Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 332

Topic: Term deposits

Hansard Page: Written

Senator EGGLESTON asked:

- On the ASIC FIDO website there is an article about term deposits and a report issued on March 2010. Within that article there is some comment about what to do about term deposit maturation.
    - When did ASIC become aware of the practice of banks to significantly drop the rate of interest when a term deposit matures?
    - When did the members of the Commission become aware of the practice of banks to significantly drop the rate of interest when a term deposit matures?
    - How many bank(s) were doing this practice at that time the Commision members became aware of the practice?
    - What was the annual loss to investors at the time the members of the Commision became aware of the practice?
    - Which Commissioner was responsible for contacting the bank(s) to address this issue and when were they to do the contacting?
    - Did the Commissioner ever contact the banks?
    - How many banks now use this practice?
    - What is the annual loss to investors from this practice? How many billions of dollars have been missed by investors due to this practice?
    - What advice did ASIC give to the banks to allow them to continue this practice?
    - What steps did the individual Commissioners take in regard to their own personal Term Deposit investments and when?
    - What benefits do Commisioners expect to receive in the future from their stance on this practice?
    - Why is the report which ASIC says it would produce in February 2010 not generally available?

Why does ASIC require the name and address of any person wishing to view the report?

Answer:

In April 2009, ASIC announced that it would be conducting a review of the marketing and disclosure of term deposits.

This 'health check' was announced on the back of significant growth in term deposits and their increasing importance as an investment for investors and consumers during the global financial crisis.

ASIC released its report on term deposits on 1 March 2010.

Whilst overall our review has confirmed that the term deposit market is strong and working well, we identified areas where industry practice could be improved.

In particular, we note that it is common for ADIs promote their term deposits by actively advertising the rate available on the one or two deposit periods that have higher rates while maintaining significantly lower rates for all other deposit periods. The periods on which higher rates are offered, and which are advertised, are varied over time.

This dual pricing practice, coupled with the capacity for term deposits, absent intervention by the investor or consumer, to renew on a default basis, creates a risk that a term deposit could rollover automatically from a higher interest rate to a much lower interest rate, without the depositor being conscious of the change.

In examining this issue, we identified examples of industry best practice, particularly in relation to disclosure when a term deposit is rolling over. In response, ADIs have worked cooperatively with us and have agreed to implement our key recommendations.

To assess the impact of our recommendations on industry practice and outcomes for investors and consumers, we will conduct a further targeted review 12 months from the implementation of the recommendations by ADIs.

ASIC's report is freely available to download and view, without restriction on requirement, from ASIC's website at http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep185.pdf/$file/rep185.pdf

ASIC does not require the name or address of any person wishing to view the report.

ASIC became aware of "dual pricing" of some term deposits in 2005. A review by the Banking and Financial Services Ombudsman was conducted and ASIC conducted inquiries concerning certain term deposit products. It was after this that ASIC decided to conduct an industry review of the marketing and disclosure of term deposits.

ASIC does not have the data required to calculate the difference between interest received by investors and the interest investors would have hypothetically received if at the point of rollover they had selected a deposit term paying a higher rate.

In our March 2010 report, we note that seven out of the eight ADIs reviewed employ “dual pricing”. These eight ADIs account for over 80% of retail term deposit funds in Australia. We are aware, through consultation with industry bodies, that some other smaller ADIs use “dual pricing”, while others do not.

ASIC’s advice to industry is contained within our public report. The law does not prohibit “dual pricing” and ASIC cannot compel ADIs to stop using “dual pricing”. Notwithstanding this, ASIC made recommendations to the ADIs in relation to improving disclosure and advertising designed to improve outcomes for investors.

Commissioners have not received, nor expect to receive, any benefit from ASIC's response to term deposit "dual pricing."

ENDS