

Imperium Markets was granted a Tier 2 Markets Licence by ASIC in September 2017, making it the only licensed market in Australia for wholesale term deposit products. During the design process of our technology, we held over 500 face-to-face meetings with more than 80 ADIs. To date, over 40 ADIs have participated in our competitive Market, including major banks, resulting in a total transaction volume of approximately \$35 billion.

Our investor base comprises Local Government Authorities, Universities, Corporates, and Not-For-Profits. The average transaction size is approximately \$3 million, with transaction volumes ranging from hundreds of thousands to tens of millions. Over the past 12 months, our investors have enjoyed significantly higher yields on Term Deposits compared to retail rates, thanks to our competitive marketplace. Please refer to the attached data for more information.

We recently announced a partnership with the DFCRC in a pilot program with RBA, aimed at demonstrating instantaneous settlement. In addition, we are collaborating with the DFCRC on a white paper that explores the benefits of digitization, including comprehensive lifecycle management of deposits and real-time reporting.

Furthermore, we have joined forces with r3 Corda, a widely adopted global permissioned ledger technology. We believe that r3 Corda is better suited for transacting and managing deposits, offering enhanced cybersecurity measures and demonstrating a commitment to climate friendliness, in comparison to other distributed ledger technologies.

Chapter 3: Competition in retail deposits

Competition in retail deposits can be best described as a random walk, as the movement of rates does not follow a clear pattern or trend. While there are instances of fierce competition, especially when interest rates rise, it has been observed that competition has not consistently resulted in competitive rates for investors. Our data clearly demonstrates the significant difference between the rates at which banks are willing to borrow and the retail deposit rates they offer, sometimes varying by as much as 2%.

One contributing factor to this phenomenon is the concept of the "back book." Banks are often hesitant to increase rates significantly for new deposits, as existing depositors would demand similar rates immediately. This effect was observed in the home loan market during the 1990s when new entrants like Wizard and Aussie gained market share while banks sought to protect their existing loan portfolios. Eventually, the market adjusted, and these new players transformed into mortgage brokers.

Another factor, which we will explore further later on, is the lack of comprehensive data available to investors. Information provided on websites like Canstar only presents a partial picture and fails to indicate whether the rates offered are attracting deposits or which rates are more popular.

While various alternatives exist for depositors, we believe it is unnecessary for us to comment on the products frequently advertised in the press. However, it is worth noting that the local money markets lack accessible investable money market funds for investors. Although this is a peripheral issue within this context, it is important to highlight that the Australian Debt Capital market has minimal issuance of short-term debt outside of the major banks' own offerings.

Chapter 4: Barriers to entry and expansion

We operate the only licensed marketplace for basic term deposit products in Wholesale markets. If a part of the Retail market were to transition to a functioning marketplace similar to ours, it would pave the way for the emergence of a transparent price curve. This development would provide ADIs with a solid foundation to offer products tailored to different investors and simultaneously address gaps in their own funding portfolios.

We firmly believe that the lack of transparency surrounding term deposits acts as a barrier to innovation. The vague and opaque nature of deposit pricing not only hinders existing players but also poses challenges for new entrants. Newcomers struggle to identify potential customers, understand their preferences, and determine appropriate pricing for their products. Unfortunately, failed "fintech ADIs" were compelled to outsource their funding to unrelated third-party intermediaries, who could impose arbitrary brokerage charges while still maintaining ownership of the customer relationship. This arrangement deprived new entrants of the opportunity to develop a self-sustaining investor base.

Chapter 5: Retail deposits as a source of funding

By establishing a transparent marketplace, we aim to address these challenges and foster an environment that encourages innovation and facilitates the growth of new entrants in the market.

To better understand the deposit market, it is crucial to grasp that the overall volume of deposits in the system remains constant. This holds true not only for retail deposits but for all deposits. What does this mean in practice? It means that unless

depositors are highly motivated, they tend to stick to one or perhaps two ADIs (Authorised Deposit-taking Institutions). As a result, the big banks, in particular, receive a significant portion of their funding from deposits because the money has to find a place to land. Unfortunately, this fundamental dynamic explains the subpar level of customer experience in the industry.

Additionally, changes in the market and regulatory landscape can have profound impacts on banks' demand for deposits and the pricing of those deposits. For example, leading up to the Global Financial Crisis (GFC), wholesale funding and securitization became increasingly cheaper, and regulations on deposit types were relatively flexible. However, due to the constant volume of deposits, banks gradually became less competitive in terms of pricing. Consequently, the significance of deposit products within ADIs declined.

ADI's are constantly striving to improve efficiency and reduce costs, which has resulted in restructuring within the banks. As part of this restructuring, the responsibility for pricing and managing deposit books has been transitioned from front-line staff to specialised roles such as "Product" and "Logistics" managers. In addition, certain functions related to deposit management have been delegated to call centres. These product managers primarily focus on internal transfer pricing metrics and typically operate under different management structures than the bankers responsible for the deposits they price. Although there may not be a conflict of interest, this misalignment can lead to a lack of coordination in effectively managing client expectations.

Following the Global Financial Crisis (GFC), ADIs had to change their strategy, and Term Deposits regained popularity, although they still remained within the domain of product managers. To raise Term funds, the majority of ADIs had to rely on intermediaries for deposit fundraising while they worked on rebuilding their own deposit books. Even today, many smaller ADIs are still dependent on these same intermediaries for funding. We argue that this outsourcing of customers poses a systemic weakness, especially in times of crisis.

It is worth delving into how the current system evolved from banking deregulation in the late 80s. Back then, the landscape was significantly different, and high-net-worth investors, in particular, had a broader range of options available to them. Suffice it to say that the banking environment has undergone substantial changes over the years.

Chapter 6: Interest rates for retail deposits

Two scenarios merit discussion when examining how ADIs establish deposit rates. The first scenario occurs when an ADI strategically aims to rapidly increase the volume of deposits. This decision is typically based on factors such as lending growth, international market conditions, or a revised outlook on the monetary policy set by the Reserve Bank of Australia (RBA). In this scenario, ADIs act swiftly to offer competitive rates, occasionally exceeding the optimal rate level in order to attract funds. The opacity surrounding deposit pricing plays a role, as ADIs prefer to err on the side of overpayment rather than risk underfunding.

The second scenario arises when there is a change in monetary policy, prompting banks to assess how gradually they can raise rates without adversely affecting deposit volumes. Throughout this process, banks closely monitor their peers and adjust their rates accordingly. In the market we are familiar with, major banks are more concerned about the pricing offered by other major banks rather than smaller ones. In all cases, banks are careful to offer "specials and one-offs".

The most damning indictment of the Australian deposit market is the lack of a relationship between deposit rates and the creditworthiness of the borrowing bank. This stark contrast exists not only in comparison to other countries but particularly in comparison to Australian securities markets, which are highly sophisticated.

Chapter7: Consumer information and switching

Despite the good intentions of comparison sites, the process of price discovery for retail investors remains inadequate. While many broking businesses offer deposit options, they are not obligated to disclose commissions and can only provide deposits from their affiliated banks, limiting the scope of options available to investors.

In essence, there is currently no independent, trusted, and transparent source of information that covers the rates offered in the retail market or provides data on transactions, which would assist investors in making informed decisions.

Switching banks is also not a straightforward process. The Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements are extensively discussed in nearly every meeting Imperium has had with banks, along with the crucial aspect of cybersecurity. However, it is encouraging to see that many fintech companies are actively addressing these challenges, and we believe that some great technologies are being developed and rolled out. Although some failed fintech banks may not be around to witness these advancements, it bodes well for smaller ADIs and a new wave of entrants to embrace emerging technologies.

Conclusion

As the digital economy continues to dominate many aspects of everyday life, it is striking that the most fundamental investment vehicle, the bank term deposit, remains entrenched in outdated practices. While Australians enjoy the convenience of digital transactions in foreign currency or the stock market, the term deposit experience lags behind.

Transitioning even a portion of the market to true market-based pricing would yield significant benefits, not only for depositors but for the entire system. It would provide ADIs with greater flexibility in managing their balance sheets, enable regulators to exercise better oversight on system stability, and assist the Reserve Bank of Australia (RBA) in accurately setting the cash rate by understanding funding costs.

Moreover, as deposits inevitably become digitized, ADIs will have the potential to reduce the costs associated with managing a deposit portfolio by up to 90%. Through our collaboration with the DFCRC, we are actively researching the potential savings, and we plan to release a white paper later this year.

Over the past six years, we have successfully operated a digital licensed marketplace for wholesale deposits. This platform has facilitated direct transactions between more than 40 banks and their customers, revolutionizing the way they engage and transact.

Apr-22	Majors			A Rated			BBB Rated	
	Low	High	Avg	Low	High	Avg	Low	High
3M	0.01	1.27	0.85	0.40	0.96	0.60	0.40	1.00
6M	0.11	1.90	1.34	0.85	1.80	1.22	0.70	1.75
9M	1.19	2.04	1.56	1.22	2.11	1.60	1.40	2.36
12M	1.48	2.72	2.01	1.68	2.74	1.95	1.00	2.60
2Y	2.53	3.28	2.96	2.53	3.34	2.94	1.50	3.35
3Y	2.90	3.52	3.33	3.68	3.68	3.68	2.25	3.75
4Y								
5Y								

Oct-22	Majors			A Rated			BBB Rated	
	Low	High	Avg	Low	High	Avg	Low	High
3M	2.89	3.70	3.42	3.08	3.81	3.41	2.85	3.55
6M	3.20	4.12	3.84	3.31	4.26	3.78	3.45	4.25
9M	3.55	4.28	4.00	3.58	4.24	3.97	3.55	4.39
12M	3.47	4.70	4.29	3.74	4.58	4.27	3.00	4.59
2Y	4.08	4.93	4.57	4.03	5.04	4.59	3.85	4.76
3Y	4.34	5.01	4.67	4.23	5.20	4.63	3.85	4.75
4Y	4.37	5.14	4.74	4.31	5.28	4.71	3.85	5.00
5Y	4.57	5.28	4.91	4.40	5.40	4.83	3.85	5.05

		Majors			A Rated			
Avg	May-22	Low	High	Avg	Low	High	Avg	Low
0.67	3M	0.81	1.80	1.36	0.95	1.42	1.21	0.50
1.23	6M	1.37	2.27	2.01	1.63	2.37	2.03	0.80
1.74	9M	1.79	2.84	2.36	2.12	2.67	2.39	0.85
1.90	12M	2.16	3.18	2.79	2.38	3.20	2.90	1.60
2.80	2Y	3.25	3.79	3.50	3.24	3.76	3.57	2.05
3.04	3Y	3.52	3.99	3.73	3.35	3.97	3.73	3.00
	4Y	3.68	4.09	3.83	3.50	4.12	3.88	3.50
	5Y	3.77	4.15	3.95	3.50	4.28	3.99	3.60

		Majors			A Rated			
Avg	Nov-22	Low	High	Avg	Low	High	Avg	Low
3.32	3M	3.28	3.75	3.54	3.25	3.68	3.50	3.20
3.92	6M	3.48	4.15	3.90	3.49	4.20	3.82	3.50
4.02	9M	3.74	4.30	4.04	3.58	4.26	4.00	3.50
4.16	12M	3.93	4.45	4.26	3.58	4.43	4.19	3.20
4.41	2Y	4.20	4.61	4.45	3.93	4.65	4.44	4.25
4.41	3Y	4.53	4.65	4.58				4.25
4.51	4Y	4.56	4.75	4.64				4.30
4.56	5Y	4.70	4.87	4.79				4.30

BBB Rated		Jun-22	Majors			A Rated		
High	Avg		Low	High	Avg	Low	High	Avg
1.71	1.29	3M	1.15	2.48	1.97	1.10	2.35	1.77
2.65	2.14	6M	1.31	3.34	2.73	1.88	3.35	2.63
2.90	2.45	9M	2.42	3.91	3.12	2.10	3.75	3.09
3.25	2.86	12M	2.79	4.30	3.62	2.74	4.20	3.50
3.77	3.44	2Y	3.50	4.74	4.20	3.26	4.77	3.96
3.90	3.72	3Y	3.75	4.70	4.25	3.35	5.02	4.13
4.10	3.89	4Y	3.95	4.81	4.36	3.50	5.18	4.19
4.20	3.99	5Y	4.11	4.94	4.48	3.50	5.36	4.31

BBB Rated		Dec-22	Majors			A Rated		
High	Avg		Low	High	Avg	Low	High	Avg
3.60	3.45	3M	3.55	4.00	3.77	3.26	3.88	3.65
4.15	4.00	6M	3.47	4.42	4.08	3.43	4.42	3.98
4.39	4.16	9M	3.73	4.55	4.17	3.63	4.45	4.15
4.45	4.20	12M	3.50	4.72	4.34	3.67	4.63	4.34
4.60	4.47	2Y	4.24	4.71	4.44	3.93	4.65	4.45
4.70	4.53	3Y	4.25	4.65	4.43	3.89	4.70	4.42
4.97	4.72	4Y	4.25	4.56	4.42	3.88	4.69	4.36
5.08	4.79	5Y	4.32	4.60	4.49	3.92	4.70	4.43

BBB Rated		
Low	High	Avg
1.50	2.50	2.03
2.40	3.50	2.92
2.55	4.00	3.34
2.00	4.28	3.65
2.55	4.60	4.09
3.90	4.80	4.25
4.00	4.80	4.32
4.00	4.85	4.39

BBB Rated		
Low	High	Avg
3.55	3.95	3.62
4.00	4.40	4.18
4.10	4.45	4.32
4.00	4.66	4.37
4.25	4.75	4.47
4.30	4.75	4.52
4.30	4.85	4.62
4.30	4.95	4.67