The Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA
ACT 2600

Dear Mr Bryant

Inquiry into Treasury Legislation Amendment (Unclaimed Money and Other Measures) Bill 2012

Thank you for the invitation to provide comment on the Treasury Legislation Amendment (Unclaimed Money and Other Measures) Bill 2012. Given the short time frame available CBA has limited its commentary to: the activation time frame, product exclusion, likely negative customer impacts of the legislation, tax distortions and the practical operational constraints to implement the legislative changes within the proposed framework should the Bill be enacted.

Needless to say system changes take time and have to be factored into the Group's IT implementation schedules that are already affected by other regulatory changes. Moreover, customers will understandably be concerned with the unexpected burden of added administrative steps to recover unclaimed monies from dormant, current accounts.

1. The activation time frame should be re-assessed

It is the Bank's experience that accounts do exist for long periods of time without customer action. There are numerous reasons for inaction that can be related to the nature of the product or customer behaviour. The three year period proposed under the Bill appears, from the Bank's experience, to be too short.

- **a.** 3 years is not sufficient to assess true inactivity on accounts. The Bank experiences a high level of account reactivation even after 6 ½ years, when as a matter of course CBA writes to all customers which have been inactive advising that unless they confirm they are "active", by making a transaction on the account, their funds will be transferred to unclaimed monies. In our experience 25% to 35% of account balances are reactivated between 6 ½ and 7 years of inactivity following notification from the Bank. This experience indicates that unused accounts do not necessarily equate to unclaimed accounts.
- **b.** We anticipate a high level of customer anxiety over accounts being closed and about the process and timeframe for recovery of funds, especially if no prior notice is issued to the customer as this change would fall outside the current terms and condition of the product.
- **c.** Adding another 3 years-worth of accounts to the existing year's accounts for closure [i.e. closing 4 years' worth of accounts] will have a significant cost impact due to increased volumes of claims for funds to be returned and generally dealing with customer enquiries, as well as impact our back office processing services teams that will have to deal with increased volumes of accounts.
- **d.** Operating costs will also be increased as an out of cycle closing statement will need to be issued on each closed account stating the reason for the closure.
- **e.** Due to the significant risk to the stability of banking system, changes cannot be made over the year end IT freeze period. Therefore implementing the required change within the proposed timeframe will result in duplication of effort. CBA

already has the process for identifying accounts which will soon become unclaimed monies under the current 7 year rule in train. After completion of the current closure cycle on 31 December, and if this proposed changed to make accounts unclaimed monies after 3 years of inactivity is legislated, the Bank would need to recalibrate the IT process for a 3 year rule to run sometime in Q1 2013 and then again recalibrate the IT process for a 3 year rule to run with effect from 31 December 2013 and each year thereafter. If the period for unclaimed monies is to be shortened, a much simpler and lower risk implementation process is to have the change take effect from 31 December 2013.

2. Product exclusion

If the legislative changes are imposed then strong consideration should be given to (full or semi) ‘carve outs’ for products that are designed for, or are treated as, long term products and will be adversely affected if captured by this Bill.

- **a.** Term Deposits - should be specifically excluded due to the nature of the product.
- **b.** Youth Accounts – should be excluded under the revised time frames as the accounts are often opened for a child at birth or around the time of starting school and often would not be transacted on within the 3 year timeframe but then reactivated at a later date.
- **c.** Offset or redraw accounts (eg CBA’s Mortgage Interest Saving Account) – should also be excluded. By their nature these accounts are attached to a mortgage, which is usually a very long term product. There would be an adverse customer impact if funds are transferred out and the benefit of the interest saving due to balance offset is lost.
- **d.** Other linked accounts – these accounts should be examined for potential exclusion (eg transaction accounts linked to high interest paying online savings accounts). If the customer posts deposits directly to the online savings account the transaction account could appear “inactive”, although the customer will require the transaction account if they wish to withdraw funds.
- **e.** We note also that First Home Saver Accounts will be complex to manage under this the proposed legislation. The complexity arises because of existing rules around minimum investment period (which can be 4 years). Further consideration needs to be given to how to treat these accounts in a manner which is practical for banks.
- **f.** Any accounts where the customer has other open active accounts with the same institution, as the customer is contactable and not inactive and therefore the funds should not be viewed as lost or unclaimed.

3. Likely adverse impact on interest earned by customers

It could be expected that a significant proportion of accounts captured by this Bill would be adversely affected in terms of the interest rate received by the customer. A high level analysis by CBA indicates that the majority of account balances at CBA which would be impacted by the proposed changes to unclaimed monies currently receive an interest rate higher than the CPI linked rate which the Bill proposes to be paid on those balances once transferred to unclaimed monies. This is not surprising given many of the types accounts outlined above pay rates of interest above CPI.

4. Tax neutrality between bank interest rates and CPI paid by the Government

As a matter of sound public policy the tax treatment of interest earnings should be the same whether those earnings from a bank account or from unclaimed monies. The draft legislation proposes that interest earned whilst in unclaimed monies be tax free. (Interest earnings in bank accounts are, of course, subject to tax.)

5. **System change time frames**

   a. **General Notifications** - 7 months required to complete from confirmation of implementation date. This includes revised Terms and Conditions for new accounts being opened with significant cost implications for printing and distribution.
   Notification to all existing customers of the changes to terms and conditions is also a significant piece of work. If changes are notified via statement, the notification process would take up to 6 months to distribute plus 30 days to complete the notice requirement.
   b. **Specific Notifications –** 2 months to complete from confirmation of implementation date. Customers with affected accounts to be advised of the pending closure and steps to take to reactivate; the generation of the letters and mailing would take a month and then we need to allow the customer at least 30 days to respond.

For your information, CBA also supports the submission of the Australian Bankers' Association. I trust this commentary assists the Committee in its deliberations.

Yours faithfully

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13 November 2012