

Fairer Banking

AUSTRALIAN DEMOCRATS ACTION PLAN
FAIRER BANKING
TAXATION, FINANCE & CORPORATE AFFAIRS

Banking is not just another business – it is an essential social and economic service. It is important to have a thriving competitive profitable banking industry. It is vital that prudential regulation ensures asset and capital security, and financial services' sustainability. It is also important to ensure that this essential social service is affordable and accessible for all Australians. Excessive fees, poor service or a reduced presence in regional Australia are not acceptable.

Our Action Plan

“It is important to ensure that this essential social service is affordable and accessible for all Australians.”

**Senator Andrew Murray
Spokesperson on
Taxation, Finance and
Corporate Affairs**

This Democrats' policy recognises competing needs. These are the rights and needs of corporate banking institutions; the rights of clients and consumers to have universal access to competitive efficient affordable banking and financial services; and, the provision of banking services as an essential social good.

With respect to adequate banking competition the Democrats will:

- support the strengthening of the Trade Practices Act and regulators to ensure greater competition in banking, and lower costs to clients and consumers;
- continue to support the 'Four Pillars' policy, and oppose banking mergers and acquisitions that reduce regional competition; and,
- continue to oppose the downsizing and closure of key regional branches, and require the approval of the regulator before key branches' closure.

With respect to fairer banking and consumer protection the Democrats will:

- support formal regulatory monitoring and reporting on interest rates and banking fees for clients (especially small businesses), and consumers;
- support RBA intervention to reduce high interest rates on credit cards;
- push for a no-fee bank transaction account as a standard service for low income earners and pensioners;
- support regulatory intervention to address the problem of penalty fees; and
- campaign for 'fair go' banking standards for clients and consumers, and a strengthened and independent Banking Ombudsman.

Issue one: competition

Australian banking and financial services and the Australian economy have benefited enormously from deregulation from the 80's onwards, the implementation of the Campbell and Wallis report recommendations, the creation of APRA (the Australian Prudential Regulatory Authority), and the greater diversity and competition provided by the entry of foreign banks into our market.



Other ACTION PLANS are available online at
www.democrats.org.au

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Deregulation and restructuring of the banking industry has led to billions of dollars of cost savings and efficiencies, and greatly enhanced profitability for banks. However Australian consumers have not received the full dividend of lower banking costs they should have expected as a result. If competition law and policy cannot deliver that outcome, then regulation is needed to achieve it.

The Democrats support the 'four pillars' policy which prohibits mergers between the big four Australian banks. It preserves Australian control of our four major banks, and fosters competition between them. Australia's weak Trade Practices Act has no effective divestiture provisions (also known as anti-trust laws), so without the 'four pillars' policy banking competition would be weakened. (Divestiture powers enable a court to order a company in an uncompetitive concentrated industry to be broken up into several smaller corporations.)

Issue two: fairer banking

Banks have an important regulatory role. There are now unprecedented levels of household debt in excess of \$700 billion, or nearly \$34 000 for every man woman and child. Banks should ensure their lending policies are responsible and do not push vulnerable Australians beyond their limits.

Banks provide an essential service to the community. They are vitally important to Australians' financial well-being and security. Banking services are often inelastic, in that they are goods that consumers have to have and cannot easily find substitutes for if prices rise across the banking sector as a whole. This means that banks are in a unique position to ramp up fees, and consumers may have no alternative but to accept them. That is why competition law and regulation are so important to prevent banks from exploiting their power.

Shareholders are entitled to a thriving profitable banking industry, but the Democrats also believe consumers are entitled to highly competitive, convenient, low cost banking. We expect the banks to accept their social obligations, which include the provision of banking services in regional Australia. The Democrats will continue to target excessive transaction fees, the inappropriate promotion of credit cards and the level of service in rural and regional Australia.

The Democrats support the creation of basic, no-fee bank transaction accounts, particularly for low income earners and pensioners. Banking is a community responsibility and a basic no-fee product would ease the financial pressure on those that benefit least from Australia's economic prosperity.

The average level of credit card debt is approaching \$3 000. Credit card debt is over \$40 billion, with three-quarters of this debt accruing interest. The Democrats want more responsible issuing of credit cards, a crack down on unsolicited limit increases, and the better disclosure of fees, charges and interest rates.

Penalty fees for transgressing bank contract conditions can be unfair, and not related to actual bank costs incurred. For instance why should a customer have to pay for someone else's cheque that is dishonoured? The RBA and the regulators need to crack down on bad penalty fee practices.



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