Submission to the Inquiry into Competition in the Australian Financial System

Introduction

ING Bank Australia Ltd trading as ING considers increasing competition in the Australian Financial System as fundamental for achieving better outcomes for customers. ING plays a significant role in the competitive landscape in Australia by providing a scale banking alternative to customers in a highly concentrated banking market. The major banks hold between 80% - 85% of market share depending on definitions and concentration has increased significantly over the past decade.

While ING supports the submission made by the Australian Bankers Association (ABA) and is also supportive of the submission made by regional banks (***Levelling the Playing field in Retail Banking – Regional Banks)*** ING wants to emphasise the importance of customer choice in furthering competition.

ING believes true competition is driven by customers having easy access to differentiated banking experiences, products and services. True competition comes when customers have control over their finances and can move and switch with ease.
In summary, competition will flourish where there is:

1. Customer choice
2. Customer control
3. Bank transparency
4. Open platforms

By **customer choice** we mean:

- Easy switching – taking the effort out of the switching process for customers will drive competition and innovation.
- Easy banking – taking the friction out of everyday banking to ensure customers are engaged in managing their finances.
- Genuine alternatives – real options for customers rather than a proliferation of commoditised products and services.
- Lower cost products and services delivered through evolving digital processes.

We believe customers want more **control:**

- Customer demand is changing at a rapid pace influenced by their broader digital experience outside of the banking sector. Customers are increasingly demanding 24/7 availability, mobility, simplicity and portability from their financial services provider or through their channel or platform of choice.

- Customer discontent with banks is partly based on a feeling of a lack of control. Our internal research shows customers want more control of their finances and are looking for ways to gain that control. We believe control can be delivered through financial literacy (improving understanding of finances), enabling choice and providing the necessary technology to make end to end processes easy.

Banks need to be more **transparent:**

- Explanations of terms and conditions should be clear, readable and easily understood
- Benefits and costs should be front and centre.

By **Open Platforms** we mean:

- Giving customers the option of aggregating personal and financial information in one place. We believe that traditional financial institutions could be disintermediated from their customers who will ultimately choose to do their banking in their platform of choice. This will occur when we give customers platform options that offer the best customer experience, not those who maintain control by making moving to an alternative difficult.
- Partnering with fintechs to ensure faster innovation
- Banks do not need to be the manufacturer of the product or service to offer it to customers if its right for them

1. Promoting Competition:

Competition will thrive when informed customers can and, do easily switch between alternative products and services. It is a fact that Australians don't switch banks readily. It is still too hard and there has not been the will to date to make it easier.

The following attributes we believe are essential:

a. Reducing customer effort (e.g. account switching, online identification, real time payment system and e-conveyancing)

b. Enhancing customer scrutiny (e.g. simplifying product disclosure and increasing financial literacy)

c. Only a 'necessary and sufficient' compliance burden (since the cost of compliance is ultimately borne by the customer)

d. Facilitating distribution through unconflicted channels. (e.g. distribution through independent mortgage brokers rather than tied branches)

e. Empowering customers by allowing them to be in control of their own data

1a Reducing customer effort:

1a(i) Account switching:

The current Account Switching Package in Australia requires too much customer effort and has not delivered a 'real choice' to the customer. In the 11-month period from its inception on 1 July 2012, Treasury has reported only 15,500[1] people switched accounts using the account switching package. For the past 6 years (2011-2017) the number of people switching banks in Australia has flat lined at 8% of the bankable population[2].
There has been progress in simplifying the switching process in other jurisdictions and we believe Australia could learn from their experience.

- In the **UK**, the Payments Council launched a new automated account switching service in September 2013 called the 'Current Account Switch Service'. The service sets a standard service level for those switching providers. The free service allows a customer to use their old card right up until the nominated switch date. On that date all direct credits/debits are switched over and the old account is closed. Customers are provided with a guarantee that they will receive a refund if they are disadvantaged as a result of a bank making a mistake with the switching process. Progress in the UK has been very encouraging with more than 300,000[3] accounts switched since the launch from September 2013 until the end of December 2013. The rate of switching increased by 17%[4] in January 2014 compared to January 2013.
- **Sweden** has implemented a hybrid system using a unique customer number *('bankgiro number')* that points to the equivalent of a customer's BSB and account number. While the actual BSB and account number is not portable, the *bankgiro* number is portable and can be used to remit and receive payments.
- The **Netherlands** has simplified the switching process. The customer fills out a single form and sends it to the new bank. The new bank processes the form and through a third party payments provider (Equens) the switch is made. All traffic is redirected via "Equens" to the new bank account number for the next 13 months.

In all three of these instances, Government and regulators have proactively intervened to ensure the process is simplified for the customer. Regulators and governments in these jurisdictions clearly believe an effective switching mechanism is a driver of competition.

1a (ii) Online verification of identification:

Online verification is a foundation for giving Australians simple and easy access to financial services.
ING created a new category in banking by introducing Australia's first high interest online savings account, the Savings Maximiser, in 1999. We demonstrated that it is possible to have an interactive banking relationship with customers without branches. Efficient digital delivery of banking services, however, is reliant on effective and robust electronic verification of customers.

Remaining electronic verification issues include:

- Customers still need to verify themselves with each individual financial institution that they deal with. This means they repeat verification steps multiple times across providers, which is a barrier for switching.
- The lack of access to data to verify non-personal customers such as Trusts, Partnerships, Associations, Cooperatives and other entity types. Currently financial institutions cannot electronically verify these entities nor access data needed to verify such entities under the Anti-Money Laundering and Counter-Terrorism Financing Act.

We believe customer verification can be made simpler in order to enable easier switching while meeting “knowing our customer” risk requirements

- Customers (both individual and entity) being able to establish identity once using a trusted centre which financial institutions could then leverage rather than expecting the customer to repeat the same procedures. The customer would establish identity once and be in control over which organisations could access that data.
- The same process could be used to identify entities reliance on the Trust Deed.

1a (iii) Real time payment system:

Today the Reserve Bank of Australia and a number of participating institutions including ING are in the process of implementing a New Payments Platform which will provide real-time payments capability including real-time settlement and payments to a “Pay ID” such as a mobile number, e-mail address or Australian Business Number. This is the first step in creating an innovative payment experience for customers. The Platform is designed to enable “overlay services” to be developed on top of the basic infrastructure which would enable new entrants to leverage the Platform in the future.

In order for the New Payments Platform to be further maximised to increase competition, we believe the industry should not only credit or push payments over the system, but also enable debit or pull payments to be initiated. ING believes that once pull or debit payments are available using the platform, customers will be able to more easily switch their bank account. By connecting all payments to a PayID, a customer would be able to move their PayID from financial institution to financial institution taking all payment arrangements at the same time without having to contact multiple third parties to update details. This coupled with easier customer identification and verification (see above) will truly enable simple and easy switching by customers.

Further, control can be enhanced by Australia adopting a similar arrangement to that which has been mandated across Europe through the Second Payment Services Directive (PSDII.)

1a (iv) Electronic conveyancing:

Australia has been working on introducing a national e-conveyancing scheme for more than six years. It will provide customers with cost efficiency. Unfortunately the fragmented state legislative process in Australia is delaying the process with no completion date in sight. The deadlock will only be broken by the intervention of a national regulatory framework.

ING How banking can be

1 (b) Enhancing customer scrutiny:

Market discipline entails customers freely electing to bank with an institution that provides products and services suited to their needs. Our research shows, for example, that customers want control over their finances and we believe control is delivered by way of easy access to products and services. We believe an efficient market results from customers gravitating to those that best address their needs. Those that do this less well will suffer a loss of business. This customer sanction is a viable alternative to some complicated and intrusive regulation. Indeed there is evidence that more intrusive regulation has unintended consequences by removing customer responsibility which in turn diminishes control and increases system costs.

We believe the following are examples of inefficient regulation:

- The Product Disclosure Statement (PDS) – The objective of a PDS is to disclose the key features of products. It should be simple to understand. Prescriptive regulatory measures mean documents can be difficult to read. They 'tick the regulatory box' but can be overlooked by the customer. The recent Shorter PDS Regime legislative changes, designed to reduce the length of a PDS, have not been as useful as expected.
- Disclaimers – To ensure compliance with the various pieces of legislation such as the Corporations Act, National Consumer Credit Protection Act etc, each advertisement now requires long, complex disclaimers simply ignored by most customers.

1 (c) Only a 'necessary and sufficient' compliance burden:

ING acknowledges the importance of regulation, however it is essential that:

- **It is kept simple** - clear policy intent for regulation is agreed on at the very outset and not changed during the drafting of the law to avoid confusion and increased compliance costs.
- **It is not rushed** - care to be exercised to ensure that consumers are not potentially pushed into hybrid type lending tools to finance their projects.
- **It must come after meaningful consultation**
- **It must consider unintended consequences including cost**
- **It must apply uniformly across producers** – banks, superannuation and other finance service providers.

1 (d) Ensuring vertical integration doesn't hinder customer choice

Market discipline can and should operate within financial institutions. A vertically integrated oligopoly is unlikely to be as cost effective as an institution which operates without conflict. ING, for example, leverages a network of independent mortgage brokers and financial planners since we judge this to be a more cost effective way to access the market. This is no different from the decision of others to outsource certain activities to access higher quality capabilities than are available internally and/ or economies of scale and scope.

1 (e) Empowering customers by allowing them to be in control of their own data:

Customer control can be enhanced by Australia adopting a similar arrangement to that which has been mandated across Europe through the second Payment Services Directive (PSDII.) Key features such as Account Information Services and Payment Initiation Services enable customers to control who can access their information and who can execute transactions on their behalf. Enabling this will create an open banking environment which empowers the customer to decide.

ING supports a move to a similar type of arrangement in Australia as it will empower customers to decide on which platform they chose to interact. We such a system can be introduced safely with appropriate customer authentication controls.

Summary

At ING Australia, we believe that improving the financial services sector, and encouraging competition in the marketplace, will be natural outcomes of making it easier for the customer to do their banking.

We know from our research that customers are developing an appetite for taking control of their finances. They want to be able to do their banking in a simple and straightforward manner – and it's up to the industry to help them do so. Making it easier for customers to switch bank accounts is one aspect of this. If customers refuse to accept the status quo and are empowered to seek a better deal, this will force banks to act on customers' dissatisfaction – become more innovative in the way they do things; create a better value proposition for their customers and thus stimulate further competition.

We have deliberately focused our submission on the customer and left the wider discussion about the future of financial services to the Australian Bankers Association of which we are a member.

We thank the Commission for prioritising this Inquiry. Should you require any further information please do not hesitate to contact David Breen

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Sources

[1] **APCA report –** page 13 http://apca.com.au/docs/annual-reviews/apca-annual-review-2013.pdf
[2] **RFI Payments Study** – Nov 2017
[3]**Current Account Switch Service**, Quarterly Dashboard.UK Payments Council. http://www.paymentscouncil.org.uk/files/quarterly_dashboard_-_16_jan_14.pdf
[4]**UK Payments Council** Press release January 2014 http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/2798/
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