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Independent Political Party

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You can't trust the financial regulators—they are complicit in the banks' crimes!

Demand elected MPs act on their responsibility to fix the corrupted banking system

Far from protecting the public, the financial regulators have aided and abetted the predators who have corrupted Australia's financial system. And the government, instead of going after the banks, is putting the onus on bank victims to take "personal responsibility" to avoid being devoured.

According to Treasurer Scott Morrison, it is not the regulators who are complicit in the banks' crimes, but bank victims—for being too passive! "Too often we, the customers, have also become complicit in allowing the deck to be stacked against us", Morrison said to the Australian British Chamber of Commerce on 3 August. "You can guarantee it—the more passive a customer is, the worse deal they are going to get."

Morrison was echoing the chairman of bank regulator the Australian Prudential Regulation Authority (APRA), Wayne Byres, who on 11 July took aim at the Financial Services Royal Commission, insisting that financial dealings must be governed by the principle of "*caveat emptor*"—Latin for "let the buyer beware", meaning that if a seller swindles a buyer, it's the buyer's own fault.

If so, what do we have regulators for? Thanks to the royal commission, the Australian people can now see what thousands of bank victims have experienced: that the regulators are a fig leaf, a pathetic cover for the fact that the banks have been allowed to self-regulate, with disastrous consequences.

What have the regulators done, as the banks have entrapped customers in unpayable debts, stripped their assets, lured them into unnecessary investments, gouged them with fees, denied their insurance claims, and looted their retirement savings?

ASIC

Before calling the royal commission, the government had claimed it was unnecessary because ASIC, the investments regulator, was a "tough cop on the beat" with beefed-up powers. Yet as the commission has shown, it was a wet lettuce, which had refused to use the powers it has. In lieu of legal action against the banks' myriad crimes, ASIC specialised in negotiating "enforceable undertakings" with the banks, with very little effect on conduct. Virtually all bank victims, a fraction of whom have come before the royal commission, report they received no justice when they went to ASIC.

ASIC has now concocted a scheme to embed officials inside the banks to oversee compliance, which sounds "tough", but this can only work if ASIC and its officials are not chummy with the banks, as they have been. Former ASIC lawyer James Wheeldon said on ABC's *The Drum* on

7 August, "I left ASIC in despair because it was captured by the banks. ... I was told as a lawyer in the regulatory branch of ASIC that my job was to deliver for the banks." Wheeldon said he had wanted to give ASIC's plan to embed officials the benefit of the doubt, "But then when you hear [ASIC Chairman] James Shipton saying 'Oh no, it's all good, there are no problems. We're the tough cop on the beat and there are no historical problems'—he doesn't seem to have heard the evidence from the royal commission...."

Like Treasury and the other regulators, there is a revolving door between ASIC and the banks. ASIC chairman Shipton is a former Goldman Sachs executive and hedge fund manager. His predecessor Greg Medcraft was a top executive at Société Générale and a pioneer in the securitisation of debt which led to the worthless securities that caused the 2008 crisis.

APRA

Bank supervisor APRA's revolving door is clogged with bankers: currently, six of APRA's nine senior executives are former investment bank executives. APRA has entrenched the big four banks as an oligopoly in control of 80 per cent of Australia's financial system. Former ANZ Bank director John Dahlsen has called APRA "the monster that protects the banks".

There are cases of APRA ignoring its own research findings in order to protect the banks. In 2007 an internal APRA report revealed that lowered bank lending standards had led to a credit bubble in the housing market, but APRA used its aggressive secrecy powers to suppress the report. A 2010 APRA report by researchers Dr Bruce Arnold and Kevin Liu revealed that banks were gouging the retail superannuation funds they owned by charging two and a half times the market rate for services, but APRA ignored the report and soon afterwards closed down its research department.

Bank victims have reported to the CEC how they took their complaints to APRA, only to be told that APRA doesn't care how the banks behave, as long as they are stable. To APRA, the more profitable the banks are, by whatever means, the more stable they are. This is APRA's big lie, however. Far from guaranteeing financial stability, it has allowed, even incentivised, the banks to build up the biggest housing bubble in the world through reckless mortgage lending, securitisation and derivatives gambling, which now threatens to crash and bring down the entire financial system with it. As more people questioned this danger, APRA in 2017 conducted bogus "stress tests", which

it announced in July 2018 had given the banks clean bills of health.

Treasury

Treasury, which also has a revolving door to the banks, is a nest of liars. It has loudly proclaimed Australia's financial system to be "well regulated", and lauded APRA and ASIC as exemplary regulators. Treasury led the opposition to the royal commission, and is now shamelessly leading the resistance to the structural separation of the banks that is necessary to end vertical integration, which has enabled the banks to lure their customers into unnecessary investments and products to be fleeced. In a July 2018 submission to the royal commission, Treasury claimed that there is little evidence that consumers are being harmed by vertical integration—an arrogant dismissal of all of the evidence that has been presented to the royal commission!

Treachery of regulators

It's especially unconscionable, in light of the royal commission, that the government and regulators are still allowing the banks to hide behind *caveat emptor*—"it's the victims' fault"—given that the treachery of the government and regulators is equally to blame for the plight of bank victims. These authorities set the Australian people up by loudly praising the banks and insisting there was nothing wrong in the financial system, despite all evidence to the contrary. They encouraged trust in crooked banks, which the banks were able to exploit.

One of the more damning examples of this has been the longstanding denials by Treasury and Treasurer Scott Morrison, APRA, and the Reserve Bank, that there is a housing bubble. These denials have had the effect of encouraging thousands of people to ignore all of the signs that houses were way over-valued and borrow to the hilt to become investors. Now that prices are falling and these investors face being wiped out, the authorities are going to say it's all their own fault, yet they helped the banks to sell the snake oil.

Glass-Steagall solution

Australia's financial system demands urgent structural reform, which must not be left up to these regulators. The Australian people vote for Members of Parliament to take responsibility for the welfare of the people, and when the financial system is failing to serve the public, it is up to the elected MPs to fix it. They must not defer to discredited authorities.

There are two issues in Australia's financial system that must be urgently addressed. The first is the predatory nature of the current system. The financial deregulation that Bob Hawke and Paul Keating kicked off in 1983 caused a metamorphosis of the financial system, from one that largely (with a few exceptions) served the community to one that overwhelmingly exploits the community.

Previously, bank profits were a function of their customers' profits and national economic growth, i.e. the banks made money by helping their customers and the nation be productive and acquire wealth. Now, bank profits come largely at the expense of their customers and the nation, through a systematic, industrial-scale gouging operation.

As the royal commission is inquiring into this week, all Australians are direct victims of this gouging through their superannuation accounts, which the banks have been overcharging in the amount of, by various estimates, \$700 billion over two decades, \$15 billion per year, or \$1 million per account over a 45-year working life.

The second issue is the complexity of the financial system, which makes effective regulation very difficult. That's not to let the regulators off the hook, because they've been able to hide behind this complexity, but it is a real issue. Complexity means the system can be easily gamed by unscrupulous banks with armies of unscrupulous lawyers and accountants looking for loopholes in the law.

The solution to both of these issues is contained in the Banking System Reform (Separation of Banks) Bill 2018 which Bob Katter introduced in Parliament on 25 June. The bill enacts a Glass-Steagall separation of the banks, based on the US law of the same name, which splits off banks with deposits from investment banking, insurance, financial advice, funds management, stock broking and superannuation. Depositors put their money in the bank for security, out of trust. Scott Morrison's *caveat emptor* philosophy is actually insane, because it destroys the trust that is the foundation of banking. Depositors should be able to trust their bank, but that's only possible if predators are locked out. Glass-Steagall is the lock.

Glass-Steagall is also simple, and therefore virtually impossible to game. It is a straightforward division of the financial system. On the one side are deposit-taking banks, which are protected by the government and which customers know they can trust. The deposits in these banks will be the basis for normal lending into the real economy that serves the public—no money will be diverted into the financial casino.

The other side of the divide contains the risky activities of the financial system, *but the public will know that*. They will be fully aware that any investments are at their own risk, and the government won't bail out failing institutions. This awareness will ensure they only risk what they can afford to lose. That said, it's not a free-for-all: any criminality will be aggressively punished with jail terms, and specific sectors such as insurance will require specific regulations, but the overriding regulation will be the clear-cut division between normal banks and all other financial activities, between security and risk.

To make sure the government and regulators don't get away with blocking real change to the financial system, join the fight to get Parliament to pass the Separation of Banks Bill.

What you can do

- Forward this release to your local Member of Parliament.
- Visit https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6136 to download the Banking System Reform (Separation of Banks) Bill 2018 to send to your MP, asking them to support this law and for a written reply on whether they will or not.