

St. George riles up the dragon

By Robert Barwick

The mention of the near-collapse of St. George bank in 2008 suddenly turned a meek and contrite National Australia Bank CEO Andrew Thorburn into a fire-breathing dragon before the House Economics Committee on 19 October. The extraordinary incident demonstrated the extreme sensitivity relating to any contradiction of the narrative that Australia's banks were "sound" during the 2008 crisis. It also showed that, despite the revelations from the banking royal commission, bankers aren't as contrite as they pretend, and politicians aren't willing to be as tough on the banks as they'd like the public to think they are.

The House of Representatives Economics Committee conducted a public grilling of bank executives in response to the Interim Report of the banking royal commission. In his 12 October appearance, Westpac CEO Brian Hartzler had dropped the bombshell that St. George bank would have gone under if Westpac hadn't taken it over in 2008. This was an inadvertent "you can't handle the truth" moment, provoked by Liberal MP Jason Falinski, one of the younger generation of neoliberal true believers in free markets, competition and banks. Falinski had questioned whether the then-Rudd government should have allowed Westpac's takeover of St. George on competition grounds. Defensively, Hartzler blurted out: "St. George would have failed in the GFC if it had not been taken over. That's a simple fact."

It was also a simple shock, especially to Mr Falinski, who like almost every other MP in Parliament has obviously never questioned the line that Australia's banks were then, and are now, "sound". It certainly wasn't public information at the time. At the time of the merger, just before the GFC, then-Westpac chairman Ted Evans had declared that "St. George and Westpac are two highly successful banks, but we believe they would be stronger together in a way which allows both to harness the strength of each, while maintaining their unique identities and market positions".

According to *The Australian* on 12 October, "the ACCC undertook a detailed study on the Westpac-St. George merger, which was eventually cleared after concerns it combined two strong wealth management platforms. The long ACCC study suggested it had no idea of any financial problems at the bank, according to then ACCC chairman Graeme Samuel."

In other words, Brian Hartzler revealed that the bankers, regulators and government at the time lied about the real reasons for Westpac's takeover of St George.

With his faith in the banks shaken, Jason Falinski confronted NAB CEO Andrew Thorburn when he appeared before the committee a week later. Falinski pointed out that Thorburn had worked for St. George from 2002 to 2005 leading up to its near-collapse, and that NAB's chairman, Ken Henry, had at the time been Secretary of the Treasury and in charge of the Council of Financial Regulators which enforced capital standards and prudential regulation.

Falinski noted that Hartzler's revelation was the first public admission in a decade that St. George was headed for collapse; perfectly reasonably, he connected this to the fact that bankers all over the world have not been held to account for their failings and misconduct that caused the global financial crisis. He then asked Thorburn and his fellow NAB executive present, David Gall, who had also worked for St. George until 2007: "So, while you were



NAB chief Andrew Thorburn (left) demanding Liberal MP Jason Falinski withdraw any inference on his reputation over St. George bank's near-collapse. Photo: Screenshots

at St. George, did you believe that the bank was not being well managed and that there were prudential issues at the time?"

Up to this point of the hearings, Thorburn had been meek and apologetic. He stated in his opening remarks: "The Royal Commission has exposed issues in our bank, and our industry, that have been confronting and upsetting. I feel this deeply, having worked in our profession for more than three decades. In so many cases we have not had the care and respect for our customers that we should have, and for that I am sorry. The Commissioner's interim report outlined this in a fair and balanced way, and we will respond thoughtfully."

In response to Falinski's question, however, Thorburn suddenly breathed fire. "The inference you are making here, about my reputation ... that we should have been held accountable for something, or we made some, had some misconduct, I reject totally, if that's your inference", he said. "I think it's unfair and you should be very clear what you're saying about us."

As if suddenly reminded of his party's subservient relationship to banks, Falinski wilted under the heat. "Yes, and I'll be clear, I'm not suggesting that at all", he said hurriedly. Thorburn snarled: "Right, so you withdraw any question about our reputation?"

"Absolutely Mr Thorburn", Falinski retreated. "Absolutely. I made no such inference and if you've taken that, I apologise upfront." Falinski then tried to save face by insisting on his general point that in Australia and around the world bankers had not been held to account.

But the real point was that he let Thorburn get away with not answering perfectly reasonable questions about St George. His obvious follow-up question should have been: "What do you have to hide?"

The Falinski incident is another contradiction of the myth of Australia's "sound" banks. At the time of the GFC all of the banks were in deep trouble, not just St. George, and were only rescued by the Rudd government's guarantees. Now, the major banks' exposure to the housing bubble and short-term overseas debt is far worse than in 2008, yet the government claims they are "unquestionably strong", even though the same government, in anticipation of a financial crisis, in February 2018 rushed to legislate powers for the bank regulator APRA to "bail in" customers' savings in order to prop up failing banks. This is a strong indication that they are lying now, just as they lied back in 2008.