CHOICE

MAY 2023

RETAIL DEPOSITS INQUIRY

Submission to the Australian Competition and Consumer Commission

ABOUT US

CHOICE is the leading consumer advocacy group in Australia. CHOICE is independent, not-for-profit and member-funded. Our mission is simple: we work for fair, just and safe markets that meet the needs of Australian consumers. We do that through our independent testing, advocacy and journalism.

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Contents

INTRODUCTION

Many people across Australia rely on the interest on their deposit accounts to make ends meet. However, Australian banks have failed to offer fair and accessible interest rates to people with deposit accounts.

For many families, the interest earned on a deposit account is an important safety net for their financial security. In May 2023, CHOICE asked over 7,800 members and supporters about their experiences with interest rates on deposit accounts.[1] People, including retirees and people on low-incomes, shared their experiences of financial loss and harm from banks failing to pass on fair rates. The clear message from the community is that people expect stronger obligations on banks to do the right thing.

Competition in the retail deposit market has been curtailed by Australia's oligopolistic banking industry. The big four banks account for almost three-quarters of all household deposits.[2] Banks have been able to profit off consumer loyalty, introduce unfair and onerous requirements to satisfy bonus rates, and made it intentionally difficult to switch banks. The Reserve Bank of Australia has estimated that one in seven deposit accounts do not earn any interest at all.[3] Over 45% of people CHOICE asked had missed out on receiving the full interest rate due to restrictive conditions, such as making no withdrawals or depositing a certain amount each month.[4]

The Australian Competition and Consumer Commission (**ACCC**) has an opportunity to recommend bold reforms which will improve the welfare of consumers. CHOICE recommends the ACCC adopt three priority reforms to improve outcomes:

1. Banks should be legally required to automatically switch people to the best possible rate they offer. This will mitigate the harmful practice of banks charging a "loyalty tax" to long-standing customers. 88% of people CHOICE asked supported the call for banks to be required to automatically switch people to the best interest rate.[5]

2. Barriers to switching banks should be removed. Banks intentionally add unnecessary friction and "sludge" to prevent people switching banks. The ACCC should recommend that it be as easy to cancel a deposit account as it is to set up an account.

3. Financial institutions, including banks, should be subject to a new "Consumer Duty", which would require firms to ensure they offer fair value for the deposit accounts they offer. This duty could be modelled on the Financial Conduct Authority's (**FCA**) new

[1] CHOICE, 2023, 'Retail deposit rates survey', n=7,830, conducted from 8 May to 26 May 2023
[2] ACCC, 2023, 'Retail deposits inquiry', Issues Paper, p.6
[3] A. de Kretser and J. Eyers, 2023, "RBA says 15pc of bank accounts pay zero interest'', Australian Financial Review, https://www.afr.com/companies/financial-services/rba-says-15-per-cent-of-bank-accounts-pay-zero-interest-20230210-p5cjmi
[4] CHOICE, 2023, 'Retail deposit rates survey'
[5] CHOICE, 2023, 'Retail deposit rates survey'

Consumer Duty, which will require institutions to "ensure their products and services are fit for purpose and offer fair value, and to help consumers make effective choices or act in their interests."[6]

RECOMMENDATIONS

The ACCC should:

1. publicly report on the proportion of customers who satisfy the conditions to achieve a bonus savings rate, including reporting on key cohorts of people experiencing vulnerability.

2. recommend that banks have a legal obligation to switch people to the best interest rate they offer.

   If the ACCC does not adopt this recommendation, banks should be required to clearly disclose to customers the best rate available. Switching to a better rate should be simple and easy for customers, with limited friction.

3. recommend that financial institutions, including banks, be subject to a new Consumer Duty. This duty should be modelled on the UK's Financial Conduct Authority's Consumer Duty, with a "fair value requirement" for deposit accounts.

4. investigate the communications used by the banks to keep existing customers from switching.

5. examine industry compliance with the "tick and flick" regime for switching direct debits, including reporting on the numbers of consumers who have switched under this regime.

6. undertake a "sludge audit" to examine and compare the friction banks have inbuilt to prevent switching.

7. recommend a mandatory requirement that it should be easy to cancel a deposit account as is it to set up an account.

[6] Financial Conduct Authority, 2022, PS22/9, A new Consumer Duty Feedback to CP21/36 and final rules, https://www.fca.org.uk/publication/policy/ps22-9.pdf

Banks are not offering fair and accessible interest rates

For many, the interest earned on a deposit account is the only source of additional income they earn and is an important safety net for their financial security. Older people, including retirees shared with the challenges they face with banks not passing on fair rates:

> *"I live on an age pension and every little bit extra [of interest earned] is vital in securing an ability to eat meals and buy medication, never mind trying to pay for accommodation and power and phone."*

> *"I live on the pension and every percentage earned on savings means coping or doing without."*

> *"I'm 80 and a self-funded retiree just over the pension level with a healthcare card, and I need the interest from my 60 years of savings to help fund my modest lifestyle. I do have some superannuation but I was in my 50's before it came in for women part-time, so it is not enough to live on alone."*

> *"As a retiree, I am trying to make my savings stretch as far as possible and a fair interest rate helps me balance my budget. Without fair interest, my savings are effectively being eroded with the rising cost of living. I worked hard to save all my life and I expect that there will be a fair return on my investments. The banks are using my money to earn massive profits by their interest rates on mortgages and loans. It's only fair that their savings customers should receive a fair proportion of those profits, not just bank shareholders."*

People with disabilities also shared with CHOICE how a fair and accessible interest rate would improve their financial wellbeing:

> *"I live with a disability that makes me unfit for work but not eligible for government financial support, so the interest from my savings is my major source of income."*

> *"I have a long-term chronic medical condition that is not deemed as a disability but I've had to give up work because of it. Being paid a fair amount of interest on savings would help hugely to stay afloat. The banks want assistance from the government when things are looking bleak however they're constantly earning billions in revenue each quarter yet not passing the fair amount of interest into their customers. They're happy to pass on the loan interest rate increases in full and instantly each time the RBA raises the cash rate though."*

“I am a low income earner - disability pension. While I have managed to get my fees waived, there is no way I will ever be able to take advantage of bonus interest offers.”

With inflation at its highest level in three decades, households across Australia are experiencing heightened cost of living pressures. Hundreds of people shared with CHOICE that failure of banks to offer fair rates is exacerbating their current cost of living pressures:

“The cost of living is becoming more and more difficult so earning a decent interest on your savings goes a long way towards this. It seems disgraceful that the banks record record profits and yet don’t seem to pass it on to the customers.”

“[Fair rates] help to offset the increased cost of living expenses. If the banks are receiving more of our money they are using to loan then they should share this by increasing interest.”

“I'm on Jobseeker payment at age 60, so I need all the help that's available to be able to put food on the table and try to meet other essential cost of living pressures.”

Bonus rates work for the banks, not people

Many banks place onerous and unfair conditions on customers - such as requirements to make no withdrawals or deposit a certain amount each month - in order to receive advertised bonus interest rates. Over 45% of people said they had missed out on receiving the full interest rate due to these types of restrictive conditions. CHOICE heard from consumers that this practice penalises people who are forced to draw down their savings account during heightened cost of living pressures. It also harms people who do not have a regular income, including retirees or new parents. People shared with CHOICE:

“With the cost of living and utility bills ever increasing, I find it near impossible to meet their deposit requirements “

“Just to pay for food, power or other essentials means I have to withdraw from my account. As such, I never receive the bonus interest rate.”

‘When looking around, I found all the banks to be using the same trick: make a deposit and/or do four or more transactions to get anything more than the crummy .05%. They should be called out on this.”

> “Sometimes you have an expense that means you need to delve into savings accounts. That's why they are there! Thus your amount is below the required and you get the normal paltry interest rate. It is wrong.”
>
> *“[Banks place] too many conditions on accounts offering better interest such as being forced to open a transaction account and having to make a set number of transactions to get a higher interest rate. I can’t deposit a salary if retired.”*

Many banks set very low base interest rates on savings accounts. For example, the ANZ Progress Saver account has a bonus interest rate 3.99% and a base interest rate of 0.01%.[7] A base interest rate of 0.01% can significantly erode people’s real savings. CHOICE heard this especially impacts families who have to use their savings to pay for an unexpected bill, which prevents them from earning a bonus rate.

There needs to be greater transparency about the number and cohorts of customers who satisfy the bank’s bonus rate conditions. In its inquiry, the ACCC should gather information and publicly report on the proportion of customers who have satisfied the conditions to achieve a bonus rate, including reporting on key cohorts of people experiencing financial vulnerability. This should inform the ACCC whether the current industry practice is enhancing the financial wellbeing of people.

Recommendation 1

The ACCC should publicly report on the proportion of customers who satisfy the conditions to achieve a bonus savings rate, including reporting on key cohorts of people experiencing vulnerability.

Banks should be required to switch people to the best possible rate

Australian banks regularly penalise their long-term customers by charging a “loyalty tax”. Whereas in mortgages this involves charging long-term customers higher interest rates, for deposit accounts this is likely to involve long-term customers receiving interest rates that are lower than the best on offer from their bank. Banking is an essential service and people would not be expected to re-negotiate every few months for a fair price on other essentials, including groceries and medicine. Banks should be legally required to switch their customers to the best possible rate. 88% of people CHOICE asked supported the call for banks to be required to automatically switch people to the best interest rate. People shared with CHOICE the challenges of not being offered the best rate:

[7] ANZ, “ANZ Progress Saver”, https://www.anz.com.au/personal/bank-accounts/savings-accounts/progress-saver/, accessed 16 May 2023

"With my work hours I find it difficult to get to the bank and when I have tried to ring I have been put on hold for 40 mins or more, thus being notified of possible better interest rates or having them automatically applied would make life much simpler."

"We are now in our eighties. A steady income that keeps pace with inflation is essential to our lives and well-being. We think banks should be statutorily compelled to pass on fair interest rate increases within a very, very short time after the banks benefit."

"The consumer shouldn't have to be wasting their time looking for the best deal. The best deal should just be provided automatically, without conditions on your account. In other words, why should we be tied to only making a certain number of withdrawals etc? This is just a ploy used by the banks to make things hard for the consumer. There should just be one standard savings/transaction account paying the highest possible interest."

CHOICE strongly supports the ACCC recommending a new legal obligation for banks to switch their customers to the best possible rate. Consumers should not be required to request every few months for a new promotional offer on their deposit account. It is concerning that as many as 15% of deposit accounts in Australia are not earning any interest.[8] It should be incumbent upon the bank to switch their customers to the best possible rate available on the market.

However, if the ACCC does not adopt this recommendation, then banks should be required to clearly disclose to customers the best rate available. Switching to a better rate should be simple and easy for customers, with limited friction. The ACCC should use behavioural research to consumer test the most effective 'nudges' to encourage switching.

Recommendation 2

The ACCC should recommend that banks have a legal obligation to switch people to the best interest rate they offer.

If the ACCC does not adopt this recommendation, banks should be required to clearly disclose to customers the best rate available. Switching to a better rate should be simple and easy for customers, with limited friction.

[8]A. de Kretser and J. Eyers, 2023, "RBA says 15pc of bank accounts pay zero interest", Australian Financial Review, https://www.afr.com/companies/financial-services/rba-says-15-per-cent-of-bank-accounts-pay-zero-interest-20230210-p5cjmi

Banks should be subject to a new "Consumer Duty"

CHOICE strongly supports the application of a new Consumer Duty to Australia's financial institutions, including banks.This duty could be modelled on the UK's Financial Conduct Authority's Consumer Duty, which comes into effect on 31 July 2023.

This FCA's Consumer Duty requires institutions to "ensure their products and services are fit for purpose and offer fair value, and to help consumers make effective choices or act in their interests."[9] The Duty's "fair value requirement" which compels banks to pay regard to the "fairness of pricing for all groups of savers."[10] In complying with the Consumer Duty, the Financial Conduct Authority expects that banks consider:

- "whether, if there is weak consumer engagement and low rates of switching, this is allowing or encouraging the firm to sustain poor value savings products over time;
- whether the communications and support provided by the firm to its savers are commensurate with the number and variety of its account offerings and helping customers make effective savings decisions (including potential switching among the firm's accounts), rather than confusing them or discouraging them from acting in their own interests;
- whether the firm's fees or penalties for early exit from term savings accounts are costreflective and not unreasonably discouraging or preventing savers from switching accounts or providers; and
- whether sufficient support is being provided by the firm to enable savers to move or exit their account easily if they choose."[11]

CHOICE considers that a Consumer Duty, modelled on the UK's Duty, would significantly improve outcomes for people with deposit accounts.

Recommendation 3

The ACCC should recommend that financial institutions, including banks, be subject to a new Consumer Duty. This duty should be modelled on the UK's Financial Conduct Authority's Consumer Duty, with a "fair value requirement" for deposit accounts.

[9]Financial Conduct Authority, 2022, PS22/9, A new Consumer Duty Feedback to CP21/36 and final rules, https://www.fca.org.uk/publication/policy/ps22-9.pdf
[10]Financial Conduct Authority, 2023, 'Competition in the retail banking market', https://committees.parliament.uk/publications/39041/documents/192061/default/
[11] Financial Conduct Authority, 2023, 'Competition in the retail banking market', https://committees.parliament.uk/publications/39041/documents/192061/default/

Switching needs to be easier for bank customers

Banks intentionally add friction to the process of cancelling an account.

Australian banks continue to place barriers on consumers to switch deposit accounts. Banks with entrenched market power intentionally design products to be "sticky" by adding friction in the process of canceling accounts, as well as bundling financial products to increase the costs of switching. People shared with CHOICE their challenges with switching:

> *"[Banks] make it as difficult as possible. They expect you to conduct your business online, but make it as difficult as possible for you and have to physically visit to close your account."*
>
> *"We have direct debits to pay bills like electricity and gas. If we change banks the work involved in changing the payment necessitates contact with each company. Some require a phone call, some online. On a few occasions we have missed changing a direct debit and missed paying the bill on time. This is frustrating and embarrassing."*
>
> *"It is still far too hard to switch banks, particularly rearranging all regular payments. Banks should be required to transfer these arrangements to make it easier for people to switch when they find better offers from alternative banks."*

Consumers have limited time and resources, and any additional friction in switching benefits the existing bank. Many banks still require people to cancel their account by visiting a bank branch or calling the bank during business hours. People report facing prohibitively long call time before speaking to a staff member. There has also been a recent increase in bank branch closures, which makes closing an account difficult, especially for people in regional Australia. A survey respondent shared to CHOICE the challenges of attending a bank branch to close an account:

> *"I have an account with a bank whose only branch closed in the town where I am living. The nearest bank is now 387 kilometers away. [The staff member on the phone]said, 'you need to go into the nearest branch'".*

CHOICE found that Australia's banks can pressure people into staying into an account. For example, ANZ tells customers to "make sure you're serious about saying goodbye" as they "won't be able to rejoin ANZ Plus in the future (at least for now)":[12]

[12]ANZ, 2023, 'How do I close my accounts?', https://www.anz.com.au/plus/support/banking-with-anz-plus/updating-account-details/closing-accounts/, Accessed 16 May 2023

> **IMPORTANT:**
>
> Unfortunately, after you've closed your accounts you won't be able to rejoin ANZ Plus in the future (at least for now), so make sure you're serious about saying goodbye.
>
> If you are on the fence, don't forget that ANZ Plus and Save accounts have no monthly fees and heaps of new features on the way.
>
> Any advice is general and might not be right for you.

This language is designed to induce people to stay with the ANZ. CHOICE encourages the ACCC to investigate the marketing communications used by the banks to keep existing customers from switching.

Recommendation 4

The ACCC should investigate the communications used by the banks to keep existing customers from switching.

Better demand-side competition will help, but is not a panacea

Reforms to demand-side competition can play an important role in improving competitive outcomes. However, demand-side reforms will not solve a deeply-entrenched banking oligopoly. The Productivity Commission, in its Inquiry into Competition in Financial System, concluded that,

> *"in the Australian financial system, individual consumer behaviour does not appear to be translating into competitive pressure or stronger competition in the market as a whole".*[13]

Households across Australia have limited time, money and energy to allocate to a variety of tasks and responsibilities, including switching financial products. It is important that people are able to switch accounts with limited friction. CHOICE strongly supports the ACCC recommending that it should be easy to cancel an account as is it to set up an account.

A common disincentive to switching accounts is the time and effort in switching direct debits. People told CHOICE they need to contact all businesses they have recurring payment arrangements with to notify each one of the change. This requires a consumer to remember

[13] Productivity Commission, 2018, Competition in the Australian Financial System, p.145

payments that may be due up to a year in advance, from large insurance payments to smaller subscriptions.

In 2012, the Federal Government introduced a “tick and flick" process to switch direct debits to a new transaction account.[14] However, the experience of CHOICE members and supporters is that this process is rarely promoted by the major banks. The ACCC should examine industry compliance with the “tick and flick” regime. This could be achieved by shadow-shopping how banks communicate to customers about the ease of cancelling and switching direct debits.

As part of its inquiry, the ACCC should also consider undertaking a “sludge audit” to examine and compare the friction banks have inbuilt to prevent switching.[15] Behavioral economist Cass Sunstein defines “sludge” as:

> *“excessive or unjustified frictions, such as paperwork burdens, that cost time or money; that may make life difficult to navigate; that may be frustrating, stigmatizing, or humiliating; and that might end up depriving people of access to important goods, opportunities, and services.”*[16]

A sludge audit would examine the ease of canceling an account, the average wait call times, the accessibility of switching for people. In its final report, the ACCC should call out industry best practices, as well as calling out banks which are failing to ease switching for consumers.

Recommendation 5 - 7

The ACCC should examine industry compliance with the “tick and flick” regime for switching direct debits, including reporting on the numbers of consumers who have switched under this regime.

The ACCC should undertake a “sludge audit” to examine and compare the friction banks have inbuilt to prevent switching.

The ACCC should recommend that it should be easy to cancel a deposit account as is it to set up an account.

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[14]Treasurer Wayne Swan, 2011, “Taking the headache out of switching bank accounts” https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22media/pressrel/1022139%22
[15]Sunstein, C. 2019, Sludge Audit, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3379367
[16]Sunstein, C. 2019, Sludge Audit, p.1