# Investigating the Banks: A Royal Commission in Australia

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*On Collins Street, Melbourne lies a monument that acts as a gloriously loud remark about how banks are treated in Australia. The ANZ Gothic Bank, studded with stain glass windows, and equipped with a chapel for bankers is a secular tribute to capitalism. It sprung up as a result of discovering gold and remains a shrine to Australian materialism.*

Despite historical disasters, appalling decisions punctuated by periods of prosperity, the Australian banking sector has become smug, self-serving and automatically exploitative. It abounds in assumptions of self-superiority and global majesty.

It is also highly oligopolistic, a culture that encourages manipulation of lending standards, the bank bill swap rate and the forging of loan documentation.

> "The share of banking assets owned by the four largest banks in Australia," observed the Financial System Inquiry in December 2014, "is higher than equivalent shares in most other jurisdictions."

Smaller lending institutions and non-bank lenders have made the understandable point that such concentration frustrates competition. Not so for Australia's Big Four, who insist without irony their presence guarantees competition, keeping low net interest margins and supplying good equity returns.

When grand public announcements are made by industry representatives, customers are meant to bow in appreciation. The recent move by the Commonwealth bank to abolish withdrawal fees from ATMs was trumpeted as a boon for customers. It was badged as a noble, kind gesture when it was merely a statement about the greater user use of online banking and relentless march to the moneyless economy.

While the Australian banker is deemed a sacred cow by captains of industry, valuable for the shareholder despite spiting the customer, the same cannot be said for a good stretch of the country whose citizens see banks as unaccountable providers of dubious services.

Suspicions abound that the Australian public is being hoodwinked even as the money pours in and profits soar. Australian banks alone have paid out over $1 billion in compensation and fines to clients in the last decade, and know that they are facing a corporate regulator with more bark than bite.

Spectacular individual instances also abound, including the Commonwealth Bank of Australia's 55,000 breaches of terrorism financing and money laundering regulations.

These are just a few instances of transgression. The list of banking improprieties compiled by former Deutsche Bank analyst **Mike Mangan** provides a grim buffet to pick from the last decade.

Such suspicions, and dismay, were simply too much for some members of the Turnbull government. While the cabinet resisted the grumbles from all sides of politics, various bank benchers were insistent. While the government did give some ground, hauling banking representatives before parliamentary committees and promising a future complaints process for the aggrieved, the calls refused to die down. An inquiry with sufficient powers was needed.

**Prime Minister Malcolm Turnbull** duly relented.

> "Government policy," he weakly stated, "remains the same until it is changed."

For Turnbull, the decision had been grudgingly taken to launch a Royal Commission.

> "While we regret the necessity of the decision, we have taken it in the national economic interest."

The effort to immunise banks from inquiry is unrelenting. Even after the announcement of a royal commission, pundits in the banking industry and political supporters feel that business will suffer. Don't touch the banks – that way lies doom. Former Australian prime minister **John Howard** had claimed, in rather novel fashion, that such an inquiry would amount to "rank socialism". "Our banks demonstrated in 2009 that they were among the best-run, the most prudentially supervised, and the most well-capitalised in the world."

What, then, would Howard's view be on the policies of various governments after 2008 to essentially socialise banks in order to save them? Australian banks, by way of example, received $120 billion in tax payer funds to assist refinancing international loans with an ongoing guarantee from the then Rudd government that they could continue borrowing using the AAA credit rating of the Commonwealth. A deposit guarantee remains in place, initially peaking at $1 million, and now coming in at a quarter of a million.

The thrust of such thinking is simple. To merely think of questioning the sanctity of banking is to undermine it. Let them, it seems, pay out outrageous bonuses and seek protection and subsidies from governments when things go belly up.

The pertinent question to ask here is how far a royal commission will actually go to affect change. Turnbull has reiterated that he has no intention of putting capitalism in the dock. The very act of announcing this inquiry guarantees that he can, at the very least, manage it, including the terms of reference.

The government, for one, has appointed former High Court **Judge Kenneth Hayne**, hardly a rabblerouser of note and likely to be unadventurous in his digging.

> "He is renowned," went a joint government media release, "for his brilliant mind, his forensic skill, and his deep sense of justice."

Whether this translates into feasible and constructive findings will preoccupy the sceptics and detractors till 2019.

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