



Govt urged to copy Europe on bank churn

Suzanne Tindal, ZDNet.com.au on May 10th, 2011 (1 day ago)

The Senate Economics Committee looking into competition within the Australian banking sector has recommended that Australia adopt a system to help customers switch transaction accounts, similar to that in Europe, which falls short of having full deposit account number portability.

In October last year, the Senate tasked the Senate Economics Committee to look into banking competition. In December last year, the government also released a package of measures aimed at increasing competition in banking, including appointing Reserve Bank Governor Bernie Fraser to conduct a feasibility study into the appropriateness of an account number portability system, to report by June this year. The Committee has now tabled a report into its findings, which takes into account the government's December measures.

Consumers and small businesses find it difficult to move between small banks because they would need to inform multiple parties of their new account number, especially as many bills are paid using direct debits, according to the report. However, the committee was told by banks and the Australian Payments Clearing Association that if the problems involved with switching are a barrier to competition, they aren't a big one given the millions of customers that switch every year.

Analysts and banks have also warned that account number portability would involve a prohibitively high transformation cost for banks for a small improvement to competition, especially given the ageing IT infrastructure that they have to deal with.

In 2008, the government announced a package that would require deposit-taking institutions to provide customers with a list of direct debit and credit payments going back 13 months if they wanted to switch; however, according to the report, use of the package has been low, possibly because consumers were unaware of the service or because consumers were unwilling to switch banks during the global financial crisis.

Looking into alternate methods of aiding switches rather than bank account portability, NAB CEO Cameron Clyne had suggested that direct debits could be directed from one banking institution to another. The report noted that the European Union had recently introduced measures where banks have to provide customers with a switching guide to tell them what to do when they switch and, if the customer chooses, the new bank must communicate with the old bank, performing all of the relevant steps for switching, including transferring recurrent payments and informing third parties about the new account details.

Meanwhile, a system in the Netherlands has the new bank ensure that the old bank re-routes direct credits and debits to the new account for 13 months, and notifies third parties of details for future debits.

The Committee recommended that Australia implement a scheme such as these; requiring a bank to reroute all direct debits and credits for 13 months and to provide the new bank details of the debits and credits.

Payment systems

The inquiry also brought claims to the surface from the banks that have a tight hold on the electronic funds transaction system. New entrants have issues with specialising in one aspect of the payments system because the banks are able to cross-subsidise, luring customers to have all their services provided by the one bank, according to a submission from Tyro Payments CEO Jost Stollmann.

The Council of Small Business of Australia also raised the issue of the delay between when funds are debited from a customer's account and when the proceeds are credited to a retailer's account — a process that can take several days for small retailers.

The committee said that retailers' suspicions that banks were gaining from the delays were understandable, although the Reserve Bank told the committee that this wasn't the case. The committee said that it was concerned about the claims that the payments system operated like a closed shop, and said that it believed that new providers of payment, clearing and settlement services would help to accelerate the adoption of new technologies and real-time settlement systems.

It recommended that the government ask the ACCC to look into barriers to competition in the Australian payments system, with

a report to be completed by 2011 on necessary legislative reforms.

ATMs

The committee also looked at ATMs, saying that there needed to be a way to encourage companies to keep machines available for indigenous communities located in remote areas, without charging high fees for their use.

It recommended that the government go to tender for a vendor to provide ATMs to those areas with minimal account balance check fees and low withdrawal fees.

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