bankwest

a better deal

Bank of Western Australia Ltd
ABN 22 050 494 454

Simon Walsh
Managing Director
BankWest Tower
108 St Georges Terrace
Perth
Western Australia 6000

GPO Box E237
Perth
Western Australia 6001

Telephone: + 61 8 9449 6269
Facsimile: + 61 8 9449 6570

18 July 2008

The Secretary
House Standing Committee on Economics

[By e-mail: economics.reps@aph.gov.au]

Dear Sirs

Re: BankWest submission on the House Standing Committee on Economics inquiry into competition in the banking and non-banking sectors

We wish to thank the Committee for providing an opportunity to comment on competition in the banking and non-banking sectors.

We commend the Federal Government for instigating this inquiry into what is an important issue for all Australian consumers.

1. Executive Summary

Our perspective in this submission is that of a smaller financial institution aggressively seeking to increase market share and because of this, whilst our view in most cases is similar to that of the rest of industry and the industry representative bodies, in some cases (as highlighted in this submission) our view is different.

Our belief is that whilst the Australian banking industry is generally robust, competition is now actually decreasing. In our opinion this is driven by further consolidation of market share held by the four major Australian banks and issues such as the credit crunch.

In spite of competitors such as HBOSA providing greater competition, the impact of the credit crunch is reducing competition in Australia. This is due to the funding costs and difficulties faced by non-bank lenders (such as Rams and Macquarie Mortgages) and a new round of consolidation, for example the merger between St George and Westapac. Other large lenders are also changing their business models (such as Bluestone), questioning their ownership of lending businesses in Australia, and have made it known they will consider offers to sell them. Another example is GE who are open to offers for their Wizard Group.

The issue for new players is the substantial barriers to entry in a number of areas, that typically would put small new entrants at a competitive disadvantage. Such factors would include branch network size, ATM network size, inconsistency of regulation, the Australian Payments system of bilateral arrangements, and of course the lack of standards around customers switching between banks.

Some of these issues have already been explored by the Reserve Bank, and others (such as switching) are discussed in greater detail later in this submission (points 6.1 and 7.1) However, to summarise our position on switching, we contend that ease of switching between financial institutions is crucial to creating and maintaining a genuinely competitive financial services market in Australia. For this reason BankWest has strongly supported the Government's recent switching initiative and industry's response to it but believes the initiative should be taken further. A central registry to facilitate the portability of direct debits and credits would achieve the aim of making it significantly easier for customers to switch between financial services providers. We would welcome a Government cost/benefit analysis on the introduction of such a system with a view to implementing an appropriate model as soon as practicable.

2. HBOS plc

HBOS plc is one of the world's largest financial services groups and one of the UK's largest providers of mortgages and savings. HBOS Australia Pty Ltd is a holding company formed in 2004 to oversee the Australian operations of HBOS plc.

HBOS plc is seen as a champion for greater competition in the UK and over the last 6 years has pioneered a series of market leading products in retail banking which have significantly contributed to UK market competitiveness.

HBOS plc identified Australia as a prime strategic market for international expansion because of three key factors, these being the cultural and regulatory similarities (in terms of language and legal system), the concentration of market share amongst the top 4 banks (70% at that time) combined with a substantial anti-bank consumer sentiment, and finally higher margins in most core banking products relative to the UK market. The latter two factors are key indicators of a lack of competition and HBOS plc viewed this as representing a prime opportunity for a new player to enter Australia and take on the incumbent banks.

3. HBOS Australia

HBOS Australia Pty Limited comprises four diverse financial services companies (plus a Treasury division):

- Bank of Western Australia – offering a full range of business and retail banking products for over 100 years;
- Capital Finance Pty Limited – specialising in asset finance, (since 1996);
- St Andrews Australia Pty Limited – specialising in insurance and wealth management products (since 1997); and
- BOS International (Australia) Limited – specialising in corporate lending (established in Australia since 1995).

In addition, Bank of Scotland Treasury Australia is part of Global Integrated Treasury, providing services to support the growth of HBOS Australia's business and delivering treasury products and services to our customers.

HBOS Australia has a multi brand strategy which focuses on the strengths and flexibility of the various operating businesses and the diverse needs of our broad customer base. We have adopted this strategy so that our businesses are able to focus on their respective customer niches and can create a point of difference to the major Australian banks (who normally operate all businesses under a single brand).

Our vision is to be a significant Australian financial services provider through a strategy of building market share and growing nationally by acquiring new customers with a combination of service and market leading products.

4. Competition in the Australian market

The HBOS Australia group strongly supports the development of a healthy, competitive financial services market in Australia.

Since deregulation, customers have benefited from increased competition, however current and possible future consolidation within the industry is likely to negatively impact on competition because it will increase the concentration the major banks already have in transaction, mortgages and savings products.

Figure 1 shows the percentage of accounts held by the majors across a range of banking products. 62.3% of deposits (household and non-household) and 67.3% of lending products are held by the majors.

	ANZ	CBA	NAB	WBC	Majors
Household Deposits	11.1%	29.4%	13.9%	13.7%	68.1%
Non Household Deposits	14.8%	13.1%	16.1%	15.4%	59.4%
Corporate Lending	17.8%	14.6%	20.9%	13.5%	66.8%
Investment Housing	14.5%	24.9%	19.2%	16.9%	75.5%
Owner Occupied Housing	17.3%	23.8%	17.1%	16.0%	74.2%
Credit Cards	20.3%	21.8%	14.5%	21.8%	78.4%
Deposits Overall	13.7%	18.3%	15.4%	14.9%	62.3%
Lending Overall	15.3%	19.3%	17.5%	15.2%	67.3%

Figure 1 – Australian Bank Market Shares
Source: Credit Suisse Bank Market Shares June 2008

The Australian banking market is continuing to consolidate further, triggered by the credit crunch and proposed merger of Westpac and St George. Should this transaction proceed, concentration of market share in the largest four competitors will increase (refer **Figure 2**). We also believe that further consolidation into the other three largest competitors is likely. This could lead to an even further lessening of competition over time. Added to this is the consolidation occurring in the building society/credit union sector, which is also contributing to this effect (although their combined market shares are smaller).

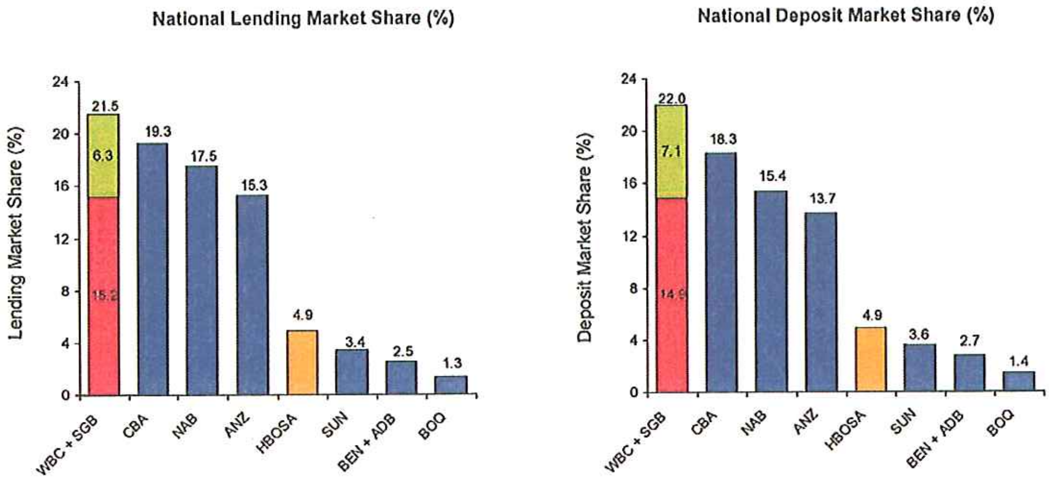

Figure 2 – Australian Banking industry concentration (market shares)
Source: Credit Suisse; APRA; RBA

We strongly believe that consumers should be free to confidently choose from a broad range of financial service providers and financial products based on their competitive appeal and price. We understand that convincing customers to switch from the major banks requires us to build a distinctive brand and also convince customers that we are here to stay, are actually different and better than their current bank, and are worth the effort of changing. Our research shows that many customers still do not see significant differences between the major banks, and this drives their perception that switching will not yield them significant benefit.

Therefore the effect on overall market competition of new or smaller industry players seeking to aggressively grow is two-fold. Firstly, new competitors offer more aggressive pricing and/or service than incumbents because they need to create a "burning platform" for customers to switch, and secondly, the incumbent banks react to these offers by increasing their competitiveness. As a result, those players seeking to aggressively grow enhance competition and provide benefit to more than just the customers that actually switch banks.

It is also important to note that price alone is not necessarily enough to drive customers to switch, and as a result product innovation is required to gain points of difference to the incumbent banks. Innovation includes the ability to set headline rates (interest rates for mortgages and savings products) but also set fees that reward those customers that minimise the bank's costs through their activity (for example, use of electronic channels only, make payments on time reducing the need for follow up letters etc) or offer a service level that is in excess of what a customer would normally expect.

5. Product innovations

As stated above, one of the drivers of competition is that of product innovation. Consumers benefit by being able to choose from a range of innovative products at affordable prices.

In a truly competitive market, products should be free to compete on their own merits allowing consumers to choose the products best suited to their needs. BankWest believes in an open market, with the freedom to innovate our product design and channels without regulation on fees or charges. In such a market, generally the most competitive products prevail. This subsequently encourages other industry participants to launch similar product ranges. We would be concerned at any changes to the industry that sought to regulate fees on core banking products because it restricts our ability to differentiate our products from large incumbent players and would be detrimental to competition in the long-run.

We support full fee disclosure and transparency. To this end we have included information on our periodic statements referring customers to the BankWest website section on the various fees payable and the section on how to avoid bank fees.

Additionally, in order to further assist customers in switching banks, BankWest has recently abolished the charging of Deferred Establishment Fees (DEFs) across our entire home loan range. The abolition of DEFs by BankWest is in line with our commitment to reducing switching costs and our approach to generally rewarding customers for loyalty rather than penalising them for leaving.

Addressed below are our specific product/service developments in the areas of savings/transaction accounts, credit cards and mortgages.

5.1 Savings & Transaction Account Products:

Our view is that, in general, the savings and transaction account segments are the least competitive parts of the banking sector. This is largely as a result of the high entry barriers and customer inertia associated with these products.

We believe that BankWest has enhanced competition over the last 5 years through our "Get Australia saving" platform, which recognises that in general Australians are poor savers relative to other geographies. This platform has seen us launch a series of products with higher headlines rates than Australian competitors as well as innovations around product features including bonus interest on savings accounts and introducing a retail savings products mentality into small to medium enterprise ('SME') banking, for example the *Business TeleNet Saver* and business terms deposits (such as the *Money Market Deposit Account*).

Some more specific deposit innovations we have introduced are highlighted below.

In 2004, BankWest commenced a long-term major national expansion program through the introduction of a highly competitive, market-leading high interest earning, fee free, online deposit account called the *TeleNet Saver*. In our opinion *TeleNet* was not only highly successful in helping BankWest acquire new customers and start to build a national brand, but along with ING's similar product was responsible for driving competition in deposits and changing the face of the Australian savings market. There are now a range of high-interest bearing savings accounts available on the market as a result of such competitive pressure.

In the past 2 years, BankWest has launched a further range of market leading innovative products in response to market demand, for example:

- The *Kids Bonus Saver*, launched in June 2006 has no access or maintenance fees, and pays 10% bonus interest on deposits of between $25 and $250, provided there have been no withdrawals, to encourage children to save.
- The *Instant Saver* launched in February 2007 pays 4.75% interest on all balances, provides debit card access and transaction functionality and has no maintenance fee if there is a balance of $500 or over;
- The *Regular Saver* launched in July 2007 has no account fees and features 9% interest on deposits between $50 and $500, provided no withdrawals are made, to encourage consumers to save;
- The *BankWest Hero Transaction Account* launched in October 2007 features 5% on balances up to $5,000, a $100 Safety Net facility (to help customers avoid overdrawn account fees), and has no maintenance or withdrawal fees (other than other bank ATM fees) for minimum deposits of $2000 per month (less than the average Australian salary).

In business banking we recognised that many medium sized companies were not getting attractive rates for their larger deposits, so in 2004, we commenced operation of a "specialised deposit services" group that specifically targets these entities by offering personalised service and exceptional rates for their deposit business. In 2006 we followed up this by launching a business TeleNet account, which incorporates many of the innovations we introduced for the retail TeleNet product. This brought much higher rates to SME customers where previously they would have received little interest from their incumbent business bank. Other competitors have now replicated this offering.

It is also important to note that many of our savings products have low entry barriers (such as minimum balance requirements). A feature of the Australian savings market was that many product offerings had minimum balance requirements that put those products out of reach of the average retail banking customer. BankWest has therefore brought competition to the industry at all levels, rather than just for high net worth customers or corporate businesses.

5.2 Credit Cards:

The credit card sector is Australia is more competed than other parts of the industry, with a range of domestic banks, international banks and non-bank participants.

BankWest has focussed on credit card innovation in both the Retail and Business banking sectors as another way of raising our brand profile and attracting customers to switch to BankWest from a major bank. Along with several other non-bank players (who virtually simultaneously launched similar products) we pioneered the introduction of Zero-interest balance transfer products and the Low-Rate card segment through our launch of the BankWest "Lite" Card.

5.3 Mortgages:

In our opinion, prior to the credit crunch, the Australian mortgage sector was well competed following just over 10 years of fundamental change driven through the entry into the market of mortgage brokers (originators) and an increased number of bank and non-bank lenders. BankWest pioneered the use of mortgage brokers in the 1990's as a way of entering into the East coast market without a branch presence (where most mortgages were sold at that time).

Our product innovations in relation to mortgages have included:

- *Lite Home Loan* – a stripped down product feature mortgage with a low variable rate and no ongoing fees, where a repayment plan can be chosen to suit cash flow and the application fee is refundable if the loan is kept for 3 years;
- *Rate Tracker Home Loan* – Variable rate product with an introductory interest rate at least 1% pa lower than the average of the standard variable rates of the big four banks.

The credit crunch however is having the effect of undoing much of the competition in the mortgage space due to the collapse of non-bank lenders who relied on securitisation to fund their asset book. The current decline in mortgage broker margins is also likely to force smaller operators into financial difficulty if continued. APRA data since August 2007 shows a reversal of the slow decline in major bank mortgage market shares, as customers seek banks that are more traditionally secure and trusted.

Like several other banks, BankWest has explored alternative channels for mortgages such as telephone and internet. Our experience continues to show that the complexity of the mortgage process, which is compounded by differing state laws around stamp duty, lodgement fees etc, drives customers towards face to face channels (such as branches, mobile banking managers or mortgage brokers). The other contributing factor to customer preference is that a mortgage is seen as one of the largest expenditures a household will make and this contributes to customer needs to ensure they are making informed and wise decisions.

6. Government initiatives supporting competition

There have been a number of welcome recent Government initiatives which will assist in increasing competitiveness in the banking and non-banking industry. These include:

6.1 Switching

In our submission (attached) on the APCA Consultation Paper *Aspects of Account Switching,* BankWest expressed strong support for a switching initiative and contended that the current direct debit and credit arrangements provided a significant disincentive to customers wishing to switch bank accounts. We also contended that the major banks had little incentive to make it easier for customers to switch.

Accordingly, we welcomed the switching initiative released in February 2008. The initiative introduced a listing and switching service requiring banks to provide their customers with a list of direct debits, credits and periodical payments on request. The customer can then take that list to their new bank and the new bank will assist them in re-establishing these.

However unlike many of our banking competitors we do believe that the switching initiative could and should be further enhanced making it even easier for customer to switch banks and thereby promoting even more competition in the market (see point 7.1 below).

6.2 National regulation of credit

We welcome the proposals to regulate credit nationally by re-enactment of the *Uniform Consumer Credit Code* as a stand alone Commonwealth Statute. In our submission on Treasury's Green Paper *Financial Services and Credit Reform*, we supported the national regulation of all credit including credit cards, car loans, personal loans and mortgages. We contended that national regulation *'facilitates conducting business Australia wide (due to consistency of process and subsequent reduction of cost) thereby promoting competition between credit providers'*. We also stated that '*Regulation of credit by the Commonwealth has the potential to remove impediments to switching on credit products such as deferred establishment fees on mortgages'*

6.3 National regulation of finance brokers

We have consistently supported a uniform national scheme for the regulation of finance broking, particularly with respect to licensing, accreditation, training and disclosure obligations. In our opinion, such a scheme would assist in increasing consumer confidence in broker introduced deals. Brokers are an important distribution channel for financial services and all efforts, including a regulatory scheme, should be considered to ensure that consumers receive accurate, considered, advice and information about the range of products on offer to enable them make an informed decision about what loan is appropriate for their needs.

The Draft *Finance Broking Bill* was released in 2007. It is currently proposed that the draft Bill will be introduced in NSW and that other jurisdictions will then introduce similar but not necessarily identical provisions. We are concerned that this could lead to discrepancies in the administration process. National consistency of legislation is desirable wherever possible and for this reason we would support Commonwealth regulation in preference to a State based system.

6.4 Regulation of fringe credit providers

As we have previously mentioned, consistent and robust consumer protection is key to consumer confidence. Consumers are more likely to shop around for products from a range of financial services providers if they are confident that they are dealing with reputable organisations and will have sufficient protection afforded them, for example full disclosure and recourse to internal and external dispute resolution mechanisms.

There have been numerous instances of market failures in relation to the fringe credit provider market, for example where customers have been misadvised or where predatory lending practices have occurred. Our view is that this ultimately affects competition because it impacts on consumer confidence and can make consumers less likely to change financial institutions. Additionally it can increase the likelihood of already vulnerable sectors of the community being taken advantage of through undesirable lending practices, often with excessive fees and/or interest rates attached.

We welcome the national regulation of fringe credit providers however not in its current form (the *Consumer Credit Code Amendment Bill 2007* and the *Consumer Credit Amendment Regulations 2007*). The Australian Finance Committee, Australian Banker's Association and Abacus made a joint submission in 2007 on the proposed fringe credit legislation expressing concerns around policy, process, content and drafting of the proposed Bill. We would suggest that Government consider the area where actual market failure has occurred (namely the fringe credit market) and target the draft legislation towards that particular sector so that consumer protections can be put in place as soon as possible.

7. Further steps to promote competition

Despite the above mentioned reforms which we have welcomed, we believe that there are a number of further steps that could be taken by Government to further increase competition in the banking and non-banking sectors. We have outlined some such areas for consideration below:

7.1 Extend the switching initiative

As stated above, we support the Government's switching initiative as facilitating greater competition and removing administrative barriers, however we believe the initiative could go further.

In Australia the customer's authority for a direct debit (Direct Debit Request) is held by the DE Debit User (ie the electricity company, gas company or gym). This means that when a customer wishes to transfer their account from one bank to another, they are responsible for notifying each DE User of the new account details. In the UK the financial institution holds the customer's authority. This makes the switching process much more streamlined, in so far as the new financial institution requests a list of direct debit instructions from the old financial institution and notifies the DE Users directly of the change in account details.

In the APCA Consultation Paper *Aspects of Account Switching* the question of whether a central registry would assist in account switching was raised. Such a registry would maintain direct debit and credit information for all customer accounts meaning that customer direct debit and credit arrangements would be independent of their financial institution or account. In turn, this would facilitate the portability of these arrangements.

Whilst this would involve a fundamental change to the current system, BankWest stated in its submission to APCA dated 26 October 2007 that we would be interested in the viability of a further study on replicating certain models such as the Dutch

Interbank Switch Support service. To this end we stated we would welcome further information on the functionality of such a system and a cost/benefit analysis.

In the absence of a central registry we would suggest that the following enhancements be made to the current switching initiative:

1.	The initiative could be extended to credit. It is currently confined to transaction accounts (savings and cheque).
2.	The initiative could be extended to business customers who use residential mortgages as security.
3.	The number of days it takes to provide a customer with a list of direct debits and credits could be further reduced. The current proposal is that this can take up to 5 business days whereas in the UK this list is provided within 3 business days.
4.	Greater onus should be placed on the financial institutions to manage much of the process. Under the current proposal, the customer must firstly obtain a list of direct debits and credits (and periodic payments) from their old financial institution. Then, a form must be completed for <u>each</u> debiting or crediting organisation to be advised of the new transaction account number. The debiting and crediting organisations are then notified of the change in account details within 5 business days. In the UK for example, this process is much simpler. The customer completes one form which authorises the old bank to provide the new bank directly with the list of direct debits and credits to be redirected. In APCA 's Consultation Paper it was proposed that enhancements could be made to the existing direct entry system to include redirection details (provided by the customer to their old financial institution). In our submission to APCA BankWest stated that it would support a redirection process similar to that outlined in APCA's Consultation Paper whereby the customer's old financial institution would advise a DE User's (ie the entity receiving the direct debit payments) financial institution of the redirection details when an account was closed.

7.2 Reform of the ATM system

Under the ATM system reforms it is proposed that the current position, where an ATM interchange fee is charged, will be abolished. The interchange fee (charged where a customer uses an ATM machine owned by a different financial institution to that which they normally bank with) will be set at zero and a 'user pays' principle introduced where the fee is charged directly to the cardholder.

Although we welcome the transparency of these proposals (where the charge levied by ATMs is disclosed before the transaction takes place) we strongly feel that the inability to form sub-networks between smaller ATM operators offers a significant advantage to incumbent banks that have large legacy networks. In fact, we fear that the reforms will create significant barriers to entry for small players without big ATM fleets, which in turn will benefit the four Majors.

Many smaller players would be unable to afford to invest in building an equivalent network rather than share other player's networks. We therefore doubt that ATM reform will bring any competitive benefits to the Australian consumer, and generally will entrench customers further with their incumbent bank, thereby reducing competition in the savings and transaction account segments.

7.3 Harmonise State, Territory and Commonwealth Legislation

A myriad of laws exist at a State, Territory and Federal level that impact on a bank's regular activities. Ensuring compliance with laws which vary depending on their jurisdiction is time consuming and costly. It also creates uncertainty and can ultimately discourage enterprise.

Some examples of inconsistent legislation that impact on the business activities of a financial services provider are:

- **Personal Property Security Laws:** There are currently a number of different laws throughout Australia that govern the taking of security in personal property. There are also a number of different Registers on which security interests can be registered. We have welcomed the release of the *Personal Property Securities Bill 2008* by the Attorney General's Department to harmonise personal property laws across Australia and introduce a single Register for the registration of all security interests, except land. We also commend the Attorney General's Office for the open and consultative approach it has taken with industry on the provisions of the draft Bill.

- **National electronic conveyancing:** Under the existing conveyancing system each State and Territory has different processes and procedures for settling property.

  In our opinion such an inconsistent, fragmented system is cumbersome to comply with, administratively costly, and acts as a barrier to creating national efficiency (and therefore lower prices to the consumer).

  For this reason we have welcomed the recent agreement by the Council of Australian Governments to establish a national platform (by March 2010) to facilitate settlement of property transactions electronically, lodgement of instruments electronically with land registries, and fulfilment of duty and tax requirements electronically.

- **Telemarketing:** Telemarketing is governed by a range of legislation at both a State and Commonwealth level, not all of which is consistent. For example the permitted calling times under the *Telecommunications (Do Not Call Register) (Telemarketing and Research Calls) Industry Standard* are different to the permitted contact times under the anti-hawking provisions of the *Corporations Act* (which govern FSR regulated products).

- **Credit assessment practices in the ACT:** Recent amendments to the ACT *Fair Trading Act* regulate offers for increases in credit card limits. This legislation is inconsistent with the other States and Territories and means that a different process must be implemented and followed for offers of credit in the ACT.

- ***Unfair contract terms legislation – Victoria*:** It is proposed to amend the Victorian *Fair Trading Act* to bring credit contracts under the unfair contract terms legislation and more recently it has been proposed to apply the unfair contract terms legislation to consumer leases and small amount loans. As has been highlighted in submissions by industry and industry representative bodies, this will also result in a lack of national uniformity of laws impacting on credit.

Such inconsistencies add to the complexity of the regimes governing financial services. In turn this leads to increased compliance burdens and costs and has the potential to be confusing for customers. Ultimately, the extra costs generated by compliance with inconsistent legislation and procedures are passed onto the consumer and businesses are prevented from reducing prices further as a result of operational efficiencies. We would encourage the Commonwealth, State and Territory Governments to work collaboratively to harmonise legislation wherever possible and to openly consult with, and listen to the opinions of, the industries impacted by such legislative changes.

7.4 Access to funds and Securitisation

HBOS Australia's Treasury division (Bank of Scotland Treasury Australia) has been following the progress of, and participating in discussions about, the Australian Securitisation Forum's discussion paper proposing that the Federal Government establish a government guaranteed, mortgage-backed securities market. Our view in this regard is that establishing a government backed securities market would assist in providing additional liquidity and lower cost funding to the banking sector as has been proven in Canada.

For this reason, our Treasury division would be generally supportive of the establishment of such a model. However, there are four concerns that we believe need to be addressed for this proposal to be progressed further:

1) if the criteria for mortgages that can be guaranteed is too restrictive then the introduction of such a model would be of little benefit;

2) however, if banks can essentially offload the majority of risks associated with certain mortgages there is a danger (as was shown in the US) that underwriting standards may slip;

3) if banks channel all of their higher quality/lower risk mortgages through the programme, then shareholders and creditors may be left exposed to a residual, more riskier portfolio of mortgages; and

4) much like some banks became too dependent on the securitisation market for funding, there is a risk that banks may become too dependent on the government guaranteed programme for funding.

On a more general point, we would be concerned if the establishment of a government guaranteed, mortgage-backed securities market model resulted in greater interference from government in the banking sector than was necessary.

7.5 Refine certain aspects of Financial Services Reform ("FSR")

The Financial Service Reform regime regulates conduct in relation to a broad range of financial products including superannuation, wealth management, deposit and payment products and general insurance products.

Among other things, the regime requires providers of FSR regulated products to be licensed, meet certain minimum conduct and training standards, have internal and external dispute resolution schemes in place and meet certain disclosure requirements.

The regime has been very costly to implement (for example costs of re-drafting documentation, legal sign-off, training and compliance) and whilst it has provided benefits to consumers it has also resulted in additional complexity. In particular, FSR regulated documentation can be extremely complex, lengthy and difficult to understand.

To this end we welcome the establishment of the Financial Services Working Group by the Minister for Finance and Deregulation, Lindsay Tanner. The Group consists of senior officers from Treasury, ASIC and the Department of Finance and Deregulation and works with industry and consumer groups to re-examine key issues associated with financial services advice and disclosure and ways that product documentation can be simplified.

Initially the discussions will focus on First Home Saver Accounts and superannuation products. We would strongly encourage Government to ultimately extend these discussions to a review of all FSR regulated advice and disclosure and work collaboratively with industry so that disclosure can be shortened and simplified whilst still remaining clear, concise and effective.

7.6 Electronic verification of identity

Banks, particularly majors, rely on customer stickiness for retention, which is partly caused by the identification process required to be undertaken before moving accounts to a new bank.

Electronic verification is a far more streamlined identification process than physically sighting individual documents. It eliminates the need for a customer to bring/send in documents to the bank branch or agent and provided the proper controls and protections are in place, in our view it is just as reliable as the more traditional methods of identifying customers. Facilitating this process should reduce customer stickiness, particularly for customers in more remote areas, and thereby assist in promoting further competition.

Additionally, it allows the product selection decision to be based more fully on product features. This in turn should drive financial service providers to make products more attractive, thereby benefiting customers and further increasing competition. To facilitate effective electronic verification in Australia we would suggest:

- that the *Privacy Act* restrictions around credit file use for non credit (identification) purposes be removed;
- that a system of positive credit reporting be introduced; and
- that the Government's Document verification system (DVS) be made accessible to financial service providers with the proper controls in place (this would provide access to Passport info, drivers licenses and births, deaths and marriages data)

7.7 Reform of the Australian Payments system

The *Payment System Board's Preliminary Conclusions of the 2007/2008 review* outlined three options for payment system reforms, namely:

1. Retain the status quo;
2. Reduce interchange fees further;
3. Remove explicit interchange regulation.

We support option three suggested by the Board which is to remove explicit interchange regulation and allow the industry to self regulate. In our opinion this would further promote competition and efficiency in the system by allowing for flexible pricing of payment services and direct competition by card payment systems for acceptance and use. The Board is due to re-assess the competitive environment in August 2009 and use this information in reaching a decision on which of the options to pursue.

8. Concluding comment

We thank the Committee for inviting comment on competition in the banking and non-banking sectors and we hope this submission was helpful.

We see there being two key roles for Government in enhancing competition in the Australian banking sector, these being:

- ensuring that mechanisms exist to allow customers to easily switch banks; and
- removing and/or simplifying legislative inconsistencies that make banking more complex.

In our opinion, these two issues are crucial because they add to customer perceptions that changing banks is difficult, and therefore potentially not worth the effort. Perceptions about the hassle of changing banks and the differences between them (mainly major banks) is a key driver of competition in the banking industry. This is an issue that only the banking industry can address, but the above two issues are ones that Government could assist with.

Whilst in many cases we have a similar view to the rest of the financial services industry, we hold a different view to them in a number of select areas as highlighted in this submission.

We agree that many steps have been taken to date to encourage and foster competition in the banking and non-banking sectors, we still believe that more could be done. To this end we encourage State/Territory Governments and the Commonwealth to continue engaging with industry and other interested stakeholders on ways as to how this can best be achieved.

Please contact Lisa O'Connor, Manager Regulatory Risk and Legislative Change, on 02-8299 8132 or lisa.oconnor@hbosa.com.au should you have any queries or wish to discuss any aspect of this submission.

Yours sincerely

pp T Stallingdale

Simon Walsh
Managing Director,
Bank of Western Australia Ltd

Attachments:

1. BankWest submission dated 30 October 2007 to the Australian Payments Clearing Association Consultation Paper *Aspects of Account Switching.*
2. HBOS Australia submission dated 16 June 2008 on the Financial Services and Credit Reform Green Paper: *Improving, Simplifying, and Standardising Financial Services and Credit Regulation.*

Bank of Western Australia Ltd
ABN 22 050 494 454

Chief Executive – Retail
Level 32 BankWest Tower
108 St George's Terrace
Perth WA 6000

GPO Box E237
Perth WA 6841

Phone: (08) 9449.6566
Fax: (08) 9449.6499

30 October 2007

Mr Arun Kendall
Industry Policy
Australian Payments Clearing Association ('APCA')
Level 6, 14 Martin Place
SYDNEY NSW 2000

[By e-mail: akendall@apca.com.au]

Dear Sir

Submission on APCA Payments Industry Consultation Paper Aspects of Account Switching

We refer to the APCA Consultation Paper released in September 2007 on account switching and welcome this opportunity to provide comment by addressing the questions raised therein as set out below:

Q1 - To what extent do direct credit and debit arrangements provide an impediment to switching in Australia?

It is BankWest's view that the current direct credit and debit arrangements provide a significant disincentive to customers wishing to switch bank accounts in Australia.

Newspoll research conducted by BankWest earlier this year shows that 28 per cent of Australians are open to switching banks for a better deal. 60 per cent of respondents said a simplified switching process would make them more likely to switch banks.

Additionally, our experiences and discussions with customers support the ability for customers to authorise their existing financial institution to re-direct direct debit and credit transactions to their new financial institution. The current function can be time consuming and costly for customers which impacts on the speed of their switching to another bank.

Accordingly, BankWest contends that the existing difficulties in switching banks make the market uncompetitive and there is no incentive for banks to help customers move. BankWest strongly supports the initiative on account switching because we hope that these discussions will lead to changes which will promote competition and consumer choice and make it easier for customers who are looking for a better deal to switch banks.

We have not specifically addressed Q2 which is addressed more generally elsewhere throughout this submission.

Q3 - Do financial institutions already offer adequate support for new customers to transfer or re-establish direct credit and debit arrangements from their old financial institution?

BankWest already offers account switching support to new customers wishing to switch from their old financial institution.

This consists of free online information about using the BankWest switching tool and standard letters and faxes that can be printed and sent by the customer to the relevant people and companies. Alternatively we can link the customer to those companies so that they can change their details on line. The system also generates a summary checklist which can be used by the customer to follow up the letters and faxes that have been sent.

In addition to the on-line facility, telephone support numbers are also provided to assist customers with any further queries relating to the service.

In relation to cash management trusts ('CMTs') BWA Managed Investments (100% subsidiary of BankWest) offers a 'migration service' to third party distributors whereby we assist with transferring their client's existing CMTs to the BWA Cash Management Trust. This may include the redirection of dividends paid by share registries to the new CMT account.

For our business banking customers, BankWest has a team whose sole purpose is to assist customers migrate their transactional banking capabilities from other banks to BankWest.

Q4 - Would a listing service assist in facilitating account switching?

BankWest supports the introduction of a model requiring the old financial institution to provide a listing of regular direct credit and debit transactions occurring on a customer's account using the financial institution's transaction history database.

Such a listing service would be a practical measure that could be implemented in the interim whilst longer term arrangements, such as a redirection or central registry service, are considered.

We would suggest that the introduction of any such service be regulated (for example by a Code of Practice) so that both banks and their customers have a clear understanding of how the listing service works, for example that the provision of data be in a standard format and within a prescribed timeline.

Q5 - Would a redirection service assist in account switching?

BankWest would support a redirection service as described in the APCA paper whereby the customer's old financial institution would advise a DE User's financial institution of re-direction details when an account is closed. However we do understand that due to the potential cost and risk entailed this may be considered as a longer term solution.

Q6 - Would a central registry service assist in account switching?

BankWest would be interested in the introduction of a central registry service similar to models adopted overseas, for example the Interbank Switch Support Service (ISSS) in Holland which ensures that customer continuity is maintained through automatically re-routing of direct debits and information to corporate clients to update their records.

As with the possible introduction of a central registry service, we acknowledge that this may be a longer term solution due to the potential costs involved and necessary time to implement and would welcome a full cost/benefit viability study.

Q7 - Do you think that there are other steps that could be taken to make it easier to transfer or re-establish direct credit and debit arrangements for financial institution customers?

Whilst we believe that longer term change, such as a redirection service, is ultimately desirable BankWest strongly believes that interim measures can be put in place whilst these are being considered.

To this end, BankWest supports the implementation of a Code of Practice making it easier for customers to switch bank accounts and we are keen to work with the relevant authorities with a view to establishing such a Code.

Conclusion

We wish to thank APCA for providing industry with this opportunity to explore the options for facilitating switching.

We are of the strong opinion that all efforts should be made to encourage a vibrant and competitive banking environment in the Australian market and this includes making it easier for customers to change their bank accounts so they can all take advantage of a better deal.

Please contact Lisa O'Connor on (02) 8299 8132 should you have any queries or wish to discuss any aspect of this submission.

Yours sincerely

Ian Corfield
Chief Executive – BankWest Retail

HBOS Australia

Chief Executive Officer

HBOSA Head Office
Level 27
45 Clarence Street
Sydney NSW 2000
Telephone +61 2 8299 8048
Facsimile +61 2 8299 8047

HBOS Australia Pty Ltd*
ACN - 070 002 587

16 June 2008

Financial Services and Credit Reform Green Paper
Corporations and Financial Services Division
Treasury

Dear Sirs

Re: HBOS Australia submission on Financial Services and Credit Reform Green Paper: *Improving, Simplifying and Standardising Financial Services and Credit Regulation*

We refer to the above mentioned Green Paper dated June 2008 and welcome this opportunity to provide comment.

We commend Treasury for the release of such a comprehensive paper addressing an issue which is important from both a harmonisation perspective and a competition perspective.

Three options are provided in the paper for the regulation of credit nationally, namely:

1. Maintain the status quo;
2. Regulate all credit; or
3. Regulate mortgages (and consequentially mortgage lenders and brokers).

HBOS Australia considers that the current system of State and Territory regulation of credit is undesirable for a number of reasons and we would welcome a more comprehensive approach.

For this reason, we support option 2 above and would welcome the national regulation of all credit products, including credit cards, car loans, personal loans and mortgages. We have also consistently supported the national regulation of finance brokers. We would not however support a hybrid approach to national regulation whereby mortgages would be regulated by the Commonwealth but other forms of credit would not.

In our opinion, consistent, national regulation of <u>all</u> credit would provide both consumers and credit providers with greater certainty around credit requirements. In turn this facilitates conducting business Australia wide (due to consistency of process and subsequent reduction of cost) thereby promoting competition between credit providers. Regulation of credit by the Commonwealth also has the potential to remove impediments to switching on credit products such as deferred establishment fees on mortgages. HBOS Australia strongly supports all initiatives that promote and assist competition in the Australian financial services market. We want to build our customer base by offering highly competitive and innovative banking products such as the BankWest Rate Tracker Home Loan and the new BankWest Business suite of credit cards.

HBOS Australia

The national regulation of all credit would also alleviate current delays in formulating legislation which currently relies on consensus between all the stakeholders, differing processes for passing legislation and varied commencement dates in States and Territories. To this end, we note that the ABA highlighted (in the submission to the Productivity Commission) the recent inconsistent credit related laws in the ACT (relating to credit cards) and in Victoria (in respect of unfair contract terms legislation).

We agree with the ABA's view in the submission to the Productivity Commission that the UCCC should be re-enacted as a stand alone Commonwealth Statute in its current form. This would assist in minimising the cost to businesses of transitioning to the new regime.

We thank Treasury for inviting comment on the Green Paper. Please contact Lisa O'Connor on 02 8299 8132 should you have any have any queries or wish to discuss any aspect of this submission.

Yours sincerely

David S Willis

David Willis