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## News article



### Small ADIs fret over deposit vacuum

(Banking Day News Bites (Australia)) 09/07/2011

July 8, 2011 Friday

Big banks favour a low cap of A\$100,000 on the level of deposit insurance, while credit unions, building societies and one small foreign bank hope to retain the present cap of \$1 million, public submissions to Treasury on the topic show.

A majority of the few banks that made submissions adopted a middle ground, favouring a cap of \$250,000.

Financial regulators are finalising advice to the Federal Government on settings for the Financial Claims Scheme (FCS) once the present cap of \$1 million on guaranteed deposits expires in October. The Government introduced the cap at the height of the financial crisis, in October 2008.

ANZ and Westpac were the two major banks to make public submissions. ANZ said the cap "should be set at the lower end of the range proposed in the consultation paper", which proposed a cap in a range from \$100,000 to \$250,000.

Westpac said it supports a cap of \$100,000, as it "would offer optimal coverage of small retail depositors, whilst ensuring that more sophisticated investors continue to have some responsibility for investment decisions."

Abacus, the association representing mutual credit unions and building societies, repeated its view that: "The relatively high \$1 million cap assists smaller banking institutions to compete against the major banks for larger deposits and, most importantly, gives smaller banking institutions the capacity to increase their deposit funding base."

The Abacus submission argued that "smaller banking institutions can't put competitive pressure on the major banks in household and small business lending markets without access to a growing funding base."

Abacus said its members believed that "large depositors' funds will flow from the mutual banking sector into major banks as a result of a reduction in the FCS cap... [these will be from] local councils, universities, schools, hospitals, religious groups, unions, superannuation funds, sporting clubs and community organisations."

Curve Securities, a specialist broker of deposits that advises many of the kinds of clients cited by Abacus also called for the cap to remain at \$1 million.

"In discussing the post-FCS landscape with our clients it's clear that their investment process will change dramatically," Andrew Murray, managing director of Curve, wrote.

"Many will revert to investment policies that require investments to be made with institutions with a credit rating; others will allow a small portion of funds to be invested with non-rated institutions. Either way, a significant source of funds, which has enabled many ADIs to provide a small degree of competition to the larger banks, will evaporate."

The Real Estate Institute of Australia also supported retention of the \$1million cap.

The Australian Finance Conference, which represents finance companies (including bank-owned entities, small ADIs and non-bank entities), recommended "at least the higher cap of \$250,000, in order not to disadvantage smaller and regionally based financial institutions."

The Financial Services Council, which represents fund managers, favours a cap as low as \$50,000. It cited the outflow of funds from mortgage trusts following the crisis, and the introduction of the deposit guarantee, as one reason.

Mid-sized banks supported a cap of \$250,000, which is at the high end of the range proposed by regulators.

Investec, Macquarie Bank and ME Bank are on this list.

Bank of Cyprus, however, prefers the cap to remain at \$1 million.

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