Australian Citizens Party

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MEDIA RELEASE

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Separation would be good for the banks—independent experts

While the major banks, regulators and government have done everything in their power to block any moves towards bank separation, they have ignored one important point: separation would be good for the banks as businesses.

Good for proper banking, that is, not casino banking or predatory customer-fleecing.

In a very important interview on the Digital Finance Analytics (DFA) YouTube channel, "Why APRA is not fit for purpose", former ANZ director John Dahlsen and DFA Principal Martin North discussed the benefits for banks of demerging with their non-bank entities.

The two are real experts. John Dahlsen was a director of ANZ for 20 years from the mid-80s to the mid-2000s. He also chaired ANZ's audit committee, which gave him deep insights into the nuts and bolts of its business.

Martin North is an international banking expert, having worked in banking and lectured bankers on advanced financial issues, including capital markets, in the UK, before moving to Australia, where he has analysed the banking system and housing market for many years.

North interviewed Dahlsen on the Australian Prudential Regulation Authority (APRA) Capability Review conducted by Graeme Samuel. While generally approving of the review, Dahlsen criticised Samuel for praising APRA's prudential regulation, its core job. "In my view APRA has been fake", he said. "It has been absolutely misleading to the public, in that it has claimed it's had a lot of power and [was] doing things, but in fact it's been doing nothing."

Referencing Samuel's support for APRA chairman Wayne Byres's supervision of the banks' capital structures, and so-called risk weightings, by which the banks are allowed to assign mortgages a much lower risk rating than business loans and therefore hold much less capital against them, Dahlsen said: "I don't agree with that, because I believe his risk-weighting policies have damaged the economy in a serious way. The imbalance between residential mortgages and business had led to an explosion—as we're now getting all the gory details—in residential mortgages. And on the other hand, lending to business, particularly mid-sized and small business, has shrunk. Now that just simply isn't good for the economy."

Dahlsen also objected to Wayne Byres allowing the big banks to have lower risk weighting for mortgages than the smaller banks, which penalises the smaller banks and gives the big banks an unfair advantage. APRA's regulation has helped to concentrate the banking system in the "big four" oligopoly. Martin North pointed out that this was deliberate on APRA's part, justified on the basis that fewer, larger banks would be better for financial stability and easier to regulate. In other words, competition—the buzzword policy imposed on the rest of the economy—be damned.

North further noted that the risk weightings are uniform virtually worldwide, because they come from the Bank for International Settlements (BIS), known as the central bank of central banks, which is the agency through which the world's major banks effectively regulate themselves. Wayne Byres came to APRA from a lengthy stint at the BIS in Switzerland. "He's part of the international establishment", Dahlsen said, "and what's been driving him is to honour his former role rather than what's good for Australia." Dahlsen called APRA's extreme secrecy "sheer nonsense".

Separation

The former ANZ director also took exception to Senator Jane Hume's inquiry into the CEC's Separation of Banks bill, which Hume went through the motions of conducting by extending it during the election campaign and refusing to hold public hearings.

"There are some people in the community that know a fair bit about that and wanted to participate in that inquiry and give some evidence", he said. "I would have liked to have given some evidence, I would have liked to join the conversation. And she refused. So that was in my opinion a fake inquiry", he charged.

“What troubles me”, Dahlsen continued, “is why are you worried about having that conversation?”

John Dahlsen’s argument for the banks demerging is that the imperative is greater than ever before, with greater complication in banking and the emergence of so-called fintechs, internet-based lenders, which are competing with banks for business. He compared the situation for banks to Coles and Woolworths, the latter of which Dahlsen formerly chaired. Australia’s two dominant retailers, they have nevertheless recently undertaken major demergers; for instance, Woolworths recently demerged from the highly profitable Dan Murphy’s liquor wholesaler. Woolworths took the decision because they recognised there is greater value in demerging than in retaining ownership, he explained.

For the banks: “if you demerge them and gave them a simpler structure, where you reduce the distance between the CEO and the customer, where you could streamline the regulation and compliance stuff for that kind of activity, you could take a huge amount of regulatory cost out of it”, Dahlsen argued. “It would enable the demerged entities to much more effectively deal with the competitive threats they’re under.”

Martin North agreed that this is what should be being discussed by banks and regulators. “But I don’t see any evidence of that”, he said.

The CEC’s Banking System Reform (Separation of Banks) Bill 2019 does not wait for banks to come to their senses, as Dahlsen hopes they will, but requires them to demerge from all non-bank entities within two years, not to profit the banks *per se*, but to protect bank customers and their deposits, and the functioning of the real economy that relies on a safe banking system. It also overhauls APRA by bringing it under much closer parliamentary oversight and stopping it from any interaction with the BIS and other international entities like the Bank of England that is not explicitly approved by a powerful parliamentary oversight committee. This will also stop APRA from bailing in Australian bank deposits under orders from the BIS during an international financial crisis. The BIS demands “independence” for regulators like APRA so it can impose policies like bail-in, but the Separation of Banks bill would not allow APRA to act without parliamentary approval, which means voters would have a chance to tell MPs: “Hands off our deposits!”

To join the fight against bail-in and for a Glass-Steagall separation of banks to simplify the banking system and protect deposits and the real economy, join the CEC.

Click here to sign the petition to the Australian Parliament: Hands off our bank deposits—stop ‘bail-in’!

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