

15 October 2008

**FINANCIAL SYSTEM LEGISLATION AMENDMENT
(FINANCIAL CLAIMS SCHEME AND OTHER
MEASURES) BILL 2008
FINANCIAL CLAIMS SCHEME (ADIS) LEVY BILL
2008
FINANCIAL CLAIMS SCHEME (GENERAL
INSURERS) LEVY BILL 2008**

Second Reading

Mr BRADBURY (Lindsay) (6.15 p.m.) — I rise in support of the Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Bill 2008 and cognate bills that are before the House. Before commencing my comments on the substantive items contained within these bills I will address the comments just made by the member for North Sydney. We have heard about bipartisanship. In fact, one allegation being made is that the Leader of the Opposition has been prepared to walk both sides of the street. We just saw the member for North Sydney not even prepared to cross the street to come onto our side. If his support of this package and the range of measures that this government has acted so decisively on were any more qualified, it would have been outright opposition. Shame on him. At this time of global economic crisis we have someone on the other side failing to really enter into the spirit of bipartisanship that the Leader of the Opposition has promised.

The member for North Sydney expressed outrage that the \$10.4 billion stimulus package would be made without there being any more substantive evidence presented to the Australian people. I have to ask: where was the member for North Sydney when the \$10 billion water package was announced under the former government? That package did not even go to cabinet. I can understand why he—one of the cabinet members who were shown the great discourtesy of not having seen any details of that proposal before it was announced publicly—might not want to reflect upon that, but to come into this place and criticise this government for not showing the parliament the courtesy of complete access to the information necessary in order to make decisions on this bill is beyond the pale. This Prime Minister has shown the member for North Sydney more courtesy than the former Prime Minister showed him as a cabinet colleague.

Let me turn my attention to the substantive elements of these bills. The crisis we have seen emanating over the last year that has reached a more dangerous and difficult phase in recent weeks is both a crisis of confidence and a crisis of liquidity. Liquidity is a problem and the crisis in liquidity cannot be resolved until the crisis in confidence is addressed. What we have seen in recent times in financial markets and stock markets across the globe—the decline in equities and increased spreads in credit markets around

the world—is largely reflecting that lack of liquidity and lack of confidence.

On Sunday the Prime Minister announced a three-point plan to address some of these elements of confidence and liquidity. In those three points we saw the announcement of guaranteed deposits. This built upon the earlier announcement by this government on the establishment of a financial claims scheme with a cap of \$20,000. It was increased to an unlimited amount of money to ensure that Australians right across this country know that their funds are safe. I did not get any sense that there was an impending run on the banks, but that is the importance of acting decisively and heading off the uncertainty and fear that could occur as events move so fast right across the globe. It was decisive action that sent a very clear message to all Australian deposit holders and general insurance policy holders that their funds and policies would be safe.

We heard from previous speakers that there has been a belief in the community that a guarantee of this sort already existed, and I think that is probably right. So as the spotlight inevitably began to shine on this issue the only way for this government to ensure confidence in our banking system, to ensure that each individual, corporation and entity that has funds on deposit with banks has the certainty that their funds will be protected, was to make sure that there would be a guarantee. This legislation goes a long way towards achieving that.

I mentioned that this was one point in the three-point plan. I see this as being like a triple bypass. We had some clogged arteries and the lack of liquidity throughout our financial system needed to be unclogged. In the three-point plan the first measure is the guarantee on deposits. The second measure relates to a guarantee on wholesale term funding for authorised deposit-taking institutions, including Australian banks, credit unions and building societies and Australian owned subsidiaries of foreign banks. I will come back to the second measure in a minute because that is the critical one that addresses the issue of confidence that has stymied liquidity, particularly in interbank lending.

The third measure is providing those financial institutions outside of the net of the authorised deposit-taking institutions with some assistance to ensure that they remain viable, competitive and able to participate actively in the marketplace to ensure competition. Those non-bank lenders, in particular the non-ADIs, the mortgage originators—those who have traditionally relied to a much greater extent on securitisation markets—have found their business model, their access to funds and their ability to continue to compete and provide competitive pressure against the authorised deposit-taking institutions under threat. The measure in the package announced by the Prime Minister on Sunday in relation to the injection of funds into the residential mortgage-backed securities market specifically for non-ADIs will go a long way towards ensuring the liquidity within that securitised market for the non-bank lenders and ensure that they remain viable and able to put competitive pressure on the banks.

These measures are significant. They are critical. We have seen events across the globe in recent weeks that shake the very foundations of the market economy. There is no question about that. The events that we have seen, including direct equity injections and investments into banks by governments in some of our major OECD trading partners—

Interjection

Mr Gray—*With bipartisan support.*

Continue

Mr BRADBURY—With bipartisan support. These are extraordinary events because these are extraordinary times. That is why the decisive action, which is reflected in the introduction of this Financial Claims Scheme and related measures, is so important in ensuring the confidence that we require in the marketplace so that mums and dads right around this country have the peace of mind to know that their funds are safe and that this government will do its level best to protect our financial system.

It has to be said that our banks are amongst the strongest in the world. They are well capitalised and all the advice from the regulators is that they are in a healthy state, notwithstanding the difficulties in interbank lending and the difficulties in accessing funds in international capital markets. They are in a good position. This is as good a place as anywhere in the world to be. That said, it is important that we take into account the need to provide that confidence. Considering the strength of the banks, it is, we hope—and all the evidence seems to point towards this—a very remote possibility that this guarantee will ever be called upon. But we have to make arrangements and the bills before us provide for some of those arrangements. In particular, in the event of an ADI requiring to call upon that guarantee, there will be arrangements in place to allow a levy to be imposed upon other participants within that marketplace to assist in finding the bailout as and when that might occur.

It is important to note that what is occurring here is not a bailout. It is a range of measures designed to provide confidence and reassurance to people right across our economy that funds will be safe in banks. In the end, what we have seen in recent days in the coordinated efforts not only of our regulators and our government but of governments and regulators in other jurisdictions is decisive action being taken, and we have seen some improvements, albeit that these are very early days, in terms of liquidity in international markets. So we can only hope that as time progresses markets become more liquid, providing banks with the funds that they need to loan to consumers and businesses. In the end, what is occurring in international financial markets might seem like an unreal proposition, but if banks stop lending to each other—if banks cease to be able to access the funds that they need—then they are not able to lend those funds to consumers or do so at competitive and reasonable rates, and the same applies to business. That is why it is critical that these measures be adopted.

In harmony with the other measures that the Prime Minister announced yesterday, with his decisive action in relation to the \$10.4 billion stimulus package, these are the very measures that are needed to try and strengthen our national economy and support our household budgets to try and ensure that we are best placed—as well placed as we possibly can be—to confront the looming economic challenges. I support the bills.