BANKING

QUESTION

With growing community anger about the perceived irresponsible behaviour by the major Australian banks, the Australian government has been considering a range of actions in order to influence their conduct. The responsibility for the consideration of the possible actions has been given to the Treasurer. These activities are known only to a very small number of people.

You are the Australian Government Actuary and were appointed two years ago. Prior to that appointment you had been the Head of Retail Banking for one of the major banks. You had accepted the government appointment for family reasons which required you to reside in Canberra. The bank had made very serious efforts to retain you.

Last week you had a meeting with the Treasurer. In that meeting he said:

> "You are aware of the anger about the behaviour of the major banks. The government has decided to seriously consider giving Australia Post a banking license in order to provide strong competition to the activities of the major banks. While this would primarily be retail, other banking activities are not necessarily excluded.
>
> The Prime Minister is very keen on this idea.
>
> You are now part of a very small number of people who are aware of this proposal. It must be kept extremely secret. The CEO of Australia Post is aware of this and is strongly supportive. No other Australia Post Board members or Executives are aware of this. No contact with anyone from Australia Post is allowed. The CEO will receive a copy of your report.
>
> The Government is thinking of having an Australia Post bank regulated by the Treasury rather than by APRA.
>
> Your task is to provide a report to me making an overall recommendation as to how to proceed with implementing this idea and the extent of the competition that would be provided to the major banks. As part of your report I would like these issues specifically included:
>
> - How could Australia Post's distribution channels facilitate an entry into banking?
> - What capital would it be sensible for Australia Post to hold in respect to its banking activities and what return on capital would be a sensible target for that capital? The Government is prepared to provide such capital.
> - What market share would you expect Australia Post to achieve in its first 5 years?
> - What would you expect the major banks' reaction to be?
>
> You should be aware that the Government will use your report as support for their decision."

Task

Prepare your report.

Data

There is ample data publicly available on Australia Post and the major banks, e.g. austpost.com.au; APRA; ASIC; major bank websites.

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