

Australian government covers up CBA bank scandal

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Following a damning report on losses of life savings by customers of the Commonwealth Bank of Australia (CBA)—one of the country’s big four banks—the Abbott government is working closely with the management to protect the bank. At the same time, it is trying to push through new financial advice regulations that will lead to even greater ripoffs being suffered by small investors.

The 519-page report tabled by the Senate Economics References Committee examined the operation of the Australian Securities and Investments Commission (ASIC), the government’s corporate regulator. The report revealed that more than 1,000 CBA clients, including self-funded retirees, lost their savings because the bank’s financial planning companies not only misled them into buying high-risk products but also fabricated documents, doctored clients’ files and forged signatures.

The misconduct by financial advisers at CBA subsidiaries Commonwealth Financial Planning Limited (CFPL) and Financial Wisdom (FW) mostly occurred between 2006 and 2010, but in some instances up to mid-2012.

The compensation bill to those whose lives were ruined could top \$250 million, but the number of people affected is still not known due to the bank’s cover-up efforts. The Senate report stated that CBA management “deliberately played down the extent of the problems” to “contain adverse publicity and minimise compensation payments.”

After consultations with the government, the CBA chief executive Ian Narev last week undertook a public relations manoeuvre to head off calls for a public inquiry. He apologised “unreservedly” to affected clients and announced a so-called independent review of their concerns.

This process will require clients themselves, many of whom are elderly, to request a review of their files—which will be conducted by a “specialist CBA team”—to determine if compensation is warranted.

Those dissatisfied with the reviews can appeal to an “independent panel”—financed and handpicked by the CBA. This week the bank appointed former High Court judge Ian Callinan to head the appeals body. Callinan was employed by the bank five years ago to lead a similar panel to determine claims by thousands of people who lost millions as a result of the CBA’s involvement in the 2009 collapse of Storm Financial, which also pushed clients into high risk investments.

The Abbott government’s bid to limit the fallout from the latest scandal is fully backed by the Labor Party Opposition. Both heralded the CBA’s internal review process. Treasurer Joe Hockey declared: “You’ve got to have a plan to ensure that people are given appropriate compensation. They’re (CBA) starting to do that but there’s obviously a way to go.” Labor leader Bill Shorten labelled it “a good first step.”

The government is this week also seeking Senate approval of new Future of Financial Advice (FoFA) regulations to water down limited restrictions introduced by the previous Labor government to try to restore the finance industry’s credibility after the CBA and other banking scandals. The new regulations will permit financial advisers to once again receive commissions—in the form of bonuses—for directing clients into investment funds.

During the 2008–09 global financial crisis, triggered by parasitic and criminal activity in the US banking and financial sector, the ruling elite insisted that the regulation and oversight of the banking industry prevented similar practices in Australia.

The CBA affair has blown that myth to pieces. The

financial regulator ASIC, under both Labor and Liberal governments, has bent over backwards to avoid any interference with operations of the banks, allowing them to act as a law unto themselves.

The Senate report showed that ASIC was aware of significant compliance failures at CFPL as early as February 2007. It notified CFPL, and no further action was taken after the company simply agreed to implement a “Continuous Improvement Compliance Program.”

No doubt the issue would have remained buried but for the persistence of whistleblower Jeff Morris, a CBA financial planner with 30-years’ experience in financial services. In October and November 2008, Morris and his colleagues sent two emails to ASIC informing it of ongoing malpractice at CFPL and of a “high level” managerial cover-up.

Frustrated by ASIC’s inaction, the whistleblowers later provided their information to a journalist from *Investor Daily*. It ran several articles on the situation at CFPL in May and June 2009, bringing the scandal to public attention.

Even then, it was not until March 2010 that ASIC took enforcement action. Eventually, five CFPL advisers were banned from providing financial services and three others removed themselves from the industry under a so-called enforceable undertaking.

Morris told the Senate committee: “I found trying to get them [ASIC] to act on this matter when I gave them clear evidence was like flogging a dead horse. Part of the reason CBA has behaved the way they have is that they have nothing to fear from this regulator.”

The malpractice and criminal activity uncovered in the CBA scandal is not the product of “rogue advisers” as claimed by CBA management and the financial elite. The CBA was fully aware of the activities of its financial advisory subsidiaries but ignored the fraudulent operations as long as they generated revenue and profits.

The CBA scandal is just the tip of an iceberg. It is symptomatic of the predatory operations of the financial sector in Australia and internationally. There are now reports of “serious compliance deficiencies” dating back to 2008 at Macquarie Bank’s finance planning arm Macquarie Private Wealth and compliance breaches at two other major groups, ANZ Custodians in 2009 and UBS Wealth Management in

2011.

Such operations have helped make Australia’s four big banks the most profitable in the world. For the fourth year in a row, the Swiss-based Bank for International Settlements (BIS) last month reported that the CBA, Westpac, National Australia Bank and ANZ generated the highest profits compared to assets among the countries assessed by the BIS, including the United States, Japan and various European nations.

Between them, the four banks last year pocketed \$27 billion in profits, up 9.5 percent on the previous year. This year, industry analysts tip them to make combined profits of \$29.7 billion—another 10 percent rise for their wealthy shareholders.

While the BIS declared the banks profitable and stable, however, it warned of another potential global financial meltdown, possibly greater than that of 2008-9, that could imperil their operations. The BIS report pointed to renewed credit-driven financial speculation, and share market and property bubbles, compounded by central banks pouring billions of dollars into the financial markets.

Given the toxic nature of the banking sector, the banks’ rapacious appetites for profits, and the protection they received from the political establishment, further financial collapses are inevitable, ruining the lives of many thousands more people.



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