

Code of Banking Practice Independent Review 2016

SUBMISSION:

This submission is made in relation to the scope of Terms of Reference d (i, iii and v), k, o and r.

A practice common among banks is to offer personal customers an introductory bonus interest rate for opening a new savings account. Some accounts require a monthly deposit to be made, and some allow no withdrawals for the bonus rate to apply. Typically the bonus rate is added to a much lower, variable standard rate, for the first few months after the account is opened. After the introductory period, the interest reverts to the standard rate alone, and generally the customer is not permitted take advantage of the same introductory offer for an exclusion period.

Here is an example, taken from a bank's web site:

Introductory special rate for the first 5 months

| | |
|----------------------------------|------------|
| Total introductory variable rate | 2.95% p.a. |
| 5 month introductory fixed rate | 1.45% p.a. |
| Standard variable rate | 1.50% p.a. |

An introductory fixed bonus rate of 1.45% p.a. applies for the first 5 months, on top of the standard variable rate when:

- You open a new ***** account
- You haven't held a ***** account for the last 3 months.

After 5 months, the standard variable interest rate, currently 1.50% p.a. will apply to your ***** account.

Banks are not advising customers that their bonus rates are about to cease, putting the onus on customers to closely monitor their savings account. To again obtain a competitive rate they must move their deposit to a different bank offering a similar bonus rate on new accounts. This roundabout can repeat every three to six months, and unless the customer is vigilant about the dates interest is credited, and bank working days, a large portion of a month's interest can be lost.

The savings account is in many cases separate from a customer's everyday transaction account, and is held specifically to hold larger sums in a higher interest environment. For example, retirees' financial assets above a threshold are deemed by Centrelink to be earning 3.25%, so they need to seek out the most attractive rates available. Online savings accounts with the type of bonus interest described above currently offer rates superior to term deposits.

Clearly the strategy of the banks in offering introductory bonus rates is to take advantage of customers who are not sufficiently 'agile' to closely monitor and switch accounts.

Proposal:

That banks be required to advise customers 10 working days before bonus interest periods expire, such that customers have time to change accounts/banks with minimum detriment, if they so choose.

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