23 October 2007

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RE: Payments Industry Consultation Paper: Aspects of Account Switching

Dear Arun,

Following please find the submission of ING DIRECT Australia regarding aspects of account switching.

We are of the opinion that the existing system is less than ideal and therefore we would support the introduction of measures to facilitate or enhance the ability of customers to change direct debit and credit arrangements when switching accounts.

Thank you for the opportunity to submit our views.

Q.1: To what extent do you believe direct credit and debit arrangements provide an impediment to account switching in Australia? Please provide as much evidence as you can to support your view.

Between January and October 2007, ING DIRECT Australia has received over 4,300 anonymous responses to online surveys among our customer base. We have also fielded three rounds of focus groups. The objective of this research has been to gauge their feelings on their transaction accounts, and how likely they would be to switch if presented with a competitive offering. Following are several verbatim quotes regarding the prospects of switching:

- I would definitely change apart from the hassle factor of having to change my direct debits etc.

- The procedure to switch accounts would have to be easy, painless and quick in order for me to switch.

- The big issue is always the hassle of changing accounts - that's why I would be hesitant.

- It would take me a lot of time to change direct Debits etc from my current Everyday account. This 'puts me off' making a change to another bank.

- If you offered the service of helping switch everything over to your account, i.e.: switching direct debits, and you can organise a straight swap of a joint account to your organisation (considering we've already gone through the hassle of producing ID for another legitimate bank) I would be 95% certain of switching to you.

As more evidence, according to the Nielsen FICM Report published in June 2007, 10.2% of major bank / main financial institution customers planned to switch[1]. Compare this to the 3.1% estimate of Australian financial institution customers who switch annually (according to page 17 of the Consultation Paper), and clearly there is an impediment.

Thus we agree wholeheartedly that Australians perceive the switching of direct debits ("DD") and direct credits ("DC") to a new account as a 'hassle'. In our opinion, it is clear that direct debits and credits serve the purpose of 'tentacles' for banks to hold onto customers by restricting them from moving to another provider. Of course, this barrier should breed innovation and competition, as new entrants must ensure that new products provide a sufficient amount of value to convince and entice customers to undertake the laborious process of switching.

Even though the process of switching is economically 'free' for customers (i.e. there is no monetary cost to the customer), there is the time, effort and actual process which are of concern. Dissimilar to the evolution of online banking, which has made electronic transactions simple, secure, convenient and paperless, switching of DD and DC still involves soon-becoming-archaic elements like forms, signatures and / or verbal authorisations. Moreover, customers are currently unable to have them changed on an aggregated basis and instead must do them one-by-one, adding to the time required.

Lastly but importantly we have learned through customer research that it is during the switching time period that Australians are likely to experience dishonour fees and in some instances, service interruptions (e.g. utilities), delinquencies/late payment fees (e.g. credit cards), and policy discontinuance (e.g. insurance) due to payments not being received.

Without an easy to access and read list of the DD being deducted from their account, customers have trouble remembering all of them. So after changing the major DD, while they may think the switch is complete, there is a likelihood that they forgot one or two less

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[1] The Nielsen Company, "Financial Institution Customer Monitor [Q2] June 2007", pg. 3.

frequent ones (e.g. toll passes, magazine subscriptions). When these hit the old account and there are insufficient funds (or the account is closed), they are charged dishonour fees ($30 to $50 for each rejection) by their bank, and / or late payment fees by the providers. In worst case, policies are discontinued or service is cut off or even cancelled. It is easy to imagine that through word of mouth, these headaches and the associated potential costs add to the negative perception that account switching has among consumers. To them it is too hard, and the risks outweigh the benefits.

It is important to point out that another aspect of switching is transferring Bpay information to the new account; while these are not DD or DC, this should be considered when evaluating the switching process. As with DD and DC, there is no simple way to transfer biller information other than the customer manually accessing it on one site and entering it themselves on the new site. This adds to the aforementioned negative perception.

So in summary, the current process for account switching is a 'hassle' that comes with a risk of dishonour fees, loss of service / policy coverage and/or penalty fees. This is suitably compelling to unnaturally dissuade customers from switching from one account to a more competitive offering. It is unnatural because a customer may very well want to make the switch, but the entire purchase process is too cumbersome. Compare this with purchasing jeans; if you are not happy with the type or price of jeans at the store you usually shop at, you can easily go to other stores and be wearing their offering in hours. In addition to being simple for the customer, this breeds the right type of competition, which is based more on product quality and price, rather than the purchase process. In the transaction account space where margins are low, it is questionable whether offers can be made compelling enough to surmount these challenges. Finally, as reliance on DD grows and it should, since it is beneficial for the consumer and billers, not to mention the environment, this will just become a bigger issue.

Q2: Are you aware of additional overseas experience that is relevant in the Australian context?

From the perspective of new entrants such as ourselves, the current system will inevitably result in accounts opened that are not activated or used. To provide perspective, at ING DIRECT Spain for example, they have a centralised switching body and third-party providers that can switch all DD for customers. Customers receive an authorisation form to change their DD in their welcome pack. They must sign it and return it with photocopied statements for each DD they wish to have changed for them. Using this system, ING DIRECT Spain achieves a conversion rate of 83% of customers completing the switch to their transaction account. We consider this exceptional. One can only imagine what an equivalent type of rate is for Australian banks, where this type of system does not exist. Thus one can imagine an unnecessarily high drop-out rate within the process, which invariably leads to potentially thousands of inactive accounts. These accounts drive up a bank's expenses (e.g. providing statements), which in turn – again, unnecessarily – increases the cost of banking for other active customers. A higher rate, through the facilitation of switching, would thus benefit banking customers across the spectrum.

In the United States, they have much the same issue and system as Australia. There banks have resorted to simply offering "Switch Kits". These include checklists of DD providers to remember, and blank forms. Customers must fill in not only their utility provider name and account number, but also their Routing / BSB number and transaction account number. Then the customer must send it to the provider. From a customer perspective, this is seen to be too much effort and trouble (more on this in Q3).

We are also aware of the experience in the UK, where the regulator has designated that customers may keep their account numbers and transport them from bank to bank, facilitating the switch. Outside the banking world, mobile phone providers in the Australia and the US determined it was in their interest to allow customers to hold onto their mobile phone numbers if they go to another provider. In our opinion this types of ‘transportable numbers’ approach could be useful for Australian banking customers as well (though this may be not possible due to legacy systems).

Q3: In your view, do financial institutions already offer adequate support for new customers to transfer or re-establish direct credit and debit arrangements from their old financial institution? Are there any services offered which are particularly useful?

No. The support that currently exists – which is mentioned in section #35 of your paper – does not go far enough. Existing processes observed are roughly as follows:

1. Customers can use an interactive web-based tool to input all their data. Notably this requires not only the provider name and account number, but also the BSB and transaction/credit card account number. (Interestingly, someone could use CBA’s website tool to switch their banking to ANZ, because the BSB information is not provided)
2. Once this information is entered customers can print out forms to send themselves.

The reason this is inadequate is because too much onus is on the customer, and not enough information is pre-filled for them. A suggestion would be to make this tool available within the confines of their secure site so at least the bank’s BSB number and the customer’s account number can be conveniently and safely pre-filled for them.

An additional service comes in the form of including salary change forms within welcome packs, for customers to fill out and provide to their employer. Unfortunately here too the BSB and account number info is not pre-filled. While this is a good idea, it is not adequate, because it can be made easier for the customer.

Here one wonders whether it is not beneficial for existing players to perpetuate the negative perception behind switching. If they have a system, but don’t make that system very customer-friendly, are they not positioning themselves as being helpful, but also protecting their turf by making it seem like a ‘hassle’ to change banks? This is a critical point. The potential conflict that incumbent banks have with facilitating the loss of business is important to address as part of this consultation.

Q4: Would a listing service of the kind described at section 9.1 assist in facilitating account switching? Do you think customers would be prepared to pay for such a service? If such a service was implemented, do you believe it is fairer for the cost to be absorbed by financial institutions (thereby in effect adding to the total costs borne by all customers, whether they switch accounts or not), or for those that make use of the service to bear the cost? Why?

Yes, a listing service could assist, particularly the suggestion for the old financial institution to provide a “Switch List” of DD currently debiting the account. Within bank systems, DD are classified as particular transaction types which means it should be relatively easy to build this list extraction tool for even the smaller players. However, the question is whether the old financial institution will willingly play a role in facilitating the loss of business. To that point, they could charge customers who make use of this service. In which case, competition could encourage the competing new financial institution to absorb this charge on behalf of the customer, through a refund. One could imagine a price point of up to $20 would be palatable to both the old financial institution losing the customer, and the new institution.

In order for this to be ideally effective, it is suggested that a third-party be allowed to receive this list and, with the authorisation of the customer, change all of them to the new account. In addition, the “Switch List” could provide Bpay, Pay Anyone, and DC information so that all the data could be transferred in at one time. Of course, ensuring the secure delivery and maintenance of such a list must be addressed; there are certainly details to be worked out here.

Q5: Would a redirection service of the kind proposed at section 9.2 assist in account switching? Do you think customers would be prepared to pay for such a service? If such a service was implemented, do you believe it is fairer for the cost to be absorbed by financial institutions (thereby in effect adding to the total costs borne by all customers, whether they switch accounts or not), or for those that make use of the service to bear the cost? Why?

Yes, a redirection service could assist. The challenges here may be the reality of **how** a customer switches. It is possible that, in deciding to make the switch, a customer does not immediately close their existing account, but instead waits until he/she is confident that all or the majority of the switching process is complete. The reason they would do this is so that they can access their biller and transfer address books, transaction history and other information at the old financial institution until they are sure the new account is fully up and running and they truly no longer need it. So as they transition over to the new account, a redirection service of this nature would be helpful, so long as the cost for it is a) in line with what it would cost banks to provide it, and b) something a customer is willing to accept. For example, a charge of $1.00 for every DD that is redirected is reasonable; $10.00 and above for each is not. As it is likely that there would be up-front development required, and banks would be eager to recoup this investment, this does have the potential of driving up the cost of banking for all customers in the short-term, rather than being isolated to the ones who make use of the service.

Research into the mindset of the customer switching accounts would be helpful here. The primary objectives would be to learn:

- If they were to switch their accounts, how would they go about it, what are the exact steps?
- Where would they start and when would they believe they are finished?
- Would they be willing to pay for redirection and if so, how much?

Putting ourselves in the customer’s shoes is key. Also, if a redirection service does become reality, some sort of education advertising would need to happen, which would come at a cost.

Again, it is questionable if the old financial institution would willingly promote such a service, as it would result in lost business. So the research would help there, too.

Two last questions regarding the relocation service:

1. Would the redirection service re-route the DD that one time, or every time going forward? Obviously for the customer the latter is preferable.
2. How would the customer advise the old financial institution of the new financial institution details? They would likely be required to authorise the old financial institution to re-route the DD/DC. If in the course of advising the old financial institution of the details they are confronted with the likely possibility of incurring a fee to have their DD redirected, this could simply change the nature of the negative perception behind switching, hampering the objective of reducing it.

Q6: Would a central registry service of the kind proposed at section 9.2. assist in account switching? Do you think customers would be prepared to pay for such a service? If such a service were implemented, do you believe it is fairer for the cost to be absorbed by all financial institutions (thereby in effect adding to the total costs borne by all customers, whether they switch accounts or not), or for those that make use of the service to bear the cost? Why?

Given the amount of detail provided in the consultation paper, the impact of a central registry on assisting account switching is not clear to us. As it is written, it makes the option appear financially unattractive, as the cost would be "substantial".

That said, in order to truly make it simple for the customer to switch the account which should be debited/credited, a central registry body could assist greatly. There would be one phone call to make for the customer, and/or one form to fill out and sign. The psychological barrier and 'hassle' would be significantly minimised.

As for the cost and who would or should bear it, it should be on the customer that makes use of the service. As mentioned earlier, it could be that competition would bring refunds to the customer of this cost.

Q7: Do you think there are other steps that could be taken to make it easier to transfer or re-establish direct credit and debit arrangements for financial institution customers? Please provide as much detail as possible, including the features and benefits, how the solution would work, what the potential costs would be and how costs should be apportioned.

For the customer, the existing system involves paper, signatures, and the need to switch one DD/DC at a time. There must be ways to make this simpler for them.

We suggest further investigation into the development of a third-party switching industry. Customers would contact these providers and provide all the information necessary to switch the account. The customer would then authorise the third-party to contact parties on their behalf to have the information changed. All approved organisations participating in the Bulk Electronic Clearing System (known as "DE Users" in the Consultation Paper) would be required to accept changes coming from these parties, which would have to get some sort of licence to do this type of business (meaning they meet or exceed privacy, data integrity and security, confidentiality, verifying the identify of the person requesting the change – that they actually own the account – etc, standards).

Given flexibility regarding the types of authorisations that are acceptable (i.e. a verbal authorisation captured on the phone is sufficient and no signature or paper is necessary), players in this new industry would breed innovative ways to communicate DD and DC changes. Working with large utilities such as Telstra (an oft-cited example), they could eventually batch up changes and have them read into Telstra's DD system automatically on a daily basis. In exchange for their services, these providers would charge the customer based on the number of DD/DC's changed. Exact cost to the customer would be determined by the level of competition among the third-party player(s). To bring the cost down, stringent yet simple standards would be required, enabling new players to enter the third-party space.

Aggressive new banking competitors could strike deals with the providers so that the customer is not charged, but instead the new financial institution bears the cost.

Ideally this would be combined with the approach in Q4. So for the customer, it is simple:

- They call their old financial institution and request a Switch List.

- They call the third-party and provide the DD information contained in the Switch List as well as the new bank account information.
- The third-party contacts each of the DD providers, notifies them of the new bank account information and confirms the date on which DD should come from the new account.
- The customer receives emails or SMS or letters from the third-party notifying them of switching completion. This reinforces the dates these will take effect.

A last thought is whether or not a bank itself could compete in this third-party space and provide this service internally. Our preliminary thinking is that they could, as more entrants into this space will reduce costs to the customer and breed innovation.