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FINANCIAL REVIEW

The right way to handle the banks

Corporate watchdog Greg Medcraft has wasted no time this year telling the banks he has unfinished business with them before his term as chairman of the Australian Securities and Investments Commission finishes in November. A legal claim against Westpac, ANZ and NAB over alleged rigging of the bank bill swap rate is to be heard in court, and he told *The Australian Financial Review* yesterday he is troubled by the list of issues in insurance services and lending that came up during 2016.

But for an industry that is already heavily supervised and regulated, and which is probed into often and at length, much of the call for more bank scrutiny has been at the level of political stunt. Labor's push for a royal commission into the banks was a centrepiece of its populist business-bashing election campaign. Sound banks got Australia through the GFC, and their reputations are not to be trifled with by grandstanding politicians when more global storms cannot be discounted. In an era when the biggest names in world banking have wobbled, then years of healthy profits and solid returns for shareholders – Australia's superannuation savers most of all – are to be prized rather than demonised. The first instalment of a now annual quizzing of

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bank chiefs by the House of Representatives economics committee in October simply showed what a bad idea a royal commission would have been.

Mr Medcraft nevertheless still thinks that the bank problem is more than one of a few proverbial bad apples; there is rot in the body of the tree, too. Specifically, there are sub-cultures among bank staffs, he says, who resist the efforts of bank bosses and boards to change and improve behaviour in the banks.

He is right to pick that as an area of concern, though it is hard to generalise across a financial services sector that employs 450,000 people. Big banks are not the only organisations where trying to get the muscles to follow the brain is tough. But that just underscores the importance of their internal leadership. It would hardly be surprising if lower-level staff in a financial institution believed that making their numbers, indeed beating them, was the natural course to follow. That's why they are successful. But it is then up to bank chiefs themselves to demonstrate by message and deed what the balance between profit, competitiveness, and ethical behaviour is. There must be no gaps between what bank chiefs say and what banks do: if staff do think that the numbers really are all that matter behind lip service to ethics, then there will be cynicism and failure. That includes attention to incentive schemes, and providing channels for listening – including to whistleblowers.

There really is no substitute for leadership in this. Not in an box-ticking army of compliance officers, as Mr Medcraft acknowledges. And certainly not in Orwellian attempts to enforce culture by law or punish cultural failings.

By all means keep the banks under intense scrutiny. But they will improve, where they need to, from the inside out, not from the outside in.

Age-old cynicism

It is a microcosm of why politics is in global disrepute. Labor opposes the the winding back of taxpayer-funded pensions for the wealthy, in a way utterly at odds with its own values. The reason: it offers a chance to wedge the government with a key group of its supporters – older voters.

The reality is that more than 300,000 well-off pensioners will lose some or all of a safety net pension payment that was never intended for them. But the unions have cranked up the robo-call campaign to make all pensioners fear they are under attack.

It's the kind of cynical partisanship that in the US has made voters look away to radical alternatives – and not good ones. It is hardly the kind of slippery slope we want to get onto.

From the Gallery

Peter Nicholson



Time to cash out of paper money

Money
Dosh, lolly, readies, moolah. There is no need for cash any more, and only criminals and tax dodgers should mind.



Richard Holden

At a time of year when many of us spend more than we probably should, using a variety of mediums, it is a good time to talk about money. Or more specifically, cash.

It has become much easier over recent years to get around without physical cash – banknotes and coins.

Australia has been a world leader in the adoption of "chip-card" technology, allowing a quick tap of a credit or debit card to pay at most retail outlets. Public transport tickets, parking meters, roads tolls, and more can all be easily paid for without cash.

In fact, over the past six years the amount of cash used by Australians has fallen by roughly one-third.

And doing without cash is about to get even easier in 2017. Thanks to a good amount of prodding by the Reserve Bank, something called the New Payments Platform (NPP) is due to be introduced in the second half of next year.

The NPP will mean that money can be transferred to another person, or business, without BSBs and account numbers, and long processing delays. Armed with a mobile phone number or email address, any amount of money – from a handful of dollars to several million – can be transferred securely and instantaneously, 24/7.

Given this, it is natural to wonder whether we couldn't do away with cash altogether.

The benefits of a cashless Australia would be significant – and go well beyond not having to stand in line behind someone counting out 10c coins to pay for coffee (although one shouldn't underestimate how frustrating some of us find that).

The tax revenue loss due to the cash economy is large. In 2012 the Australia Institute estimated that loss to be at least \$3.3 billion dollars.

Alternatively, just consider the \$70 billion in banknotes outstanding at any given time, how many times this turns over a year, and assume that, say, 10 per cent of those transactions are evading GST and other taxes. That quickly gets you north of \$5 billion in extra revenue.

It's clearly hard to say exactly how much revenue would be raised from eliminating the cash economy.

But, as they say, a few billion dollars here, a few billion there, and pretty soon you're talking about real money.

Then there is the indirect effect of people receiving government benefits while earning cash-off-the-books that would put

them over the relevant income threshold. There is anecdotal evidence that this is a significant issue, but little hard evidence. And that is entirely the point: we don't know what we don't know about how much revenue leakage there is.

Just as the GST delivered much more revenue than was estimated when it was introduced, so might conversion to a cashless economy.

Another important factor is crime. According to the RBA, \$32.8 billion of the \$70.2 billion of banknotes in circulation at the end of June 2016 were in \$100 bills. When did you last see a C-note outside of a casino or foreign exchange window?

All around the world, large bills like these are the lubricant of the drug trade and large-scale tax avoidance. That is why India has recently abolished its largest denomination bills, the eurozone looks likely to follow, and why Harvard professor and former IMF chief economist Ken Rogoff has argued for the gradual elimination of cash, starting with large bills, in his recent book *The Curse of Cash*.

Given our payments system, the introduction of the NPP, and mobile phone penetration, Australia is perfectly positioned to carefully but deliberately phase out cash.

Starting with \$100 and \$50 bills and the moving to smaller denominations would be a sensible and practical approach.

Of course, we would need to be mindful of the potential impact on older Australians, some of whom are less adept with technology.

But provision of electronic benefits cards and perhaps even subsidised mobile devices could easily take care of these concerns.

Indeed, removing the need to get cash from an ATM in the first place would be a real benefit to such persons in terms of security and convenience.

Not all that long ago the idea of a cashless society sounded like science fiction. There used to be a legitimate argument that such a move would hinder commerce. Thanks to advancements in technology, all that would be hindered now are under-the-table tax dodges and criminal enterprises. Those are plainly indefensible.

By 2020 Australia could be cash free, with a material reduction in the budget deficit, and probably organised crime, as dividends. What's not to like?

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