No clear case for deposit insurance

Cornell
Andrew Cornell

It's worth considering the potential motives of parties with vested interests in the new deposit protection scheme floated last week by federal Treasurer Peter Costello.

Costello floated the scheme under the auspices of the Council of Financial Regulators.

The council, a statutory body, includes the Reserve Bank, the Australian Prudential Regulation Authority, Treasury and the Australian Securities and Investments Commission.

Its primary concern is system safety and efficiency and, given the nature of its constituents, is more predisposed to err on the side of caution and harmony with international bodies rather than a rigorous cost-benefit analysis.

Deposit-taking institutions, which the regulators oversee, are less than enthusiastic about any changes that could be costly and inconvenient when the status quo is basically working.

Costello is a politician. When that's your nature, there's no harm in looking like you're acting in the best interests of the ordinary punter while ignoring the wishes of the banks.

It's a good issue for a treasurer with aspirations for the top job seeking a bit of positive publicity to seize upon.

Yet none of these motivations is good reason for change. Australia has a healthy, well-regulated, very liquid banking system and ordinary deposits are well covered by liquid assets.

Moreover, depositors rank first in the event of a collapse. Despite what the council says, in the (at present extremely remote) case of a collapse, depositors could reasonably expect quick and full access to their at-call funds.

That said, the minimalist deposit insurance scheme proposed has its attractions. It would be low-cost, as it would not kick in until after a failure. It could contribute to greater competition. It would deliver transparency to a typically ad hoc system of bail-outs and forced marriages.

The scheme would be an incremental improvement but there is no clear cost-benefit case to be made. Australia has a robust deposit-taking industry, well regulated, with a sound depositor priority structure. But there are a number of aspects of the financial system where more attention and change would be welcome.

NAB's Michael Ullmer . . . the subject of a 'pseudo-interview'. Photo: JOE ARMAO

The most obvious, given the level of household debt and ready availability of new forms, is the access lenders have to the credit history of would-be borrowers.

The problem is, tackling this head on is politically dicey. Giving lenders access to more information – for example, by setting up a positive credit bureau, as opposed to the present system of using only negative information such as defaults – raises a host of issues.

"A clearer picture of a borrower's capacity to pay is vital."

There's a strong lobby of opposition. More access would raise privacy issues. Again cost-benefit analyses are needed.

Yet Australia is one of an increasingly small number of advanced economies that have not decided that more responsible lending depends on a clearer picture of a borrower's capacity to pay.

In a recent visit to Australia – sponsored by would-be positive credit bureau operator Dun & Bradstreet – international expert Michael Turner argued that default rates decline when lenders can access better-quality information in a consumer credit report.

Other benefits include better access to credit for SMEs; better access to mainstream credit – rather than dodgy financiers – for poorly served consumers such as women, young people and new immigrants; and more precise pricing and supply in the system.

This is a controversial area that warrants a serious investigation and public debate. There's a far more urgent need to properly manage and monitor consumer debt in Australia than to fiddle with a system that is unlikely to be needed in the foreseeable future and already works pretty well.

❑ National Australia Bank released again on Friday the transcript of an interview with finance director Michael Ullmer. This time, at least it saved shareholders the cost of using a commercial packager for such faux interviews.

But this hardly makes it less misleading. The reasonable person would assume such an interview has an element of objectivity to it. In reality, NAB is responsible for the questions and answers.

The bank says the questions reflect those asked by analysts and reporters after its recent profit presentations. In which case it would be better to simply post the transcripts on its website. If a mail-out to shareholders is warranted, present it as the bank's view. NAB is a serial purveyor of such spin and it does its credibility no good at all.

■ *The author has NAB shares*

acornell@afr.com.au