Submission to the ACCC Retail Deposits Inquiry - Personal testimonial (Identity withheld)

I'm approaching the eligible age for the age pension, but my cash assets are somewhat above the pension asset test threshold of about $630,000. In this range and for this risk profile, there is no real, accessible alternative to term deposits. I must rely entirely on my savings for an income. I'm unable to work. I'm single.

My financial imperatives as a precarious long term depositor near (above or below) the pension asset test threshold, are:
1. To preserve my nominal (total) and real (net of inflation) long term savings capital.
2. To earn a small positive real return on my long term capital, in the order of 1% above inflation.
3. To avoid any volatility of returns for the term of the deposit.
4. To minimise the duration and frequency of negative real returns to my long term savings capital, which should be compensated for in the next term, by the real premium on my deposit capital.

Notionally, the term deposit product is supposed to satisfy these financial imperatives, but they don't. In order to minimise my risk of nominal capital losses, I only consider the 'big four' or their subsidiaries, and one bank structured as a credit union, which offers competitive rates, but in that case, limiting my exposure to under the $250,000 government guarantee limit, which is too low (it should at least equal the pension asset test threshold). **Why is there no statutory vehicle for 'peri-pensioners' (people approaching retirement or retired, with assets near the pension asset test threshold), as there is for workers (compulsory superannuation), to invest their assets, consistent with their financial imperatives and risk profile?**

The current cash rate is 4.1%, and the best fixed term interest that the big four banks and the smaller bank are offering, is 5%, differing on terms. St George, a subsidiary of Westpac, is offering 5% in a savings account, and 4.75% in a 12-23 month term deposit, with a bonus 0.1% for setting up the term deposit online, which can only be done on a mobile phone, which I don't have, and can't be done on a desktop or in a branch (I tried). So the big four and the smaller bank, which I consider, are all paying depositors less than a 1% premium over the cash rate. **Who decides whether the cash rate premium to depositors is fair, how do they decide and how are banks held accountable for offering unreasonably low premia on the cash rate to fixed term depositors?**

The fair price to fixed term depositors, is the forecast rate of inflation for the term of the deposit, plus a premium upto in the order of half the inflation rate, depending on the length of the term, when inflation is within the RBA target band, or a premium between zero and one percent temporarily, when inflation moves outside the RBA's target band, approaching zero for higher excursions outside the band.

For low transaction frequency open deposits, the fair price is the current rate of inflation, plus a small premium between zero and 0.5%, the size of which would depend on marketing considerations of individual banks, irrespective of inflation rate movements.

For high transaction frequency open deposits, the fair price is a non-zero nominal interest, the size of which would depend on marketing considerations of individual banks, irrespective of inflation rate movements.

Why is there no statute, regulation, convention or standard that delineates fair pricing of the premia paid to depositors by banks and other financial institutions?

Inflation is 6%. I'm able to earn 5% nominal return on my deposit capital from the banks I consider, incurring a 1% real loss on my deposit capital. **I can't remember the last time I was earning a positive real return on my fixed term deposit capital, which fell below 1% when inflation was still within its RBA target band of 2-3%. Who decided that was fair and reasonable, who was there to call the banks out on gouging fixed term depositors with negative real returns to their deposit capital and why did it take a referral from the RBA enquiry to even look into the matter?**

The big four banks currently offering 5% to term depositors, are offering 7.5% mortgages. Smaller competitors are offering mortgages of less than 6%, keeping pressure on the big four, to lower their mortgage rates. Competition post GFC, has been on predominantly loans, rarely, very briefly on deposits, pushing interest down. So it's depositors who get squeezed. Some banks like Westpac through St George, are offering higher rates on their savings accounts than on their fixed term deposits, to minimise the banks' exposure to positive real returns to term depositors, when interest rates fall as expected. **Banks are banking on interest rates falling. As I observe the movement of bank rate offerings and maturities over time, it appears that the real game for banks, is to keep that gravy train of negative real return to fixed term depositors, going, as long as they can. Why is it not unconscionable gouging to yield to suppliers of fixed term deposit capital, consistent negative real returns irrespective of inflation, to offer unrealistically low mortgage and other loans interest, in order in increase the volume of banks' loans business, with that lead for the banking sector, being set by the systematic pricing behaviour of the big four?**

With current inflation at 6%, my fair market pricing expectations would be in the order of 6.0-6.5% interest on my fixed or long term capital, in consideration of the exceptional circumstances of inflation exceeding the RBA target band of 2-3%. When inflation returns to the target band, my fair market pricing expectations on my deposit capital would be in the order of 1% above the forecast inflation rate for the term of my fixed term deposits. That would bring my income to above the poverty line, but still below the minimum wage, and keep me off the age pension. Competitive mortgage rates would be around 8%, slightly higher than what they are now. The market would cool slightly. Bank profits would be marginally impacted. **Why are non-negative real returns to term depositors not recognised as a hedge against hoarding (to access the pension), as savings accruing to the pension system, as an automatic stabiliser of the mortgage market, as a check against market manipulation and as an obligation to protect those most vulnerable to such market manipulation? And why is no authority responsible for systematically considering these social goods, and ensuring these benefits accrue to the community?**