Submission on Policy Issues Raised in Round 5 of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Dear Sir/ madam

As is evident from the matters uncovered by the Royal Commission so for the description "misconduct in the Banking, Superannuation and Financial Services Industry" is an understatement of the reality of what has been happening.

Dr Wilson Sy, who served on the Cooper Review into superannuation in 2010 and consults to Industry Super Australia. In a submission to the Productivity Commission's recent superannuation report, Dr Sy quantified that "The unnecessary wealth transfer is now around $15 billion per year."

Dr Sy also pointed out that "Differences in reported fees and costs are merely the tip of the iceberg." He exposed that much of the mechanism for the transfer of wealth from the clients to the banks involved "indirect costs", including through sophisticated trading methods, such as the bank trading on its own account against the position it is trading for the clients of its superannuation funds, so the bank makes a profit while the clients make a loss.

According to Dr Sy's modelling, after a 45 year working career on an average salary, clients of bank-owned retail funds could retire with $1 million *less* than members of industry funds, due to the difference in fees and indirect costs.

In 2010 two APRA researchers, then research head Dr Bruce Arnold and his colleague Kevin Liu, published a research paper which revealed that the Big Four banks and financial services giants AMP and IOOF, which own the majority of retail superannuation funds, charged two and a half times the market rate for services to the clients of the funds they owned. According to *The Australian*'s Anthony Klan on 23 July, their research showed that outside companies that provided services to retail funds charged the market rate of 0.52 per cent of the fund's assets, but when those services were provided by companies owned by the same bank that owned the retail fund, they charged 1.33 per cent, or 2.5 times the market rate.

Dr Liu blamed this overcharging for the "systemic underperformance" of retail funds. How bad was it? Klan quotes University of NSW economist Nicholas Morris's research that over two decades, the superannuation industry in Australia has charged $700 billion more in fees compared with its overseas counterparts. That's *$700 billion* that is not in the retirement savings of hard-working Australians, but in the profits and bonuses of the banks and their executives.

Superannuation is yet another example of how the structure of banks, known as vertical integration, enables them to not act in the best interests of their customers on an industrial scale. The term vertical integration refers to banks owning multiple financial services, such as financial advice, funds management, stock broking and insurance, which enables them to advise their customers to use the financial services owned by the bank. The banks charge fees for the financial advice, and then more fees for the services they have advised the customers to use. This is a

huge conflict of interests, which has enabled banks to push their customers into unnecessary financial products that profit the bank.

Vertical integration in manufacturing can have benefits; in finance it is a scam. In manufacturing it enables a company to value-add to every stage of production from raw materials all the way to the final product; in finance, you are the raw material, and it enables the institution to fleece you at every stage of your financial dealings.

When the vertical integration of Australia's financial system started in the late 1990s, financial institutions promoted it to the public as a way to keep financial services cheap and efficient. Two decades later the verdict is in. Far from keeping costs low for customers, it has been a cheap way for banks to gouge customers. And not just banks. ABC-TV's *Four Corners* on 23 July reported on AMP's shocking looting of its customers, including for years after they were dead, which vertical integration also made possible.

The real scandal here is that were it not for the banking royal commission, the public wouldn't know most of this. AMP would still be bleeding dead customers, and not only would banks be looting their retail superannuation funds.

When the revelations of vertical integration abuses by the Big Four banks and AMP first emerged from the royal commission hearings in April, many experts, including former Competition regulator Allan Fels and former Reserve Bank chairman Bernie Fraser, called for the obvious solution: break up the banks. End vertical integration, to remove the conflict of interest between serving customers and gouging profits.

What needs to addressed and acted upon "without fear of favour" or by real leaders is

- The terms of reference of the Royal Commission be extended to examine APRA and the ASIC as they were supposedly the "watchdog" when all this was happening, and I have no doubt is still happening.
- The enacting of the Glass-Steagall legislation introduced by Bob Katter. The Banking System Reform (Separation of Banks) Bill 2018 will stop the big banks from owning any other financial services, including superannuation funds. Although it doesn't cover non-banks like AMP and IOOF, their conflict of interests with superannuation can be fixed by applying a Glass-Steagall rule to all super funds, that superannuation trustees (owners) cannot also be service providers.
- Enact amending legislation on the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017 to ensure that bank and credit union deposits are not subject to this legislation. That is mum and dad, superfunds, businesses etc bank accounts are not subject to this legislation. In fact, this legislation is not in the interests of the Australian people, but is clearly in the interests of the banking system.

Yours Faithfully

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