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Council of Financial Regulators & the  
Australian Competition and Consumer Commission

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Dear Council of Financial Regulators

### **Review into Small and Medium-sized Banks**

Westpac welcomes the opportunity to provide a submission to the Council of Financial Regulators (**CFR**) & the Australian Competition and Consumer Commission (**ACCC**)'s review into small and medium-sized banks (**review**).

The Australian banking system is respected globally for its prudential strength, reinforcing the reputation of Australian banks as safe and sound institutions. As a result, international investors view Australia as a lower-risk, stable market, making it an attractive destination for foreign capital.

Australia is well positioned to be a global leader in financial services driven by our economic framework, advanced technology capability, and world class payment system that is recognised for its efficiency, safety, and innovation. For example, our New Payments Platform demonstrates Australia's ability to adopt new financial technology, enabling real-time transactions and enhancing consumer and business opportunities.

It is vital that Australia's regulatory framework continues to safeguard financial stability, while also fostering innovation and supporting growth. This is especially important for maintaining and strengthening Australia's competitive edge where there is a global shift towards regulation that places greater priority on productivity and economic growth. Ensuring we are prioritising an efficient and effective regulatory framework will help Australia position itself as a financial innovator, attracting capital and developing ideas, ensuring our long-term competitiveness and sustainable economic growth.

Westpac's submission makes three recommendations:

1. Australia's banking system requires a minimum standard of regulation applied across every ADI to ensure adequate strength - this baseline should not be compromised.
2. Regulation beyond this minimum level should be carefully considered, with appropriate cost benefit analysis, to ensure it does not hinder competition, innovation or economic growth. Efficient and effective regulation that meets the needs of the community and is easily understood should be the priority.

Westpac acknowledges the traditional owners as the custodians of this land, recognising their connection to land, waters and community. We pay our respects to Australia's First Peoples, and to their elders, past and present.



3. The most efficient and effective regulation ensures equal opportunity and responsibility, so there should be improved oversight and transparency of non-bank entities to mitigate potential risks to the stability of Australia's financial system.

Westpac's detailed submission is outlined below. Should you have any questions, or you would like to discuss the submission in more detail, please contact [groupregulatoryaffairs@westpac.com.au](mailto:groupregulatoryaffairs@westpac.com.au).

Yours sincerely

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Westpac

## **1. Australia's banking system requires a minimum standard of regulation applied across every ADI to ensure adequate strength**

Australia has one of the safest and most stable banking systems in the world thanks to a robust regulatory framework that promotes financial resilience and consumer confidence. It is a framework that is underpinned by regulation that is applied uniformly.

Ensuring a minimum level of efficient and effective regulatory standards across the entire banking sector in areas such as prudential soundness, cybersecurity, anti-money laundering laws, and resilience is critical to maintaining financial stability and confidence in the industry. The collapse of Silicon Valley Bank (**SVB**) in 2023 serves as an example of the risks of relaxing regulatory standards and oversight that are designed to ensure financial stability. Reduced oversight and regulation meant that SVB could adopt riskier practices, which ultimately contributed to its liquidity crisis and collapse. The fallout from that collapse not only disrupted the technology sector in the US but also eroded confidence in the broader financial system.

The SVB fallout illustrates contagion risk and highlights the importance of consistent regulation applied across all banks regardless of their size or business model to prevent gaps that could threaten the stability in the financial system and the broader economy. Competition should not be pursued through targeted relaxation of key standards. Although such action might be considered proportionate to the quantum of risk posed at the level of an individual ADI, confidence in the banking system can quickly evaporate if material problems occur in one of its weaker participants, which will have negative flow on impacts into the broader system and economy.

## **2. Regulation beyond this minimum level needs to be fit for purpose and carefully considered**

It is important that the Australian regulatory framework continues to balance innovation and competition with the need to protect consumers and the integrity of our system.

Westpac supports a competitive Australian banking sector that promotes positive customer outcomes while sustaining a stable financial system. A competitive environment encourages better customer outcomes through innovation, consumer choice and value for money.

Regulation plays a key role in this. Excessive or poorly calibrated regulation beyond the minimum standard can have the unintended consequences of creating inefficiencies, reducing innovation, competition, and consumer choice, and increasing costs. It can reduce the attractiveness of Australia as a destination for investment, thereby making Australia uncompetitive globally. This is further heightened in an environment of global deregulation and a push to greater productivity initiatives and growth.

A regulatory framework that is too restrictive and punitive can discourage investment in the sector and see a flight of capital to other sectors of the economy and banks in other jurisdictions, which provide more sustainable growth and returns. We should aspire for an efficient and effective regulatory framework, one that is easily understood, consistent, and meets the needs of the community. Prioritising stringent regulatory settings will make the Australian banking industry less dynamic, ultimately weakening the ability of banks to compete to serve consumers, businesses, and the broader economy.

Westpac supports a measured and strategic approach to regulatory change to help ensure regulatory change is coordinated and prioritised towards maximum sustainable benefit to customers, cognisant of potential unintended consequences on the banking system's ability to

support the Australian economy and remain attractive to investors. Regulatory changes should be prioritised and implemented in a way that minimises disruption and duplication and aligns with broader economic goals. The recent publication of the Regulatory Initiatives Grid by the Government is a positive step and one that Westpac supports.

Any future regulation that goes beyond a minimum standard should be structured, coordinated, and sequenced appropriately, with any potential impacts considered holistically and proposed benefits carefully assessed against costs. This will help avoid unnecessary regulatory burden.

An approach to regulation that strikes an appropriate balance means Australia will continue to have a healthy banking sector that supports economic growth, innovation, competition and consumer choice, while ensuring we are able to attract capital and new ideas.

### **3. There should be greater oversight and transparency of the non-bank sector**

The rise of private capital in the Australian financial sector has provided increased competition to ADIs and offered alternative financing and investing options for consumers. Unlike ADIs, non-bank lenders are not regulated by APRA, which means they are not subject to the same stringent prudential requirements and there is a relative lack of oversight of these entities. This disparity in regulation and oversight raises concerns about the quality of risk management and lending practices within these entities, and potential knock-on impacts to consumers and the system more broadly. The buy-now-pay-later phenomenon meant credit was provided without the regular checks and balances that apply to regulated entities when providing consumer credit. This outcome meant that more credit was pushed into an opaque system with limited oversight and transparency thereby obscuring the true level of risk in the system.

Non-ADI entities lack transparency on pricing and performance (and fund dynamics, such as leverage in the fund), which inhibits the ability to understand the risk from private capital in the sector, potential implications of a 'private credit run' in the event investors seek money to be returned, and the resultant potential impact on the system. There is also a lack of consumer understanding of the difference between ADIs and non-ADI entities and the level of investment and borrowing security that is provided. For example, there may be non-sophisticated investors who may treat private credit akin to a high interest-bearing savings account without the appreciation that their capital is more at risk. This further heightens the risks of this sector.

In addition, many non-ADI entities source funding from banks and this interconnectedness means that any financial stress or defaults within these entities could have ripple effects across the broader Australian financial system.

To mitigate these risks, we recommend greater oversight of non-ADI entities, including through the implementation of more stringent reporting and transparency requirements to help identify emerging risks. This enhanced oversight and transparency for private capital entities will help protect consumers, improve parity of regulation with ADIs and help to uphold confidence in Australia's financial system.