The Verdict Is In ..... The Banks RC must be made longer and stronger

Summary:
Victims of misconduct say the royal commission has only just begun the work of exposing problems in the financial system. The Guardian's Martin Farrer and Gareth Hutchens look at why the Hayne Royal Commission just hasn't done the job required. They interview several advocates for reform including BRN's Dr B. Also - available to download the BRN 10 Reasons The RC Needs turbocharging.

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'It's not even scratched the surface': bank victims demand royal commission 2.0

After 68 hours of hearings, 134 witnesses, 400 witness statements and 6,500 documents, the banking royal commission has come to an end. The big end of town will breathe a sigh of relief that the slow torture at the hands of senior counsels Rowena Orr and Michael Hodge, which has comprehensively trashed the industry’s reputation and business model, is finally over. They can get back to their towers and hope that the damage from Kenneth Hayne’s final report in February is not too bad.

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But the clamour for a royal commission 2.0 is already starting to build among victims of misconduct in the financial services industry. They are unanimous in saying that the inquiry – although thorough and on occasions a brutal expose of the industry's shortcomings – heard from only 27 customers and did not go nearly far enough.

Geoff Shannon, who set up a group to help victims of bank misconduct several years ago, said the commission had only just begun the work of exposing problems in the financial system.

"It's not even scratched the surface in terms of bank scandals. The industry think they are just about off the hook but we are only just at the beginning," said Shannon, a former Bankwest customer whose business became embroiled in the controversial takeover of the lender by the Commonwealth Bank 10 years ago.

Another campaigner, Peter Brandson, agreed that the commission needed to carry on investigating the financial industry but with increased powers to expose misconduct.

"Even now the royal commission is not looking at the most serious offences," said Brandson, who set up Bank Reform Now after fighting a loan dispute with NAB. "There has been criminal fraud, forged documents, asset-stripping and millions of dollars of assets have been taken from people."

Both activists have held numerous meetings with the banks and politicians but say there is still not enough recognition of the damage done by what they claim is decades of misconduct.

With the Labor party backing calls for a renewed investigation, it is not inconceivable that a change of government in Canberra next year could put the banks, wealth managers, super funds and insurance companies on the interrogatory rack again.

Before that point is reached, however, Hayne will recommend widespread changes to how the banks operate, especially how they manage risk and compliance. Both regulators, the Australian Securities and Investments Commission and the Australian Prudential Regulatory Authority, have endured repeated humiliation at the commission for their lack of oversight, and have both vowed to get tough.

The industry concedes the need for reform and is making changes. The acting boss of wealth manager AMP, Mike Wilkins, revealed this week that the firm, which lost its chief executive and chair at the height of commission-driven scandals, was spending $780m on a "fix and rebuild program" involving 150 full-time staff. The NAB chief, **Andrew Thorburn, has promised to reverse a drift away from customers.**

Some analysts and investors say the **"golden age" of banking, with the big four of Commonwealth, Westpac, NAB and ANZ making up more than 20% of the value of the Australian stock market value, is over.**

Michael Wayne, of the investment firm Medallion Financial in Sydney, said the commission would have a lasting impact on the way banks went about their business because it would **force them to change focus from profits to compliance and risk management.**

"They are going to move from capitalist drivers to a risk framework," he said. "And that means fewer resources for sales that drive revenues and profits. Non-interest revenue such as fees are also under pressure and that starts to eat into their income."

Hayne has been withering about the culture inside the industry, which he noted in his interim report was **driven by greed and short-term profits.** But how far the banks are able or willing to go to change the culture, which is underpinned by a remuneration system based on sales commissions and bonuses, remains to be seen.

The commission has exposed a complacent and incompetent culture inside the boardrooms of Australia's major banks, where very high pay is the norm and where little heed appears to have been

given to what might be in the interests of customers.

Worst, it has revealed the weakness of the people on the boards of Australia's biggest, most profitable companies, even though they are drawn from the cream of Australian business elites.

The NAB chairman, Ken Henry, a former treasury secretary and Reserve Bank director, lamented this week that it could take a decade to change the culture at the bank. Many observers felt that was too long, but it had the effect of turning the spotlight on the board members whose job it is to police the executive team. In telling testimony, he revealed how **the board appeared unable to persuade Thorburn to force through pay cuts despite an APRA report critical of the company's remuneration policy.**

But while the banks embark on reforms, customers are left with tough choices about what to do with their money and how to obtain credit at a time when the banks will try to cushion the blow of increased spending on compliance by increasing the cost of borrowing.

The impact of the commission has been quite marked already in the superannuation industry, where people have woken up to some of the depredations wreaked on their savings.

With the royal commission exposing how the managers of some retail funds (run by major banks) have been deliberately ripping off customers with dodgy advice and exorbitant fees, Australians have been shifting their savings en masse into industry super funds (run by not-for-profits), taking billions of dollars with them.

For bank customers, the royal commission has had some affect on their choices, but it's not as pronounced.

An Essential Media poll, commissioned by the Customer-Owned Banking Association in May, found the commission had made Australians more receptive to switching their banking.

One in three people are more likely to consider switching their banking institution thanks to the royal commission, it found. Eight out of 100 have already changed their provider, while 17% said the commission had led them to consider changing. Another 18% were not sure if they would consider changing.

Given how notoriously difficult it is to get Australians to switch their bank, those figures were considered noteworthy. But they are still not very high.

The Productivity Commission places much blame on "behavioural barriers" faced by customers that manifest in inertia and lack of switching. Certain cognitive biases – such as a preference for the status quo, or an overestimation of the costs of switching – can override bad news about one's bank. One in two people still bank with their first-ever bank, with switching least likely among those who have a home loan with a major bank.

The commission also blames the structure of the banking system. It says Australia has an "oligopolistic system" in which the **big banks regularly exploit the inertia of customers,** maintain their market position with persistently opaque pricing, conflicted advice and remuneration arrangements, and a lack of easily accessible information that induces customers to maintain loyalty to unsuitable products.

But some things will help. Scott Morrison has hailed new rules that mean from July next year banks will have to start sharing more information on credit and debit cards, and deposit and transaction accounts, to allow customers to make better-informed choices.

"Open banking will be a game-changer," the prime minister said. "More choice, more competition and importantly, more power."

Nathan Rees, the former NSW Labor premier who now heads the Finance Sector Union, says that will be a big deal. He says open data, the growth of micro-banks, and the Productivity Commission's urge

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to keep chipping away at the “Four Pillars” policy will help the industry become more competitive, for consumers’ benefit.

But for now the big four still dominate, with their market shares highest (over 75%) in housing loans, personal deposits, credit cards and loans to small business.

Even with their once-unimpeachable reputation in tatters, the sheer size of Australia’s banks may mean they can regroup and carry on without too much hindrance – especially if decision-makers in Canberra decide the punishment has been enough.

Peter Brandson is determined to make sure that doesn’t happen and vows to continue petitioning and lobbying government to extend the royal commission.

“The banks need to start treating people with more respect. They have to make less profit and pay less in bonuses. These guys are not neurosurgeons or rocket scientists. They are running utilities and what they earn is disproportionate,” he said, referring to the sky-high pay packets that have been part of the commission’s focus.

“We want an extended royal commission to expose the whole story. If that is exposed then people will be demanding a change to the whole system.”

Susan Henry, who runs the campaign group HNAB-AG, said **the agitation for further hearings would continue until victims felt that they had been given a fair hearing.**

“Victims do not feel they have been given the opportunity to be heard at this royal commission – very little of the human cost and ramifications, across all aspects of life for years or decades, has been revealed,” she said. “Victims should be at the heart of any royal commission.”

BRN Comments

At the end of Round 7 on Friday 30.11.18 Commissioner Hayne thanked his assistants and staff. He did not acknowledge the 10,000 people that put in their stories. That says plenty. As of this date The RC has not published several submissions that appear to have been a bit close to the bone for Commissioner Hayne. Just in case Hayne requires a bit of help to change the culture of banking we provide -

Bank Reform Now’s formula to change banking culture

1. Axe bonus schemes that provide perverse incentives.
2. Banks must not indemnify lawyers & liquidators used to do their dirty work.
3. When a banker breaks the law - take their assets, take their freedom (where appropriate) and properly compensate their victim.
4. A CEO or Director may not have been involved in a crime but if they cover it up they should be held accountable.
5. Whistleblowers must be highly regarded, protected and rewarded.

These may seem radical or virtually impossible to achieve but we have learned much while pushing hard for more than five years for a fair dinkum Royal Commission. **What seemed radical way back then seems to be quite reasonable now – perhaps even self-evident.**

People are devastated by finance sector skullduggery. Governments and regulators have let the people down for decades on this. The Royal Commission has only exposed the tip of the iceberg. That's why many are now campaigning to see it made longer and stronger.

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