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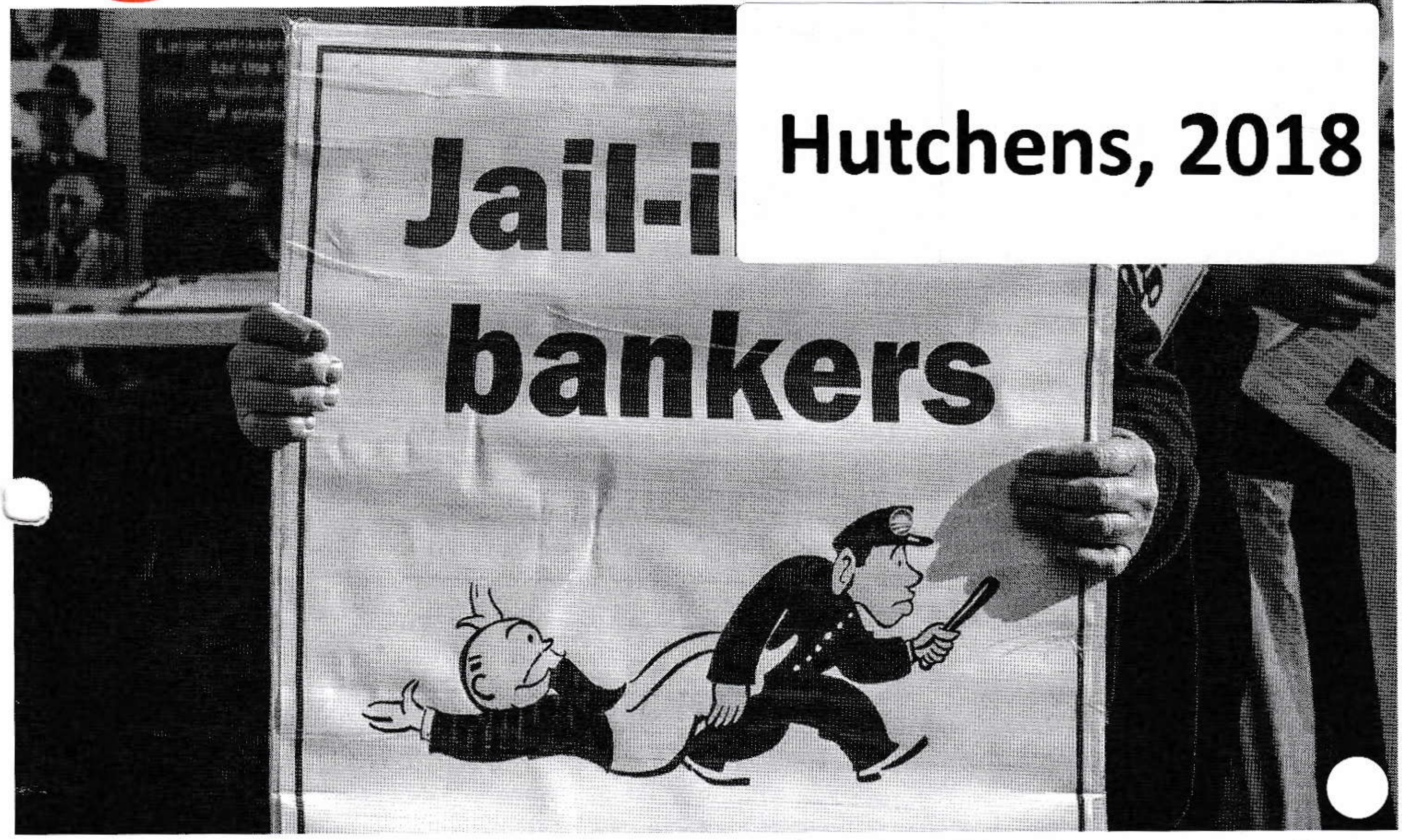

Banking royal commission: all you need to know - so far

The inquiry into banks and financial services firms has revealed malpractice that in some cases has ruined lives

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What is the royal commission?

The banking royal commission was established in late December, after years of public pressure from whistleblowers, consumer groups, the Greens, Labor, and some Nationals MPs.

Its first public hearings began on 13 March, and they will run at irregular intervals through 2018.

The royal commission has been asked to investigate whether any of Australia's financial services entities have engaged in misconduct, and if criminal or other legal proceedings should be referred to the commonwealth.

It's also been asked to consider if sufficient mechanisms are in place to compensate victims.

What have we found out so fa

We've heard evidence of appalling behaviour by Australia's major banks and financial planners from the past decade, including alleged bribery, forged documents, repeated failure to verify customers' living expenses before lending them money, and misselling insurance to people who can't afford it.

In this week's hearings, AMP admitted to lying to regulators, and the Commonwealth Bank admitted some of its financial planners have been charging fees to clients who have died.

AMP's chief executive became the first high profile casualty of the commission announcing he was standing down from the company with immediate effect.

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Which banks are involved ?

The so-called big four banks - Commonwealth Bank, Westpac, ANZ, National Australia Bank - are being looked at. They comprise four of the five largest companies in Australia by market value, holding an inordinate amount of power over the financial system.

Other companies including AMP, BT Financial, Aussie Home Loans and St George, and a number of small car finance companies will also be called, and more financial institutions will be asked to appear as the year rolls on.

Last year, the Commonwealth Bank, which is the largest company in the country, posted a full-year cash profit of $9.8bn, up 4.6%. It was followed by Westpac (full-year profit $8.1bn, up 3%), ANZ ($6.4bn, up 12%), and NAB ($6.6bn, up 2.5%).

Australia's seven largest authorised deposit-taking institutions (including the big four) hold roughly $4.6 trillion in assets - around two and a half times the size of Australia's $1.8 trillion economy, as measured by nominal GDP.

What is the problem with their financial advice?

The banks discovered long ago it was highly profitable to sell their customers financial advice and financial products. If they could charge customers for financial advice, and if that "advice" consisted of purchasing their financial products, then they would enjoy a profitable feedback loop.

The business model was called "vertical integration".

Earlier this year, the corporate regulator published a report scrutinising the practice: "Vertically integrated institutions and conflicts of interest."

It looked at the quality of financial advice being offered by the two largest financial advice licensees owned or controlled by the Commonwealth Bank, ANZ Banking Group, Westpac, National Australia Bank and AMP.

It found their financial advisers had failed to comply with the best interests of customers in 75% of advice files reviewed.

It concluded there was an "inherent" conflict of interest arising from banks providing personal financial advice to retail clients while also selling them financial products.

How has this affected customers?

It's not just poor financial advice that's affected bank customers. The poor advice has combined with reprehensible behaviour by bank employees.

Since 1 July 2010, almost $250m in remediation has had to be paid to almost 540,000 consumers by financial services entities for poor conduct in connection with home loans.

The poor conduct included fraudulent documentation, processing or administration errors, and breaches of responsible lending obligations.

Since 1 July 2010, almost $90m in remediation has been paid to almost 17,000 consumers by financial services entities as a result of poor conduct in connection with car loans.

Over $11m in remediation has been paid to over 34,000 consumers by financial services entities for breaching responsible lending obligations in connection with credit cards.

Over $128m has been paid in remediation to consumers by financial services entities as a result of poor conduct in connection with add-on insurance.

Aren't some banks already embroiled in scandal?

They're involved in multiple scandals.

In August last year, the Australian Transaction Reports and Analysis Centre (Austrac) nounced it was suing the Commonwealth Bank for 53,700 breaches of money laundering and counter-terrorism financing laws after the bank failed to report properly on $77m worth of suspicious transactions through its intelligent deposit ATMs over a number of years.

In November, the federal court imposed pecuniary penalties of $10m each on ANZ and NAB for attempting to manipulate the bank bill swap rate.

What is the reaction so far to the royal commission?

The Turnbull government realised this week how bad the situation is.

After AMP executive Anthony Regan admitted that AMP had lied repeatedly to the corporate regulator, the treasurer, Scott Morrison, warned wrongdoers could face jail. "That's how serious these things are," he said this week.

The former Nationals leader Barnaby Joyce admitted he was personally wrong to have argued against a royal commission.

The Nationals senator John Williams said he was concerned the inquiry had been given too little time to unearth wrongdoing, and if it needed an extension of time it should be given it. The finance minister, Mathias Cormann, made a similar argument.

But the government has also tried to take credit for the royal commission, saying it established it, and if it wasn't for the government the terms of reference wouldn't be so robust.

But wasn't it the Liberals and Nationals who were so opposed to the commission?

Yes. The Coalition had to be dragged kicking and screaming to establish the royal commission.

For years, they rejected calls by the Greens and Labor to establish the commission, and when Malcolm Turnbull finally relented in November he presented the backdown as a "regrettable but necessary" step to deal with mounting political pressure and uncertainty for the industry.

He made the decision in the face of open revolt from some Nationals MPs and senators who had joined the push by the Greens and Labor to set up a banking commission of inquiry.

After Turnbull's announcement, Labor said it was "unforgivable" that the government had fought for 18 months against the opposition's calls for a royal commission, and noted that the prime minister had ruled out a royal commission just 48 hours earlier.

The Greens leader, Richard Di Natale, reminded voters that the Greens had been the first party to propose a royal commission "several years ago" and the idea had been consistently voted down by Labor, the Liberals and Nationals.

So what happens next?

The royal commission will run through the rest of this year. An interim report is due in September, and a final report is due in February 2019.

But there's a lot of time between now and then. It may have its time extended. It may have its terms of reference changed. It depends on the politics.

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