

SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT

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Of the many questions posed by the Commissioner in Ch.10 of his Interim Report, the very last one, the last line p.347, is the most significant in relation to the banks - "Is structural change in the industry necessary?". A proper structural change and re-organisation of the banking system would resolve many of the other questions in it's course.

The Commissioner has quite rightly identified greed as the motivating factor behind the despicable industry practices revealed in the RC hearings, the 'greed is good' principle in operation. The problem then is to remove that incentive and the opportunity to engage in those practices.

There is no doubt too that the existing legislative controls are too complex and that further legislation along those lines is not needed, particularly when the legislation already available to the regulators is so poorly enforced and clearly ineffective as a result. A good case in point is the Dodd-Frank legislation introduced in the US after the GFC, over 800 pages full of loopholes that the banks there have just worked their way around and which has had virtually no effect at all on their nefarious activities. They continue to do the same sort of things that they did before the GFC and on a grander scale. By comparison, the Banking Act 1933, the Glass-Steagall bill, less than 40 pages, kept them pretty much in check and depositor's money safe for over 60 years.

Despite the scandalous activities of the banks in the US that caused the GFC, the bankers there got off scott free, not one of them prosecuted. The banks and their shareholders in the end lost nothing, bailed-out by the taxpayer, a classic case of privatising profits and socialising losses. And the banks have continued to benefit from massive quantitative easing handouts while their victims worldwide continue to suffer the two trillion dollar loss that the banks caused. All it did was firmly establish their 'too big to fail' status and now they literally do as they please with nobody prepared to take them on - 'too big to jail' as well. With no effective action taken against them, their activities were essentially institutionalised and that's clearly become the situation here too.

It's not surprising then that banking industry representatives at the RC hearings seemed astonished when it was suggested to them that what they had been doing was wrong and probably illegal. They see dishonest and rapacious activities as nothing more than normal banking practice. If you rob a bank you go to gaol. If they rob you that's OK - and your fault as well according to the PM. And they get paid bonuses for doing it.

It's an appalling state of affairs when the whole banking system is based on fraudulent, criminal activities and all the more when our entire economy is so dependant on it. Even more outrageous is the admission by the PM, when Treasurer, that the revelations from the RC were nothing the government didn't know about. You have to ask who's running the country, the elected representatives or the bankers?

The situation that's developed started with the deregulation of the banking system in the 1980's. The banks were turned loose to do pretty much as they wanted and the whole system soon got out of hand. Even then they had quickly reached a size where they were unmanageable. Former Treasurer and PM, Paul Keating, when interviewed about it later, said "The old domestic banks went like charging bulls into credit expansion from 1985 on Eventually, they had us in a position where we dared not check them lest they failed. Westpac and the ANZ virtually did fail: the government and the Reserve Bank had to hold them together until they got back on their feet."

With the vertical integration model introduced following the Murray inquiry, the major banks went like charging bulls again into every shady corner of the financial system and attained a size and structure such that they were, for all intents and purposes, untouchable. It has allowed the bankers to exploit and swindle their fellow citizens with impunity, all it seems with the tacit approval of the government and politicians generally.

While we're constantly told that we sailed through the GFC because of the strength of our banking system, that's not the case and it's not much comfort either to the many people in this country who lost substantial sums of money at the time, often doing nothing more financially adventurous than putting their hard earned savings into super funds.

Despite those assurances about their inherent strength, in 2008 the major banks had to go cap in hand to then PM, Kevin Rudd and plead for a debt guarantee from the government, backed of course by the taxpayer, as well as a deposit guarantee to prevent a run on the banks, otherwise, as they said, they would "be insolvent sooner rather than later". That, along with other supporting measures taken by the government and a \$5 1/2 billion emergency loan from the US Federal Reserve to further prop up NAB and Westpac (again), is all that saved the banking system and the economy with it, from a crash. So much so for our 'unquestionably strong' banks and they are in no better shape today to withstand a crisis.

The implicit government guarantee backed by the taxpayer has put the big four banks in a special and advantageous position in the financial system enabling them to operate as an oligopoly - in fact pretty much as a cartel - and consolidated their status as systemically important financial institutions, too big to fail, making them a greater threat to the country's economy than ever and even moreso now to people's savings with APRA's new 'bail-in' power. It makes their activities even more abhorrent when the people they prey on and treat with such contemptuous disregard are the very people they rely on to provide them with their guarantee. With ex-bankers in key positions in government and bureaucracy, it has given them inordinate influence over the economy and political system as well.

Following the Commissioner's Interim Report, the 'experts' are being rolled out on behalf of the banks to decry any drastic changes to the system that he may recommend in his final report, lest they cause 'unintended economic consequences'

They're desperate to keep their little racket going. Well, if we have to rely on a crooked, corrupt and predatory banking system for our economy's wellbeing and we continue to do so, then we really are going to be in a lot of trouble.

With constant and increasingly urgent warnings of another financial crisis, with the banking industry again at the centre of it through it's reckless activities, it's vital that remedial action be taken now, hopefully to head off certain economic turmoil and at least protect people's savings.

There is no question that the only way to start fixing this mess is to eliminate vertical integration from banking, with all it's accompanying conflicts of interest and to require a structural separation of commercial and investment banks to reduce the inherent risk involved in an amalgamated system. Banks need to get back to banking - commercial banks out of other financial activities and leave speculation to investment banks. That would remove the threat to deposits, eliminate the need for bail-outs and bail-ins and restore some trust and confidence in the system and help insulate us from external shocks like the GFC. As well, the government guarantee should go. Government patronage has given the major banks an advantage in the system that they don't deserve and emboldened them to take risks and to engage in the types of unscrupulous activities that have been revealed at the RC, with little concern for the consequences. How many other businesses are in a position where they can go out and make a mess of their business then have the government get them out of the mess and everyone else pay to clean it up? If credit gets tighter as a result of these measures, then that's all to the good and may save the country from drowning in debt.

A good start to this is a bill already before Parliament, the Banking System Reform (Separation of Banks) Bill 2018 - just 14 pages. It needs to be considered urgently and hopefully the Commissioner's final report will give it some impetus.

What's needed is for the political establishment to have the will and the courage to pull the banks back into line. It's doubtful that the major parties have either, so it may require some prompting to get anything done.

