Flawed Royal Commission Backfires On Banks

Summary:
Bankers thought they were off the hook with the handicapped Royal Commission but the Hayne inquiry revealed just enough for most informed people and journalists to realise that what wasn't exposed was more important than what was. The finance system is structured to fleece the population. CEC's Robert Barwick understands this very well. In an exclusive editorial for BRN he explains exactly why the banks must be broken up - vertically and horizontally. The Senate has been given the Banking System Reform (Separation of Banks) Bill 2019. Robert also shows how you can make a submission to support it ..... please do.

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Banks celebrate too soon — Senate launches inquiry to break them up!

*A Special Guest Report for BRN readers from **Robert Barwick,** Citizens Electoral Council (CEC)*

I spent last week in Canberra, the first parliamentary sitting week of the year, and witnessed huge momentum for banking reform. Politicians were eager for analysis of the final report of the Hayne Royal Commission, as was the media, and the CEC was able to initiate legislation that keeps the banks squarely under the spotlight.

Click here to watch the 15 February episode of the CEC Report, which covers these developments: https://www.youtube.com/watch?v=RSl7Sa4Gsyc&t=186s

The CEC is calling for **incarceration for criminal bankers, compensation for victims, and separation of the banks to remove the conflicts of interests** that incentivise them to rip off their customers. Incarceration and compensation are essential for justice; separation is essential to ensure the misconduct doesn't happen again.

Structural separation

Structural separation solves the problems of both vertical and horizontal integration. Vertically integrated banks push their customers to buy financial products and services from other businesses that the bank also owns, such as insurance, wealth management, stockbroking and superannuation. It's a massive conflict of interests that has turned the banks into looting machines. For instance, former APRA Principal Researcher and superannuation expert Dr Wilson Sy, who accompanied me to Canberra, estimates that over a working lifetime of 45 years banks are able to fleece $1 million.

Horizontally integrated banks combine traditional banking with investment banking, the highly profitable but very risky underwriting and trading in securities and derivatives. When the two different types of banking are combined, the banks take more risks than standalone investment banks, confident that they will be able to absorb any losses in their deposits, or, if not, the government will be forced to bail them out to save the deposits. This is the definition of too big to fail. Investment banking is a relatively small part of the business of the big four Australian banks, but they still account for 77 per cent of investment banking in Australia. For instance, the big four are very big in the securitisation market, both in securitising their own mortgages and in making huge "warehouse" loans to non-bank mortgage lenders. Securitisation of mortgages, and related derivatives trading, distorts normal banking practices, because it enables the banks to profit from bad mortgages. If you've wondered why banks would lend money to people that obviously can't afford to repay, this is it—securitisation has incentivised the mortgage fraud that the banks have perpetrated on a massive scale.

Structural separation ends all of these distortions. It ends the conflicts of interests of vertical integration, which is the only way to ensure the misconduct exposed by the royal commission can't happen again. It protects deposits from the dangers of investment banking speculation, which boosts confidence in the banking system. It stops banks from diverting credit into unproductive financial speculation, thus making more credit available for lending to neglected sectors such as small business, secondary industry and farming. And it works—for almost 70 years the US Glass-Steagall Act protected Americans from systemic banking crises.

Premature celebration

Upon the release of Hayne's report, the banks and their foreign investors were not able to hide their glee that Hayne hadn't recommended structural separation—their shares soared on the news. But it was also the issue for which his final report was most criticised. Even Paul Keating joined the likes of Alan Kohler, Michael Pascoe, Adele Ferguson, Martin North, Adam Creighton and numerous other expert commentators in saying Hayne should have broken up the banks.

The banks celebrated prematurely, however. A week after their share price celebration, Senator Pauline Hanson introduced the Banking System Reform (Separation of Banks) Bill 2019 into the Senate. This is the same bill that Bob Katter had introduced in June 2018, which was carefully drafted by the CEC based on the successful US Glass-Steagall Act 1933 and updated "21st Century Glass-Steagall Act" bill currently before the US Congress, adapted for the Australian financial system. With the dominance of the major parties in the House of Representatives Bob Katter's bill was ignored and in December it lapsed. This time is different: there is much wider cross-bench support for separation in the Senate, so while One Nation made the news for all of the wrong reasons on Wednesday night last week, Pauline Hanson's associate Senator Peter Georgiou was able, with the support of the Greens and others, to refer the bill to the Senate Economics Legislation Committee for an inquiry.

So the banks had hoped Hayne's report was the final word on separation, but now they have to deal with a three-month inquiry on the issue they fear most.

Make a submission!

The CEC is asking everyone involved in fighting the banks to make a personal submission to this inquiry. The government will try to rig the inquiry as usual, and the banks, regulators and Treasury will all make "authoritative" submissions for the committee to quote as reasons not to break up the banks, but that is not the issue. The target here is less getting a good inquiry report than showing the politicians that there is an enormous groundswell of support for separation. They are all facing re-election, at which time all of the donations from banks mean nothing compared with their need for votes. Let's show them the public demands this!

The deadline for submissions is 12 April, but please don't put it off—make a submission ASAP.

For details on making a submission, click here for the CEC's release which includes all of the relevant information: http://cecaust.com.au/releases/2019_02_18_Submission.html

Click here for the inquiry website, which includes links to download the bill and Explanatory Memorandum and instructions on how to upload submissions: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/BankingSystemReform