Edith Cowan University
Faculty of Business and Law

Financial Deregulation in Australia

David E Allen

Financial Deregulation in Australia

- Defining deregulation
- History of regulation
- The argument for deregulation
- Brief chronology of the deregulation of the Australian financial system
- Financial deregulation: benefits and costs
- Measures resulting from the Wallis Report

Financial Deregulation in Australia

- The removal of regulations, usually government regulations, that restrict certain types of activities in the market
- **The aim of deregulation**: to increase efficiency by imposing competition and removing regulations that distort economic activity

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- 1890s: banking collapse
- 1910: Commonwealth government began to produce notes and coins
- 1911: establishment of the Commonwealth Bank of Australia
  - Commercial and savings bank business
  - Government guaranteed
- Other central banking functions added during the 1930s and made permanent in the *Banking Act 1945*

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- 1948: failure of the Labor government to nationalise private banks
- 1959: creation of the Reserve Bank of Australia (RBA)
- 1974: RBA enabled to collect information about non-bank financial intermediaries
- 1979: Campbell Inquiry into the Australian financial system
  - Recommended deregulation of the system for more efficiency and international competitiveness

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- Economic costs
- Hardships for high-risk borrowers
- Less innovation

- Financial Deregulation
  - Brief Chronology -

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- Dec. 1980: interest rate ceilings on all trading and saving bank deposits removed
- Dec. 1983: floating of the Australian dollar
- Feb. 1985: 16 foreign banks invited to take up licences
- April 1986: removal of interest rate ceilings on home loans
- Prime Assets Ratio (PAR) reduced from 12% in 1988 to 6% in 1990
- 1991: the Martin Report
- May 1996: The Wallis inquiry is announced

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- June 1997: PAR reduced to 3%
- March 1998: government announced full implementation of Wallis recommendations from mid-1999
- May 1998: PAR abolished and replaced with a liquidity requirement
- July 1999: APRA assumes prudential regulation responsibilities for building societies, credit unions and friendly societies
- Sept. 2000: APRA releases harmonised prudential standards for all deposit-taking institutions

Financial Deregulation in Australia

- Benefits of process
- More competition
- Product innovation
- More flexibility in interest rates and a closer relationship to risk
- Increased flexibility in the banking system, leading to reduced margins between lending and deposit rates
- Advantages for individual consumers
  - more choice
  - promise of lower interest rates
- Reforms have made Australia more attractive to international investors

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- CostsCustomers’ lack of knowledge
- Higher costs for some customers
  - Following elimination of cross-subsidies customers pay now for some services which used to be free
- Growth in bank bad debts
- Rationalisation of bank branch networks

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- Post-deregulation
- RBA retains monetary responsibility implemented through open market operations
- A new Australian Prudential Regulation Commission (APRA) to supervise all deposit-taking institutions, life offices and insurance funds
- Increased competition for banks from non-bank financial institutions, but the ‘big 4’ banks retained leadership

Financial Deregulation in Australia

- Current Financial crisis
- Likely to introduce some massive changes which are just beginning to emerge.
- Extension of government guarantees.
- Government co-ownership.
- Increased regulation and monitoring
- Changes to risk measurement systems.