

Section Five: The Role of the Reserve Bank

5.1 Overview

The FSU argues that the Reserve Bank, under its current powers and obligations, strikes the right balance between independence and accountability. The Bank has an impressive record of delivering financial system stability and services to government and the community via its various operations.

While the FSU acknowledges the extent of convergence which has occurred in the financial services sector, we believe that there still exist sufficient differences to warrant separate supervisory institutions. The FSU argues that the most appropriate way to deal with the increased need for harmonisation and coordination across the various financial supervisors is through the enactment of formally defined powers and responsibilities for the Council of Financial Supervisors.

5.2 Reserve Bank independence

The FSU strongly believes that the present powers and obligations of the Reserve Bank of Australia (RBA), provided for in the Reserve Bank Act, ensure a sensible balance between a sufficient degree of operational independence and ultimate democratic accountability through Parliament to all Australians. This is unlikely to be improved by any further changes to the Act. This matter was the subject of exhaustive consideration in the Campbell Inquiry and the passage of time, including developments in the aftermath of October, 1987 serve only to strengthen the validity of its recommendations.

5.3 Monetary Policy and Prudential Supervision Roles

As recommended by both the Campbell and Martin Committees of Inquiry, the FSU submits that these two functions are most efficiently and effectively undertaken by the one authority, being the central bank.

5.4 Coordination of Regulation

The FSU is of the view that the nature of supervision of differing financial products/services requires a differing set of supervision parameters and believes the separate supervisory institutions and specialised expertise which have evolved to date provide a sound basis for this.¹

However, with the increasing complexity of business relationships within and between banks and other financial institutions, a high level of coordination and consistent focus across all supervisory activities seems logical and desirable. This is particularly so in respect of financial conglomerates. Arising from a recommendation of the Martin Committee, the Council of Financial Supervisors was established in 1992. The Council members include the Reserve Bank, the Australian Securities Commission, the Australian Financial Institutions Commission and the Insurance and Superannuation Commission. The Council has provided a means for harmonisation of product regulation between the ASC and the ISC² and has agreed on guidelines for the

¹ In concert with the views of the three previous inquiries

² Reserve Bank of Australia, Report and Financial Statement, 1996, p. 57

supervision of financial conglomerates. At present, the Council is a non-statutory body.

The FSU supports the enactment of formally defined powers and responsibilities for the Council of Financial Supervisors so that its role as a policy framework facilitator can be enhanced. As the most experienced supervisory institution, and the one directly answerable to Federal Parliament, the RBA should continue to act as the lead coordinator of the Council, and have appropriate powers to be able to fulfil this role effectively.

The FSU believes that the present role of the ACCC in protecting the interests of the consumers of the products and services of the finance sector should remain separate from other regulatory arrangements. This will ensure that a clear focus on consumer protection will not be overshadowed by, nor have to compete with, other regulatory concerns. This will enhance the likelihood that all Australians will gain in an equitable way from the benefits that competition between the providers of financial services is expected to bring.

5.5 Provision of banking services to Government

The FSU is of the view that present provisions in the Reserve Bank Act allowing the Bank to offer banking services if required by government should be maintained to ensure a high level of competition in the government banking sector. This arrangement should be subject to the fee for service provisions recommended by the Campbell Inquiry. Present provisions have allowed the Bank to offer a number of specifically focussed, high quality and competitive banking services to government, resulting in significant savings for the agencies and departments involved. As the RBA may offer such services only to government departments and agencies, the quality and security of these services cannot be compromised by any conflict with the interests and demands of other customer groups.

5.6 Note and Coin Issue

The FSU generally supports the views of the original Campbell Inquiry on this matter and considers the RBA should continue to control the design and supply of currency notes, and to ensure an appropriately high standard of the quality of notes in circulation.

The RBA distributes new and re-issuable notes to the community via its branches in each State/Territory capital city. This arrangement has been in place for over 25 years and has resulted in continuously high standards of note supply and security across the nation. To ensure this performance is maintained, the FSU is of the view that the Bank should continue to participate in currency distribution and verification arrangements subject to appropriate fee for service arrangements.

The RBA has also long provided Australians with secure, high quality currency note production through its separate division, Note Printing Australia. A long term research and development program has resulted in the unique technology for polymer note production, a world first which is now attracting international interest. The FSU believes that the RBA should continue to be directly responsible for and involved in note design and production to ensure that an ongoing high level of security,

innovation, export earning potential and skilled employment is maintained. The implications for user confidence in the integrity of the note issue were it to be removed from the direct control of the RBA should not be underestimated.

The RBA no longer directly stores or distributes coin to the community but coordinates distribution between the Royal Australian Mint, private distribution firms and Australian Banks. Given that the security and quality aspects of coin are not as significant as for notes, the FSU considers the present arrangements to be the most practical and cost efficient.

5.7 Recommendations

The FSU therefore recommends that:

- The enactment of formally defined powers and responsibilities for the Council of Financial Supervisors is the most appropriate means by which to facilitate the high level of coordination needed between the various financial supervisors;
- The Reserve Bank Act should remain unchanged with respect to the independence of the Reserve Bank;
- The Reserve Bank should retain its dual monetary policy and prudential supervision roles;
- The Reserve Bank provides high quality and competitive banking services to government and the provisions of the Act which support this should be retained; and
- Note Printing Australia has developed unique and internationally recognised expertise and should therefore continue to be directly responsible for note design and production.