Returning Banking Back to Basics

Time to Break Up the Banks

Protect consumers and end conflicted financial advice

Banking is an essential service, not a get-rich-quick scheme. Since banking was deregulated, households are carrying more risk, and economic inequality has increased. It is time to return banking back to basics with strong government intervention to protect customers and improve stability.

The Hayne Royal Commission has uncovered a shocking degree of rot in the foundations of Australia's banking and financial system. We are now one of the most heavily financialised economies in the world and with that enormous pool of money comes enormous opportunity for fraud, bribery, pushing people into dodgy products and other systemic abuses of the customers that this sector is supposed to serve.

Unfortunately the growth in the size and scope of banking and finance since it was deregulated has not been matched by an increase in financial stability or in the distribution of economic prosperity. Both the level of risk that households are carrying and the economic inequality has increased. That's why the Australian Greens are proposing a fundamental overhaul of the structure of our banking and financial services sector, as well as the regulatory and governance system underpinning it.

The Greens led the charge to establish a Royal Commission into the banking sector and we are the only party with a real, simple solution to the abuses it has uncovered: break up the banks and put the ACCC back in charge of protecting customers.

> BREAKING UP THE BANKS

It's time that banks became banks again. Under the Greens proposal, banks would no longer be able to own wealth management businesses that both create financial products and spruik them to unsuspecting customers. Instead, a financial institution will only be able to own and operate financial services in one of these four exclusive classes:

- **Deposit and loan banks** that provide basic banking for individuals and business, including savings accounts, credit cards, mortgages and business lending.
- Large-scale **superannuation** funds, including default funds and choice funds.
- **Insurance**, including life insurance and general product insurance.
- **Complex and sophisticated** financial products tailored to high net worth individuals and large businesses. This includes wholesale and retail wealth management products used for investment banking, shadow banking, hedge funds, self-managed super funds, financial markets, and auditors and liquidators.

This will help consumers distinguish between the **simple and essential** products and services that the vast majority of Australians use—deposits and loans, superannuation and insurance—and the more **complex and selective** activity that is the domain of big business, the wealthy, and the adventurous.

> *Australian Banks, insurers and other financial service and product providers have brought their industry to a crisis point, through their sustained misconduct, disdain for the law, and contempt for the rights of their customers.*
> *The Greens policy on tackling misconduct in our banks is far-reaching. But I cannot see lesser responses breaking the cycle of misconduct cum consumer abuse followed by apologies and undertakings to put things right, followed by further instances of misconduct.*
> Andy Schmulow, Senior Lecturer in the School of Law, University of Wollongong

> REGULATE FOR SAFE BANKING

Overwhelmingly, financial complexity has been of more benefit to the finance industry than it has been to consumers or society. The GFC showed that no-one truly comprehends the level of interconnectedness between complex financial products and everyday life. Risk is everywhere and it's everyone's problem, whether you signed up for it or not.

To ensure the stability and transparency of this new system where financial services are split up, the regulatory environment must also be reformed. This will end industry capture and make sure the regulators are working for the consumer, and not the industry they're supposed to be overseeing.

The Australian Securities and Investment Commission (ASIC) has not been up to the task. ASIC has prosecuted only one financial services licence holder in the last decade. The banking fraternity does not fear ASIC. They are almost indifferent to its existence, as evidenced by AMP's flagrant deception regarding the conduct of its financial planning arm.

Under our proposal:

- the ACCC would again have responsibility for ensuring consumer protection and competition within the essential services of basic banking, insurance and superannuation, and over retail-grade intermediators such as financial planners and mortgage brokers;
- APRA would continue to provide prudential oversight over ordinary banking, superannuation and insurance; and
- ASIC would be the conduct and system regulator over the remainder of the financial system that is tailored towards sophisticated and wholesale clients.

The Greens want to see the ACCC given a permanent position on the Council of Financial Regulators, along with ASIC, APRA, the Reserve Bank and Treasury. The Greens would also establish a Financial Regulator Assessment Board (FRAB) to advise Government annually on how financial regulators have implemented their mandates.

> *The proposed package of reforms to Australia's regulatory architecture is comprehensive. It responds to lessons learned from the Global Financial Crisis and could help limit the risks to Australia in the global crises that inevitably lie ahead. It also directly addresses several of the failures inherent in the existing regulatory architecture, some of which are now becoming more visible as the Hayne Royal Commission proceeds.*
> Alex Erskine, former ASIC Chief Economist

> WHO WOULD THE POLICY AFFECT?

The Greens would also ensure that all banks divest themselves of wealth management, and that these wealth management companies are split so that superannuation is separated from insurance and financial planning. This policy would also require banks to divest themselves of financial advisory and brokerage services.

Within the remaining complex and selective components of the finance industry, separation would be primarily on the basis of whether products are retail grade or investment grade, and whether customers are retail investors or sophisticated investors, as it currently is.

The Greens would also introduce a range of measures to increase protections for retail consumers.

Westpac:

It would have to divest its wealth management arm, BT Financial Group, and break-up superannuation, insurance and wealth management.

ANZ, CBA and NAB:

ANZ, CBA and NAB are on the way to divesting their wealth management arms. But they will be compelled to finish the job and also have to divest their trading platforms.

Macquarie Bank:

It will no longer be able to operate as a retail bank (ADI) and investment bank.

AMP:

It will have to break-up. Currently it is an ADI, as well as offering superannuation, insurance and wealth management. It will need to choose one area to operate in.

MLC:

Currently owned by NAB, but is being sold off. In addition to this it will have to break up superannuation, insurance and wealth management.

OnePath:

Currently owned by ANZ, but is being sold off. In addition to this it will have to break up superannuation, general insurance and wealth management.

Financial planners and mortgage brokers:

- Financial planners will have to be individually licenced, will be required to establish an industry-wide indemnity scheme, and will need to be owned and operated separate from any product issuance firm if they are to call themselves a financial planner.
- Mortgage brokers will need to be owned and operated separate from any lending institution.
- Financial planners and mortgage brokers will longer be able to receive commission-based sales.