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Submission to the legislation of Banking Executive Accountability Regime

As probably the only retail shareholder to submit to this legislation I believe my submission should be considered.

I am a retail shareholder in Bendigo and Adelaide Bank, Bank of Queensland, Suncorp, National Australia Bank, Westpac, ANZ and the Commonwealth Bank. Shareholders play an important role in the capitalisation of banks, in the last financial crisis shareholders capitalised the Australian banks without government being required to provide public capital, they have acted to provide capital to the banks more recently with many hybrid share offerings and recent capital raisings. The government cannot provide this capital without major public backlash, government can provide liquidity, as in the form of the RBA committed liquidity fund for a fee, but not solvency which is capital, capital is the lowest ranked, least secured bank funding and is fully at-risk, the public would not condone government funds being used to capitalise or re-capitalise the banks as we have seen in other parts of the world this leads to very extreme public recriminations. Capital represents the small last line of defence, the thin blue line of the banking system, it is this thin blue line that protects the banks from becoming insolvent and having to trade using liquidity only, which in the case of Australian banks and their offshore funding requirements would not see the kind of tolerance or stickiness of depositors or bond holders that might have been seen in countries with higher savings such as Europe and Japan, Australia ranks as a top Net International Investment Position NIIP debtor in the world. The banks in turn through loans directly support around 3 trillion dollars of economic wealth and investment and are the cornerstone of all wealth, investment and asset valuations in Australia at some 15 trillion plus. In turn the thin blue line of capital is only supported by the thinner line of profitability, being around 30 billion after tax in Australia, which is about a 1% Return On Assets, and represents about 4% of Australian government spending at 700 billion at all levels of government and about 2% of the size of the Australian economy at 1.5 trillion, which the banking system enables. Banks cannot generate funds through forced taxation they must be profitable.

Bank profitability is the only thing that attracts bank capital to Australia, the government cannot provide this capital in the constraints of unpopular public opinion and the capital cannot be gained organically if the profitability falls too far, in fact even all organic capital cannot be retained for operations because if no shareholders were returned any funds through dividends, then no external capital would be provided or available in times of need given the limited prospects for the future of banks as companies compared to for example tech companies. The ROE of ANZ and NAB is 10 and 9, the ROE of other Australian banks is below 10 ex Westpac (13) and CBA (15), Australia bank ROE is among the fastest falling in the world, the ROE of the US banking system that has had a financial crisis is 9 and improving, the ROE of Canada, much of Asia and China is above 10 as is Brazil and Sweden and Norway, so over 50% of the world's economy and therefore over 50% of the world's banking systems has comparable or better profitability than Australia which never endured a banking collapse or government re-capitalisation, data sourced from US Feds. None of these other mentioned jurisdictions have a bank balance sheet levy to support either. The Net Interest Margin in Australia is middle of the pack by world standards. The Australian banks and their New Zealand subsidiaries are the most efficient banks in the world. The profitability of the Australian banks and their ROE is around half the ROE of the S&P 500 ex financials being 19 (source Goldman Sachs) as at 2015, this is very relevant as the S&P 500 represents half the world's invested money in shareholder funds or capital which is what shareholders provide and the Australian banks and our country compete to attract and hold. Return on Assets of Australian banks is lower than or equivalent to the United States, Canada, Brazil, China and much of Asia and Norway, therefore 50% of the world's banks and economy have higher returns for every dollar lent out than Australia, data sourced from US Feds. The profitability of Australian banks is currently among the fastest falling in the world. In fact the only major jurisdictions where profitability is lower than Australia seem to be Europe and Japan which are also the only jurisdictions to have negative interest rates and the causes of this and the rates themselves have combined to result in this lack of profitability, it is not because those jurisdictions banks are giving customers better deals or operating more efficiently, Australian banks and their New Zealand subsidiaries are the most efficient in the world, rather savers are being punished in those jurisdictions not just banks for the previous debt disasters caused by a lack of banks being able to set a proper price for credit and government stopping the calling in of bad debts, even the Japanese Cabinet Office concluded this as a major cause for economic stagnation "the situation in which banks are saddled with a large amount of non-performing loans that do not decrease and remain at a high level for a long period, is causing the prolonged stagnation of the Japanese economy" http://www5.cao.go.jp/zenbun/wp-e/wp-je01/wp-je01-00202.html.

Executives of banks currently work under the ownership of a duty to shareholders, these new regulations must give a say to shareholders not just government regulators and politicians and the public, it is not reasonable and will not be economically viable for our banking system to simply base these laws on the will of those who do not and refuse to support the solvency and capitalisation of our banking system, this would not be a fair system it would be a system where those unwilling to contribute and put their money at risk in the lowest rated, least secure and most important bank funds i.e. those unwilling to provide bank capital, have all the say. These laws have no mention of shareholders and give them no say, in fact they seem to be all about disempowering shareholders, nor has any review been sought in that regard, it is easy to dismiss shareholders and make the rest of the public rank ahead of them, but the public and the government will not provide the solvency and capitalisation to the banking system, the grossly and inexperienced mistaken belief that liquidity is the same as capitalisation and solvency is what seems to be driving the current public and political thinking and it would seem these laws. Even liquidity is questionable in this country being a major NIIP debtor if profitability of the banking system was lost as foreign bond holders may exit.

A major review and rethink needs to be conducted with shareholder groups and shareholders at the heart of the laws or we will see an insolvent banking system in need of capital that will not be approved of by the public within a matter of a decade or two, while many who will have caused this problem in the current political and government group will have ended their careers and moved on, this will be yet another financial problem for future generations in the mounting financial problems the current political groups are leaving for them. Customers must pay for what they consume and debt must be repaid with a profitable margin of interest, no political popular fairy tale will change this requirement of a solvent and functioning banking system, an insolvent banking system has been all too common in the world and caused all too often by public and political short-term popularity and short-term thinking on the part of the popular politicians and the public both of whom do not support the solvency of the banking system through putting their money at risk as the lowest rated and least secure and most import form of bank funds, the thin blue line of shareholder capital, these laws need to have this as the heart of their consideration for the economic stability of the country through shareholder empowerment to keep shareholders and capital in the banking system and keep it solvent or Australia will have scored the all too common own goal of a banking system made insolvent by politicians and the public destroying their own banks by not allowing them a small amount of profitability in comparison to what they provide to the country at 2% of the economy and 4% of government spending. Finally, parties to this legislation should not be misleading the public, government cannot run a solvent banking system, Australian and world experience has shown that when government insists on controlling bank interest rates and profitability at the same time as insisting that they provide ever expanding amounts of credit and services at lower and lower margins without calling in bad debts, then banks become insolvent and politicians destroy economies. Shareholders, not customers must be put at the heart of these laws to avoid a future insolvent banking system incapable of attracting shareholder support and capital.

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