



**Commonwealth
Bank**

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Mr Nick O’Kane
Executive Director, Financial Services Competition Team
Australian Competition & Consumer Commission
27/135 King Street
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by email: fscompetition@acc.gov.au

25 May 2023

Dear Mr O’Kane

Australian Competition and Consumer Commission (ACCC) – Public consultation on the ACCC Retail Deposits Inquiry Issues Paper

The Commonwealth Bank of Australia (CBA) welcomes the ACCC’s inquiry into Retail Deposits (**Inquiry**), and the opportunity to comment on matters raised in the ACCC’s Issues Paper (**Issues Paper**). **Annexure A** to this letter provides CBA’s observations on various topics raised in the Issues Paper.

CBA offers a range of deposit products with varying features and interest rates to support our customers’ broad range of needs and objectives. These products include transaction accounts designed for everyday household use, which generally carry low or no interest. Transaction accounts may include offset features that link the account to a home loan to enable customers to reduce the interest payable on their home loan. Other deposit products include savings and term deposit accounts which allow customers to earn an interest return on their funds, the rate of which will vary based on factors including the amount deposited, balance growth requirements, and the conditions of withdrawal.

In CBA’s view, there is strong competitive tension in the Australian market for the supply of retail deposits. As interest rates have increased in the past 12 months, competition has intensified across product design, interest rates and digital capability, and is likely to remain strong for the foreseeable future. In CBA’s experience, in addition to competitive interest rates, a range of factors are relevant to customer consideration of retail deposits, including broad accessibility options, security of funds, support against fraud and scams, and appropriate care during periods of economic uncertainty.

Retail deposits are also an important source of CBA’s funding, as they are for ADIs generally. A higher proportion of bank funding from deposits, rather than capital markets, contributes to lower exposure to

volatility through economic cycles and this sets Australian banks apart globally. In turn, this strength benefits the wider economy and ensures the ongoing availability of credit through economic cycles.

We look forward to discussing these issues further and contributing to the Inquiry. Please let us know if you have any queries regarding our submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Kate Crous', with a stylized flourish at the end.

Kate Crous
Executive General Manager – Everyday Banking
Commonwealth Bank of Australia

ANNEXURE A: CBA observations on consultation questions

Chapter 3: Competition in retail deposits

1. How, and to what extent, do ADIs compete in providing retail deposit products to consumers, including with respect to setting interest rates and other fees and charges, and non-monetary factors, such as innovative product design?

2. What alternatives do consumers have to retail deposit products for earning a return on their funds? How close are these substitutes? How does this vary with consumers' risk preferences?

3. How effective is competition in the supply of retail deposit products in delivering good outcomes for consumers?

Competition in the supply of retail deposit products

There is strong competition between ADIs to retain existing retail deposit customers and attract new retail deposit customers. We recognise that this competition is important to Australian consumers and to a thriving banking and financial services sector.

CBA understands "retail deposits" to mean products that are supplied to individual consumers for ordinary personal use, rather than for business purposes.

There are three broad categories of retail deposit products available:

- **Transaction and offset accounts:** accounts that offer full transactional capability including card access, direct debit payments and real time access to funds. These include account types referred to as offset accounts which are linked to a consumer's standard variable rate home loan, where money deposited into the account reduces the balance on which interest is accrued on the home loan. These accounts are typically non-interest bearing;
- **At-call savings accounts:** interest bearing accounts where customers maintain access to their funds at any time; and
- **Term deposits:** typically higher interest paying accounts where customers "lock away" their funds for an agreed, fixed term. Term deposits typically require a customer to provide 31 days' notice if they require access to their funds prior to the fixed term maturity.

ADIs compete for retail deposit customers in a number of ways. ADIs typically offer a wide range of retail deposit products with varying functionality, interest rates, and other features to meet the different needs and objectives of existing and new customers. For any given product, the combination of price and non-price features, and the importance of each feature will depend on a customer's individual needs and objectives.

In CBA's experience, the main factors which are relevant to competition between ADIs for retail deposits are:

- **Interest rate:** offering competitive interest rates across a range of products which may include base, conditional, introductory, tiered or fixed term rates, and any relevant eligibility criteria.
- **Fees:** charging (or waiving) fees for holding an account or based on account usage.

- **Product design:** in addition to interest rate and fee differentiation, developing products for a targeted customer group with varying features including transactional capability, and other innovations such as rewards.
- **Digital capability:** offering a digital experience enhanced with financial management tools such as budgeting, spend tracking, savings goals, and bill prediction.
- **Tailored communications:** delivering targeted and personalised communications and offers.
- **Accessibility:** providing customers with access to branch networks, contact centres, online banking, Apps, and relationship management channels.
- **Customer support:** providing services to support customers in relation to disputes, fraud, scams, and other enquiries.
- **Safety and security:** customers' preference to hold funds at one ADI relative to another ADI based on perceived safety and security of funds on deposit. This may be a factor in relation to, for example, perceived differences in scam and fraud protection as well as in relation to funds not covered by the Australian Government's guarantee under the Financial Claims Scheme.

Where relevant, the positioning of interest rates offered on retail deposit products is a critical way in which ADIs compete for retail deposits. For some customers this will be their key or only decision point. For others, the interest rate combined with product features, channels and services, location of their other banking products, and perceived security, will be determinative factors. As a result, in setting interest rates CBA seeks to offer a competitive interest rate to both existing and potential customers, balancing all consideration.

Interest rate competition has intensified in the past 12 months in the current rising interest rate environment and is evidenced by the higher interest rates offered by ADIs for retail deposit products. As at the date of this response, there are savings products on offer by the ten largest ADIs with interest rates (including bonus rates) between 4% and 5.30%, and introductory rates up to 5.05%.

However, many transaction accounts designed for everyday household use will carry low or no interest. For those accounts, the other factors outlined above are typically more relevant to competition between ADIs.

Competition for retail deposit products is evidenced by:

- fluctuations in the market share of retail deposits (volumes of funds) between ADIs; and
- the emergence of new entrants and digital-only banks in the supply of retail deposits and the growth in market share of some existing participants offering competitive interest rates and innovative retail deposit products.

Please see Chapter 4 for further detail.

Alternatives to retail deposit products

As an asset class, retail deposit products have a low risk profile given the high credit ratings of ADIs, the ease of accessing funds, and the Australian Government's guarantee under the Financial Claims Scheme on retail deposits up to \$250,000 for each account holder per ADI, which guarantees that customers can preserve their capital.

Outcomes for customers

The strong competition between ADIs to retain existing and attract new retail deposits has resulted in a range of positive outcomes for customers. These include:

- ADIs offering higher interest rates, for example:
 - the total interest paid to deposit holders increased from \$2.5b in the December quarter of 2021 to \$18.8b in the December quarter of 2022¹; and
 - between April 2022 and April 2023 the bonus interest rates for savings products offered by the five largest ADIs increased by 3.95% compared to a 3.50% increase in the cash rate target².
- Innovation in product features offers greater customer access to tools such as budgeting, spend tracking, savings goals, and bill prediction. In CBA's experience, the emergence and growth of new entrants and digital banks with innovative digital offerings (such as Up and uBank) has been a key driver for this innovation;
- Enhanced product design/transparency and technological capability to improve functionality and ease of banking for consumers; and
- Improved customer service.

¹ [APRA Quarterly Authorised Deposit-taking Institution performance statistics September 2004 to December 2022, published 14 March 2023.](#)

² [RBA Statistical table - Retail Deposit and Investment Rates – F4, accessed 25 May 2023.](#)

Chapter 4: Barriers to entry and expansion

4. What is the potential for new entry in the supply of retail deposit products? What form is new entry likely to take?

5. How significant are barriers to entry and/or expansion in the supply of retail deposit products? How have these changed over time?

6. How has new entry or expansion in the supply of retail deposit products impacted the behaviour of incumbent ADIs?

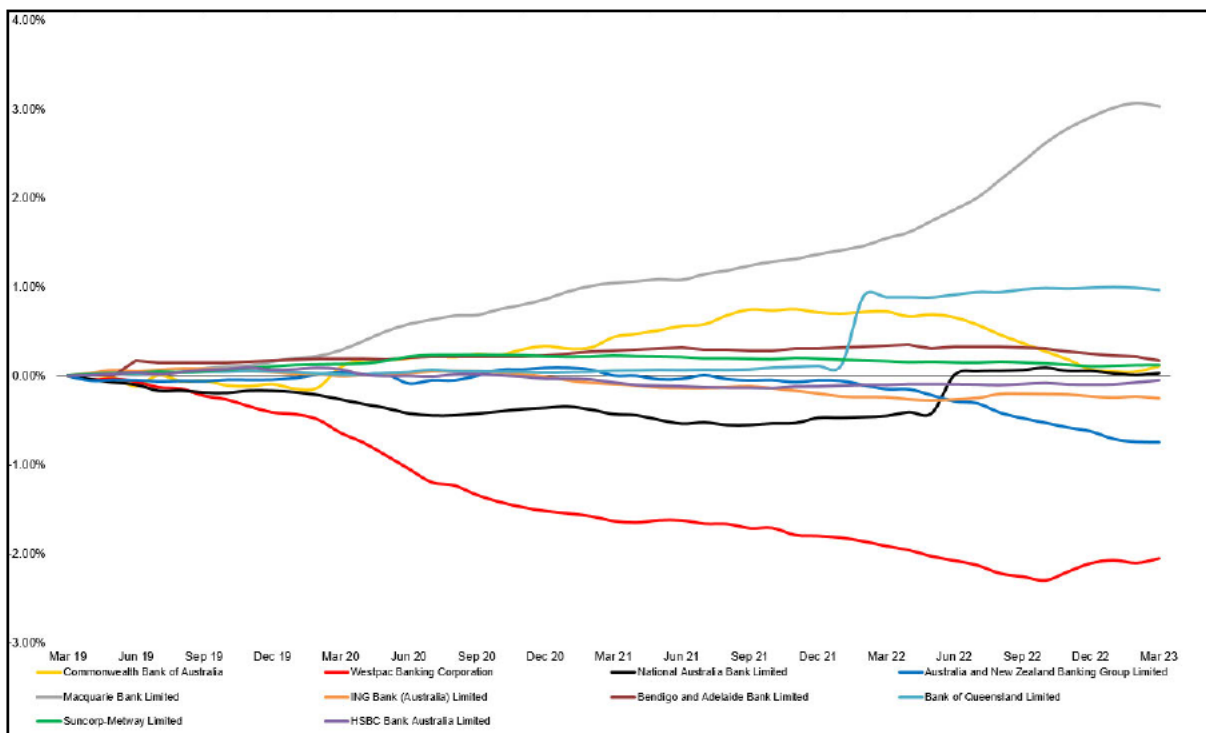
7. How have ADIs responded following the exit of relative newcomers in the supply of retail deposit products?

8. How are ADIs likely to respond to any new entry, or the threat of new entry, in the foreseeable future?

The competitive landscape for retail deposits has changed over time. In the past five years, five new digital banks have entered the retail deposit market, and changes in market share have occurred.

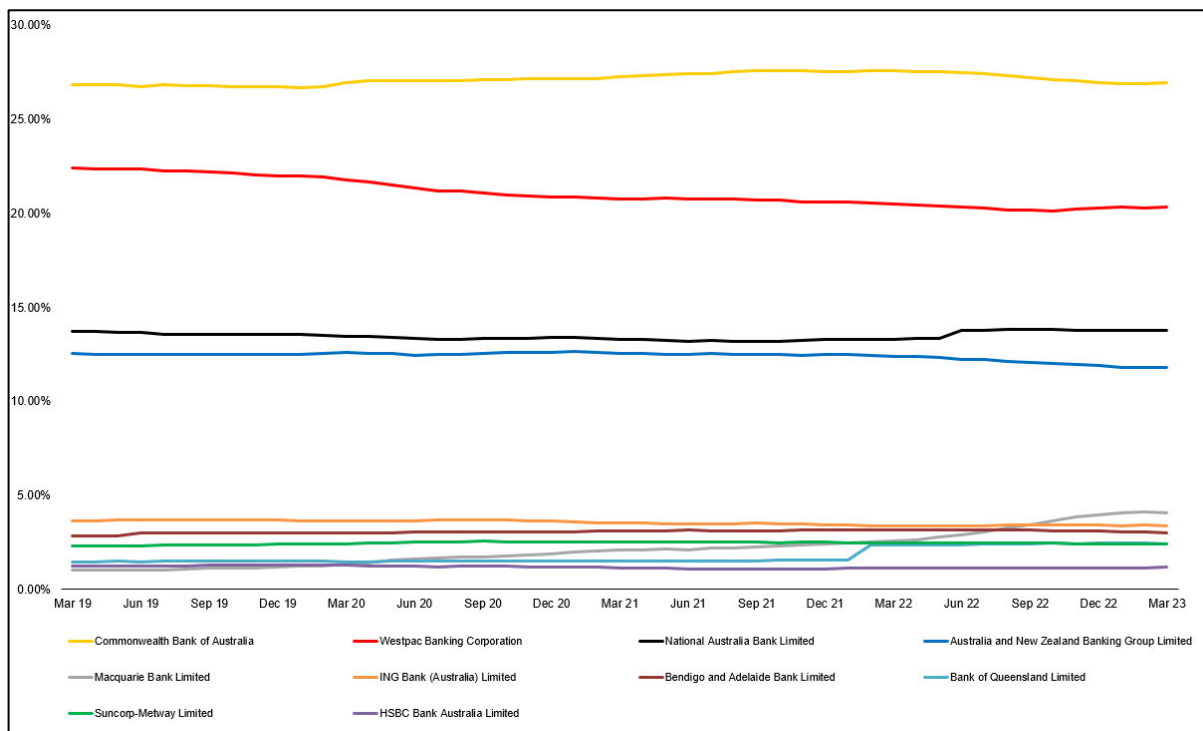
Taking the charts below, Figure 1 indicates the *relative change in share* of retail deposits for the ten largest ADIs since March 2019, and in particular shows the noticeable gains by Macquarie Bank Limited. The data in Figure 1 also indicates that in that period, some participants enjoyed significantly stronger rates of growth while others experienced a decline. Figure 2 shows the absolute shares of the ten largest ADIs over the same period.

Figure 1: Change in % of relative market share amongst ten largest ADIs³



³ APRA Monthly authorised deposit-taking institution statistics back-series March 2019 – March 2023, published 28 April 2023. The data for the Commonwealth Bank of Australia includes Bankwest.

Figure 2: Change in % of absolute market share amongst ten largest ADIs⁴



In CBA's view, barriers to new entrants seeking to supply retail deposit products to Australians have declined as a result of developments such as digital technology and the introduction by APRA of the Restricted ADI licence.

Globally, the scale and pace of change in the market for the provision of retail financial services (including retail deposits), is also relevant to any assessment of the competitive landscape for retail deposits in Australia. A number of fintech companies have experienced rapid growth in offshore markets and big technology companies are now offering a range of retail financial services including savings accounts. CBA is closely observing the likelihood of similar trends developing domestically and continues to concentrate on strengthening the competitiveness of its retail deposit offering.

⁴ [APRA Monthly authorised deposit-taking institution statistics back-series March 2019 – March 2023, published 28 April 2023](#). The data for the Commonwealth Bank of Australia includes Bankwest.

Chapter 5: Retail deposits as a source of funding

9. How do each of the listed factors affect the significance of retail deposits as a source of funding for ADIs? How does this vary between ADIs of different sizes and business models?

10. What other factors affect the role of retail deposits as a source of funding for ADIs? How do these factors vary between ADIs of different sizes and business models?

11. How does the cost of funding from retail deposits compare to the cost of funding from other sources? How has this changed over time?

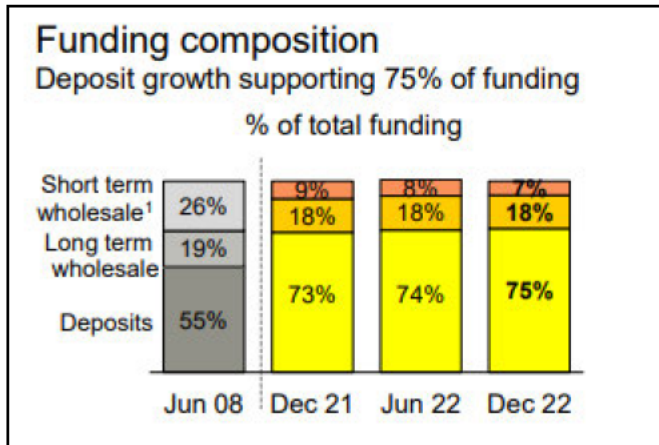
Significance of retail deposits as a source of funding

The main sources of funding available to ADIs to support lending activity are deposit balances, short and long term wholesale funding, and equity. The relative proportion of the different sources used to fund an ADI's lending activity is referred to as an ADI's "funding composition".

In general, deposits are the most important and attractive funding source for an ADI. Deposits are a stable source of funding and high levels of deposit funding enable an ADI to reduce exposure to the volatility of wholesale funding markets.

The following chart shows the significance of deposits as a source of funding to CBA over time:

Figure 3: Funding composition⁵



In responding to question 9, CBA describes how the factors listed in the Issues Paper influence the proportion of funding sourced from retail deposits.

The supply and availability of deposits

- The supply and availability of deposits is affected by many factors including credit growth and fiscal and monetary policy. When the supply of deposits increases, the proportion of funding that is able to be sourced from retail deposits generally also increases.
- For example, the total volume of deposits held by ADIs increased by around \$800 billion over the past four years⁶. This significant increase occurred due to a range of factors including fiscal policy changes

⁵ CBA's 1H23 Investor Results presentation, p104.

⁶ APRA Monthly authorised deposit-taking institution statistics back-series March 2019 – March 2023, published 28 April 2023.

(government stimulus payments during the covid-19 pandemic), and the impact of monetary policy settings. The increase in deposit volumes affected ADI's funding composition.

The cash rate target

- Movement in the cash rate target is another factor that influences the supply of deposits, the type of deposits sought by customers, and in turn, an ADI's funding composition.
- At the most basic level, when the cash rate increases, typically customer demand for higher yielding deposit products increases.
- In addition, when the cash rate increases so does the cost to service debt (i.e. the repayments that customers need to make on lending products). This in turn can reduce the supply of retail deposits in the system as customers use their deposits to meet higher loan repayments.

Prudential liquidity requirements, which influence the demand for more stable sources of deposit funding

- Liquidity is critical to the safety and soundness of ADIs, and to the broader financial system, and is a central focus of APRA and equivalent regulators worldwide. APRA requires ADIs to manage liquidity risk carefully.
- APRA does this by requiring that ADIs hold a minimum level of liquid assets ("High Quality Liquid Assets") that includes cash or assets and can be quickly converted to cash, and by requiring larger ADIs to structure their borrowing and lending in certain ways.
- There are costs associated with holding High Quality Liquid Assets and in meeting APRA's other prudential liquidity requirements. A funding composition that is well supported by deposits may allow an ADI to hold less liquid assets or issue less term wholesale funding, reflecting the stability of the deposit funding.

Comparison with other sources of funding

An ADI's funding composition tends to shift to reflect the availability and cost of different sources of funding. If, for example, wholesale funding becomes more costly and less available, the demand for and significance of retail deposits (as a source of funding) typically increases.

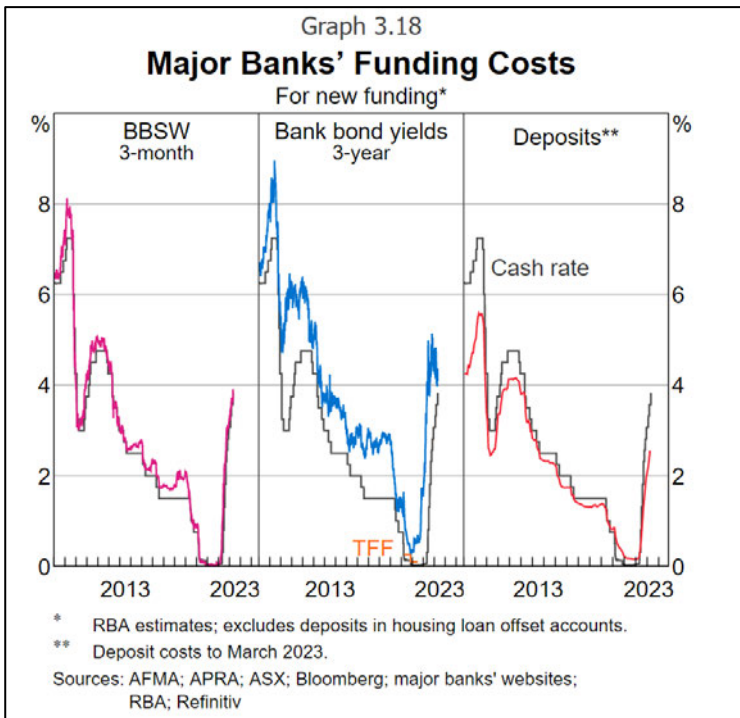
Factors that influence the cost of deposit funding at any point in time include monetary policy settings, the type of deposit, the demand for and supply of deposits in the system, and the cost of wholesale funding.

The cost of wholesale funding can be influenced by various factors including an ADI's credit rating, credit spreads, the type of financial instrument being issued and investor demand. Generally, retail deposits are considered to be the most stable source of funding, which is reflected in their APRA regulatory treatment.

Over the past 3-4 years there have been significant shifts in both the cost of retail deposits and the cost of wholesale deposits due to a range of factors including volatility in financial markets, changes in the cash rate and other monetary policy initiatives, and fiscal policy.

Figure 4 below shows how various funding and benchmark rates have moved over time; decreasing significantly throughout the covid-19 pandemic and increasing over the past year.

Figure 4: Major Banks' Funding Costs⁷



⁷ Domestic Financial Conditions | Statement on Monetary Policy – May 2023 | RBA

Chapter 6: Interest rates for retail deposits

12. What is the relative importance of the various incentives and constraints that influence ADIs in setting retail deposit interest rates and interest rates for lending products?

13. To what extent are ADIs influenced by the interest rate decisions of other ADIs?

14. How do ADIs' approaches to setting retail deposit interest rates impact on competition and consumer outcomes?

15. What factors influence how closely and quickly retail deposit and lending interest rates are adjusted following a change in the cash rate target? How does this vary between different categories of retail deposit products.

Factors influencing ADIs in setting retail deposit interest rates and interest rates for lending products

CBA observes that ADIs appear to be influenced by a range of incentives and constraints when setting retail deposit interest rates and interest rates for lending products. Our response to this section in relation to lending products is limited to the supply of home loans.

CBA considers a range of factors when making pricing decisions. These factors are often interrelated and the significance placed upon each factor varies depending on the specific circumstances in which the pricing decision is made, and the particular product.

The weighting of various factors will differ when determining settings for deposit and lending products and, as a result, deposit and lending interest rates may change independently of each other, both in terms of when changes to interest rates are made and the extent of the change.

Generally, CBA considers that the factors that are relevant to setting both retail deposit interest rates and interest rates for lending products may include:

- Likely impact on customer acquisition and retention;
- Likely impact on revenue and net interest margin;
- Macroeconomic factors and monetary policy, including movements in underlying rates (e.g. RBA cash rate target, bank bill and other swap rates);
- Cost and availability of wholesale funding;
- Regulatory requirements including prudential position of the ADI;
- Likely impact of pricing changes on reputation and brand; and
- Competitive position.

For CBA, factors that are specifically relevant to setting interest rates on retail deposit products may include:

- Liquidity requirements;

- Decisions about product mix including relative pricing across products within the deposit product segment; and
- ADI funding requirements.

For CBA, factors that are specifically relevant to setting interest rates on lending products may include:

- Cost of funding loans and funding mix;
- Impact of loan pricing to the cost of capital;
- Operational cost base attributable to home loans;
- Decisions about product mix including relative pricing across products within the lending product segment;
- Lending risk appetite (including loan to value ratios, capital and loan impairment expenses); and
- Operational matters, including the ease or difficulty of implementing the relevant change within existing operations.

The differing drivers of retail deposit and lending interest rates may result in different pricing decisions in response to a change in the cash rate target. A similar dynamic also exists between different categories of retail deposit products. Further, price changes may be made on either deposit or lending products independent of a change in the cash rate target.

Following increases in the cash rate target in 2022 and 2023, CBA has observed that standard variable rate home loan rates have often increased by the same amount as the cash rate increase, following a period of historically low rates. CBA has also observed that ADIs have, at times, changed rates on retail deposits separately from changes in the cash rate target, including on occasion in relation to particular deposit products, evidencing the different pricing approaches within a deposit product suite.

Chapter 7: Consumer information and switching

16. How easy or complex is it for consumers to search for and compare retail deposit products?

17. What are the impediments to consumers finding and understanding relevant information about retail deposit products?

18. How easy or complex it is for consumers to switch from a retail deposit product to an alternative product that better meets their preferences? What impediments do they face?

19. Do different categories of consumers engage with retail deposit products in different ways? If so, how? How do ADIs respond to these differences?

20. How are consumer outcomes in relation to retail deposit products affected by impediments to searching and switching?

Finding, understanding and comparing information about retail deposit products

CBA considers that it is relatively straightforward for consumers to search for and compare retail deposit products.

Consumers are able to compare retail deposit products across ADIs by using online comparison or aggregator websites such as Canstar or InfoChoice. These sites allow consumers to compare interest rates, conditions, fees, and features of savings, term deposit, and transaction accounts available. CBA provides information directly to certain online comparison sites following interest rate changes, including “product audits” with particular sites on an annual basis so consumers have access to current product information. Consumers can and do readily and frequently use online comparison sites to ‘shop around’.

Consumers are also able to compare retail deposit products offered by an ADI by engaging with that ADI directly to obtain information (for example via a branch, call centre or website). This information can then be used by consumers to compare retail deposit products offered by other ADIs.

For example, the CommBank website enables existing and potential customers to compare the features of CBA’s various retail deposit products. The information provided is current and includes:

- product descriptions for retail deposit products;
- high-level comparison of savings and term deposit accounts offered by CBA with links to further detailed product information; and
- more detailed comparisons of transaction accounts and savings and term deposits accounts that contain detail on interest rates, bonus interest criteria, interest calculation and payment cycles and access conditions.

Consumer switching to alternative products

As outlined in response to chapter 3, ADIs provide a broad range of transaction, savings and term deposit products with different functionality, interest rates and features, to meet the needs of their customer base.

CBA continues to invest in digital on-boarding and account management experiences which make switching easy for customers. Customers are able to easily open new deposit accounts and transfer their funds to an alternative deposit product, both within CBA and between ADIs. There are generally no notice periods or costs associated with switching transaction and savings accounts, and customers can hold savings accounts at multiple ADIs. In addition, transferring money between ADIs is generally quick and simple due to payment innovations such as real time⁸ payments facilitated by the New Payments Platform.

Following a period of historically low interest rates, with the recent increases in retail deposit interest rates that commenced last year, ADIs have observed a shift in customer preference from transaction accounts to savings and term deposit accounts. This demonstrates that customers are attuned to the benefits of different types of products and will switch products accordingly in order to take advantage of higher rates.

⁸ For security reasons, a hold may apply on first time payments. Subsequent payments should be received in under a minute.