



29 May 2023

Financial Services Competition Division

Australian Competition & Consumer Commission
By email: fcompetition@accc.gov.au

To whom it may concern,

Retail deposits inquiry 2023

The Australian Banking Association (**ABA**) is pleased to make this submission to the Australian Competition & Consumer Commission's (**ACCC's**) Retail Deposits Inquiry 2023 (**the Inquiry**). Australian banks continue to provide a competitive, dynamic, and innovative marketplace for deposits. Banks are cognisant of the variety of uses for deposit accounts and strive to provide products and services that meet the needs of customers.

Banks offer a range of deposit products, such as feature-rich transaction accounts that offer seamless options for Australians to undertake commerce, flexible savings accounts that encourage and support savers to reach their goals, and term deposits to provide a safe place to deposit funds that are not immediately required by customers. Since the Reserve Bank of Australia (**RBA**) started increasing the cash rate in May 2022, banks have also increased the interest paid on savings accounts and term deposits.

In pricing deposit products, banks balance a number of factors such as product features, the stability (tenure) of the deposits, the cost of money, and competitor positions. However, banks also consider deposits pricing in respect to the broader activities of the bank. This includes the interrelationship of the price of mortgages relative to the price of deposits as customer deposits form a significant portion of banks' funding. Bank deposits as a source of bank funding have grown substantially since the GFC, now accounting for around 60 per cent of bank funds.

The value customers receive from deposit products is broader than just the interest rate. Banks have innovated both savings and transactions products for well over 50 years. Each innovation has provided banking customers different options to access to their funds and for transactional needs (e.g., transaction rounding up, budgeting tools, savings goals and trackers) or options to reduce their mortgage interest expense (e.g., by putting their cash to use against their mortgage in offset accounts).

Innovations and other services, like fraud and scam prevention, are incorporated into the features of deposit products as standard offerings with associated costs which aren't passed on to consumers. Banks continue to develop the savings and payments infrastructure of the nation, providing opportunity for industry and emerging technologies to further innovate.

Yours faithfully

Anna Bligh A.C.

Chief Executive Officer



Annexure

1. Types of deposit products

Deposits are an essential component of bank funding. Bank funding comes from deposits, long- and short-term debt (borrowings), equity and securitisation. Of these, domestic deposits account for the majority of bank funding, having grown to over 60 per cent of bank funds in 2022, up from around 45 per cent in the late 2000s.¹

There are three basic types of deposit product: transaction accounts, savings accounts, term deposit accounts. Each type of deposit product meets specific customer needs and preferences through product features, Table 1.

Table 1: Deposit products available to Australian consumers

Deposit product type	Customer need met	Core features
Transaction Account	<p>A deposit facility to receive income and other deposits and from which to conduct everyday financial activities such as paying bills, shopping for groceries, entertainment etc.</p> <p>These accounts have a high cash flow rate, often being 'topped up' at a pay point and depleted until the next pay cycle.</p> <p>Customers demand instant access to funds (EFT or cash), speedy payments processing.</p>	<p>Funds are held at call; customers can access instantly.</p> <p>These accounts offer full service such as EFT, BPAY, PayID, PayTo.</p>
Savings Account	<p>A deposit facility to enable savings.</p> <p>Customers use these types of accounts to build up a pool of savings for a goal (e.g., house deposit or car purchase) or as good financial management practice.</p>	<p>Funds are held at call; customers can access near-instantly.</p> <p>Accounts usually cannot be linked to a debit card.</p> <p>Direct debits are not possible for many products.</p> <p>These products may provide the ability to transact however a larger benefit generally accrues through higher savings.</p>
Term Deposit	<p>A deposit facility to invest funds that are not immediately required.</p> <p>Customers are willing to commit funds for a term in exchange for commensurate compensation.</p>	<p>Funds are typically held on deposit for an agreed period.</p> <p>Customers cannot add to the funds during the period.</p> <p>Customers can recall funds before term subject to notification requirements.</p>

Australian savers are not restricted to bank savings accounts and term deposits to store savings and to earn a return. Alternatives to savings or term deposit accounts that may generate income include fixed interest securities, investment grade bonds (e.g., Australian Government bond), cash management

¹ RBA, 17 March 2023, [Developments in banks funding costs and lending rates](#), Accessed 4 May 2023



accounts, credit funds and equities, depending on the investor’s risk appetite. These usually require customers to move up the risk curve to generate potential income.

2. Pricing of deposit products

Deposit product interest rates are determined by individual banks in accordance with their pricing practices. However, in general there are several dynamics that influence the interest rate on deposit product types:

- Feature-rich, high-utility, deposit products typically cost more for banks to provide and service.
- The given duration of funds held on deposit, based on consumer preferences. The return offered on deposits is in part matched by the contracted duration of the deposits.
- Competitive market pricing on equivalent products.
- The target cash rate (for savings accounts) or the term structure of interest rates (for term deposits).
- Prudential requirements for Approved Deposit-taking Institutions (ADIs).

Transaction products

As noted in section 1, transaction accounts are typically used for everyday banking rather than as a savings vehicle, and do not usually pay interest. Interest on transaction accounts was phased out by most banks by December 2001 and by most building societies, credit unions and mutuals by August 2013.² Some transaction accounts do offer interest; however, this is uncommon.³

There are more than 277 transaction products available in Australia and a further 162 account types classified as both transaction and savings.⁴ These transaction accounts have a variety of features ranging from offset facilities described above, fee-free ATM withdrawals, associated debit or credit cards, and access to overdrafts among others.

Further, many transaction accounts can be used as ‘offset’ accounts for customers who hold a mortgage with the same bank. There are 71 transaction accounts on the market with 100% offset facilities.⁵ As at December 31, 2022 offset account balances were \$244b, having increased 43 per cent (from \$177b) since December 2019.⁶

Offset accounts provide customers with attractive opportunities to utilise their savings to reduce their interest expense on mortgage repayments. In the simplified example below, on a \$500,000 mortgage with a \$50,000 offset account, the monthly net benefit to the customer is \$281 or \$3,372 per annum, Table 2.

Table 2: Financial benefit accruing from offset account; Stylised example

	Term	Amount (\$)	Rate (%)	Monthly payment
Mortgage balance⁷	30-year variable	\$500,000	5.39%	\$2,808
Offset account balance⁸	At call	\$50,000		
(Net) mortgage balance⁹		\$450,000		\$2,527
Savings from offset				\$281

² RBA, Retail deposit and investment rates – Statistical series, Table F4; ABA analysis

³ See: <https://www.macquarie.com.au/everyday-banking/transaction-account.html>

⁴ Canstar View, <https://www.canstarview.com.au/>, Accessed by ABA 4 May 2023.

⁵ Canstar View, <https://www.canstarview.com.au/>, Accessed by ABA 4 May 2023.

⁶ APRA Quarterly ADI Housing Statistics; ABA analysis

⁷ Finder, <https://www.finder.com.au/home-loans/variable-rate-home-loans> Accessed by ABA 16-May-23

⁸ Assuming a constant \$50,000 balance in the offset account.

⁹ Finder, <https://www.finder.com.au/home-loans/variable-rate-home-loans> Accessed by ABA 16-May-23



Offset accounts offer customers a financial benefit relative to other forms deposits. To illustrate the benefit from offset accounts, the above example is extended with the following assumptions:

- the person is earning a salary of \$100,000 per annum with a marginal tax rate of 32.5 cents, and
- instead of offsetting the mortgage balance, the person places the \$50,000 into a 12-month Term Deposit at 4.7%.¹⁰

Under this scenario, the net interest benefit to the customer is \$1,586.25¹¹ at the end of the twelve-month contract period.

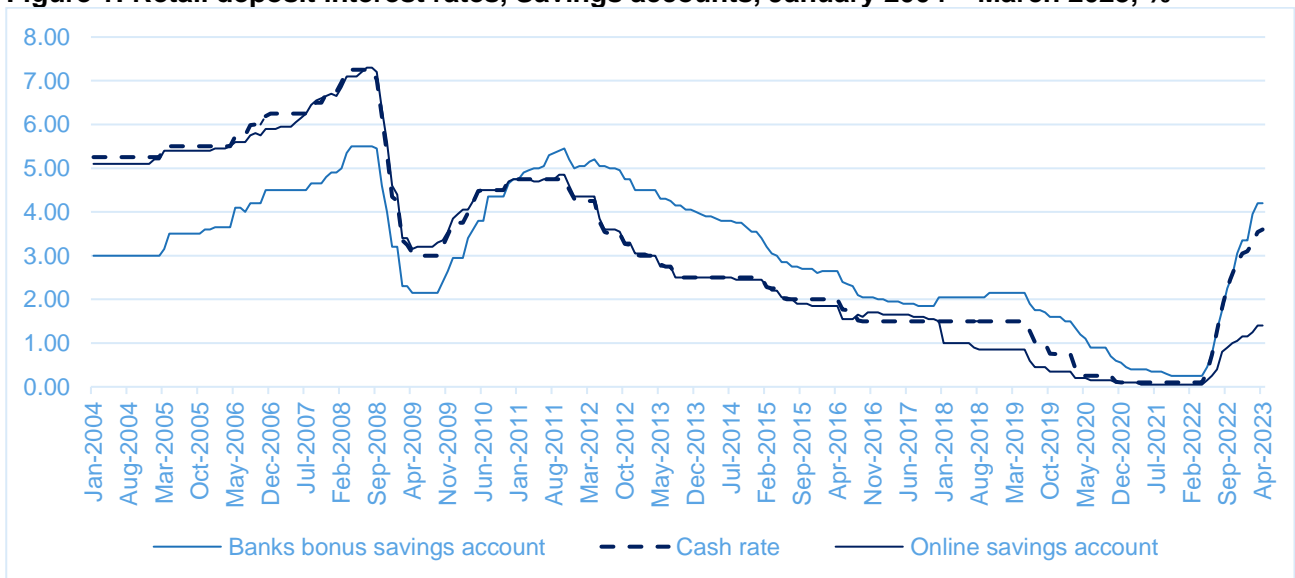
In comparison in the scenario where the \$50,000 is offsetting the mortgage, interest saved under the offset arrangement was the \$3,345. Therefore, the customer achieves a \$1,785.75 benefit under the offset arrangement relative to the Term Deposit in the 12-month period.¹²

Savings products

Bonus savings accounts¹³ typically offer higher interest if the customer or account meets certain conditions (e.g., a specified amount is deposited each month, or a customer belongs to a particular demographic). During the recent period of a rapidly rising target cash rate, bonus saving products showed a similar rapid increase in interest rates.

The average interest paid in March 2023 on bonus savings accounts was 4.20%, offering a premium of 60 basis points over the cash rate. Based on data from RBA statistical series F4, interest for bonus savings accounts grew at a faster rate throughout late 2022 than online savings accounts, Figure 1. Of the 609 savings products on the market (162 of which are also classified as a transaction account) 158 have conditional bonus.

Figure 1: Retail deposit interest rates, Savings accounts, January 2004 – March 2023, %



Source: RBA Retail deposit and investment rates – Statistical series, Table F4; ABA analysis

¹⁰ Rate based on AMP Bank offer of 4.7% on 12 month Term Deposit, [https://www.canstar.com.au/compare/term-deposits/?amount=\\$50,000&profile=Personal&term=11+-+24+months](https://www.canstar.com.au/compare/term-deposits/?amount=$50,000&profile=Personal&term=11+-+24+months) ABA accessed 18-May-23

¹¹ This calculation is undertaken as follows:

- Interest income is \$2350 as calculated by Canstar <https://www.canstar.com.au/calculators/term-deposit-calculator/> ABA accessed 18-May-23
- LESS Income Tax of \$763.75 at the marginal rate of tax of 32.5 cents

¹² This example has been simplified and does not consider the complex financial situations of bank customers. It is intended for illustrative purposes only.

¹³ Bonus savings accounts are distinct from accounts that offer introductory rates.

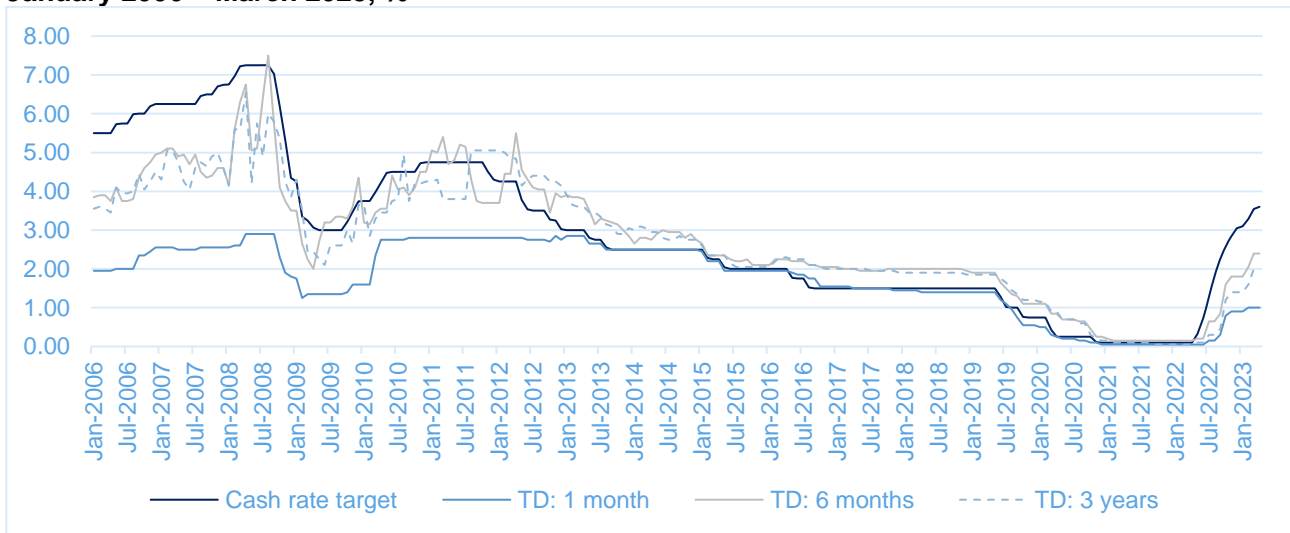


Term deposits

There were over 130 term deposits products available in Australia as at May 4, 2023.¹⁴ Variations in features offered in these products include online accessibility, minimum or maximum deposit values as well as access to funds. For example, some products can be applied for, opened and closed online, allowing greater flexibility for customers. Minimum and maximum amounts deposited and early access to funds¹⁵ or funds at call without penalty are also features that are offered for some term deposits but not others.

Figure 2 uses RBA statistical series F4 to illustrate the average interest paid on one-month, six-month and three-year term deposits, with longer terms nearly always offering high interest. This allows banks the ability to access secure medium-term funding by providing higher interest in return for access to longer term deposits.

Figure 2: Interest rates for bank term deposit products and Cash rate target, by term length, January 2006 – March 2023, %



Source: RBA Retail deposit and investment rates, Table F4; ABA analysis

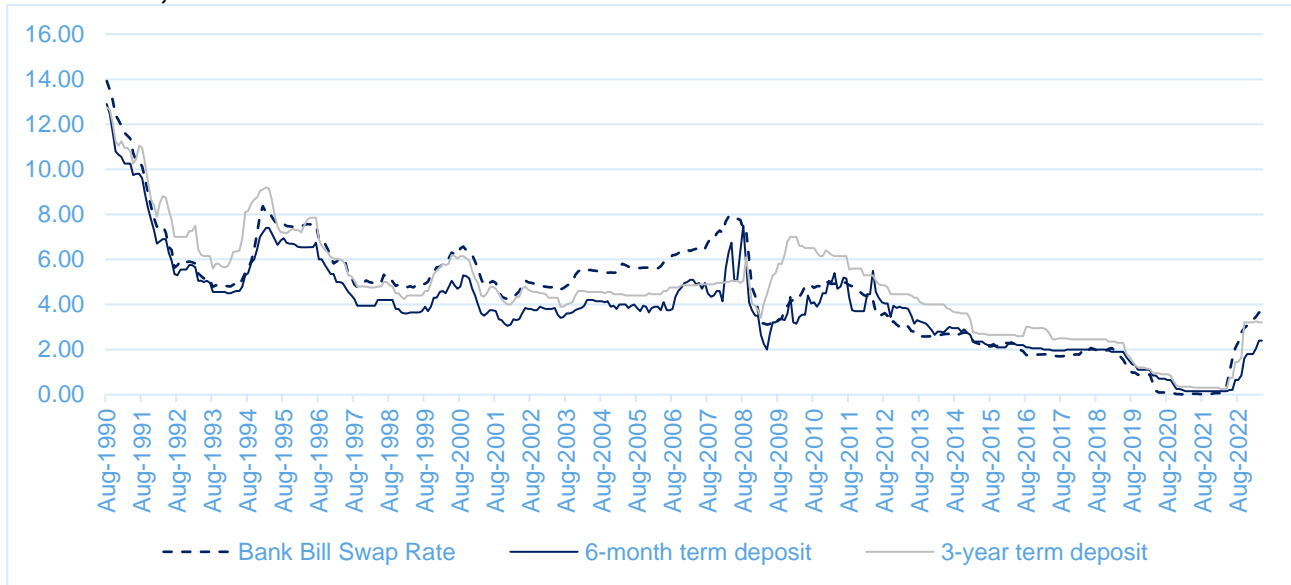
A factor driving term deposit pricing is the term structure of interest such as Bank Bill Swap Rates (BBSW). During the recent period of a rapidly rising cash rate, longer term deposit and bonus saving products show a similar rapid increase in interest rates, Figure 3.

¹⁴ Canstar View, <https://www.canstarview.com.au/>, Accessed by ABA 4 May 2023.

¹⁵ Longer duration term deposits are usually subject to a 30-day notice for customers to access funds ahead of the contracted date to fulfil requirements under APRA Prudential Standard APS210 Liquidity)



Figure 3: 6-month bank bill swap rate and 6-month and 3-year term deposit rate, August 1990 – March 2023, %



Source: RBA Retail deposit and investment rates, Table F4; RBA Interest rates and yields – Money Market, Table F1; ABA analysis

3. Pricing of deposit products relative to mortgage products

We note the Inquiry’s concern for the rate at which deposit rates change following a movement in the target cash rate by the Reserve Bank of Australia. We also note that while the issue of increases to mortgage interest rates is not discussed in the Issues Paper, it is integral to overall bank balance sheet management.

As outlined in sections 1 and 2, deposits are an important source of funding for banks. Banks utilise their funds to issue loans, such as mortgages and business loans to their customers. Therefore, the pricing of deposits impacts other elements of the banks’ activities, including the pricing of mortgages. Banks must balance the pricing of all products while managing liquidity, capital, operating costs as well as competitive pressures.

During 2022, the average interest rate paid on bonus savings deposit products increased more than both the cash rate and average interest charged on mortgage products.¹⁶ This is best illustrated by examining the increase in the average effective interest rates of deposit and mortgage products.

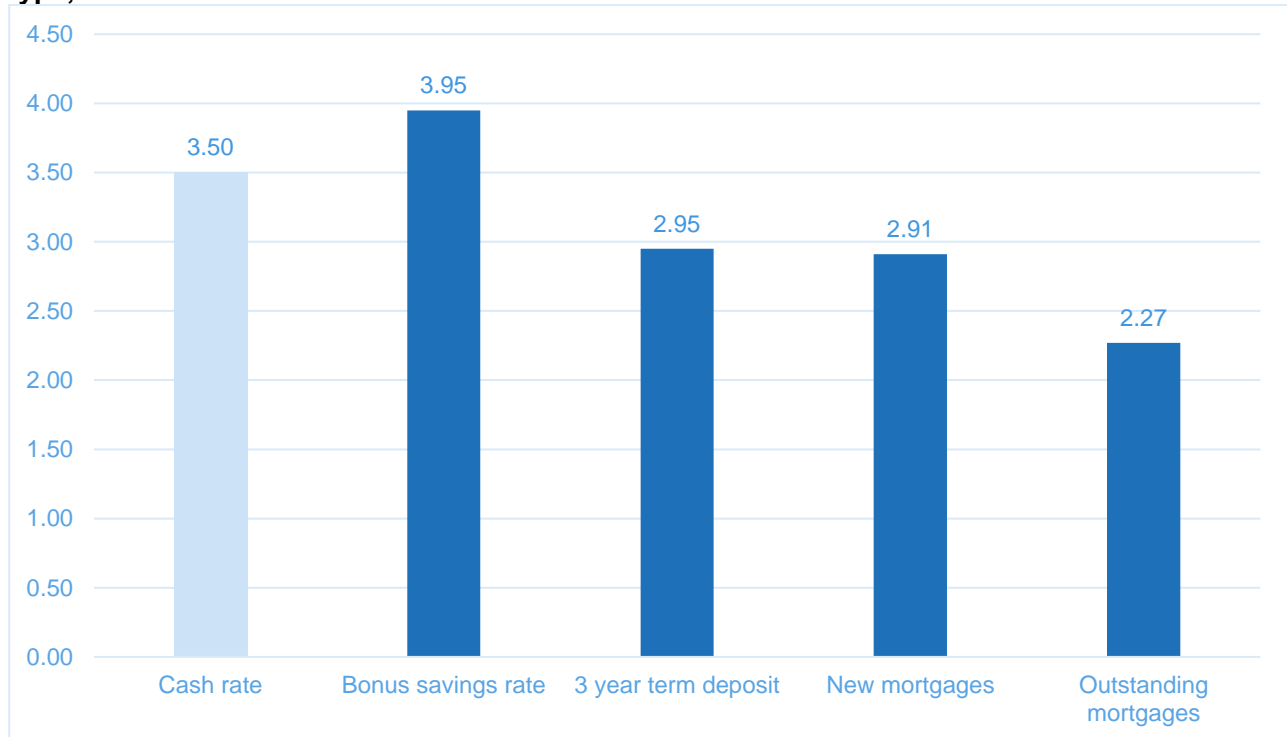
Using RBA statistical series F6, Figure 4 shows that the effective interest rate paid on bonus savings account increased by more than the cash rate between April 2022 and March 2023. Both rates, as well as 3-year term deposit rates increased by more than effective interest rates on variable owner-occupier mortgages.¹⁷ While there was a 3.50 per cent increase in cash rate during this period, there was also an average 3.95 per cent increase on the interest in bonus savings accounts and 2.95 per cent increase in 3-year term deposits.

¹⁶ Bonus savings accounts are distinct from accounts that offer introductory rates.

¹⁷ UBS analysis finds there is expected to be strong competition between banks for deposits throughout 2023; UBS, March 28, 2023, *Australian Banking Sector Update, How low can we go?*, UBS Evidence Lab.



Figure 4: Increase in effective interest rates between April 2022 and March 2023, by product type, %



Source: RBA Retail deposit and investment rates – Statistical series, Table F4; RBA Housing Lending rates – Statistical series, Table F6; RBA cash rate; ABA analysis

4. Switching deposit accounts

To take advantage of more attractive interest rates and earnings, bank customers can easily open fee-free bank accounts and move funds within minutes. This applies for a range of scenarios, including opening new accounts with a new bank, new accounts with a customer’s existing bank, or moving funds between existing accounts at a customer’s existing bank.

In most cases, moving funds is a simple and quick process and at no cost to the customer. Consumers are also able to easily access price comparisons via a range of websites. These companies advertise and compare the different rates on offer across all the banks.

Technology also enables a consumer to switch banks and accounts quickly. Combined with banks enabling customers to open accounts online quickly, the New Payments Platform can almost instantly move funds into a new account.

5. Innovations in deposit products and related services

Banks constantly evolve product and service offering at great investment. All technologies have a lifespan driven by subsequent innovations and evolving consumer preferences. As part of the free and competitive marketplace, banks are to be encouraged to continue to find opportunities to further innovate and deliver the services and products customers’ demand whilst retiring technologies that have been superseded or are no longer preferred by consumers.

In respect to savings accounts, banks have been at the forefront of innovating with high interest online savings accounts and through the development of savings aligned applications such as budget and spending trackers.

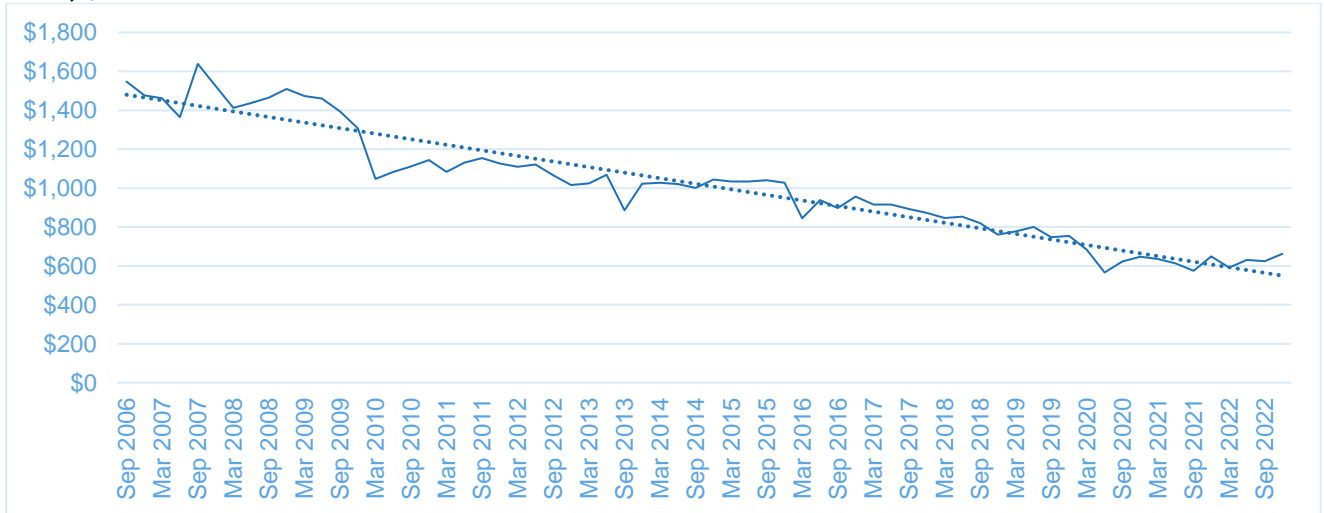
In respect to transaction accounts, banks have driven innovation in payments for well over 50 years with the introduction of in Bankcard in 1974, wide-scale bank deployment of ATMs in the 1980s,



EFTPOS in 1984, BPAY in the late 1990s, through to innovation of offset accounts in the early 2000s, bank apps from 2010,¹⁸ and PayID and PayTo in 2018.

Over the last few years, many innovations have been introduced in payments, such as the launch of NPP and Open Banking under the Consumer Data Right (CDR). These features are essentially free for customers to use, reducing friction of moving funds around and paying for purchases. Banks continue to enhance their transaction account offerings in an environment of reducing account fees, Figure 5.

Figure 5: Transaction / deposit account service fees, All ADIS, September 2004 – December 2022, \$m



Source: APRA Quarterly ADI Statistics, Tab 1a; Analysis by ABA

¹⁸ <https://www.itnews.com.au/news/stgeorge-nab-to-launch-ipad-banking-apps-176137>