

**Competition in Australia's Financial System Inquiry**  
**Productivity Commission**  
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**Submission: Productivity Commission-Competition in the Australian Financial System**

Thank you for the opportunity to comment

This response is written from one Australian banking consumer's point of view, one of less than a handful of individuals responding to this enquiry.

What does the Commission think are the major issues facing Australian banking consumers today?

There is currently a plethora of comment on high credit card interest rates, banks or mortgage brokers lending to consumers to whom they should not have lent funds in the first place, insurance companies not paying out on claims when they perhaps should, etc.

But in my view, and I would think millions of Australian banking consumers' viewpoints given the total Australian mortgage debt, the main complaint is concerning the high rate of mortgage interest rates when interest rates around the world and the RBA cash rate are at all time lows.

The Terms of Reference for the Draft state: "*The 2014 Financial System Inquiry (the Murray Inquiry) considered that although competition generally appears adequate,....*".

**A1. MORTGAGE RATES.**

The Australian Consumers largest debt to the Financial Industry is with respect to their mortgages, be they residential or investment.

If Global rates, RBA Cash rates and Australian deposit rates are currently so low, Australian Consumers are asking "Why are mortgage interest rates so high relative to these other rates?"

The Commission is not asking for hearsay so I can only make comment from my own experience.

Within my direct relatives, one is married and has a home and one investment property in Darwin. His interest rates for both last year were around 5.5% pa until the time we enquired about a reduction and it was reduced to 5.12%. When the request to his Bank was made to lower the

interest rates, it took six weeks of communication before an offer of a 1% drop in residential rate and an increase of 0.1% in the investment rate was made to him.

When the bank was asked why the Investment rate was increasing, the response was that this was what was necessary because of the Federal Government and APRA's regulation on Investment Loans and Interest Only loans.

Whereas APRA has made the comment within its response (p22) that: "*APRA's interventions are designed to result in more favourable long-term competitive outcomes for consumers,.....* ", this has had directly the opposite effect within my family.

Without providing boring details to the Commission, my relative only purchased the investment property in Darwin around 10 years ago in order to attempt to not rely on Government pensions when he and his wife retired. He is now being forced to sell that property and take up a larger Government Pension.

His financial position changed with his loss of employment due to a heart transplant, but he and his wife were still able to meet mortgage payments. That was until mortgage interest rates starting increasing due to the Federal Government and APRA intervention in the market through the banks.

Whereas his plan was to gradually pay off the residential mortgage as funds became available, he is now forced to pay Principal towards both the investment property and the residential property in order to obtain lower interest rates of around 3.68% (which is what he considers a very good rate). However, because his repayments have now increased from around \$2,350 (5.12% Interest Only) to over \$3,900 (3.68% Principal & Interest) he is now forced to sell his Investment Property at a time when the Darwin market is totally underperforming. This will now leave with him with a much larger mortgage on his residential property which I am sure was not the intent of the Federal Government when introducing this regulation through APRA to the banks.

Whereas the Federal Government stated that these brakes were being applied to the banks in order to dramatically slow the property markets in Sydney and Melbourne, the result of this is to penalise Australian consumers who have already purchased Investment property ANYWHERE in Australia, even if those property markets are now going backwards. The intelligent Australian consumer asks "If the Government wanted to slow the Sydney and Melbourne markets, why would you punish all existing Australian banking consumer investors even if they are not in Sydney or Melbourne, and why would you apply it to consumers who already have an investment mortgage as opposed to those people who are either now or in the future going to purchase an investment property and for whom the regulation was intended?"

The Terms of Reference to this Enquiry were stated as (Draft Terms of Reference Page v):

*"...to review competition in Australia's financial system with a view to improving consumer outcomes, the productivity and international competitiveness of the financial ....while balancing financial stability objectives".*

How has this policy assisted current Australian banking consumers especially investors who were already committed by investment mortgages and were not going to be purchasing further investments in Sydney or Melbourne?

My view is that Australian banking consumers look at this and say this a way the Government is assisting the banks to increase their profitability at consumer expense. The Australian Banking Association's advertisements that high profits are good because it goes back to shareholders does not hold water at all. Australian Banking Consumers only see a small proportion of this profit going back to them and then only if they hold Bank shares personally or in the Super fund. There is a significant proportion of the population who do not own such shares.

If all the banks who have responded to this Productivity Council Draft are saying that they have reduced prices and costs to deliver better outcomes, Australian consumers are asking why are interest rates still so high?

The Australian banking public is becoming cynical about the Banking Industry and the way it works with the Government.

Even the Royal Commission into Banking has Terms of Reference which are construed to not investigate why banks do not pass on any full RBA Cash Rate reduction, or why any bank mortgage reduction is passed on so slowly after an RBA Cash Rate decrease as opposed to the Banks increasing mortgage rates almost immediately after any RBA increase in the Cash Rate.

My view is that the above feeling reflects the Australian Banking Consumer's major gripes concerning the Banking Industry at the moment.

## **A2. SOLUTION.**

Normally, it would be expected that the average Australian Banking Consumer does not have a large knowledge of the detail of the Australian Banking Market nor the difficulties of making change. However, in the current climate I believe that any action which reduces bank interest rate mortgages in what is perceived as a fair way would be extremely welcomed by the Australian Public.

Consumer "Pub Talk" views on achieving the above have included actions such as:

- \* allow Australia Post to become a Bank backed by the Federal Government and have it raise and lower interest rates in line with the RBA Cash Rate, much in the same way as was the case with The Commonwealth Bank prior to privatisation. This would indeed create competition!!!,
- \* reduce the more onerous rules (or the same rules but for which the Big Four are better positioned) for smaller banks and community banks so that they are on a more even playing field,

- \* allow overseas banks to enter the market and be given the same rules as is given to banks in the current Australian market,
- \* the Banking Sector or Government or Private Sector establish a "central trading infrastructure" using latest technology by which lenders could obtain better rates than the current 2 - 2.9% and borrowers could obtain lower rates than the current 3.6 - 5.6% (Mortgage)

## **B. EFFICIENCIES AND PRODUCTIVITY FOR AUSTRALIAN BANKING CONSUMERS.**

Given that this is a Productivity Council enquiry promoting efficiencies within the Australian economy, "*to improving consumer outcomes, the productivity and international competitiveness of the financial system*", it would also prove beneficial to consumers improve other tactical "ground floor" basics of the banking system.

Should the Productivity Council be interested in what efficiencies could be implemented for the Australian Banking Consumer, suggestions include:

### Payee Details on Bank Statements:

Banks providing statements which include not only the Payee Name, but also the Payee description which has been inserted by the Payer.

### BPAY details Not Include Reference Number

Banks sometimes put only the BPAY biller code and name on the bank statement along with a receipt number. This does not tell the consumer nor their Accountant what this bill is for. E.g. an Energy Australia bill may be for a consumer's residence or their Mother's residence in Sydney. Both have the same biller code and a unique reference number so if both the biller code and reference code were stated on the statement, the consumer would be able to tell what the bill was for (E.g. electricity for the consumer or for the consumer's Mother's home). But if the reference number is not shown, the consumer cannot tell who the BPAY was to.

### Statements Sent To Email

Most banks require the customer to have to log in to their banking system, find the "statement section" and then "pull" that bank statement on to their own computer. Why can these not simply be sent as email attachments such as is done currently by real estate agents for property rental statements and Body Corporate Managers for consumer Bodies Corporate.

### Transaction Export Ability

Not all banks have the ability to export to a CSV or Excel file all of the customer's bank transactions for the Financial Year for a particular account. This ability can vastly improve the time and cost taken to complete tax returns and consumer reconciliation.

### No Written Offer

When dealing over the phone with the Hardship Division of one particular bank, whatever was agreed upon over the phone would not be provided back to the consumer by email or in writing.

The offer was expected to be accepted by the consumer on the spot over the phone and then the bank would send back to the consumer the completed agreed agreement which was then enforceable. This appears to be against the standard legal foundations of agreed offer and acceptance.

#### Current Applicable Interest Rate on Bank Statements

All banks should have the current applicable interest rate stated on any bank statement.

#### Credit Card Amount Due Easily Seen

Some Banks only state within the Payment Due box the Minimum Amount Due and not the Closing Balance of the credit card.

#### Account Details on Bank Statements

For Direct Debits of interest due from one bank to another, the Payer BSB and Account detail is sometimes not written on the Payee Bank. This makes it extremely time consuming for the consumer to determine what the payment is for.

#### International Bank Transfers

There is no easy way to compare the amounts being charged as fees by banks or financial organisations completing foreign exchange transactions. Even organisations which state they do not charge Foreign Exchange Fees are able to make a significant margin without the knowledge of the consumer by simply providing the foreign exchange at a more onerous Foreign Exchange rate to the consumer.

#### Insufficient Information for Tax Return

Banks stating that they are providing you with the information you require for your tax return and simply providing the total interest rate which has been charged during the Financial Year but not include the additional account fees or penalties which have been charged.

#### NPP (New Payments Platform)

It is hoped that the NPP will allow customers to have multiple Pay IDs for all different bank accounts that the customer may have. Currently it appears that a customer can only have one PAY ID for each email address or mobile number.

### **C. SUPERANNUATION**

The terms of Reference also referred to Superannuation; viz " *The Commission should have regard to the Government's existing wide-ranging financial system reform agenda and its aims to ...improve the efficiency of the superannuation system.*"

Again, consumers understand the strict rules relating to Superannuation and SMSFs and realise that these strict terms should be in place to ensure no roting of the system.

Delta between Deposit Rates and Mortgage Rates:

However, when consumers are paying over 4 or 5% in Residential or Investment Mortgage Rates and their Superannuation Fund is only receiving less than 2% on their Term Deposits, surely there is some way of the system allowing such people to transfer their low interest rate deposits into the Consumer mortgage offset accounts. A loan at 3% from the Superannuation Fund to the individual's Mortgage Offset account in the above case would reduce the individual interest rate by 1 to 2% and increase the SMSF interest receipt by 1% - a win/win. In such an Offset account the funds could be returned to the SMSF at any time the individual or Trustees required. Such allowance would obviously need to be to Offset Accounts only and not directly to the Mortgage itself.

Individual Trustees versus Corporate Trustees

It appears that Banks take advantage of the fact that a large proportion of SMSF Trustees are Corporate Trustees and not individual trustees in order to charge significantly more set up costs

### **D. FINAL THOUGHT**

The recent glaring publicity detailing the money laundering which has occurred through a major bank and its Automatic Teller Machines raises the viewpoint as to why the Banks are not working with the Government (or vice versa) to crack down on the Black Economy.

With increasing amounts of Government Budget required to meet growing Federal Social and Health needs, the questions arises as to why the Government and Banks are not introducing more non-cash methods of transactions (even prohibiting cash) to crack down on this economy and have it pay its fair share of taxes too. Countries such as Sweden have already introduced such methods and the recent move by the Indian Government in making particular tender illegal are examples.

Although the Australian Public would once not have wanted to move down this path, my belief is that this viewpoint is changing as more and more taxes are being introduced and some of the Australian economy continues to go untaxed.

Thank you for listening to a member of the public.

GARY JACKSON