

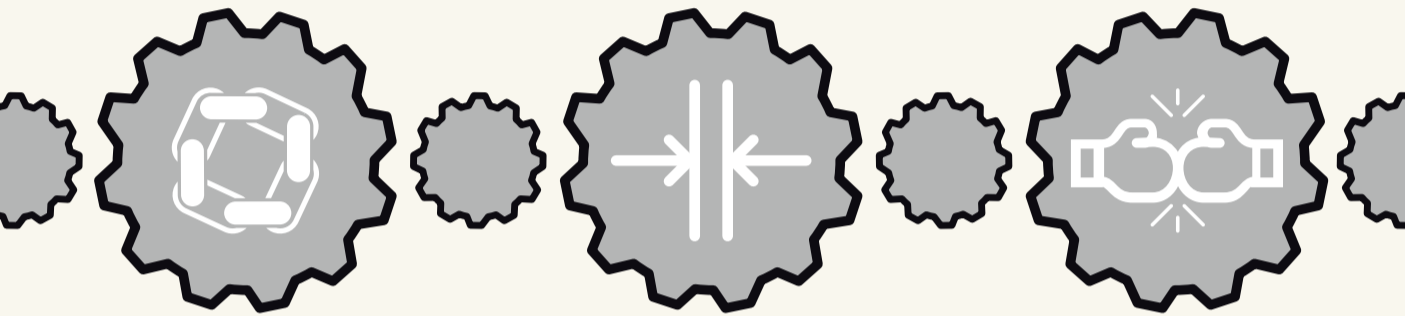
# WHAT CAN BE DONE TO PROMOTE COMPETITION IN BANKING?

## THE MURRAY INQUIRY

A major inquiry into the financial system, the Murray Inquiry, made a set of recommendations in 2014 to promote competition and strengthen the system.

These policy measures to promote competition in banking are readily available and should be implemented with urgency.

## THE TOP THREE RECOMMENDATIONS



The top three recommendations of the Murray Inquiry on regulatory capital are designed to increase the resilience of the system and also to reduce the advantages the major banks have over their smaller counterparts, encouraging competition in the market.



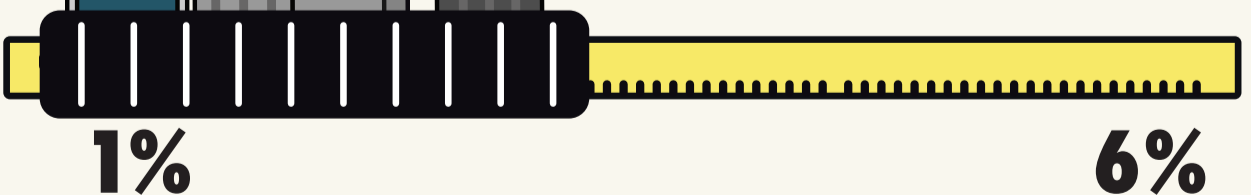
APRA should act promptly to further narrow the gap in risk weight requirements for mortgages by requiring the average risk weight for major banks to be at least 30%.



Currently, major banks' average risk weight is 25% while their smaller competitors' average risk weight is 39%. Narrowing this gap would build capital levels in the system and foster competition.



The other significant structural advantage enjoyed by the major banks is the implicit guarantee that flows from the perception that they are too big to fail. This gives the major banks a significant and unfair funding cost advantage, courtesy of the taxpayer.



1%

6%

APRA SHOULD INCREASE THE CAPITAL SURCHARGE IT IMPOSES ON THE FOUR SYSTEMICALLY IMPORTANT BANKS FROM 1% TO 2%. THE CURRENT SURCHARGE IS AT THE LOW END OF THE INTERNATIONAL SPECTRUM, WHICH RANGES UP TO 6%.