

**SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT**

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Submission for: My Self

Name of other person, business or organisation:

Do you agree to your submission being published: Yes

Do you agree to your full name being published: Yes

Your submission:

Thank you for the opportunity to make a submission on policy issues identified in the interim report.

The laws governing the banking system are too complex for an corporate regulator to address at its current level of resourcing. A simpler legal framework would make compliance by industry participants more achievable, and regulatory enforcement straight forward to administer, with less 'grey area' available to manoeuvre within when a participant is challenged.

APRA's regulatory practices have not been satisfactory to mitigate risks to individual Australian's and businesses, the financial system, and the Australian economy. Banks have grown to such a size that their ongoing stability is threatening the Australian economy as a whole. The incentives for banks to increase their loan books and create financial instruments which can be on-sold at a reasonable margin is clear - however participation in this segment of the market and the approval of sub-prime loans and risky derivative products has not been taken with the interests of the community and as good corporate citizens in the fore. The revelations of conduct revealed during the royal commission make it clear that there are significant shortcomings in the regulatory and compliance system. Reconsideration of APRA's prudential standards on governance is necessary, and APRA needs to be adequately resourced to provide regulatory services to an industry which has grown substantially.

The business structures which exist for banks (vertical integration and selling both investment, insurance and deposit products) create further risks in terms of raising potential conflict of interests, and practices which may prioritise the profit-motive (for shareholders and individual incentives such as performance bonuses) over looking after depositors and other customers. The conflicts of interest need to be removed through the separation of commercial banks from other businesses.

Changes in the law are necessary to create lasting change in the financial services sector - this responsibility cannot be passed to the banks alone, nor the regulator, for enforcement action and governance changes to create any lasting impact. Legislation has been tabled before Parliament in the form of the Banking System Reform (Separation of Banks) Bill 2018. I believe that one strong outcome of the Royal Commission should be to implement structural changes in the industry which remove incentives which have contributed to the existing cultural and governance issues, and separate risky banking operations (e.g. investment and derivative products) from less risky operations (depository services and lower-risk mortgage work). This structural separation would go a long way to addressing the governance, cultural and conflict of interest issues, and make implementation of further legislative changes (such as simplifying the legal and regulatory framework) easier to implement as a tailored approach can then be taken noting the varying risk levels of these types of banking operations. I strongly recommend your consideration of the "Banking System Reform (Separation of Banks) Bill 2018" as a significant element in addressing the issues in the banking, superannuation and financial services industry.