

Mr Richard Gloyne

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### **Senate Standing Committees on Economics**

#### **Submission for the Banking System Reform (Separation of Banks) Bill 2019**

I am a self employed Land Drainage Contractor based in North Queensland, married with two adult children. I present this submission because of my disillusionment with the current Banking System. In over 35 years in business I have witnessed a steady decline in bank services to the rural sector and what I believe is an overly focussed investment in city based residential lending.

I started my business with the only lender available to me; The Commonwealth Development Bank. Since its demise, rural lending has been hampered by the "Big Four's" attitude to the inherent risk of investment outside the major cities postcodes. They see youthful enthusiasm, low equity and seasonal variability all too hard to deal with.

Their preference appears to be the housing market, credit cards, personal debt and city real estate. This focus is not inherently bad. Misguided perhaps when viewed from the bush perspective but their prerogative none the less. What concerns me is the use of derivatives to lay off the risk of any of the aforementioned investment areas. The use of these instruments has gone beyond risk management to outright speculation and gambling.

A simple observation of basic economics will reveal that if housing prices continue to fall, people's equity will fall as well. As the debt is fixed, borrowers with questionable equity positions in the first place will soon find themselves in positions of negative equity. This has enormous ramifications for the banks. They will suddenly find themselves with a near worthless debt book and when the "bookmaker" (overseas banks) calls in the derivative debt, they will be insolvent.

The banks may be sitting smugly behind the ability of APRA to intervene in the event of a financial collapse to salvage their business. The Government has not nearly enough reserves to rescue the banks when one includes their exposure to derivatives. APRA also has the power to approve a "bail in" where private citizens deposits can be confiscated to prop up the bank.

## Conclusion

The Glass-Steagall Act of 1932 ensured that Investment Banking and Commercial Banking were separated after the stock market crash of 1929.

The Banking System Reform (Separation of Banks) Bill 2019 is a modern day reform that is urgently needed now.

This will ensure that citizen's deposits are protected from speculative activities of the Banks.

This will enable Commercial Banks to focus on investments in small business, industry and farming, which creates wealth for the country without risk to the economy.

The deposits of individual citizens of this country are not a financial instrument for anybody other than the depositor.

I trust that the members of this Committee will see with great clarity the need to move this great country forward so it can realise its enormous potential. This can only be done with a system of commerce where borrowers and lenders operate in an open and trustworthy relationship.

The endorsement of the Banking System Reform (Separation of Banks) Bill 2019 is an essential first step.