CUSTOMER OWNED BANKING ASSOCIATION

Submission to the Competition Policy Review

June 2014

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Introduction

On behalf of Australia's credit unions, building societies and mutual banks, the Customer Owned Banking Association (COBA) appreciates the opportunity to contribute to the Competition Policy Review.

The performance of the financial system is critical to the performance of the wider economy and the core of the financial system is banking.

As we have argued in our submission to the Financial System Inquiry, the strong performance of Australia's financial system during and after the Global Financial Crisis (GFC) is masking an unhealthy and worsening trend: the increasing dominance of four systemically important banks and the medium to long-term risks that this poses to competition.

The state of the banking market raises a number of the concerns addressed in the Review's April 2014 Issues Paper, including:

- market concentration;
- competitive neutrality;
- market power; and
- vertical integration.

Our focus in this submission is on measures to promote sustainable competition and genuine consumer choice in retail banking and in the wider financial services market.

With more than four million members, Australia's credit unions, customer-owned banks and building societies provide competition and choice in the consumer banking market. Collectively, COBA's member institutions rank fifth behind the four major banks in share of household deposits and resident assets.

Customer-owned banking is distinguished by:

- prioritising customer benefit over profit maximisation;
- conservative business models and prudent risk management; and
- deep community engagement and strong customer loyalty.

Our sector has been steadily evolving via mergers over a long period of time and this trend is continuing, with fewer but larger individual institutions in a growing sector. More recently, some larger credit unions and building societies have opted to re-brand as banks while retaining the customer-owned governance model of 'one member, one vote'.

Customer-owned banking offers a genuine alternative for Australian consumers, with potential to increase competitive pressure in other retail banking markets such as small business (SME) lending. COBA looks forward to engaging with the Competition Policy Review on these issues.

Who is COBA?

The Customer Owned Banking Association brand has replaced Abacus - Australian Mutuals as the industry advocate for Australia's customer-owned banking sector. It is owned by its 99 member institutions: 81 credit unions, 7 building societies, 10 mutual banks and 1 other; and represents 13 friendly societies though the Friendly Societies of Australia and a number of affiliate members.

COBA provides representation and advocacy on behalf of its members, along with expert advisory and support services, such as compliance, research and fraud prevention services.

If you have any queries regarding this submission, please contact Mark Degotardi, Head of Public Affairs, on 02 8035 8441 or mdegotardi@coba.asn.au.

Executive Summary

The retail banking market is currently dominated by four major banks across Australia. Sustainable competition, diversity and plurality are under threat – a threat that poses risks to the stability of the banking market, the Australian economy in general and to consumers.

The Australian banking market has shown itself to be resilient through the GFC. Despite this resilience, the GFC had profound impacts on competition, as efforts of Government and regulators to stabilise the financial system during the GFC favoured the major banks over smaller lending institutions.

It is time to get the balance right between competition and stability. Measures to address distortions in funding costs and to deliver competitive neutrality for different business models are needed to restore sustainable competition and to ensure consumers have sufficient choice in banking providers and products.

These measures have some urgency because Australia has the most concentrated banking sector of any G20 country and is home to four of the eight most profitable banks in the world. The Australian economy is the third most reliant in the world on the performance of its top three banks, surpassed only by the UK and France. At 10.8 per cent of the economy, the financial services sector is approximately the size of the mining and media/telecommunications sectors combined.

Previous Governments have not acted strongly enough to address the competition problem despite irrefutable evidence that the banking market is too concentrated. A string of Parliamentary inquiries since 2008 have expressed concern about the conduct and growing domination of the major banks. The IMF found in 2012 that the four major banks have grown faster than the banking sector as a whole since the GFC, have pricing power and enjoy a funding cost advantage partly derived from implicit government support.

Independent research attached to this submission shows the major banks are tightening their grip on parts of the financial system outside banking, particularly funds management and financial advice.

The research report warns that this concentration should be of concern to competition regulators and that the emerging market power of major players would be expected to reduce product choice and innovation.

The four major banks already hold almost 80 per cent of total assets in the banking market and this research shows they are rapidly expanding their share of other markets.

The report by economic modelling firm *Macroeconomics* finds that since the mid-2000s there has been a material increase in the market share held by the four major banks in:

- Funds Management;
- Financial Planning and Advice;
- Mortgage Broking; and,
- Life Insurance.

The report says: "Factoring in the market shares of other major players in some sectors (including the role of controlled dealer groups or networks of advisers which is difficult to quantify) suggests the potential for major player control at 70 to 80 per cent in at least two of these sectors (Funds Management and Financial Planning and Advice). This concentration of activity should be a concern for competition regulators in Australia. A comparable analysis in the mid-2000s and before the GFC would have found each of these industries was more competitive, with only around half the market accounted for by the top five firms and the remaining half occupied by small and medium firms."

A strong, well-regulated and competitive banking and financial services market is critical to competition and efficiency in the wider economy.

COBA recommends that the Competition Policy Review should support the following measures to promote sustainable competition in banking and financial services:

- remove structural impediments to competition, such as the implicit taxpayer subsidy enjoyed by the major banks;
- empower consumers to exercise real choice through strong and effective disclosure regimes;
- provide a competitively neutral framework to accommodate different business models;
- increase vigilance about risks posed by large, vertically integrated players; and
- increase the emphasis on promoting competition in the objectives of regulators such as APRA and ASIC.

Structural impediments to competition – 'too big to fail'

Major banks gain an unfair cost of funding advantage that flows from ratings agencies and investors factoring in an implicit Government guarantee. This amounts to a subsidy by taxpayers allowing major banks to raise funds more cheaply than their smaller competitors.

Prior to the GFC, most consumers believed that the major banks were guaranteed by the Government. In addition, wholesale lending markets assumed that because of their 'too big to fail' status, the Australian Government would bail out the largest four banks in the event of failure. This is the implicit guarantee that has underpinned the major banks for some time.

However, during the GFC, this implicit guarantee became an explicit one with the Australian Government and key regulators making it publicly clear that they would not allow our largest banking institutions to fail. This was sound policy at the time of significant disruption to global markets, but it came at a significant cost to competition.

The IMF estimates this funding cost advantage for the major banks rose from 80 basis points to 120 points during the GFC when Government support for the banking system was made more explicit. This is a significant advantage and one provided without cost to our largest four banks.

Treasury's submission to the Financial System Inquiry outlined the two major consequences for the efficiency and stability of the financial system flowing from the perception that the major banks are too big to fail:

1. moral hazard: the behaviour of the major banks and their investors, particularly their attitude to risk and its management, may be affected as some downside risk is perceived to be shifted to the government.
2. allocative inefficiency: mispricing of risk will reduce the efficiency of the financial system as the price signals for the allocation of capital are distorted. All else being equal, major banks' funding costs will be lower relative to competing financial institutions, such as smaller banks or corporate bonds.

The option favoured by COBA for addressing these problems is a levy on the major banks, to reduce their unfair funding cost advantage.

Treasury's submission to the FSI canvasses this option.

> "A tax that removes the inefficiencies created by the implicit guarantee would require careful pricing to achieve the desired behavioural response from investors. If the tax were set at an incorrect level, it risks creating new distortions. For instance, it may over-correct and disadvantage the banking system relative to the outcome where no implicit guarantee exists.
>
> "A tax would have the benefit of providing the Government with additional funds in the unlikely event that it was required to support a failing bank."

The levy need only apply while major banks enjoy a credit rating uplift due to an implicit guarantee. Global regulatory authorities are discussing ways to ensure that systemically important banks can be allowed to fail. Once a credible resolution framework is in place and factored into pricing by creditors of systemically important banks, the 'too big to fail' uplift will be removed and the levy will not be needed.

The magnitude of the levy could be determined on an ongoing basis by reference to an analysis of the capital markets and the funding cost advantage major banks obtain because of their rating uplift. This funding cost advantage has been estimated to be worth $2.5 billion[1] or between $5.9-$7.9 billion.[2]

The levy will not apply to the major banks' competitors, given they do not enjoy an implicit government guarantee and the associated reduction in funding costs. As such, it will be difficult for the majors to simply pass it on to customers in the form of higher pricing. Indeed, the suggestion that such a levy would be automatically passed through in increased costs to major bank customers implies that the major banks are already entirely immune from competitive pressure from all the other banking institutions.

COBA recommends a levy on Australia's four Domestic Systemically Important Banks to reduce their unfair funding cost advantage.

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[1] *Review of the Hidden Costs and Unintended Side Effects of Explicit and Implicit Government Guarantees of the Australian Financial System, Morgij Analytics, Feb 2014*

[2] Regional Banks' submission to the Financial System Inquiry, p65

Empowering consumers

In a genuinely competitive market with real choice, consumers need to be able to easily understand the true identity and regulatory status of the entity they're dealing with.

This does not always apply in the financial services market because:

- major banks hide behind sub-brands that look like regional banks or non-banks;
- non-ADIs pose as regulated banking institutions; and
- brokers may not be on the customer's side.

Major bank multi-brand strategies are intended to lure customers who don't want to bank with a major bank and/or to compete on price against genuinely independent competitors without providing any benefit to the bulk of the major bank's existing customers.

Westpac's sub-brands include St George, BankSA, Bank of Melbourne and RAMS. NAB has UBank and CBA has BankWest and Aussie Home Loans (AHL). CBA's takeover of AHL means that one of the leading mortgage brokers in the market is subject to the interests of the largest lender in the market. Consolidation of the mortgage distribution services market in recent years includes NAB's acquisition of the PLAN, Choice and FAST brokerages, trading under the Advantage brand name. Westpac owns the RAMS Home Loans network. CBA, in addition to its major stake in AHL, has a significant stake in Mortgage Choice through its ownership of Count Financial.

In a submission to the Financial System Inquiry, regional banks (BoQ, Bendigo, ME Bank and Suncorp) warn about the risks to borrowers of major bank ownership of mortgage brokers.

> "Despite the benefits that mortgage brokers bring, there is the potential for the exploitation of borrowers. Bank ownership of mortgage broking platforms is potentially a competitive distortion and has consumer protection implications. One reason prospective borrowers seek a loan from brokers is to receive an impartial offering of housing loan products, yet this is potentially compromised if the broker owner is also a housing loan issuer. Ownership may exert pressure on brokers to allocate high credit quality customers to the owner, while sending lower quality customers to competitors. Even if pressure is not applied, the relationship between owner and broker may give the owner greater opportunity to tailor products to secure better customers."[3]

Consumers need more effective disclosure about the true identity of major bank sub-brands and subsidiaries.

ASIC has taken the view that while it is good practice for entities to disclose in their advertising the relationship between parent entities and their subsidiaries or divisions where appropriate, there is no positive obligation on entities to disclose this information.

ASIC, rather than the ACCC, is responsible for ensuring that consumers are confident and informed in financial services.

The ACCC's approach to a similar problem outside financial services appears to be more robust than the approach taken by ASIC.

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[3] Levelling the Playing Field, March 2014

One of the ACCC's current priority areas is "credence claims", i.e. representations, including marketing and labeling, that portray large manufacturers as small, niche business.

The ACCC says this type of behaviour has the potential to mislead consumers, particularly those who prefer to support Australia's small business community and that this goes to the heart of market efficiency.

> "There is a competition side to credence claims as well - businesses should be able to compete on their merits. Misleading credence claims tilt the playing field away from suppliers who are doing the right thing. In other words, a supplier may lose its competitive advantage or unique selling point if others are making misleading claims."[4]

While the ACCC takes the view that "unless we send some clear enforcement messages such behaviour will only increase", ASIC appears complacent about the problems of sub-brands.

Competitive neutrality in retail banking depends on consumers understanding that major bank sub-brands are not separate institutions and that so-called 'shadow banks' are not regulated banking institutions.

Consumer research strongly suggests that major banks are getting away with portraying their sub-brands as independent competitors. The current legislative framework does not ensure that retail banking consumers who want to deal with a regional bank or a non-bank have the opportunity to make a fully-informed choice.

This can be corrected by requiring that major bank sub-brands and subsidiaries clearly and prominently disclose in all advertising and all customer-facing material that they are owned by a major bank.

Shadow banking institutions, such as debenture issuers, have marketed themselves as offering deposits, savings products and at-call accounts. The occasional high-profile collapse of one of these entities prompts calls for a regulatory crackdown on non-ADIs presenting themselves as regulated banking institutions. However, proposals to ban these 'shadow banks' from using terms such as 'deposit' and 'savings account' and from offering at-call investment products have been repeatedly delayed.

In the interests of competitive neutrality, and consumer protection, a better informed market is needed about the real identity of various entities in the banking market. The regulatory system needs to ensure that consumers understand that there is a bright line between regulated banking institutions and shadow banking institutions, (which are not subject to prudential regulation and inherently less safe).

In this context, APRA should withdraw its current proposal to restrict credit unions and building societies from using the term 'banking' as part of a registered corporate, business or trading name, or as part of an internet domain name.

This proposed new restriction is at odds with APRA's – entirely appropriate - stance of allowing credit unions and building societies to use the term 'banking' in marketing and branding material. Banking is the business of credit unions and building societies.

COBA has strongly objected to the draft proposal but at this stage APRA has not indicated any willingness to withdraw the proposal. In our view, the proposal represents a significant policy shift by APRA, and the change will impact on a large number of our members.

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[4] http://www.accc.gov.au/speech/enforcement-priorities-at-the-accc

COBA recommends an effective disclosure regime and action by regulators to ensure consumers can easily tell the difference between an independent competitor and a major bank sub-brand and between an ADI and non-ADI.

Competitively neutral framework & taxation

Customer-owned ADIs generally do not pay dividends because they are not companies run for the purpose of yielding a return to shareholders (as set out in Part 5, Schedule 4 of the Corporations Act 2001[5]). Customer-owned ADIs rely on retained earnings as their main source of regulatory capital to meet prudential standards and support growth.

Although customer-owned ADIs are not motivated to maximise profits, it is important that they are profitable. This means that customer-owned ADIs pay company tax and accumulate franking credits.

Where a customer-owned ADI does issue share-like securities to diversify its capital base and to pay dividends, it is restricted (under the principles of mutuality expressed in ASIC Regulatory Guide 147) to distributing no more than 50 per cent of its annual profit in dividends.

An important principle of competitive neutrality is that competitors should be subject to the same effective tax burden. This is not the case for customer-owned banking institutions compared to their listed competitors.

Customer-owned ADIs pay company tax at the standard 30 per cent rate but their reliance on retained earnings as their main source of regulatory capital makes it difficult for them to release franking credits.

Under the franking credits system, company tax is essentially a withholding tax with the final tax due on a company's distributed profits being determined by the marginal tax rate of the underlying shareholders. The total tax paid on company earnings can be lower than the corporate tax rate if the average marginal tax rate of a company's shareholders is below the corporate tax rate.

Where an organisation is unable to pay out earnings and franking credits to its owners, the average tax rate is the company tax rate. This is the case for customer-owned banking institutions. The average tax rate for listed banking institutions is lower because the average marginal tax rate of their shareholders is below 30 per cent.

The franking credits regime does not contemplate companies that pay tax but then retain, rather than distribute, after-tax profits as a core feature of their business model.

Customer-owned ADIs should be able to pass on to their owners the benefit of having paid company tax, just as non-mutual companies can choose to do. As noted above, dividend imputation means company tax is a pre-payment of tax ultimately paid by the company's owners. Owners of companies that pay dividends are able to benefit from the tax paid by the company through a reduction in their personal taxation liabilities. Owners of companies that don't pay dividends, such as customer-owned ADIs, are not able to benefit in this way. For customer-owned ADIs, franking credits remain locked up, increasing year after year as the company continues to make profits, pay tax and prudently retain those profits as its main source of regulatory capital.

Customer-owned banking institutions collectively have accumulated franking credits of more than $1.5 billion and are adding $150-200 million per year. In the year ending June 2013, customer-owned banking institutions collectively made a pre-tax profit of $629 million, paying company tax of $185 million.

Solutions to the unfair company tax burden on customer-owned ADIs include:

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[5] http://www.austlii.edu.au/au/legis/cth/consol_act/ca2001172/sch4.html

- allow customer-owned ADIs to issue a frankable debt deposit product; or
- apply company tax on customer-owned ADIs at a rate that is comparable to the effective tax rate of their listed competitors.

The option of a frankable debt deposit product involves an otherwise ordinary deposit product but the interest paid would include a distribution of franking credits that could be used by the depositor to credit against tax payable on the interest. To give effect to this option, tax law would need to be amended to allow customer-owned ADIs to pass on franking credits to their members.

Generally speaking, distributions on an instrument are frankable or deductible, but not both. Legislative change would be needed to allow customer-owned ADIs to issue a frankable debt deposit product. This would involve amending the definition of a non-share equity interest in the income tax law. A non-share equity interest is typically legal form debt which has equity characteristics and is frankable. The definition would be amended to include a debt interest that is a deposit in a customer-owned ADI with a minimum term of not less than, say, 12 months. This would mean that interest payments on an eligible deposit would be frankable. For a customer-owned ADI to be able to deduct these interest payments, a further amendment to the tax law would be required. Currently, non-share distributions are non-deductible.

Some financial institutions have found ways to issue instruments with distributions that are deductible and frankable, by issuing the instrument through an overseas branch as debt but marketing the instrument domestically as equity. Such a structure is not available to customer-owned ADIs.

The alternative option to creating a new frankable debt instrument is to give customer-owned ADIs a company tax rate that is comparable to the effective tax rate of listed banks.

COBA commissioned the Australian Centre for Financial Studies (ACFS) to produce an independent report on the tax treatment of customer-owned ADIs compared to their listed competitors. The report, *Equitable Taxation of Customer Owned Banking* , found:

> "While mutual ADIs are obliged to pay company tax, they do not distribute profit by way of dividends on risk capital, except in some limited circumstances subject to an 'economic relationship test' and 'governance relationship test' set out in ASIC Regulatory Guide 147 *Mutuality – Financial institutions*. Earnings are retained as inter-temporal equity to meet capital requirements and serve the needs of their current and future owner-members. Consequently, the franking credits applying to company taxes paid are accumulated rather than distributed. Hence, as at February 2013, mutual ADIs had accumulated approximately $1.5 billion in franking credits which, due to the general absence of risk capital, cannot be passed on to the ADIs' owners.
>
> "Under the franking credit system, company tax is essentially a withholding tax with the final tax due on a company's distributed profits being determined by the marginal tax rate of the underlying shareholders. Prior to the introduction of rebates in July 2000, franking credits received by investors that could not offset a tax liability remained unused, meaning the company tax rate acted as a lower bound for the effective tax rate on company earnings. With the introduction of cash rebates on unused franking credits, the total tax paid on company earnings can be lower than the corporate tax rate if the average marginal tax rate of a company's shareholders is below the corporate tax rate. Of course, when an organisation is

[6] COBA submission to FSI, Attachment B http://www.customerownedbanking.asn.au/policy/submissions

> unable to pay out earnings and franking credits to investors, the average tax rate becomes the company tax rate."

According to the ACFS report, the average effective tax rate on the earnings of the major Australian banks is well below the 30 per cent rate paid by customer-owned ADIs. The report calculates the average effective tax rate on the earnings of Australian major banks is between 22.15 per cent and 25.5 per cent.

> "This is below the corporate tax rate that applies to mutual ADIs that are unable to distribute franking credits. This discrepancy in effective tax rates creates an uneven playing field and may distort decisions of Australian depositors and borrowers."

While a change to the company tax rate would be one way to address the disparity around franking credits going forward, it would not address the significant build-up of franking credits which already exist within the customer-owned banking sector. For this reason, we believe the stronger policy response remains the introduction of a frankable debt deposit product, given that this will provide a solution around both existing and prospective franking credits.

COBA recommends equitable tax treatment of franking credits for the customer-owned model by allowing institutions to issue a frankable debt deposit product.

Vertical integration risks

Independent research commissioned by COBA shows the major banks are tightening their grip on parts of the financial system outside banking, particularly funds management and financial advice.

The research report (see Attachment) warns that this concentration should be of concern to competition regulators and that the emerging market power of major players would be expected to reduce product choice and innovation.

The report by economics modelling firm *Macroeconomics* finds that since the mid-2000s there has been a material increase in the market share held by the four major banks in:

- Funds Management;
- Financial Planning and Advice;
- Mortgage Broking; and
- Life Insurance.

The report says:

> “Factoring in the market shares of other major players in some sectors (including the role of controlled dealer groups or networks of advisers which is difficult to quantify) suggests the potential for major player control at 70 to 80 per cent in at least two of these sectors (Funds Management and Financial Planning and Advice). This concentration of activity should be a concern for competition regulators in Australia. A comparable analysis in the mid-2000s and before the GFC would have found each of these industries was more competitive, with only around half the market accounted for by the top five firms and the remaining half occupied by small and medium firms.
>
> “The rapid diminution of competitive forces impacting on the financial services industry in particular is of critical importance to the national economy. This is because financial services currently employ over 400,000 people and is the largest industry in Australia when measured by gross value added (a measure of the economic worth of the goods and services produced).
>
> “Continued industry growth would be expected to be largely driven by Australia’s ageing population and the aggressive increase in the pool of superannuation funds inflows.
>
> “A lack of competition in the financial services sector is likely to lead, at the margin, to a misallocation of private savings and contribute to inefficient investment decisions both now and in the future. It would also be expected to reduce employment prospects in the sector and beyond. This situation would have a measureable impact in terms of growth in living standards for Australians over time, especially as they seek to retire.
>
> “An initial step to counter the trend in rising oligopolistic behaviour in the financial services market would be to charge ASIC with responsibility for production of a consistent set of annual market share indicators for the six activity areas examined in this report. These indicators should extend to quantifying the impact of controlled or connected dealer groups or advisory networks on relevant market shares.
>
> “Another proactive step would be to formulate appropriate policies, clearly broadcasted to the market, that prohibit or prevent any major player taking a further significant stake in any of the activity areas of concern unless they divest their control in some other comparably sized business (including the size of the relevant business’ market share) in that same or substantially similar activity area.

> "A more drastic approach would be to take appropriate action to curb or perhaps prohibit the deep vertical integration that has evolved over the last decade in the financial services market beginning with product origination and provision (wholesale and retail funds management) to distribution (retail financial advisory) underpinned by the overwhelming control of the financial services delivery and management infrastructure (fund platforms). This would require a set of policies that broadly adopts the kind of approach taken in the enactment of the 1930s United States Glass-Steagall legislation. This approach would limit or prohibit the major players owning or controlling both the product origination/provision (funds management) and distribution (retail financial advisory). For example, this would still enable the major banks to enjoy their market share in one of these markets but provide a mechanism for competition to develop in the other market."

Macroeconomics found that in the Financial Planning and Advice sector, the big four banks account for 36 per cent of total industry revenue while AMP Limited accounts for 13 per cent.

> "Five advice conglomerates now control more than half of the advice market. Industry consolidation is being driven by the economies of scale achieved by having a large number of advisers within the same group. This includes the opportunity to distribute financial products through a greater number of aligned advisers. ASIC has expressed concerns about vertically integrated large dealer groups being owned by product issuers, which may give rise to perceived or actual conflicts of interest."

In a submission to the Financial System Inquiry, a financial planning business accredited by AMP Financial Planning warns that the most pressing issue within the advice industry is the existence of bias within the advice process.

Elite Wealth Solutions says many financial advice firms owned and operated by institutions that supply the financial products recommended to retail advice clients exclude products provided by competitors to their parent company.

> "As a result of the systemic bias within the AFSL holder organisations, clients are not recommended to use alternative financial products provided by a competitor of the AFSL holder's parent company regardless of any superior ability to meet the client's needs. In addition to this, clients may also unknowingly pay more than is necessary for a financial product given that the only products that the advisers are authorized to recommend, as part of the standards set by the AFSL holder and their Professional Indemnity insurance, are those provided by the AFSL holder's parent company."

These anti-competitive structural problems in the advice industry are coming to light at a time when ASIC has imposed licence conditions on two financial planning businesses owned by a major bank (CBA) in relation to the treatment of customers.[7]

As noted in the earlier section on **Empowering Consumers**, major banks have also taken significant ownership positions in the mortgage broking market, giving rise to anti-competitive concerns.

According to Macroeconomics:

> "In Mortgage Brokers, the major banks accounted for around 18 per cent of market revenues in 2012-13. Only CBA is a major player in the industry after the recent ACCC decision allowing it to gain 80 per cent control of Aussie Home Loans (AHL). It is likely the remaining three banks will respond to CBA gaining control of AHL and attempt to increase their involvement in the sector."

[7] 'CBA kept fleeced investors in the dark' *The Australian*, 29 May 2014

COBA recommends ASIC be required to produce a consistent set of annual market share indicators for funds management, financial advice and mortgage broking. These indicators should extend to quantifying the impact of controlled or connected dealer groups or advisory networks on relevant market shares.

Regulators’ obligation to promote competition

In the financial sector, APRA is responsible for prudential regulation and ASIC is responsible for market conduct and consumer protection. However, in carrying out their primary responsibilities both regulators have a significant impact on competition.

ASIC’s approach in this regard compared to the ACCC is discussed earlier in this submission in the section on **Empowering Consumers**.

In relation to APRA, we believe there is merit in considering the appropriateness of the prudential regulator’s current legislative mandate.

Section 8(2) of APRA’s enabling legislation states that:

> “In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.”

In the interpretation of its operational mandate, APRA has typically promoted financial system stability first, with all other considerations seen as secondary. Whilst this approach was undoubtedly correct at the height of the GFC, the pendulum has swung too far towards stability and away from competition.

A more balanced focus for the prudential regulator was the initial recommendation of the Wallis Inquiry, which stated that the prudential regulator’s charter:

> “…should emphasise the need to approach prudential regulation in a way that balances the objectives of promoting financial safety with the need to minimise the adverse effects on efficiency, competition, innovation and competitive neutrality.”[8]

Under this framework, the regulator would need to more effectively balance financial stability against other objectives, and importantly, seek to minimise the adverse impacts on competition and competitive neutrality.

Two examples of where APRA’s approach is having a significant impact on competition in banking are:

- risk weighting of home loans; and
- a restrictive approach to customer-owned banking institutions entering the small business lending market.

Risk weighting of home loans

Major banks are permitted to use a method of calculating their regulatory capital that gives them a significant advantage in the amount of the regulatory capital they are required to hold against residential lending portfolios.

While all other ADIs use the Standardised approach, major banks using the Internal Ratings-based (IRB) approach can hold less than half the capital of their smaller competitors per home loan. ADIs using the Standardised approach must apply a risk weighting of 35 per cent or more on home loans while the major banks can apply a risk weighting as low as 16 per cent.

[8] Wallis, *Financial System Inquiry Final Report,* March 1997, p. 321.

Macquarie Bank's rapidly growing market share in the home loan market is at least partly explained by its status as accredited to use the IRB approach.

This competitive disadvantage imposed on all smaller ADIs in the context of credit risk is particularly anomalous for customer-owned banking institutions because of their strong and sustained track record of prudent lending. Customer-owned banking institutions have consistently delivered lower levels of non-performing loans than the major banks.

APRA already takes into account concentration risks and other factors in setting an ADI's prudential capital ratio, so the much higher risk weighting for home loans for 'Standardised' ADIs is in effect a double penalty. (For more detail on this issue, see submissions to the Financial System Inquiry by COBA and by the Regional Banks).

SME lending

Generally speaking, customer-owned banking institutions are focused on consumer banking. However, many customer-owned banking institutions, particularly those based in regional areas, also compete or intend to compete in the small business market.

Customer-owned banking institutions operating in this market must invest in the necessary expertise and product range to compete prudently. They see an opportunity to provide a personalised level of service for small businesses, and particularly micro businesses, in various regional markets where other lenders are not providing that personalised service.

Small businesses rely more on debt funding than large companies and rely more on the banking sector for that debt financing than large companies, so a competitive banking sector is critical to small businesses.

APRA strongly advises boards of customer-owned ADIs not to move into commercial lending without ensuring they have the personnel, expertise and systems to do so prudently. Customer-owned banking institutions understand this position and are appropriately cautious around the decision to become involved in small business lending, recognising that it requires significant investment and an appreciation of new and different risks.

Where a customer-owned ADI makes an assessment that small business lending is an appropriate opportunity for their business to pursue, it is important that APRA provides "in principle" support for such initiatives, subject to appropriate prudential standards being met. It is not the role of the prudential supervisor to actively discourage small ADIs from operating in this space. Such an approach would be overly risk averse and inevitably result in lower levels of competition in the sector and poorer outcomes for SMEs.

Customer-owned ADIs are well placed to play a more active role in small business lending, and it is important that APRA does not act as an unnecessary constraint on their capacity to enter the sector and offer a competitive alternative to the listed banks. Many of these institutions have a close relationship with their local community and are staffed by locals. The long-term relationships developed give these ADIs a very good understanding of both their customers and local business conditions.

COBA recommends that the objectives of regulators be revised to increase the weighting given to promoting competition and competitive neutrality.

For more information about any of the issues raised in this submission, contact:

Mark Degotardi, Head of Public Affairs, 02 8035 8441 ***mdegotardi@coba.asn.au***

Luke Lawler, Senior Manager, 02 8035 8448 ***llawler@coba.asn.au***

Micah Green, Senior Policy Adviser, 02 8035 8447 ***mgreen@coba.asn.au***

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MACROECONOMICS

16 April 2014

Review of the Major Banks

Control of the Wider Financial Sector

Commissioned By:

Customer Owned Banking Association

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Executive Summary

The **Customer Owned Banking Association** ('COBA') requested **Macroeconomics** prepare a report examining the major banks' control of the wider Australian financial sector. On behalf of customer-owned banking institutions, COBA is actively participating in the Murray Financial System Inquiry and wishes to generate public debate on key issues such as competition and choice in the financial system including establishing the actual market share of the major banks. This is timely given the Australian Prudential Regulation Authority's (APRA) recent designation of the four major banks as Domestic Systemically Important Banks (D-SIBs) that has formalised their institutional status in the Australian market. The dominant position of the major banks in markets such as deposits and home loans is well known. However, there is no reliable, consolidated information about the major banks share of funds management and insurance markets and distribution networks such as planners and brokers. This report is intended to address at least some of this information deficit.

Having reviewed the four major banks' (ANZ, CBA, NAB, and Westpac) and relevant subsidiaries' annual reports from 2004-05 to 2012-13 and relevant IBISWorld Industry Reports, **Macroeconomics** collated a database detailing the big four banks' revenue share across six key non-retail financial sector activities:

- Funds Management;
- Superannuation Funds Management;
- Life Insurance;
- General Insurance;
- Financial Advice and Planning; and
- Mortgage Brokers.

Macroeconomics focused on deriving the major banks' market share (calculated as the company's total earning for a given activity as a percentage of the industry revenue / except in superannuation funds management industry where funds under management (FUM) was used instead of revenue). Our key findings for each sector are summarised in turn below.

In **Funds Management**, the big four banks accounted for **34 per cent** of total industry revenue in 2012-13 up from **25 per cent** in 2008-09 (see Table 1). The big four banks are expected to raise this share over time as they seek new growth opportunities. This will involve further acquisition of smaller players. The major banks have already increased their market share of this activity, with the move by the ANZ Bank to fully own ING Australia and the purchase by NAB of a majority stake in Goldman Sachs' JBWere private wealth management business. If all other major players (Macquarie Group Limited and AMP Limited) are included, market share accounted for **70 per cent** of the industry revenue in 2012-13 up from **44 per cent** in 2008-09.

Table 1 Major Players' Market Share within Funds Management Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Macquarie Group Limited	N/A#	N/A	N/A	N/A	14%	28%	25%	32%	27%
AMP Limited	N/A	N/A	N/A	N/A	4%	2%	2%	6%	9%
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	15%	16%	15%	15%	15%
National Australia Bank Limited	N/A	N/A	N/A	N/A	5%	11%	11%	13%	13%
ANZ Banking Group Limited	N/A	N/A	N/A	N/A	2%	3%	4%	4%	4%
Westpac Banking Corporation	N/A	N/A	N/A	N/A	2%	2%	2%	2%	2%
Major Banks Total	N/A	N/A	N/A	N/A	25%	34%	32%	34%	34%
Major Players Total	N/A	N/A	N/A	N/A	44%	64%	59%	72%	70%
Others Total	N/A	N/A	N/A	N/A	56%	36%	41%	28%	30%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld, Annual Reports and **Macroeconomics** estimates.
#N/A: Not applicable.

In **Superannuation Funds Management**, the big four banks accounted for a **26 per cent** share of industry FUM in 2012-13 up slightly from **24 per cent** in 2004-05 (see Table 2). In addition to this market share the large fund managers in the industry, such as the major banks and AMP Limited, also provide administrative platforms and typically have networks of affiliated financial advisors supporting their products. These extended distribution networks provide a significant advantage in increasing growing market share. These scale and vertical integration advantages have enabled major players in the industry to increase their 'real' market power regardless of the FUM benchmark result. Major mergers and acquisitions that have impacted activity include: NAB's purchase of Aviva's wealth management business and Goldman Sachs's JBWere private wealth management operations; ANZ's acquisition of ING Australia; CBA's purchase of Bankwest and St Andrew's from HBOS; and Westpac's takeover of St. George Bank (IBISWorld 2013a).

Table 2 Major Banks' Market Share within Superannuation Funds Management Sector

Major Banks	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Commonwealth Bank of Australia	9%	8%	8%	8%	8%	8%	11%	11%	10%
ANZ Banking Group Limited	4%	3%	4%	4%	4%	4%	4%	4%	4%
National Australia Bank Limited	8%	7%	7%	7%	6%	6%	6%	5%	5%
Westpac Banking Corporation	4%	4%	3%	3%	1%	2%	5%	5%	7%
Major Banks Total	24%	22%	22%	22%	20%	20%	25%	24%	26%
Others Total	76%	78%	78%	78%	80%	80%	75%	76%	74%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: APRA Statistics and **Macroeconomics** estimates.

In **Life Insurance**, the big four banks accounted for **27 per cent** of industry premium and investment revenue in 2012-13 up from **11 per cent** in 2009-10 after the GFC (see Table 3). The past decade has been marked by abundant merger and acquisition activity, including the merger between St. George Bank and Westpac, CBA's acquisition of BankWest and St. Andrews, ANZ's purchase of Mercantile Mutual and NAB's acquisition of Aviva Australia.

Table 3 Major Players' Market Share within Life Insurance Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
AMP Limited	N/A	N/A	N/A	-30%*	47%	5%	4%	24%	23%
Commonwealth Bank	N/A	N/A	N/A	0%	0%	3%	4%	4%	4%
ANZ Banking Group Limited	N/A	N/A	N/A	-12%	21%	1%	1%	8%	7%
Westpac Banking Corporation	N/A	N/A	N/A	-3%	4%	1%	1%	3%	3%
National Australia Bank Limited	N/A	N/A	N/A	-18%	8%	4%	1%	16%	13%
Major Banks Total	N/A	N/A	N/A	-33%	33%	11%	7%	30%	27%
Major Players Total	N/A	N/A	N/A	-63%	80%	16%	12%	55%	50%
Others Total	N/A	N/A	N/A	163%	20%	84%	88%	45%	50%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld estimates.

* A negative market share indicates a loss in investment income for a given year.

In **General Insurance**, the major companies are Insurance Australia Group Limited, Suncorp Group Limited, QBE Insurance Group Limited and Allianz Australia Limited. The top four companies account for **46 per cent** share of total revenue within this industry. The big four banks are not major players and apparently have no control of this activity.

Table 4 Major Players' Market Share within General Insurance Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Insurance Australia Group	N/A#	N/A	N/A	N/A	17%	14%	15%	15%	17%
Suncorp Group Limited	N/A	N/A	N/A	N/A	14%	12%	13%	13%	15%
QBE Insurance Group L imited	N/A	N/A	N/A	N/A	6%	7%	8%	8%	9%
Allianz Australia Limited	N/A	N/A	N/A	N/A	5%	5%	5%	6%	6%
Major Players Total	N/A	N/A	N/A	N/A	43%	37%	41%	42%	46%
Others Total	N/A	N/A	N/A	N/A	57%	63%	59%	58%	54%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld and **Macroeconomics** estimates.

#N/A: Not applicable.

In **Financial Planning and Advice**, the big four banks accounted for **36 per cent** of industry revenue in 2012-13 up from **15 per cent** in 2007-08. This market share increase may understate the true position. The industry is predominantly structured in the form of dealer groups, or financial advisory networks. Dealer groups may be affiliated with a larger financial institution such as a bank or wealth management business. Industry consolidation is being driven largely by the economies of scale achieved by having large numbers of financial planners within the same dealer group. Larger financial institutions increase the distribution of their financial products by marketing through larger dealer groups and cross-selling financial products. It is not clear just how much effective control dealer groups add to the big four banks' market share in this sector (IBISWorld 2013e). However, if the other major player

(AMP Limited) is included with the market share accounted for by the big four banks, the total is **49 per cent** in 2012-13 up from **19 per cent** in 2007-08.

Table 5 Major Players' Market Share within Financial Planning and Advice Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
AMP Limited	N/A#	N/A	N/A	3%	4%	4%	11%	12%	13%
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	9%	9%	10%	10%	10%
ANZ Banking Group Limited	N/A	N/A	N/A	6%	7%	7%	8%	8%	9%
Westpac Banking Corporation	N/A	N/A	N/A	5%	5%	6%	8%	8%	9%
National Australia Bank Limited	N/A	N/A	N/A	5%	5%	7%	8%	8%	8%
Major Banks Total	N/A	N/A	N/A	15%	27%	30%	33%	34%	36%
Major Players Total	N/A	N/A	N/A	19%	30%	34%	44%	46%	49%
Others Total	N/A	N/A	N/A	81%	70%	66%	56%	54%	51%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld and **Macroeconomics** estimates.
#N/A: Not applicable.

In **Mortgage Brokers**, the major banks accounted for around **18 per cent** of market revenues in 2012-13. Only CBA is a major player in the industry after the recent ACCC decision allowing it to gain **80 per cent** control of Aussie Home Loans (AHL). It is likely the remaining three banks will respond to CBA gaining control of AHL and attempt to increase their involvement in the sector. In addition, NAB has moved to gain a significant foothold in the industry by acquiring existing mid-tier players. However, the actual financial impact of these transactions is not clear to us at this time (IBISWorld 2014).

Table 6 Major Players' Market Share within Mortgage Brokers Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Australian Finance Group Ltd	N/A#	N/A	N/A	N/A	17%	18%	12%	21%	20%
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	9%	10%	13%	13%	13%
National Australia Bank Limited	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5%
ANZ Banking Group Limited	NS*	NS	NS	NS	NS	NS	NS	NS	NS
Westpac Banking Corporation	NS	NS	NS	NS	NS	NS	NS	NS	NS
Major Banks Total	N/A	N/A	N/A	N/A	9%	10%	13%	13%	18%
Major Players Total	N/A	N/A	N/A	N/A	26%	29%	25%	34%	38%
Others Total	N/A	N/A	N/A	N/A	74%	71%	75%	66%	62%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld and **Macroeconomics** estimates.
***NS**: Not significant
#N/A: Not applicable.

It is worth noting that our estimates of the big four banks' market share in each financial sector may be underestimated for at least two reasons:

We only include the major subsidiaries' revenue in our calculations. That said, our estimates of market share are imprecise. They rely on us collecting each subsidiary's revenue and apportioning by the six key financial sector activities. This is complicated and so our estimates rely on judgement for a variety of reasons (such as the non-release of certain subsidiaries' annual reports and/or the lack of detailed breakdown of company revenue by sector in certain reports).

The **Life Insurance** sector includes the sum of insurance premiums, policy deposits and net investment income. Unfortunately, only premiums and investment earnings are reported at the company level. So the reported statistics do not serve as a reliable indicator for overall industry market share because some life insurers concentrate on selling investment-linked products, which are policy types that require deposits. Therefore, the revenue we collected in this report will lead to underestimated results as well.

Overall, in four activities (**Funds Management**, **Life Insurance**, **Financial Planning and Advice** and **Mortgage Brokers**) of six non-retail activities, there has been a material increase in the market share of the major banks since mid 2000s. Factoring in the role of dealer groups networks/advisors and presence of other major players in some sectors (**Funds Management**, **Financial Planning and Advice**) should be a cause for concern for competition regulators. At a minimum, Australian Securities and Investments Commission (ASIC) should be charged with producing a consistent set of annual market share indicators for these activities.

There is a balance to be struck between strong financial institutions and the competitive structure of the market. Policy adjustment applied within this paradigm doesn't necessarily result in a binary outcome, it just requires an in-depth consideration of the market. In particular, the financial services market involves quite a few segments that can be the subject of adjustment through good policy without sacrificing the prudential strength of the major players.

Task

The **Customer Owned Banking Association** requested **Macroeconomics** to develop a report estimating the major bank control of the wider financial sector, including:

- Funds Management;
- Superannuation Funds Management;
- Life Insurance;
- General Insurance;
- Financial Advice and Planning; and
- Mortgage Brokers.

1.1 Background

On behalf of customer-owned banking institutions, COBA is actively participating in the Murray Financial System Inquiry which is due to report in late 2014 and wishes to investigate the dominant position of the major banks in the non-retail financial sectors. APRA's recent designation of the four major banks as D-SIBs has formalised their status as systemically important institutions in the Australian market. But are there any unintended consequences from this decision?

The dominant position of the major banks in markets such as deposits and home loans is well known (Senate 2011, Deloitte Access Economics 2012, News.com.au 2013 and Richardson 2014). In addition, there is a need for reliable, consolidated information about their share of funds management and insurance markets and distribution networks such as planners and brokers.

The **Customer Owned Banking Association** also requested **Macroeconomics** to consider issues such as: systemic stability; vertical integration and conflicts of interest; use of sub-brands; confident and informed consumers; and competition and choice.

1.2 Methodology

Our analysis of the market impact of the big four banks progressed as follows:

1. In each financial sector, we collected the industry data from 2004-05 to 2012-13 where possible.
2. In each financial sector, we collected major players' data from 2004-05 to 2012-13 where possible.
3. We then calculated the company's total revenue within the industry as a percentage of the industry revenue.
4. For **Superannuation Funds Management**, the market share was calculated on the basis of the company's funds under management (FUM) as a portion of total superannuation funds.
5. Finally, findings were analysed.

Major Banks Share of Wider Financial Sector

What follows is a detailed description of major banks' share of:

- Funds Management;
- Superannuation Funds Management;
- Life Insurance;
- General Insurance;
- Financial Advice and Planning; and
- Mortgage Brokers.

2.1 Funds Management Sector

2.1.1 Industry Definition

The **Funds Management** industry consists of establishments primarily engaged in providing fund management services including insurance funds management, public offer unit trusts, government funds and overseas funds, excluding **Superannuation Funds Management**. Industry participants generate income by providing portfolio investment services and investment consultant services on a commission and fee basis. The definition excludes **Superannuation Funds Management** (IBISWorld 2013d).

2.1.2 Major Banks' Market Share

Industry statistics for revenue for the **Funds Management** sector are reported in **Table 7**.

Table 7 Major Players' Revenue within Funds Management Sector

Major Players	Revenue ($m)								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Macquarie Group Limited	N/A#	N/A	N/A	N/A	$726	$1,515	$1,423	$1,670	$1,514
AMP Limited	N/A	N/A	N/A	N/A	$214	$136	$120	$333	$517
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	$768	$902	$866	$805	$843
National Australia Bank Limited	N/A	N/A	N/A	N/A	$269	$630	$635	$662	$720
ANZ Banking Group Limited	N/A	N/A	N/A	N/A	$119	$181	$215	$205	$214
Westpac Banking Corporation	N/A	N/A	N/A	N/A	$116	$129	$126	$117	$140
Major Banks Total	N/A	N/A	N/A	N/A	$1,272	$1,843	$1,842	$1,788	$1,917
Major Players Total	N/A	N/A	N/A	N/A	$2,212	$3,494	$3,385	$3,791	$3,948
Others Total	N/A	N/A	N/A	N/A	$2,812	$1,999	$2,327	$1,446	$1,694
Industry Total	$7,025	$7,597	$7,827	$6,544	$5,024	$5,493	$5,713	$5,237	$5,642

Source: IBISWorld
#N/A: Not applicable.

Industry statistics for market share for the **Funds Management** sector are reported in **Table 8**.

Table 8 Major Players' Market Share within Funds Management Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Macquarie Group Limited	N/A#	N/A	N/A	N/A	14%	28%	25%	32%	27%
AMP Limited	N/A	N/A	N/A	N/A	4%	2%	2%	6%	9%
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	15%	16%	15%	15%	15%
National Australia Bank Limited	N/A	N/A	N/A	N/A	5%	11%	11%	13%	13%
ANZ Banking Group Limited	N/A	N/A	N/A	N/A	2%	3%	4%	4%	4%
Westpac Banking Corporation	N/A	N/A	N/A	N/A	2%	2%	2%	2%	2%
Major Banks Total	N/A	N/A	N/A	N/A	25%	34%	32%	34%	34%
Major Players Total	N/A	N/A	N/A	N/A	44%	64%	59%	72%	70%
Others Total	N/A	N/A	N/A	N/A	56%	36%	41%	28%	30%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld and **Macroeconomics** estimates.
#N/A: Not applicable.

The major players, including AMP Limited, Macquarie Group and the big four banks, account for **70 per cent** of total industry revenue in 2012-13.

The big four banks are major players in this industry and accounted for around **34 per cent** of total industry revenue in 2012-13. The market share of CBA in the **Funds Management** sector has been stable at **15 per cent** since 2009 except for a slight increase to **16 per cent** in 2009-2010. NAB acquired **80 per cent** of Goldman Sachs JBWere's private wealth management business in November 2009, which made NAB's market share in this industry increase from **5 per cent** to **11 per cent** and has continued to increase to **13 per cent** by 2012-13. ANZ's market share increased from **2 per cent** in 2008-09 to **4 per cent** in 2010-11 due to its acquisition of ING Australia on 30 November 2009 and then remained steady thereafter. Westpac's market share has remained at **2 per cent** since 2008-09.

The big four banks are anticipated to continue penetrating the **Funds Management** business as they seek new growth opportunities. This will involve further acquisition of smaller players. The major banks have already increased their hold on the industry, with the move by ANZ to own ING Australia outright and the purchase by NAB of a majority stake in Goldman Sachs' JBWere private wealth management business (IBISWorld 2013d).

The CBA participates in the **Funds Management** industry through its subsidiaries CFS Global Asset Management (CFSGAM) and Colonial First State. Both companies are part of the Bank's wealth management division.

NAB is involved in the **Funds Management** industry through its NAB Wealth operating segment. NAB Wealth provides superannuation, investments, insurance, financial advice and private wealth services. A recognisable name operating under this segment is MLC Limited. MLC Limited was acquired from Lend Lease in June 2000.

ANZ entered the **Funds Management** industry as a significant player when it moved to full ownership of ING Australia Limited in November 2009. Its market share was **4 per cent** in 2012-13.

Westpac's, BT Investment Management Limited (BTIM) was established in October 2007 from the investment management businesses of BT Investment Management, Rothschild Australia Asset Management and Westpac Investment Management. It's market share was **2 per cent** in 2012-13.

2.2 Superannuation Funds Management Sector

2.2.1 Industry Definition

Superannuation Funds Management participants provide investment management, administration and advisory services to superannuation funds. Service fees are earned as a percentage of the funds under management, administration or advice. Investment managers also receive commissions based on performance, with a portion determined by absolute returns and the rest by industry benchmarks. Therefore, investment managers can earn some performance commissions despite delivering losses.

2.2.2 Major Banks' Market Share

Industry statistics for FUM for the **Superannuation Funds Management** sector are reported in **Table 9**.

Table 9 Major Banks' Funds under Management within Superannuation Funds Management Sector

Major Banks	FUM ($b)								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Commonwealth Bank of Australia	$32	$37	$44	$55	$52	$47	$71	$82	$82
ANZ Banking Group Limited	$14	$15	$20	$28	$26	$23	$29	$30	$29
National Australia Bank Limited	$28	$32	$37	$45	$40	$35	$38	$35	$37
Westpac Banking Corporation	$14	$15	$17	$19	$9	$14	$32	$38	$59
Major Banks Total	$89	$99	$119	$147	$128	$118	$171	$185	$207
Others Total	$286	$341	$429	$532	$524	$485	$508	$590	$580
Industry Total	$375	$440	$548	$679	$651	$602	$678	$775	$786

Source: APRA Statistics and **Macroeconomics** estimates.

Industry statistics for market share for the **Superannuation Funds Management** sector are reported in **Table 10**.

Table 10 Major Banks' Market Share within Superannuation Funds Management Sector

Major Banks	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Commonwealth Bank of Australia	9%	8%	8%	8%	8%	8%	11%	11%	10%
ANZ Banking Group Limited	4%	3%	4%	4%	4%	4%	4%	4%	4%
National Australia Bank Limited	8%	7%	7%	7%	6%	6%	6%	5%	5%
Westpac Banking Corporation	4%	4%	3%	3%	1%	2%	5%	5%	7%
Major Banks Total	24%	22%	22%	22%	20%	20%	25%	24%	26%
Others Total	76%	78%	78%	78%	80%	80%	75%	76%	74%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: APRA Statistics and **Macroeconomics** estimates.

In **Superannuation Funds Management**, the big four banks accounted for a **26 per cent** share of industry FUM in 2012-13 up slightly from **24 per cent** in 2004-05.

CBA operates in the industry through its CFS Global Asset Management (CFSGAM) business segment, which is the largest manager of Australian sourced funds. Its market share was steady at around **8 per cent** from 2004-05 to 2009-10 but has increased to **11 per cent** more recently.

Within NAB, the segment relevant to the industry is NAB Wealth (previously MLC & NAB Wealth). In March 2009, NAB announced that MLC, NAB Private Wealth and NABInvest would be combined as part of a restructuring of wealth management operations. The market share of NAB in this industry declined gradually from **8 per cent** in 2004-05 to **5 per cent** in 2012-13 due to its decrease in Funds under Management (FUM). The performance of NAB Wealth's superannuation segment is strongly correlated with the Australian stock market.

ANZ entered the **Funds Management** arena as a significant player when it moved to full ownership of ING Australia. Before November 2009, ANZ had a **49 per cent** interest in ING Australia Limited. Then ANZ acquired full ownership of ING Australia on 30 November 2009 and has since renamed it OnePath. Although ANZ's FUM has increased over the past decade, its market share has remained steady at **4 per cent** from 2004-05 to 2012-13.

Westpac operates in the industry through its BT Funds Management Limited. Its market share decreased from **4 per cent** in 2004-05 to **1 per cent** in 2008-09 due to poor performance resulting in a decline of FUM during the GFC. After that, Westpac's market share started increasing and reached **7 per cent** in 2012-13.

2.3 Life Insurance and General Insurance Sector

2.3.1 Industry Definition

Companies in the **Life Insurance** industry provide life insurance cover and life-based investment products. Life insurance (or life assurance) is a contract obligating the insurer to pay designated beneficiaries a sum of money in the event of the insured individual's death, disablement or serious illness or injury. As with all insurance contracts, there may be exclusions that limit the insurer's liability (IBISWorld 2013c).

The **General Insurance** industry covers general insurers and reinsurers. General insurers underwrite insurance policies to protect individuals and businesses from the financial loss associated with property, casualty, liability and other risks. Underwriting involves assuming risks and assigning premiums. Reinsurers assume all or part of the risk associated with existing insurance policies originally underwritten by other insurers. The big four banks are not major players in this industry. In the **General Insurance** industry, the major companies are Insurance Australia Group Limited, Suncorp Group Limited, QBE Insurance Group Limited and Allianz Australia Limited which account for **46 per cent** share of total revenue. The big four banks are not major players and presumably have no control of this sector (IBISWorld 2013b).

2.3.2 Major Banks' Market Share

Industry statistics for revenue for the **Life Insurance** sector are reported in **Table 11**.

Table 11 Major Players' Revenue within Life Insurance Sector

Major Players	Revenue ($m)								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
AMP Limited	N/A[#]	N/A	N/A	-$14,100	$10,200	$3,600	$2,800	$12,100	$17,300
Commonwealth Bank	N/A	N/A	N/A	$198	$13	$2,372	$2,387	$1,955	$3,250
ANZ Banking Group	N/A	N/A	N/A	-$5,468	$4,532	$867	$714	$4,007	$5,116
Westpac Banking Corporation	N/A	N/A	N/A	-$1,474	$902	$980	$658	$1,473	$1,886
National Australia Bank Limited	N/A	N/A	N/A	-$8,426	$1,856	$3,035	$960	$7,730	$10,050
Major Banks Total	N/A	N/A	N/A	-$15,170	$7,303	$7,254	$4,718	$15,165	$20,302
Major Players Total	N/A	N/A	N/A	-$29,270	$17,503	$10,854	$7,518	$27,265	$37,602
Others Total	N/A	N/A	N/A	$75,853	$4,390	$57,138	$56,474	$22,518	$37,746
Industry Total	$72,744	$82,668	$84,541	$46,584	$21,893	$67,992	$63,992	$49,783	$75,348

Source: IBISWorld estimates.
#N/A: Not applicable.

Industry statistics for market share for the **Life Insurance** sector are reported in **Table 12**.

Table 12 Major Players' Market Share within Life Insurance Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
AMP Limited	N/A	N/A	N/A	-30%*	47%	5%	4%	24%	23%
Commonwealth Bank	N/A	N/A	N/A	0%	0%	3%	4%	4%	4%
ANZ Banking Group Limited	N/A	N/A	N/A	-12%	21%	1%	1%	8%	7%
Westpac Banking Corporation	N/A	N/A	N/A	-3%	4%	1%	1%	3%	3%
National Australia Bank Limited	N/A	N/A	N/A	-18%	8%	4%	1%	16%	13%
Major Banks Total	N/A	N/A	N/A	-33%	33%	11%	7%	30%	27%
Major Players Total	N/A	N/A	N/A	-63%	80%	16%	12%	55%	50%
Others Total	N/A	N/A	N/A	163%	20%	84%	88%	45%	50%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld estimates.
#N/A: Not applicable.
* A negative market share indicates a loss in investment income for a given year.

AMP Limited and the big four banks are the major players in the **Life Insurance** sector. Their total market share accounted for above **50 per cent** of total revenue in 2012-13 with **27 per cent** contributed by major banks. The long-term trend of major banks' market share within this industry is upward except a sharp decrease to **11 per cent** in 2009-10 due to a poor performance, followed by a correction back to **30 per cent** by 2011-12.

NAB operates in the **Life Insurance** industry through its MLC & NAB Wealth segment, specifically through MLC Limited and MLC Lifetime Company Limited. In February 2012, however, MLC Lifetime Company Limited was de-registered. NAB's market share within **Life Insurance** decreased from **8 per cent** in 2008-09 to

1 per cent in 2010-11, then increased to **13 per cent** by 2012-13.

The ANZ conducts its **Life Insurance** operations in Australia through OnePath Life Limited. OnePath came into existence following ANZ's purchase of ING Group's **51 per cent** shareholding in the ANZ-ING wealth management and life insurance joint ventures for $1.8 billion in 2009. ANZ has been a major player in this industry since 2008-09 with a market share of **21 per cent**. In 2009-10, its market share fell to **1 per cent**, then increased sharply to **8 per cent** in 2011-12 and was **7 per cent** in 2012-13.

CBA's **Life Insurance** business in Australia was conducted through Colonial Mutual Life Assurance Society Limited and St Andrew's Life Insurance, until the St Andrew's insurance division was sold to Bank of Queensland in 2010. The St Andrew's business was only acquired in late 2008, when CBA announced it would purchase HBOS's BankWest and St Andrew's business units. Over the eight years through 2013, CBA's market share in this industry has been relatively stable at **3** to **4 per cent**, except in year 2008-09 when it fell to **0 per cent**. This was mainly due to weak investment returns during the GFC.

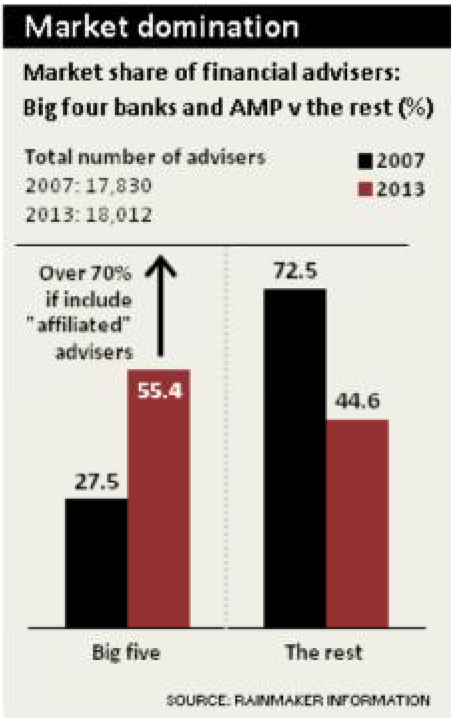
Westpac's operations in the **Life Insurance** industry are conducted primarily through BT Financial Group. This segment provides a range of products, including superannuation, life insurance, managed investments, discount securities broking and portfolio management services. BT Financial Group comprises the original wealth management business and recently acquired businesses, including Rothschild Australia Asset Management (later renamed Sagitta Wealth Management) and BT Funds Management. Two companies under the segment are registered with APRA as life insurers: Westpac Life Insurance Services Limited and BT Life Limited (IBISWorld 2013c). Westpac is the smallest player of the big four banks when it comes to the **Life Insurance**. Its market share only accounts for **3 per cent** of total revenue in 2012-13.

2.4 Financial Advice and Planning Sector

2.4.1 Industry Definition

Establishments in this industry provide financial planning and advice to clients.

In 2012-13, there were around 18,000 financial advisers operating in the **Financial Advice and Planning** sector, this is a small increase on the level of 2007-08 as presented in **Chart 1** (also see Joye 2014).



The **Financial Planning and Advice** sector is stratified into three distinct segments: large, medium and small firms. There are five large firms, all of which directly employ over 1,000 financial advisers. These large firms are also financial product originators and offer platform services. The medium sized firms employ between 60 and 1,000 advisers and the small firms employ less than 60 advisers. Many, but not all, of the small and medium sized firms are aligned with one of the larger firms, often using the platform(s) of a large firm to access, and manage, financial products for their clients. (Commonwealth Treasury, 2013, p.3)

The introduction of FOFA, along with the impact of the GFC, appears to have had a sizable impact on the industry. The FOFA amendments led many dealer groups to review their remuneration models and business entity structures in light of the shift to fee for service and the ban on conflicted remuneration. The outcome has been that, since 2008, there have been a number of major dealer group purchases, with more than a quarter of advisers changing their home licence since 2008. (Commonwealth Treasury, 2014, p.6)

2.4.2 Major Players' Market Share

Industry statistics for revenue for the **Financial Planning and Advice** sector are reported in **Table 13**.

Table 13 Major Players' Revenue within Financial Planning and Advice Sector

Major Players	Revenue ($m)								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
AMP Limited	N/A#	N/A	N/A	$157	$150	$165	$445	$523	$557
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	$343	$360	$394	$426	$431
ANZ Banking Group Limited	N/A	N/A	N/A	$311	$271	$287	$322	$362	$388
Westpac Banking Corporation	N/A	N/A	N/A	$219	$212	$257	$307	$341	$373
National Australia Bank Limited	N/A	N/A	N/A	$219	$214	$294	$318	$345	$350
Major Banks Total	N/A	N/A	N/A	$749	$1,040	$1,198	$1,342	$1,457	$1,542
Major Players Total	N/A	N/A	N/A	$906	$1,190	$1,363	$1,787	$1,998	$2,099
Others Total	N/A	N/A	N/A	$3,954	$2,729	$2,638	$2,305	$2,317	$2,242
Industry Total	$4,669	$5,087	$5,374	$4,860	$3,919	$4,001	$4,092	$4,315	$4,340

Source: IBISWorld
#N/A: Not applicable.

Industry statistics for market share for the **Financial Planning and Advice** sector are reported in **Table 14**.

Table 14 Major Players' Market Share within Financial Planning and Advice Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
AMP Limited	N/A#	N/A	N/A	3%	4%	4%	11%	12%	13%
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	9%	9%	10%	10%	10%
ANZ Banking Group Limited	N/A	N/A	N/A	6%	7%	7%	8%	8%	9%
Westpac Banking Corporation	N/A	N/A	N/A	5%	5%	6%	8%	8%	9%
National Australia Bank Limited	N/A	N/A	N/A	5%	5%	7%	8%	8%	8%
Major Banks Total	N/A	N/A	N/A	15%	27%	30%	33%	34%	36%
Major Players Total	N/A	N/A	N/A	19%	30%	34%	44%	46%	49%
Others Total	N/A	N/A	N/A	81%	70%	66%	56%	54%	51%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld and **Macroeconomics** estimates.
#N/A: Not applicable.

In the **Financial Planning and Advice** sector, AMP Limited and the big four banks have a significant influence on total industry revenue. The big four banks account for **36 per cent** of total industry revenue while AMP Limited accounts for **13 per cent**. The industry is predominantly structured in the form of dealer groups, or financial advisory networks. Dealer groups may be affiliated with a larger financial institution such as a bank or wealth management business. The dealer network provides the financial planners, who are part of the group, with a range of support services including the management of compliance and regulatory matters, administration, provision of product research and information technology. Affiliated dealer groups provide their clients with access to the master trust or wrap platforms of the group with whom they are affiliated. Large institutions may have a large number of affiliated dealer groups, or may own financial advisory firms trading under a different brand name, but offering the large institutions' products (IBISWorld 2013e).

Concentration within the industry has been increasing mainly through the process of acquisitions and mergers. Industry consolidation is being driven largely by the economies of scale achieved by having larger numbers of financial planners within the same dealer group. Larger financial institutions increase the distribution of their financial products through larger dealer groups and cross-sell financial products. Additionally, with FOFA reforms now in place, many smaller firms have found the new regulations difficult to adapt to, and have proven easy takeover targets for their larger counterparts (IBISWorld 2013e).

Five advice conglomerates now control more than half of the advice market. Industry consolidation is being driven by the economies of scale achieved by having a large number of advisers within the same group. This includes the opportunity to distribute financial products through a greater number of aligned advisers. ASIC has expressed concerns about vertically integrated large dealer groups being owned by product issuers, which may give rise to perceived or actual conflicts of interest. In addition, smaller groups which have found it difficult to adapt to FOFA have proven easy and desirable targets for larger groups. The barriers to entry in the industry relate mainly to holding and complying with licensing requirements (which have increased since FOFA) and achieving a sufficient scale to be competitive (Commonwealth Treasury, 2014).

CBA operates in the **Financial Planning and Advice** industry through its wealth management division. Within the division, the company operates Colonial First State, CFS Global Assets Management and CommInsure. Commonwealth Financial Planning subdivision has more than 1,800 advisers nationwide across its investments in Count Financial, Financial Wisdom and BW Financial Advice. Count Financial is the largest financial planning brand operated by CBA. Its market share was steady at **9 per cent** of total revenue within this sector in 2008-09 and 2009-10, has slightly increased to **10 per cent** and held at this level to 2012-13. CBA is the largest player of the big four banks in the **Financial Planning and Advice** industry.

ANZ entered the wealth management industry as a significant player when it moved to full ownership of ING Australia Ltd in November 2009. Prior to this, ANZ had a **49 per cent** interest in ING Australia Ltd, a joint venture established in 2002. In August 2008, ANZ announced it would be rebranding the ING wealth management businesses as OnePath. The acquisition of ING Australia Ltd brought with it several key advisory brands, including RI Advice, Millennium3 and Financial Services Partners, and these now comprise much of the OnePath business. The company's Millennium3 subsidiary is among the largest dealer groups in the industry, with over 800 financial advisers. ANZ’s market share in this industry has experienced a gradual increase from **6 per cent** in 2007-08 to **9 per cent** in 2012-13.

Westpac acquired St George Bank in December 2008, which combines the second-largest and fifth-largest banking players. The consolidated entity is a powerhouse in wealth management. BT Financial Group (BTFG) is Westpac’s wealth management arm, which includes its financial planning and investment management activity. Westpac has been among the larger financial services providers looking to add advisors and increase market share as the industry enters an uncertain period. Its advisor numbers have grown since 2008 and are now estimated to be over 1000. Prior to the acquisition in December 2008, Westpac’s market share in the **Financial Planning and Advice** industry was stable at **5 per cent**. After the acquisition, its market share increased to **9 per cent** by 2012-13.

NAB operates in the **Financial Planning and Advice** industry predominantly through its NAB Wealth division (previously MLC & NAB Wealth). NAB Wealth offers a wide range of integrated services including investments, superannuation and insurance solutions to retail and corporate markets, and business platforms and support for financial advisers. NAB’s wealth management business consists of NAB’s financial services and fund management operations with MLC and its subsidiaries. NAB is affiliated with just over 2,000 financial advisers, either employed or acting as agents. NAB is actively trying to boost its adviser numbers, and in 2010 opened the Advice Business School to recruit and train advisers and planners. NAB's market share in the industry was **5 per cent** both in 2007-08 and 2008-09 and increased to **7 per cent** in 2009-10, rising to **8 per cent** by 2010-11 and stay at this level thereafter.

2.5 Mortgage Brokers Sector

2.5.1 Industry Definition

Mortgage brokers in Australia generally act on behalf of lenders, primarily aiding borrowers in sourcing and applying for mortgage finance (for both residential and investment real estate purposes), and in refinancing existing mortgages. In general, brokers do not charge mortgagees any fee for their services. Rather, mortgage brokers receive origination and trailing commissions on originated funds directly from lenders (IBISWorld 2014).

2.5.2 Major Banks' Market Share

Industry statistics for revenue for the **Mortgage Brokers** sector are reported in **Table 15**.

Table 15 Major Players' Revenue within the Mortgage Brokers Sector

Major Players	Revenue ($m)								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Australian Finance Group Ltd	N/A#	N/A	N/A	N/A	$247	$269	$177	$282	$280
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	$135	$156	$194	$181	$191
National Australia Bank Limited	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$69
ANZ Banking Group Limited	NS*	NS	NS	NS	NS	NS	NS	NS	NS
Westpac Banking Corporation	NS	NS	NS	NS	NS	NS	NS	NS	NS
Major Banks Total	N/A	N/A	N/A	N/A	$135	$156	$194	$181	$259
Major Players Total	N/A	N/A	N/A	N/A	$381	$425	$371	$462	$540
Others Total	N/A	N/A	N/A	N/A	$1,112	$1,064	$1,109	$888	$887
Industry Total	$1,458	$1,582	$1,693	$1,518	$1,493	$1,489	$1,480	$1,350	$1,427

Source: IBISWorld
***NS**: Not significant
#N/A: Not applicable.

Industry statistics for market share for the **Mortgage Brokers** sector are reported in **Table 16**.

Table 16 Major Players' Market Share within the Mortgage Brokers Sector

Major Players	Market Share								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Australian Finance Group Ltd	N/A#	N/A	N/A	N/A	17%	18%	12%	21%	20%
Commonwealth Bank of Australia	N/A	N/A	N/A	N/A	9%	10%	13%	13%	13%
National Australia Bank Limited	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5%
ANZ Banking Group Limited	NS*	NS	NS	NS	NS	NS	NS	NS	NS
Westpac Banking Corporation	NS	NS	NS	NS	NS	NS	NS	NS	NS
Major Banks Total	N/A	N/A	N/A	N/A	9%	10%	13%	13%	18%
Major Players Total	N/A	N/A	N/A	N/A	26%	29%	25%	34%	38%
Others Total	N/A	N/A	N/A	N/A	74%	71%	75%	66%	62%
Industry Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: IBISWorld and **Macroeconomics** estimates
***NS**: Not significant
#N/A: Not applicable.

The Australian Finance Group (AFG) has the largest share in this industry at **20 per cent** of total industry revenue in 2012-13. In terms of major banks, it appears only CBA and NAB are major players in the **Mortgage Brokers** sector with a total market share of **18 per cent** of total industry revenue.

The **Mortgage Brokers** industry, while containing some large corporations, also contains a high number of sole proprietors. More recently, Australia's largest banks have attempted to gain a foothold in the industry. This is similar to what is occurring in the **Financial Planning and Advice** industry. As detailed below, NAB has made acquisitions of existing mortgage broker groups, while CBA has successfully gained control of Australia's second largest mortgage broker Aussie Home Loans. Given the ACCC's acceptance of the reduction in competition as a result of originators purchasing brokers, this transaction may encourage similar transactions moving forward (IBISWorld 2014).

CBA became a major player in the **Mortgage Brokers** industry with the acquisition of Aussie Home Loans in early 2013. AHL Holdings Pty Ltd (AHL), trading as Aussie Home Loans, is a private Australian company established in 1992 as a retail financial services provider. Following its $24 million acquisition of Wizard Home Loans in early 2009, AHL has gained a larger share of the Australian mortgage market. Under the agreement, AHL acquired Wizard's franchise distribution network of more than 160 outlets across Australia and over 300 mortgage brokers. In April 2012, the company announced it had acquired National Mortgage Brokers. Although the company provides a full range of financial products and services, its relevance to the **Mortgage Brokers** industry is through its provision of mortgage broking services to retail clients. CBA's share was **9 per cent** in 2008-09 and increased to **13 per cent** in 2010-11 and since remained at this level to 2012-13.

NAB participates in the **Mortgage Brokers** industry through its Personal Banking division, where it operates the Advantedge business with market share of around **5 per cent**.

Advantedge, a wholesale lender, includes various broker and mortgage manager brands, many of which were acquired through the company purchasing Challenger financial in October 2009. Various brands were incorporated under the Advantedge umbrella, including PLAN Australia, FAST and Choice Home Loans. Choice Home Loans provides mortgage services, creating home loan solutions for customers throughout Australia. With access to 30 home loan banks and lending institutions, it sells in excess of $15 billion in home loans every year. Over its 10 years history, the company has built a network of over 1,250 mortgage brokers. Established in 1999, the Professional Lenders Association Network (PLAN) is a membership-based aggregator that supports small mortgage broking companies that operate in the industry. PLAN collects loans from a pool of small mortgage brokers, which it then forwards onto lenders for approval (IBISWorld 2014).

Westpac acquired the RAMS franchise distribution business, including the RAMS brand, franchise network and associated mortgage origination and servicing systems and contracts needed to run the distribution business. The acquisition has added an additional retail channel and extended Westpac's retail footprint by more than **10 per cent** via an additional 92 stores operated by 53 franchisees.

Policy Findings

What follows below is a summary of the major findings of this report and analysis of the implications of those findings for competition, stability and consumer choice. There is a balance to be struck between strong financial institutions and the competitive structure of the market (Münchenberg 2014). Policy adjustment applied within this paradigm doesn't necessarily result in a binary outcome, it requires an in-depth consideration of each segment of the market. In particular, the financial services market involves quite a few segments that can be the subject of adjustment through good policy without sacrificing the prudential strength of the major players.

3.1 Trends in major banks' share of key activities

In four of the six sectors (Funds Management, Financial Planning and Advice, Mortgage Broking and Life Insurance) examined in this report, there has been a material increase (greater than at least 5 percentage points) in market share held by the major banks since the mid 2000s. Factoring in the market shares of other major players in some sectors (including the role of controlled dealer groups or networks of advisors which is difficult to quantify) suggests the potential for major player control at around **70 to 80 per cent** in at least two of these sectors (Funds Management and Financial Planning and Advice). This concentration of activity should be a concern for competition regulators in Australia. A comparable analysis in the mid 2000s and before the GFC would have found each of these industries was more competitive, with only around half the market accounted for by the top five firms, and the remaining half occupied by small and medium firms.

3.2 Analysis of the major banks' share of key activities

3.2.1 Implications for competition, stability and consumer choice of these trends

Competition

The rapid diminution of competitive forces impacting on the financial services industry in particular is of critical importance to the national economy. This is because financial services currently employ over 400,000 people and is the largest industry in Australia when measured by gross value added (a measure of the economic worth of the goods and services produced). Continued industry growth would be expected to be largely driven by Australia's ageing population and the aggressive increase in the pool of superannuation funds inflows (Commonwealth Treasury, 2014, p.5).

A lack of competition in the financial services sector is likely to lead, at the margin, to a misallocation of private savings and contribute to inefficient investment decisions both now and in the future. It would also be expected to reduce employment prospects in the sector and beyond. This situation would have a measureable impact in terms of growth in living standards for Australians over time, especially as they seek to retire.

An initial step to counter the trend in rising oligopolistic behaviour in the financial services market would be to charge ASIC with responsibility for production of a consistent set of annual market share indicators for the six activity areas examined in this report. These indicators should extend to quantifying the impact of controlled or connected dealer groups or advisory networks on relevant market shares.

Another proactive step would be to formulate appropriate policies, clearly broadcasted to the market, that prohibit or prevent any major player taking a further significant stake in any of the activity areas of concern unless they divest their control in some other comparably sized business (including the size of the relevant business' market share) in that same or substantially similar activity area.

A more drastic approach would be to take appropriate action to curb or perhaps prohibit the deep vertical integration that has evolved over the last decade in the financial services market beginning with product origination and provision (wholesale and retail funds management) to distribution (retail financial advisory) underpinned by the overwhelming control of the financial services delivery and management infrastructure (fund platforms). This would require a set of policies that broadly adopts the kind of approach taken in the enactment of the 1930s United States Glass-Steagall legislation. This approach would limit or prohibit the major players owning or controlling both the product origination/provision (funds management) and distribution (retail financial advisory). For example, this would still enable the major banks to enjoy their market share in one of these markets but provide a mechanism for competition to develop in the other market.

Stability

Of course there are inherent tradeoffs between market share, economic profit and stability. As Sir Harold Knight, former Reserve Bank of Australia governor used to quip, "profitable banks don't fail' (Harper, 2013). The shake out that has been occurring in the financial sector since the GFC which left the major banks 'too big to fail', has handed them a competitive advantage and thus weakened the competitiveness of Australia's banking system (Bouris & Joye 2012). While this imbalance of system objectives does promote stability, it is likely to stifle the competitive drive to lower margins and drive product innovation (Dennis & Baker 2012). Moreover, it is not inconceivable to formulate policies that promote a level of competition within some of the key market segments without being compelled to yield to the tradeoffs identified by Sir Harold.

Consumer choice

The question arises: do the major providers (that operate in the key sectors examined in this report) promote the range of products or services that suppliers in other countries might do? It does seem that the tendency in financial services to concentrate service provision around a diminishing number of product originators, platforms, dealer groups and advisers has stifled innovation, albeit while achieving economies of scale. At the same time the emerging market power of major players in certain sectors would be expected to reduce or even inhibit product choice and innovation. Furthermore there is mounting evidence that suggests that within the main asset classes (equities, fixed income, property) products are conforming to a consistent global standard product offering with little scope for tailoring to the specific needs of Australian consumers. For example, why hasn't the system fostered the development of new financial products that help retirees deal with the risks associated with longevity? This is the kind of foreseeable product (given a decade of Treasury warnings regarding population ageing) that an innovative market should have already catered for by now.

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Attachment A Key Statistics in Financial Sector

What follows in this attachment is a set of tables that provide a set of key statistics on each financial sectors we have analysed in this report, namely:

- Funds Management;
- Superannuation Funds Management;
- Life Insurance;
- General Insurance;
- Financial Advice and Planning; and
- Mortgage Broker.

Key Statistics for the **Life Insurance** sector are provided in **Table A1**.

Table A1 Key Statistics the in Life Insurance sector in Australia

	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Wages ($m)	Assets ($m)
2004-05	$72,744.1	$5,032.3	641	37	23,108	$1,519.8	$298,103.0
2005-06	$82,668.1	$4,513.5	634	35	25,520	$1,689.3	$311,243.2
2006-07	$84,541.3	$5,019.0	628	34	28,500	$1,893.1	$325,870.8
2007-08	$46,583.9	$2,973.9	624	32	28,751	$1,908.9	$274,263.1
2008-09	$21,893.1	$2,155.0	619	32	27,623	$1,807.1	$233,671.1
2009-10	$67,991.9	$7,518.5	607	32	27,008	$1,742.2	$247,888.0
2010-11	$63,992.2	$6,611.7	596	31	27,203	$1,659.4	$241,578.1
2011-12	$49,782.7	$4,912.1	588	31	27,450	$1,655.3	$240,399.8
2012-13	$75,347.7	$6,932.0	582	28	27,807	$1,705.2	$261,395.8
2013-14	$66,386.9	$5,443.7	579	28	28,373	$1,723.6	$271,877.1
2014-15	$70,021.7	$6,512.0	565	27	28,101	$1,705.3	$279,839.8
2015-16	$66,891.5	$5,016.9	561	27	28,211	$1,713.7	$281,270.7
2016-17	$67,233.3	$4,975.3	558	26	28,385	$1,732.6	$291,213.1
2017-18	$63,428.4	$4,440.0	550	26	28,555	$1,766.0	$306,832.5
2018-19	$55,162.9	$3,916.6	563	25	28,339	$1,784.0	$297,287.7

Source: IBISWorld

Key Statistics for the **General Insurance** sector are provided in **Table A2**.

Table A2 Key Statistics in the General Insurance Sector in Australia

	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Wages ($m)	Assets ($m)
2004-05	$62,244.2	$8,126.0	1,892	154	20,140	$1,716.1	$180,514.8
2005-06	$60,846.5	$9,833.4	1,826	147	21,040	$1,705.7	$185,842.1
2006-07	$59,016.7	$9,574.9	1,802	145	21,440	$1,741.7	$182,980.2
2007-08	$47,311.1	$2,434.7	1,777	144	21,825	$1,754.1	$179,268.5
2008-09	$46,479.2	-$1,120.8	1,770	146	20,810	$1,647.8	$166,405.6
2009-10	$56,466.7	$5,941.3	1,753	144	21,052	$1,700.8	$185,601.0
2010-11	$55,039.6	$5,355.2	1,720	142	22,001	$1,708.6	$177,307.5
2011-12	$56,531.4	$8,427.3	1,686	138	22,350	$1,796.6	$180,880.6
2012-13	$56,773.6	$9,323.2	1,660	135	21,690	$1,879.0	$193,566.1
2013-14	$56,993.5	$9,130.7	1,632	133	21,860	$1,859.0	$199,072.9
2014-15	$61,472.3	$10,239.0	1,589	131	22,100	$1,905.0	$198,223.1
2015-16	$64,404.8	$10,839.3	1,510	130	22,360	$1,928.0	$199,814.5
2016-17	$67,459.6	$11,085.1	1,456	127	22,580	$1,934.0	$200,308.2
2017-18	$66,167.0	$8,118.0	1,420	125	22,640	$1,955.0	$207,631.2
2018-19	$65,142.7	$6,633.0	1,409	122	22,541	$1,948.0	$205,082.0

Source: IBISWorld

Key Statistics for the **Superannuation Funds Management** sector are provided in **Table A3**.

Table A3 Key Statistics in the Superannuation Funds Management Sector in Australia

	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Wages ($m)	Assets ($b)
2004-05	$7,688.3	$3,491.8	2,996	374	12,250	$1,487.3	$393.6
2005-06	$8,804.8	$4,123.1	3,086	361	13,407	$1,626.4	$470.5
2006-07	$10,638.6	$5,012.8	3,117	365	14,885	$1,779.9	$543.5
2007-08	$9,717.0	$4,171.3	3,120	369	15,148	$1,734.5	$570.6
2008-09	$8,496.9	$3,298.6	3,072	350	14,540	$1,529.6	$454.6
2009-10	$9,277.8	$4,307.7	3,018	347	14,960	$1,658.1	$520.6
2010-11	$9,760.7	$4,130.5	2,945	339	15,334	$1,661.4	$536.0
2011-12	$9,917.0	$4,295.9	2,871	331	15,641	$1,733.0	$528.1
2012-13	$11,001.1	$4,582.4	2,800	325	15,922	$1,833.8	$611.2
2013-14	$12,657.3	$4,860.9	2,739	320	16,336	$1,871.3	$703.2
2014-15	$13,984.3	$5,176.8	2,704	314	16,859	$1,977.9	$784.8
2015-16	$16,116.1	$5,503.0	2,660	305	17,685	$2,082.8	$913.5
2016-17	$15,889.7	$5,794.6	2,630	300	18,500	$2,199.4	$909.8
2017-18	$16,182.2	$6,095.9	2,583	296	19,462	$2,322.6	$930.0
2018-19	$16,517.0	$6,022.7	2,549	292	19,871	$2,334.2	$958.8

Source: IBISWorld

Key Statistics for the **Funds Management** sector are provided in **Table A4**.

Table A4 Key Statistics in the Funds Management Sector in Australia

	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Wages ($m)	Assets ($m)
2004-05	$7,025.4	$4,863.8	120	112	23,212	$3,670.9	$780,606.6
2005-06	$7,597.1	$5,403.9	139	130	25,506	$3,961.6	$853,605.4
2006-07	$7,827.3	$5,598.7	149	139	26,467	$4,049.0	$954,550.1
2007-08	$6,544.3	$4,575.8	138	135	22,398	$3,375.1	$839,005.1
2008-09	$5,023.8	$3,441.2	131	128	18,908	$2,803.5	$697,751.3
2009-10	$5,492.7	$4,218.4	129	126	17,852	$2,841.4	$742,251.7
2010-11	$5,712.7	$4,354.8	134	128	19,384	$2,993.5	$732,390.3
2011-12	$5,237.2	$4,218.6	132	125	17,701	$2,777.3	$698,295.5
2012-13	$5,641.5	$4,688.4	128	122	18,719	$3,046.0	$746,671.5
2013-14	$6,086.5	$4,801.6	121	116	19,304	$3,196.4	$800,851.7
2014-15	$6,835.1	$5,195.2	115	110	20,806	$3,569.0	$832,407.0
2015-16	$7,622.0	$5,796.7	115	104	22,251	$3,946.7	$1,016,272.8
2016-17	$8,079.4	$6,232.2	115	100	22,928	$4,201.1	$1,077,249.2
2017-18	$8,155.0	$6,217.9	118	102	22,230	$4,199.4	$1,102,025.9
2018-19	$7,649.4	$5,914.7	119	100	20,746	$4,060.2	$1,064,557.0

Source: IBISWorld

Key Statistics for the **Mortgage Brokers** sector are provided in **Table A5**.

Table A5 Key Statistics in the Mortgage Brokers Sector in Australia

	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Wages ($m)
2004-05	$1,458.3	$870.0	5400	4680	8,469	$662.1
2005-06	$1,582.4	$1,169.1	6300	5385	11,730	$977.9
2006-07	$1,692.5	$1,256.2	6850	5600	13,512	$1,093.4
2007-08	$1,518.3	$1,212.2	7000	5700	13,240	$1,027.9
2008-09	$1,493.0	$1,154.2	6910	5660	12,034	$904.8
2009-10	$1,488.7	$1,163.8	6890	5650	11,694	$894.7
2010-11	$1,479.8	$1,159.0	6930	5660	12,514	$923.4
2011-12	$1,349.9	$1,226.5	7220	5680	11,745	$849.1
2012-13	$1,427.1	$1,163.1	7490	5720	11,851	$843.4
2013-14	$1,481.4	$1,329.4	7650	5740	12,553	$887.3
2014-15	$1,554.0	$1,358.2	7860	5770	13,071	$926.2
2015-16	$1,655.0	$1,447.4	8050	5810	13,655	$976.4
2016-17	$1,784.1	$1,499.3	8210	5850	14,698	$1,056.2
2017-18	$1,853.6	$1,460.7	7566	5700	15,119	$1,086.2
2018-19	$1,918.5	$1,517.5	7397	5520	15,462	$1,108.9

Source: IBISWorld

Key Statistics for the **Financial Planning and Advice** sector are provided in **Table A6**.

Table A6 Key Statistics in the Financial Planning and Advice Sector in Australia

	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Wages ($m)
2004-05	4,668.60	2,648.10	5268	2687	14,382	1,692.80
2005-06	5,087.20	2,796.70	5531	2821	14,934	1,741.60
2006-07	5,374.30	3,200.30	6057	2879	16,112	1,811.70
2007-08	4,859.70	2,661.80	6327	3057	16,640	1,948.90
2008-09	3,919.00	2,217.50	6250	2950	16,938	1,658.50
2009-10	4,001.00	2,616.70	6548	3042	16,763	1,416.40
2010-11	4,092.00	2,884.90	6921	3125	16,749	1,370.80
2011-12	4,314.50	3,110.70	6901	3206	15,389	1,346.10
2012-13	4,340.40	3,056.20	7052	3214	16,149	1,376.70
2013-14	4,444.50	3,197.30	7161	3222	16,757	1,333.40
2014-15	4,697.90	3,520.30	7299	3332	17,956	1,367.10
2015-16	4,937.50	3,698.60	7672	3397	19,027	1,431.90
2016-17	5,189.30	3,828.30	7756	3365	19,157	1,473.80
2017-18	5,345.00	3,884.00	8045	3341	20,113	1,512.60
2018-19	5,403.80	3,652.90	8168	3197	20,529	1,518.50

Source: IBISWorld

Attachment B Major Banks' Subsidiaries

What follows in this attachment is a set of tables listing each of the major banks by subsidiaries.

The subsidiaries for Australia and New Zealand Banking Group Limited are listed in **Table B1**.

Table B1 Australia and New Zealand Banking Group Limited Subsidiaries

Subsidiary Name	Percentage Held	Country of Incorporation
Holding company		
Australia and New Zealand Banking Group Limited	100%	Australia
Subsidiaries		
ANZ Capel Court Limited	100%	Australia
ANZ Capital Hedging Pty Ltd	100%	Australia
ANZ Commodity Trading Pty Ltd	100%	Australia
ANZ Funds Pty Ltd	100%	Australia
ANZ Lenders Mortgage Insurance Pty Limited	100%	Australia
ANZ Trustees Limited	100%	Australia
ANZ Wealth Australia Limited	100%	Australia
ANZcover Insurance Pty Ltd	100%	Australia
Esanda Finance Corporation Limited	100%	Australia
ETRADE Australia Limited	100%	Australia
ETRADE Australia Securities Limited	100%	Australia
Onepath Custodians Ltd	100%	Australia
Onepath Funds Management Ltd	100%	Australia
Onepath General Insurance Pty Ltd	100%	Australia
OnePath Life Australia Holdings Pty Limited	100%	Australia
Onepath Life Ltd	100%	Australia
Votraint No 1103 Pty Limited	100%	Australia

The subsidiaries for National Australia Bank Limited are listed in **Table B2**.

Table B2 National Australia Bank Limited Subsidiaries

Subsidiary Name	Percentage Held	Country of Incorporation
Holding company		
National Australia Bank Limited	100%	Australia
Subsidiaries		
ARDB Limited	100%	Australia
MLC Holdings Limited	100%	Australia
MLC Investments Limited	100%	Australia
MLC Lifetime Company Limited	100%	Australia
MLC Limited	100%	Australia
National Australia Corporate Services Limited	100%	Australia
National Australia Financial Management Ltd	100%	Australia
National Australia Group Services Ltd	100%	Australia
National Australia Trustees Limited	100%	Australia
National Equities Limited	100%	Australia
National Wealth Management Holdings Limited	100%	Australia
NBA Properties Limited	100%	Australia

The subsidiaries for Commonwealth Bank of Australia are listed in **Table B3.**

Table B3 Commonwealth Bank of Australia Subsidiaries

Subsidiary Name	Percentage Held	Country of Incorporation
Associated companies		
Aussie Home Loans Pty Limited	80%	Australia
Countplus Limited	37%	Australia
Holding company		
Commonwealth Bank of Australia	100%	Australia
Partnership		
GT Funding No 6 Ltd Partnership	100%	Australia
GT Operating No 5 Limited Partnership	100%	Australia
Subsidiaries		
Australian Investment Exchange Ltd	100%	Australia
Avanteos Investments Ltd	100%	Australia
Avanteos Pty Ltd	100%	Australia
BWA Group Services Pty Limited	100%	Australia
Capital 121 Pty Limited	100%	Australia
CBA AIR Pty Ltd	100%	Australia
CBA Equities Limited	100%	Australia
CBA International Finance Pty Limited	100%	Australia
CBFC Leasing Pty Ltd	100%	Australia
CBFC Limited	100%	Australia
Colonial Finance Limited	100%	Australia
Colonial First State Asset Management (Australia) Limited	100%	Australia
Colonial First State Group Limited	100%	Australia
Colonial First State Investments Ltd	100%	Australia
Colonial First State Property Limited	100%	Australia
Colonial Holding Company Limited	100%	Australia
Colonial Mutual Life Assurance Society Limited	100%	Australia
Commonwealth Financial Planning Limited	100%	Australia
Commonwealth Insurance Holdings Limited	100%	Australia
Commonwealth Insurance Limited	100%	Australia
Commonwealth Managed Investments Limited	100%	Australia
Commonwealth Securities Limited	100%	Australia
Count Financial Limited	100%	Australia
Financial Wisdom Limited	100%	Australia
First State Investment Managers (Asia) Limited	100%	Australia
Homepath Pty Limited	100%	Australia
IWL Broking Solutions Ltd	100%	Australia
IWL Limited	100%	Australia
Jacques Martin Administration & Consulting Pty Limited	100%	Australia
MIS Funding No1 Pty Limited	100%	Australia
Preferred Capital Ltd	100%	Australia
SAFE No 2 Pty Limited	100%	Australia
Securitisation Advisory Services Pty Ltd	100%	Australia
Security Holding Investment Entity Linking Deals Limited	100%	Australia

The subsidiaries for Westpac Banking Corporation are listed in **Table B4.**

Table B4 Westpac Banking Corporation Subsidiaries

Subsidiary Name	Percentage Held	Country of Incorporation
Associated companies		
Above The Index Asset Management Pty Ltd	37%	Australia
Alleron Investment Management Ltd	40%	Australia
Angusknight Pty Limited	50%	Australia
Cardlink Services Ltd	25%	Australia
Cash Services Australia Pty Limited	25%	Australia
Cook Cove Investment Pty Limited	50%	Australia
Cook Cove Pty Limited	50%	Australia
Exact Mining Group Pty Limited	26%	Australia
H3 Global Advisors Pty Ltd	44%	Australia
Regal Funds Management Pty Ltd	30%	Australia
Sydney Harbour Bridge Holdings Pty Limited	49%	Australia
Vipro Pty Ltd	33%	Australia
Westpac Employee Assistance Foundation Pty Limited	50%	Australia
Holding company		
Westpac Banking Corporation	100%	Australia
Partnership		
Westpac Pacific Limited Partnership	100%	Australia
Subsidiaries		
1925 (Commercial) Pty Limited	100%	Australia
1925 (Industrial) Pty Limited	100%	Australia
1925 Advances Pty Limited	100%	Australia
Advance Asset Management Limited	100%	Australia
Altitude Administration Pty Limited	100%	Australia
Altitude Rewards Pty Limited	100%	Australia
Ascalon Capital Managers Limited	100%	Australia
ASGARD Capital Management Ltd	100%	Australia
ASGARD Wealth Solutions Limited	100%	Australia
Australian Loan Processing Security Company Pty Limited	100%	Australia
Belliston Pty Ltd	100%	Australia
Bill Acceptance Corporation Pty Limited	100%	Australia
BLE Capital Investments Pty Ltd	100%	Australia
BLE Capital Ltd	100%	Australia
BLE Development Pty Ltd	100%	Australia
BLE Holdings Pty Ltd	100%	Australia
BT (Queensland) Pty Limited	100%	Australia
BT Australia Pty Ltd	100%	Australia
BT Financial Group Pty Limited	100%	Australia
BT Funds Management Limited	100%	Australia
BT Funds Management No 2 Limited	100%	Australia
BT Investment Management (Fund Services) Limited	100%	Australia
BT Investment Management (Institutional) Limited	100%	Australia
BT Investment Management Limited	62%	Australia
BT Life Limited	100%	Australia
BT Portfolio Services Ltd	100%	Australia
BT Private Nominees Pty Limited	100%	Australia

Subsidiary Name	Percentage Held	Country of Incorporation
BT Securities Ltd	100%	Australia
CBA Limited	100%	Australia
Challenge Limited	100%	Australia
Crusade CP Management Pty Limited	100%	Australia
Crusade CP No 1 Pty Limited	100%	Australia
Crusade Management Limited	100%	Australia
Danaby Pty Limited	100%	Australia
EQR Securities Pty Limited	100%	Australia
G C L Investments Pty Limited	100%	Australia
General Credit Holdings Pty Limited	100%	Australia
General Credits Pty Limited	100%	Australia
Halcyon Securities Limited	100%	Australia
Hastings Forests Australia Pty Ltd	100%	Australia
Hastings Funds Management Limited	100%	Australia
Hastings Group Pty Limited	100%	Australia
Hastings Investment Management Pty Limited	100%	Australia
Hastings Management Pty Limited	100%	Australia
Hastings Private Equity Fund IIA Pty Ltd	100%	Australia
Hitton Pty Ltd	100%	Australia
Magnitude Group Pty Ltd	100%	Australia
Mortgage Company Pty Limited	100%	Australia
Mortgage Management Pty Limited	100%	Australia
Nationwide Management Pty Limited	100%	Australia
Net Nominees Limited	100%	Australia
Oniston Pty Ltd	100%	Australia
Packaging Properties 1 Pty Ltd	100%	Australia
Packaging Properties 2 Pty Ltd	100%	Australia
Packaging Properties 3 Pty Ltd	100%	Australia
Partnership Pacific Pty Limited	100%	Australia
Partnership Pacific Securities Pty Limited	100%	Australia
Pashley Investments Pty Limited	100%	Australia
Qvalent Pty Ltd	100%	Australia
RAMS Financial Group Pty Limited	100%	Australia
Sallmoor Pty Ltd	100%	Australia
Securitor Financial Group Ltd	100%	Australia
Sixty Martin Place (Holdings) Pty Ltd	100%	Australia
St George Business Finance Pty Limited	100%	Australia
St George Custodial Pty Limited	100%	Australia
St George Equity Finance Limited	100%	Australia
St George Finance Holdings Limited	100%	Australia
St George Finance Limited	100%	Australia
St George Life Limited	100%	Australia
St George Motor Finance Limited	75%	Australia
St George Procurement Management Pty Limited	100%	Australia
St George Security Holdings Pty Limited	100%	Australia
Teuton Pty Limited	100%	Australia
Value Nominees Pty Limited	100%	Australia
W1 Investments Pty Limited	100%	Australia
Waratah Receivables Corporation Pty Limited	N/A	Australia

Subsidiary Name	Percentage Held	Country of Incorporation
Waratah Securities Australia Limited	N/A	Australia
Westpac Administration Pty Limited	100%	Australia
Westpac Asian Lending Pty Limited	100%	Australia
Westpac Custodian Nominees Limited	100%	Australia
Westpac Debt Securities Pty Limited	100%	Australia
Westpac Direct Equity Investments Pty Limited	100%	Australia
Westpac Equipment Finance (No 1) Pty Limited	100%	Australia
Westpac Equipment Finance Limited	100%	Australia
Westpac Equity Holdings Pty Ltd	100%	Australia
Westpac Equity Pty Limited	100%	Australia
Westpac Financial Consultants Limited	100%	Australia
Westpac Financial Holdings Pty Limited	100%	Australia
Westpac Financial Services Group Ltd	100%	Australia
Westpac Financial Services Ltd	100%	Australia
Westpac Funding Holdings Pty Limited	100%	Australia
Westpac Funds Financing HoldCo Pty Limited	100%	Australia
Westpac Funds Financing Pty Limited	100%	Australia
Westpac General Insurance Limited	100%	Australia
Westpac General Insurance Services Limited	100%	Australia
Westpac Global Capital Markets Pty Limited	100%	Australia
Westpac Group Investments Australia Pty Limited	100%	Australia
Westpac Investment Vehicle No 2 Pty Limited	100%	Australia
Westpac Investment Vehicle No 3 Pty Limited	100%	Australia
Westpac Investment Vehicle Pty Limited	100%	Australia
Westpac Leasing Nominees-Vic-Pty Limited	100%	Australia
Westpac Lenders Mortgage Insurance Limited	100%	Australia
Westpac Life Insurance Services Limited	100%	Australia
Westpac Overseas Holdings No 2 Pty Limited	100%	Australia
Westpac Overseas Holdings Pty Ltd	100%	Australia
Westpac Properties Ltd	100%	Australia
Westpac RE Limited	100%	Australia
Westpac Securities Administration Limited	100%	Australia
Westpac Securities Limited	100%	Australia
Westpac Securitisation Holdings Pty Limited	100%	Australia
Westpac Securitisation Management Pty Limited	100%	Australia
Westpac Structured Products Limited	100%	Australia
Westpac Syndications Management Pty Ltd	100%	Australia