

SUBMISSION ON POLICY ISSUES RAISED IN ROUND 5

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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:

I write to you as an almost self-funded retiree who is totally dependent on my life savings and I do not burden the welfare pension system following a lifetime of paying taxes of which, I am unable to now receive any benefit from. I would appreciate some comfort from the knowledge that my Taxes have helped fund Government governance in safeguarding constituents saving especially in the circumstances where they have not lived beyond their means to arrive at a point of self-sufficiency for Retirement. It is a growing reality that the economic managers have allowed Australians to live beyond their means as a normal lifestyle. The following survey demonstrates that the influences put in place by the Government and various appropriate regulators have been unable or unwilling to prevent a worsening of the debt to savings ratio. This along with overseas central Banks raising interest rates will compound the problems in Australia. The report here demonstrates that depositor's and savers who have been prepared to go against the trend of not saving and living beyond their means need immediate protection as time has run out. Example the Australian Dollar is starting to devalue against the American dollar – the sum being immediate cost of living rises which is what the RBA is trying to prevent with its lowest ever cash rate setting. The following details are my reasons for seeking a change to the structures that have failed to prevent the criminal activities that have been highlighted in the Hayne Royal Commission. I firmly believe that the Glass Steagall is the only option that may reinstate the lost credibility of the Banking and financial industries. "If we see big negative shocks in the coming year, whether they are higher loan rates or an international trade war, then a lot more families will suffer increased financial stress," said the consulting Economist for ME Bank, Jeff Oughton, who commissioned the survey. "Clearly, this is a potential tipping point. At the moment, Australians generally can dip into their savings to get by, some households may get to a point where there's no more savings to draw from." Despite a rise of 3 per cent during the past six months, more than 54 per cent of respondents reported cash savings of more than \$10,000, down from up to 62 per cent in 2015. 26 per cent had less than \$1000 in cash savings, compared to 30 per cent in 2016. The bi-annual report found 45 per cent of households reported to be contributing more than 30 per cent of their disposable income towards mortgages during the past six months, significantly higher than the three-year findings of the Household, Income and Labour Dynamics in Australia (HILDA) survey last week. It showed the rate of housing stress in the most expensive market of Sydney had risen from 10.1 per cent between 2001 and 2004 to an all-time high of 13 per cent between 2013 and 2016. The Reserve Bank said the situation needed "close and careful monitoring," in July as Australia's household debt rose to among the highest in the developed world, leaving it vulnerable to an economic shock. It found household debt has increased by more than household income over the preceding three decades in many countries, but particularly so in Australia, where a focus on owning property in urban areas had driven up prices. The additional information is derived from the factual bank of Public information that deserves respect and appropriate deliberation along with any balance of views that are compelling criticism on any flaws that may exist. Banking expert destroys Treasury arguments against Glass-Steagall Dr Wilson Sy, a former Principal Researcher at the Australian Prudential Regulation Authority (APRA), the bank regulator, has issued a point-by-point refutation of the Commonwealth Treasury's arguments against the need to separate Australia's deposit-taking commercial banks from investment banking and other financial services. See below. Prefacing his response, Dr Sy noted Treasury's lack of credibility on banking issues. "Before the Hayne Royal Commission (HRC) was called, most politicians have declared that a royal commission would be a waste of time—unnecessary because, in the opinions of the Treasury and regulators, the financial system is basically sound", he said. "Just a few weeks of hearings were sufficient for many politicians to express shock and horror about the revelations—a total about-face from their earlier complacency. Have not the members of parliament and the public been misled by the Treasury and the regulators? "These revelations are merely the tip of the iceberg on fraud and misconduct, because some of the misconduct has stretched back many years, indicating an incompetent or corrupt regulatory system. Then why are opinions of the Treasury and the regulators to be believed now?" he asked. Comments on the Australian Treasury's negative response to banking separation by Dr Wilson Sy, Investment Analytics A member of parliament sent the current Banking Separation Bill (BSB), introduced by Bob Katter and seconded by Andrew Wilkie, to the Australian Treasury which has replied with the following negative response (verbatim and in italics). Emphasis has been added in bold to indicate where our comments are directed, particularly where the statements are factually false, misleading or unsound policy. The Government does not intend legislating to structurally separate retail and commercial banking from investment banking in Australia. While such measures may be appropriate for some jurisdictions, it is not

considered necessary in Australia at this time as our financial system already exhibits a high degree of structural separation. Foreign bank branches play a major role in investment banking but only have a small presence in retail and commercial banking. By contrast, Australia's major banks have a significant presence in retail and commercial banking, but do not have large investment banking businesses. As such, legislative structural separation is unlikely have a material impact on reducing risks in the Australian financial system. The Government's position is consistent with the recommendations of the Financial System Inquiry (FSI). Structural separation of retail and commercial banking from investment banking, including Glass-Steagall legislation in the US, was considered by the FSI in 2014. However, the FSI concluded that robust crisis resolution powers were a more effective means of enhancing the resilience of and stability within the Australian financial system and consequently recommended in its Final Report that existing crisis resolution powers be strengthened for this purpose. In its response to the FSI, the Government agreed with this recommendation and committed to providing regulators with clear powers in the event a prudentially regulated financial entity or financial market infrastructure fails. To meet this commitment, the Government legislated the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 to strengthen the Australian Prudential Regulation Authority's (APRA's) crisis management toolkit in relation to banks and insurers. The legislation enhances APRA's crisis management powers by providing APRA with: Clear powers that enable APRA to set requirements on resolution planning and ensure banks and insurers are better prepared for a crisis; and An expanded set of crisis resolution powers that equip APRA to act decisively to facilitate the orderly resolution of a distressed bank or insurer. These enhanced powers ensure that APRA is adequately equipped to manage the unlikely event a bank or insurer fails, a risk that exists regardless of whether structural separation is in place. More broadly, these powers build on the Government's approach to minimising risks in the Australian financial system, which focuses on strong prudential supervision across each institution's business, rather than requiring institutions to segregate its [sic] business activities. The Treasury response includes the following false and misleading statements: Our financial system already exhibits a high degree of structural separation; Foreign bank branches play a major role in investment banking; Australia's major banks ... do not have large investment banking businesses; Structural separation of retail and commercial banking from investment banking, including Glass-Steagall legislation in the US, was considered by the FSI in 2014; the unlikely event a bank or insurer fails, a risk that exists regardless of whether structural separation is in place; Government's approach focuses on strong prudential supervision across each institution's business. It is false to say "Our financial system already exhibits a high degree of structural separation". The four major banks with over 76 per cent of total assets of the financial system have highly integrated businesses which are not structurally separated. They have a major presence in nearly every aspect of finance: commercial banking including deposit taking, household and business lending, and investment banking including corporate finance, capital raising, stockbroking, market making, proprietary trading, derivatives trading, financial advice, estate planning, insurance, superannuation, custody, asset consulting and so on. The only sense in which "our financial system already exhibits a high degree of structural separation" is our regulatory structure, with separate roles for the Treasury, the Council of Financial Regulators, RBA, APRA, ASIC and ACCC. This highly separated regulatory structure is inappropriate for our highly integrated major banks. The Hayne Royal Commission (HRC) has begun to expose that the lack of structural separation within major banks has caused many problems which have "fallen between the cracks", with "finger pointing" and "buck passing" between the regulators. The "Government's approach [which] focuses on strong prudential supervision across each institution's business" has failed because the HRC evidence suggests the regulators are incapable of strong prudential supervision, particularly in mortgage lending and superannuation operations. Outside traditional lending of commercial banks, the four major banks have 80 per cent while foreign banks have 20 per cent of the investment bank market. It is false to say "Foreign bank branches play a major role in investment banking". It is also false to say "Australia's major banks ... do not have large investment banking businesses". Foreign banks have \$103 billion in "liquids and securities" assets out of a system total of \$910 billion or 11 per cent of the total. Foreign banks have \$299 billion in non-loan assets out of a system total of \$1,469 billion or 20 per cent of the total (see Appendix). While most foreign banks' activities (more than 50 per cent) not being related to traditional lending may be considered mostly investment banking, foreign banks' share of investment banking (11 to 20 per cent) is still minor in Australia. The Financial System Inquiry (FSI) was chaired by the former CEO of the Commonwealth Bank (1992-2005), David Murray, whose main claim to fame was that he "oversaw the transformation of the Commonwealth Bank from a partly privatised bank to an integrated financial services company" (FSI Final Report, p. x). It is therefore highly unlikely that he would have made any serious attempt to investigate the structural separation of integrated banks. In the FSI final report, there was no mention of Glass-Steagall legislation in the US and there were only a few passing mentions of structural reforms (e.g. ring-fencing), but "separation" was mentioned only once in relation to operations. It is misleading to say "Structural separation of retail and commercial banking from investment banking, including Glass-Steagall legislation in the US, was considered by the FSI in 2014". Indeed, structural reforms were only mentioned as unnecessary because the FSI recommended crisis management, rather than crisis prevention, as a solution to any structural weakness in the Australian financial system. In February this year, the Government passed the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 to give APRA crisis management powers to reorganise secretly insolvent institutions, including the conversion or confiscation of bank deposits. It is misleading to assert that a bank or insurer failure is "a risk that exists regardless of whether structural separation is in place". Under structural separation, for several decades of Glass-Steagall legislation, the risk and consequence of a bank or insurer failure were so much smaller that there was no need for any special crisis resolution powers. Instead of preventing crisis, the unsound policy now is to allow every crisis to provide an opportunity for the banks to loot the wealth of ordinary tax-paying citizens through "bail-outs" and "bail-ins". Neither the Treasury nor the regulators acknowledge the cancer of our financial

system—the \$40 trillion worth of over-the-counter derivatives, which are growing and could potentially, hide substantial losses off the balance sheets of Australian banks. At current levels, one per cent loss on this derivative exposure from investment banking will wipe out the entire equity of the system, potentially hurting many innocent bank depositors—banking separation is urgently needed to avoid crisis for the safety and stability of our financial system. Yours sincerely
Barbara Lawler