

12 January 2017

Dr. Pat McConnell
Honorary Fellow, Macquarie University Applied Finance Centre
Macquarie University
Balaclava Road,
North Ryde NSW 2109

Dear Mr. McConnell

The Writer has assembled software files (in a structured file index) of a welter of evidence of:

- * **Reserve Bank's stringent regulation of the banks prior to the 1980s**
- * **Reserve Bank's Payment Systems Board's '*extensive powers*' to request any financial information from the banks**
- * **annual financial reporting for last 26 years by the Fed. Reserve to the U.S. Congress on 'Profitability of Credit Card Operations of large U.S. Credit Card banks'**
- * **a pie chart for 'Costs' and a pie chart for 'Revenues' of U.S. MasterCard and Visa Credit Card Issuers that display:**
 - **interest and late payment fees exceed 80% of 'Revenues'; and**
 - **annual fees account for less than 2% of 'Revenues'**
- * **Unconscionable Conduct (misleading and deceptive conduct, predatory advertising) by some 'Credit Card Issuers'**

Motivated by the belief that credit card products should follow the '*User Pays Principle*' so that all credit cardholders pay the cost of their line/s of credit, the Writer has prepared:

1. **'Ten Written Questions (re credit card products) for the Shadow Minister for Revenue and Financial Services to submit to the Minister for Revenue and Financial Services, Ms Kelly O'Dwyer, during Question Time in the Lower House of Federal Parliament'**
2. **comprehensive 'Grounds/Reasons for why the Shadow Minister for Revenue and Financial Services should submit Written Questions (re credit card products) to the Minister for Revenue and Financial Services, Ms Kelly O'Dwyer, during Question Time in the Lower House of Federal Parliament' - contains many graphs and tables**

I sourced your name at the bottom of a SMH article dated 31st May 2016 by Andrew Schmulow titled "[Fancy dress financial regulators ASIC and APRA must go](#)". It contains a video of an impassioned appeal by Adele Ferguson for a royal commission into the financial services sector, greater protection for whistleblowers and a renewed commitment to press freedom in Australia. I donate to the SMH and the Australian Guardian because Australia's culture of investigative journalism is exceedingly valuable to 99% of Australians. Some independent senators, including Nick Xenophon and Derryn Hinch, support the Labor Opposition's requests for a royal commission into the Australian banking sector.

I note from a footnote to an article you wrote for *The Drum* in Nov 2011, that you teach "*.... postgraduate courses in risk management, with an emphasis on banking regulation*" - emphasis on administrative law – hopefully re RBA, ASIC, APRA and ACCC.

The Federal Labor Party has been '*banging on*' for a royal commission into the banks - [webpage Royal Commission into the Banking and Financial ...](#) - Bill Shorten.

I disagree with Bill Shorten:

- It would take a royal commission several years to investigate the performance across an abundance of products for all the ADIs in the Australian banking sector.
- The Labor Opposition needs to identify which areas of banking are unconscionable, not limited to, -
 - * misleading and deceptive conduct, predatory advertising '*et al*';
 - * excessive remuneration increases by the boards/CEOs of the '*Four Pillars*' that enjoy Oligopoly advantages/benefits;
 - * *Four Pillars* hold up to \$1,000 billion in transaction deposit accounts:
 - No interest of material consequence is paid to depositors (2 *Pillars* pay no interest, 2 others pay 0.1% pa interest) and charge an account keeping fee eg. \$5 p/m
 - Invested by the *Four Pillars* returning market-rate revenue.

I studied part-time at Macq Uni for 10 years attaining a B.A. in Eco (1977) and Masters in Applied Finance (2001) - Student No. 69251916.

I worked for CBA for 37 years, retiring in 2007. I evidenced a lot of change in CBA and across the banking sector - some good and some bad.

I worked in various CBA H.O. departments from 1974 'til 2007. For my initial four years from 1970, I worked at four north shore branches. When assisting customers at the 'enquiry counter', the mindset was to always direct the customer to the product that best suited that customer. Now the mindset at bank branches is often to sell a product that has concealed '*Spiders*'.

The same rapacious mindset applies with advertising for mobile phone plans, insurance contracts and energy plans. There has never been a greater need for courageous regulators to protect Australians with only Level 1 and Level 2 'Numeracy', 'Literacy' and 'Prose' skills which constitute over 40% (9.3 million) of the Australian population of 23.13 million.

My final position at CBA prior to retirement was in Social and Corporate Infrastructure. Attached is a photocopy of some of my former CBA business cards. In retirement, when not playing golf, cycling or ocean swimming, I have assembled a welter of evidence that I believe establish that some/all of Australia's three Financial Services regulators have abrogated some of their statutory obligations with regard to the advertising and pricing (interest rates/fees) of credit cards.

The Campbell Committee report's recommendations were implemented (*circa* 1980s). Prior to that Australian banks had been highly regulated - dating back to the failure of banks in the 19th century. The particulars of deregulation are well covered by:

- * Dr. Diana Beal "**Overview of Financial Services Post-Deregulation**" - 2002; and
- * Battellino and McMillan "**CHANGES IN THE BEHAVIOUR OF BANKS AND THEIR IMPLICATIONS FOR FINANCIAL AGGREGATES**" - July 1989.

Prior to 1985 the maximum interest rate that could be charged on credit cards had been set at 18% pa by the Reserve Bank of Australia.

Until the mid-80s the Reserve Bank regulated the Australian banks with '*an iron fist*'. In the 1970s, the NBFIs started attracting large depositors' balances away from the banks due to NBFIs not being capped at 3¾% on savings accounts and 6½% on savings investment accounts. The initial reaction by the Reserve Bank and other regulators was to impose (upon the NBFIs) the same interest rate caps regulated upon the banks.

The '*User Pays Principle*' of paying the market price for a 'good' or 'service' applies in all sectors of any open market economy, even in the banking sector (eg. housing loan, personal loan, corporate loan, syndicated infrastructure loan, overdraft, buying a bank cheque, issuing a personal cheque, buying a money box etc.). But not Credit Cards where '*Persistent Revolvers*' (who hold

12.5% of the 16 million 'Credit Cards' in Australia) pay for the revolving lines of credit enjoyed by 70% of 'Credit Cardholders' known as *Transactors*.

I have expended over a hundred hours -

- (i) of downloading about 50 PDFs of 'Submissions', 'Reviews', 'Reports', 'Staff Working Papers' and 'Enquiries into Credit Cards', then in Adobe use 'Copy File to Clipboard' and then saving the contents in readily accessible htm files. Then I read and colour background key text, graphs etc; and
- (ii) summarizing those htm files in the attached 'Defined Terms' with a directory of all files, so I can readily search key words and then reference them.

Also attached are the 21 Chapter headings/titles copied from my htm file titled '**Grounds/Reasons for the Shadow Minister for Revenue and Financial Services to submit Written Questions (re credit card products) to the Minister for Revenue and Financial Services, Ms Kelly O'Dwyer, during Question Time in the Lower House of Federal Parliament**'.

My Ten Written Question for 'Question Time' in The House Of Representatives are pursuant to Parliamentary website "[Infosheet 1 - Questions](#)" - attached. I propose that my Ten Written Questions would be submitted by the Federal Shadow Minister for Revenue and Financial Services for response by the Federal Minister for Revenue and Financial Services. I have not approached the Labor Opposition party yet. A few former CBA colleagues and a mate who held a senior position at ANZ have reviewed some of my work on this matter.

In order for the Federal Labor Opposition to better understand my Grounds/Reasons for my Ten Written Questions and that my Ten Written Questions are robust, would you accept (from me) a CD that contains the following documents which contain a plethora of 'Defined Terms' and embedded links to documents, reports, submissions etc that I rely upon:

- '**Grounds/Reasons for the Shadow Minister for Revenue and Financial Services to submit Written Questions (re credit card products) to the Minister for Revenue and Financial Services, Ms Kelly O'Dwyer, during Question Time in the Lower House of Federal Parliament**'
- '**Ten Written Questions (re credit card products) for the Shadow Minister for Revenue and Financial Services to submit to the Minister for Revenue and Financial Services, Ms Kelly O'Dwyer during Question Time in the Lower House of Federal Parliament**'

My CD will auto open (in a Windows operating system) at my follow-up letter to you and would reference/open this letter. If you use a MAC computer, I can provide to you the root address to access my letter to you and the above two documents. (I could provide my files to you on a USB stick hard drive. However, there is no integrity of the files therein, whereas there is in a burnt CD.)

Should you agree to my above invitation to review my above described work, I will assuredly recognise in writing to all interested parties any contribution that you decide to make.

NB: In my 47 years since voting age, I have voted for the Liberal Coalition as much as I have voted for the Labor Party. John Howard is the most adept politician I have observed, followed by Keating, Hawke, Malcolm Fraser (post political office), Xenophon and Combet.

Yours sincerely



Phil Johnston