Australia: Bank shares soar after release of report into financial “misconduct”

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6 February 2019

The grandly-titled “Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry” brought down its final 530-page report on Monday, accompanied by a second volume containing hundreds of pages of cases studies and a third volume of appendices.

The Liberal-National Coalition government initiated the commission in November 2017, under conditions of rising anger over the rampant profit-gouging and other predatory practices by the banks and financial institutions. It formally invited public submissions on January 22, 2018.

Among the practices exposed were:

* Charging fees on superannuation assets despite not providing any advisory services.

* The aggressive marketing of life, funeral and vehicle insurance products to clients who did not understand what they were being sold, who did not need them or could not afford them.

* Continuing to charge fees on accounts and insurance policies of deceased people.

* Allowing people to overdraft on their basic accounts without their agreement and then charging penalties.

* Lending to distressed small businesses and farmers and then driving them into bankruptcy and seizing their assets.

* Residential mortgages, personal loans and credit card limits being extended to people who could not afford to realistically repay them without enduring severe hardship.

Treasurer Josh Frydenberg declared on Monday that the Royal Commission had revealed the banks were “driven by greed” and that “the banking sector must change.” Labor opposition leader Bill Shorten asserted that it was a “terrible indictment on the greed in the industry.” Both the Coalition and Labor claimed it was in the interest of the public to implement all the recommendations of the report.

A more accurate assessment was given by Adam Creighton, the economics editor for the *Australian*. He advised liquor stores in the financial districts of Sydney and Melbourne to “stock up on Moet”—an expensive brand of French champagne—for the celebrations in financial circles following the release of the report.

Announcing its establishment in late 2017, then prime minister and former merchant banker Malcolm Turnbull asserted: “This will not be an open-ended commission; it will not put capitalism on trial.” Turnbull has proven to be right.

The 76 recommendations brought down by the commission do not put anyone on trial, let alone capitalism. Rather, they propose amendments to various pieces of government legislation that would, if ever implemented, curb only some of the most egregious practices that were exposed in the course of the public hearings. The banks, which have been at the centre of rampant financial speculation, may well prove to be the main beneficiary of the Royal Commission.

The report does not call for winding back “vertical integration,” which, as the financial system was deregulated over the past three decades, enabled banks to take over other investment bodies, such as insurance, and then aggressively market such products to their customer base.

Instead, it suggests that the banks establish their own internal mechanisms to identify “any problems” with their “culture and governance” and review the bloated salaries and bonuses paid to their executives.

The commission report insists that oversight of the banks be carried out by the very regulatory authorities—the Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA)—that it criticised for ignoring flagrant misconduct. It has recommended that the two bodies investigate possible cases of criminality, without naming any individuals. Even if charges are laid, however, analysts have noted it will likely result in court actions that span a decade or more.

Corporate investors responded to the report yesterday by pouring around $19 billion back into the shares of major banks. The largest, the Commonwealth Bank, saw its share price rise by 4.7 percent; Westpac by 7.4 percent; ANZ by 6.5 percent and National Australia Bank (NAB) by 3.9 percent. More gains are expected today.

Among the largest shareholders of all these Australian-based institutions are global conglomerates such as HSBC, CitiGroup and JP Morgan, as well as the private and part-union managed "industry" superannuation funds. Their demand for short-term profits and high rates of return is the main factor behind the predatory practices of the banks, not the individual "greed" of bank executives.

One of the report's major recommendations is the gradual phasing out of the commission-based mortgage broking system, where people seek advice from a "third party" on which loan best suits. Brokers, who at present are paid a commission by the lender, have had a vested interest to encourage people to borrow amounts that were more than they needed or could afford.

Over the decade following the 2008 financial crisis, nominally independent brokers increased their role in the mortgage market substantially, arranging between 45 and 55 percent of all loans given by major banks.

A belated March 2017 investigation by ASIC, which was one of the impulses behind the calling of the Royal Commission, found that "loans written through brokers have a higher incidence of interest-only repayments, have higher debt-to-income levels, higher loan-to-value ratios and higher incurred interest costs compared with loans negotiated directly with the bank…"

The banks, in other words, have been more than prepared to use the brokerage system to condemn borrowers to severe hardship or even personal ruin to maintain their profit margins. Even under conditions of historically low interest rates, a study last year by Digital Finance Analytics estimated that some 820,000 mortgaged households—about one if four—were in "financial stress."

The commission has recommended a legal stipulation that a broker "must act in the best interests of the intending borrower." Moreover, it has proposed that legislative changes be made—but only over a period of years—that will force brokers to charge an upfront fee to the borrower for their advice, rather than receiving a commission from the ultimate lender. Such fees, according to financial analyst Eugene Ardino, cited in the *Australian* on Monday, could range from $6,000 to $14,000.

If such changes were made, borrowers would have little incentive to use a broker. The commission has used that fact to make the remarkable recommendation that the banks be compelled to charge comparable fees on customers, supposedly in the interest of "competition." In fact, it would simply create a new revenue stream for lenders.

One of the main motives behind the demands for the Royal Commission by the Labor Party and others, and its eventual creation by the Coalition government, is coming into clearer focus. It was not to hold the financial sector to account. Rather, it was to encourage the major banks to reduce their exposure to potential bad loans, ahead of a protracted slump in Australia's vastly over-priced property market.

Australian banks have reaped immense profits over the past two decades due to the income they derive from interest payments on residential mortgages, which, at over 60 percent of their total loans, is by far the largest proportion of any banking sector in the world.

The speculative increases in housing costs combined with stagnant or declining real wages have seen household debt-to-income in Australia double since the early 2000s to an unprecedented 200 percent. As property prices began falling in parts of the country during 2017, the banks belatedly acted to tighten their lending standards and curtail access to credit.

As analyst Adam Creighton put it in the *Australian*, the commission recommendations dovetail with "little more than a vigorous spring clean of the financial sector" that has been in the "pipeline for some time."

It all appears to be too little, far too late. The drive for profit, which is central to the operations of capitalism and led to the 2008 financial meltdown in the US and Europe, has created the conditions for an immense social catastrophe in Australia. As well as nearly one million mortgage holders already struggling to meet their repayments, there are now at least 400,000 who face paying down loans that are greater than the value of their property. These numbers are set to soar over the coming months and years.

While millions of households are being left to deal with the consequences of slump, the primary concern of the corporate and political establishment is to protect the major banks and financial institutions, along with the wealthy layers of society, that benefit from their predatory operations.