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Polarised response to Hayne report shows bank separation is paramount

One of the biggest surprises in the final report of the Financial Services Royal Commission—for both the concept's advocates and opponents—was that Commissioner Kenneth Hayne did not recommend the separation of banking from financial services. The following compilation of public criticism and praise of the report, focused on structural separation, shows that over the last year the necessity for a firewall between traditional commercial banking and speculative money-making had become not only a central issue of the inquiry itself, but of Australian politics as a whole.

Criticism

Paul Keating: "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." (*The Australian,* 9 Feb.)

Alan Kohler, *The Australian*: "Kenneth Hayne's final report was a stiff and eloquent ticking off of the financial services industries. But it is also a failure. Specifically, his decision to not call for the separation of product and advice is both inexplicable and egregious." (*Aust.*, 5 Feb.)

Tom Elliott, 3AW: "It doesn't sound like anything is going to fundamentally change for the banks. They're not being broken up, nobody is going to jail. To me, this seems like a bit of a slap on the wrist with a wet lettuce leaf." (4 Feb.)

Adele Ferguson, *Sydney Morning Herald*: "For those Australians hoping for structural separation of the banks, an overhaul of the regulators or heads on sticks, royal commissioner Kenneth Hayne's verdict would have been disappointing. There was little blood and gore. It was more like a soft landing." (*Sydney Morning Herald*, 4 Feb.)

Adam Creighton, *The Australian*: "No criminal referrals were made. There was no ban on so-called vertical integration, which allows different types of financial entities to own each other, as some had feared." (*Aust.*, 5 Feb.)

Michael Pascoe, *The New Daily*: "It appears the leak that the banks would be fine ... was that vertical integration of wealth management would be allowed to continue, against most observers' expectations—and certainly mine. The preservation of vertical integration—allowing an institution to own financial advisers, the investment platform they use and provide products for them to sell—seemed to me to be dead for all money. ... The inherent conflicts of the model are obvious, or so I would have thought. What's the point of a product manufacturer owning financial adviser businesses if those adviser businesses don't push the house product?" (5 Feb.)

Bernard Keane and Glenn Dyer, *Crikey.com.au*: "Kill vertical integration: For a report so stridently hostile to conflicts of interest, Hayne fails to address the most basic one—the vertically integrated structure of the financial industry. It's true that most of the big banks are abandoning vertical integration and what turned out to be the fool's gold of cross-selling, but the model is still embedded in some areas and could return in the future. Major financial institutions should have to pick one role—basic banking, financial advice, wealth management—and stick to that." (6 Feb.)

CEC successfully put bank separation on the agenda, and it is not going away. Wilson Sy, being interviewed by Channel 10's Jonathan Lea in Parliament on 12 February. Photo: Screenshot

James Frost, *Australian Financial Review*: "The report stops well short of fears of forcibly separating banks from financial advice divisions or making narrow recommendations for how bankers are paid." (4 Feb.)

James Kirby, Wealth Editor *The Australian*: "But in leaving the banks to continue in the business of 'vertical integration'—where they try to be 'one-stop shops'—the risk of bad behaviour has by no means been eliminated." (*Aust.*, 4 Feb)

Martin North, Digital Finance Analytics: "The big question, which was hooked into the long grass, was structural separation, between product sales and manufacturer; and advice. This to me is a root cause of the conflicts and bad behaviour." (*Walk the World*, 4 Feb.)

John Adams, economist, former Coalition adviser: "The royal commission was 'a whitewash'. [Adams] says it did nothing to change anything, leaving in place the 'moral hazard' of not demanding the Big Four be forced into structural separation of their lending and advice arms. Adams pointed out that it was the same sort of malpractice on display in our banks, especially in credit practices, that led to the global financial crisis of 2007-08." (*The Saturday Paper*, 9 Feb.)

Andrew Linden and Warren Staples, School of Management RMIT: Hayne fails to tackle banks' structure: "Even though Hayne emphasises the link between systemic misconduct, governance, structure and prudential (system-wide) risk, something that Treasury, the RBA and Australia's three business regulator amigos, APRA, ASIC and the ACCC, have long rejected, he makes no concrete suggestions to tackle it. As we have written previously, research tells us big systemically important shareholder-focused universal for-profit banks that cross-sell products are more profitable than smaller banks in the good times but are more prone to misconduct and to failure in the worse times." (*The Conversation*, 5 Feb.)

Tony Hartnell, founding chairman of ASIC: Post-Hayne, the two major tasks are "permitting much more competition, at least in the major banking sector", and separating "banking from funds management". (*AFR*, 8 February)

David Fickling, Bloomberg: Banking royal commission's final report is a dud. No wonder stock futures rose. "The final report of the country's Royal Commission into misconduct in the sector will be a relief for bank investors. ... More fundamental reforms were avoided. Companies won't be forced to spin off the peripheral businesses with which they've had conflicts of interest...." (*AFR*, 5 Feb.)

Stephen Anthony, Industry Super Australia chief economist: The Hayne report does not alleviate the high degree of financial risk. "Vertical integration became a deliberate bank strategy to move oligopolistic competition in loans up and down the house value stream. That is, into the payments system (credit cards), risk (life insurance and consumer credit insurance) and funds management (super and trading)." (Aust., 9 Feb.)

ACTU president Michele O'Neil: "The report is wholly inadequate and fails to get to the core of the issues in the banking sector..." The union also said the report was a failure for not recommending to "kick banks out of super", and "does nothing to change the sales-driven culture in banks". (*Aust.,* 5 Feb.)

Praise

The *AFR* View: "Thankfully, the royal commissioner's theme that the serious breaches identified in his hearings do not demand a sweeping increase in regulation, a structural reshaping of the sector or a complete overhaul of its regulatory framework. ... Thankfully as well, Commissioner Hayne does not recommend banning so-called vertical integration in which a bank or wealth manager sells products it also 'manufactures'.

"That would be an overly-prescriptive restriction on market structure and on how financial services providers can compete to meet their customers' needs." (*AFR,* 3 Feb.)

Moody's ratings agency: "The fact the royal commission did not recommend breaking up the banking oligopoly supported the sector's 'strong and stable profitability'." (*Aust*., 7 Feb)

S.T. Wong, chief investment officer of Prime Value Asset Management: "The banks are running primarily because the report isn't as tough as expected. There is no requirement to separate banking from wealth and the remuneration structure has been left to market forces." (*AFR,* 5 Feb.)

Citi analysts: The final report is "pragmatic". It "delivered relatively few changes to the law with no meaningful structural changes to the industry and no radical regulatory changes", they said. (*AFR,* 5 Feb.)

Credit Suisse analysts: "For the wealth managers, the lack of changes to the vertical integration model is likely to be a source of relief for AMP and IOOF". (*AFR,* 5 Feb.)

UK coverage

The British press had anxiously awaited the outcome of the royal commission, worrying on numerous occasions that a move towards structural separation would have reverberations back home, and worldwide. Financial press thus issued a collective sigh of relief when the final report did not advocate splitting up banks.

This graphic, made by Channel 10, shows the Royal Commission left many stones unturned. Photo: Screenshot

***Financial Times* Editorial Board**: Under the headline, "Australia must begin to rebuild trust in its banks", *FT* reported on the Hayne royal commission's response to a "banking sector that once existed to serve customers transformed into a fee-earning machine; mergers of banks with wealth and investment management businesses with very different cultures; executives and employees incentivised to chase profits above all".

The final report did not propose "sweeping new regulations, however", only "to strengthen Australia's existing prudential and conduct regulators, and to create a super regulator to oversee them. They will be brought under executive accountability rules similar to those in the UK.

"The report's overall approach is guided by a desire to avoid a credit crunch, after Australian lending already slowed, partly as a result of the inquiry itself. It does not recommend tightening lending rules, again calling for better enforcement of existing regulations. It stops short of calling for a forced break-up of financial institutions to separate their financial advice and wealth management arms—but three of the country's biggest banks have done this anyway". (5 Feb.)

Lucy Burton, *The Telegraph:* Headlined, "Australian banks told to fight rampant 'greed'", a *Telegraph* article reported Hayne found "that selling had become the sole focus of attention for some banks, with staff rewarded by reference to profit and sales and misconduct left unpunished. ... However, the report stopped short of imposing a forced break-up of the big banks or calling for finance bosses to go." (4 Feb.)

Jamie Smyth, *Financial Times:* "Australian bank stocks stage relief rally on commission report" recorded the surge in bank shares on 5 February, "as investors judged the recommendations of a year-long public inquiry into misconduct in the finance sector would not fundamentally alter the industry structure over the long term. ...

"Citi said the Royal Commission inquiry, which was chaired by former senior judge Kenneth Hayne, recommended relatively few changes to the law, no meaningful structural changes to the industry and no radical changes to the regulatory model for banks.

"'We are surprised that Commissioner Hayne has had enough confidence in these structures to deliver better customer outcomes in the future than what was presented in evidence', said Brendan Sproules, Citi's banks analyst.

"Investors had feared the inquiry would recommend breaking up banks and other institutions to separate their wealth management arms from core banking services—an area in which Mr Hayne had pinpointed conflicts of interest. There were also concerns that Mr Hayne would propose new limits or criteria to ensure responsible lending but the final report did not impose such measures." (5 Feb.)