

26

Loan, Nick

From: Loan, Nick
Sent: Tuesday, 2 November 2010 12:04 PM
To: Browne, Oliver
Cc: Murphy, Jim; Douglas, Justin; Lonsdale, John; MG FSD Bank Competition Unit
Subject: Account Switching & Account Portability [SEC=IN-CONFIDENCE]

Security Classification:
~~IN CONFIDENCE~~

Ollie,

As requested, attached is:

- an outline of the process a consumer would go through to **switch transaction accounts** using the account switching package; and



Account switching steps.doc

Section 45 Bank of confidence



101102 Acc Portability.docx

If you have any questions, or need further information, let us know.

Nick

Nick Loan
Manager

Financial System Division
The Treasury, Langton Crescent, Parkes ACT 2600
phone: (02) 6263 2899

The Government's *Account Switching Package*

- The Government's *Account Switching Package* (the Package) came into effect on 1 November 2008, requiring banks, credit unions, and building societies to provide account switching services to customers that want to switch their personal *transaction accounts* if they are not satisfied with their current provider.

Listing and switching service

- The *listing* service involves the customer's current financial institution providing them with a list of their regular payments (direct debits and credits) from the last 13 months.
- The *switching* service involves the customer's new financial institution assisting its new customer with re-establishing these regular payments.

Process of switching transaction accounts

- Consumers looking to switch transaction accounts under the Package need only take the following four steps:
 1. Set up a new transaction account. Consumers should ensure they leave the old transaction account open with some money to cover any automatic payments that need to be made during the changeover period.
 2. Consumers need to ask their current financial institution for a list of their regular direct debits and credits. Their current financial institution will provide a list of automatic payments from the last 13 months. (There is a time frame of 5 days within which their current financial institution has to provide a list of direct credits and debits).
 3. Consumers need to take that list to their new financial institution. They will help them re-establish those payments on their new account. Their new financial institution will also help them give their new account details to organisations that they pay or that pay them.
 4. Once consumers are sure that all of their automatic payments have been updated to their new account, they can safely close their old account.

ACCOUNT NUMBER PORTABILITY

Currently, if a consumer switches banks their account number must change and the consumer must arrange for the re-routing of any direct credits and/or debits associated with automatic payments they receive and/or make.

To many consumers, this may present itself as a hassle and may therefore impede switching.

A potential method to solve this is to mandate account number portability. This would involve creating a system whereby each customer has a unique bank account number which can be transferred to another institution if the customer chooses to switch banks.

While attractive from a competition perspective, the introduction of account number portability would likely impose significant up-front costs on financial institutions, employers and retailers, which would be passed on to consumers.

Alternatively there may be calls on the Government to fund such an initiative.

• ┌ Section 45 Breach of confidence ┐

└

┘

- To gain a more precise estimate of the cost of implementing account number portability, further consultation would be required, including with the RBA and APCA.

Account number portability was explored in the 2008 House Standing Committee on Economics report on competition in the banking and non-banking sectors.

- APCA told the 2008 inquiry that creating account number portability is complicated and costly, involving changes to the current Bank State Branch (BSB) number system, used to identify various parts of an institution.
- APCA also stated that there would have to be changes to an individual institution's software systems creating an initial cost for a large number of private and public entities.

Further, given consumer inertia and apathy, and Australia's already relatively high rate of account switching, it is unclear how effective this measure would be in facilitating additional account 'switching'.

- The RBA has indicated that they could, under their existing payments system powers, regulate to require account number portability, **if it was in the public interest.** However, they would need to be able to justify their view in the courts if an attempt to regulate in this way were challenged. In the RBA's view, **this would be a very difficult case to make.**