

ING DIRECT SUBMISSION TO THE INQUIRY BY THE HOUSE OF STANDING COMMITTEE ON ECONOMICS INTO COMPETITION IN THE BANKING AND NON-BANKING SECTORS

Good Morning

ING Direct welcomes the opportunity to comment on competition in the banking and non-banking sectors.

With me from ING Direct is Brett Morgan, Executive Director of Intermediary Mortgages.

I commend the instigation of this inquiry because it is important for all Australian consumers. ING Direct strongly supports healthy competition which will see the customer driving the market, products on offer & fees.

ING Bank (Australia) Limited trading as ING DIRECT, has been an authorised deposit-taking institution since 1994 and is the 6th largest retail bank in Australia. We are part of the global ING Group, one of the world's largest financial institutions offering banking, insurance and asset management to more than 60 million clients in over 50 countries. Along with high interest, fee-free savings products – the ING DIRECT Savings Maximiser, Business Optimiser and more recently the Savings Accelerator account, ING DIRECT also offers a range of mortgage products.

ING Direct employs over 900 staff and has won a range awards for its mortgage lending products and service.

We are seeking to increase our market share in Australia while continuing to be an industry leader in driving competition and reducing cost to the consumer.

We aim to keep making available high interest paying online deposit products with no ongoing account keeping fees. We were one of the first to offer very attractive deposit interest rates with no fees attached and no minimum deposits required. These initiatives by ING Direct that drove other banks to compete with our products and offer consumers a range of competitive deposit products to select from.

We strive to have mortgage products that include features that consumers want; namely very competitive interest rates with no hidden costs. For our mortgages we are primarily a broker bank thus supporting the non-bank sector. While we have a direct channel for our mortgage ING Direct has never encouraged a two tiered interest rate structure. We have and will continue to be transparent in the channels of choice available to customers and our service and treatment of our customers will always be of the same superior quality and there will be no division to the customer irrespective of the customer coming directly to ING Direct or through our broker network.

We share the government's concerns relating to the decline in competition among the non-banking sector. As an online bank, ING Direct sources its retail mortgage business primarily through the finance broker network and through our wholesale funding program. The global credit crunch and the ensuing increase in funding costs has, had an impact on our capacity to lend, as it has with the entire financial sector, both banks and non banks.

Customer choice and technology will continue to drive the future of retail banking in Australia. For these to be delivered we need a dynamic and responsive market. ING DIRECT continuously analyses the future trends.

We see internet banking as a way forward to most of our time-poor consumers who wish to take full advantage of technological developments. These consumers will take a more holistic approach to their financial needs, requiring wealth, investment and retail banking services through integrated products and channels.

ING DIRECT is an internet bank with no branches that has continued to challenge the major banks and introduce products at competitive interest rates with no ongoing or hidden fees and costs.

We see three substantial barriers to entry that puts ING Direct among other smaller players at a competitive disadvantage. I would like to discuss them briefly:

The first is the lack of electronic databases to verify the identity of customers.

Being an internet bank with no branches, not having sufficient electronic databases to conduct our customer identity verification is a major barrier to our business model.

In the absence of comprehensive electronic databases, ING Direct is forced to send its customers, who fall outside the low risk category, to attend a physical location such as the Post Office with their identification to be verified or send through certified copies of their sensitive information to the Bank for verification. This is very inconvenient to customers and is a barrier that discourages customers from taking the initiative to switch banks.

We welcome the recent Australian Law Reform Commission ("ALRC") recommendation in their review of the Privacy Act. The ALRC recommended that permitting the use and disclosure of information of credit reporting information for electronic verification purposes should be permitted under the AML/CTF Act.

In a separate submission to several government bodies include Senator Faulkner's office and the AG's department we have requested that this recommendation be implemented independent to the ALRC review as time is of the essence. The whole financial services sector will benefit from such reform, not just ING Direct.

The second being, the lack of a domestic financial institution exemption from Interest Withholding Tax for Banks. ("IWHT")

With the credit crunch, the cost of funds has become very expensive. The cost of short and long term wholesale funding continues to increase. This puts margin pressures on the banks and reduces the bank's ability to offer mortgage products at competitive interest rates. This in turn has had a major impact on the competition available to both banks and non-banks.

ING Direct's parent entity can provide an extensive and diversified source of funding. Unfortunately the 10% IWHT is a major impediment to accessing this funding source. In addition to the reduction in the supply of funds from securitisation, this IWHT levy has also added to the cost of funding

In August ING Direct made a submission to the Minister of Consumer Affairs and Competition addressing the need to reduce or do away with this IWHT in order for banks such as ING Direct to access funding at a cheaper rate from its parent entity.

This would assist banks such as ING Direct to offer mortgage products both directly to consumers and through our non-bank wholesale funding, at competitive rates to consumers and this would enhance competition.

The third inhibitor in our view is the Inability of consumers to easily compare prices and to switch institutions.

We acknowledge the government initiative to enhance competition by introducing the a/c switching package which is to be released on 1 November 2008. It is clear that direct debits and credits serve the purpose of tentacles for banks to hold onto customer by restricting them from moving to another provider.

We feel that this barrier should breed innovation and competition, as new entrants must ensure that new products provide a sufficient amount of value to convince and entice customers to undertake the laborious process of switching. The product and the process we are proposing to introduce will address the barriers that customer currently face which deters them from effecting the switch.

In conclusion we would like to thank the Committee for inviting us to comment on the barrier to competition.

We look forward to addressing any questions you may have.