Turnbull's tough choice - back the people against the banks or retire early. Perhaps to the Cayman Islands?

Summary:
An excellent article from Ian. There will be a Royal Commission. A majority of MPs support it in the House of Reps. Very soon the people will rise up to demand and end to dodgy banking practices that are ruining millions of lives in Australia and right around the world.

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Four Myths Busted: Why We Need A Banking Royal Commission

Tens of thousands of Australians have had their lives ruined by the major banks. If there's no need for a Royal Commission because ASIC has greater powers, then why is the Turnbull Government wasting time and money on a parliamentary inquiry that has less power than both?

What a conundrum - you'll need quite some time to think through that one.

In salad terms, rather than the rocket, the newly elected government instead has opted for the iceberg; and a particularly wet and limp sample of the family Asteraceae it is too.

Given the admirable speed with which the government responded to the disturbing images emanating from the Northern Territory's juvenile detention centres, its longstanding reluctance to bring bankers to heel is perplexing.

> You'll forever hear financiers argue that because of its strength, our banking system sailed through the financial crisis. Nothing could be further from the truth.

Surely it couldn't have anything to do with the fact that our financial services industry is the biggest political donor in the country. The big four alone donated more than $730,000 in the year to June last year. And that's before bank and finance industry lobby groups kicked the tin.

The comparison with the NT inquiry is entirely valid. Tens of thousands of Australians have had their lives ruined by the mounting toll of atrocities that have come to light in the past decade from the major banks' role in the Storm Financial meltdown, the financial planning and insurance

scandals through to rigging of the interest rate setting markets.

For the past decade, we have been regaled with tales of rampant fee gouging, conflicts of interest and falsification of loan documents driven by a sales culture that has elevated profits above all else.
While last week's decision to not pass on the full Reserve Bank rate cut reignited community anger, it was merely a continuation of the cartel-like behaviour that has seen the big banks once again acting in unison, just as they have for the past 20 years.

Here are a couple of myths the banks love to perpetuate that need busting.

1. Bank funding costs

If you believe the big four banks, they simply can't pass on Reserve Bank cuts in full because the rate it sets only partially determines their cost of raising money. And the cost from other sources is rising.
That's entirely true. But before we start, it's worth remembering that banks are like every other kind of business. They buy money cheaply and make a profit by selling it at a higher price.

In a normal competitive market, businesses are price takers. They have no power over what they charge. The only businesses that can fix prices are monopolies or oligopolies, where a couple of big players act in unison. Sound familiar?

Tuesday was a classic case. Within minutes of the Reserve Bank decision, the Commonwealth Bank announced that it would pass on just half the cut to borrowers but would bump up the rate it pays to investors for some term deposits.

Blow me down, if during the course of the next hour or so, the other three did exactly the same. It was uncanny.

2. We need a strong banking system

Who has ever argued we need a weak one? This little smokescreen belches across the media every time there is any criticism about the huge profits our banks generate.

The Commonwealth Bank is hurtling towards a record $9 billion annual profit, due to be unveiled this week. There is no denying the enormity of the earnings. But that's just one measure of its heavyweight status. It is the amount it generates off its capital base that is truly astounding. Last year, it managed a return on equity of 18.2 per cent.

Compare that to Citi, one of the world's biggest banks. While its earnings were larger, Citi could only generate a return of about half that of the CBA.

The other three local banks aren't too far behind the CBA on that measure. In short, they are cash generating machines, the likes of which global banking behemoths can but dream.

A study by The Australia Institute released last week puts those earnings in another light. Our banks generate an annual income equivalent of 2.9 per cent of GDP. That's Olympic gold and puts them in a class of their own. In the US, American bank earnings - massive as they are - pull in around 1.2 per cent of GDP.

The reason they can achieve these magnificent results is because of their pricing power and their stranglehold over not just banking but insurance, superannuation and almost every other form of financial service you can think of.
We need a strong banking system, not one that exerts too much power.

3. No other industry is subject to this kind of scrutiny

That's debateable. What isn't up for argument is that no other industry enjoys the kind of taxpayer support that our financial sector enjoys.
Farmers and small businesses can go broke. The car industry can be told to pack and leave. But not the banks.

You'll forever hear financiers and their apologists argue that because of its strength, our banking system sailed through the financial crisis eight years ago unscathed.
Nothing could be further from the truth. After furious lobbying, initially from Macquarie Group, the Rudd government imposed a ban on short selling of bank and finance stocks in an effort to stave off collapsing share prices. It then guaranteed bank deposits.

On top of that, it handed our banks the keys to the country's AAA credit rating. If it hadn't done so, our entire banking system was in danger of collapse. Having borrowed hundreds of billions of dollars from wholesale credit markets offshore, they were facing ruin because credit was frozen and no-one would lend them the cash to refinance.
Taxpayers rode to the rescue. Our banks borrowed $120 billion using that taxpayer guarantee, a bailout never before seen and unlikely to ever be witnessed again. They've since argued it wasn't a bailout because they had to pay fees to use the guarantee. You have to chuckle; bankers complaining about being charged a fee.

It doesn't end there. A Reserve Bank study released as part of a FOI request in May revealed our four major banks get an annual $4 billion leg up as a result of that emergency GFC action. Foreign lenders give them a rate discount because they now know Australian taxpayers will bail them out if anything goes wrong.

4. The bad behaviour is overstated

It's all the fault of a few bad apples. Why are orchardists tarnished in this manner?

Globally, banks have been fined a collective $US200 billion and, while admitting criminal behaviour in the manipulation of interest rates, foreign exchange and gold markets have seen a mere handful of employees end up behind bars.
At least the UK and US regulators were on the front foot in those cases. Our corporate cop has only just gotten around to launching action on the rate rigging and so far, the case appears far from solid.

So, ask yourself this: Why are our banks so afraid of a Royal Commission, especially if it's all the fault of those few bad apples? The answer lies partly in the enormous bonuses paid to those interest rate traders now accused of being rogue.

You only score a $5 million annual bonus for generating vast amounts of wealth to the organisation, which in turn bumps up the bonuses for everyone above you. How much wealth? That's what our banks don't want you to know.

BRN Comments: An excellent article from Ian. There will be a Royal Commission. A majority of MPs support it in the House of Reps. Some LNP members will very likely cross the floor if required. The vast majority of the new Senate is in favour. Mr Turnbull is a lame duck. The only possible hope he has of rescuing his position is to well and truly side with the people rather than the banks on a Royal Commission.

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The truth that the banks do not want you to discover is that far too much of your wealth and the nation's wealth is siphoned away into the deep coffers of the banking and finance system.

The jig is just about up.

Websites For More Information: Four Myths Busted: Why We Need A Banking Royal Commission http://www.abc.net.au/news/2016-08-08/verrender-four-myths-busted-why-we-need-banking-royal-commission/7699794

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