# CHAPTER FIVE

# COMPETITION IN THE MARKET PLACE

5.1 In this chapter the Committee reviews a number of recommendations from the earlier report which relate to consumer banking issues. The areas reviewed include:

- retail pricing and credit cards (Recommendation No 64);
- interest on deposit accounts (Recommendations Nos 65 and 67);
- cost recovery methods for early repayment of fixed interest rate loans (Recommendation No 68); and
- credit assessment procedures and scoring systems (Recommendation No 74).

5.2 The underlying philosophy of the Committee's recommendations in the original report relating to consumer banking issues was that the pricing of bank products and services should be determined in the market place. While adopting this underlying approach, the Committee recognised the market does not always operate efficiently or deliver outcomes which are considered fair. Shortcomings arise where there is poor information or a failure to communicate information adequately, where institutions engage in deceptive practices or where there is unfair bargaining power between banks and customers. Other institutions such as government can place barriers or restrictions which prevent the market from working efficiently.

5.3 Later in the chapter the Committee discusses ways of improving information available to consumers so they in a better position to make informed choices. The Committee develops the concept of a 'report card' on banks as a way of placing comparative information on bank products before consumers and proposes methods for seeing such information more available in the market place.

## Code of Banking Practice

5.4 A major set of recommendations was made in the previous report to address the relationship between banks and consumers. The Committee recommended the development of a legally enforceable Code of Banking Practice to mediate this relationship. The recommendations relating to the Code were not part of the current review as it was the Government's responsibility to respond to the recommendations in this area.

5.5 The Government's response to the report tabled in the House of Representatives on 25 June 1992 noted:

> Consumer groups and individual customers frequently complain about shortcomings of banks: at the most general level, customers believe they are at a disadvantage in dealing with banks because of their relative financial weakness and the size and power of banks. There needs to be an acceptable balance of interests, and an appropriate code would help to achieve this.[1]

5.6 Consequently the Government endorsed the development of a comprehensive Code of Banking Practice 'to cover best banking practices in respect of relations between banks and their customers'.[2]

5.7 A task force of officials from Treasury, the Trade Practices Commission, the Reserve Bank and the Federal Bureau of Consumer Affairs, chaired jointly by Treasury and the TPC, has been established to develop the Code in consultation with banks, consumer groups and other relevant organisations.

5.8 While there originally was some concern expressed by banks and consumer groups about their lack of direct involvement in developing the Code, all groups appear to be satisfied at this stage with the process for consultation being undertaken by Treasury and the TPC.

5.9 In an update on progress in developing the Code, the TPC advised the Committee a draft Code was expected to be prepared for circulation and comment in October 1992. A further round of consultations with interested parties will be undertaken at that time. The agreed Code package is expected to be ready for implementation by the end of 1992.

5.10 Among issues identified by the task force for analysis in preparing the Code are definition of terms and conditions of retail banking contracts, disclosure of relevant information about bank products and services, advertising of banking products and dispute resolution procedures. Work also will be undertaken on specific issues such as guarantees, bankers' rights of account combination and offset and confidentiality and privacy issues.

5.11 An additional area the Committee considers should be addressed in developing the Code is the need for banks to inform customers where significant reductions in interest rates occur. An example is housing mortgages where consumers should be advised of the options including lower monthly loan repayments following significant reductions in interest rates.

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1 Government's response to Committee's report, dated 26 June 1991, p. 6.
2 Government's response to Committee's report, p. 6.

5.12 The development of a Code of Banking Practice should enable the market to work more effectively and more fairly than has been the case. It should address many of the areas of concern about the relationship between banks and customers which were highlighted in the Committee's earlier report.

5.13 The recommendations from the first report in the consumer banking area being reviewed in this inquiry can be seen as supplementing the Code of Banking Practice. They are not designed to place restrictions on banks' activities or prevent banks from acting in ways which are responsive to the market and which will be of benefit to consumers.

5.14 Rather they focus on best practice in the industry in areas where the market does not appear to be delivering the most beneficial outcomes to consumers. The Committee took the view banks should implement these recommendations as a recognition of this best practice and not as a result of legislative prescriptions which might distort the market unnecessarily. The Committee, through its review, has sought to maintain pressure on banks to implement the recommendations.

## Credit card pricing

5.15 In the earlier report the Committee made two recommendations on credit cards. The first was that the Prices Surveillance Authority (PSA) inquire into the profitability of credit cards prior to any decisions being made on deregulation of this market. This recommendation was accepted by the Government and the PSA inquiry is well advanced. The PSA is to report by 15 October 1992.

5.16 A further recommendation (recommendation no 64) was made for retailers to be allowed to dual price for credit card and cash transactions should they so desire. In the earlier inquiry, evidence was given by some merchants that they could have their credit card facilities withdrawn if they charged differently for credit card and cash transactions. The Committee considered the ability of merchants to charge differently in situations where their costs differed was merely allowing the market to operate freely.

5.17 The response of banks to this recommendation was summed up in the submission from the ABA. According to the ABA, the action of banks in refusing to allow retailers to dual price for credit card and cash transactions results from restrictions under various State Credit Card acts. If these restrictions were removed, the ABA stated banks would not oppose any dual pricing which might follow.[3]

3 Evidence, p. S11.

5.18 The ACA claimed banks technically were wrong in stating the Credit Acts prohibited dual pricing. In fact the Credit Acts allow dual pricing 'so long as the extra cost of using credit is disclosed as part of the interest rate'.[4] As noted by the ACA, the difficulties in complying with this make dual pricing impractical for bank credit cards, but not illegal. While originally supporting dual pricing, the ACA expressed concerns about changes to credit legislation to permit dual pricing undermining the disclosure of the total cost of credit.[5]

5.19 The issue of dual pricing has been included in the PSA inquiry into credit card interest rates. The inquiry is to address:

> . the effects on consumers of the current charging arrangements, including the effects of any cross-subsidisation between different categories of users of credit cards or between cash customers and credit card customers.

5.20 As this matter is to be investigated fully in the PSA inquiry, the Committee makes no further comment on it in this report.

5.21 However, the Committee has a continuing interest in credit card issues as a result of the previous inquiry and its brief review of the issues in this inquiry. The Committee is keen to ensure the credit card market delivers to consumers the maximum benefits in terms of price competition and technological innovation. The Committee asked the PSA to keep it informed of progress on the credit card inquiry. In accord with that the Committee signals its intention to review the completed PSA report.

## Deposit accounts

5.22 In the previous report, the Committee recommended that banks should pay reasonable interest on all deposits, taking into account the cost of maintaining accounts (Recommendation 65).

5.23 The Committee also recommended that banks convert all remaining accounts which pay interest on a minimum monthly balance to a daily interest formula (Recommendation 67).

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4 Evidence, p. S608.
5 Evidence, p. S608.

**Minimum monthly balance**

5.24 Contrary to the Committee's recommendation, the following banks calculate interest on the minimum monthly balance (MMB) for the following accounts.

| | |
|---|---|
| Advance Bank | Advance Savings |
| | Personal Cheque account |
| | Cashplus |
| | Inflation fighter |
| | B&B |
| | Step Ahead |
| Bank of Melbourne | Current Account(pre 89) |
| Bank of Queensland | Ultimate |
| Challenge Bank | NFT Savings |
| | Pace |
| | Today |
| Commonwealth Bank | Keycard Savings |
| | Passbook Savings |
| Metway Bank | Passbook Savings |
| National Australia Bank | Everyday Savings |
| | Goal Savings |
| | Ordinary Passbook |
| | Solutions Cheque Account |
| R&I Bank | Ordinary Passbook |
| | Easybank Savings |
| State Bank of NSW | State One |
| State Bank of SA | Everyday account |
| | Passbook savings account |
| | Personal Cheque account |
| Town and Country | Cashpower Visa |
| Trust Bank of Tasmania | Trust Card |
| | Passbook Savings |
| | Investment Savings |
| | Achiever |
| | Visa Debit/Credit |
| | Pensioner Accounts |
| | Safeguard Savings |
| Westpac | Ordinary Passbook |

5.25 Advance Bank confuses matters further on two of its accounts (Personal Cheque and Cashplus accounts) by swapping between interest calculation methods depending on the account balance each month.

5.26 On its Choice account the Bank of Queensland offers customers the option of a minimum monthly balance formula in exchange for a higher interest rate.

5.27 The minimum monthly balance obscures the true interest rate and in many cases reduces the amount of interest paid.

5.28 The minimum monthly balance method was developed when interest had to be calculated by hand. There is no excuse for its continued use today. St George Bank reported finding no evidence of consumers preferring minimum monthly balance formula.[6]

5.29 It has been suggested that the MMB formula allows banks to pay a higher nominal interest rate which would benefit those with stable balances. However, the interest rate summaries in Tables 4-7 show that, in each product category, there are accounts using a daily formula which pay higher rates than those using a MMB formula.

5.30 **The Committee recommends:**

> **32. All banks immediately convert minimum monthly balance accounts to a daily formula, unless consumers opt for a minimum monthly balance in exchange for a higher interest rate. The Code of Banking Practice should contain a requirement on this issue.**

**Interest rate not applied to the whole balance**

5.31 The Committee has become aware of another complexity in interest rate calculations which obscures the true interest rate. This is where a high account balance qualifies a customer to a higher interest rate, but the higher rate is only paid on part of the balance. This is referred to as a 'stepped' versus 'tiered' interest structure, but the terminology is confusing as the two terms are sometimes used with reversed meanings.

5.32 The practice is best explained by an example. At the Metway Bank the Options #3 account and the Savings Investment account have the same interest rates up to $15,000.

| | |
|---|---|
| $0 - 4,999 | 3.0% |
| $5,000 - $15,000 | 4.0% |

However, if the account balance is $6,000, the Savings Investment account only pays the higher rate on the **part** of the balance over $5,000 and 3.0 per cent on the remainder. This gives an effective interest rate of 3.7 per cent. In contrast, the Options #3 account would pay 4.0 per cent on the **whole** balance.

6 Evidence, p. 428.

5.33 The following banks have some accounts where a higher interest rate is only paid on part of the balance:

Bank of New Zealand
Citibank
Commonwealth Bank of Australia
Metway
National Australia Bank
State Bank of SA
St George Bank
Trust Bank of Tasmania

5.34 Paying interest on part balances makes the interest rate quoted misleadingly high and makes it very difficult for consumers to compare interest rates between accounts.

5.35 **The Committee recommends that:**

**33. banks should not apply different interest rates to different parts of an account balance. Where a customer qualifies for a higher interest rate, that rate should be applied to the whole balance. The Code of Banking Practice should contain a requirement on this issue.**

**Zero interest accounts**

5.36 The Committee has identified at least five situations where money may earn no interest:

- certain cheque accounts;
- accounts with no interest below a certain balance;
- many credit card accounts;
- accounts calculated on a minimum monthly balance; and
- trust accounts.

5.37 In June 1992, the Reserve Bank reported that banks held $13.4 billion in zero interest accounts; an increase of $0.7 billion since the Committee's recommendation was made in November 1991. This statistic includes cheque accounts not paying interest. Accounts which pay interest over a certain level or on MMB are classified as accounts paying interest even though some of these accounts will not pay interest at certain times.

5.38 The long term trend is for these amounts to decline as a proportion of overall deposits. Since 1987 zero interest deposits have fallen from 13 per cent to 6.6 per cent of total deposits.

5.39 However, the total amount of money involved remains large. Even assuming banks paid a modest rate of 3 per cent interest on these accounts, the interest foregone by individual and small business customers is $420 million per year - a substantial loss. It is difficult to believe that zero interest represents a fair market rate, even after taking administration costs into account.

. 1. Cheque accounts

5.40 Personal cheque accounts at the following banks pay no interest, regardless of the balance:

ANZ
Bank of New Zealand
National Australia Bank
R&I Bank
State Bank of NSW
Trust Bank of Tasmania
Westpac

In addition, some business cheque accounts pay no interest.

5.41 The failure to pay interest is difficult to understand from the perspective of a competitive banking market. Each of these banks also has an interest bearing account with cheque access. Interest rates on accounts with cheque access need not be miserly either. State Bank of NSW 'All-in-One' Account pays 4 per cent interest from the first dollar with even higher rates on large balances.

5.42 **The Committee recommends that:**

**34. banks pay interest on all positive balances in cheque accounts. Where a low interest cheque account is retained as the cheapest option for some customers, banks should advise account holders of the availability of the alternatives paying higher interest.**

If banks face difficulties in paying interest on cheque accounts due to government regulation, they are invited to draw these difficulties to the government's attention.

. 2. Accounts with no interest below a certain balance

5.43 The following accounts pay no interest if the balance falls below a certain amount. Deeming accounts where no interest is paid if the balance is below $2000 are:

| | |
|---|---|
| ANZ | HPP Pensioner |
| Commonwealth Bank | Pensioner Security |
| Metway | Pension savings |
| St George Bank | Protector Plan A |
| Trust | Safeguard Savings |
| Trust | Single Pensioner |
| Westpac | Passbook-Pensioner |

5.44 Other accounts where no interest is paid if the balance is below a certain cut-off point:

| | |
|---|---|
| Advance Bank | Link |
| | B&B |
| | Elevator |
| Bank of New Zealand | Smarter Cheque |
| Challenge Bank | Investment Savings |
| | Achiever |
| Citibank | Citi One |
| | Citi cheque |
| Commonwealth Bank | Security Plus |
| | Savings Investment |
| Metway Bank | Savings Receiver |
| | Savings Investment |
| | Options #1 |
| R&I | Golden Account |
| State Bank of SA | At Call Investment |
| | Everyday Account |
| | Personel Cheque |
| | Passbook Savings |
| St George Bank | Priority Saver |
| | Flying Start |
| Trust Bank | Status High Interest |
| | Investment Savings |
| Town and Country | Maxi Rate |

5.45 This list only covers accounts included in the report card. Other accounts (for example business accounts, cash management accounts) may also pay no interest below a certain balance.

5.46 The problem for consumers is even more severe where a zero interest bracket is combined with stepped interest rates. For example, with the Citibank Citcheque Account, the first $2,000 earns no interest regardless of how high the balance is. Even if all accounts had a substantial balance, every customer would earn zero interest on $2,000.

5.47 These conditions are sometimes used to restrict products to a particular target group (eg those with amounts above $5,000). While the Committee understands this aim, it seems exploitative to pay no interest at all if the consumer inadvertently breaches this condition, whether due to changed financial circumstances or the consumer taking the wrong account in the first place.

5.48 **The Committee recommends that:**

**35. banks pay some interest on all positive balances, even where the account is aimed at balances above a certain amount.**

. 3. Credit cards

5.49 Many credit cards pay no interest on positive balances. Credit cards should be viewed as an access mechanism, not a distinct account type. Positive balances on existing credit cards probably do not occur very often, but can involve substantial amounts. For example a family going on an overseas holiday for 2 months may deposit $5,000 in their credit card account so they can have easy access to funds overseas.

5.50 The following banks pay no interest on positive balances:

| | |
|---|---|
| Advance | Visa |
| ANZ | Visa and Mastercard |
| Bank of Queensland | Bankcard, Visa and Mastercard |
| Citibank | Visa and Mastercard |
| Commonwealth Bank | Bankcard and Mastercard |
| Metway | Visa |
| State Bank of NSW | Bankcard, Visa and Mastercard |
| Westpac | Bankcard, Visa and Mastercard |

5.51 Consistent with its earlier expressed view that banks should pay interest on all positive balances in deposit accounts, the Committee considers all banks should pay interest on positive balances on credit cards.

. 4. Minimum monthly balance

5.52 The effect of the minimum monthly balance formula is that each month no interest is paid on any money deposited and/or withdrawn in that month. If $5,000 is deposited on the second day of the month, it earns no interest at all that month. On an account used for everyday banking, substantial balances may earn no interest. A recommendation on minimum monthly balances is made earlier.

. 5. Trust accounts

5.53 Large sums of money are held in trust accounts, but banks do not necessarily pay interest on these.

5.54 For example, interest is only collected on 25 per cent of the minimum annual balance of trust accounts for NSW real estate agents. The balance (million of dollars) is held by banks interest free. In contrast, interest is collected on solicitors' trust accounts in NSW and used in ways which assists consumers of legal services, such as legal aid, compensation for trust account theft and so on.

5.55 **The Committee recommends that:**

**36. interest be paid on all trust accounts in banks and be used to benefit the persons on whose behalf the money is being held.**

**Superseded accounts**

5.56 Several banks maintain old accounts when new accounts with better terms have been introduced. While the old accounts are not offered to new customers, they are not automatically upgraded.

5.57 The Committee is concerned that this conduct is disadvantaging consumers who are not aware they could get a better deal or find it inconvenient to go through the process of changing accounts. This may include people who have poor English, are sick or disabled, have other overwhelming time commitments or simply do not understand the differences between accounts.

5.58 This is in contrast with other banks (eg ANZ, Westpac) which have automatically upgraded accounts.

5.59 National Australia Bank claimed it was unable to upgrade the accounts without the consent of the customer. The Committee does not accept this argument, given that other banks have upgraded their accounts and that accounts have been changed in detrimental ways without consent (eg fees introduced).

5.60 For example, R&I Bank has a superseded account called Easybank Savings. This appears inferior to R&I's Easybank Plus account as the interest rates are lower and the fees are the same. Both are card and statement type accounts.

| | **Easybank Savings** | **Easybank Plus** |
|---|---|---|
| Interest on: | | |
| $1 < 2,000 | 2.25% | 2.5% |
| $2,000 < 5,000 | 2.25% | 3.0% |
| $5,000 < 10,000 | 2.75% | 3.5% |
| $10,000 < 20,000 | 3.0% | 3.75% |

5.61 **The Committee recommends that:**

**37. all banks should promptly upgrade all superseded accounts to the most appropriate new account. The Committee recommends that the Code of Banking Practice should contain a requirement on this issue.**

**Deeming versus other accounts**

5.62 A striking result of comparing bank products is that deeming accounts offer far better value than all other at-call accounts for a moderate balance. While banks have complained that the deeming rate has been set too high at times, the fact is that many banks have been prepared to offer very attractive terms to attract or retain pensioners as customers. The terms offered go beyond the features required to avoid affecting pension entitlements under the deeming criteria.

5.63 For example, State Bank of NSW offers an effective rate of 6.17 per cent, calculated daily and paid monthly on the whole balance, with a $1 minimum opening balance. The account uses a card with the option of a cheque book and Visa card.

5.64 The rates show how powerful consumers can be when they exercise their market power. The market power has been mobilised by:

- the large number of pensioners who were given an incentive to shop around (through fear of a penalty);
- clear information to consumers about the interest rate which can be achieved; and
- the report card produced by the Australian Pensioners and Superannuants Federation, which clearly showed the best and worst deeming accounts.

## Comparison of Bank Accounts

**Survey of bank accounts**

5.65 While some banks are gradually upgrading accounts which pay low interest, there is still a wide disparity between the highest and lowest interest rates paid. The Committee feels that the best way to make interest rates more competitive is to have a better informed consuming public.

5.66 As one step in informing the public, the Committee has summarised below the differences in interest rates on common banking products:

- cheque accounts (Table 4);
- passbook accounts (Table 5);
- card statement accounts (Table 6); and
- pensioner deeming accounts (Table 7).

5.67 As the Committee's terms of reference only covers banks, this survey excludes building societies and credit unions. As the recent *Choice* magazine survey of cheque/saving accounts showed, building societies and credit unions can be very competitive with banks on the financial returns offered.

5.68 However, consumers have to look at both price and non-price features when deciding where to bank. This survey gives consumers assistance on some relevant factors, but there are other important factors which they will want to take into account including:

- fees and charges on transactions and other services;
- convenience of location;
- service standards;
- range and flexibility of products; and
- financial strength and deposit protection and supervisory arrangements.

5.69 Data is based on information supplied by the various banks and is current as at 1 October 1992. Cannex Pty Ltd kindly gave the Committee access to its computer database to allow double checking of interest rate information.

**Questions consumers should ask banks**

5.70 Consumers need to ask many questions if they want to find the best bank account. Consumers should ask about:

- the interest rate;
- whether that rate is paid on the whole balance;
- whether interest is calculated daily or on a minimum monthly balance;

- if there is an account keeping fee;
- what transaction fees apply;
- if the account has the desired access avenues (card, book, cheque book, credit card, ATM access); and
- what the deposit protection and supervisory arrangements are for the institution.

## Independent information to bank customers

### Need for independent information

5.71 The Committee considers the best way to make interest rates more competitive is to have a better informed consuming public.

5.72 For a market to be fully competitive, all customers need information on bank products which:

- is useful for consumer comparisons;
- is in an easily understood format;
- covers the most used products; and
- is independent and not misleading.

At present the information available for personal customers to compare bank products is inadequate.

5.73 Surveys are only produced occasionally (eg *Personal Investment* Annual Bank Survey, *Choice* magazine articles on cheque/saving accounts, surveys by Judy Taylor at Latrobe University) and only reach a minority of bank customers. The more complex the product the less often comparative surveys are done. Comparative information in the newspapers sometimes suffers from being superficial and hurriedly prepared.

5.74 Individual banks provide a range of product information. However, it is hard to get concise information about the relevant features from each bank in a comparable format. Even if a consumer could collect such information, the time involved in collecting and analysing it would make comparison an impractical exercise.

5.75 The overall picture is that, at the time consumers need up-to-date readable information comparing bank accounts, it is rarely available.

**ABA brochure on comparison of savings accounts**

5.76 The Australian Bankers Association has recently released a consumer brochure 'Your Savings Account - the Best Deal for You' (a copy is at Appendix 7). The brochure explains how to calculate the overall cost or return of a savings account, after taking interest, fees and transaction costs.

5.77 Any step by the industry to assist product comparison is to be encouraged and the document is a welcome development. The Committee's criticisms of it must be seen as constructive comment on an attempt at a complex task.

5.78 Comparing savings accounts is inherently a difficult task for any individual, and as the ABA brochure says 'you are going to have to do some homework to find the answer'. Finding the overall cost or return for just one account can involve:

- collecting up to 20 items of information from the bank;
- going over bank statements for several months to estimate average or minimum monthly balances and estimate the frequency of nine sorts of account use;
- using a chart to convert nominal to effective interest rates; and
- performing 27 calculations on the work sheet.

5.79 All this work only gives the answer for one account. To compare several accounts, the information would need to be collected from several banks and the calculations performed a number of times.

5.80 The ABA brochure is only likely to assist consumers who have the numeracy skills and time to complete the process. Also as many consumers have only relatively small amounts in deposit accounts, they would be unlikely to consider the time involved in making detailed comparisons of different accounts to be cost efficient.

5.81 In the area of deposit products what is needed is comparative information which consumers can access quickly and efficiently. It is obviously more efficient for the information collection and calculation to be done by an expert body, with published results calculated for common consumer scenarios.

**Future report cards**

5.82 The interest rate information contained in this report is a limited one-off exercise. To increase the availability of independent comparative information, the Committee sees benefit in the frequent production of a report card on bank accounts. Such a report card could take account of the different usage patterns of various groups of consumers. Comparative guides on other issues have been very useful, such as on car fuel consumption and on appliance energy consumption.

5.83 Such a bank report card would be of great benefit both to individual consumers who use it and the community as a whole. A report card would show individual consumers where they could get the best possible deal for various banking products and save them time in comparison shopping. A report card would also put additional competitive pressure on banks. As banks improve their products to attract or keep the consumers who use the report card, the benefits also are passed on to 'passive' consumers.

**How independent information could be increased**

5.84 Financial institutions already have access to services which give detailed information on the various bank accounts, but the cost of these services puts them out of the reach of the ordinary consumer.

5.85 The Committee encourages any independent organisation to produce comparative information on bank products.

5.86 It may be that there is a Catch 22 in the provision of comparative bank information. The need to recover the significant costs in collecting and updating the information is inconsistent with achieving the widest circulation by providing it for free or at low cost. It may be that the some seeding grant is necessary to assist an independent organisation establish a system for producing and disseminating report cards.

5.87 **The Committee recommends that:**

> **38. the Treasurer, in consultation with the Minister for Consumer Affairs, examine ways of increasing the availability in the market place of independent comparative information about bank products.**

## KEY TO TABLES

The Codes for the various banks are:

| | |
|---|---|
| Adv | Advance Bank |
| ANZ | ANZ Bank |
| BoM | Bank of Melbourne |
| BoQ | Bank of Queensland |
| Cha | Challenge Bank |
| CBA | Commonwealth Bank |
| Met | Metway |
| NAB | National Australia Bank |
| R&I | R&I Bank |
| NSW | State Bank of New South Wales |
| SA | State Bank of South Australia |
| StG | St George Bank |
| T&C | Town & Country |
| Tru | Trust Bank of Tasmania |
| Wes | Westpac Bank |

The columns in the tables show:

| **Column** | **Detail** |
|---|---|
| 1 | Bank |
| 2 | Account name |
| 3 | Minimum opening balance |
| 4 | Whether account is *Open* or *Closed* to new customers |
| 5-8 | Annual interest is earned for stable balance of: $100, $500, $2,000, $5,000 |
| 9 | If interested is calculated by MMB |
| 10 | If higher interest rates are only paid part of the balance |
| 11 | If there are bank fees (account fees, periodic fees, transactions fees)<br>*Maybe* = Bank fees sometimes apply, depending on account balance and/or number of transactions<br>*Blank* = no bank fees |
| 12 | Which access mechanisms are available to access cash from this account on its own:<br>*C* = Card (eg keycard, Visa card)<br>*X* = Cheque book<br>*B* = Passbook |

### Ranking

Pensioner deeming accounts are ranked by looking at interest on both $500 and $2,000.

Other accounts are ranked by the interest earned on $2,000, which is a common account balance. On amounts below this ($500) the differences are small in dollar terms, above this ($5,000) the consumer also needs to look at cash management accounts.

### Survey criteria

The criteria for inclusion in each section are:

- money is at call
- account is open to all customers (except for pensioner deeming accounts)
- minimum opening balance is $2,000 or less (except pensioner deeming accounts)

The survey excludes:

- Term Deposits
- Business Accounts
- Accounts obviously aimed at depositors with large amounts
- Special purpose accounts (eg junior accounts, Christmas accounts

## TABLE 4 - Cheque Accounts*

| Bank | Account | Minimum opening balance | Closed? | Annual | interest | on: | | Watch | Out | For: | Access Avenue |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | $ 100 | $ 500 | $ 2,000 | $ 5,000 | MMB | Tier | Bank Fees | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| NSW | All-in-one | | | $ 4.06 | $ 20.30 | $ 112.00 | $ 281.00 | | | Y | C |
| BNZ | Smarter Money Minder | | | $ 2.38 | $ 11.88 | $ 85.00 | $ 211.00 | | | | C |
| Bar | Visa Cheque | | | $ 4.07 | $ 20.37 | $ 81.00 | $ 204.00 | | | Maybe | C |
| NSW | State One | | C | $ 4.07 | $ 20.37 | $ 81.00 | $ 230.00 | MMB | | Y | C |
| Wes | Bonus Saver with bonus | | | $ 4.04 | $ 20.20 | $ 81.00 | $ 253.00 | | | Maybe | C |
| BoM | Current Account (pre '89) | | C | $ 2.50 | $ 12.50 | $ 80.00 | $ 200.00 | MMB | | | C |
| Cit | Personal Cheque | $ 1,000 | C | $ 3.56 | $ 17.78 | $ 71.00 | $ 178.00 | | | Y | |
| BoQ | Choice (Monthly) | | | $ 3.03 | $ 15.17 | $ 71.00 | $ 229.00 | MMB | | Maybe | C |
| T&C | Cashpower Visa | | | $ 3.02 | $ 15.11 | $ 66.00 | $ 189.00 | MMB | | | C |
| Cha | Achiever | $ 500 | | $ 0.00 | $ 12.62 | $ 66.00 | $ 164.00 | | | Maybe | C, B |
| BoQ | Ultimate | $ 1,000 | | $ 2.27 | $ 11.35 | $ 66.00 | $ 164.00 | MMB | | | C |
| Met | Options #3 | | | $ 3.03 | $ 15.17 | $ 61.00 | $ 203.00 | | | Maybe | C, B |
| R&I | Easybank Plus | | | $ 2.52 | $ 12.62 | $ 61.00 | $ 177.00 | | | Maybe | C |
| BoQ | Choice (Daily) | | | $ 2.27 | $ 11.35 | $ 61.00 | $ 203.00 | | | Maybe | C |
| T&C | Cashpower Savings Card | | | $ 2.77 | $ 13.84 | $ 60.00 | $ 189.00 | | | | C |
| Met | Options #2 | | | $ 3.02 | $ 15.11 | $ 60.00 | $ 151.00 | | P | Maybe | C, B |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SA | Everyday Account | | | $ 0.00 | $ 12.50 | $ 60.00 | $ 163.00 | MMB | | Maybe | C, B |
| NAB | Flexi Account | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 164.00 | | | Maybe | C |
| ANZ | Access | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 152.00 | | | Maybe | C |
| Wes | Advantage Saver | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 177.00 | | | Maybe | C |
| Adv | Link Accounts | $ 100 | | $ 0.00 | $ 13.84 | $ 55.00 | $ 164.00 | | | | C, B |
| StG | Freedom | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | | P | | C, B |
| Met | One Plus | | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 151.00 | | P | Maybe | C |
| Adv | Personal Cheque | | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 151.00 | MMB | | Maybe | C |
| NAB | Solutions Cheque | | C | $ 2.75 | $ 13.75 | $ 55.00 | $ 163.00 | MMB | | Maybe | C |
| CBA | Streamline | | | $ 2.52 | $ 12.62 | $ 50.00 | $ 152.00 | | | | C |
| Met | Options #1 | | | $ 0.00 | $ 0.00 | $ 41.00 | $ 136.00 | | P | Maybe | C, B |
| Wes | Bonus Saver w/out bonus | | | $ 2.01 | $ 10.05 | $ 40.00 | $ 151.00 | | | Maybe | C |
| BoM | Personal Current Acct | | | $ 2.00 | $ 10.00 | $ 40.00 | $ 175.00 | | | | C |
| BoM | Current Account (post '89) | | | $ 2.00 | $ 10.00 | $ 40.00 | $ 175.00 | | | | C |
| BNZ | Smarter Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 144.00 | | | Maybe | C |
| SA | Personal Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 125.00 | MMB | | Maybe | C |
| Cit | Cit-one | | C | $ 0.00 | $ 0.00 | $ 0.00 | $ 138.00 | | | Maybe | C |
| Cit | Citicheque | $ 500 | | $ 0.00 | $ 0.00 | $ 0.00 | $ 98.00 | | P | Maybe | |
| Tru | Personal Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | |
| Wes | Personal Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | C |
| NSW | Personal Cheque | | C | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | | |
| BNZ | Hardworking Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | C |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ANZ | Cheque Account | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | C |
| R&I | Personal Cheque | | C | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | C |
| NAB | National Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | C |

* These accounts have been ranked on the basis of annual interest earned on $2,000 as at 1 October 1992. Consumers comparing these accounts will need to be aware of other factors such as convenience of access, customer service and the level of fees and charges in making choice between accounts.

## TABLE 5 - Passbook Accounts*

| Bank | Account | Minimum opening balance | Closed? | Annual<br>$ 100 | interest<br>$ 500 | on:<br>$ 2,000 | <br>$ 5,000 | Watch<br>MMB | Out<br>Tier | For:<br>Bank Fees | Access Avenue |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Adv | Incentive Saver with bonus | | | $ 5.06 | $ 25.31 | $ 101.00 | $ 266.00 | | | | C |
| BoM | Investment Passbook | $ 1,000 | | $ 5.00 | $ 25.00 | $ 100.00 | $ 250.00 | | | | |
| BoM | Cash Management | $ 2,000 | | $ 4.00 | $ 20.00 | $ 100.00 | $ 250.00 | | | Maybe | |
| Cit | Maxi-plan | $ 300 | C | $ 4.95 | $ 24.74 | $ 99.00 | $ 247.00 | | | | |
| Met | Savings Reviver | $ 1,000 | | $ 0.00 | $ 0.00 | $ 81.00 | $ 202.00 | | | Maybe | |
| BoM | Passbook Savings | | | $ 4.00 | $ 20.00 | $ 80.00 | $ 200.00 | | | | |
| StG | Priority Saver | $ 2,000 | | $ 0.00 | $ 0.00 | $ 76.00 | $ 217.00 | | | | |
| StG | Flying Start | $ 500 | | $ 0.00 | $ 17.65 | $ 76.00 | $ 189.00 | | | | |
| Adv | Elevator | $ 2,000 | | $ 0.00 | $ 0.00 | $ 76.00 | $ 212.00 | | | Maybe | C |
| SA | At Call Investment | $ 500 | | $ 0.00 | $ 17.73 | $ 71.00 | $ 177.00 | | | Maybe | |
| Adv | Step Ahead | $ 500 | C | $ 2.77 | $ 13.84 | $ 71.00 | $ 189.00 | MMB | | Maybe | C |
| Adv | B&B | $ 2,000 | C | $ 0.00 | $ 0.00 | $ 71.00 | $ 189.00 | | | Maybe | C |
| Tru | Status High Interest | $ 1,000 | | $ 0.00 | $ 0.00 | $ 71.00 | $ 177.00 | | | | C |
| NAB | Goal Savings | | C | $ 2.75 | $ 17.50 | $ 70.00 | $ 175.00 | MMB | | | |
| T&C | Maxi Rate | | | $ 0.00 | $ 0.00 | $ 66.00 | $ 228.00 | | | | B |
| Cit | Savings Account | $ 300 | | $ 3.30 | $ 16.49 | $ 66.00 | $ 165.00 | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cha | Investment Savings | $ 200 | | $ 0.00 | $ 12.64 | $ 66.00 | $ 165.00 | | | | |
| Cha | Achiever | $ 500 | | $ 0.00 | $ 12.62 | $ 66.00 | $ 164.00 | | | Maybe | C, X |
| Met | Target Savings | | | $ 3.03 | $ 15.17 | $ 61.00 | $ 152.00 | | P | Maybe | |
| Met | Options #3 | | | $ 3.03 | $ 15.17 | $ 61.00 | $ 203.00 | | | Maybe | C, X |
| T&C | Cashpower Savings Book | | | $ 2.77 | $ 13.84 | $ 60.00 | $ 189.00 | | | | B |
| Met | Options #2 | | | $ 3.02 | $ 15.11 | $ 60.00 | $ 151.00 | | P | Maybe | C, X |
| SA | High Interest Savings | | C | $ 3.02 | $ 15.11 | $ 60.00 | $ 164.00 | | | Maybe | |
| Tru | Prime | | C | $ 3.02 | $ 15.11 | $ 60.00 | $ 151.00 | | | | |
| Met | Savings Investment | $ 500 | | $ 0.00 | $ 15.00 | $ 60.00 | $ 150.00 | | P | Maybe | |
| Wes | Ordinary Passbook | | C | $ 3.00 | $ 15.00 | $ 60.00 | $ 188.00 | MMB | | Maybe | |
| SA | Everday Account | | | $ 0.00 | $ 12.50 | $ 60.00 | $ 163.00 | MMB | | Maybe | C, X |
| R&I | Golden Account | $ 200 | | $ 0.00 | $ 12.50 | $ 60.00 | $ 175.00 | | | Maybe | |
| Met | Passbook Savings | | C | $ 2.78 | $ 13.92 | $ 56.00 | $ 139.00 | MMB | P | Maybe | |
| Adv | Inflation Fighter | | C | $ 2.78 | $ 13.89 | $ 56.00 | $ 139.00 | MMB | | Maybe | C |
| NAB | Passbook | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 177.00 | | | Maybe | |
| Met | Gold Passbook | | C | $ 2.78 | $ 13.89 | $ 56.00 | $ 152.00 | | P | Maybe | |
| ANZ | High Performance Passbook | | | $ 2.52 | $ 12.62 | $ 56.00 | $ 177.00 | | | Maybe | |
| CBA | Security Plus | $ 2,000 | | $ 0.00 | $ 0.00 | $ 56.00 | $ 164.00 | | | | |
| Adv | Interest Plus | $ 500 | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | | | | C |
| StG | Freedom | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | | P | | C, X |
| Tru | Passbook Savings | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | MMB | | | |
| StG | Gold Passbook | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Wes | Passbook Saver (6 mths) | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 177.00 | | | Maybe | |
| Adv | Advance Savings | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | MMB | | Maybe | C |
| Adv | Link Accounts | $ 100 | | $ 0.00 | $ 13.84 | $ 55.00 | $ 164.00 | | | | C, X |
| Tru | Investment Savings | $ 250 | | $ 0.00 | $ 12.58 | $ 55.00 | $ 138.00 | MMB | | | |
| NAB | Ordinary Passbook | | C | $ 2.75 | $ 13.75 | $ 55.00 | $ 145.00 | MMB | P | | |
| Wes | Passbook Saver (1 mth) | | | $ 2.53 | $ 12.64 | $ 51.00 | $ 165.00 | | | Maybe | |
| CBA | Savings Investment | $ 500 | | $ 0.00 | $ 12.62 | $ 50.00 | $ 152.00 | | | | |
| SA | Passbook Savings | | | $ 0.00 | $ 12.50 | $ 50.00 | $ 132.00 | MMB | P | Maybe | C |
| Tru | Achiever | | C | $ 2.26 | $ 11.31 | $ 45.00 | $ 113.00 | MMB | | | |
| T&C | Ordinary Passbook | | C | $ 2.26 | $ 11.31 | $ 45.00 | $ 177.00 | | | | B |
| R&I | Ordinary Passbook | | C | $ 2.25 | $ 11.25 | $ 45.00 | $ 175.00 | MMB | | Maybe | |
| Met | Options #1 | | | $ 0.00 | $ 0.00 | $ 41.00 | $ 136.00 | | P | Maybe | C, X |
| Cha | NFT Savings | | C | $ 2.01 | $ 10.05 | $ 40.00 | $ 151.00 | MMB | | Maybe | |
| Adv | Incentive Saver w/o bonus | | | $ 2.01 | $ 10.05 | $ 40.00 | $ 113.00 | | | | C |
| Cha | NFT Shares | | C | $ 2.01 | $ 10.05 | $ 40.00 | $ 151.00 | MMB | | Maybe | |
| CBA | Passbook Savings | | | $ 2.00 | $ 10.00 | $ 40.00 | $ 100.00 | MMB | P | | |
| Cha | Pace (Victoria only) | | C | $ 2.00 | $ 10.00 | $ 40.00 | $ 150.00 | MMB | | Maybe | |

* These accounts have been ranked on the basis of annual interest earned on $2,000 as at 1 October 1992. Consumers comparing accounts will need to be aware of other factors such as convenience of access, customer service and the level of fees and charges in making choice between accounts.

## TABLE 6 - Card Accounts*

| Bank | Account | Minimum opening balance | Closed? | Annual interest on: $ 100 | $ 500 | $ 2,000 | $ 5,000 | Watch Out For: MMB | Tier | Bank Fees | Access Avenue |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| NSW | All-in-one | | | $ 4.06 | $ 20.30 | $ 112.00 | $ 281.00 | | | Y | X |
| Adv | Incentive Svr with bonus | | | $ 5.06 | $ 25.31 | $ 101.00 | $ 266.00 | | | | B |
| NSW | State Maximiser | | C | $ 3.03 | $ 15.17 | $ 92.00 | $ 229.00 | | | Y | |
| BNZ | Smarter Money Minder | | | $ 2.38 | $ 11.88 | $ 85.00 | $ 211.00 | | | | X |
| Wes | Bonus Saver with bonus | | | $ 4.04 | $ 20.20 | $ 81.00 | $ 253.00 | | | Maybe | X |
| NSW | State One | | C | $ 4.07 | $ 20.37 | $ 81.00 | $ 230.00 | MMB | | Y | X |
| NSW | State Saver | | C | $ 3.03 | $ 15.17 | $ 81.00 | $ 203.00 | | | Y | |
| NSW | State Super Rate | | C | $ 3.02 | $ 15.11 | $ 81.00 | $ 202.00 | | | Y | |
| BoM | Current Account (pre'89) | | C | $ 2.50 | $ 12.50 | $ 80.00 | $ 200.00 | MMB | | | X |
| Adv | Elevator | $ 2,000 | | $ 0.00 | $ 0.00 | $ 76.00 | $ 212.00 | | | Maybe | B |
| BoQ | Choice (Monthly) | | | $ 3.03 | $ 15.17 | $ 71.00 | $ 229.00 | MMB | | Maybe | X |
| Adv | Step Ahead | $ 500 | C | $ 2.77 | $ 13.84 | $ 71.00 | $ 189.00 | MMB | | Maybe | B |
| Adv | B&B | $ 2,000 | C | $ 0.00 | $ 0.00 | $ 71.00 | $ 189.00 | | | Maybe | B |
| Tru | Status High Interest | $ 1,000 | | $ 0.00 | $ 0.00 | $ 71.00 | $ 177.00 | | | | B |
| T&C | Cashpower Visa | | | $ 3.02 | $ 15.11 | $ 66.00 | $ 189.00 | MMB | | | X |
| Cha | Achiever | $ 500 | | $ 0.00 | $ 12.62 | $ 66.00 | $ 164.00 | | | Maybe | B, X |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cha | Today | | C | $ 2.01 | $ 12.58 | $ 66.00 | $ 164.00 | MMB | | Maybe | |
| BoQ | Ultimate | $ 1,000 | | $ 2.27 | $ 11.35 | $ 66.00 | $ 164.00 | MMB | | | X |
| Met | Options #3 | | | $ 3.03 | $ 15.17 | $ 61.00 | $ 203.00 | | | Maybe | B, X |
| BoQ | Choice (Daily) | | | $ 2.27 | $ 11.35 | $ 61.00 | $ 203.00 | | | Maybe | X |
| R&I | Easbybank Plus | | | $ 2.52 | $ 12.62 | $ 61.00 | $ 177.00 | | | Maybe | X |
| T&C | Cashpower Savings Card | | | $ 2.77 | $ 13.84 | $ 60.00 | $ 189.00 | | | | X |
| SA | Everyday Account | | | $ 0.00 | $ 12.50 | $ 60.00 | $ 163.00 | MMB | | Maybe | B, X |
| Met | Options #2 | | | $ 3.02 | $ 15.11 | $ 60.00 | $ 151.00 | | P | Maybe | B, X |
| Wes | Advantage Saver | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 177.00 | | | Maybe | X |
| NAB | Flexi Account | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 164.00 | | | Maybe | X |
| ANZ | Access | | | $ 2.78 | $ 13.89 | $ 56.00 | $ 152.00 | | | Maybe | X |
| Adv | Inflation Fighter | | C | $ 2.78 | $ 13.89 | $ 56.00 | $ 139.00 | MMB | | Maybe | B |
| Adv | Link Accounts | $ 100 | | $ 0.00 | $ 13.84 | $ 55.00 | $ 164.00 | | | | B, X |
| NAB | Everyday Savings | | C | $ 2.75 | $ 13.75 | $ 55.00 | $ 163.00 | MMB | | Maybe | |
| NAB | Solutions Investment | | C | $ 2.75 | $ 13.75 | $ 55.00 | $ 163.00 | | | Maybe | |
| NAB | Solutions Cheque | | C | $ 2.75 | $ 13.75 | $ 55.00 | $ 163.00 | MMB | | Maybe | X |
| Adv | Personal Cheque | | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 151.00 | MMB | | Maybe | X |
| Met | One Plus | | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 151.00 | | P | Maybe | X |
| Adv | Cashplus | | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 151.00 | MMB | | Maybe | |
| StG | Freedom | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | | P | | B, X |
| Adv | Advance Savings | | | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | MMB | | Maybe | B |
| Adv | Interest Plus | $ 500 | C | $ 2.77 | $ 13.84 | $ 55.00 | $ 138.00 | | | | B |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tru | Visa debit/credit | | | $ 2.52 | $ 12.58 | $ 55.00 | $ 138.00 | MMB | | | C |
| Tru | Trust Card | | | $ 2.52 | $ 12.58 | $ 55.00 | $ 138.00 | MMB | | | |
| CBA | Streamline | | | $ 2.52 | $ 12.62 | $ 50.00 | $ 152.00 | | | | X |
| SA | Passbook Savings | | | $ 0.00 | $ 12.50 | $ 50.00 | $ 132.00 | MMB | P | Maybe | B |
| R&I | Easybank Savings | | | $ 2.52 | $ 11.25 | $ 45.00 | $ 138.00 | MMB | | Maybe | |
| Met | Options #1 | | | $ 0.00 | $ 0.00 | $ 41.00 | $ 136.00 | | P | Maybe | B, X |
| BoM | Personal Current Acct | | | $ 2.00 | $ 10.00 | $ 40.00 | $ 175.00 | | | | X |
| BoM | Current Account (post '89) | | | $ 2.00 | $ 10.00 | $ 40.00 | $ 175.00 | | | | X |
| Wes | Bonus Saver w/out bonus | | | $ 2.01 | $ 10.05 | $ 40.00 | $ 151.00 | | | Maybe | X |
| Adv | Incentive Saver w/o bonus | | | $ 2.01 | $ 10.05 | $ 40.00 | $ 113.00 | | | | B |
| CBA | Keycard Savings | | C | $ 2.00 | $ 10.00 | $ 40.00 | $ 100.00 | MMB | | | |
| Cit | Cit-one | | C | $ 0.00 | $ 0.00 | $ 0.00 | $ 138.00 | | | Maybe | X |
| BNZ | Smarter Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 144.00 | | | Maybe | X |
| SA | Personal Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 125.00 | MMB | | Maybe | X |
| NAB | National Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | X |
| ANZ | Cheque Account | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | X |
| Wes | Personal Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | X |
| BNZ | Hardworking Cheque | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | | | Maybe | X |

* These accounts have been ranked on the basis of annual interest earned on $2,000 as at 1 October 1992. Consumers comparing accounts will need to be aware of other factors such as convenience of access, customer service and the level of fees and charges in making choice between accounts.

# TABLE 7 - Pension Accounts*

| Bank | Account | Minimum opening balance | Closed? | Annual | interest | on: | | Watch | Out | For: | Access Avenue |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | $ 100 | $ 500 | $ 2,000 | $ 5,000 | MMB | Tier | Bank Fees | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| BoM | Deemed Interest P 'book | $ 500 | | $ 5.50 | $ 27.50 | $ 110.00 | $ 275.00 | | | | B |
| NSW | Moneywise (Deeming) | | | $ 5.12 | $ 25.58 | $ 102.00 | $ 256.00 | | | | C, X |
| BoQ | Pension Plus | $ 1,000 | | $ 5.12 | $ 25.58 | $ 102.00 | $ 256.00 | | | | B |
| StG | Protector Plan B | | | $ 5.09 | $ 25.47 | $ 102.00 | $ 255.00 | | | | B, X |
| Adv | Pension Direct | $ 500 | | $ 5.06 | $ 25.31 | $ 101.00 | $ 253.00 | | | | C, B, X |
| T&C | Gold Star Deeming | $ 2,500 | | $ 5.06 | $ 25.31 | $ 101.00 | $ 253.00 | | | | B, X |
| T&C | Cashpower Deeming | | | $ 5.06 | $ 25.31 | $ 101.00 | $ 253.00 | | | | B |
| R&I | Pension Saver | $ 2,000 | | $ 3.04 | $ 15.21 | $ 102.00 | $ 256.00 | | | | C |
| Cha | Pension Safeguard | $ 2,000 | | $ 0.00 | $ 15.11 | $ 101.00 | $ 253.00 | | | | B |
| NAB | Retirement Account | | | $ 2.78 | $ 13.89 | $ 102.00 | $ 255.00 | | | Maybe | C, B, X |
| SA | Everyday - Retiree | | | $ 2.53 | $ 12.64 | $ 102.00 | $ 256.00 | | | Maybe | C, B, X |
| Wes | Passbook - Pensioner | | | $ 0.00 | $ 0.00 | $ 102.00 | $ 256.00 | | | Maybe | B |
| Met | Pension Savings | $ 2,000 | | $ 0.00 | $ 0.00 | $ 102.00 | $ 255.00 | | | Maybe | B |
| CBA | Pensioner Security | $ 2,000 | | $ 0.00 | $ 0.00 | $ 102.00 | $ 255.00 | | | | B |
| ANZ | HPP Pensioner | $ 2,000 | | $ 0.00 | $ 0.00 | $ 102.00 | $ 255.00 | | | Maybe | B |
| Tru | Safeguard Savings | | C | $ 0.00 | $ 0.00 | $ 101.00 | $ 253.00 | MMB | | | B |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| StG | Protector Plan A | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 152.00 | | P | | B, X |
| Tru | Single Pensioner | | | $ 0.00 | $ 0.00 | $ 0.00 | $ 151.00 | MMB | P | | B |

* These accounts have been ranked on the basis of annual interest earned on both $500 and $2,000 as at 1 October 1992. Consumers comparing these accounts will need to be aware of other factors such as the convenience of access, customer service and the level of fees and charges in making choice between accounts.

## Early repayment of fixed rate loans

5.88 The Committee recommended (recommendation no. 68) banks should recover from customers only the cost of unwinding fixed rate loan facilities rather than applying a pre-determined fee which may not relate closely to the actual cost of the bank recovering its former position. The Committee made this recommendation both to ensure fairness and to encourage competition by keeping the cost of switching between products and institutions to a minimum.

5.89 The responses from individual banks to this recommendation varied.

5.90 Five banks, Metway, National Australia Bank, R&I Bank, State Bank of NSW and Westpac Bank already have actual cost recovery as their practice. Bank of Queensland does not have fixed rate housing loans but has actual cost recovery for fixed rate commercial loans.

5.91 As an example of how actual cost recovery works in practice, Westpac stated the amount of any payment by either the bank or borrower in the event of early termination is calculated according to an actuarially derived formula which is quite complex. A copy of the formula is at Appendix 8.

5.92 At least two banks, the Commonwealth and ANZ Banks indicated they will change their existing approach and move to a real cost adjustment methodology. St George Bank stated it was considering its policy in this area.[7]

5.93 Advance Bank noted its former practice was to have actual cost recovery. However, it had changed to an approach of imposing an early discharge fee set on the basis of a number of months interest which varied with the loan's maturity date. The change had been made because of the complexity of the calculations involved in the actual cost recovery procedure. All early discharge arrangements are disclosed to borrowers at the time the loan contracts are signed and Advance Bank stated in most cases the early discharge fee imposed is less than would have been imposed under an actual cost recovery calculation.[8]

5.94 In making its recommendation the Committee was not endeavouring to advantage fixed rate loan customers who enjoyed the benefit of lower rates when variable rates were high. Rather it wanted to ensure customers who wished to pay out their loans were responsible for no more than the cost to the bank of unwinding the facility at existing market interest rates.

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7 Evidence, p. S677.
8 Evidence, p. S64.

5.95 The ACA argued, as a number of banks had failed to change their early repayment charges so that they did not exceed the actual cost incurred to the bank, this requirement should be imposed by legislation or as part of the Code of Banking Practice.[9]

5.96 While the Committee considers the recovery of no more than the actual costs to a bank of unwinding fixed interest rate loans to be fair banking practice which should be adopted by all banks, it would not support this being a legislative requirement. However, consideration should be given to the incorporation of such a requirement in the Code of Banking Practice.

5.97 In relation to fixed interest rate loans, the Committee is aware from complaints from customers of the potential for this product to create difficulties where short term interest rates are falling. Customers who find themselves locked into a fixed interest rate loan when variable interest rates are falling complain about the costs imposed by banks on them to switch to lower interest rate variable loans. It is important that banks explain thoroughly to customers the implications of fixed rate loans including the cost to the customer if variable rates are falling, the benefits if variable rates are rising and the costs which properly the bank will seek to recover for unwinding those facilities.

5.98 National Australia Bank noted it was currently reviewing its fixed rate loans:

> ... to include a more prominent notice on the front page of the document to further emphasise that the loan is for a fixed term and that the interest rate is fixed for the term of the loan borrowers may be placed at a disadvantage (in comparison to an equivalent floating rate loan) if market interest rates decline during the term of the loan.[10]

5.99 The Committee considers other banks should review their literature on fixed interest rate loans to ensure customers are given adequate information about the implications of fixed rate borrowing both as to costs and benefits of interest rate movements and the charges for unwinding facilities.

5.100 **The Committee recommends that:**

**39. consideration be given to the inclusion in the Code of Banking Practice of a limitation on the early repayment charges on fixed interest rate loans of no more than the cost to a bank of unwinding the facility; and**

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9 Evidence, p. S612.
10 Evidence, p. S248.

40. **banks ensure their literature on fixed rate loan products contains adequate warnings of the implications of borrowing at fixed interest rates.**

## Credit assessment

5.101 In the previous inquiry, there was evidence from consumer organisations that over-commitment was a problem because banks lent rashly without considering a borrower's ability to repay.[11] The Committee was aware of a report from the National Consumer Affairs Consultative Council (NCACC) which considered banks credit scoring systems, used as one tool in credit assessment, did not give sufficient weight to the level of income as a factor in lending.

5.102 The Committee considered banks should make a full and proper assessment of a borrower's ability to repay a loan and recommended:

> banks should ensure that their assessment of risk and other related areas such as ability to repay are thoroughly investigated. Credit scoring systems should be amended to incorporate criteria such as income, or where it already exists, to strengthen this requirement. Bank loan officers should be adequately trained in risk assessment techniques (Recommendation No. 74).

5.103 The following summarises the major points made by banks in response to this recommendation:

- credit scoring is an objective means of assessing capacity to repay and credit scoring systems are reviewed regularly against the results achieved;

- credit scoring provides only a guide to credit assessment; and

- income already is a key element in credit scoring systems, although other factors can be important in credit assessment.

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11 Banking Inquiry Evidence, p. S459.

5.104 The ACA criticised banks' responses to this recommendation noting:

> Credit scoring assesses the likelihood of timely debt repayment or successful debt collection. This is why a credit scoring system with a heavy weighting on 'stability' factors can be successful. It is easier to collect a debt if the person does not move house frequently and owns a phone. However, just because money can be extracted from a person does not mean they can comfortably afford to pay.[12]

5.105 Earlier in the report, the Committee referred to the reaction of bankers to the lending excesses of the 1980s and argued that, while a re-assessment of lending criteria and procedures was understandable in the light of experience, there should not be undue caution. The approach of banks to consumer lending and over-commitment similarly should be balanced between a need to keep lending available to those who wish it and an insurance to both banks and borrower that lending commitments can be met. The Committee would expect to see banks' credit scoring systems and their broader consumer credit assessment procedures reflecting this balance.

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12 Evidence, p. S615.

# CHAPTER SIX

# OTHER ISSUES

6.1 In this chapter, the Committee discusses other issues which were not covered in earlier chapters. The chapter reviews the implementation of the recommendation to put in place internal processes to enable staff to report instances of suspected fraud (Recommendation No. 62). It also covers a number of follow up issues relating to foreign currency loans. These include:

- the disclosure by banks of margins on foreign currency transactions (Recommendation No. 59);

- allegations by the Foreign Currency Borrowers' Association that the Committee was misled by banks in evidence given on the foreign currency loans issue during the previous inquiry; and

- Westpac's investigation of allegations, arising from a Four Corners Program, about the operations of its foreign currency dealing room in the 1980s.

## Fraud reporting

6.2 In the previous inquiry, allegations were made of widespread fraud and corruption in the banking industry. However, substantive evidence to support the allegations that fraud and corruption were **widespread** was not presented to the Committee. The Committee recognised that instances of fraud do exist in the industry, but there was no evidence of fraud being institutionalised or systematic.

6.3 The need for 'whistleblower' legislation to protect bank staff who wished to report instances of fraud was rejected with the Committee favouring banks developing internal processes to enable staff and customers to report suspected fraud without fear of detriment.

6.4 The Committee recommended:

> banks establish internal processes that allow staff to report instances of suspected fraud to senior management without fear of retribution and provide opportunity for customers to report suspicions of fraud and corruption. (Recommendation No. 62)

6.5 The ABA noted it has taken the Committee's recommendation into account in developing its fraud control program. It reported most banks have their own fraud and investigation sections to deal with situations of staff or customer dishonesty or fraud. Staff can expect to report their concerns about suspected fraud without fear of penalty.[1]

6.6 This picture was supported by comments on this recommendation from individual banks. All banks reported procedures for staff to report instances of suspected fraud. The following banks advised the Committee they have a code of conduct or ethics for staff covering matters such as provision for the reporting of fraud or corruption - Advance Bank, Commonwealth Bank, National Australia Bank, R&I Bank and State Bank of New South Wales.

6.7 The ABA also noted the Cash Transactions Reports Act required banks to report on certain suspect transactions by customers.

6.8 The ACA claimed banks had misconstrued the recommendation. It stated:

> Few banks have addressed the difficulty in bank staff reporting improper conduct which makes money for the bank but is against the interests of customers, competitors or the government.[2]

6.9 The chapter on fraud in the previous report referred to the way some witnesses had confused supposed fraud or corruption with examples of what could be seen as improper or uncompetitive behaviour. The Committee's recommendation was directed specifically at the reporting of suspected fraud or corruption. It may be that in a broader code of ethics or conduct for staff, banks also wish to encourage staff to report actions which may be seen as unethical or improper, even though not fraudulent or corrupt.

6.10 The Committee strongly advocates the implementation of a code of ethics or conduct for staff which enables the reporting of instances of suspected fraud, corruption or illegal behaviour but which also impresses staff to deal in a fair and proper way with customers.

6.11 **The Committee recommends that:**

> **41. those banks which have not already done so, develop a code of ethics or conduct for staff which will:**

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1 Evidence, p. S10.
2 Evidence, p. S607.

- **require the reporting by staff of instances of suspected fraud, corruption or illegal behaviour; and**

- **impress on staff the need to deal in a fair and proper way with customers.**

## Disclosure in foreign currency transactions

6.12 In the context of the Committee's investigation of the foreign currency loans issues, concerns were raised by foreign currency borrowers that they were not made aware by banks of all costs associated with foreign currency transactions.

6.13 Borrowers suggested banks charged 'secret commissions' on foreign currency transactions which were undertaken by borrowers in an endeavour to manage their foreign currency exposures.

6.14 The Committee considered there should be greater disclosure in this area in future and recommended:

> banks ensure greater disclosure in the area of foreign exchange transactions by advising foreign currency loan customers in advance of all fees and charges associated with foreign currency transactions. (Recommendation No. 59)

6.15 Banks responded that all fees and charges were disclosed on foreign currency loans. For example, the Commonwealth Bank stated:

> Customers are notified in the approval letter for any foreign currency facility of all fees and charges. This always has been Bank policy with such facilities.[3]

6.16 ANZ Bank stated:

> It is ANZ policy and practice to fully disclose all relevant fees and charges in the loan documentation for its facilities. This covers all loans, including any such 'foreign currency loans' that may be approved from time to time.[4]

Other banks responded in similar terms.

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3 Evidence, p. S152.
4 Evidence, p. 205.

6.17 Most banks appeared to miss the point of this recommendation which was directed to disclosure of margins on foreign currency **transactions** not disclosure of fees and charges on foreign currency **loans**. Borrowers' concerns were that they were informed foreign currency transactions would cost them a small service fee only to find a margin (the difference the rate at which the bank had bought foreign currency and the rate at which it had been sold to a customer) was charged on each foreign currency loan transaction, in some cases costing thousands of dollars.[5] These margins were not disclosed to borrowers.

6.18 In the previous inquiry banks stated it was not practice to disclose margins on foreign currency transactions just as there was no disclosure by any retailer of the difference between wholesale and retail prices on products. However, it was suggested customers could calculate this differential approximately by consulting daily exchange rates in newspapers or listening to the financial section of television news reports.

6.19 Also banks claimed the margins on small foreign currency transactions were larger than those charged on large transactions because they were not traded on a fully reciprocal basis.

6.20 In responding to the current review, Westpac stated it did not disclose margins between its buy and sell rates for individual foreign currency transactions. It pointed to the volatility of the foreign exchange market and the fact that foreign exchange may not have to be purchased for each transaction (particularly smaller transactions) as making such disclosure difficult if not impossible.[6]

6.21 The Committee recognises the difficulties of disclosing margins in relation to small foreign currency transactions such as those involving the sale or purchase of traveller's cheques or other small transactions. However, the recommendation was directed at situations such as those in which foreign currency borrowers were involved. They were trading in parcels of currency which were larger than the small end of the market (such as traveller's cheques) but which were not large enough to attract wholesale prices. Also these customers often were in financial difficulties and so were locked into a relationship with their particular institution. They were not in a position to search for the best priced deals.

6.22 In these circumstances it is possible some borrowers may have been charged larger margins than would have been applied if the borrower had been in a more competitive position. During the previous inquiry, Westpac acknowledged some foreign currency borrowers involved in foreign exchange transactions could be held to have had an 'uncompetitive status'. However, Westpac claimed these borrowers were not exploited.[7]

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5 Evidence, p. 49.

6 Evidence, pp. S752-53.

7 *A Pocket Full of Change*, op cit, p. 309.

6.23 Judgements about whether excessive margins were charged on particular transactions will depend on views of what are 'reasonable' margins in relation to individual transactions. This in turn would depend on the size of the transaction and a precise basis for calculating the bank's cost of funds for that particular transaction. In relation to smaller foreign currency transactions where a number of transactions may be parcelled up into a larger transaction this is not a simple matter.

6.24 The Committee is not able to assert, in relation to any particular transactions, that there were excessive margins charged. It can only point to a general view that, potentially, borrowers could have been in an uncompetitive position and consequently could have been charged excessively.

6.25 Those borrowers who consider excessive margins may have been charged on foreign currency transactions should have the opportunity to raise their concerns within the context of negotiation or mediation of their case and banks should recognise these as legitimate issues to be raised in that context. Alternatively borrowers can pursue their claims through the courts.

6.26 **The Committee recommends that:**

42. **banks investigate appropriate procedures to ensure greater disclosure of margins applying to foreign currency transactions; and**

43. **concerns of foreign currency borrowers about excessive margins charged on foreign currency transactions be raised in the context of negotiation or mediation of foreign currency loan cases.**

## Misleading evidence

6.27 At the first hearing of the current review, the Foreign Currency Borrowers' Association alleged the Committee had been deliberately misled by some banks during the previous inquiry. In particular David Lyons referred to a lengthy submission he made regarding evidence from the Commonwealth Bank. In this submission Mr Lyons provided a detailed rebuttal of evidence given by the Commonwealth Bank during the Banking Inquiry and identified what he described as 'serious discrepancies' between the evidence given by the Bank's officers during the inquiry and the contents of the Bank's internal documentation.[8]

8 Evidence, p. 42.

6.28 In relation to submissions made by borrowers during the previous inquiry refuting the evidence of some banks, the Committee examined and took into consideration this material in the context of reaching its overall conclusions on the vast amount of information it had before it. The Committee noted in the report 'Since taking evidence from the banks further submissions have been received from borrowers, *including analysis of the banks' evidence*'.[9]

6.29 Specifically in the case of David Lyons' submissions to the previous inquiry, he asked that these be held on a confidential basis. This meant the submissions could not be forwarded to the Commonwealth Bank for response. Instead the Committee evaluated Mr Lyons' submission (and others) against the public evidence and internal documentation it had received from banks. As noted in the previous report, the Committee used these documents 'to test the evidence taken from banks and borrowers'.[10]

6.30 However, as the allegations of deliberate misleading have been reiterated and raise serious issues, the Committee sought a detailed response from the Commonwealth Bank to Mr Lyons' submission.

6.31 In its response, the Bank denied misleading the Committee and provided a detailed refutation of Mr Lyons' allegations.[11] However, in two areas the Bank sought to clarify or correct its earlier evidence.

6.32 In relation to the letter of offer the Bank sent to borrowers, the Bank noted Mr Lyons and at least some other borrowers were sent a different letter of offer to the one which the Bank attached with its submission to the previous inquiry. In the previous inquiry the Bank referred to the warnings contained in its letter of offer as an indication of the written advice given by the Bank to borrowers about exchange rate risk.

6.33 Mr Lyons' letter of offer did not contain all the warnings which were present in the sample letter provided by the Bank to the Committee. Specifically it did not include the following warnings:

> We suggest you confer with your Accountant over this matter.
>
> We again point out the potential risk involved in borrowing in a foreign currency without covering your foreign currency exchange exposure and would like to remind you that any adverse exchange rate movements are for your account.

9 *A Pocket Full of Change*, op cit, p. 290.
10 *A Pocket Full of Change*, p. 290.
11 Evidence, pp. S725-S745.

> ... and in this regard we suggest you make regular enquiries about foreign currency movements and the price for hedging the loan amount outstanding.
>
> Similarly, we stress the importance of thoroughly investigating with your account (tax consultant) the ramifications of foreign currency borrowings particularly the tax treatment of any exchange rate profits/losses.[12]

6.34 Mr Lyons claimed the only paragraph in his letter of offer providing an indication of exchange rate risk was:

> As you are aware exchange risks may be eliminated at any time during the life of the loan by entering into a hedge contract and the Bank would be happy to provide information in this regard on request.[13]

Mr Lyons did not consider this to be a serious warning.

6.35 The Committee notes Mr Lyons' letter of offer also contained the following paragraphs to which he did not refer in his submission:

> On the understanding that the exchange risks associated with borrowings in foreign currencies are fully recognised and that any adverse exchange rate movements are for the borrower's account, the Bank is prepared to allow the loan to proceed on an unhedged basis.
>
> However, in these circumstances, it is the Bank's normal practice to require the borrower to regularly meet any sizeable increases in the Australian dollar value of the loan resulting from exchange rate movements in order to maintain a satisfactory security/debt ratio. In this regard, the Bank will require you to meet any increase in excess of 5 per cent in the Australian dollar value of the loan. These adjustments will take place at the end of each interest period or at the expiry of twelve months from drawdown at the Bank's option should the interest period arranged for you exceed twelve months.[14]

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12 Evidence, p. S340.
13 Evidence, p. S343.
14 Evidence, p. S343.

6.36 Clearly the sample letter of offer provided to the Committee by the Commonwealth Bank during the previous inquiry was not the letter of offer sent to all borrowers, including to Mr Lyons. With its response to Mr Lyons' allegations, the Bank provided a letter of offer to another Taree borrower which was in the same format as the letter of offer included with its submission to the previous inquiry. It also provided a typical letter of offer to borrowers in Victoria which was similar, but not identical, to the letter of offer attached with the submission to the previous inquiry.

6.37 The Committee considers the Commonwealth Bank's evidence on its letter of offer did not materially affect the conclusions which were drawn in the previous report. The Committee noted in the previous report:

> In terms of their formal policy guidelines, documentation and approaches, the banks met their basic obligations to warn customers about the dangers of foreign currency borrowing. These invariably contained a warning that foreign currency borrowing was risky and that techniques for hedging were available to assist in managing the risk.[15]

6.38 It is noted that Mr Lyons' letter of offer did indicate the loan could go ahead 'On the understanding that the risks associated with borrowings in foreign currencies are fully recognised' and did indicate 'exchange risks may be eliminated at any time during the life of the loan by entering into a hedge contract'.

6.39 The Committee emphasises again the point it made in the previous report that individual cases would be decided on their individual facts, including the particular form of letter of offer and other oral or written advice or warnings which may have been given to individual borrowers by banks. These individual circumstances should be assessed in the context of resolving particular cases through mediation or arbitration.

6.40 The other area in which the Commonwealth Bank corrected previous evidence was in relation to the number of foreign currency borrowers provided with loans through the Taree branch. According to the Bank its figure of 23 loans in earlier evidence was obtained from one internal document. The Bank commented:

15 *A Pocket Full of Change*, op. cit., p. 320.

> Unfortunately, this figure appears to be incorrect and the total number of FCL borrowers through the Taree branch from a reading of the document referred to by Lyons is 25 or 26 if a count is taken of two companies which borrowed but which had the same directors and major shareholders.[16]

6.41 The Committee considers this correction does not change the conclusions it drew in the earlier report. The Committee referred there to the tendency of foreign currency loans to be concentrated in particular branches or regions and noted:

> The pattern of take up of loans indicates that some bank staff may have been involved, together with others outside the banks, in stimulating local demand for the product.[17]

6.42 In all other areas, the Commonwealth Bank strongly refuted Mr Lyons' allegations and referred to documentation to support its views. Given the complexity of the issues involved in foreign currency loan cases, the extent of banks' documentation and the differing perspective from which banks and borrowers approach the information available, inevitably there will be differing views on foreign currency loan matters.

6.43 *For the Committee there has been no additional evidence or* information which would change the overall conclusions of the previous report nor the Committee's view that the primary focus should be on resolving the outstanding cases. Some of the central findings are reiterated here:

- foreign currency loans were not an inherently faulty product but they were a quite inappropriate product for a number of the borrowers to whom they were provided;

- *there were a number of reasons for* banks providing foreign currency loans including competitive pressure from both other domestic and foreign banks, perceived tax advantages and lending restrictions which applied prior to deregulation;

- foreign currency loans were actively promoted to varying degrees by at least some banks including the use of advertising, seminars and incentives to some staff;

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16 Evidence, p. S731.

17 *A Pocket Full of Change*, op cit, p. 318.

- banks' provision of formal and written warnings about the dangers of foreign currency lending were adequate, however, the expertise of, and advice from, individual bank staff in branches was patchy;

- a failure adequately to monitor loans and provide assistance to borrowers when things went wrong were the major failings of banks. The Committee considered banks had a moral obligation to assist borrowers and this was not forthcoming from banks; and

- court processes to settle foreign currency loan disputes are expensive, cumbersome and give banks a strong position. The Committee strongly recommended banks put in place alternative methods of dispute resolution to resolve outstanding foreign currency loan disputes.

6.44 The Committee's view about banks endeavouring to resolve outstanding foreign currency loan disputes outside the courts stemmed both from an awareness of the way in which the use of the courts favoured banks and from a concern about the nature of foreign currency loans and the role of some banks in promoting this product inappropriately to some borrowers. However, the Committee emphasised it was not possible to make generalisations across all borrowers. Each borrower's circumstances were different and individual cases would need to be assessed on their particular facts. A system of mediation or arbitration of individual cases would enable this individual resolution. The Committee recommended in the Chapter 4 that banks resolve outstanding disputes quickly.

## Westpac's dealing room

6.45 A Four Corners program on 24 February 1992 raised serious allegations of fraud in Westpac's foreign exchange dealing rooms in the mid 1980s. The program reported on investigations, undertaken by a former Westpac employee, Mr Clive Alexander, of foreign currency dealings in Westpac in the mid-1980s.

6.46 In late 1987 Mr Alexander was called in to investigate the dealings of a Westpac foreign exchange dealer, Naji Halabi, who was suspected of acting fraudulently in relation to foreign currency deals. Naji Halabi had been exploiting holes in Westpac's foreign exchange audit system to do deals at rates below normal market rates. These caused a loss to Westpac and a profit to the banks with which Halabi did the deals. With the assistance of corrupt dealers in these other banks, millions of dollars in profits were creamed off from these deals into a Swiss bank account controlled by Halabi's brother. Halabi has been convicted.

6.47 While investigating the Halabi deals, Alexander also identified other suspicious transactions involving other dealers. In these deals it appeared that discount foreign exchange rates had been given to several Westpac customers. The reasons for these customers being advantaged at Westpac's expense was puzzling to Alexander. In the program, Alexander noted that given more time he may have found other suspect transactions.

6.48 Following his investigations, Alexander prepared two hand written reports on his findings and said he submitted the reports to the then General Manager of Westpac's Treasury Division, Mr Stan Davis. Mr Davis claimed not to have received the reports. They apparently went 'missing' within Westpac and did not re-emerge until the Four Corners program began asking questions about them. Subsequently, Mr Alexander was requested to discontinue his investigations of foreign currency dealings and was transferred to other duties. He later left the Bank.

6.49 Following the program Westpac asked Coopers and Lybrand to investigate the deals identified in the reports. An interim report from Coopers and Lybrand indicated there were some discrepancies in transactions in the period 1985-86. Three possible explanations for the discrepancies were identified:

- they could be quite innocent;
- they could be errors; or
- they could be suspect transactions.

6.50 The Committee received a confidential submission, and subsequently took in camera evidence, from Mr Alexander. As the evidence was confidential, the Committee will not cover the detail of issues raised by Mr Alexander. However, the Committee considered the matters raised were significant and required thorough investigation.

6.51 With Mr Alexander's agreement, he was referred to Coopers and Lybrand to provide them with information to assist in their investigation. The Committee also provided to Coopers and Lybrand, with Mr Alexander's permission, those sections of Mr Alexander's confidential evidence relevant to the investigation.

6.52 The Managing Director of Westpac, Mr Conroy, announced on 19 August 1992 the preliminary findings of the Coopers and Lybrand investigation. Mr Conroy noted the Coopers and Lybrand investigation had involved a team of up to eight people examining 3000 boxes and several thousand microfiche records, interviewing 28 people and examining 55 bank accounts relating to the period. According to Mr Conroy the investigation focussed on a range of foreign exchange transactions, relationships between Westpac personnel and bank clients and detailed cash flows over the period.

6.53 Mr Conroy stated the substantive conclusions of Coopers and Lybrand were:

- there is no basis for a claim that any customer improperly profited from foreign exchange dealings by some kind of collusion with Banks officers;

- there is no basis whatsoever on which criminal charges could be laid against any employee (past or present) or any customers; and

- the evidence brought to light would not support legal action by the Bank against any present or past employee.[18]

As a result of these conclusions, Mr Conroy stated there would be no response to the serious allegations made.

6.54 Of greater significance to Westpac than the operations of its foreign exchange area five to seven years ago, Mr Conroy considered, was the current procedure of the foreign exchange area. Coopers and Lybrand had brought experts from London and New York to assist in advising Westpac on this. Mr Conroy stated Westpac had been given 'a clean bill of health' and had been advised Westpac's 'procedures conform to world best practice'.[19]

6.55 The Committee has not seen the final report of the Coopers and Lybrand investigation and so is not in a position to comment in detail on the investigation or its findings. However, taking account of the public announcements of Westpac's Managing Director of the findings of the detailed Coopers and Lybrand investigation, there would appear to be no further issues to be pursued in relation to the allegations.

18 Speech by Mr F Conroy, Managing Director Westpac to the Securities Institute of Australia, 9 August 1992, p. 17.

19 op. cit., p. 17.

# CHAPTER SEVEN

# CONCLUSION

7.1 In this final chapter the Committee draws overall conclusions about banks' progress in implementing those recommendations of 'A Pocket Full of Change' which were directed specifically to them. It also develops some of the themes which were introduced in the previous report and which have been re-enforced in this review.

## *Progress in implementing recommendations*

7.2 The ACA entitled its submission to the current review 'A Thimble Full of Change - how retail banks ignored the Banking Inquiry Report'. Based on its assessment of banks' responses to the consumer recommendations of the Banking Report, the ACA concluded banks had a 'cavalier attitude' to complying fully with the recommendations and, consequently, the Committee should consider making the recommendations mandatory.[1]

7.3 The Committee agrees banks' implementation of some recommendations is unsatisfactory. Those recommendations have been identified in this report and, where appropriate, the Committee has made further recommendations or reiterated the earlier recommendations. The Committee has avoided making recommendations requiring banks to adopt a uniform approach to handling issues. The Committee sees great strength in a diverse financial system. However, the Committee also has made clear those areas where it sees questions of fairness or good banking practice as necessitating a common adherence to standards, if not to uniformity of approach, by all banks.

7.4 In other areas the Committee has noted satisfactory progress which banks have made in implementing the recommendations. Some banks have responded more positively under pressure from the continued scrutiny of the review. In these areas the Committee has refined, or more carefully targeted, its earlier recommendations in light of progress made.

1 Evidence, p. S606.

7.5 The Committee's overall assessment is that most banks' have made genuine efforts to implement specific recommendations and to respond to the general tenor of the Banking Report. However, where specific recommendations have not accorded with some banks' policy or practice efforts to implement recommendations have been unsatisfactory. As the Committee considers its recommendations embodied the better practice of banks, it will be those banks which fail to implement the recommendations which will pay the price.

## Future prospects for the Banking Industry

7.6 In the previous report the question was posed whether financial deregulation had been a success from the perspective of its effect on the banking industry. The Committee's overall assessment was it had been a success but there were some areas where benefits had not yet been achieved fully.

7.7 The Committee referred to the 'learning curve' which both banks and borrowers had experienced as a result of deregulation. Neither banks nor borrowers were adequately educated about the changed environment which resulted from financial deregulation, in particular about the allocation of, and pricing for, risk.

7.8 The Committee saw a need for a more sophisticated and much better informed financial services market to develop. Both banks and customers needed to understand their relationship more clearly and make decisions from a more informed base. The current review has reinforced the importance of both banks and customers being better informed.

7.9 For banks this will involve them learning more about their customers and endeavouring to meet their needs more closely. This will entail a greater responsive to customers, the removal of barriers which prevent the market operating effectively and a preparedness to be more technologically innovative.

7.10 In relation to small business and rural customers the Committee has seen the relative paucity of expertise within banks to address the particular needs of those sectors. A better understanding of the businesses with which they deal, increased financial knowledge and improved risk assessment skills are some of the gaps which need filling. Banks are beginning to identify these gaps in their expertise and are adopting a variety of approaches to filling them. The Committee has recommended banks increase their expert resources in both these sectors.

7.11 Understanding better the needs of customers is one thing, establishing a sound relationship with them is another. The experiences of the 1980s and the changing nature of the relationship between bank and customer has seen the public perception of banks fall to an historic low. There is an urgent need to restore some of the public trust and confidence which used to exist in banks.

7.12 The Committee sees the proposed Code of Banking Practice as crucial to re-establishing the trust and confidence of consumers. An extension of the Code to cover small business and rural customers also will be essential in rectifying damaged relationships in these areas. The Committee has recommended the Code be extended or further developed to cover small business and rural customers.

7.13 Responding to the challenges brought about by deregulation not only places an onus on banks to develop their expertise, become more understanding of, and responsive to, their customers and enhance technological innovation. It also requires customers being better informed about bank products and services and understanding better the increased responsibilities which a deregulated financial system imposes on them. Customers need to examine more critically what they are being offered by banks and to understand the way in which deregulation has transferred risks to them in their banking relationships. To do so they need not only better information and sources of advice, but also the appropriate tools and questions to undertake this critical analysis.

7.14 The Committee has referred to the concept of a 'report card' on bank products and services which brings together a wide range of information about particular products or services. Potentially a 'report card' would place consumers in a much sounder position to make informed choices.

7.15 While the Committee has not itself developed a 'report card' it has endeavoured, through its discussion of deposit accounts, to point to the type of information which can be developed for consumers. Those organisations in the community which have a responsibility to inform their constituencies, whether they be consumer, small business or farming organisations, are urged to develop such comparative information about bank products and services. Banks will be driven to provide better products and services by customers who are in a stronger position to make well informed choices.

7.16 As well as providing better and more accessible information to customers about bank products and services, customers also need to be empowered to make the most of their relationship with their bank. The Code of Banking Practice should make an important contribution to this empowerment by defining rights and processes and providing means of redress for a breach of these. Customers also need to be aware of the important questions and issues to raise with their banks.

7.17 Following the excesses of the 1980s and the 'learning curve' of financial deregulation, banks say they are developing a new culture of conservatism and ethics. They are re-focussing on their core banking business and searching for quality proposals which ensure an adequate return.

7.18 This re-focussing has been influenced not only by the experience of the excesses of the 1980s, but also by the significant change in economic conditions in Australia. Both inflation and inflationary expectations have fallen to their lowest level for decades. The implications of this trend were outlined by the Reserve Bank:

> ... strategies which had assumed - indeed, depended on - high inflation are beginning to be rethought. Views about appropriate rates of return on assets and what types of assets to hold, as well as about what borrowing costs and gearing ratios are sustainable, are being recast. This process is still underway and it will be some time yet before the main economic players are fully attuned to low inflation.[2]

7.19 As the Governor of the Reserve Bank noted recently, those bankers who are quickest to appreciate the implications of sustained low inflation will do well in the 1990s.[3]

7.20 Some banks noted this trend and indicated it was being factored into their business decisions. The adjustment to a low inflationary environment shifts the emphasis in criteria for lending more strongly on to cash flow rather than capital appreciation.

7.21 The Committee welcomes the emerging culture and philosophy in banks. A return by banks to the basics of their business and the adoption by them of a strongly ethical approach to their role as bankers may see an improvement in the public perception of banks.

7.22 However, the Committee emphasises the 'new conservatism' would be damaging if it led to the choking off of support for lending proposals which should be funded. As banks told the Committee, they are in the business of lending. To make money they need to grow their business and support sound proposals. In the context of the low inflationary environment banks must change the focus of their lending but the Committee would expect to see levels of lending sustained and growing. The challenge for banks is to encourage a revival of lending while re-orienting their lending towards quality business proposals. Banks should encourage staff to look positively on new business proposals which highlight productive potential. This should be seen as a key consideration in promoting lending growth.

7.23 The Reserve Bank also needs to play an active role in creating a sound environment in which banks can respond to the new focus. Its role is important particularly in restoring public confidence in the banking system. It also has an significant role to play in enhancing the information base about banks to enable a better informed public debate about the role of banks.

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2 Reserve Bank of Australia, Report and Financial Statements, 30 June 1992, p. 2.
3 Reserve Bank of Australia, Bulletin, July 1992, p. 20.

## Continuing parliamentary role

7.24 In the previous report the Committee recommended a continuing role for it in reviewing the banking industry. This was the first recommendation of the report implemented only a few days after the report was tabled.

7.25 This review has demonstrated the value of the continuing role. The review has enabled pressure to be maintained on banks to address the recommendations of the previous review.

7.26 This is particularly well demonstrated in relation to recommendations on resolution of foreign currency loans and the Nyngan disputes. It has been largely pressure from the Committee which has seen relevant banks adopt a more responsive approach to settlement. Banks' increasing responsiveness to the implementation of other recommendations indicates further the value of continuing scrutiny.

7.27 The Committee provides a forum for concerns about the banking industry to be aired at the parliamentary level. However, it also provides the opportunity for banks to inform the parliament about developments in the industry.

7.28 The Committee has recommended that progress on implementation of particular recommendations from the previous report, those relating to resolution of foreign currency loans and the Nyngan disputes, should be reported regularly to it. More broadly the Committee considers a further review of implementation of the original Banking Inquiry Report and of this review, should take place in 12 months. This should provide sufficient time for banks to develop the systems and approaches to give full effect to the recommendations.

7.29 As part of its continuing role of review of the industry, the Committee intends to call the Reserve Bank annually to report on developments in the industry. Under the Standing Orders the Committee has the Reserve Bank's Annual Report referred to it each year for examination. The Committee expects to call the Reserve Bank to examine it on this years annual report shortly. In future years the Committee also will call the ABA annually to brief it on developments in banking from the industry's perspective.

7.30 As well as these areas, the Committee expects to undertake inquiries as they arise into particular issues which affect the banking industry or financial services generally. With this in mind the Committee will continue to monitor developments in the banking and financial services industries.

7.31 The Committee recommends that:

44. the Committee undertake a further review within 12 months of implementation of those recommendations of the Banking Inquiry Report which were directed at banks for their implementation.

PAUL ELLIOTT MP
CHAIRMAN

October 1992

# APPENDIX ONE

# RECOMMENDATIONS FROM BANKING REPORT DIRECTED TO BANKS

There are many recommendations in the Committee's report - 'A Pocket Full of Change' - that are the responsibility of banks rather than government to implement. Some recommendations in which both government as well as banks have a role, such as the Banking Code of Practice, have been included for completeness. These recommendations are marked with an asterisk. The remaining recommendations are those that will be reviewed under the reference from the Treasurer on 31 March 1992.

The recommendations fall broadly into a number of categories:

- Banking Code of Practice
- Competition in the market place
- *Quality of service*
- Banks and confidentiality
- Guarantees
- Dispute resolution and mediatory mechanisms
- Banks and small business
- Banks and rural customers
- Fraud
- Credit assessment
- Access to banking
- other issues.

**Banking Code of Practice**

The need for a Code of Banking Practice was the central recommendation that encompassed many of the reforms the Committee considered were required in banker/customer relationships. The Committee recommended a consultative process, under the auspices of the Trade Practices Commission, to develop the Code. Consultation would include banks, consumer organisations, government regulators and relevant State government authorities. The Treasurer has specifically excluded these recommendations from the review.

Recommendations

*75. the Australian Law Reform Commission be requested to conduct a review of the law of banker and customer, involving consultation with industry, regulatory authorities and consumer groups. In cases where statutory change is required the ALRC should draft recommendations for appropriate legislation; and

*76. a code of banking practice, contractually enforceable by bank customers and subject to ongoing monitoring by the Trade Practices Commission, be developed as a result of a process of consultation between the banking industry, consumer organisations, Commonwealth regulatory agencies and relevant State government authorities. The consultative process should take place under the auspices of the Trade Practices Commission. Monitoring should have regard to the degree of compliance with the code and to the ongoing appropriateness of the provisions of the code in the light of changing circumstances. (paragraph 20.51)

*94. the principle of disclosure be incorporated into a code of banking practice. (paragraph 21.34)

*95. a requirement for plain English documents be incorporated in the code of banking practice. Plain English documents should be produced urgently by the Australian Law Reform Commission working wherever possible in conjunction with State law reform commissions and in consultation with the banking industry, consumers and users. Priority should be given to producing important consumer documents such as the mortgage and guarantee documents. (paragraph 21.51)

*100. personal information be provided as a 'right' to individuals. This 'right' should be written into a code of banking practice. (paragraph 21.116)

**Competition and information in the market place**

The report generally recognised that the market should be allowed to decide the appropriate pricing structures for particular bank products or services. However, in some areas the Committee made specific recommendations to stimulate banks to offer competitive products or to provide better information that would enhance consumer choice.

Recommendations

59. banks ensure greater disclosure in the area of foreign exchange transactions by advising foreign currency loan customers in advance of all fees and charges associated with foreign currency transactions. (paragraph 17.94)

64. merchants who operate a credit card facility should be free to make their own decisions as to the prices they charge. Dual pricing by merchants should not be prevented by banks. (paragraph 19.57)

65. banks pay a reasonable rate of interest on all deposit accounts. This should take into account the costs of maintaining accounts;

67. banks be strongly encouraged to convert all remaining deposit accounts which pay interest on the minimum monthly balance to daily interest. (paragraph 19.81)

68. all banks adopt the practice of recovering actual costs for early repayment of loans rather than imposing a penalty.

*96. banks should disclose all fees and charges and interest rates relating to all products. Disclosure should be done in such a way that all fees, charges and interest rates are clearly drawn to the attention of consumers. (paragraph 21.67)

**Quality of service**

Much of consumer concern with banks relates to the quality of service offered to customers. The Committee made a number of recommendations in this area.

Recommendations

70. continue to offer training opportunities to their staff especially with regard to improvements in customer relations;

71. speed up their implementation of effective complaint handling schemes and make known the existence of their complaint departments to their customers through brochures available in all bank branches;

72. make greater use of information gathered through their complaint statistics to improve their performance; and

73. publish customer complaints statistics in their annual reports. (paragraph 19.121)

**Banks and confidentiality**

Recommendations have been made about the requirement of banks to adhere to a duty of confidentiality in relation to their dealings with customers. The Committee said that the recommendations largely should be implemented by legislation. If this does not occur it may be that banks implement these recommendations on a voluntary basis, perhaps as part of the Code of Banking Practice.

Recommendations

*84. the obligation of banks to maintain customer confidences should be expressly recognised by law and should be subject to express exceptions. The exceptions to the duty of confidentiality should *include the following circumstances:*

- disclosure of information where subpoenaed for the purposes of litigation;
- disclosure under due process of law;
- disclosure pursuant to express consent in writing obtained by the customer and for a particular purpose; and
- disclosure to other credit providers and agencies subject to the restrictions imposed by the Privacy Act 1988 (as amended) and the Credit Reporting Code of Conduct;

*85. the duty of confidentiality should extend to all information obtained by the bank in relation to its customer, other than information readily available to the public;

*86. customers should have access to all personal information concerning them contained in the records of the bank;

*87. customers should be advised upon opening an account or commencing a relationship with a bank and at intervals thereafter of their right of access to personal information about them held by the bank; and

*88. the obligation imposed upon credit reporting agencies by the Privacy Act 1988, to take reasonable steps to ensure that accurate files are maintained, should apply to personal information held by banks in relation to customers. (paragraph 20.159)

**Guarantees**

The arrangement whereby individuals provide third party guarantees to borrowers from banks is one that has resulted in complaints from guarantors about their lack of awareness of the implications of the agreements they have made. The Committee made a number of recommendations in this area. Some of the recommendations would be implemented as part of a Code of Banking Practice.

Recommendations

*89. the use of unlimited guarantees no longer be permitted;

*90. the details of the relationship between a bank and a guarantor be clearly laid down in a code of banking practice and include the specific undertakings that were part of the TPC's agreement with the National Australia Bank. In addition, banks should be obliged to inform guarantors as to the reasons for requiring a guarantee. (paragraph 20.179)

*91. the code of banking practice require a bank to disclose to prospective guarantors all material facts known to it relating to the borrower and the proposed transaction. Failure to so disclose should render the guarantee voidable unless the bank can show that the failure was inadvertent and the guarantor knew of or was in a position to know of the relevant fact or would have entered the transaction if the fact had been disclosed;

*92. the code of banking practice also require the bank to advise the guarantor of the state of the borrower's account on inquiry or as soon as the account becomes overdue.

## Dispute resolution and mediatory schemes

The Committee was concerned about the mechanisms which consumers and other groups had to resolve disputes with their banks. Recommendations in this area included mediatory mechanisms for rural and foreign currency borrowers, the Banking Ombudsman Scheme and internal dispute resolution.

Recommendations

Rural borrowers

57. the Commonwealth Bank establish an independent mediator or panel acceptable to both the bank and the borrowers to mediate the disputes arising in the Nyngan region. This mechanism should include rural counsellors and should not affect recourse under the law which either party may wish to pursue; and

58. the mechanism should be developed to have application to other areas where similar circumstances arise. It could be activated either by the initiative of the bank involved or by recommendation of the Banking Ombudsman. (paragraph 16.83)

Foreign currency borrowers

60. an independent mediator (or mediators), funded by the banks, but acceptable to both banks and foreign currency borrowers be appointed to mediate in foreign currency loan cases that remain in dispute. Mediation is not compulsory, banks will pay for their own mediators or for a general mediator based on usage. The determinations of the mediator will not be binding on either party. Banks should endeavour, to the extent possible, to advise all foreign currency loan borrowers of the mediatory mechanism. The mediator should operate under the following conditions:

- mediation would not be possible where cases have already proceeded through all stages of appeal so that the court processes are recognised;

- mediation would also not be possible where out of court settlements have been reached;

- mediation can be sought where cases are still in court without final decision, or pending; and

- any determinations of the mediator will be non-binding on both parties so that both have the appropriate option of pursuing court action. (paragraph 17.193)

Banking Ombudsman Scheme

79. The participating banks in the Australian Banking Ombudsman Scheme should increase the monetary threshold to $200,000 and remove the exclusions relating to small proprietary companies. The threshold should be kept under review; and

*80. a proposal eventually to establish an ombudsman to cover the whole financial services industry should be investigated by this Committee. In terms of development, such a scheme should give priority to ensuring access by consumers of retail or consumer products and services of all financial institutions, rather than, in the first instance, to incorporated entities. (paragraph 20.114)

Internal dispute resolution

78. all banks adopt a system of regular audits of all branches. Such audits should be designed to, amongst other things, check the availability of information to customers, the ability of staff to answer questions about products and bank practices and the courtesy of staff. (paragraph 20.74)

*81. the development of comprehensive procedures for resolving complaints and disputes be considered in the development of the code of banking practice. Banks should ensure that all staff are familiar with the bank's policies and procedures relating to all aspects of dispute resolution. In doing this, banks should ensure that these policies and procedures are clearly set out in staff manuals and are incorporated into both initial training programs and refresher programs. The issues identified in paragraph 20.123 above should be included in the development of internal dispute resolution procedures. (paragraph 20.124)

**Banks and small business**

The chapter in the report dealing with banks and business concentrated particularly on banks' relationship with small business. A number of recommendations were directed at the banks which would see this relationship better balanced towards small business.

Recommendations

40. banks further develop packages and advisory services that will assist small businesses to improve their financial management and planning;

*41. small business representative organisations and relevant Commonwealth and State government departments, provide advice to small business about the products and services available from banks; and

42. banks look at further product development for business, particularly small business, to provide for the payment of interest on working capital accounts when the accounts are in credit. (paragraph 15.37)

43. banks reassess their lending procedures affecting small business to ensure that sound proposals that meet usual credit criteria are funded; and

44. in reassessing small business loans banks should:

- consult with the customer;
- advise in writing any changes prior to them being made;
- provide an appeal mechanism against any decision; and
- give added emphasis, in the current economic climate, to assisting businesses to manage themselves out of difficulty where some prospects for improvement exist rather than taking precipitate action. (paragraph 15.60)

45. banks review their risk premiums on small business loans in the light of the lesser risk of some areas of small business and in view of the security over property taken for most small business loans. (paragraph 15.72)

46. all margins above the bank indicator interest rate, fees and charges be disclosed as part of loan agreements between banks and small business;

47. any general changes made to margins above the bank indicator rate, fees and charges during the course of a loan be implemented only following advice to customers and any changes made on the basis of reviews of an individual customer's circumstances only be implemented following consultation and advice; and

48. a comparative rate incorporating all costs associated with small business loans be disclosed by banks to customers. The Standards Australia comparative interest rate for consumer credit should be used. (paragraph 15.82)

**Banks and rural customers**

The Committee made recommendations about the development of a Code of Practice to regulate the relationship between banks and rural customers. The ABA has developed a draft Code of Practice, but the Committee identified shortcomings in the Code. The development of a Code for rural borrowers is a process in which the Government would be involved.

Recommendations

51. the banks ensure that farmers are made aware of the full range of products they have available by ensuring bank staff are familiar with the products and have the relevant expertise to advise customers on their application.

*53. farm organisations encourage farmers to seek opinions from appropriately qualified financial and other advisers. (paragraph 16.44)

*54. the existing draft Code of Practice on the bank-farmer relationship be re-examined in consultation with the ABA, NFF, State farming associations, DPIE, rural counsellors and the Trade Practices Commission. The final code should be authorised by the TPC;

*55. bi-annual reviews of the Code of Practice governing bank-farmer relationships be undertaken to ensure the Code is achieving its original purpose; and

*56. the Draft Code of Practice relating to bank-farmer relationship be amended to include pastoral companies and government business enterprises conducting similar business. (paragraph 16.70)

**Fraud**

The Committee rejected allegations that there was major fraud in the banking industry. However, a recommendation was made to enhance banks' ability to see fraud matters brought forward.

Recommendation

62. banks establish internal processes that allow staff to report instances of suspected fraud to senior management without fear of retribution and provide opportunity for customers to report suspicions of fraud and corruption. (paragraph 18.59)

**Credit assessment**

Recommendation

74. banks should ensure that their assessment of risk and other related areas such as ability to repay are thoroughly investigated. Credit scoring systems should be amended to incorporate criteria such as income, or where it already exists, to strengthen this requirement. Bank loans officers should be adequately trained in risk assessment techniques. (paragraph 19.138)

**Access to banking**

Recommendation

*101. retail banks and the Department of Social Security jointly investigate the feasibility of developing a basic banking product. The product should be offered by all retail banks, should allow for a set number of free withdrawals each week and should be targeted to the needs of low-income Australians.

**Other issues**

There were two additional recommendations that were directed at organisations other than banks.

Recommendations

*16. where applicable, the recommendations concerning disclosure made in Chapter 21 also apply to other activities of bank-led conglomerates, including companies with which they have close associations;

*17. the Lifewriters' Association and other representatives of financial advisers and agents should be invited, along with government and consumer representatives, to participate in a general review of quality control of financial advisers and agents. (paragraph 11.88)

COMMITTEE SECRETARIAT

March 1992

# APPENDIX TWO

## LIST OF SUBMISSIONS

| No. | Name of person\organisation |
|---|---|
| 1 | Australian Bankers' Association |
| 2, 2a-2b | R & I Bank of Western Australia Ltd |
| 3, 3a | Trade Practices Commission |
| 4, 4a-4e | Foreign Currency Borrowers Association |
| 5 | The Australian Borrowers Association |
| 6, 6a | Advance Bank Australia Limited |
| 7, 7a | Mr John McLennan |
| 8, 8a-8c | State Bank of New South Wales |
| 9, 9a-9d | Commonwealth Bank of Australia |
| 10, 10a-10c | ANZ Bank |
| 11, 11b | Bank of Queensland Limited |
| 12, 12a-12c | National Australia Bank |
| 13, 13a-13g | Westpac Banking Corporation |
| 14 | Mr L J Potts, Vice Chairman<br>Foreign Currency Borrowers Association |
| 15 | Mr R Donald, Branch Chairman<br>NSW Farmers' Association |
| 16 | Mr G Hardie, Hon Secretary<br>NSW Farmers' Association |
| 17, 17b | Citibank |
| 18 | NSW Farmers' Association |

| | |
|---|---|
| 19 | Mr A R Jones |
| 20 | Ms Carolyn Currie |
| 21 | Mr C P Palmer |
| 22, 22a | Mr John Salmon |
| 23 | Minister for Small Business, Construction and Customs |
| 24, 24a | Australian Consumers' Association |
| 25, 25a | Australian Merchant Bankers' Association |
| 26, 26a | Metway Bank Limited |
| 27 | St George Bank Limited |
| 28, 28a | State Bank of South Australia |
| 29 | Australian Pensioners' & Superannuants' Federation |
| 30 | Mr A Lanza-Volpe |
| 31 | Reserve Bank of Australia |
| 32 | Mr A V Barker |
| 33 | Coonamble District Council<br>NSW Farmers' Association |
| 34 | Parkes Action and Castlereagh Action Groups |
| 35 | Sir Laurence Street |
| 36 | Barclays Bank |
| 37 | Bank of New Zealand |
| 38 | Bank of Melbourne |
| 39 | Challenge Bank |
| 40 | Trust Bank Tasmania |

**Confidential submissions**

No.s 1-6

# APPENDIX THREE

## LIST OF EXHIBITS

| No. | Name of person\organisation |
|---|---|
| 1 | Publication received from: Australian Pensioners' and Superannuants' Federation entitled 'Actionetwork' dated February 1992 and May 1992 |
| 2 | Documents received from: National Australia Bank |

**Confidential exhibits**

Nos. 1-3

# APPENDIX FOUR

# PROGRAM OF ACTIVITIES UNDERTAKEN BY THE COMMITTEE

## Public Hearings

| | |
|---|---|
| Sydney | 11 May 1992 |
| Melbourne | 12 May 1992 |
| Canberra | 26 June 1992 |
| Sydney | 29 June 1992 |
| Sydney | 27 July 1992 |
| Canberra | 14 August 1992 |

**Informal discussions**

| | |
|---|---|
| Dubbo | 11 August 1992 |

# APPENDIX FIVE

# LIST OF WITNESSES APPEARING AT PUBLIC HEARINGS

| Witness\Organisation | Date(s) of appearance |
|---|---|
| **Individuals** | |
| Mr John James Wiltshire Gilmour | 26 June 1992 |
| Mr John Ross McLennan | 11 May 1992 |
| Sir Laurence Street | 14 August 1992 |
| **ANZ Banking Group** | |
| Mr David Lucas deGaris<br>Senior Economist | 12 May 1992<br>27 July 1992 |
| Mr Gary Randall Mason<br>Assistant General Manager<br>Credit, Business Banking | 12 May 1992 |
| Ms Susan McCarthy<br>Chief Manager, Public Affairs | 27 July 1992 |
| Mr John Roland McConnell<br>Senior General Manager, Retail Banking | 12 May 1992<br>27 July 1992 |
| Mr Neville John Warnest<br>Chief Manager, Credit Retail Banking | 12 May 1992 |
| **Advance Bank Australia Ltd** | |
| Mr Graham Clifford Broome<br>Chief Manager, Group Credit | 29 June 1992 |
| Mr Grant Malcolm Godfrey<br>Chief Manager, Group Planning | 29 June 1992 |
| Mr Terry Jay<br>General Manager, Retail | 29 June 1992 |

**Australian Bankers' Association**

| | |
|---|---|
| Mr Alan John Chatterton<br>Chairman, Executive Committee | 11 May 1992 |
| Mr Alan Charles Cullen<br>Executive Director | 11 May 1992<br>27 July 1992 |
| Mr John Kelvin Dawson<br>Chairman | 27 July 1992 |
| Mr Gary Hugh Healey<br>Director Research | 11 May 1992<br>27 July 1992 |
| Ms Lynnita Mary Maddock<br>Chair, Banking Inquiry | 11 May 1992 |

**Australian Banking Industry Ombudsman**

| | |
|---|---|
| Mr Graham Lloyd McDonald<br>Ombudsman | 12 May 1992 |
| Sir Ninian Stephen<br>Chairman, Council | 12 May 1992 |

**Australian Consumers' Association**

| | |
|---|---|
| Mr Robert Drake<br>Policy Officer | 29 June 1992 |
| Mr Gregory John Kirk<br>Member | 29 June 1992 |

**Austalian Merchant Bankers' Association**

| | |
|---|---|
| Mr John Alan Hall<br>Executive Director | 27 July 1992 |
| Mr John Menzies McMurtrie<br>Vice-Chairman | 27 July 1992 |

**Australian Pensioners' and Superannuants' Federation**

| | |
|---|---|
| Mr John Patrick Barber<br>Executive Officer | 29 June 1992 |
| Mr Gerard Thomas<br>Policy Officer | 29 June 1992 |

**Commonwealth Bank of Australia**

| | |
|---|---|
| Mr Edward Harold Condran<br>General Manager, Marketing Retail | 11 May 1992<br>27 July 1992 |
| Mrs Lyndell Patricia Deves<br>Chief Manager, Retail | 11 May 1992<br>27 July 1992 |
| Mr Ian Kenneth Payne<br>Deputy Managing Director | 11 May 1992<br>27 July 1992 |
| Mr Paul John Rizzo<br>Chief General Manager | 11 May 1992 |
| Mr Leslie Edward Taylor<br>Chief Solicitor | 27 July 1992 |

**Council of Small Business Organisations of Australia**

| | |
|---|---|
| Mr Paul Merewyn Greenwood<br>Chairman | 29 June 1992 |

**Foreign Currency Borrowers' Association**

| | |
|---|---|
| Mr Ian Hamilton Fisher<br>Chairman | 11 May 1992 |
| Mr Trevor Ronald King<br>Member | 11 May 1992 |
| Mr David Francis Lyons<br>Editor, Newsletter | 11 May 1992 |
| Mr Gerhard Moser<br>Consultant | 11 May 1992 |
| Mr Lionel James Pott<br>Vice-Chairman | 11 May 1992 |
| Mr Timothy Tyrrell<br>Committee Member | 11 May 1992 |

**National Australia Bank Ltd**

| | |
|---|---|
| Mr Glenn Lawrence Lord Barnes<br>Group General Manager<br>Marketing and Distribution | 12 May 1992 |
| Mr John Kelvin Dawson<br>Group General Manager<br>Group Strategic Development | 12 May 1992<br>27 July 1992 |
| Mr Julian James Pearce<br>Chief Economist | 12 May 1992<br>27 July 1992 |

**National Farmers' Federation**

| | |
|---|---|
| Mr Garry Goucher<br>Director of Policy | 29 June 1992 |

**New South Wales Farmers' Association**

| | |
|---|---|
| Mr Terry Ryan<br>Policy Director | 29 June 1992 |
| Mr Stephen Ware<br>Economist | 29 June 1992 |

**State Bank of New South Wales**

| | |
|---|---|
| Mr David Mark Cowper<br>Chief Operating Officer | 29 June 1992 |
| Mr Richard William Turner<br>Secretary | 29 June 1992 |

**St George Bank Ltd**

| | |
|---|---|
| Mr John G Alexander Goddard<br>Chief General Manager, Operations | 27 July 1992 |
| Mr Robert Leslie Manning<br>Controller, Banking Services | 27 July 1992 |
| Mr Bradley Kevin Matthews<br>Manager, Economic Research | 27 July 1992 |
| Miss Fiona Gladys Toose<br>Principal Solicitor, Banking Operations | 27 July 1992 |

**Trade Practices Commission**

| | |
|---|---|
| Professor Allan Fels<br>Chairman | 26 June 1992 |
| Dr John Tamblyn<br>First Assistant Commissioner | 26 June 1992 |
| Dr David Charles Cousins<br>Member, Prices Surveillance Authority | 26 June 1992 |

**Westpac Banking Corporation**

| | |
|---|---|
| Mr Reginald Ian Barrett<br>Group Secretary and General Counsel | 11 May 1992 |
| Mr Alan John Chatterton<br>Chief General Manager,<br>Australian Distribution Group | 27 July 1992 |
| Mr Harvey Garnett<br>Chief General Manager<br>Credit Policies and Control | 11 May 1992 |
| Mr Geoffrey Kimpton<br>Chief General Manager<br>Consumer and Commercial Marketing Group | 11 May 1992<br>27 July 1992 |
| Ms Lynnita Mary Maddock<br>Senior Manager, Public Affairs | 11 May 1992<br>27 July 1992 |
| Mr David Leigh Pearson<br>Chief Manager, Money Market | 27 July 1992 |

# APPENDIX SIX

## MEMORANDUM OF UNDERSTANDING

This document sets out principles which have been agreed by the Foreign Currency Borrowers Association and Westpac Banking Corporation to provide access to a system of arbitration intended to facilitate the resolution of disputes concerning foreign currency loans (or OCLs).

1. The idea that an appropriately skilled and experienced person should play the role of arbitrator in OCL disputes is accepted. A senior lawyer (such as a retired judge) would be suitable and we envisage agreeing a panel of appropriate persons from which the parties to a particular arbitration would select their arbitrator. (As to expert assistance, see 11 below). If the arbitrator does not have a good working knowledge of FX procedures, he should first undertake a short familiarisation course provided by independent experts acceptable to both the Bank and the FCBA.

2. We see the arbitration system as being available for any case of alleged loss through breach of legal duty by the Bank in relation to an OCL, provided that the case had not progressed through the court system to a full trial (or beyond) and had not been settled by consent of the parties. Subject to those qualifications, the Bank would agree to use the arbitration system in preference to the courts.

3. Partnership Pacific Limited cases covered by the mediation procedures referred to in the Bank's press advertisement of 14 March 1991 would be outside the arbitration system, but the 14 March 1991 procedures would continue to be available for such cases.

4. OCL cases which had progressed through the court system to a full trial (or beyond), or had been settled by consent of the parties should, in the Bank's view, be outside the arbitration system in the sense that the Bank would not in the normal course be prepared to revisit issues which had already been dealt with in those ways.

   It would, however, be prepared to consider (on a case by case basis) the possibility of referring to the arbitration system for determination any concisely and clearly defined issue for a particular OCL borrower which, in relation to his or her loan, would represent legal grounds for overturning any pre-existing court decision or negotiated settlement involving that borrower (for example, inadequate or defective discovery amounting to grounds for appeal or, in relation to a settlement agreement, duress or some other vitiating factor.) In any such case, the arbitration would be seen by the Bank as strictly limited to the particular issue and could not traverse the whole of the relationship as if the original court hearing (and any appeals) or negotiated settlement had never occurred.

5. Each arbitration would have to be established within the framework of an arbitration agreement signed by the Bank and the OCL borrower. The Bank would have to insist that the OCL borrower obtain separate and independent legal advice before entering into the arbitration agreement. The Bank would also have to insist that the independent lawyer provide a certificate that he or she had explained to the OCL borrower all the legal ramifications of using the arbitration system including, of course, opting out of the court system. In the absence of these precautions, the borrower may have grounds for upsetting the arbitration by court proceedings and that, of course, would be at odds with our mutual aims.

6. Leaving aside any special cases that may come up under 4 above, one of the tasks of the arbitrator in considering an OCL borrower's claim would be to decide whether it was barred by any relevant statutory limitation period. Claims thus barred could not proceed. The time at which any court proceedings already on foot had been initiated would be taken into account in determining this issue. Where court proceedings had not been initiated, the date of signing of the arbitration agreement would fix the relevant time. Limitation period to be set at six years from crystallisation of the loss (with the arbitrator to determine what amounts to such crystallisation and the date on which it occurred, the arbitrator to be available to determine such date in each case at a preliminary hearing if desired by either party).

7. Again, leaving aside any special case within 4, the most substantial function of the arbitrator would be to determine whether, in a particular case (and on a case by case basis), the Bank was legally liable to compensate a borrower for loss incurred in connection with an OCL. In deciding liability, the arbitrator would be governed wholly by applicable legal principles so that, for the Bank to be liable, it would have to be found by the arbitrator that the Bank had, on the facts of the particular case, breached some legal duty.

8. Assuming that the Bank was found legally liable in a particular case, the final task of the arbitrator would be to assess damages. The applicable legal principles for quantum of damages would be used.

9. The arbitration system would, in general, be a complete alternative to court proceedings, with the outcome final and binding on the parties. Legal principles as to the review of arbitrators' decisions by courts would, however, apply to these arbitrations in the normal way. Where the relationship between the Bank and a particular OCL borrower became the subject of arbitration proceedings, it would be expected that those proceedings would settle all issues relevant to the relationship once and for all.

10. The arbitration proceedings would be informal but subject to sufficient procedural safeguards to ensure that the rights of the parties are adequately promoted and safeguarded. It is recognised that the efficiency and usefulness of the arbitration system will be enhanced if both parties utilise the services of their lawyers both in preparation and in the hearing. However, lawyers will not represent the parties before the arbitrator unless both agree. It is also recognised that, in some cases of need, the borrower may not be able to afford legal assistance. In those cases, the Bank would seek to maintain fairness by not using staff to represent it before the arbitrator who are experienced in presenting cases in court and other tribunals.

11. It would be for the arbitrator to fix the manner in which the proceedings were to be conducted. The arbitrator will be given the power to penalise or strike out a party who is frustrating the proceedings. He would settle ways in which the parties were to plead their cases and deal with any questions of evidence, discovery, third party discovery and the like. In relation to discovery, the arbitrator would decide what was necessary and lay down rules to achieve it, with relevance always being the overriding determinant. The Bank should produce a core list of discovery which will have to consist of relevant, bank policy documents, procedure manuals, foreign exchange trading documents and staff personnel files. On documents so discovered the Bank will mask only the identities of other Bank clients. The borrower should produce all relevant documents including correspondence with the Bank and any outside professional advisers (such as accountants and tax consultants) relating to the OCL. The parties would be bound by those rules. The arbitrator could also seek opinions from independent qualified persons on matters requiring expert input as to foreign exchange procedures and practices or calculation of loss. Again, it will be appropriate for members of such a panel to be agreed by both parties.

12. The Bank would pay the arbitrator's fees plus those of any expert retained by the arbitrator. No other arrangements as to costs are envisaged. If, in a particular case, the parties agreed to lawyers representing them in the arbitration, each party would meet its own lawyer's fees.

13. At any time during the course of the arbitration, the arbitrator may, with the consent of both parties, adopt the role of a mediator. In such a case, attempts at settlement by mediation under the arbitrator's guidance would be made. If such attempts failed, it would be inappropriate for the arbitration to resume before that arbitrator. In such circumstances the Bank would agree to commence a new arbitration before another arbitrator provided both parties are in agreement on this course of action.

14. The arbitration system will not exclude the Bank and OCL borrowers from pursuing alternate forms of dispute resolution including settlement discussions, mediations and court proceedings. In particular, the parties may elect to postpone an arbitration temporarily and seek mediation through a third party.

Signed on 19 August 1991

For
The Foreign Currency
Borrowers Association

For
Westpac Banking Corporation

Ian Fisher
President

R I Barrett
Group Secretary &
General Counsel

**Source: Evidence pp. S775-78**

APPENDIX SEVEN

# YOUR

*The*

*Best Deal*

*for You*

# SAVINGS

AUSTRALIAN BANKERS ASSOCIATION

# ACCOUNT

# INTRODUCTION

Savings accounts differ, and it is up to you to decide which meets your needs. When choosing an account, features such as the quality of service, the convenient location of a bank, hours of opening, card access, availability of loans and overdraft facilities or the simple fact that you like the staff of a bank may be important in your decision.

If you wish to consider interest rates and fees in detail, this brochure will help you. It allows you to determine which account provides maximum earnings or the least cost, given your banking habits.

You are going to have to do some homework to find the answer.

Collect the information and brochures from the bank about the account you wish to consider and put aside statements/passbooks concerning your current bank account. If you wish to consider other accounts you will need to collect information on these accounts from the bank concerned. (Each assessment will require a separate copy of this brochure.)

## INTEREST EARNED

**1**

Does the bank account you are assessing earn interest calculated on the minimum monthly balance or the daily balance? If YES, tick the correct box.
If NO, place a zero in Box A (Q.5) and go to Q.6.

**MINIMUM MONTHLY BALANCE** ☐ **DAILY BALANCE** ☐

How frequently is interest paid?

**MONTHLY** ☐ **QUARTERLY** ☐ **HALF-YEARLY** ☐ **YEARLY** ☐

(If you do not know how interest is calculated or paid, the bank can tell you.)

**2**

Estimate your average minimum monthly balance; that is, your minimum monthly balance averaged over a number of months.

**ESTIMATED AVERAGE MINIMUM MONTHLY BALANCE:** $

Estimate your average daily balance; that is, your daily balance averaged over a number of days.

**ESTIMATED AVERAGE DAILY BALANCE:** $

Your previous statements/passbooks may help you to estimate the above.

**3**

Given your likely balance in Q.2, what is the nominal rate of interest you will earn per annum? The bank will be able to provide you with this information.

**NOMINAL INTEREST RATE:** **PER CENT**

**4**

Given the frequency with which interest on the account is paid (from Q.1), use *Table A* to convert the nominal interest rate on the account (Q.3) to an effective rate of interest. Some banks may already supply details of the effective rate of interest for your account. The effective rate of interest is the nominal interest rate adjusted for the effect of compounding, i.e. interest on interest, and is higher where interest is paid more frequently.

**Example:** interest is paid monthly (Q.1), nominal interest rate (Q.3) is 5%, therefore effective interest rate is 5.1162%.

**EFFECTIVE INTEREST RATE:** **PER CENT**

### TABLE A

| NOMINAL INTEREST RATE P.A. (%) | EFFECTIVE INTEREST RATE P.A. IF INTEREST IS PAID | | | |
|---|---|---|---|---|
| | MONTHLY (%) | QUARTERLY (%) | HALF-YRLY (%) | YEARLY (%) |
| 2.00 | 2.0184 | 2.0151 | 2.0100 | 2.0000 |
| 2.25 | 2.2733 | 2.2691 | 2.2627 | 2.2500 |
| 2.50 | 2.5288 | 2.5235 | 2.5156 | 2.5000 |
| 2.75 | 2.7849 | 2.7785 | 2.7689 | 2.7500 |
| 3.00 | 3.0416 | 3.0339 | 3.0225 | 3.0000 |
| 3.25 | 3.2989 | 3.2898 | 3.2764 | 3.2500 |
| 3.50 | 3.5567 | 3.5462 | 3.5306 | 3.5000 |
| 3.75 | 3.8151 | 3.8031 | 3.7852 | 3.7500 |
| 4.00 | 4.0742 | 4.0604 | 4.0400 | 4.0000 |
| 4.25 | 4.3338 | 4.3182 | 4.2952 | 4.2500 |
| 4.50 | 4.5940 | 4.5765 | 4.5506 | 4.5000 |
| 4.75 | 4.8548 | 4.8555 | 4.8064 | 4.7500 |
| 5.00 | 5.1162 | 5.0945 | 5.0625 | 5.0000 |
| 5.25 | 5.3782 | 5.3543 | 5.3189 | 5.2500 |
| 5.50 | 5.6408 | 5.6145 | 5.5756 | 5.5000 |
| 5.75 | 5.9040 | 5.8752 | 5.8327 | 5.7500 |
| 6.00 | 6.1678 | 6.1364 | 6.0900 | 6.0000 |
| 6.25 | 6.4322 | 6.3980 | 6.3477 | 6.2500 |
| 6.50 | 6.6972 | 6.6602 | 6.6056 | 6.5000 |
| 6.75 | 6.9628 | 6.9228 | 6.8639 | 6.7500 |
| 7.00 | 7.2290 | 7.1859 | 7.1225 | 7.0000 |
| 7.25 | 7.4958 | 7.4495 | 7.3814 | 7.2500 |
| 7.50 | 7.7633 | 7.7136 | 7.6406 | 7.5000 |
| 7.75 | 8.0313 | 7.9782 | 7.9002 | 7.7500 |
| 8.00 | 8.3000 | 8.2432 | 8.1600 | 8.0000 |
| 8.25 | 8.5692 | 8.5088 | 8.4202 | 8.2500 |
| 8.50 | 8.8391 | 8.7748 | 8.6806 | 8.5000 |
| 8.75 | 9.1096 | 9.0413 | 8.9414 | 8.7500 |
| 9.00 | 9.3807 | 9.3083 | 9.2025 | 9.0000 |
| 9.25 | 9.6524 | 9.5758 | 9.4639 | 9.2500 |
| 9.50 | 9.9248 | 9.8438 | 9.7256 | 9.5000 |
| 9.75 | 10.1977 | 10.1123 | 9.9877 | 9.7500 |
| 10.00 | 10.4713 | 10.3813 | 10.2500 | 10.0000 |

**5**

Calculate the approximate dollar value of your annual interest earnings by multiplying the average balance (*either* monthly or daily) on which interest is paid (from Q.2) by the effective interest rate (from Q.4) divided by 100. Put this answer in Box A.

**Example:** The account you are considering calculates interest on the daily balance (Q.1) and is paid monthly (Q.1). Your daily balance (Q.2) is, say, \$150.00. Effective interest rate (Q.4) is 5.1162%. Therefore, the approximate dollar value of your annual interest earnings is $\$150.00 \times \frac{5.1162}{100} = \$7.67$ per annum.

**APPROXIMATE VALUE OF ANNUAL INTEREST EARNINGS:** $

## FEES NOT RELATED TO TRANSACTIONS

**6**

Does the bank charge any fees not related to the number of transactions (e.g. deposits/withdrawals) you make? Such fees may be referred to as Account Keeping, Maintenance, Service or non-transaction based fees.

If **YES**, how much is the fee and how often is it charged?

**ACCOUNT KEEPING, MAINTENANCE OR SERVICE FEE:** $ **PER**

If **NO**, go to Q.7 and place a zero in Box B, then go to Q.8.

**7**

Based on your likely average minimum monthly or average daily balance (from Q.2), and taking into account any exemption from fees that may exist when the balance is held above a certain amount, will you be charged any Account Keeping, Maintenance, Service or other non-transaction based fees?
If **YES**, how much will you pay per annum? Put your answer in Box B.

If **NO**, place a zero in Box B.

**ACCOUNT KEEPING, MAINTENANCE OR SERVICE FEES PER ANNUM:** $

## FEES RELATED TO TRANSACTIONS

**8**

Does the bank charge you for making transactions on this account? Ignore any Government charges.

If **NO**, go to *Table B* and place a zero in Box C, then go to Q.11.

If **YES**, place in the *second column* of *Table B* the number of transactions you expect to make in a month. (Keep in mind that this brochure does not cover transactions associated with purchases of goods on credit cards or any cheques written on an overdraft facility attached to an account.)

Add up the number of transactions to give a total and place the number at the bottom of the column.

In the *fifth column* place the charge per transaction which the bank makes (if applicable).

**9**

Does the bank not charge its transaction fees if the account balance remains above a certain amount and/or your total number of transactions remains below a certain number per month?

If **NO**, go to Q.10.

If **YES**, and you meet the bank's requirements with regard to required balance and/or the total number of transactions, place a zero in Box C in *Table B*, and go to Q.11.

If **YES**, and you *do not* meet the bank's requirements with regard to required balance and/or total number of transactions, go to Q.10.

**10**

Some types of transactions may be allowed free and the number of free transactions may vary with your account balance and number of transactions you make.

Does the bank allow you any free transactions?

If **YES**, fill in the *third column of Table B*, spreading the total number of free transactions so as to offset your expected transactions (listed in the *second column*). Complete the rest of the table and go to Q.11.

If **NO**, place zeros in the third column of *Table B*, complete *Table B*, then go to Q.11

## TABLE B: TRANSACTION COSTS

| (1) TRANSACTION TYPE | (2) LIKELY NUMBER OF TRANSACTIONS PER MONTH Q.8 | | (3) NUMBER OF FREE TRANSACTIONS ALLOWED PER MONTH from your bank Q.10 | | (4) NUMBER OF CHARGEABLE TRANSACTIONS PER MONTH | | (5) CHARGE PER TRANSACTION (IF APPLICABLE) ($) from your bank Q.8 | | (6) MONTHLY CHARGE ($) | | (7) ANNUAL CHARGE ($) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Over the Counter Cheque Deposit | | - | | = | | X | | = | | X 12 = | |
| ATM Cheque Deposit *(does not include cheques written on an overdraft)* | | - | | = | | X | | = | | X 12 = | |
| Direct Entry Deposit *(eg salary)* | | - | | = | | X | | = | | X 12 = | |
| Other Deposit *(cash)* | | - | | = | | X | | = | | X 12 = | |
| Personal Cheque Written | | - | | = | | X | | = | | X 12 = | |
| Over the Counter Withdrawal | | - | | = | | X | | = | | X 12 = | |
| ATM Withdrawal | | - | | = | | X | | = | | X 12 = | |
| Direct Debit *(eg loan repayments, cash via EFTPOS)* | | - | | = | | X | | = | | X 12 = | |
| **TOTAL** | | | | | | | **TOTAL ANNUAL TRANSACTION CHARGES** (ADD ALL FIGURES IN LAST COLUMN) | | **C** | | $ |

## 11

Now, taking the results in Boxes A, B, and C, place these numbers in the boxes below and calculate the answers for Boxes D and E:

**B** $ ______ + **C** $ ______ = **D** $ ______

**ANNUAL ACCOUNT KEEPING FEES** | **ANNUAL TRANSACTION CHARGES** | **TOTAL ANNUAL FEES**

$ ______ - **D** $ ______ = **E** $ ______

**APPROXIMATE VALUE OF ANNUAL INTEREST EARNINGS** | **TOTAL ANNUAL FEES** | **TOTAL INCOME EARNED ON YOUR ACCOUNT**

The result in Box E is your estimate of the total income (or cost, if the answer is a negative one) of operating the account for the year, based on your banking habits.

**By carrying out this assessment on different savings accounts from different banks, you can compare those savings accounts.**

# AN IMPORTANT MESSAGE

In order to keep this task as simple as possible, this brochure has focused on *the most frequent types of transactions on savings accounts.*

The *other transactions which may be charged for are:*

- international payments
- requesting bank cheques
- using ATMs of other banks
- requesting special clearances or answers on cheques
- requesting extra copies of statements
- stopping payments on cheques
- making EFTPOS transactions
- having deposited cheques dishonoured or passing cheques that your bank will be required to dishonour

Bank charges for the above transactions will vary. If you find that your transactions include any of these, then you will need to take account of them when completing this brochure. Some banks also have exemptions from fees if you purchase other products (eg home loans) and you should check with the bank on this.

The questionnaire calculates the annual net interest earned from an account assuming that your average balance and your levels of transactions are constant. The results will not be accurate if your balances, or your usage patterns, vary significantly from month to month.

It's important to note that government charges are not considered here. These generally apply to all bank accounts, although some banks absorb these for certain customers or certain products. Banks will be able to provide you with further information on government charges that apply to accounts.

# QUICK TIPS

1

*Monitor your banking habits, and you'll bank the benefits.*

2

*Consider the number of transactions you make each month.*
*Can you reduce these? If you can, this may save you money.*

3

*Know the minimum balance requirements for your account.*
*Keep a check on these to save costs.*

4

*Retain documentation of all transactions –*
*this will make it easier to monitor your banking habits.*

5

*Read the information about your account to ensure*
*you understand its operation.*
*If you are unclear on any matters ask your bank to explain.*

AUSTRALIAN BANKERS' ASSOCIATION

*For additional copies of this brochure contact:*
*Australian Bankers' Association*
*42nd floor, 55 Collins Street, Melbourne 3000*
*Telephone toll free (008) 033 652*

# APPENDIX EIGHT

## FIXED INTEREST RATE FUNDED LENDING

### Prepayment Formula

The following formula, which is actuarially based, is complex but examples can be obtained on request.

<u>Formula for full and partial prepayments of loans approved from 28/07/91</u>

The following symbols define the data required for the calculations:

B = Balance of principal outstanding at prepayment date. Do not include accrued interest.
A = Accrued interest outstanding to prepayment date.
K = Normal regular instalment.
q = Frequency of regular instalments per annum.
F = Final instalment. If F is not known then let F equal K.
IA = Fixed Term Loan Rate of Interest per annum expressed as a percentage.
PA = Prepayment Rate of Interest per annum expressed as a percentage.
c = Frequency of interest charging cycle per annum.
n = Number of instalment cycle dates to the end of the Fixed Rate Periods. Do not include the prepayment date if prepayment is being made on an instalment cycle date. Include the loan maturity date if the loan matures on or within the Fixed Rate Period. Include the end of the Fixed Rate Period date only if it is an instalment cycle date.
f = Number of days from the instalment cycle date immediately prior to the prepayment date through to the prepayment date.
d = Number of days from the instalment cycle date immediately prior to the prepayment date through to the following instalment cycle date.

If the prepayment is being made on an instalment cycle date, then let:
f = 0,
B = Balance after adding any accrued interest to the prepayment date and deducting the regular instalment now due, and
A = 0.

The restrictions required to make the use of this formula valid are that:
[a] Interest be charged on a normal interest payment date. Hence the frequency of the interest and normal payment cycles must be identical so that c = q, and
[b] The end of the Fixed Rate Period must fall on an instalment cycle date so that s = 0.

Source of data
The above data can be directly extracted or calculated from computer files.

## FIXED INTEREST RATE FUNDED LENDING

### Prepayment Formula

**Interpretation of values calculated**
The following symbols define the results of the six values calculated:

- i = Effective Fixed Term Loan Interest Rate per instalment cycle expressed as a decimal.
- L = Notional value of principal and interest owing at instalment cycle date prior to the prepayment date.
- m = Number of instalment cycle dates to the end of the Fixed Rate Period given that the maturity date is defined as the end of the Fixed Rate Period.
- R = Expected notional Residual as at the end of the Fixed Rate Period, if only the normal regular instalments were to be paid each instalment cycle date.
- E = Effective Prepayment Interest Rate per instalment cycle expressed as a decimal.
- P = Premium required if loan is fully prepaid.

Six calculations are required to determine P, the Premium required when a loan is fully prepaid:

1. Calculate i
$$i = \frac{IA}{c \times 100}$$

2. Calculate L
$$L = \frac{B + A}{1 + \frac{f \times IA}{36500}}$$

3. Calculate m
If L x i is greater then or equal to K then m = n otherwise let
$$m = \text{the lesser of } n \text{ or } \frac{\log\left\{\frac{K - [F - K] \times i}{K - L \times i}\right\}}{\log(1 + i)}$$
If m is not a whole number, then round m up to the next whole number.

Note: If F is not known, then assume F equals K.

4. Calculate R
$$R = \left(L - \frac{K}{i}\right) \times (1 + i)^m + \frac{K}{i}$$
Note: R may be a negative number

5. Calculate E
$$E = \frac{PA}{c \times 100}$$

6. Calculate P
$$P = \left\{1 + \frac{f \times PA}{36500}\right\} \times \left\{\frac{K}{E} + \left[R - \frac{K}{E}\right] \times \left[\frac{1}{1+E}\right]^m\right\} - (B + A)$$

FIXED INTEREST RATE FUNDED LENDING

## Prepayment Formula

If P is positive then P is the Premium required to be paid to the bank by the client. If P is negative then the positive value of P is the amount to be paid to the client by the bank.

### Partial Prepayments

Where a loan is partially prepaid, the calculation will need to be repeated for the loan remaining. The net Premium is then the difference between the initial Premium and the subsequently calculated Premium.

For the subsequent loan calculations, B will be the balance after the prepayment. Further it is possible that the loan may be restructured so that any or all of K, F and n could also be changed.

When the loan is restructured, i (interest rate is fixed) and c (frequency of interest charging cycle) would not change.

# Fixed interest *rates* explanatory handout

This handout has been produced to assist you in the better understanding of Fixed Interest Rate Loans & Fixed Rate Commercial Bills.



Fixed Interest Rates

## Fixed Interest Rate Loans/Fixed Rate Commercial Bill Lines

*Because fixed interest rate borrowing is not a common form of finance, many customers are not totally familiar with its features.*

*It is essential that you, as a prospective borrower, be aware of the risk involved in fixed interest rate financing.*

*Should interest rates fall during the term of the facility and you decide to prepay the loan before its term expires then you may incur a substantial cost.*

*It is therefore advisable to seek expert advice on all aspects of fixed rate financing and prepayment before making the commitment.*

## Agreement on terms and conditions

A fixed interest rate arrangement is a contractual agreement between you and the bank and includes:

- ☐ amount of the facility
- ☐ base interest rate which is fixed for a specified period
- ☐ repayment arrangements
- ☐ purpose e.g. owner occupied housing loan
- ☐ early termination provisions

## What is a Fixed Interest Rate Loan?

It is a loan where the **base interest rate is fixed** (stays the same) **for an agreed period.**

The fixed interest rate period may be different from the overall loan term e.g. for housing loans, the overall loan term can be up to 30 years, but the fixed interest rate periods are for a maximum of 5 years.

At the end of the fixed interest rate period the options are (subject to original terms and conditions of approval):

- ☐ fix the interest rate for another period at the rate then available (minimum loan balance condition applies)
- ☐ switch to a variable interest rate
- ☐ reduce amount of loan
- ☐ repay the loan

Some fixed interest rate facilities have only their base rate fixed. The margin above the base rate can be variable, and could change from time to time due to a change in perceived customer risk.

## What is a Fixed Rate Commercial Bill Line?

A Commercial Bill Line is an alternative to other forms of bank finance. It involves the use of a commercial bill, drawn by the customer and accepted by the bank.

With a Fixed Rate Commercial Bill Line the bank quotes a fixed rate for a fixed period — maximum term 5 years.

At the end of this period the options are (subject to original terms and conditions of approval):

- ☐ fix the rate for another period (minimum amount $100 000)
- ☐ roll over to a variable rate on a 30 day basis (or longer if preferred)
- ☐ reduce amount of bill line (minimum amounts apply)
- ☐ repay bill line in full

## Locking in your fixed interest rate

For Housing Loans and Investment Property Loans, the fixed interest rate quoted is guaranteed for 14 days from the date of the bank's letter to you setting out the terms and conditions of the loan. Please ensure you return this letter within 14 days.

Drawing of your Housing or Investment Property Loan must then take place within 90 days of your acceptance of the terms and conditions otherwise a new interest rate may need to be quoted. Should rates fall and you do not draw the loan you may incur a cost.

For other types of fixed rate facilities the interest rate quotations are indicative only until such time as documentation is complete and drawing date known.

Loans drawn in instalments (e.g. building advances or progressive/sequential purchases from the one loan) can not be locked into a fixed interest rate until the loan is fully drawn. In the meantime, the appropriate variable interest rate will apply.

## What is the best type of facility – fixed or variable?

The answer depends upon your individual financial circumstances and your opinion on probable interest rate movements in the future. There are risks involved, and factors you should consider include:

***Predicting future interest rate movements***

No-one can accurately forecast future interest rates. However, there are a number of sources of information that may assist you in coming to your own conclusions. These include economic papers produced by the government, the Reserve Bank, and comment by economic writers in the newspapers. Westpac branch staff are not at liberty to advise you on possible future interest rate movements.

***Falling interest rates***

If you consider that interest rates will fall during your proposed fixed interest rate period, then a variable interest rate facililty may be your preferred option.

***Rising interest rates***

If you consider that interest rates will rise during this period, then the fixed interest rate facility may be your preferred option.

***Final decision***

The end result of these considerations is your decision on which option is best for you. You should discuss your decision with your accountant or financial adviser.

***Did you make a good decision?***

It will be only at the **end** of the fixed interest rate period, when you know what the variable interest rates were during that period, that you can really make a judgement.

## What are the advantages of fixed rate borrowing?

Your interest rate is fixed for the chosen period, during which time you are unaffected by interest rate increases. Because repayments are a known cost you can therefore budget more effectively.

## What are the disadvantages of fixed rate borrowing?

Interest rates can fall leaving you to continue paying the agreed fixed interest rate throughout the fixed interest rate period.

## Switching Fee

A switching fee is designed to cover the bank's **administrative** costs for changing a facility to another type, but it does not apply to changes made at the end of a fixed interest rate period.

The switching fee (which does not cover differences in interest rates) applies when the following changes are made during currency of the contract:

- ☐ fixed interest rate to a variable interest rate
- ☐ fixed interest rate to another fixed interest rate
- ☐ variable interest rate to a fixed interest rate

This switching fee will be in addition to any prepayment costs that may be incurred in breaking the contract.

## Prepaying your fixed interest rate borrowing

'Prepayment' can be simply defined as a repayment outside the terms of the original contract agreement, or a switch to a variable interest rate facility or another fixed interest rate facility before the expiry of the current fixed rate period.

Such a change to your contracted conditions may result in a cost or benefit to you.

When the bank agrees to provide you with a fixed interest rate facility, it agrees to receive a fixed rate of interest from you for a given period of time on given dates. To manage the difference between the fixed and floating rates the bank enters into other arrangements to pay a fixed rate of interest, a function called a 'hedge'. This is not done on a one-to-one ratio but on a managed portfolio basis. These arrangements are entered into on the basis that you will fulfil all your obligations for the full term of your fixed rate contract.

If your contract is terminated prior to the expiry of the full term, the bank is left with the obligations of the hedge arrangement. If interest rates have fallen then we can reverse those hedge arrangements (or transact a hedge against your termination) only at a rate lower than your original rate agreed, leading to a cost for the bank. If this happens, we must pass this cost on to you. The rate at which we can hedge your termination or reverse our original hedge arrangements is known as the 'prepayment rate'.

A payment will need to be made **by you to the bank** where the prepayment rate is **lower** than the contracted interest rate paid by you. In this instance the bank is recovering from you any cost it may have incurred in reversing the original hedge arrangement or hedging your termination.

Conversely, a payment will be made **to you by the bank** where the prepayment rate is **higher** than the contracted interest rate paid by you. Thus the bank is passing on to you any benefit it may have received in reversing the original hedge arrangement or hedging your termination.

## Prepayment Formula

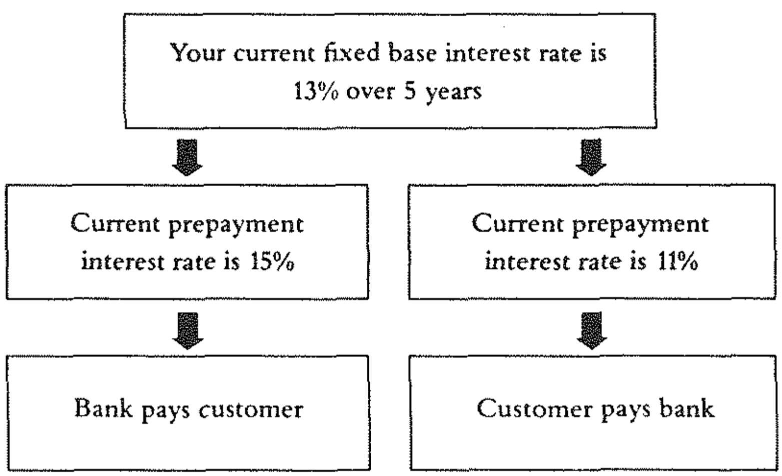
The prepayment formula is actuarially based and takes into account the following factors:

- ☐ the current prepayment rate (for the remaining period of your loan)
- ☐ the fixed base interest rate on your loan
- ☐ the repayment basis of your loan
- ☐ the remaining fixed interest period of your loan
- ☐ the outstanding balance and accrued interest at time of prepayment

A copy of the loan prepayment formula is available on request but as it is complex you may need to contact a financial expert or actuary for clarification.

This formula is used for term loans, a separate methodology is employed for the prepayment of fixed rate commercial bills. Further details are available on request.

The following diagram is indicative and for explanation purposes only. It may help you to understand how the prepayment formula generally works:



## Actual prepayment quote example:

For a prepayment of $10 000 on a five year principal and interest term loan of $100 000.

| | |
|---|---|
| Initial principal | $100 000 |
| Total term | 25 years |
| Fixed term | 5 years |
| Prepayment amount | $10 000 |

| Actual Loan Rate | Original Repayments | Current Prepayment Rate | Years remaining | Outstanding balance | Prepayment Quote | New Repayments |
|---|---|---|---|---|---|---|
| | | | | | Bank Pays | |
| 17% | $1437.80 | 19% | 3 | $99 085 | $425.76 | $1288.58 |
| 17% | $1437.80 | 20% | 3 | $99 085 | $630.17 | $1288.58 |
| 15% | $1280.83 | 16% | 2 | $98 053 | $159.06 | $1143.72 |
| 15% | $1280.83 | 19% | 2 | $98 053 | $618.47 | $1143.72 |
| 13% | $1127.84 | 15% | 1 | $97 219 | $177.01 | $1011.83 |
| 13% | $1127.84 | 16% | 1 | $97 219 | $264.15 | $1011.83 |
| | | | | | Customer Pays | |
| 17% | $1437.80 | 15% | 3 | $99 085 | $449.48 | $1288.58 |
| 17% | $1437.80 | 14% | 3 | $99 085 | $683.55 | $1288.58 |
| 15% | $1280.83 | 14% | 2 | $98 053 | $162.12 | $1143.72 |
| 15% | $1280.83 | 11% | 2 | $98 053 | $667.49 | $1143.72 |
| 13% | $1127.84 | 11% | 1 | $97 219 | $180.71 | $1011.83 |
| 13% | $1127.84 | 10% | 1 | $97 219 | $272.47 | $1011.83 |

Notes:

- ☐ Prepayments are calculated on the basis that repayments alter and maturity date remains constant.
- ☐ Example is case specific and no further conclusions may be drawn.

Ask your manager if you have reservations that this handout, or sections of it, are not relevant to your borrowing proposal.

*Australia's first bank*

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