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Inquiry a wildcard

Now that it's almost inevitable there will be a parliamentary commission of inquiry into the banks, the question of which lender will suffer most has to be asked. The answer, according to Credit Suisse analysts, depends on who calls it.

While an inquiry would be negative for the entire industry, banks with an agribusiness skew like National Australia Bank and ANZ would be hit incrementally harder under a Coalition government. If the Labor Party were in power, banks with more of a wealth bias, such as Westpac with BT Financial, could suffer disproportionately.

Credit Suisse mounts a convincing argument that more regulation is not the solution to the industry's shortcomings.

Canberra, after all, continues to smother it with more regulation and tighter supervision.

The problem is more to do with productivity programs eating too far into internal risk control and audit functions, with risk officers also becoming too influential in the credit process, enabling "capricious" use of non-monetary default clauses.

More broadly, an inquiry would have "potentially far-reaching and unpredictable outcomes". Banks could get hit with a range of policy responses, including forced divestment of what remains of their wealth operations, a higher bank levy, or even regulation of their net interest margins.

Cost will also be a huge factor.

The combined investment spend for the big four in 2017 was $4.7 billion, with $1.4bn, or 29 per cent, related to risk and compliance.

An inquiry could be partly funded through redirection of the budget, but it's likely to mean higher overall spending. "Much of the direction and likely impact of a banking royal commission also hangs on the commissioner chosen and the terms of reference, making a royal commission a wildcard for the industry but with the risks heavily skewed to the downside," the report says.

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