The FSI asks which categories of people could bear the losses of an insolvent Too-Big-To-Fail (TBTF) bank. This question appears to raise the prospect a 'bail-in' solution to bank illiquidity such as was used in Cyprus and has been adopted as the EU model. Even the asking of the question betrays a lack of confidence in the stability of Australia's banks.

The results of 'bail-in' in Europe with associated austerity policies do not commend themselves to its adoption in Australia. Perhaps the FSI would do better looking into prevention rather than cure.

The situation which Australia faces is not without precedent. In the great depression of the 1930s the Roosevelt government in the U.S. commissioned an inquiry - the 'Pecora Commission'- into the banking and financial sector in order to discover how the U.S. economy had fallen into such catastrophic failure. Once the causes were understood (and after numerous prosecutions for criminal behaviour) a solution was adopted; the 'Glass-Steagal' laws. This simple but comprehensive separation of commercial from investment banking functioned with notable success until its repeal in 1999. This again allowed reckless and questionable behaviour in the banking sector, using depositor's funds. Only nine years later we had a Global Financial Crisis; the first obvious symptom of the problems we now face.

It is not surprising that banking separation is hotly debated among economists, whether in the form of partial 'ring-fencing' separation or of the full Glass Steagal model.

I believe that full banking separation is vital for Australia's financial stability. If we do not learn from the mistakes of history, we are bound to repeat them.