

19<sup>th</sup> March 2004

Study of Financial System Guarantees  
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### **Study of Financial System Guarantees**

I apologise for the brevity and lateness of this submission on such an important issue.

If a bank or any other deposit-taking institution (referred to collectively as ADIs in Australia) is about to fail, neither the ADI nor the regulator will give advanced notice to depositors so they can withdraw their deposits. Consequently depositors have to make their own value judgment based upon rumour rather than fact, and as we saw with the R & I Bank of Western Australia in 1992, this resulted in a bank run.

The issue is that, as depositors, we do not have the facts. This is because:

1. Only shareholders are provided with financial statements, and increasingly they are being provided with abridged financial statements without all the detail contained in the "Notes to the Accounts". Those depositors who are not shareholders receive none of this information.

Now that BankWest is a wholly owned subsidiary of HBOS in the UK, they no longer publish financial statements on their web site. Depositors have no information to separate the performance of BankWest within the HBOS Group.

2. APRA's web site is deficient in the information it provides. Shortly after taking over bank supervision from the RBA, they heavily reduced the amount of statistical information they provided on their web site and through their quarterly publication, *Insight*. This appears to have been to placate the banks and to minimise costs to the fledgling regulator. For example, there is now no way to compare the content of an individual bank's financial statements with national summaries as these are either no longer published by the regulator (eg loan portfolio structures); or regulatory definitions are Australian dollar only and make reconciliation with individual bank's financial statements impossible because they are necessarily global positions.

Worse. Their web site is appallingly maintained. The most glaring omission being that only 2 issues of the quarterly *Insight* were published on the web site in 2002 and only 3 last year. Can you also imagine a regulator in any other western country explaining away why they have ceased collecting and publishing Banking Statistics in March 2002 with the following statement:

"We recognise the value of providing similar statistics in the future, but due to competing priorities and pressure on resources, a publication date has not been confirmed".

This is amateurish and does not engender confidence in APRA providing data that is likely to enlighten our knowledge about banks and other ADIs in Australia.

3. The wealth of information provided by industry analysts is directed to shareholders and is based upon a risk-return mantra. Most bank depositors get

less than 1% interest on the normal day-to-day accounts which is less than inflation and hardly a return that compensates for the risk of loss due to failure of the financial institution. Sure, they have a guarantee on the principle in their deposits from the bank, unlike shareholders who can make a capital loss, but how good is this guarantee if the institution fails? At best, it could be days or weeks after a bank failure before depositors can get their principle back. What about interest?

Under the deposit protection scheme in the USA, the Federal Deposit Insurance Corporation (FDIC) mails depositors a cheque for the balance of their account plus interest in less than a week whenever a bank fails and a suitor is unavailable to take over the bank.

Depositors with ADIs in Australia are therefore solely reliant upon the effectiveness of the regulator, APRA. To be honest, its reputation has been tarnished in recent years.

Public confidence is critical to the survival of each bank and ADI. The \$19m stolen in Karatha in WA and the \$360m foreign currency options losses at the NAB may well have undermined the confidence of the public in such banks. However my daughter's experiences at the Commonwealth Bank indicate the frailty upon which this confidence rests is being undermined by staff cut backs in the name of efficiency. Branch staff are taking short cuts in security issues just to get through the day. Examples she has quoted to me include supervisors leaving their security over-ride keys in machines because they are tied up with other problems or simply need to go to lunch; and deposits involving large amounts of cash being accepted from clients uncounted, on the proviso it will be counted later. This is just encouraging staff to take advantage of the customers absence and claim falsely errors in these deposits. I was an internal auditor for the Commonwealth Bank in the 1970s and we saw the same practices then which led to staff theft. Today, the thefts seem to be larger than in my day.

What really worries me is that the bank's administration would not condone these security short cuts. When they find out about them they will act swiftly and decisively. However the branch staff and their immediate supervisors and those above them are aware of these breaches, but see them as the only way to maintain customer service levels. To be honest, the bank's administrators and Board probably have little idea how the branch staff must cope with the demands placed upon less and less staff. Doesn't this sound just a bit like the head in the sand attitude of some of the NAB staff who condoned the activities going on under their noses in the foreign currency dealing rooms?

As a Lecturer in Banking at Curtin University in Western Australia, I probably take a closer look at banks in Australia than most depositor, but even I cannot really ascertain which bank is the safest for my money. It is essential that we have a strong and robust regulatory system and I'm ashamed to say APRA is not. Their own internal inquiry into its supervision of the HIH Group in 2001 identified many supervisory deficiencies including that their supervision took a collegial approach based upon the belief that supervised bodies would be well managed and controlled. That is, they are one of us and we wouldn't do anything wrong, so neither would they.

In the absence of this strong regulator and a dearth of information for depositors, I believe Australia now needs a deposit guarantee for its bank deposits.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Oborn', written on a light-colored background.

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