

Vincent Maxwell



21st September 2018

Commissioner Hon Kenneth Hayne AC QC
Royal Commission into Misconduct in the Banking, Super and Financial Services Industry

Round five public submissions in response to policy issues relating to the superannuation industry

Dear Commissioner Hayne,

I wish to voice my concerns about the relationship between banks and other financial services such as superannuation. It has become more than apparent that the concentration of financial services to the major Australian banks has been detrimental to superannuation fund clients with cost shifting from one section of the business to the other, charging for services that are not required or are not value for money. In a similar manner large superannuation funds that are engaged in other financial services have the ability to cost shift within their businesses. There is a real conflict of interest with Banks and/or Super fund managers not only representing the client's interest but also representing their own service businesses interest.

The interest of superannuation fund holders can best be served by a true advocate whose job is to ensure investment decisions are made for their, the clients, benefit without interference or pressure to meet sales targets for additional services or to use clients funds to prop up an investment vehicle that another arm of the Bank or Super company is promoting. There have been allegations of where Banks have traded their own account against the position they have taken on behalf of its client's account resulting in the Banks making a profit while their client makes a loss. This is akin to someone playing their opposition's poker hand and the current regulatory framework that allows this behavior to occur must be changed. A person's superannuation manger cannot have two masters, they must act and only act on behalf of the client whose money they are managing.

There is another serious risk with Banks being allowed to be involved in other financial businesses where there is the possibility that one bad investment decision could cause the collapse of the Bank itself and even the whole banking industry. Although not directly related to Superannuation there are correlations with the Super industry and the Super industry itself is likewise exposed to this risk.

According to the reserve bank the total amount of money that the major Australian banks have "at risk" in the derivatives markets is approximately \$40 Trillion, 22 times Australia's GDP. These derivatives are effectively a bet with another entity, it is not an investment in real property or something that has physical properties, they are based on promises and so if the party on the other end of the transaction defaults or in some way reneges on the deal then our Australian banks will be left holding a worthless piece of paper. A small decline in the value of these derivatives can have devastating consequences for Australian banks. Should the value of these derivatives fall by just 5% due to a misplaced bet or worse, the default of a

foreign financial institution, this 5% would amount to a loss of 2 trillion dollars which is more than the entire capital holdings of all Australian banks combined.

Derivatives are a risky instrument and with risk comes potential for high reward, but that is not what ordinary Mum and Dad bank customers are using their bank for. They expect and require stability and security with their bank. There is an obvious demand by Investors looking for high risk high return and there is nothing intrinsically wrong with providing this service but it should not be at the expense of putting the life savings of ordinary Australians nor the Australian economy itself in peril. This type of exposure to risk should be firewalled from the ordinary business of banking. Savings and loans banks should be isolated from exposure to high risk derivatives trading as they were in the past.

Such is the risk of these products that the banks no longer report their exposure to derivatives to their own shareholders and the information can only be found by trawling through the Reserve Bank website where an unremarkable report that contains enormously worrying numbers can be found. This information is not publicised and it is unlikely that many Senators or members of Parliament know of its existence. This report shows the banks collective exposure has tripled in just ten years as the bets get bigger and bigger. The public should be protected from this risk, and bank customer's funds should not be used as an insurance policy for audacious bank executives.

The recent Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) legislation that was passed through the Parliament under dubious circumstances earlier this year has provided APRA with the power to provide a parachute for banks when the rest of the economy is collapsing and the collapse when it comes will most likely be caused through the very actions of the banks themselves. The legislation provides a legal means by which the banks can seize bank customer's deposits in order to save the banks themselves. This is completely unacceptable and must be prevented. Bank customers and Superannuation holders must be protected from these behemoths that have unequivocally shown that they have not always acted in their clients best interests and ordinary Australians savings will never be completely safe unless these financial institutions are broken up. Allow those with an appetite for risk to be provided with access to those riskier products and give security to those requiring it but let us not lump them all into the same overloaded life boat awaiting its inevitable capsizing.

Please make our banks safe by separating the risky derivatives trading from ordinary savings and loan business and remove the potential for conflict of interest by breaking up these financial institutions so that people can clearly see what Bank and what Superannuation fund they are joining and can weigh up the risks accordingly.

Yours sincerely

Vincent Maxwell