Citizens Electoral Council of Australia

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Independent Political Party

13 February 2019

Pauline Hanson introduces bill to break up the banks

One Nation leader Senator Pauline Hanson has introduced the Banking System Reform (Separation of Banks) Bill 2019 into the Australian Senate, for a Glass-Steagall-style structural separation of the too-big-to-fail (TBTF) banks.

(The US *Glass-Steagall Act* of 1933 separated deposit-taking commercial banks from risky investment banking as well as other financial services, including insurance. It successfully protected Americans from banking crises for almost 70 years until its ill-fated repeal in 1999.)

Senator Hanson moved on 12 February: "That the following bill be introduced: A Bill for an Act to re-establish confidence in the banking system, to separate retail commercial banking activities involving the holding of deposits from wholesale and investment banking involving risky activities, and for other purposes."

The Separation of Banks bill will do what the banks and government ensured the Hayne royal commission didn't do—break up the structure that has transformed the banks into predatory profit-gouging machines at the expense of their depositors and customers.

Virtually every hearing of the banking royal commission threw up evidence that the vertical integration of banks—the combination of normal banking with insurance, financial advice, funds management, stockbroking and superannuation—was a massive conflict of interest which the banks exploited to lure customers into products they didn't need and charge fees for no service, including to the dead.

The government had colluded with the banks to rig the royal commission's terms of reference to ensure that it didn't examine the structure of the financial system; consequently, despite the issue dominating the hearings, royal commissioner Kenneth Hayne did not recommend structural separation, to the extreme glee of the banks and their international investors who profit from their gouging business model.

In essence, by not recommending separation, Hayne's punishments in his final report did not meet the crimes revealed in his hearings, and the banks know they have got away with it. Many experts have criticised this as the biggest failing in Hayne's final report.

Senator Hanson's bill dares to go where Hayne couldn't. It fully breaks up the vertical integration structure, giving the banks two years to divest from their non-core financial businesses.

It also ends the so-called horizontal integration of commercial banking with investment banking, the trading in risky securities and derivatives, which exposes deposits to dangerous speculation. The banks not only use deposits as collateral for their gambling, but when their bets blow up and they face collapse, as happened in the 2008 crash, they use their deposits to extort the government to bail them out, under the threat that if they crash they will take their innocent customers' savings with them. This is what it means to be "too big to fail". More recently, governments, including Australia's, have enacted "bail-in" laws to pre-empt the collapse of TBTF banks by seizing deposits to absorb the banks' gambling losses. Hanson's Separation of Banks bill ends TBTF, and protects deposits by not letting them be exposed to risky activities.

Finally, it brings the failed regulator APRA under much stricter Parliamentary control.

At the conclusion of her speech introducing the bill, Hanson said: "The Australian population are appalled at the bad behaviour of bank management. The quest for greater profits to the detriment of their own depositors is disgraceful.

"The quest for greater bonuses has transcended into pressure on staff throughout the banking system to push their depositors into taking that bank's financial services advice which results in those depositors taking out related company insurance and superannuation policies without concern as to their suitability. Of course, the epitome of that bad behaviour is taking fees from estates of deceased persons.

"The Banking System Reform (Separation of Banks) Bill 2019 will put in place a banking system that, I hope, will prevent a repetition of the history being aired before the Hayne Royal Commission."

And it will. Demand your MPs and Senators support it.

What you can do:

• Call your MPs and Senators today with this message: The royal commission is a massive failure—you must support the Banking System Reform (Separation of Banks) Bill 2019 to break up the banks!

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12 February 2019

Even Keating says Hayne failed on structural separation—what will Labor do?

The Labor Party can no longer defer to the Hayne royal commission on whether to separate the banks. Even Paul Keating, who started bank deregulation, has called Hayne's final report a failure on structural separation.

Keating told *The Australian*'s Paul Kelly: "The royal commission process was very competent and the report reflects that competence. But the process made as clear as day the interminable conflict between product and advice by institutions promoting their own product. The royal commissioner should have recommended these arrangements—this conflict between product and advice—be prohibited. *This he monumentally failed to do*. He should have acted upon the examination and the evidence of these serious conflicts of interest." (Emphasis added.)

Keating is not the only one to recognise Hayne's failing. He has joined a chorus of criticism from commentators Alan Kohler, Michael Pascoe, Adam Creighton, Bernard Keane, Glenn Dyer, David Fickling, and Tom Elliott; founding ASIC chairman Tony Hartnell; academics Andrew Linden and Warren Staples; former ANZ director John Dahlsen; analysts Martin North and Dr Wilson Sy, and others.

They have condemned it as a failing, and worse. Some have questioned whether it is due to Treasury interference, as Hayne was blocked by his terms of reference from examining structure, and never spent any time on it in his hearings, but nevertheless it was included in his final report as a non-recommendation. This was the issue of most concern to the banks, and when it was leaked that Hayne would not force them to end the structure that has incentivised and enabled them to gouge and fleece customers for massive profits, their shares soared on the stock market.

What will Labor do?

In March 2017 Labor's shadow Assistant Treasurer Matt Thistlethwaite indicated that Labor would support bank separation if recommended by a royal commission. Peter van Onselen asked Thistlethwaite on Sky News: "if you win government—it looks like you're going to win government, so we're going to have a royal commission—if that happens, is it possible that Labor might look at legislation to break up the banks?"

He replied: "Yeah, there's a whole host of people who argue that we should break up the retail banking sections—so deposits and mortgages—from the wealth management, the insurance that they've added on over recent years; and it's an approach that was taken in the US, [until] it was watered down unfortunately by Bill Clinton. It's something that they're doing in the UK and there's calls for it to happen in Australia, that's something that would be aired and looked at in a Royal Commission…."

That was before the royal commission was called, however, and at the time Labor was arguing for terms of reference that included examining vertical integration, which the Turnbull government blocked at the behest of the banks. Yet, despite knowing the terms of reference were rigged, for the last year Labor MPs have replied to constituents who have asked about bank separation that they will await the outcome of the royal commission.

So what will Labor do now? Will they protect the banks or will they protect the people? If Shadow Treasurer Chris Bowen uses Hayne's report as an excuse not to go with separation, Labor is giving the banks what they want.

International investors know so. The crooks at Moody's ratings agency, who got off scot-free from defrauding the world with fake AAA ratings for the securities that caused the 2008 crash, cheered the final report. According to the 7 February *Australian*, Moody's said: "The fact the royal commission did not recommend breaking up the banking oligopoly supported the sector's 'strong and stable profitability'."

Analysts at Citi, the biggest too-big-to-fail bank that pioneered vertical integration, called the final report "pragmatic" and welcomed that it "delivered relatively few changes to the law with no meaningful structural changes to the industry and no radical regulatory changes", according to the 5 February *Australian Financial Review*. And Credit Suisse analysts said that the "lack of changes to the vertical integration model is likely to be a source of relief" for so-called "wealth managers" AMP and IOOF.

If the revelations from this royal commission, that proved vertical integration enabled massive gouging of bank customers, do not lead to structural separation, it will be a travesty equal to none of the bankers in New York and London being jailed for the 2008 crisis. The ball is in Labor's court. Today, Senator Pauline Hanson will introduce the Banking System reform (Separation of Banks) Bill in the Senate, which will end the conflicts of interests in banking and stop banks from gambling with their depositors' money. This bill is based on the US *Glass-Steagall Act* that protected Americans from banking crises for nearly 70 years until Bill Clinton signed its repeal in 1999, as Matt Thistlethwaite referred to. Bank separation has strong support from the Greens and cross-benchers, but it will only happen if Labor is genuine about fixing the banking system and not just using the issue to get elected, while happily taking donations from the banks.

Call your Labor MPs and Senators and demand an answer.