



**independence
matters**

Association of
Independent Retirees

Association of Independent Retirees (AIR)

Submission to ACCC Retail Deposits Inquiry

May 2023

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees (A.I.R.) is the national peak body representing current and future partly and fully self-funded retirees. A.I.R. works to advance and protect the interests of Australians seeking independence in retirement. AIR seeks to secure recognition for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

Our members have a clear understanding of the need for ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about economic and policy changes that affect their capacity to have an independent and fulfilling retirement.

There are now over 2 million Australians who either fully or partly self-fund their retirement. The greater majority of these are not “wealthy” individuals and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement. APRA predicts there will be another 3.6 million Australians who will move into the retirement phase of superannuation over the next 10 years.

Retirement planning has not only become more complex, but current volatile economic and financial conditions are making it more difficult for many retirees to develop a retirement plan that will last for the longer term. The government needs to ensure in the process of policy change, fully and partly self-funded retirees are not impacted by the unintended consequences of the changes.

Context of our Submission

The overwhelming majority of AIR members and full or partly self-funded retirees in general are retail deposit holders. Funds deposited in the accounts of authorised deposit-taking institutions are vitally important to retirees for interest income and cash flow purposes.

The features of accounts and the management of their interest rates with authorised deposit-taking institutions have a direct bearing on the quality of retirement for millions of Australians now and into the future.

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Terms of Reference:

For the purposes of this inquiry, retail deposit products are deposit accounts held by individuals for personal or housing purposes such as savings accounts, term deposits and transaction accounts (including home loan offset accounts) as well as those held by trustees of self-managed superannuation funds.

Note: the use of the term ADI refers to authorised deposit-taking institutions including banks and other licenced authorised retail interest bearing deposit takers.

In conducting this Inquiry, the ACCC is directed to consider the following:

- interest rates paid on retail deposits, including with reference to differences between consumer segments, and any differences between advertised interest rates and the actual rates paid to consumers
- other terms and conditions on which retail deposit products are supplied (other than interest rates), including fees and charges and restrictions on access to deposited funds
- supplier approaches to setting interest rates on retail deposit products, and supplier decisions following changes to the RBA's cash rate target, including the timing of announcing interest rate changes and implementing those changes, and any differences in approach between setting interest rates on retail deposit products and lending products (such as home loans)
- the nature and extent of price and non-price competition in the supply of retail deposit products, including barriers to entry and expansion, innovation, and factors affecting customer switching (including the extent and existence of supplier practices and strategies that may inhibit switching, consumer behaviour, and the availability of information on products)
- retail deposit products as a source of funding for suppliers' provision of credit, including their significance and cost compared to other funding sources, and any differences relating to the size and business model of the supplier.

The issues and questions raised by the ACCC in their issues paper are a guide. They are not exhaustive and we understand that we do not need to comment on all questions. We note that the ACCC welcomes views on related issues not covered, or issues which we consider should be given more emphasis.

The ACCC have posed 20 questions for comment. Many of the questions are not relevant to members of the Association of Independent Retirees. We have made comments on those questions relevant to our membership or to fully and partly self-funded retirees in general.

General Comments

A.I.R. Recommends Consumer Protections

A.I.R. and its members acknowledge and appreciate Australia's strong banking system. This inquiry should seek to make incremental improvements rather than major change whilst still protecting access for seniors.

There is a considerable increase in scams and fraud associated with financial transactions. It is very important that the ACCC considers protections against scams and fraud such as identity theft when reviewing regulations in relation to deposit taking and withdrawals by ADI's. Efforts to steam-line and digitise transactions need to be measured against reductions in customer service options and the risk factors of online fraud.

Efforts by one area of government, such as the ACCC, to create market efficiency should work in harmony with other areas of government that are seeking to prevent online fraud.

ACCC Questions - Issues for Consultation

Chapter 3. Competition in retail deposits

1. How, and to what extent, do ADIs compete in providing retail deposit products to consumers, including with respect to setting interest rates and other fees and charges, and non-monetary factors, such as innovative product design?

A.I.R. Response:

Many members of AIR rely on earning a proportion of their retirement income from interest on bank deposits. Examples - term deposits, interest bearing accounts and bank bills. We have now entered a period where interest rates are increasing but for depositors the increases have been smaller and slower to implement when compared to banks approach to increasing lending rates (e.g., mortgage loans).

It is also noted too that ADI's tend to be quicker to react i.e., more competitive when seeking deposits or funds from Business depositors or Wholesale/sophisticated investors when compared to consumer/retail depositors.

Politicians have urged banks to give depositors a 'fair go'. For example, in May 2022 the former government urged banks to lift rates on savings accounts. The Commonwealth Bank responded by lifting the interest rate on its 18-month term deposits by 1.95 percentage points, a rise almost eight times larger than the Reserve Bank's cash rate increase. At the time the ANZ Bank, Westpac and National Australia Bank also boosted savings rates on various popular at-call deposit products by the same 25 basis points as the cash rate rise. CBA said it would "pay 2.25 per cent to those willing to place \$5000 to \$2 million for 18 months, specifically aimed as a reward to elderly customers". These actions show some market sensitivities to community pressure.

2. What alternatives do consumers have to retail deposit products for earning a return on their funds? How close are these substitutes? How does this vary with consumers' risk preferences?

A.I.R Response

In the current economic environment with interest rates changing rapidly, consumers can be enticed to invest in higher interest rate/higher risk products. This often means a move from bank guaranteed deposits to riskier products outside the banking system. Consumers may not be aware or are sometimes not properly informed of those higher risks.

Retail consumers also have access to a range of fixed interest investments (including corporate bonds, etc.) from investment grade issuers like the major banks. While interest rates for these products are competitive, these investments do not come with the same 'guarantee' that deposit accounts with the banks have. The distribution of these fixed interest products are usually restricted to brokers or intermediaries. This lack of 'deposit guarantee' and distribution via brokers are impediments to significant proportion of retail depositors.

Many retail investors seem to be unaware of the variety of fixed interest products (like Bonds, etc.) that are issued by the major banks and other corporates. This is likely an issue of financial literacy that could improve competition for a wider range of financial products available to retail consumers.

3. How effective is competition in the supply of retail deposit products in delivering good outcomes for consumers?

AIR Response

It is probably fair to describe much of the Australian banking system as a "semi-oligopoly" (CBA, NAB, ANZ and Westpac). There is competition from smaller regional banks, international banks and smaller start-ups such as online banks and other financial institutions.

All banks seem to follow a similar pattern of changing interest rates on deposits to suit their income or 'net interest margins' rather than support the depositors' income requirements. There are many variations competitive behaviour in the supply of retail deposit products to show market forces at work. It does appear to retail depositors that the 'big four' seem to act in unison when interest rates change. But at other times, they do engage in strong competitive behaviour on particular products when they are pursuing higher market share or specific objectives.

For example, currently, there is considerable competition between CBA and NAB in the area of business banking and competition in home mortgage lending is also strongly contested.

Chapter 4: Barriers to entry and expansion

4. What is the potential for new entry in the supply of retail deposit products? What form is new entry likely to take?

AIR Response

There is reasonable potential for new supply of retail deposit products. Given the high cost of establishing 'bricks and mortar' branches throughout Australia, it is most likely that new retail deposit products will be 'internet-facing' online options.

These types of retail deposit products may not appeal to older customers like retirees.

5. How significant are barriers to entry and/or expansion in the supply of retail deposit products?
How have these changed over time?

6. How has new entry or expansion in the supply of retail deposit products impacted the behaviour of incumbent ADIs?

AIR Response

The advent of technology start-ups into the retail deposit taking business has driven existing major banks to provide lower-cost product offerings using technology. These lower cost offerings often do not provide the some of the service options found in traditional banking products. This has a tendency to create a ‘race to the bottom’ in face-to-face service and/or product range.

This has resulted in a significant reduction in ‘major bank’ branches or face-to-face service outlets in metropolitan, regional and rural locations. This considerably disadvantages older customers who have not transitioned to new online service options.

7. How have ADIs responded following the exit of relative newcomers in the supply of retail deposit products?

8. How are ADIs likely to respond to any new entry, or the threat of new entry, in the foreseeable future?

AIR Response

It is very difficult for new entrants to grow to have the scale and strength of the existing major banks. Given the high cost of establishing ‘bricks and mortar’ branches throughout Australia, it is most likely that new entrants will be ‘internet-facing’ technology-driven product providers. This type of deposit taking institution may not appeal to older customer like retirees.

The major banks (and regional/second tier banks) have embarked on a significant modernisation and/or transformation using new technologies in recent years. This capital and technology base has enabled them to better compete head-on with the new entrants and protect their customer/product base.

Therefore, it is anticipated that the major banks and existing ADI’s will provide stronger competition in the foreseeable future.

Chapter 5: Retail deposits as a source of funding

9. How do each of the listed factors affect the significance of retail deposits as a source of funding for ADIs? How does this vary between ADIs of different sizes and business models?

AIR Response

Investor Deposit Interest Rates Verses Bank Dividends.

An increase in the rate paid in interest on bank deposits can decrease bank profits and in turn could decrease bank dividends.

The CEO of the Commonwealth Bank (CBA) recently told investors that the CBA Board was aiming to pay 70 to 80 percent of the Bank's profit in dividends. This year it achieved a 68 percent payout of \$13 billion including dividends and buybacks. Dividend payouts are very sensitive to movements in bank profits. It is quite clear that a decrease in bank profits reduces the flow of dividends to shareholders.

Bank shares are a significant part of most investment portfolios including superannuation for retail investors. Retirees seeking an increase in bank deposit rates are also very likely to be bank shareholders either personally or through superannuation. Therefore, an increase in earnings on bank deposits could be offset by a reduction in dividend income.

It is difficult for an investor holding bank shares to mount an argument that banks should increase interest rates on deposits if this results in a reduction in bank dividends.

10. What other factors affect the role of retail deposits as a source of funding for ADIs? How do these factors vary between ADIs of different sizes and business models?

11. How does the cost of funding from retail deposits compare to the cost of funding from other sources? How has this changed over time?

Chapter 6: Interest rates for retail deposits

12. What is the relative importance of the various incentives and constraints that influence ADIs in setting retail deposit interest rates and interest rates for lending products?

AIR Response

Customer Loyalty Does Not Necessarily Pay

Banks often favour new depositors with higher introductory rates to attract new customers. Therefore, it pays to shop around for the best deal. For example, in 2022 Westpac offered a one-year term deposit rates of 3% to new customers, which were a full 1 percent above the competition. Other banks followed with similar offers.

Many higher interest deposit accounts require monthly deposits to gain a significant higher 'bonus' rate of interest. Retirees may not be in a position to meet this 'savings' requirement

13. To what extent are ADIs influenced by the interest rate decisions of other ADIs?

AIR Response

Negative Interest during the pandemic did not happen in Australia.

While Australian banks continued to pay low interest on deposit accounts during recent years in many other countries bank interest rates went negative i.e., depositors paid to have their money in the Bank. Negative interest rates still apply in Japan. Surely, maintaining some interest payments on deposits was a positive for Australian banks.

Note also, that during the pandemic bank fee income was reduced which in turn reduced the capacity for Banks to pay interest. The Reserve Bank reported that; *"Domestic banking fee income declined sharply in 2020, as the effects of the COVID-19 pandemic reduced spending and financial* Association of Independent Retirees – Submission to ACCC Retail Deposits Inquiry

activity in the Australian economy. Banks' fee income from households fell by 10 per cent in 2020. This is the largest decline in banks' fee income from households since the 2010 survey, when banks significantly reduced exception fees (which include dishonour, late payment and break fees) on deposit and credit card products."

14. How do ADIs' approaches to setting retail deposit interest rates impact on competition and consumer outcomes?

15. What factors influence how closely and quickly retail deposit and lending interest rates are adjusted following a change in the cash rate target? How does this vary between different categories of retail deposit products.

AIR Response

It has been noted consistently that when interest rates move down banks tend to reduce interest rates on deposits faster than they reduce interest rates on loans.

Similarly, when interest rates move up it is noted that banks increase the interest rates on variable rate loans at a faster rate than on 'at call' deposits. In these situations, bank revenues benefit at the expense of those with bank deposits.

Term deposit interest rates reflect changes in longer interest rates that align to the term of the deposit. As interest rates increase, new term deposits reflect the higher interest rate, while existing deposits remain at the commencement interest rate and thus provide a less costly supply of funds for lending products.

Chapter 7: Consumer information and switching

16. How easy or complex is it for consumers to search for and compare retail deposit products?

AIR Response

There are numerous comparison websites. The number and functionality of these comparisons has increased significantly over the last 10 years or so. However, retail consumers are concerned about whether the comparison websites are truly independent or incorporate 'push' marketing and are influencing their results.

Comparing the headline interest rate is not always a completely accurate comparison. It may be appropriate (as with home loan rate comparisons) that the CDR (Consumer Data Right) is tightened to ensure that 'comparison' rates reflect fees, terms and conditions.

Recommendations:

The Federal government Moneysmart website <https://moneysmart.gov.au/saving/term-deposits> could do more than provide a general description.

Examples Links to Rate comparison sites.

[Best Term Deposit Rates Australia - Canstar](#)

[Term Deposit Rates Australia - Rates up to 5.00% | RateCity](#)

[Top term deposit rates from over 70 Banks - Compare Today | Mozo](#)

[Compare Term Deposits: High Interest Rates up to 4.45% | Savings.com.au](#)

17. What are the impediments to consumers finding and understanding relevant information about retail deposit products?

AIR Response

One impediment to consumers is the significant amount of fake and misleading information on internet websites. The number and financial impact of online scams is increasing. Unlicensed and unregulated websites are trying to draw-in unsophisticated retail investors seeking higher interest rates.

The ACCC should consider providing more advice and warnings on the Moneysmart website about fake website offering seemingly very attractive deposit products. The Government should be more proactive in shutting down fake websites.

18. How easy or complex it is for consumers to switch from a retail deposit product to an alternative product that better meets their preferences? What impediments do they face?

19. Do different categories of consumers engage with retail deposit products in different ways? If so, how? How do ADIs respond to these differences?

AIR Response

Many senior Australians want to engage with retail deposit products differently than younger customers. They should not be ignored in regards to their more traditional needs in completing financial transactions. The efficiencies of digitisation may be attractive to bank operations executives, but there is a significant group of older customers who still prefer to transact banking in a face-to-face manner.

Branch closures and the discontinuance of cheque-based transactions are forcing older customers to move online. In addition to the need to learn how to conduct online banking transaction, seniors may be forced to purchase computers and take on internet service contracts to carry out deposit and investment transactions with ADI's.

ADI's should respect the preferences of older customers and work with them to adopt new technologies to access retail deposit products or provide transition strategies over many years.

20. How are consumer outcomes in relation to retail deposit products affected by impediments to searching and switching.

AIR Response

Scams and Fraud must be avoided. Over simplification of switching procedures and means of access to new products should not create an environment where scammers can operate.

End of Submission