



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON ECONOMICS

Reference: Competition in the banking and non-banking sectors

THURSDAY, 16 OCTOBER 2008

CANBERRA

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS

Thursday, 16 October 2008

Members: Mr Craig Thomson (*Chair*), Mr Pearce (*Deputy Chair*), Ms J Bishop, Mr Bradbury, Mr Ciobo, Ms Jackson, Mr Marles, Ms Owens, Mr A Smith and Mr Turnour

Members in attendance: Ms J Bishop, Mr Bradbury, Ms Jackson, Mr Marles, Ms Owens, Mr Pearce, Mr A Smith, Mr C Thomson and Mr Turnour

Terms of reference for the inquiry:

To inquire into and report on:

Competition in the retail banking and non-banking sectors in Australia. The inquiry will pay particular attention to home mortgage products and linked facilities frequently offered to consumers such as credit cards and savings accounts.

1. The Committee will undertake a stocktake of the Australian retail banking and non-banking industries, focussing on:
 - a. recent developments in relation to products, providers and distribution channels;
 - b. the current state of the retail banking and non-banking industries;
 - c. the likely drivers of future change and innovation in the retail banking and non-banking sectors including the continuing impact of technological developments; and
 - d. comparisons with relevant international jurisdictions.
2. The Committee will also identify any barriers that may impact on competition in the retail banking and non-banking sectors, and policies to enhance further competition and product choice for consumers.

WITNESSES

CLAES, Mrs Lisa, Executive Director, Direct Business, ING Direct..... 1

MORGAN, Mr Brett, Executive Director, Intermediary Mortgages, ING Direct..... 1

Committee met at 9.35 am**CLAES, Mrs Lisa, Executive Director, Direct Business, ING Direct****MORGAN, Mr Brett, Executive Director, Intermediary Mortgages, ING Direct**

CHAIR (Mr Craig Thomson)—I declare open this public hearing of the House of Representatives Standing Committee on Economics on the inquiry into competition in the banking and non-banking sectors. To date the committee has received 58 submissions to this inquiry. Submissions have raised numerous issues which the committee is considering very carefully. The committee will investigate the extent to which competition in the financial sector is reduced and, in particular, examine proposals that would help to increase competition and reduce fees and charges for people struggling with mortgages. Today we are going to hear from ING Direct.

I remind witnesses that although the committee does not require you to give evidence under oath, this hearing is a legal proceeding of the parliament and warrants the same respect as the proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. I now welcome the representatives from ING to today's hearing. You have provided us with a further submission as an opening statement; do you want that tabled as a submission?

Mrs Claes—Yes, please.

CHAIR—The committee will accept that as a submission. I invite you to make your opening comments and then we will go to questions.

Mrs Claes—At the outset, thank you very much for giving us the opportunity to attend this hearing. We very much welcome the opportunity. It is very dear to our heart that competition in the Australian banking environment is fostered. I will briefly point to some of the high level points that we have made in our written submission and then take questions for Brett or me.

ING Direct, a household name now, is the pioneer of the high-interest online savings market within Australia and more particularly globally. In all the countries that we have set up our business in there has been a real change in the market dynamic, particularly in the savings space and, as such, we sincerely support the preservation of a highly competitive banking environment which facilitates the customer driving the market in terms of product, channel of choice, yields returns and fees. Our submission details ING Direct's pedigree within Australia in terms of its history, customer base, product offering and unique success to date, so I will not repeat those. That success to date has been in establishing a highly attractive banking alternative in terms of low-cost model, direct distribution channels, the simplicity and value of our products and, very importantly, our industry leading customer service.

Today, there are three particular issues which we wish to draw to the committee's attention to, and these are elaborated in the submission. These we feel put ING Direct and importantly others employing a similar business model at a competitive disadvantage. These are, firstly, the lack of access to independent data sources to verify a customer's identity. We worked closely with the

government in the formulation of the AML legislation and applaud the enacted channel neutrality. If you recall, its predecessor, the Financial Transactions Reports Act, prescribed verification of identity either by face-to-face or documentary means. If that had remained, given the other changes enshrined in that legislation, would have put non-face-to-face providers such as ourselves at a competitive disadvantage but it did not. It now allows verification to be conducted by a number of means, including electronically.

Disappointingly, however, the very clear legislative intent has been stymied by the lack of access to a suitable electronic verification database. Very briefly, at the moment there are electronic databases available. The electoral roll and the telephone directory are available electronically. If applying customers do not satisfy—are itinerant, for example, in their move from residence to residence—they will fail on a match basis and then we have to default to a means of documentary verification or sending them to a face-to-face channel such as Australia Post.

Customers, most importantly, prefer the simplicity, low cost and convenience of being verified electronically. The system is robust. Not only are we operating with regard to one of our products in Australia using this method, but most of our related companies throughout the world where electronic paces are probably a little bit ahead in the evolution process are operating very successfully.

Cost effectiveness is important because a cost comparison shows that to identify someone face-to-face or through documentary means costs \$18 a go as opposed to \$2. Ultimately, those cost savings, particularly for ING Direct, which prides itself on a low-cost model—we do not charge fees—are cost savings that are passed on in higher returns to our customers.

We are not the only bank that operates as such; there are many others. Some of the more traditional branch-based banks are also growing these channels, so it is going to benefit all customers of all Australian banks, and I have touched on the convenience. Obviously it promotes competition because to have access to more broadly based electronic databases will remove any existing barriers to entry for non-face-to-face operators such as us.

Finally, on that point, the Privacy Act currently prohibits access to credit reporting bureaus to access credit history, which contains date of birth, name and address and full name. We are aware, and have made submissions, and we welcome the recommendation that has come through to allow that access for the purposes of electronic verification. Our concern is that that is a recommendation along with many others and it will take some time. Electronic channels and the means of banking through them are growing very rapidly. We would like to leave on the table that we would like to pull that proposal out and put it into the AML/CTF Rules so that we can have more immediate implementation of that.

The second area of competitive disadvantage concerns the lack of domestic financial institution exemption from interest withholding tax for banks within Australia. We are saturated with news and we are living day by day through the credit crisis and the significant contraction in market liquidity which, bottom line, exacerbates the cost of funding both short and long term. At its heart it hampers institutions, particularly us—our ability to lend and grow our mortgage portfolio book at competitive rates. We are a foreign subsidiary operating in Australia. We do have a deposit base. That is a cheap source of funding but unlike some of the Australian based

operations who have been operating for many years that deposit base is not as deep and lush as others. If we could have access to our parents' excess pools of cash, of which there are many, without the impediment of the 10 per cent levy then that would help us enormously in continuing to grow our mortgage portfolio, which is well over \$30 billion and a highly competitive offering.

Moving from the micro to the macro, however, you would no doubt be aware that interest withholding tax has in many peer jurisdictions throughout the world been modified to eliminate the levy altogether—Hong Kong and Canada more recently. If Australia aspires to be the financial hub even of the southern hemisphere then that would be something that would certainly move forward our competitive advantage by freeing up the cross-border flow of capital.

Finally, the third inhibitor is switching. I am going to talk very briefly about switching of transaction accounts between banks. Transaction accounts are really the heart of the relationship between the customer and a bank. We know that there are many proposals and there is a momentum growing and that the government is looking at switching, but we still remain concerned that the hassle factor will remain and is a major inhibitor in allowing switching between financial institutions.

Without going through the nuts and bolts—I am sure you all bank yourselves—to change you have to one by one get your debits and credits from an institution and then transfer them to another and hope nothing gets lost in the mail. Hopefully, there will be electronic means available because direct debits and credits are growing and cheques are becoming obsolete. The direct debit and credit platform is a convenient, robust, very low-cost means of doing business; however, the inability to switch on an aggregated basis certainly is a disincentive for customers.

We know from our own research and research done by external independent bodies that between one and three per cent of Australians do switch bank. They do manage to cross those hurdles but the aspiration level is around 10 per cent. There is that hunger or appetite there that we and many others within the industry would like to fill; however, we see that the current process, even the recent APCA initiatives of encouraging banks to make it easier for people to switch, are not enough.

We do see some alternatives and I will mention one. One hurdle is the BECS rules, which do not allow the electronic transfer of this information even with the consent from one bank to another. So that is one area we can see the possibility of reform. Rather than going through the triangle of transfer, the reforms APCA is recommending or that are to be implemented in November force banks to give a list of the debits and credits for the last 13 months. If that could be done electronically, with the customer's consent of course, to the incoming bank that would certainly oil the wheels of switching and open up competition in this very active space.

CHAIR—Thank you for that; we will now go to questions. I want to start where you finished with the switching package and so forth. With the changes to the package being introduced on 1 November, your submission is that you do not think that has gone far enough; it has made an improvement but has not gone far enough. Is that what your submission is?

Mrs Claes—Yes, it is certainly an improvement. I must disclose too that at this stage ING Direct does not have in operation a transaction account, but we will be launching one.

CHAIR—A division has been called; we will adjourn this hearing for the time being.

Proceedings suspended from 9.49 am to 10.03 am

CHAIR—The committee will reconvene. I apologise for that delay—the difficulties of democracy. We were talking about the switching package just before the division and we had summarised your evidence on that as: there are some positives in terms of the government's initiatives but you think it should go further. I think that is where we were up to.

Mrs Claes—Yes. I wanted to put on the table the fact that ING Direct at this stage does not have a transaction account. We are building one and it is due for launch mid next year. We have existing 1.3 million customers, a lot of whom have been banging down our door for a highly competitive low-fee proposition in this space. I mention that because it gives the context that we are looking and have been looking very closely at the barriers to entry in this space. We see switching as a barrier to entry purely from the impracticality of achieving that.

So the intent is there. It is a great initiative. The 1 November reforms are certainly welcomed; they are a huge step in the right direction. However, from a practical perspective we see that the difficulty will remain because of the multiplicity of debits and credits that customers have and the need still to extract those. We know there is a 13-month period imposed, which is welcome, but the problem is then to deliver those and be confident that they have been delivered so that they are set up and implemented with the new institution.

One very important complexion I would like to put on this is that transaction accounts are more and more not standing alone. They are very often packaged in an offset manner with mortgages, which is probably the most important direct debit you have. So we run the risk of throwing the baby out with the bathwater. If we want to stimulate competition in the mortgages space, we do not want the hassle of switching your gym membership and your Telstra account to really prevent what may be one of the driving forces or the highest competitive outcome for a customer in terms of more competitive transaction account offering and, more importantly, more competitive mortgage offering.

CHAIR—Your suggestion is a minor variation by allowing an electronic transfer from the bank or the organisation that you are leaving to the one that you are switching to?

Mrs Claes—Yes, the concept would be that it could be done by the customer. Of course, there would be means to, perhaps, have a third-party organisation, which I understand happens in other parts of the world. The organisation could be a warehouse for direct debits and credits. It would not need to be highly regulated or monitored. It could conduct this service for banks and consumers. The concept from ING Direct would be to have the outgoing customer instruct the outgoing financial institution to transfer debits and credits and the requisite account number details of those third-party recipients to the new bank and then have the new bank confirm to the customer, electronically or by whatever channel, that that has occurred. I think that would create a linear proposition rather than the very prickly triangle that we have at the moment.

CHAIR—You spoke about the idea of a third party. In the Netherlands they have a central registry that is used.

Mrs Claes—So I understand, yes.

CHAIR—What is your view of that? That is going further than what you are suggesting.

Mrs Claes—Yes, but I think it creates another party in the process.

CHAIR—It creates another party, but not for the customer.

Mrs Claes—No, for the recipient and beneficiary. If a third-party could be established on a not-for-profit, cost-neutral basis—only charging the absolute cost of providing the service—we would definitely welcome it. The point I would make is that in our model, in sympathy with a lot of the reforms that the government is currently proposing, any service that the banks are going to propose through this initiative would be at cost, so there would be no profiteering from this service. The direct cost to the bank to do that would get charged.

CHAIR—There was a suggestion in some of the submissions that we look at switching accounts and that they be able to switch between institutions like mobile phone numbers. Do you have a view on that at all? As well as the record you are getting, your bank account would stay with the same number, essentially, and be transferred between institutions.

Mrs Claes—Yes, I think that is a model. I always refer to a far more significant one in superannuation. I could—I wish!—potentially transfer hundreds of thousands of dollars by giving an authorisation to one of the funds managers to transfer to the other, as easily as snapping my fingers. Yet switching my gym membership is far more difficult. I think there is an irony there.

Mr PEARCE—ING, of course, is a joint venture between your parent company and ANZ bank.

Mrs Claes—We do have one of those in Australia. ING Direct has a few subsidiaries within Australia. The one that you have referred to is the wealth management arm. In 2003 ING Australia, which was 100 per cent owned by one of the parent companies, sold 50 per cent of its ownership to ANZ Bank. Wealth management, superannuation, funds management, life insurance, investment management—that is that entity. ING Direct is a subsidiary of ING Bank in the Netherlands, which in turn is owned by the global ING Group.

Mr PEARCE—When did ING Direct start in Australia?

Mrs Claes—It got its banking licence in 1994. It had a small mortgage portfolio—it is probably fair to say it was a predominantly commercial portfolio. It had some deposit-taking activities and term deposit activity. 1999 saw the launch of ING Direct, which of course is the trading name for ING Bank, and the growth has happened since that time. Around the same time, we entered the intermediary market. So in the last 10 years we have seen phenomenal growth on both sides of the balance sheet. As alluded to in the submission, mortgages are sold predominantly through brokers or intermediaries. For deposits there is a direct channel.

Mr PEARCE—So ING Direct started basically in 1999?

Mrs Claes—Yes.

Mr PEARCE—And you have grown exponentially over the last nine or 10 years.

Mrs Claes—Yes.

Mr PEARCE—Why do you think you have grown so well?

Mrs Claes—If you remember back in 1999, when we entered the market, if you had a deposit with a bank in Australia, you got a very low return if any. You paid fees on your account. It was generally very cumbersome. ING Direct came into the market and offered rates, and continues to do so, at cash or above. It has very simple products—simple in the opening process, easy to understand. Our offerings are very much guided by intensive customer research. There are no fees. We have year-on-year award-winning customer service.

Mr PEARCE—So you have been very competitive—that is why you have grown?

Mrs Claes—Yes.

Mr PEARCE—So by definition then you consider the Australian banking sector to be very competitive.

Mrs Claes—The issue that we and others have with the Australian banking environment is the concentration within it. Being part of a global business unit, we are constantly talking to our brothers and sisters around the world. Where Australia is quite unique is that 80 per cent—and Brett can talk to the mortgage space—of deposits are held by four institutions, and that is the difficulty that we find.

Mr PEARCE—That is interesting. I understand what you are saying. With the global financial turmoil, it actually might be an advantage to Australians just at this point in time, mightn't it? But that is another issue. Talking about the global financial turmoil, what is your bank thinking about that at the moment? What is your internal research and what are your thoughts about where that is heading?

Mrs Claes—We hope it will be over soon!

CHAIR—You are not alone in that.

Mrs Claes—Yes. I think there are different levels of turmoil. Certainly on the funding side we have been experiencing that pressure for probably up to about 12 months now, and at the end of the day, try as we may, it makes delivering funds to clients more expensive. So I do not see that going away too soon. The turmoil more recently, though, as you are aware, has probably shaken people's confidence. So, looking at it positively, it has actually given us a very good opportunity to reinforce the local and global security of our group and our credit rating, and we have done so.

The government guarantee has certainly helped inject some confidence back into the market. I have talked to customers who have said to me, 'Should I put all my money under the pillow?' The guarantee will definitely help us. At the end of the day, if you are well run, your liquidity and capital are sound and APRA is a constant visitor to all banks in Australia, we have nothing to worry about. We are weathering the storm well.

Mr PEARCE—Back to the issue of having some sort of a third-party entity that sits between, to use your words, some sort of warehouse or transfer or something, who would pay for that if that were to be the case?

Mrs Claes—There would be a cost and—

Mr PEARCE—But who would pay for it?

Mrs Claes—It would have to be at cost. You could have the customer choosing to move or, if you are trying to break into the market, I could see that that may be a charge that the incoming bank may gladly pay on the customer's behalf, as we do with many of our other products at the moment. Clearly, any cost is going to be a disincentive, so we would have to be very mindful that, by pulling down one barrier, we were not creating another—

Mr PEARCE—That is the point, isn't it?

Mrs Claes—and injecting more cost into the system.

Mr PEARCE—That is the point that I am getting to. If you create a third-party entity that sits between you and the consumer and you are trying to do it in the context of allowing free movement and competition, that entity will have its own cost structure, so somebody has to pay for that. They actually have to be a commercially viable business in their own right in terms of offering that service. Either the consumer has to pay for it or the banks have to pay for it.

Mrs Claes—My preference would be to go the direct route, but I would not discount that and I think the only way to keep that model honest would be to have it either highly regulated or under some sort of government auspice.

Mr ANTHONY SMITH—You mentioned an example overseas where is happening.

CHAIR—In the Netherlands.

Mr Morgan—Banking in the Netherlands is actually cheaper than banking in Australia.

Mr ANTHONY SMITH—How does that work there, in terms of the question Mr Pearce has just asked?

Mrs Claes—I will be honest: I saw that as well in a submission. I am taking that and will vigorously pursue that. I am happy to pass some information back because, as I said, we are looking very closely at all the barriers that we may face in the next six months.

Mr ANTHONY SMITH—I would be interested. It would be a good thing for the committee to look at: how long that has been operational and what the effects have been in terms of Mr Pearce's question.

CHAIR—We have had quite a deal of evidence in terms of that so far in the inquiry.

Mr TURNOUR—Chair, would it be worthwhile writing to the exchange house that we had appear before us a month or so ago and putting forward the linear model that has been presented by ING to see the feedback that they have, because we were basically talking about the Netherlands' model rather than the other proposal that we have heard about today? It is just a suggestion.

CHAIR—We can look at all of those things.

Mr PEARCE—I thought you were going to suggest that the committee goes there!

Mrs Claes—It is too cold now.

Ms JACKSON—Could I get some idea about your level of exposure to foreign markets in this current credit crisis, especially as it impacts on your mortgage areas?

Mr Morgan—Are you talking about the Australian entity or globally?

Ms JACKSON—The Australian entity.

Mr Morgan—With ING Bank Australia Ltd, the legal entity, all our investments are in Australia. Predominately, the money raised through deposits is used to fund our mortgages in Australia and we raise additional money through the wholesale markets.

Ms JACKSON—What sort of percentage of your mortgages would have the capital raised from domestic deposits versus—

Mr Morgan—In broad numbers, we have a mortgage book of around \$38 billion, split between residential and commercial. About \$3 billion is commercial. We have around \$20 billion in deposits. So about 50 per cent, give or take—it depends how you cut it—is through domestic deposits. About 25 per cent, give or take, is through short-term Australian markets and 25 per cent is more long-term funding. That is the general break-up, which is fairly similar to the Australian banks.

Ms JACKSON—One of the questions I have been asking most mortgage providers regards us having had evidence that, generally speaking, consumers are paying 30 or 35 per cent more for mortgages compared with consumers in countries like the UK and the USA, which at the moment is probably not a very good comparison to make. Why do we have such significant costs in Australia?

Mr Morgan—I think if you look at it historically, there probably was a slightly higher margin in Australia than some other countries like the UK. They ran on very tight margins with the funding issues and all sorts of the things and whether banks do or do not pass on rate cuts, it has all changed. It is quite nontransparent as to what the real cost is. But historically speaking—the question was why is it so high?

Ms JACKSON—Why do you think it was so high?

Mr Morgan—I think ultimately there was probably more competition in other countries earlier. You saw the Australian environment continue to drive down margins absolutely in the mortgage market to a relatively tight level, so in the end the new production being written in the old terms was quite tight. Money through securitisation became very cheap, actually ultimately cheaper than term funding and putting aside capital, because they do not hold the risks. That continued, people entering the market continued to drive down the price of mortgages.

Ms JACKSON—So you are effectively saying to me that if we had a similar look at it now, you do not believe that comparative disadvantage would be there for Australian consumers?

Mr Morgan—I think if you look at it globally, the issue becomes funding in general—who can afford to learn, who can access money—and only when that money is more available will you see competition really come back into the market.

Ms JULIE BISHOP—Thank you for being here today. Over the past 12 months, the residential mortgage-backed securities market has shrunk considerably and has been concentrated; it has been reported in the big four. What impact has ING Direct felt in that regard over the last 12 months?

Mr Morgan—We have never securitised the dollar in our life, so from our own point of view it has not impacted on us in the short term. More specifically, the issue is we have raised money through retail deposits, and that has not necessarily grown significantly over the last 12 to 18 months, so we have probably relied more on wholesale markets to raise our money to re-lend. It has become very, very expensive to raise money in wholesale markets and almost cost prohibitive to do so. Add that to the credit crunch, more so in the current sense, and the access to money is also disappearing as well as the cost of money.

Ms JULIE BISHOP—So on that basis, deposits would be even more important to you?

Mr Morgan—Yes, the competition in the market today is not particularly around mortgages, it is around deposits.

Ms JULIE BISHOP—You also said that the big four are holding about 80 per cent of deposits in Australia at present. Have you seen any change over the last couple of weeks in particular of deposits moving from outside the big four into the big four?

Mr Morgan—I believe that, in general, consumers are most confident in the big four. A lot of rhetoric has been out there about the big four and their safety, and I think consumers have listened. I think the government guarantee was a wonderful thing, and without that you would have less competition in the market.

Ms JULIE BISHOP—So I take it that the feedback I have been getting in my office is in fact correct: over the past few weeks people have been, without a need to do so, moving their deposits into the big four?

Mr Morgan—People have been very conscious about the security of their money and while there is some uncertainty about security, people feel more comfortable with the big four. If you

take the average consumer, you would probably assume that, yes, there has been some movement.

Ms JULIE BISHOP—Yet, all of the surveys that I have read indicate that most Australians believed there was in fact an explicit, perhaps implicit, but an explicit guarantee of their deposits in authorised deposit-taking institutions. Is that your understanding of it?

Mrs Claes—Certainly that is a misconception. As you are aware, it is a priority on liquidation that is the correct position under the Banking Act.

Ms JULIE BISHOP—Yes, but I am talking about perception.

Mrs Claes—Yes, you are correct: there is a perception, if I go from the constant feedback we get.

Ms JULIE BISHOP—So if there is a perception that deposits are in fact implicitly, at worst, and explicitly, at best, guaranteed, why would people be seeking to move from perhaps the second tier into the big four?

Mrs Claes—In these times they question that perception. You have to be frank with them in the response. That would be the reason why.

Ms JULIE BISHOP—Given that the Financial Claims Scheme will obviously, if it has not already, become law very shortly, do you see any change in that concentration of deposits in the big four over, say, the next three years or the life of the Financial Claims Scheme?

Mr Morgan—My view is that that will drive competition in the deposits market—so a more level playing field. So it will come back more to those giving the best rate, service and product; they will attract the deposits.

Ms JULIE BISHOP—What is the bank's exposure to credit default swaps?

Mr Morgan—I can take that on notice and come back to you, but in terms of Australia it is very low to the best of my knowledge. It is limited.

Ms JULIE BISHOP—Has it been quantified?

Mr Morgan—In Australia not to my knowledge, but we can have a look. We get calls from APRA daily, effectively, and they are not concerned on that front.

Ms JULIE BISHOP—But if it has not been quantified then I take it that APRA has not been provided with a figure.

Mr Morgan—Our treasury may have quantified it for them, but I do not have that knowledge at the moment.

Mr MARLES—Following on from what Ms Julie Bishop was saying, your evidence as I understand it is that the bank guarantee will help in terms of providing competition on deposits. I

think you also said that people question the perception of the security of their deposits in the non-big-four banks. That is what you said has occurred. I think you said that, when deposits come to you, you have to be frank.

Mrs Claes—With the question about, prior to Sunday, the guarantee of the deposits, technically there is no guarantee.

Mr MARLES—I suppose the question then is: when the guarantee comes into place, how will you get your old clients back? How will you market it?

Mrs Claes—You obviously do not live in Sydney

Mr MARLES—No, I do not.

Mrs Claes—We have a number of initiatives across our direct channels, including a lot of activity in the above-the-line media space, to reassure our customers that we are an Australian bank and we are included within the realms of the guarantee. That includes everything from emails to letters to advertisements. The feedback we have been getting from customers in the last few days is that they have really appreciated that. They have said, ‘Look, I always trusted you; it was just great to receive that news.’ One of the hallmarks of our risk profile is our double A rating so we have never been shy about reminding people of that in the past, but certainly the guarantee has helped.

Mr MARLES—You said that your customers appreciate that. Presumably that is people who have stayed with you.

Mrs Claes—Yes. Most customers stay with us. There is always movement in balances.

Mr MARLES—Maybe this is the question I am trying to ask. I took it from Mr Morgan’s answer to Ms Bishop’s question that there were some customers who have gone from your institution into one of the big four in the last period.

Mr Morgan—How our account operates is that we link to only one external bank account, and so when people take their money they do not necessarily close down their account with us; they just transfer their money back out. So they can leave their account open and in time hopefully transfer the money back in. It is used as a link where they have a high-fee, low-interest account and if they have excess balances then they can transfer it to us.

Mr MARLES—You still would have been seeing a movement of money.

Mr Morgan—There was certainly a difference in the movement of money. There was a positive influence from the announcement of the government guarantee.

Mr MARLES—And prior to that, in the weeks leading up to that, had there been a negative movement?

Mr Morgan—The month before we had a positive month for inflows so our deposit balances grew. It is hard to look at the data because every day is different. I think ultimately there was some movement.

Mr MARLES—To the big four?

Mr Morgan—Out. Our external bank account can link with any bank—it could be Bendigo Bank.

Mr MARLES—So out of your bank. I am with you now.

Mrs Claes—Because the big four have such a deep concentration within the market and because of the way our savings maximiser operates, it must be linked to an external bank account. The money can cannot go out it cash. It can only go back to one of the big four, so within the month of October we have been doing very well in the last few days. But, yes, there have been fluctuations. When you remove, it is made clear that security and risk is a level playing field. What will drive competition at the end of the day is returns, fees, product features and service—and that is what we are good at.

Mr MARLES—Does that mean that last week money went out and since the bank guarantee money has come back in? Is that a simple description?

Mr Morgan—The flows have certainly reverted. We have had some good days.

Mr MARLES—As opposed to the bad days?

Mr Morgan—They were not as good.

CHAIR—I would like to pick up on Mr Miles's questions and theme. What in general terms is your customer base composition?

Mrs Claes—I can talk about the savings side and Brett can talk about—

CHAIR—So you know where I am coming from, it follows on directly from Mr Marles's questions. It would be a fair assumption, would it not, that those who went back to the big four were going home in a sense. They had been at a big bank previously and they might have come to you as a new customer. I am interested in the mix and whether there is—

Mrs Claes—The mix in terms of origin?

CHAIR—It got me thinking. Yes, what is your mix in terms of customer composition on age profile for instance?

Mrs Claes—It largely reflects the market share of the Australian banks. The four holding 80 per cent and their relative market shares is reflected in our market, in our base give or take a percentage point.

Mr Morgan—Are you speaking to the demographics?

Mrs Claes—The eastern seaboard is really where we have left the footprints from our advertising and our message, so Sydney followed by Melbourne, Brisbane, Perth. We have concentrated on those markets very successfully to date, but there is no reason, particularly being a direct bank, why we will not expand beyond that. Our demographic probably averages a male between 39 and 45 years old. There is a whole lot of detail I can tell you if you wish.

Mr ANTHONY SMITH—I am just interested in some of that.

Mrs Claes—It is probably fair to say we do it in terms of age. We certainly have healthy representation in all brackets. It is maybe a surprise to you that it is not skewed towards your high school students. It really does reflect the growing take-up of the electronic channel by all age groups, and as history goes it is broadening out. But initially it was not really young but probably in the sub-40 category.

Mr ANTHONY SMITH—That is really what I was getting at.

Mrs Claes—But there are a lot of grandmas there now too.

Mr ANTHONY SMITH—That is interesting.

CHAIR—Thank you for appearing here today, for the submission and for making yourselves available. Obviously we will be considering it carefully terms of the context of this inquiry. Hansard was here today taking down the evidence, so could you check with them if there are any things they need to check. A copy will be sent out to you and if there are corrections, could you get them back to us as quickly as possible.

Mr Morgan—Can I make a correction, Chair? We just checked on our credit default exposure and we have no exposure to credit defaults. Thank you for the understanding of the committee.

CHAIR—Thank you for that. Once again thank you for coming here today.

Mr Morgan—Thank you.

Mrs Claes—Thank you very much.

Mr PEARCE—I move that the committee authorise publication including publication of the parliamentary transcript of the evidence given before it at the public hearing today.

CHAIR—There being no objection, I now declare this public meeting closed.

Committee adjourned at 10.34 am