

Big four bank chairmen back inquiry to end 'political uncertainty'



by [Phillip Coorey](#) [James Eyers](#) • Nov 30 2017 at 8:47 AM Updated Nov 30 2017 at 3:26 PM

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The federal government and the banks have caved in to political pressure and agreed on a royal commission into the industry.

In a backdown forced by a backbench revolt, Prime Minister Malcolm Turnbull and Treasurer Scott Morrison have announced a royal commission was needed - not because there was anything wrong with the banks, but because the ongoing clamour for an inquiry was harming both the sector and the economy more broadly.

The commission will cost taxpayers \$75 million. The government immediately released draft terms of reference, confirming it had been discussing with the banks the option since the Nationals revolt brewed a fortnight ago.

"Only the government can ensure that a royal commission is created, established with respected and capable commissioners," Mr Turnbull said.

30 November 2017

The Hon. Scott Morrison, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Via Email

Dear Treasurer

We are writing to you as the leaders of Australia's major banks. In light of the latest wave of speculation about a parliamentary commission of inquiry into the banking and finance sector, we believe it is now imperative for the Australian Government to act decisively to deliver certainty to Australia's financial services sector, our customers and the community.

Our banks have consistently argued the view that further inquiries into the sector, including a Royal Commission, are unwarranted. They are costly and unnecessary distractions at a time when the finance sector faces significant challenges and disruption from technology and growing global macroeconomic uncertainty.

However, it is now in the national interest for the political uncertainty to end. It is hurting confidence in our financial services system, including in offshore markets, and has diminished trust and respect for our sector and people. It also risks undermining the critical perception that our banks are unquestionably strong.

As you know our banks have acknowledged that we have not always got it right, and have made mistakes. Together with the Government and regulators, since 2014 we have been taking action to fix issues, and improve what we do and how we do it. We have collectively appeared before, or taken part in 51 substantial reviews, investigations and inquiries since

A letter by bank bosses has been sent to Treasurer Scott Morrison.

"This will not be an open-ended commission, it will not put capitalism on trial, as some people in the Parliament prefer, and we'll give it a reporting date of 12 months."

Mr Morrison said: "The nature of political events means the national economic interest is now served by taking what I describe as a regrettable but necessary action."

"Politics is doing damage to our banking and financial system, and we are taking control as a government to protect the strength of our banking system through a properly constituted inquiry on these terms of reference, rather than the alternatives present in other commission of inquiry proposals, subject to the vagaries of politics that would do harm and already has to date."

He said the governor of the Reserve Bank and the chairman of the Australian Prudential Regulation Authority had advised him of the damage being caused by the speculation.

The surrender was confirmation the government was unable to stop a [parliamentary commission of inquiry](#) being driven by rebel Nationals MP Barry O'Sullivan and backed by Labor, the Greens, NXT, One Nation and independents.

The push, first revealed by *The Australian Financial Review*, had the numbers to pass both houses and Senator O'Sullivan had urged the government to take over the process or his inquiry would go ahead.

"People are recognising that the nature of the political environment has created a sense of inevitability about an inquiry," Mr Turnbull said.

Nationals MP George Christensen who was going to cross the floor to support Senator O'Sullivan's bill said it was "a great outcome" but "I just don't understand why it took, you know, a number of National Party backbenchers to drag the prime minister kicking and screaming to this decision'.

Westpac CEO Brian Hartzer said it and the other banks accept the decision to call the royal commission.

"While Westpac has consistently argued and continues to believe that a royal commission is not necessary, in the current circumstances it is now more important that the financial sector can continue to operate effectively and with certainty," he said.

"As a result, we have concluded that it is in the sector's and Australia's interests that a properly constituted royal commission is established to finally end the political distractions."

Labor and the Greens had been pushing for a royal commission for years and both claimed vindication.

Labor leader Bill Shorten, who said last week a commission was a matter of when, not if, after the Nationals revolted, said Mr Turnbull should have acted from the start.

"If Mr Turnbull had have listened to Labor, we would've had a Royal Commission and it would have been done by now, with its recommendations being implemented,' he said.

Mr Turnbull repeated the government had already taken many measures to address bank behaviour but they had failed to head off demands for an inquiry, which he said were largely political.

"The speculation about an inquiry cannot go on. It's moving into dangerous territory where some of the proposals being put forward have the potential, seriously, to damage some of our most important institutions," Mr Turnbull said.

"We have got to stop the banks and our financial services sector being used as a political football.

"It may be politically advantageous for some people to do so. But it runs the risk of putting vital economic interests at stake and runs the risk of putting them under threat.

"The potential for such an inquiry is starting to undermine confidence in our financial system. And as a result, the national economy. And that is precisely what we have always been determined to avoid.

"We need to put Australian jobs, Australians's prosperity, Australian businesses first. And that requires a strong financial sector and it requires confidence in that sector."

'Banks are unquestionably strong'

Mr Morrison [sought to assure the markets](#) that the response was more about politics than the banks.

"Australia's banks are unquestionably strong, nothing that we have announced today changes this or gives any reason to question this, on the part of the government," he said.

"This is an important message for markets and the international financial community, it does not question the robust nature of our prudential system."

After talks all week with the government, the chairmen of the big four banks wrote to Mr Morrison on Thursday morning asking for an inquiry into the financial services sector in order to end the political uncertainty and restore public trust, which is being damaged as bank culture is dragged through the mud.

"We now ask you and your government to act to ensure a properly constituted inquiry into the financial services sector is established to put an end to the uncertainty and restore trust, respect and confidence," said the letter signed by the eight most senior leaders of the banking sector.

Bank chairmen back inquiry

[The letter from the bank chairmen](#) was released by each bank to the ASX before the market opened on Thursday morning.

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The banks want a "properly constituted inquiry" led by an eminent former judge and contain terms of reference "thoughtfully drafted and free of political influence".

It should replace other ongoing inquiries and have regard to all recent reviews of the banks. It should include banking, insurance, superannuation and non-bank finance providers, the banks said.

The banks have also asked the inquiry "reports back in a timely manner so that we can have certainty about the findings and move forward to implement any recommendations".

The CEOs and chairmen acknowledged in the letter the banks "have not always got it right, and have made mistakes".

These have been examined in 51 substantial reviews, investigations and inquiries since the financial crisis, of which 12 are ongoing.

"We continue to demonstrate our commitment to doing the right thing by our customers and seeking to ensure those genuinely affected by these mistakes are appropriately compensated," the letter said.

The banks also said: "A strong, well-regulated and well-governed banking system is in the interests of all Australians and is critical to job creation and fairness.

"The strong credentials of the banking system ensured Australians were spared the worst of the global financial crisis, and have been fundamental to the ongoing performance of our economy despite global and domestic political turmoil."

The letter said the banks believed a royal commission would be a "costly and unnecessary distractions at a time when the finance sector faces significant challenges and disruption from technology and growing global macroeconomic uncertainty".

The letter was signed by ANZ Banking Group's chairman David Gonski and CEO Shayne Elliott; Commonwealth Bank chairman Catherine Livingstone and CEO Ian Narev; National Australia Bank chairman Ken Henry and CEO Andrew Thorburn; and Westpac Banking Corp chairman Lindsay Maxsted and CEO Brian Hartzler.

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