



# The Art of Banking, Aust Style

*Stephen Mayne on the cartel that's unlike any other cartel in a country of cartels*

Graham Hand is the only banker who has publicly blown the whistle on what is a ruthless, government-approved cartel. His 2000 book, *Naked Among Cannibals*, introduces concepts such as "entanglement" and "mating calls." The former refers to the practice of making banks so complex and laborious that customers can't be bothered to complain even if they're furious with the service that's being provided. Mating calls are where one bank blazes the trail on a new fee or cost saving, and the others follow suit. There is no collusion or secret meetings, just an undetectable understanding.

Exactly how far do Australia's banks have to go in ripping off the public before regulatory and political action is taken? Based on the government's silence over the latest range of fee increases introduced by the Commonwealth Bank, it seems that Australia's most complained-about industry can keep on gouging its customers with gay abandon. The cartel of listed and licensed Australian banks is now worth more than \$200 billion and comprises about 30% of our stockmarket value. This is an unprecedented level in any developed market economy.

It's just amazing to think that organisations which are privileged to hold government licences and obligated to pass money through the community can rip off everyone so much that they now dominate our economy. The Howard Government, especially Treasurer Peter Costello, has inexplicably refused to do anything serious about this. Is he mates with the Big Four CEOs, who on average are about \$25 million in front on their \$100 million worth of options?

The banks have hired close to a dozen former Howard Government staffers since 1996 and it certainly helps when someone like ANZ chairman Charles Goode is a major Liberal Party fundraiser. And buying influence with regulators and commentators is something that any cartel knows is important. This explains why the banks were prepared to pay 2UE shock jock John Laws \$1.5 million in the now notorious

1999 cash for comment deal. But banks are also good at directly buying political influence and collectively they have donated almost \$20 million to the major political parties since 1991.

The Big Four have generated so much profit and excess capital that they have been able to spend a lazy \$15 billion-plus over the past decade buying back their own shares. Take Westpac. Its market capitalisation fell to a low of just \$4.5 billion in November 1992 when the stock hit \$2.39 after a shock \$1.6 billion loss and amid fears a desperate \$1 billion equity raising would fail. Since then, Westpac has had no fewer than 12 different share buybacks – the latest being a \$500 million offer which closes next month. Excluding the current offer, Westpac has bought back 578.9 million shares for \$6 billion – equivalent to \$10.36 a share. However, with the stock now at \$19.15, these shares are actually worth \$11.1 billion, so it has been a great investment for those Westpac shareholders who decided not to sell.

How does a business that was worth \$4.5 billion in 1992, recover to be worth \$34.4 billion in 2005 – AFTER it has spent \$6 billion buying back its own stock and also paid out about \$10 billion in cash dividends to shareholders over the full 13-year period since it almost went belly up?

These are staggering numbers, and the only explanation is that Westpac is a fully paid up member of a voracious cartel that has gouged its customers mercilessly whilst slashing costs, closing branches and sacking more than 5,000 staff. It has simultaneously ridden a housing bubble, debt-funded consumer binge and booming economy.

Benign regulators and politicians have completed what has been the most perfect of perfect storms for any industry in Australian history. And

there's no sign of anyone stepping in on behalf of all Australian bank consumers and declaring: "ENOUGH!" For this, Allan Fels, Graeme Samuel, Peter Costello and Ian Macfarlane should be condemned. They have failed us all.

