Australian Citizens Party

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MEDIA RELEASE

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Treasury concedes to ‘benefits’ of breaking up the banks

In its last day of hearings on 27 April the banking royal commission asked Treasury, the regulators and the banks to justify so-called vertical integration, i.e. banks owning the businesses that create the financial products that the banks advise their customers to buy. In response, Treasury has done a backflip of sorts from its years of defending vertical integration, to concede that there will be benefits from a structural separation of banking. For their part, each of the big banks forcefully opposed structural separation. If anything, this is the best argument for it—if the criminal banks don’t want to be broken up, it must be right!

In her summary of the previous fortnight of royal commission hearings, which had thrown up shocking examples of the financial advice operations of AMP and CBA exploiting their customers, Counsel Assisting Rowena Orr asked for submissions to answer the question: “Does vertical integration … serve the interests of clients? If so, how?”

Treasury’s submission demonstrates the impact of the royal commission. Treasury boffins—many of whom are past and/or future bankers by virtue of the revolving door between banks and the department—know that they can no longer defend the status quo, as they have for years in response to the Citizens Electoral Council’s campaign for a Glass-Steagall separation of commercial banks from all other financial services. For instance, in a 28 April 2016 letter for a constituent of the then-Member for Longman Wyatt Roy, Treasurer Scott Morrison claimed that “the Australian financial system already exhibits a high degree of structural separation”. At the time, the CEC exposed this claim to be false; now Treasury has changed its tune.

“Consideration of options for structural separation requires weighing costs and benefits”, Treasury’s submission states. The main “cost” that Treasury cites is the loss of economies of scale; i.e. if you are a customer of a mega-bank it is cheaper for the bank to provide you its various services. However, the royal commission has shown that in practice that has meant it is cheaper for the banks to fleece you and countless others on an industrial scale.

Treasury concedes that the benefits of structural separation include: the removal of conflicts of interest which tempt banks to lure their customers into risky financial products for the bank’s, not the customer’s, profit; and a higher price for other financial products, which “would not be a negative outcome”, Treasury notes, because it would make customers realise that in many cases they don’t need those extra products at all! In other words, if bank tellers weren’t pressured into coaxing customers into some other product such as insurance or financial advice, most customers wouldn’t seek them out because they don’t need them in the first place.

Treasury suggested the Commission could first consider how to mitigate conflicts of interest without breaking up the banks, and then compare that approach to any additional benefits from structural separation. However, before making that suggestion, Treasury admitted that steps have already been taken in recent years to mitigate conflicts of interest, *but they haven’t worked*. “The hearings have provided evidence that conflicts of interest continue to lead to poor consumer outcomes, and have contributed to poor firm culture,” Treasury’s submission stated, “*notwithstanding a number of reforms in recent years that have sought to eliminate or mitigate such risks.*” (Emphasis added.)

Don’t fall for ‘ring-fencing’ scam

In conceding to the benefits of breaking up the banks, Treasury appears to be trying to steer this discussion in the direction of the ring-fencing vs. Glass-Steagall debate that raged in the UK in 2013. This was in the wake of the global financial crisis when the UK government spent hundreds of billions of pounds propping the banks up, including through emergency nationalisations. Ring-fencing was the recommendation of Sir John Vickers, the former Bank of England chief economist who chaired the 2011 Independent Commission on Banking that inquired into the banking practices that led to the crisis. With no good argument against the principle of separating traditional banking from other financial services, Vickers and the private banks—which were desperate not to be broken up—resorted to the argument that the same effect could be achieved without a full Glass-Steagall separation, by requiring the banks to ring-fence their retail divisions from their other divisions, but allowing them to remain under the same roof. Unconvinced, 445 members of the Commons and Lords voted for an amendment to the 2013 ring-fence legislation to turn it into full-scale Glass-Steagall, which was only narrowly defeated. In the debate, one former banker, Lord Forsyth of Drumlean, warned that ring-fencing wouldn't protect depositors from predatory bankers, as "investment bankers are extremely adept at getting between the wallpaper and the wall".

Five years after ring-fencing was legislated, Vickers now admits that the UK's banks are still not prepared for another financial crisis. Speaking at a *Financial Times*/Fitch global banking conference in London on 2 May, Vickers warned that British banks are still undercapitalised and vulnerable to the impact of a new financial crisis. He said that leverage in the British banking system was "dangerously high" as regulators "fell short" of what was required to crisis-proof the system. Vickers didn't say it, but these ongoing risks in the UK's banks can be blamed on the Parliament not legislating a full-scale Glass-Steagall in 2013.

Australia's Big Four banks are as desperate as their UK counterparts not to be broken up. Suddenly, they are all concerned about the best interest of their customers. CBA said in its submission to the royal commission that separation "would significantly erode the benefits that customers currently enjoy". Oh really, the same "benefits" being exposed by the royal commission? NAB and ANZ both promised that vertical integration can work if conflicts of interests are "managed"; likewise Westpac, "provided appropriate protections are maintained".

The banks don't suddenly care about their customers—they are desperate not to be cut off from fleecing depositors and gambling with their deposits. Their desperation proves they must be broken up!

Join the fight to make it happen. Bob Katter MP intends to introduce Australian Glass-Steagall legislation drafted by the CEC, but he needs another MP to second it. Push your federal MP to stand up to the banks and second the Banking System Reform (Separation of Banks) Bill 2018.

What you can do:

1. Sign the CEC's new change.org petition: *To the Commonwealth Parliament: Pass Australian Glass-Steagall Bill to break up the banks!* Every signature generates an email to leading MPs informing them of the public's support for Glass-Steagall.

2. Get a copy of this bill to your Federal Member of Parliament plus any Senator/s you can. Urge them to not only read it themselves, but press them to second Bob Katter's call for Glass-Steagall. The very best way is to make an appointment and go and see the MP in person—MPs really want to know what their constituents think and this will make a big impression on them. If that's not possible, email or mail the document with a personal cover note asking them to support the bill in Parliament, and to let you know whether they will.

3. Share copies with others: State MPs, any media you can contact, councils, unions, church leaders, community groups, etc. and get any concerned people you know to visit their MP as well; and on Facebook etc., or with your email address book, urging everyone you know to get involved.
