger banks including:

- the disparity between the amount of capital required to support assets under the Basel Capital Adequacy Framework that delivers a significant advantage to banks accredited under the advanced approach;
- the significant funding and cost advantage available to banks deemed systemically important;

- the higher relative cost for regional banks due to the constant flow of new regulatory and prudential requirements; and
- increasing vertical and horizontal integration of the major banks in the broader financial services market.

We firmly believe that a diverse, multi-tiered banking sector is the best model to ensure consumers and businesses have access to innovation and value in their financial products and services.

To this end we strongly support the recommendations contained in the regional bank submission in particular recommendations to:

- establish a 20% risk weighting for residential mortgages as a transitional weighting while regional banks progress to advanced accreditation;
- release regional banks from the current Basel II requirement for advanced status across operational, credit and market risk before being able to rely upon an internal assessment credit risk;
- enact measures to ensure 'competitive neutrality' between regional and systemically important banks regarding funding costs and advantages;
- include competition impacts in 'Regulation Impact Statements';
- enact measures that address increasing levels of vertical and horizontal integration including mandatory disclosure regarding fees / commissions and market structures;
- facilitate account switching within the 'New Payments Platform'; and
- assist small business and start-ups.

ME Bank looks forward to working closely with the Inquiry and welcomes the opportunity to discuss in further detail any of the issues we have raised.

Yours sincerely

A handwritten signature in black ink that reads "Jamie McPhee". The signature is written in a cursive style with a large, stylized initial "J" that loops around the first part of the name.

Jamie McPhee
Chief Executive Officer