THE AUSTRALIAN

We may be angry at the banks, but we are also their shareholders

SPONSORED CONTENT THE AUSTRALIAN 12:00AM April 19, 2018

Since the banking royal commission kicked off its first round of public hearings in March, bank shareholders and stakeholders have heard seemingly nothing but bad news.

The revelations are unlikely to stop, says Professor Ed Lin, chairman in finance and head of the department of finance at Deakin University, meaning bank shareholders must expect a “drip-feed” of depressing news every day.

For aggrieved bank customers, there is some satisfaction at seeing the banks receive their comeuppance, but the irony is that the profitability of the banks supports many Australians’ investments.

“We don’t like the banks for the things they do, the high-pressure sales tactics to sell more stuff or outright fraud — and the royal commission is revealing more of this every day — but the fact is that most of us are also bank shareholders, directly or indirectly,” Lin says.

“A lot of Australians’ retirement funds are invested in the big four banks.

“If you look at the total market capitalisation of the stockmarket, the big four banks represent somewhere between 20 per cent and 25 per cent of the total.

“There is a great deal of superannuation investment flows into them, and for self-managed super funds, the big banks are major yield stocks. So, we are all shareholders in some way, and thus we reap the benefit of how profitable they are, and they pay out such a reliable dividend flow.

“It is a Catch-22. We don’t like the way they behave, but we enjoy the returns.”

He believes the outcome of the royal commission for the banks will be “more in terms of reputational damage than financial damage”, but there will be some of the latter.

“I expect to see added regulatory and compliance costs coming out of the royal commission, but that shouldn’t surprise the industry or bank shareholders. Even before the royal commission the government introduced the bank executive accountability regime (BEAR), which takes effect on 1 July for the big banks.”

(The BEAR regime, which mimics a similar scheme in Britain, would for the first time in Australia see a regulator have the power to directly fine a bank for misconduct, bringing it closer in line with the US and Britain.)

“Already there will be some additional compliance costs from BEAR — punishment, taking bonuses away, disqualification of people. So even before the royal commission, the industry was being forced to implement change. I’m sure the royal commission will make a series of recommendations, and the government and the banking regulator, the Australian Prudential Regulation Authority, will impose more regulation and regulatory cost. This will result in lower bank profits in the short run — it won’t be business-as-usual as they can’t continue with those dubious practices,” Lin says.

Another irony, he adds, is that because the major banks have poorer reputation, “it’s always hard for them to improve that perception”.

“Even before the royal commission, the banks had poor public perception, lower than other industries, from Roy Morgan Banking Surveys and we did our own study to examine if it is justified,” Lin says.

“The public perception of banks is always that they are making too much profit — billions of dollars without fail, every year — and the fees and charges seem to keep going up. The public also feels that banks’ CEO and executive remuneration is excessive.

“Obviously, having the royal commission to put a big spotlight on the bad behaviour of the big four banks, and the damage they have done in some areas, will make that even worse. But for good or wrong reasons, that perception has always been there, and it’s always hard for the banks to improve from that perspective,” Lin says.

The Catch-22 for the major banks, he says, is that any move they make to improve their reputation is treated with suspicion by customers.

“They have started trying to do concrete things to improve the way they are viewed. Recently they removed the $2 ATM fee for each other’s customers at their ATMs, and they are making noises about imposing some restrictions on bonuses. But the public doesn’t know if they’re doing that because they really want to do it, or because they are being forced to do it, in the spotlight of the royal commission.”

However, Lin believes that a “fundamental change of culture” must come to the banking sector, whether by force, or by choice.

“Fundamentally, one of the major systemic risks I see in the financial sector globally: it’s not just about banks being capitalised well enough or having enough liquid assets, or having too big a weighting to home loans, it’s about having this toxic culture of more sales at all cost, and ignoring the law.”

“Australia is not like the US, where you have thousands of banks. Here we have the big four, which have about 85 per cent of mortgage business. They dominate the number and spread of bank branches.

“They are supported by the country’s ‘four-pillars’ policy, which has been around since Peter Costello was Treasurer, and are too-big-to-fail.

“That’s why, ultimately, we expect them to show more social responsibility than other big firms,” Lin says.