

A [Productivity Commission](#) report analysing competition in the financial sector has pointed out that our finance regulators have become enablers of an industry that is an impediment to our economic competitiveness and exploitative of their most loyal customers.

It proves the need for a board to oversee the conduct of our financial regulators, policing the bodies that are supposed to be keeping our financial system in check.

It could not have come at a worse time for our big four banks. Perennially pilloried for their rampant market misconduct (fraudulently manipulating benchmark interest rates) and their equally rampant abuse of upwards of hundreds of thousands of consumers across every one of their retail operations at one stage or another – financial advice, life insurance and credit card insurance, just to name a few.

The Australian Securities and Investments Commission (ASIC) most recently launched a bank-bill swap rate manipulation case against the Commonwealth Bank, but only across a very narrow range of infringements. The bulk of the infringements can't be prosecuted because ASIC has dithered for so long, the statute of limitations has run out, and the alleged crimes have proscribed.

And what of our other financial regulator - the Australian Prudential Regulation Authority (APRA)? The Productivity Commission reckons that APRA's ham-fisted use of macro-prudential tools, usually used to reduce risk in our financial system, has benefited the big four banks to the tune of A\$1 billion.

APRA has been criticised for pursuing stability in a manner that has killed competition, hurt consumers, and starved small businesses of life-giving capital. The dominance by a few banks, whose profits are based on runaway property prices, is its own systemic threat.

The result is that small banks are squeezed out, big banks raking in higher rates, and investors offsetting higher rates against their taxes and so costing the Australian Taxation Office an estimated [A\\$500 million in deductions](#). As the old saying goes, when your only tool is a hammer, every problem looks like a nail.

Who will regulate the regulators?

So what to do about ASIC and APRA? Back in [2014, the Financial System Inquiry recommended](#) a board of oversight – a regulator for the regulators – to ensure that the regulators discharge their mandates.

So, for example, to ensure that ASIC acts like a cop, not a co-op; that APRA acts with foresight and finesse, as opposed to damaging competition. APRA and ASIC [pushed back at the time](#), and the Abbott government rejected the recommendation.

Now to add impetus to the Financial System Inquiry recommendation, the Productivity Commission says there is a lack of transparency and accountability exhibited by our regulators. Add to that the implications regarding regulator's efficacy that comes with the establishment of [the Financial Services Royal Commission](#). The public deserves better than this.

A regulator for the regulators – a Financial Regulator Assessment Board – would conduct ex post analyses of how regulators had discharged their mandates, evaluate their policies and the efficacy of their policy tools. It would be a sober second thought, and a crucial mechanism of double redundancy – to pick up on crucial elements that the regulator may have overlooked.

The idea has form. The British have created something similar, called a [Financial Policy Committee](#), this body's aim is to review the British regulators, while keeping a look-out for where the next "bombshell" may come from.

That development in turn builds on the [work of James Barth, Gerard Caprio and Ross Levine](#) whose research indicates that regulators simply cannot be trusted to perform these crucial functions as the guardians of finance, without oversight. The researchers call their proposed board of oversight the "Sentinel", and point out that no industry is more adept and more practised at suborning the guardians of finance than banks and insurers. Sound familiar?

Australia's financial regulators need policing

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Australia's financial system is increasingly governed by a lawless financial sector, presided over by regulators that are at best misguided, and at worst captured. A board of oversight is the least we can do.

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