

**22 November 2013**

**Submission to the Financial System Inquiry – Terms of Reference**

**Attention: The Treasury, Australian Government**

My comments in relation to the Terms of Reference follow:

**Item 1**

- a) Item number 1 should include implications for “Australia’s economic growth” and for “the depth of Australian industry”.
- b) Item 1.3 should include “return”, that is “the current cost (and/or return), quality ...”. The reason for this is that financial products include savings and investment products.

**Item 2**

- a) Item 2.5 should include an assessment of the comprehensiveness and adequacy of monitoring and auditing of financial institutions by regulators (e.g. to enhance financial system stability)
- b) An additional item, say 2.6, should be included to assess the adequacy of expertise and skills within the Australian financial system. For example, any lack of expertise in assessing high technology industries may retard the access to capital by these industries.

In addition, should financial institutions offshoring certain capabilities? For example, what are the longer term implications of offshoring financial statement and credit analysis?

**Item 3**

- a) Item 3.1 could include an assessment of the impact of the changes that have occurred or are occurring in Australian industry, such as the shift away from manufacturing and the shifts toward outsourcing and online trading. Environmental issues may also be worth considering.
- b) What is the impact on Australia’s economic growth from the shift of lending away from businesses and toward households? According to an article in The Australian Financial Review, “Don Argus, a former National Australia Bank chief executive officer, has accused the big four banks of becoming giant building societies because of the enormous growth in their home loan books” (“Big banks look like building societies: ex NAB boss Argus”, AFR, 9 August 2013).

Another issue worth considering is the varying levels of financial service provision across the country (e.g. capital city versus provincial/rural).

Regards,

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