

Time to toss one of banking's four pillars out of the nest?

Written by Pat McConnell, Honorary Fellow, Macquarie University Applied Finance Centre, Macquarie University

This week, ANZ, the latest (and now the last) of the big four Australian banks to have ventured far away from the nest, confirmed it was coming home into the arms of the Bank of Mum and Dad (also known as the Australian taxpayer). Though it took considerably less time than NAB's [disastrous forays overseas](#), ANZ has given up most of its [international ambitions](#).

All of the four pillars have now adopted a “home sweet home” strategy (assuming that we also call New Zealand home), in a cosy cocoa and slippers kind of early retirement.

But now that the four big banks are all concentrating full time on exactly the same markets, where are their [world-leading profits](#) going to come from?

With the housing market heading for a [hard or soft landing](#) (take your pick), the supposed golden goose of “[wealth management](#)” off to the chook raffle, and the mining boom now bust, where are future profits going to be made?

Australia is already seriously over-banked.

Using [numbers](#) from the Australian Bureau of Statistics (ABS) and [banking industry](#) bodies, there are around 6,000 fully-fledged bank branches in Australia. This means there is roughly one bank branch for every 1,600 households – we should almost be on first name terms with bank staff. There is one ATM per 300 families and if we add in eftpos machines, where one does not even need a purchase anymore to withdraw cash, there is one cash outlet per 10 householders.

It's almost like having an ATM in your home. Oh wait, we do, it's [called the internet](#).

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Some banks have already smelled the wind. Suncorp, not one of the flabby four, has recently announced it is [closing all but one of its branches](#) in Western Australia because customers are moving online. And in the UK, the major banks are [closing thousands of branches](#) across the country because customers are no longer visiting them, preferring their smartphones instead.

Our government and prime minister are leading the charge into this new “agile” future and have lectured us that we should not be afraid of the [consequences](#)

We have to recognise that the disruption that we see driven by technology, the volatility in change is our friend if we are agile and smart enough to take advantage of it.

But one area that appears to be immune to digital disruption is the four pillars policy, which has been in place now for over 25 years. And, despite the fact that the Wallis Inquiry recommended it be dismantled in 1997, it remains in place, a [feather bedded home](#) for lazy bankers.

While Paul Keating, the original architect of the policy, hoped it would promote healthy competition between the original six pillars, it has instead engendered a culture of arrogance and sometimes [outright deceit](#).

Bankers from the big four appear to feel themselves to be above scrutiny and the [recent grilling](#) of bank CEOs by parliament to be just a [bit of theatre](#). And this assessment comes from an ex-CEO of ANZ who is walking away with [some A\\$88 million](#) while his [legacy is being dismantled](#) by his successor.

If the Treasurer is afraid of taking on one of the most effective lobbying groups in Australia, the Australian Bankers' Association (ABA), maybe he should consider tossing one of the big four

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out of the nest, letting them try to fly on their own?

But which one to throw out?

Given the myriad of problems that have been uncovered in all four banks, an argument can be made for any one of them.

Luckily, we have a ready made answer, from the recent [Financial Services Inquiry](#). The chairman of that inquiry, David Murray, ex-CEO of CBA, one of the pillars, argued that the Australian banking system must be made “unquestionably strong”, in particular as regards the capital retained by banks.

Since systemic banking crises are triggered by contagion between banks - the system is only as strong as the weakest link - then it would make sense for the taxpayer to rely on three stronger banks rather than four weaker ones. In fact, there is nothing magic about the number “four”, it would be even better if there were 5, 6 or 7 undeniably strong banks, but that’s not going to happen (at least before the next banking crisis).

So, the weakest one, the runt, should be tossed out.

And we could leave it to the market to decide.

Let’s pick a hypothetical date, say June 2021, end of financial year 2020, and declare that on that date the weakest bank would lose its four pillar status. Note that would not be end of the world for the loser, as there are many banks not feather-bedded, such as Suncorp and Macquarie Bank. The ex-Pillar, which would still be a substantial bank, would just have to make its own way in the world without the protection of the four pillars cachet, but still with a sizeable deposit guarantee from the government.

In order to satisfy Basel III rules, Australian banks need to get more capital, and the best type of

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capital is equity. If investors had to put their money where their profits are likely to come from in future, the strongest banks would emerge, and with a healthy capital base.

Depositors would also benefit. Under Basel III, banks are required to improve what is called their [Net Stable Funding Ratio](#) (NSFR) or basically they need to increase their reliance on local depositors rather than overseas money markets. APRA is currently in the middle of a consultation process about NSFR and, as usual, banks are whinging that the sky is about to fall down (again), but APRA [appears to be holding firm\(ish\)](#) .

Since NSFR is one measure of unquestionable strength, then depositors could also choose the strongest banks and get better rates at the same time.

If people could not stomach losing the totemic number four, then one could consider replacing the weakest bank by another pillar - a sort of relegation and promotion. And in the spirit of innovation one could look elsewhere outside of the banking sector, such as the Australian Stock Exchange (ASX).

It is arguable that losing the ASX could be at least as disastrous as losing one of the four big banks, so dependent is the local superannuation market on local equities. Incidentally so is the measurement of NSFR, as local banks have been given a local dispensation for holding equities.

The fact that the four pillars are also [four of the five the largest companies](#) by market capitalisation on the ASX 200 would mean that the ASX is absolutely essential in any global liquidity crisis. ASX also operates [Austraclear](#) , the main clearing and settlement depository in Australia which holds more than A\$1.4 trillion worth of securities, such as government bonds. Pretty important, eh?

And if the relegation worked, maybe we could try it again in five or ten years. The thought would surely help keep the bankers honest in the meantime?

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