# Citizens Electoral Council of Australia

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# Only Bob Katter's Separation of Banks bill will stop the banks from looting your superannuation

Australia's big banks have looted hundreds of billions of dollars from the retirement savings of millions of people who are clients of bank-owned "retail" superannuation funds. This looting will be the subject of the next round of hearings of the banking royal commission, which will also question bank regulator APRA for allowing it to happen. The private member's bill that Member for Kennedy Bob Katter introduced into Parliament on 25 June, the Banking System Reform (Separation of Banks) Bill 2018, will stop banks from looting super accounts by forbidding them from owning superannuation funds.

The scale of the banks' looting of superannuation is stunning. Worse, the regulator, the Australian Prudential Regulation Authority (APRA) knew about it and did nothing—another case of APRA ignoring its own internal warnings, as it did with an internal 2007 report warning of a bubble in home lending.

In 2010 two APRA researchers, then research head Dr Bruce Arnold and his colleague Kevin Liu, published a research paper which revealed that the Big Four banks and financial services giants AMP and IOOF, which own the majority of retail superannuation funds, charged two and a half times the market rate for services to the clients of the funds they owned. According to *The Australian*'s Anthony Klan on 23 July, their research showed that outside companies that provided services to retail funds charged the market rate of 0.52 per cent of the fund's assets, but when those services were provided by companies owned by the same bank that owned the retail fund, they charged 1.33 per cent, or 2.5 times the market rate.

Dr Liu blamed this overcharging for the "systemic underperformance" of retail funds. How bad was it? Klan quotes University of NSW economist Nicholas Morris's research that over two decades, the superannuation industry in Australia has charged $700 billion more in fees compared with its overseas counterparts. That's *$700 billion* that is not in the retirement savings of hard-working Australians, but in the profits and bonuses of the banks and their executives.

This looting has been confirmed by another former APRA researcher, Dr Wilson Sy, who served on the Cooper Review into superannuation in 2010 and consults to Industry Super Australia. In a submission to the Productivity Commission's recent superannuation report, Dr Sy quantified that "The unnecessary wealth transfer is now around $15 billion per year."

Dr Sy also pointed out that "Differences in reported fees and costs are merely the tip of the iceberg." He exposed that much of the mechanism for the transfer of wealth from the clients to the banks involved "indirect costs", including through sophisticated trading methods, such as the bank trading on its own account against the position it is trading for the clients of its superannuation funds, so the bank makes a profit while the clients make a loss.

According to Dr Sy's modelling, after a 45 year working career on an average salary, clients of bank-owned retail funds could retire with $1 million *less* than members of industry funds, due to the difference in fees and indirect costs.

### Vertical integration

Superannuation is yet another example of how the structure of banks, known as vertical integration, enables them to loot, gouge, fleece, and bleed their customers on an industrial scale. The term vertical integration refers to banks owning multiple financial services, such as financial advice, funds management, stock broking and insurance, which enables them to advise their customers to use the financial services owned by the bank. The banks charge fees for the financial advice, and then more fees for the services they have advised the customers to use. This is a huge conflict of interests, which has enabled banks to push their customers into unnecessary financial products that profit the bank.

Vertical integration in manufacturing can have benefits; in finance it is a criminal scam. In manufacturing it enables a company to value-add to every stage of production from raw materials all the way to the final product; in finance, you are the raw material, and it enables the institution to fleece you at every stage of your financial dealings.

When the vertical integration of Australia's financial system started in the late 1990s, financial institutions promoted it to the public as a way to keep financial services cheap and efficient. Two decades later the verdict is in. Far from keeping costs low for cus-

tomers, it has been a cheap way for banks to gouge customers. And not just banks. ABC-TV's *Four Corners* on 23 July reported on AMP's shocking looting of its customers, including for years after they were dead, which vertical integration also made possible.

The real scandal here is that were it not for the banking royal commission, the public wouldn't know most of this. AMP would still be bleeding dead customers, and not only would banks be looting their retail superannuation funds, the Turnbull government would be helping the banks to sink their fangs into the low-fee industry funds that union members own, so they could loot those too.

When the revelations of vertical integration abuses by the Big Four banks and AMP first emerged from the royal commission hearings in April, many experts, including former Competition regulator Allan Fels and former Reserve Bank chairman Bernie Fraser, called for the obvious solution: break up the banks. End vertical integration, to remove the conflict of interest between serving customers and gouging profits.

The Glass-Steagall legislation introduced by Bob Katter will do that. The Banking System Reform (Separation of Banks) Bill 2018 will stop the big banks from owning any other financial services, including superannuation funds. Although it doesn't cover non-banks like AMP and IOOF, their conflict of interests with superannuation can be fixed by applying a Glass-Steagall rule to all super funds, that superannuation trustees (owners) cannot also be service providers. If trade unions and the Labor Party are genuine about defending industry funds—the only part of the flawed superannuation system that works, as far as it goes—they should support Bob Katter's Separation of Banks bill. This goes for all Australians. To end vertical integration and the financial looting it has enabled, demand your MPs debate the bill in Parliament, and vote for it.

## Get your MP to support the Bank Separation Bill

**1** **Write, email, phone or visit your federal MP** to tell them they must support the Banking System Reform (Separation of Banks) Bill 2018. Visit https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6136 to download copies of the bill and explanatory memorandum to send to them. Ask them to support a debate on the bill, so the government cannot block it from being debated, and then to vote for it.

**2** **Forward this release to Labor MPs and Senators** (lists available from the CEC's office), and to trade union members and offices, and challenge them to lead the fight to protect Australians from banking crimes and speculation through Glass-Steagall.