Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Some Features of the Australian Banking Industry

Background Paper 1

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1. Purpose of the Paper

This background paper provides information about the range of Australian banking industry participants, the relative market share of those participants, the size of the Australian banking industry, the range of products offered and the profitability of the sector. This paper has been prepared (and charts have been constructed) using publicly available information.

This paper illustrates the following key points:

a) Authorised deposit-taking institutions (ADIs) collectively hold around 55% of the total assets of Australian financial institutions (as at the September quarter 2017), making up the largest part of the Australian financial system;

b) There has been a decline in the number of ADIs operating in Australia, largely as a result of the decrease in the number of credit unions following consolidation activity. Credit unions and building societies have also rebranded themselves as mutual banks, resulting in an increase in the number of domestic banks operating in Australia;

c) The major banks hold approximately three-quarters of total assets held by ADIs in Australia;

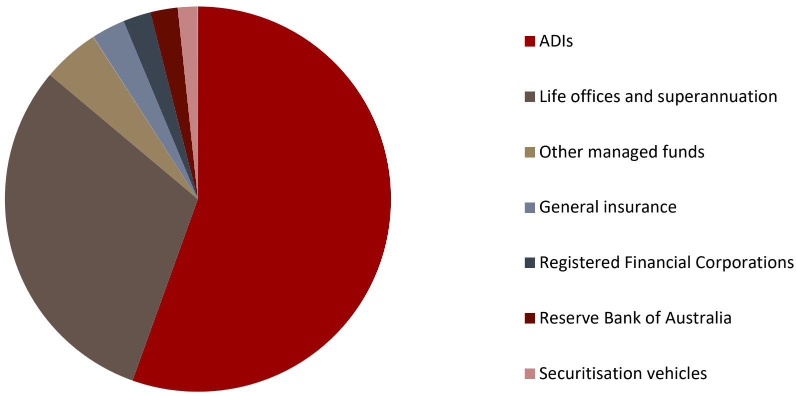
d) ADIs hold $4.6 trillion in assets, around two-and-a-half times the size of Australia's $1.8 trillion nominal economy. Financial and insurance services is the largest contributor to real industry gross value added; and

e) Banks provide a wide range of products and services to Australian consumers and businesses. In particular, bank lending is a key source of external financing for SMEs and agricultural businesses in Australia.

2. Introduction

The banking sector is the largest part of the Australian financial system. It comprises 147 authorised deposit-taking institutions ('ADIs')[1] which collectively hold around 55% of the assets of Australian financial institutions.[2]

Chart 1: Assets of financial institutions, September quarter 2017



Source: Reserve Bank of Australia ('RBA')[3]

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1 APRA, *Statistics: Quarterly ADI Performance* (September 2017), Quarterly Authorised Deposit-taking Institution Performance, <http://www.apra.gov.au/adi/Publications/Documents/0512-QADIPS-Sep-2017.xlsx>.

2 Reserve Bank of Australia, *Assets of Financial Institutions – B1*, Statistical Tables, <http://www.rba.gov.au/statistics/tables/xls/b01hist.xls?v=2018-02-06-16-03-45>. Note the Reserve Bank of Australia advises that caution should be exercised in drawing conclusions about the relative sizes of institutions because of the different nature of their activities and different coverage of the various data collections.

3 Ibid.

3. Authorised deposit-taking institutions

3.1. Types of authorised deposit-taking institutions (ADIs)

In Australia, an ADI is a body corporate that has been granted an authority by the Australian Prudential Regulation Authority ('APRA') to carry on 'banking business' in Australia.[4]

The legislative concept of 'banking business' encompasses a business that consists of banking within the meaning of paragraph 51(xiii) of the Australian Constitution, or a business carried on by a corporation to which paragraph 51(xx) of the Australian Constitution applies and that consists of specific prescribed activities, including the taking of money on deposit and the making of advances of money.[5]

The main types of ADIs are:

a) Banks;
b) Building societies;
c) Credit unions; and
d) Other (capturing ADIs that do not fall within any of the previous category types).

The main features and differences between these types of ADIs are outlined below. Regardless of their type classification, all ADIs are licensed, and prudentially regulated, by APRA and regulated as companies by the Australian Securities and Investments Commission ('ASIC'). For the purposes of this paper, general references to the Australian banking industry and banks refer to the ADI sector (and its relevant activities) collectively, unless in a specific context the intended reference is to a particular type of ADI.

Although the term 'bank' is no longer legislatively defined,[6] it refers to an ADI which has consent from APRA to call itself a bank.[7] Banks provide a wide range of financial services to all sectors of the Australian economy.[8]

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4 *Banking Act 1959* (Cth) ('*Banking Act*'), s 5(1) (definition of 'authorised deposit-taking institution').

5 Ibid s 5(1) (definition of 'banking business').

6 See *Financial Sector Reform (Amendments and Transitional Provisions) Act (No. 1) 1999* (Cth), sch 2, s 1 (which repealed the definition of 'bank' in the *Banking Act*).

7 Under s 66 of the *Banking Act 1959* (Cth). See also APRA, *Guidelines: Implementation of section 66 of the* Banking Act 1959 (August 2015), [21]–[22] <http://www.apra.gov.au/adi/Documents/Section%2066%20Guidelines.pdf>.

8 Reserve Bank of Australia, *Main Types of Financial Institutions* (June 2017), <https://www.rba.gov.au/fin-stability/fin-inst/main-types-of-financial-institutions.html>.

Banks can be further classified into the following four main sub-categories:

a) ***Major banks****:* the four largest Australian banks are the Australia and New Zealand Banking Group Limited, the Commonwealth Bank of Australia, the National Australia Bank Limited, Westpac Banking Corporation and their subsidiary banks;

b) ***Other domestic banks***: all locally-owned banks excluding those classified as major banks (e.g. Bank of Queensland Limited, Macquarie Bank Limited);

c) ***Foreign subsidiary banks***: foreign banks authorised to carry on banking business in Australia through a locally incorporated subsidiary (e.g. HSBC Bank Australia Limited, ING Bank (Australia) Limited); and

d) ***Foreign bank branches***: foreign banks licensed to conduct banking business in Australia through branches, subject to a condition which specifically restricts the acceptance of retail deposits (e.g. Citibank, N.A., Credit Suisse AG).

Building societies (e.g. Newcastle Permanent Building Society Limited) and **credit unions** (e.g. Credit Union Australia Ltd) are ADIs usually owned by their members that offer traditional retail banking services like savings accounts and loans.[9]

The '**other**' category is for ADIs that do not fit within the first three main categories ('other ADIs'), such as payments clearing services (e.g. Cuscal Limited), purchased payment facilities providers (e.g. PayPal Australia Pty Limited) and authorised non-operating holding companies[10] (e.g. Macquarie Group Limited). They represent a numerically small segment of the ADI population.[11]

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9 ASIC, *Glossary – building society*, <https://www.moneysmart.gov.au/glossary/b/building-society> and ASIC, *Glossary – credit union*, <https://www.moneysmart.gov.au/glossary/c/credit-union>. See also RBA, *Main Types of Financial Institutions* above n 8.

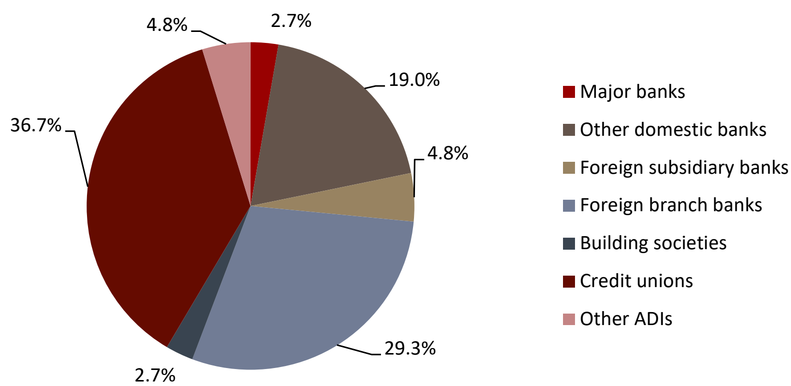
10 APRA may require a body corporate seeking authority to be an ADI to also have the applicant's holding company obtain authority to be a non-operating holding company under s 11AA of the *Banking Act*.

11 See further APRA, *List of Authorised Deposit-taking Institutions* (3 November 2017), <http://www.apra.gov.au/adi/Pages/adilist.aspx>.

Comparative size of the different types of ADIs as a proportion of the Australian banking industry

As at the end of the September quarter 2017, the major banks held approximately three-quarters of total assets held by ADIs in Australia, although they made up only 2.7% of the total number of ADIs in Australia.[12] Other domestic banks, foreign branch banks and credit unions make up a large proportion of the number of ADIs in Australia, but do not hold a substantial proportion of its assets – other domestic banks and foreign branch banks each hold around 10% of total assets, while credit unions only hold around 1% of total assets of ADIs.[13]

Chart 2: Composition of different types of ADIs by number of entities, September quarter 2017



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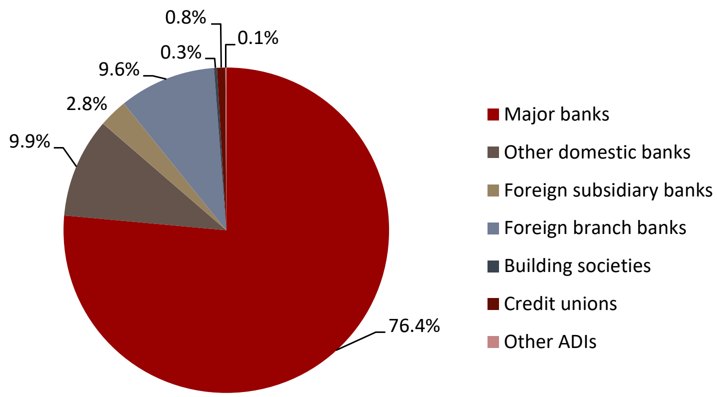
[12] APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1.
[13] Ibid.

Chart 3: Composition of different types of ADIs by asset size, September quarter 2017



Source: APRA[14]

Using this measure of market concentration, the level of concentration in the Australian banking system can be regarded as similar to the levels observed for the banking systems in Canada, the Netherlands and Sweden.[15]

3.2. Changes in the number of ADIs over the past 10 years

Over the past 10 years, the number of ADIs has decreased from 217 ADIs (as at the end of the September quarter 2007) to 147 (as at the end of the September quarter 2017), a decline of approximately 32%.[16]

The main driver of this decline has been a decrease in the number of credit unions operating in Australia. This has occurred as a result of the trend for credit unions to convert and rebrand themselves as mutual banks, as well as consolidation to seek to achieve economies of scale and improve their competitiveness.[17] As at the end of the September quarter 2007, there were 141 credit unions operating in Australia which held around 1.5% of the total assets of ADIs.[18]

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14 Ibid.

15 See further Reserve Bank of Australia, *Competition in the Financial System: Submission to the Productivity Commission Inquiry* (September 2017), 9 <https://www.rba.gov.au/publications/submissions/financial-sector/competition-in-the-financial-system/submission-to-productivity-commission-september-2017.pdf>.

16 APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1.

17 Wayne Byres, 'Individual Challenges and Mutual Opportunities' (Speech delivered at the COBA 2017 – Customer Owned Banking Convention, Brisbane, 23 October 2017), 2 <http://www.apra.gov.au/Speeches/Documents/COBA%20speech%20-%20Opportunities%20and%20Challenges%20-%2023%20October%202017.pdf>.

18 APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1.

As at the end of the September quarter 2017, there were 54 credit unions in Australia, holding around 0.8% of the total assets of ADIs.[19]

For the same reason behind the decline in the number of credit unions, building societies have also experienced a decline over the past 10 years, falling from 14 as at the end of the September quarter 2007 (around 0.8% of the total assets of ADIs) to four as at the end of the September quarter 2017 (around 0.3% of the total assets of ADIs).[20]

By contrast, the number of banks operating in Australia has increased, particularly since 2011, when the number of other domestic banks in Australia increased substantially from six banks as at the end of the June quarter 2011 to 28 banks as at the end of the September quarter 2017. This followed changes in 2010 that enabled credit unions and building societies that already met APRA's minimum capital requirements to use the term 'bank' to apply for bank status.[21]

Table 1: Number of ADIs by type

Type of ADI	As at end September qtr 2007	As at end September qtr 2017	Change
Major banks	4	4	0
Other domestic banks	9	28	19
Foreign subsidiary banks	10	7	-3
Foreign bank branches	31	43	12
Building societies	14	4	-10
Credit unions	141	54	-87
Other ADIs	8	7	-1
Total	**217**	**147**	**-70**

Source: APRA [22]

[19] Ibid.
[20] Ibid.
[21] See generally The Treasury, Australian Government, *Stream Two: Support smaller lenders to compete with the big banks*, <http://banking.treasury.gov.au/content/reports/announcement/report_10.asp>.
[22] Ibid.

3.3. Industry size

Number and market value of listed ADIs

As detailed in Table 2 below, by number, ADIs comprise five of the 20 listed companies that make up the S&P/ASX20 – the 20 largest stocks by market capitalisation (the value of the stock on the market) in Australia.[23] Similarly, ADIs comprise seven of the 100 listed companies that make up the S&P/ASX100.

Table 2: ADIs in the S&P/ASX20 and/or S&P/ASX100 (as at 1 January 2018)[24]

Name of ADI	Type of ADI	ASX20 and/or ASX100
ANZ Banking Group Limited	Australian owned bank (major bank)	S&P/ASX20 and S&P/ASX100
Bank of Queensland Limited	Australian owned bank	S&P/ASX100
Bendigo and Adelaide Bank Limited	Australian owned bank	S&P/ASX100
Commonwealth Bank of Australia	Australian owned bank (major bank)	S&P/ASX20 and S&P/ASX100
Macquarie Group Limited	Authorised non-operating holding company	S&P/ASX20 and S&P/ASX100
National Australia Bank Limited	Australian owned bank (major bank)	S&P/ASX20 and S&P/ASX100
Westpac Banking Corporation	Australian owned bank (major bank)	S&P/ASX20 and S&P/ASX100

Source: www.asx20list.com and www.asx100list.com

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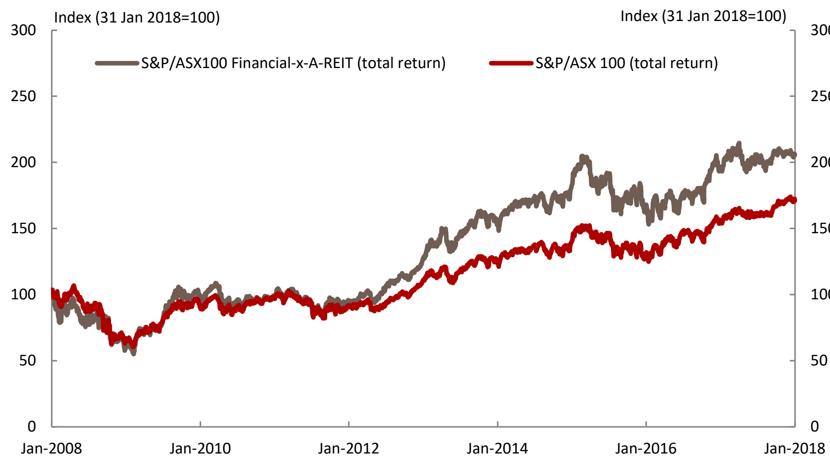
23 Market capitalisation of a stock is calculated by the number of shares on issue multiplied by their market price. This can also be applied to calculate the value of all companies listed on an exchange: see Australian Stock Exchange Limited, *Market Capitalisation*, Glossary of sharemarket terms, <https://www.asx.com.au/glossary/items/market_capitalisation.htm>.

24 This list has been compiled by comparing the list of ADIs maintained by APRA (see, above n 11) and the compilation of listed companies for the S&P/ASX20 and S&P/ASX100 provided at *www.asx20list.com and www.asx100list.com* respectively. Some ADIs (e.g. AMP Bank Ltd, Suncorp-Metway Limited) are not included here as it is their group's holding companies that are in the S&P/ASX20 and S&P/ASX100 (with those holding companies not being on APRA's list of ADIs).

ADIs make up approximately 44% of the total market capitalisation (value) of the S&P/ASX20 (excluding Macquarie Group Limited the parent company of Macquarie Bank) and approximately 27% of the market capitalisation (value) of the S&P/ASX100.[25]

The following charts show the market capitalisation over the 10 years from 31 January 2008 to 31 January 2018 of the S&P/ASX100 and S&P/ASX200 indices compared with the S&P/ASX 'Financials-X-A-REIT' indices. This latter index consists of listed entities in the S&P/ASX100 or S&P/ASX200 that are classified as 'financial' companies (those companies undertaking banking, mortgage, consumer and specialised finance, investment banking and brokerage, asset management and custody, corporate lending, insurance and financial investment activities), excluding Australian real estate investment trusts ('A-REITs').[26]

Chart 4: S&P/ASX100 and S&P/ASX100 financials (ex A-REITs)



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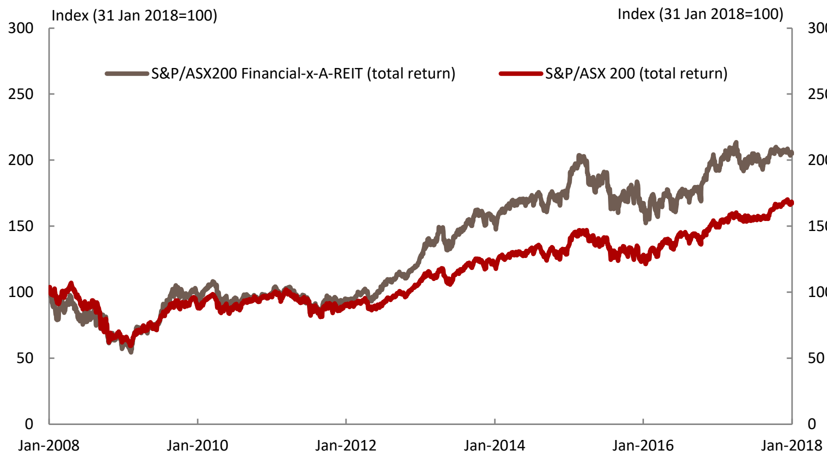
[25] S&P Dow Jones Indices, *S&P/ASX 20 (AUD)*, <http://www.spindices.com/indices/equity/sp-asx-20>; S&P Dow Jones Indices, *S&P/ASX 100 (AUD)* <http://www.spindices.com/indices/equity/sp-asx-100>.

[26] S&P Dow Jones Indices, *S&P/ASX 100 (AUD)*, above n 25.

Chart 5: S&P/ASX 200 and S&P/ASX 200 financials (ex A-REITs)



Source: ASX[27]

Profit and return on equity of ADIs[28]

ADIs (other than those classified as 'other ADIs') returned a net profit after tax of around $9.2 billion in the September quarter 2017 and a profit of $35.9 billion in the 12 months to September 2017. Over the past 10 years, the major banks have generally achieved higher profit margins than other types of ADIs. The major banks earned a profit margin of 36.4% in the June quarter 2017 (latest data). Major banks' net profit after tax in the June quarter 2017 was $7.8 billion (latest data).

Other domestic banks earned a profit margin of 24.7% in the June quarter 2017 (latest data). Total net profit after tax for other domestic banks in the June quarter 2017 was $831 million (latest data).

Profit margins of foreign branch banks have increased following a sharp decline around the time of the global financial crisis.

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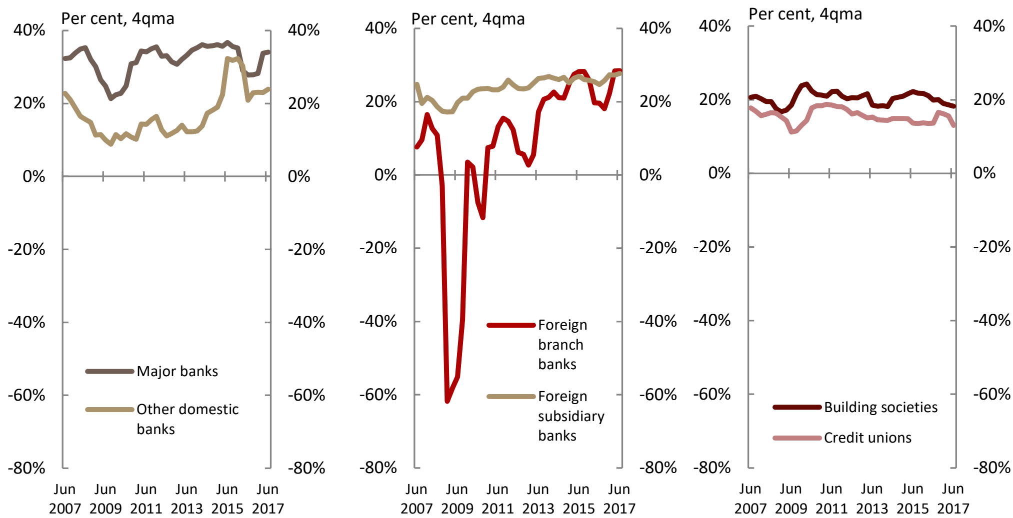
27 S&P Dow Jones Indices, *S&P/ASX 200 (AUD)* <http://www.spindices.com/indices/equity/sp-asx-200>.

28 The numerical information referenced in this section (including Charts 6 and 7) are derived from APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1 (Tables 1g, 2g, 3f, 4f, 5f, 6g, 7g, 8d).

Chart 6: profit margins of ADIs, June quarter 2007 to June quarter 2017, four quarter moving average ('4qma')



Source: APRA[29]

ADIs' return on equity after tax (other than those classified as 'other ADIs') was 12.5% in the September quarter 2017 and 12.3% in the year to the September quarter 2017.

Over the past 10 years, the major banks have generally achieved a higher return on equity than other types of ADIs. The major banks earned a return on equity after tax of 13.6% in the June quarter 2017 (latest data). Other domestic banks earned a return on equity after tax of 10.4% in the June quarter 2017 (latest data). The APRA data show that the return on equity for building societies and credit unions has reduced over the past 10 years.

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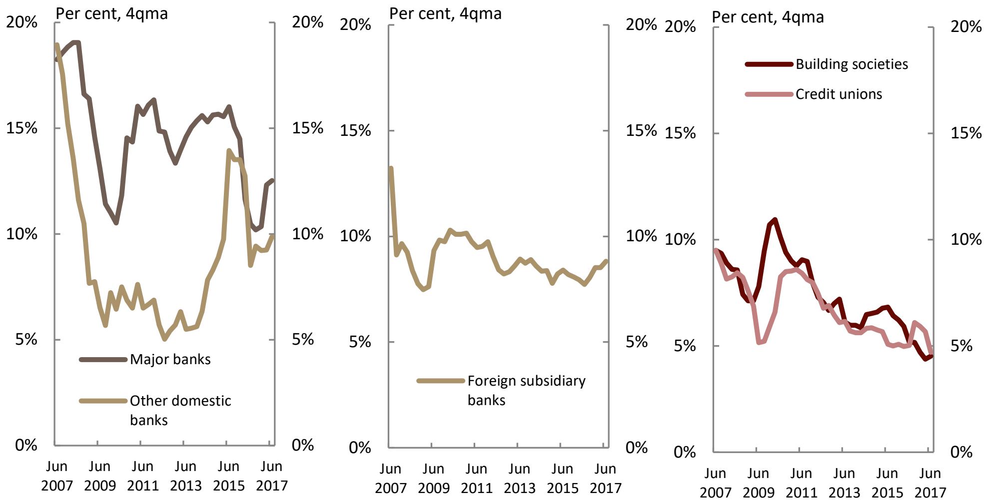
[29] Ibid.

Chart 7: Return on equity of ADIs, June quarter 2007 to June quarter 2017, four quarter moving average ('4qma')



Source: APRA[30]

While precise international comparisons of Australian banks' profits and returns on equity cannot be undertaken due to differences in financial reporting and accounting standards across jurisdictions, publicly available information broadly indicates Australia's major banks are comparatively more profitable (as assessed by net income as a percentage of total assets) than some of their international peers in Canada, Sweden, Switzerland and the UK.[31] Similar conclusions can be reached for international comparisons for Australian major banks' return on equity.[32]

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30 Ibid. Note that data on return on equity for foreign branch banks is unavailable.

31 See, e.g., Bank for International Settlements, *87th Annual Report* (25 June 2017), 80 <https://www.bis.org/publ/arpdf/ar2017e.pdf>.

32 See Reserve Bank of Australia, *Competition in the Financial System: Submission to the Productivity Commission Inquiry* (September 2017), 12 <https://www.rba.gov.au/publications/submissions/financial-sector/competition-in-the-financial-system/submission-to-productivity-commission-september-2017.pdf>; Reserve Bank of Australia, *Financial Stability Review* (April 2016), 12 <https://www.rba.gov.au/publications/fsr/2016/apr/pdf/financial-stability-review-2016-04.pdf>.

3.4. Contribution to the Australian economy and employment

ADIs contribute substantially to the Australian economy. As at the end of September 2017, ADIs held $4.6 trillion in assets.[33] This is around two-and-a-half times the size of Australia's $1.8 trillion nominal economy (as measured by nominal GDP[34]).[35] Financial and insurance services, which includes ADIs and other financial corporations, is the largest contributor to real industry gross value added – the measure of how much value each industry adds to the economy – contributing around 9% to real industry gross value added at basic prices as at the September quarter 2017.[36] By comparison, as at the September quarter 2017, construction and healthcare and social services each contributed around 8% and manufacturing and mining each contributed around 6% to real industry gross value added.[37]

In terms of employment, financial and insurance services comprised around 3.4% of total employment in the three months to November 2017.[38]
By comparison, in the three months to November 2017, health care and social assistance comprised 13.3% of total employment, retail trade 10.4%, construction 9.4%, manufacturing 7.1% and mining 1.8%.[39]

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33 APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1.

34 The 'nominal' economy is the value of goods and services produced in Australia without adjusting for inflation. Nominal GDP is used as a comparison as the value of assets of ADIs is also in nominal terms.

35 APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1; Australian Bureau of Statistics ('ABS'), *5206.0 - Australian National Accounts: National Income, Expenditure and Product, Sep 2017* (6 December 2017), <http://www.abs.gov.au/ausstats/abs@.nsf/mf/5206.0> (Table 1 Key National Accounts Aggregates, Gross Domestic Product, current prices, four quarters to September 2017).

36 ABS, above n 35 (Table 6 Gross Value Added by Industry, chain volume measures).

37 Ibid.

38 ABS, *6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Nov 2017* (21 December 2017) <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6291.0.55.003>. All cited percentages are based on the underlying set of seasonally adjusted figures.

39 Ibid.

Chart 8: Financial and insurance services contribution to real industry gross value added, September quarter 2017[40]

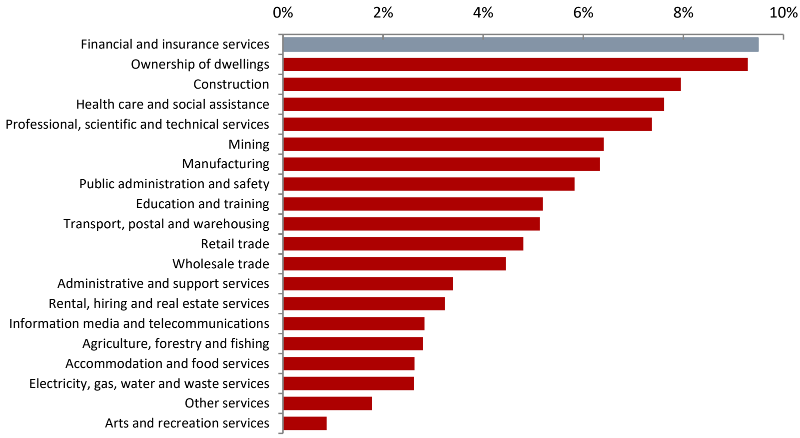
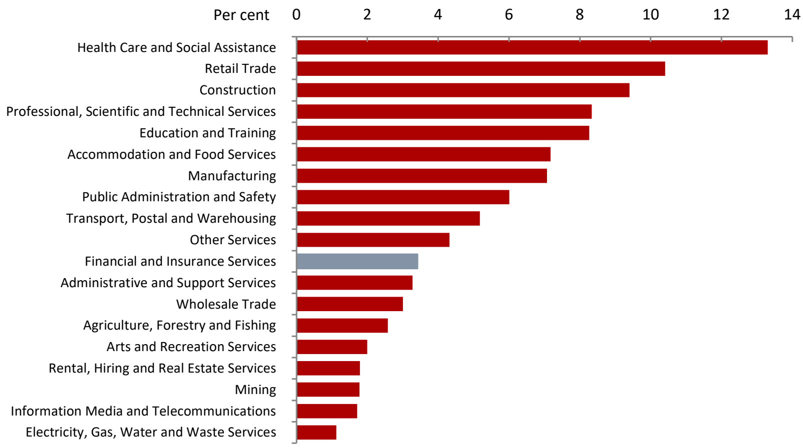


Chart 9: Financial and insurance services contribution to industry employment, three months to November 2017[41]



As at the end of September 2017, ADIs (other than those classified as 'other ADIs') held around $2.7 trillion in deposits, of which $1.4 trillion (around half) were on-call or demand deposits.

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40 ABS, above n 35 (Table 6 Gross Value Added by Industry, chain volume measures).
41 ABS, above n 38.

A vast majority of the Australian population holds at least one bank account.[42] The major banks, for example, have the following numbers of customers, illustrating the strong presence of the banking sector in the Australian economy:

Table 3: Customer numbers of major banks, 15+ population and number of Australian businesses

(Customer numbers may include international customers)

Customer numbers, major banks (from 2016–17 Annual Reports)	Millions (to nearest million)
Commonwealth Bank of Australia (CBA)[43]	17
Westpac Banking Corporation[44]	13
National Australia Bank Limited (NAB)[45]	9
Australia and New Zealand Banking Group Limited (ANZ)[46]	8
Australian population 15+ years (as at 30 June 2017)[47]	20
Australian businesses (as at 30 June 2016)[48]	2

Source: Major banks' annual reports, ABS

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42 ASIC, *Transaction accounts* (6 October 2017, ASIC's MoneySmart <https://www.moneysmart.gov.au/managing-your-money/banking/transaction-accounts>.

43 Commonwealth Bank of Australia, *Annual Report 2017*, 3 <https://www.commbank.com.au/content/dam/commbank/about-us/shareholders/pdfs/annual-reports/annual_report_2017_14_aug_2017.pdf>.

44 Westpac Banking Corporation, *2017 Westpac Group Annual Report*, 13 <https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/ic/2017_Westpac_Annual_Report_Web_ready_&_Bookmarked.pdf>.

45 National Australia Bank Limited, *Annual Financial Report 2017*, 2 <https://www.nab.com.au/content/dam/nabrwd/About-Us/shareholder-centre/documents/2017-annual-financial-report.pdf>.

46 Australia And New Zealand Banking Group Limited, *2017 Annual Report*, 11 <http://shareholder.anz.com/sites/default/files/2017_anz_annual_report.pdf>.

47 ABS, *3101.0 - Australian Demographic Statistics, Jun 2017* (14 December 2017) <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Jun%202017?OpenDocument> (Data Cube: Population by Age and Sex Tables).

48 ABS, *8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016* (21 February 2017) <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0>.

4. Key product markets for authorised deposit-taking institutions

ADIs offer many products and services, including:

a) Transaction accounts;

b) Term deposits;

c) Home loans (residential and investment);

d) Other loans (including personal loans);

e) Credit cards;

f) Institutional banking;

g) SME banking;

h) Agricultural finance.

The balance of this paper will provide further information on some of these product markets to illustrate the key ways in which most Australians, including businesses, are consumers of the products and services provided by the Australian banking industry.

4.1. Deposits

As at the September quarter 2017, deposits made up around 64% or nearly two-thirds of liabilities held by ADIs. On-call/demand deposits (such as transaction accounts) made up one-third of total liabilities, and term deposits and certificates of deposit made up a further 28%.[49]

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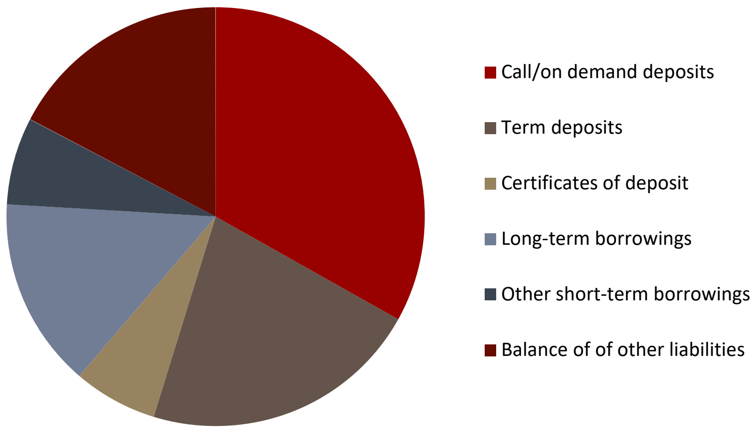
49 APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1 (Table 1b: ADIs' financial position).

Chart 10: Total liabilities of ADIs, September quarter 2017



Source: APRA[50]

4.2. Housing loans

Housing loans are the largest asset on the books of ADIs, comprising around 42% of assets as at the September quarter 2017.

As at November 2017, there was a total of $1.07 trillion in finance for owner-occupied housing provided by ADIs and a further $560 billion in investment housing finance provided by ADIs (a total of around $1.6 trillion in housing finance provided by ADIs). The vast majority of housing finance is provided by banks (around 98%), with the remainder provided by permanent building societies and credit co-operatives.[51]

As at the September quarter 2017, there were around 5.8 million residential term loans provided to households by an ADI, with greater than $1 billion of term loans. Of these, around 1.6 million (27%) were interest-only loans, 2.2 million (38%) were loans with offset facilities and 4.1 million (71%) were loans with redraw facilities.[52]

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50 Ibid.

51 ABS, *5609.0 - Housing Finance, Australia, November 2017* (17 January 2018) <http://www.abs.gov.au/ausstats/abs@.nsf/mf/5609.0>.

52 APRA, *Quarterly Authorised Deposit-taking Institution Property Exposures - September 2017* (5 December 2017), Quarterly ADI Property Exposures statistics, Table 1b <http://www.apra.gov.au/adi/Publications/Documents/QPEX_September_2017.xlsx>.

Median/average home loan size

The average balance of residential term loans to households was $264,000 as at the September quarter 2017. The average home loan balance is significantly higher for interest-only loans ($347,000) and loans with offset facilities ($314,000).

Number of mortgage defaults per year

There are only a small number of mortgages in arrears in Australia, according to Standard & Poor's, which estimates the value of residential mortgages in arrears (that is, mortgages with late repayments) using residential mortgage-backed securities (RMBS) data.

According to Standard & Poor's, only 1% of the total value of Australian 'prime'[53] mortgages (where borrowers have a high likelihood of repaying their debt) are in arrears of 31 days or more. 3.4% of the total value of Australian 'non-conforming' mortgages (where borrowers have a lower likelihood of repaying their debt – often referred to as 'sub-prime') are in arrears of 31 days or more. This figure has dropped substantially since 2007.[54]

These values drop further when considering loans that are 90+ days in arrears. Only 0.6% of Australian 'prime' mortgages are 90+ days in arrears, and around 1.5% of Australian 'non-conforming' mortgages are 90+ days in arrears.[55]

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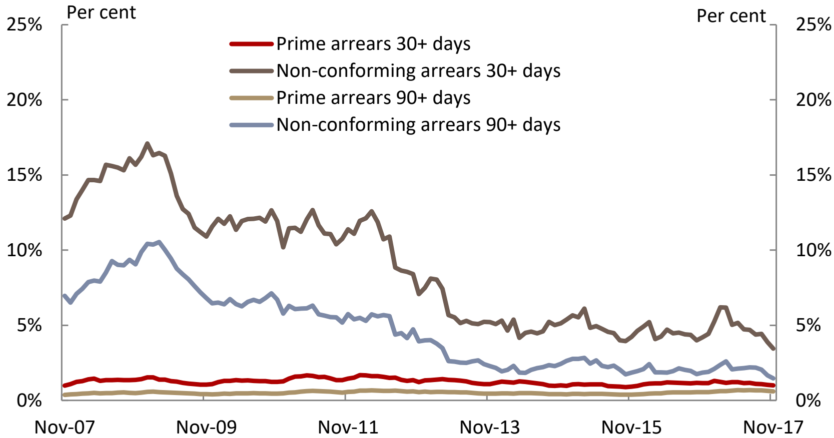
53 For a detailed explanation of prime and non-conforming loan definitions, see Guy Debelle, Assistant Governor (Financial Markets), Reserve Bank of Australia, 'A Comparison of the US and Australian Housing Markets' (Speech delivered at the Sub-prime Mortgage Meltdown Symposium, Adelaide, 16 May 2008) <https://www.rba.gov.au/speeches/2008/sp-ag-160508.html>.

54 S&P Global Ratings, *Asia-Pacific Structured Finance Surveillance* <https://www.spratings.com/en_US/topic/-/render/topic-detail/australia-new-zealand-structured-finance-surveillan-1> (RMBS SPIN data, November 2017).

55 Ibid.

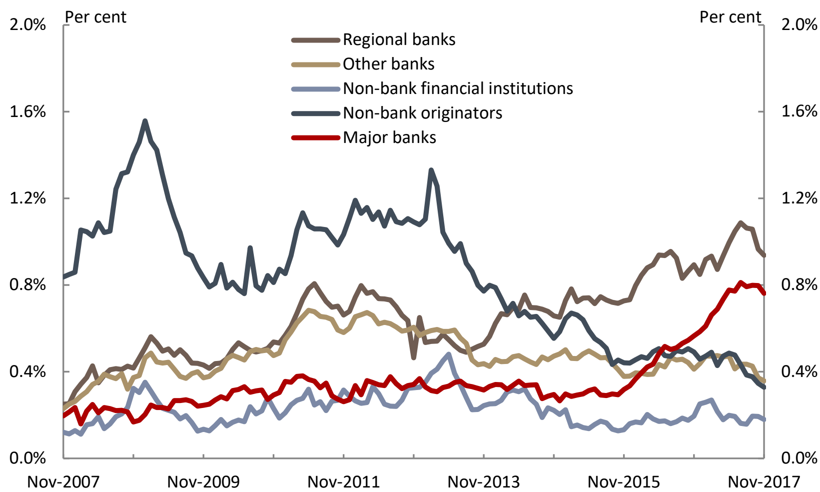
Chart 11: Australian mortgage arrears estimates, 2007–2017



Source: S&P Global Ratings[56]

The data when split by type of ADI show that the proportion of Australian prime mortgages 90+ days in arrears has generally increased for major banks and regional banks, although they remain low as a proportion of total balances.[57]

Chart 12: Australian prime mortgage arrears estimates (90+ days), by type of ADI, 2007–2017



Source: S&P Global Ratings[58]

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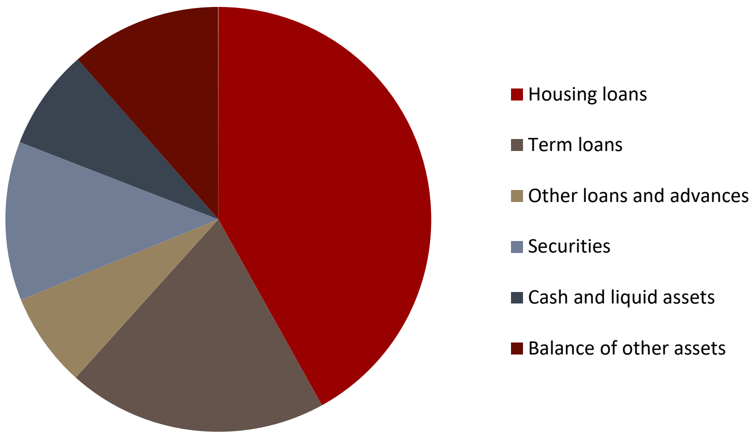
[56] Ibid.
[57] Ibid.
[58] Ibid.

4.3. Loans

As at the September quarter 2017, gross loans and advances made up around two-thirds (69%) of ADIs' assets. Housing loans made up around 42% of total assets and term and other loans and advances (such as personal loans) made up just over one quarter (27%) of ADIs' assets.[59]

Chart 13: Total assets of ADIs, September quarter 2017



Source: APRA[60]

Non-performing loans make up a very small proportion of ADI balance sheets. Impaired facilities are defined by APRA as loans with changed terms ('restructured') and where interest may not be collected ('non-accrual exposures'). Impaired facilities have declined steadily as a proportion of total loans and advances of ADIs, down from a peak of around 1.6% as at the September quarter 2010 to 0.4% as at the September quarter 2017. Loans 90 or more days in arrears ('past due') have remained fairly low as a percentage of total loans and advances and have generally decreased since 2011. More recently, past due loans increased slightly and have remained at 0.5% from the March quarter 2017 to the September quarter 2017.[61]

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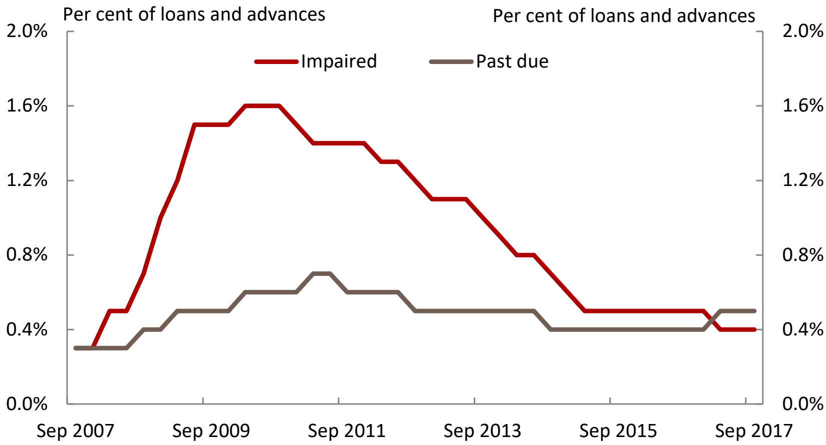
59 APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1 (Table 1b: ADIs' financial position).

60 Ibid.

61 Ibid (Table 1d).

Chart 14: Impaired facilities and past due items (% of total loans and advances), 2007-2017



Source: APRA[62]

4.4. Credit cards

Credit card debt comprises a very small amount of the overall assets of ADIs – around 1% ($51.4 billion of the $4.6 trillion in assets held by ADIs), as at the end of the September quarter 2017.[63]

As at November 2017, there were around 16.7 million credit and charge card accounts in existence in Australia, with total balances of around $52.2 billion. The average balance per account (total balance divided by number of accounts) was around $3,128.[64]

Credit card debt has declined over the past 10 years. In financial year terms, total balances have reduced from a peak of 3.6% of nominal GDP in 2007–08 to 3.0% of GDP in 2016–17.[65]

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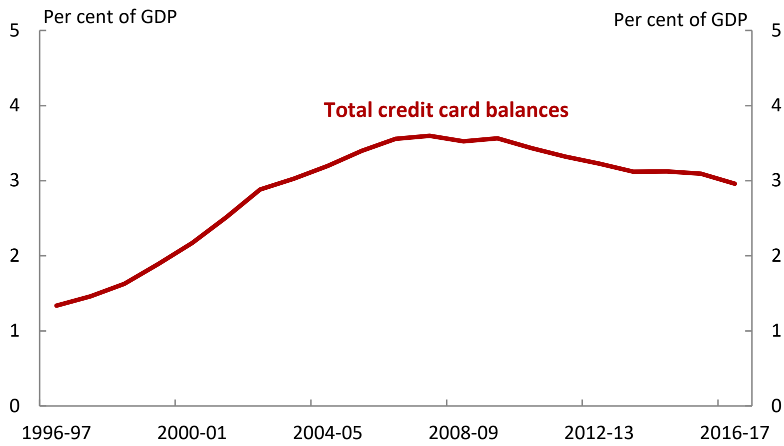
62 Ibid.

63 RBA, *Credit and Charge Card Statistics – C1*, Statistical Tables, <http://www.rba.gov.au/statistics/tables/xls/c01hist.xls?v=2018-02-02-16-09-17>, APRA, *Statistics: Quarterly ADI Performance* (September 2017), above n 1 and ABS, above n 35, (Table 36 Gross Domestic Product, current prices).

64 RBA, above n 63.

65 Ibid and ABS, above n 35, (Table 36 Gross Domestic Product, current prices).

Chart 15: Credit card debt as a % of GDP, 1996–97 to 2016–17



Source: RBA[66] and ABS[67]

4.5. Institutional banking and commercial lending

Institutional banking provides products and services for large institutions, such as complex financial products and advisory functions for corporate and government clients who may require tailored capital products. It may also involve advice on debt, equity capital markets, risk management and transactional banking.[68]

As at December 2017, commercial lending made up around 33% of total lending by banks. Commercial lending has decreased from around 49% of total lending by banks as at December 2007. This fall is largely a result of a rise in government debt securities purchased by banks (these make up the majority of 'lending to government') as the Federal Government increased its borrowings, as well as a rise in lending to persons, from around 49% of total lending as at December 2007 to around 58% as at December 2017.[69]

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66 RBA, above n 63 (Table C1 Credit and Charge Card Statistics).
67 ABS, above n 35 (Table 36 Expenditure on GDP, current prices, annual).
68 Deposits, *Institutional Banking*, <https://www.deposits.org/dictionary/term/institutional-banking/>.
69 RBA, *Bank Lending Classified by Sector* – D5, Statistical Tables, <http://www.rba.gov.au/statistics/tables/xls/d05hist.xls?v=2018-02-06-16-03-45>.

4.6. SME banking

Bank lending represents a key form of external financing for SMEs in Australia, with 68% of businesses with 1–4 employees and 72% of businesses with 5–19 employees approaching banks for debt financing in 2015–16.[70] According to the ABA, the most common used types of banking facilities for small businesses (excluding credit cards) are overdrafts, other long term loans and property mortgages.[71]

Information from the RBA suggests that the major Australian banks account for over 80% of lending to small businesses, compared to around two-thirds for large businesses.[72] This is consistent with the observations made by the Financial System Inquiry that SMEs 'have few options for external financing outside the banking system compared with large corporations',[73] with this inaccessibility attributable to the higher fixed costs SMEs face when seeking to raise funds in capital markets.[74]

Information from ASIC suggests that most appointments of external administrators involve SMEs. For example, for the financial year 2015–16, around 79% of companies in external administration had less than 20 full time equivalent employees and 86% had assets of $100,000 or less.[75]

4.7. Agricultural financing

Bank lending also represents the main form of external financing for the agricultural sector in Australia,[76] with 96% of rural debt ($68.6 billion out of a total of $71.7 billion) being held by banks as at 30 June 2017.[77]

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70 See, e.g., ABS, *8167.0 – Selected Characteristics of Australian Business, 2015-16* (17 August 2017), <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8167.0> (Data Cube: Business Finance, Table 3).

71 Australian Bankers' Association Inc., *The Small Business Sector in Australia: Economic Report* (May 2016), 8 <https://www.bankers.asn.au/images/uploads/ArticleDocuments/134/ABA-126420_Economic_Report__Small_business_sector_in_Australia_-_May16.pdf>.

72 Ellis Connolly and Ben Jackman, 'The Availability of Business Finance' in *RBA Bulletin* (December Quarter 2017), 55, 61 <https://www.rba.gov.au/publications/bulletin/2017/dec/pdf/bu-1217-7-the-availability-of-business-finance.pdf>.

73 Financial System Inquiry, *Final Report* (November 2014), 15 <http://fsi.gov.au/publications/final-report/>.

74 Financial System Inquiry, *Interim Report* (July 2014), 2–64 < http://fsi.gov.au/publications/interim-report/>.

75 ASIC, *Report 532: ASIC regulation of registered liquidators: January to December 2016* (July 2017), 31 <http://download.asic.gov.au/media/4300673/rep532-published-22-june-2017.pdf>.

76 See, e.g., ABS, above n 70.

77 RBA, *Statistical Tables: Rural Debt by Lender – D9*, <http://rba.gov.au/statistics/tables/xls/d09hist.xls?v=2018-01-31-16-29-12>.

According to the National Farmers' Federation, commonly used types of banking facilities for the agricultural sector are fixed term agribusiness loans and revolving credit facilities (such as agribusiness overdrafts).[78]

There is limited publicly available information on defaults and/or appointments of external administrators to agricultural businesses. Information from ASIC suggests that in the financial year ending 30 June 2016, there were 165 initial external administrators' reports for the agriculture, forestry and fishing industry (1.7% of all reports).[79]

As there is currently no national farm debt mediation scheme, information on the number of farm debt mediations conducted has been presented for the two largest Australian States, New South Wales and Victoria, both of which have legislated farm debt mediation schemes. Queensland's legislated farm debt mediation scheme commenced on 1 July 2017.[80] The farm debt mediation schemes in these three Australian States have been estimated by the Australian Bureau of Agricultural and Resource Economics and Sciences collectively to cover approximately 77% of Australia's farm businesses.[81]

Victoria

The Victorian Small Business Commissioner has statutory dispute resolution functions under the *Farm Debt Mediation Act 2011* (Vic).[82] In 2016–17, there were 54 disputes applications under this Victorian Act, a decrease of 3.6% from the 56 disputes applications received in 2015–16. Of the disputes referred to mediation (47 in total), 45 were successful, a success rate of 95.7%. In 2016-17, 73% of farm debt mediations were held in regional Victoria. In 2016–17, the Victorian Small Business Commission received $600,000 in funding (around 18.8% of its total funding) for farm debt mediation.

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78 National Farmers' Federation, *Submission to the Senate Select Committee on Lending to Primary Production Customers* (12 July 2017), 8–9 <http://www.nff.org.au/get/submissions/5709.pdf>.

79 ASIC, *Report 507: Insolvency Statistics: External administrators' reports (July 2015 to June 2016)* (December 2016), 18 <http://download.asic.gov.au/media/4108700/rep507-published-14-december-2016.pdf>.

80 Queensland Rural and Industry Development Authority, *Farm Business Debt Mediation* (5 July 2017), <http://www.qrida.qld.gov.au/fbdm>.

81 Department of Agriculture and Water Resources, FSRC Background Paper No. 17, 8 June 2018, 18.

82 Victorian Small Business Commissioner, *Annual Report: 2016–17*, <https://www.vsbc.vic.gov.au/wp-content/uploads/2017/10/vsbc-Annual-Report-2016-17.pdf>.

New South Wales

The New South Wales Rural Assistance Authority (RAA) administers the *Farm Debt Mediation Act 1994* (NSW).[83] This NSW Act aims to provide for the efficient and equitable resolution of farm debt disputes. Mediation is required before a creditor can take possession of property or other enforcement action under a farm mortgage. In 2016–17, the number of mediations fell to 39 new cases (34 creditor initiated and 6 farmer initiated), down from 62 cases in 2015–16. Forty cases were completed in 2016-17, with agreement reached in 90% of the cases that went to mediation.

Queensland

On 1 July 2017, the *Farm Business Debt Mediation Act 2017* (Qld) replaced a voluntary farm debt mediation scheme, the Queensland Farm Finance Strategy.[84] The purpose of this Queensland Act is to provide an efficient and equitable way for farmers and mortgagees to attempt to resolve matters relating to farm business debts.[85] Mediation is required before mortgagees can take possession of a property or other enforcement action under a farm mortgage. The Queensland Rural and Industry Development Authority is responsible for administering the mediation process.

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83 New South Wales Rural Assistance Authority, *Annual Report 2016-17* <https://www.raa.nsw.gov.au/__data/assets/pdf_file/0006/753081/NSW-RAA-Annual-Report-2016-17.pdf>.

84 Queensland Farmers' Federation, *Farm Business Debt Mediation*, <https://www.qff.org.au/advocacy/queensland-farm-finance-strategy/>.

85 Queensland Rural and Industry Development Authority, above n 80.