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Senate Standing Committees on Economics

Submission for the Banking System Reform (Separation of Banks) Bill 2019

I am a 58 year old man married with three adult children. I am an employee of the NSW state government. I currently live in the city of Newcastle.

Issues that I present in brief are as follows:

Our banks are not regulated in a responsible manner.

Credit has become an imminent threat to our financial system.

Our housing market is overloaded with debt as are the citizens of Australia.

The collapse of the housing and credit market may push some of our banks into insolvency.

External economic problems are coming to a head in larger economies around the world which can compound the debt crisis in Australia.

We need to protect our banks and therefore our savings from any economic shock.

Our banks have a heavy leaning towards housing loans to the deficit of small business industry and farms.

Elaboration of issues:

I have great concerns relation to the banking system in of Australia. The Royal Commission into banking has found many problems and criminal acts which have come out of poor regulation by APRA and ASICs. These two regulative bodies have failed comprehensively in their most basic of responsibilities to the Australian public.

Most of the damage to hundreds of thousands of Australians has already been done. They have been caught up in a credit induced inflated property bubble which is in the process of popping. The rise of mortgage stress and delinquencies are rising at an

alarming rate. The capacity for the average mortgagee for maintaining their lifestyle is declining rapidly. As a result of the difficulty in obtaining credit from the banks, home buyers and investors can only obtain lesser loans. This has had the affect of lowering house prices. Houses are worth only as much as the next person to purchase it can afford. It is plain to see that prices may fall to or below average trends that are consistent with records in the past 100 years. If the price of homes go down but the debt stays the same then we will have many mortgages in negative equity. Negative equity will reduce consumer confidence and therefore the economy will suffer as spending will decline.

If there is any external economic crisis overseas it is possible that this will exacerbate the pain inflicted on our financial system. Prices will drop at a greater rate causing increasing pressure on the banks. It is also likely that interest rates will rise making it more expensive for banks to purchase funds. This can cause immediate problems for the bank's balance sheets. Our banks have over 60 percent of their loans in housing. This is greater than any other country in the world. If there is a system problem in the global economy there is a potential for one or more of our big four banks to be insolvent. If this is the case then the government will have to bail out the banks. As you know the Federal Parliament pass the Financial Sector Legislation Amendment (Crisis Resolution Powers and other Measures) Bill 2017. This gives APRA powers during a financial crisis and the capability of performing a 'bail in' which sees deposits in a bank as an instrument that can be used to salvage a bank. Deposits have not been excluded from being confiscated for the survival of a bank. Banks have been allowed by APRA to lend to with people with low documentation. This has been done to maximise profits for the banks without concerns for the ability of the applicant of the loan to repay. APRA has allowed this as it is loaded with former senior investment bankers and it is obvious that they will look after the banks.

Conclusion:

Investment banking and ordinary Commercial banking should be separated as it was in the US soon after the crash of the stock market in 1929. This was achieved with the Glass-Steagall Act of 1932. This worked successfully until 1999.

This would protect deposits from the dangers of speculation.
This would stop the banks from diverting credit into financial speculation and allow more lending to go to small business, industry and farming.

The Banking system reform (Separation of Banks) Bill 2017 adopts similar reforms that were outlined in the Glass-Steagall Act of 1932. It is targeted so as to protect the average person from the speculations of the banks.

This Bill put forward helps protect the savings of most of your constituents and the economy of this our country. I consider it one of the most important Bills to be put before our parliament in the history of this county. I hope you have the same concerns as I do and support the Banking System Reform (Separation of Banks) Bill 2019.