

18/08/2021

Submission received via email

We refer to your letter dated 12 July 2021 titled **Consultation on zero and negative interest rates** and would like to seek clarification of, and provide feedback on, elements of APRA's "proposed expectation".

On 17 March 2021 Beyond Bank responded to APRA's request for information contained in your letter dated 10 December 2020, **Zero and Negative Interest Rates**, in which we outlined the challenges associated with system developments; noting that *"in light of the very remote possibility of a negative interest rate environment that would result in a material negative interest rate readiness issue, BBA does not consider it currently necessary to take action to update the calculations of the IT systems to accommodate the calculation of interest using negative interest rates. However, if this action was to be necessary, it is expected that it would take 6–9 months, and significant cost, to make the necessary system changes and have the calculations reviewed and validated by an actuary"*.

To this end, we are pleased that APRA has acknowledged that *"for some ADIs, zero and negative interest rates on other products (e.g. wholesale and retail lending and deposit products) would pose operational challenges. Furthermore, a number of ADIs noted high costs and competing priorities as being constraints for the implementation of permanent solutions"*, and we support the 'tactical' approach being proposed by APRA.

Notwithstanding this, we have the following comments/queries:

- *"All products and activities are in scope for this expectation, except for lending products that do not reference the cash rate or a market rate including business lending, residential mortgages, personal loans and credit cards"*

In our original response on 17 March 2021 we wrote that *"a marginally negative interest rate environment (e.g. circa . As a consequence, we continue to hold the view that lending products, irrespective of whether they are referenced to the cash rate or a market rate, should not be subject to APRA's proposed expectations on the basis of the probability of rates going negative by more than "marginally negative" (e.g. circa > 150bps).*

- *"Solutions that generate an economic outcome that is the same as a negative interest rate are acceptable, subject to the appropriate risk management considerations"*

In our response on 17 March 2021 we wrote that *"as a solution we proposed that a negative interest rate setting on these product types could be established through the application of a form of fee structure that increased with the size of the account balance"*. In practice, our intention was that this would be achieved through the *tiering* of balances rather than a fee linked to the *exact* balance of a customer's account. Consequently, whilst we expect this would achieve a similar economic outcome as applying a negative interest rate, it will not be the "same" as introducing a negative interest rate. Could APRA please clarify its expectations with respect to achieving the "same" outcome?

- In developing tactical solutions, APRA expects ADIs to consider all aspects of the products and activities that are in scope, including customer communications and disclosures

In our response on 17 March 2021 we wrote that *“the definition of “Basic Deposit Product” in s761A of the Corporations Act 2001 (Cth), which currently includes transaction, savings and term deposit products with a term less than 5 years, does not currently permit the terms of the facility to reduce the amount of the account balance by way of negative interest charges. Therefore, regulatory relief would need to be provided to maintain the ‘Basic Deposit Product’ status of these products in order to prevent the need for ADIs to treat these as “Non-Basic Deposit Products” and comply with the more onerous legal obligations applicable to this class of product”*. Has APRA given consideration to how the Basic Deposit Product status could be maintained in an environment of negative interest rates?

Thank you for the opportunity to provide comments, and we would welcome any discussion on the above matters.

Yours faithfully

Wayne Matters