

Turnbull inquiry-lite bank plan falls short

Written by Michelle Grattan, Professorial Fellow, University of Canberra

Malcolm Turnbull's plan to have the chiefs of the big banks regularly front a parliamentary committee is more gesture than substance.

What it tells us is that Turnbull is very sensitive to the strong public feeling about the banks. He knows that, though the election campaign is over, Bill Shorten's advocacy of a royal commission still has cut-through, made sharper by the narrowness of the Coalition's win and the plethora of Senate players, who will have views about the banks.

So Turnbull has come up with an inquiry-lite idea, but it is more likely to feed than stem the pressure for robust action.

Turnbull's action was sparked by the banks declining to pass on the full 25 basis-point cut in the cash rate announced by the Reserve Bank on Tuesday.

He came out swinging on the need for accountability and transparency. But of all the banks do, setting their rates after a Reserve Bank change is surely among the more transparent. One can reject or accept their arguments about "market forces" and other factors influencing them, but at least we can see what's happening.

The core of the case for a royal commission lies in another direction. It's about banks' scandalous behaviour, brought to light by the media and parliamentary inquiries, in their specialist arms of financial advice, insurance and the like.

The banks maintain they have addressed, or are addressing, the issues that have been raised. But their earlier reluctance to admit culpability and systemic failure, the fraud, the cover-ups, their meanness and slowness in dealing with victims of their dishonest operations and dereliction of duty, all contribute to the public's lack of confidence in the reassurances given.

One has to ask what the banks fear. Are there further pockets of wrongdoing yet to emerge? No, they say. It's about perceptions around the stability of the system.

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The banks maintain not just that a royal commission is unnecessary but that in an uncertain world it could lead to overseas investors losing confidence in the Australian banking system. This does seem a convenient stretch. Investors can distinguish between the strength of banks' balance sheets and capital adequacy, and bad behaviour to clients.

The banks are going along with the Turnbull plan – they have no choice – while pointing out that other businesses don't face similar scrutiny of their commercial decisions. For them, the Turnbull option is much the lesser of evils.

More information is always good but these annual appearances (although Turnbull expects them to “evolve” into something more regular) will be of limited value.

The terms of reference outlined by the government cover much that is general, including overseas developments and the state of the Australian economy. They do not focus on the areas that have seen scandals. These could be asked about but the time for any forensic probing would be limited, even if the MPs did call further hearings.

Speaking on Melbourne radio on Friday, Turnbull said the banks “will be giving their views and insights on the economy, the international economy, the housing market but also explaining how they are treating their customers.”

“Members of the committee will be able to raise issues, they might be issues that have arisen at the time or longer term issues, and of course this accountability means that when banks decide not to pass on the full extent of an interest rate cut from the Reserve Bank, they will know that they are going to have to explain themselves in the full glare of a public parliamentary committee room in Canberra. I think that will be very salutary,” he said.

“They will be fully accountable for their actions and that will give them cause for reflection as to, for example, whether they would pass on a full extent of an interest rate cut.”

In his interview Turnbull did touch on the pointy-end issue. “Look, I do understand this financial services sector reasonably well,” he said.

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“The fundamental cultural problem with banks is this: like any business, they seek to make a profit. Like any business, employees are rewarded on the basis of how much they contribute to the profit.”

“But banks are different to many other businesses in the sense that they are built on a foundation of trust. And they advise their clients and they must put their clients' interest, their customers interests first ... the culture of a good bank is one where employees understand that they cannot put the pursuit of profit ahead of the interests of the customers.”

Given his declared understanding of the financial services sector, Turnbull must know that his plan will do only a small part of the job.

A better idea would be to have the royal commission and, as an ongoing “health check” – to use the government’s phrase – also have the executives appear regularly before the House of Representatives economics committee. Meanwhile, the government needs to pass ASAP the legislation it introduced last term for higher professional standards for financial advice.

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