



AUSTRALIAN BANKERS' ASSOCIATION

David Bell
Chief Executive Officer

Level 3, 56 Pitt Street
Sydney NSW 2000
Telephone: (02) 8298 0401
Facsimile: (02) 8298 0447

12 August 2003

Mr Peter Hallahan
Secretary
Senate Economics Legislation Committee
Room SG64
Parliament House
CANBERRA ACT 2600

By email to: economics.sen@aph.gov.au

Dear Mr. Hallahan,

Committee Hearings 30 July 2003

In the course of the hearings on 30 July 2003 in which Australian Banker's Association Director Ian Gilbert appeared, Senator Murray asked some questions to which Mr. Gilbert agreed the ABA would seek to provide answers.

Senator Murray's questions were:

"My questions revolve around the basic deposit products and the desire to increase the exemption from two years to five years. The previous witnesses made some play of the fact that consumers are protected by being able to take their moneys out of basic deposit products at any time they like. But, from the consumer's perspective, they lock up their money voluntarily because they are attracted by a higher interest rate, and in that sense it is for them, psychologically at least, a term commitment, and the use of the words 'term deposit' reflects that.

I am really after what the real motive of ADIs are with respect to supporting the two- to five-year terms. I will give you an example: assume that a bank had a hundred tellers and a hundred customers took out term deposits and only one of those was in excess of two years. Training those hundred tellers, just because the demand was exhibited by one out of a hundred customers, would obviously impose a cost that was not justified by the circumstances. If the demand in this

area is so low that to train all the tellers in all the institutions creates an unreasonable cost for a very small consumer benefit, that is one motive. If the second or alternative motivation is that the banks and others who are ADIs wish to expand the above two-year term and to do that they want to provide a lower cost product, otherwise they will pass the cost on to the consumer, we need that quantified.

You can see why: because it is a cost-benefit relationship. Senator Conroy will explore principles that are different from the cost-benefit arguments that I am advancing. There may be other motives, but I am just raising a couple. You will probably need to take this question on notice: what I would like to know is whether you can provide a snapshot, on the same basis as that on which I asked the witnesses from the building societies to provide one, showing what percentage—I do not want the actual numbers—by value and by number of term deposit customers are below the two-year level and what percentage are above the two-year level, and how and why that might change if the terms are advanced from two to five years.”

I trust that the information that follows helps answer these questions.

The ABA's case for supporting the Bill has two elements.

First, the ABA has obtained figures from a representative sample of retail banks that show that term deposits of more than two years represent a very small percentage of a bank's total term deposit portfolio.

The figures show that among eight retail banks the proportion of term deposits accounts of two years or more ranges between 13% and .6% (approximately) of the bank's total term deposit accounts. The amounts on deposit, as a proportion of total amounts in term deposits, range respectively from 9% to .64%.

Taken as an average, the figures show that for actual numbers of accounts for term deposits over two years the percentage is about 7% of total term deposit accounts with an average value in percentage terms of about 4.3% of the total value of the term deposits book.

These figures are approximates but clearly indicate that the overwhelming number and value of term deposit accounts are in the two years or less category.

The cost of training staff to Tier 1 level for the case of a customer needing advice with a term deposit of more than two years would be out of proportion with the incidence of those cases when there would generally be staff trained to Tier 2 level available.

For example, since 2001, a couple of banks have ceased providing term deposits exceeding two years because of the cost of Tier 1 training for their front-line staff and the relatively low incidence of customer demand for term deposits exceeding two years.

The cost and benefit equation precluded their offering terms deposits of more than two years.

If five year term deposits could be treated as basic deposit accounts attracting the lower Tier 2 training requirement then those banks would re-consider their decision to discontinue the product.

Secondly, the ABA submits that if term deposits of two years or more remain outside the class of basic deposit products under the Act, the Tier 1 training and Statement of Advice requirements will work to the disadvantage of customers.

These requirements will mean that a customer who wants advice with a term deposit of more than two years will have to be referred to a Tier 1 trained bank staff member or seek their own advice independently at their cost.

ADIs are unlikely to have Tier 1 trained staff in all of their branches and agencies. This will inconvenience customers seeking advice on a term deposit of more than two years duration if these products continue to be outside the definition of "basic deposit product". Tier 2 trained staff will not be able to fully assist with those customers' enquiries.

Particularly in country areas it is unlikely for there to be bank staff trained to Tier 1 level in all branches and agencies to assist customers with these products. It should be noted that term deposits are one means by which banks have been able to provide a tax effective financial management tool for farmers. A farmer is able to deposit money in the term deposit during good seasons and have the deposit to provide for bad times. The current drought is a case in point.

A bank would be likely to only put Tier 1 trained staff in its network where the aggregate demand for all Tier 1 products would justify that investment. One bank has estimated that in addition to training costs the time cost of providing a Statement of Advice with associated record keeping and retention of the copy for seven years as required under the Act at \$100 per account. It is not suggested that banks would seek to recover this cost directly from term deposit customers but the bank would have to look at less direct means of recouping the cost.

Without Tier 1 trained staff available in all outlets, a bank would have to adopt a policy of "no advice" on term deposits of more than two years which is not in the interests of the customer when a Tier 2 trained person could provide an adequate level of assistance.

The Committee is reminded that term deposits are simple, secure, common and well understood banking facilities that have been taken up by consumers over a period of many years.

I trust this information deals with Senator Murray's questions adequately and is of assistance to the Committee in its enquiry. The ABA would be pleased to provide further information, if necessary.

In the course of Mr. Gilbert's evidence the matter of section 916F of the Act was discussed with Senator Conroy. Mr. Gilbert offered to give further thought to a possible solution and provide an answer to the Committee. Senator Conroy said that that would be helpful.

Section 916F requires a corporate authorised representative of a financial services licensee to notify ASIC within a certain number of days of the details of any individual the corporate authorised representative sub-authorises to provide a specific financial service on behalf of the licensee. Any changes in those details also must be notified to ASIC. Mr. Gilbert sought to explain the possible disadvantages for alternate arrangements for the provisions of financial services through for example agencies and community bank structures.

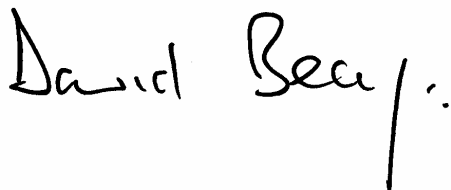
A similar problem was identified with section 942C where an individual engaged by a corporate authorised representative would have to disclose their own employer's name rather than the licensee's in a Financial Services Guide to a client. This could cause confusion and possible concern on the part of the client as with whom the client was dealing, the licensee or an agency or other structure.

The ABA believes that the key feature with a purely sole agency type relationship such as with a community bank or other agency or franchise structure is that the financial service is being delivered under the name of the licensee as if the client were dealing directly with the licensee. It is the client's intent that they deal with the licensee.

If the legislation were amended to reflect this difference it should not relieve those businesses that have established themselves as businesses independently of a licensee and are operated as financial intermediaries between the client and the licensee. The client's intent is to deal with that business.

If the ABA is able to assist the Committee further we would be pleased to do so.

Yours sincerely,

A handwritten signature in black ink that reads "David Bell". The signature is written in a cursive style with a long vertical stroke at the end.

David Bell