

Royal Commission shows banks have behaved appallingly, but we've helped them do it

Written by Andrew Grant, Senior Lecturer, University of Sydney

The term deposit has matured. Initial scepticism over the timing, scope, and overall need for a royal commission into financial services has transformed into deep concern about the culture and practices in one of our most important industries.

Malcolm Turnbull, the (perhaps not coincidentally) ex-prime minister, admitted it had been a “[political mistake](#)” to delay the royal commission by nearly two years.

None of the major banks have escaped the Commission’s ire.

Perhaps that’s because none of them have had an incentive to behave better. There’s been little financial reward for being the bank to improve.

Read more: [***Banking Royal Commission's damning report: 'Things are so bad that new laws might not help'***](#)

Australian banks generate the [second-highest returns on equity in the world](#) , and so far none has been keen to let those returns go.

In his interim report, Royal Commissioner Kenneth Hayne [pilloried them](#) for their greed, putting profits before customers. He hinted that submissions he has not yet fully examined may uncover even more misconduct.

Conflicts in providing credit

Are loan providers offering customers what’s best for them, or what’s best for the bank?

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A disproportionate share of loan products recommended by mortgage brokers working for firms affiliated with banks are produced by other firms affiliated with those banks.

Read more: [*Vital Signs: for all its worth, the banking royal commission could hurt a generation of battlers*](#)

Mortgage brokers currently help originate more than half of all new loans. They operate under an opaque commission structure with rewards that are unlikely to align with the customer's best interests.

A change to up-front, transparent commissions should be mandated, and enforced by the Australian Securities and Investments Commission.

Irresponsible Lending

[ASIC guidelines](#) merely require banks to offer customers products that are “not unsuitable” for their needs.

The guidelines allow banks to do things such as using rough guides for household expenditure rather than individually examining the circumstances of each borrower.

[Some have argued](#) that this is a better practice than making inquiries of borrowers, who are likely to exaggerate their ability to repay loans. But it runs the risk of constituting a dangerous form of financial advice.

Read more: [*How 'liar loans' undermine sound lending practices*](#)

If a loan is recommended to a customer, they might infer from that the bank has deemed it as being appropriate for their needs, rather than merely “not unsuitable”.

In several instances detailed to the commission, customers borrowed as much as they have been to allowed by banks, only to later blame the banks for not protecting them from themselves.

Banks also argue that there is a trade-off between obtaining accurate documentation and processing loans quickly.

Reformed?

Inadequate internal processes have led to customers being offered products that they can't use, such as financial advice for dead people, or insurance that's impossible to claim against.

These failings have been rightly condemned by the commissioner, even if they might not have affected a significant portion of the banks' clients.

Ahead of the report, the banks have been trying to [pre-empt its findings](#) by arguing that their primary focus has moved from “sales” to “service”.

They say their internal processes have already improved, and bad apples weeded from the staff.

It's our fault, too

Commissioner Haynes said that one obstacle to greater consumer power is an alarming lack of financial literacy among consumers, which has also been unearthed by the commission.

Banks exploit our loyalty, our inertia, and our inability to negotiate.

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They also help exacerbate these things, by offering too many products that are too hard for the average person to compare.

Read more: [Financial literacy is a public policy problem](#)

If we educated ourselves, many of the problems identified by the Royal Commission would disappear.

Making public the actual interest rates paid on our loans, the fees paid to advisers and brokers, and consumer credit scores would help as well.

But it will only help us if we are willing to help ourselves.

The community rightly expects a lot from banks, but a second thread running through the Royal Commission's interim report is that but we need to expect more from ourselves as well.

Andrew Grant does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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