SUBMISSION ON POLICY ISSUES RAISED IN ROUND 5

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Your submission:

Dear Commissioner, The ownership by banks of retail superannuation funds is one of a number of cases examined by the royal commission in which the problems could not have arisen without the vertical integration of financial services. The financial advice sector examined in the Round 2 hearings is another case. Vertical integration creates unnecessary conflicts of interest between a bank's obligations to its customers and its intention to maximise profits. The superannuation sector is unique in that the abuses that vertical integration leads to can be seen in comparison with non-profit superannuation funds, such as industry funds, the members of which enjoy significantly higher returns than members of retail funds. The regulator APRA was warned of this discrepancy in performance more than a decade ago, and since, but ignored the warnings. This is one of the reasons that APRA is described as a "captured" regulator. In a 4 December 2017 ABC News report Stephen Long quoted superannuation expert Dr Wilson Sy describing the banks' management of retail superannuation funds as "looting". Vertical integration requires a perfectly ethical financial services industry, which is a fantasy. It is clear that banks should not own superannuation funds, and therefore the vertical integration experiment should be brought to an end. For this reason the royal commission has led to numerous calls to break up the banks, from experts including former ACCC chairman Allan Fels, and former RBA governor Bernie Fraser. Like many organisations and individuals in Australia and around the world, the Citizens Electoral Council (CEC) realises that financial systems can only function properly if there is a strict, structural separation between commercial banks and all other financial services - investment banking, insurance, financial advice, stockbroking, wealth management and superannuation. The success of the US Glass-Steagall Act 1933, which was in force from 1933 to 1999, proves that structural separation is the most effective regulation, as it doesn't depend on ethical behaviour to manage conflicts of interest; it removes conflicts of interest. The CEC drafted the bill that the Member for Kennedy Bob Katter introduced in the House of Representatives on 25 June 2018, the Banking System Reform (Separation of Banks) Bill 2018, to impose a strict structural separation of the banking system and end both vertical and horizontal integration of banking. It will solve the problems that arise from banks owning superannuation funds, but the principle of ending vertical integration should be extended to non-bank owners of superannuation funds also. Yours sincerely, Craig Isherwood National Secretary Citizens Electoral Council of Australia