

A Consumer Plan for Australian Banking

Consumer Action's recommendations for increasing banking competition made to the last parliamentary inquiry – by the House of Representatives Economics Committee in 2008 – still stand.

There are many potential measures that could help consumers drive competition in the banking industry by identifying, choosing and switching to the best deals – creating an incentive for banks and non-bank competitors to provide better deals to attract consumers.

The main barriers to consumers being able to drive competition are what we call search costs and switching costs.

To overcome these, we recommend the following six measures be introduced:

Bank account switching

Removing the cumbersome process currently required to switch bank accounts would help drive competition. The current system acts as a barrier to switching and research shows that if it is hard to switch, the market has oligopoly or even monopoly level prices.

1. End the failed experiment of giving the industry association (the Australian Payments Clearing Association - APCA) the responsibility for delivering a bank account switching service and have the Australian Government develop an effective scheme that would allow bank account portability – consumers would own their bank account numbers and can switch or “port” them to a different banking institution without having to set up a new account with new credit and debit instructions.

Mortgage exit fees

High mortgage early exit fees on variable rate mortgages also act as a barrier to consumers switching mortgages.

ASIC will be able to take action under the new national Consumer Credit laws and Unfair Contract Terms laws to tackle unconscionable or unfair fees respectively, but more can be done to stop unfairly high mortgage exit fees.

2. Follow the UK lead by making sure early exit fees are always disclosed upfront using easy to understand cash amounts (not just complex formulas) and make all institutions call the fee by the same name so that consumers can shop around and easily compare products.
3. Be more specific in the national Consumer Credit laws that only costs **directly related** to **early** termination can be recovered in an early exit fee. Direct costs would include the costs of giving effect to an *early* exit, but not merely costs associated with ending a contract generally.
4. Clarify that “deferred establishment fees” are simply a form of early exit fee – otherwise they will become the huge loophole used by lenders to keep charging consumers to switch mortgages.

Getting rid of unfairly high early exit fees may shift some costs back into establishment fees, but if these are legitimate costs this is a good outcome for Australian consumers. It means consumers will be better able to evaluate the true cost of their mortgage upfront

and that puts a lot more competitive pressure on lenders to keep these fees down than when they are back-ended into early exit fees.

Many consumers are fooled into thinking that they won't pay the fee because it is only for an "early" exit, but the average Australian mortgage is refinanced within 3 years meaning most people will pay an early exit fee that's in place for the first 3-5 years of the loan.

The practice of shifting these costs into back-end and "contingent" fees also acts as a deterrent to consumers to change lenders even if they find a better deal and therefore reduces competition.

Better information – simplified disclosure

When consumers can't easily find information about different products and compare different deals, that makes it difficult for consumers to choose the best option for their circumstances and this dampens competition.

Research shows there is an incentive for industry to increase these "search costs" – namely, make it harder for consumers to find and compare deals, by making products as well as disclosure documents more complex – that way, consumers can't shop around for the best deals and they won't switch.

5. Introduce one-page, standardised. Financial Summary Tables for loan products (sometimes called a Schumer box) – that consumers are given *before* applying for a product (not just with their contract) – so that consumers can easily understand key terms and features of banking products and use the Tables to compare deals and choose the best deal for them.

This measure should be progressed as part of the COAG agreement for "Phase 2" of the national consumer credit reforms.

Watch the market better

Australia keeps having public debates and parliamentary inquiries into banking competition (as well as competition in other industries) that have led to very few tangible improvements for consumers. It's time we followed the UK's lead and set up a permanent way that our regulators can initiate more sophisticated investigations of problems in Australian markets and come up with cleverer and more targeted solutions.

6. Introduce market studies and investigations powers into Australia's national competition and consumer law framework, based on the model in the UK *Enterprise Act*, that allow our regulators to study specific problems in markets and come up with a broader and better range of solutions.