APRA's Rapid Access Proposals

On January 6th APRA released a Discussion Paper outlining its thoughts about practicalities for the future operation of the Financial Claims Scheme (FCS) which comes into effect when an Authorised Deposit-taking Institution (ADI) fails. Because deposits are protected up to a specified limit (currently automatically $1 million) per account-holders, information about depositor balances needs to be readily available if rapid access to protected funds is to be achieved under the scheme.

On the surface, this looks relatively simple – after all the business of banking is, in part, based on recording and effecting payments into and out of, and balances in, accounts of customers. In practice, the IT requirements interact with some banking practices which make the issues complicated – and which should perhaps be reviewed.

A striking aspect of the APRA Paper is the acknowledgement that ADIs have a variety of customer identification practices, some including an "'opt-in' approach which enables account-holders to establish an account without identifying themselves, or being identified, as an existing customer". While that may create complications for the bank in aggregating balances per account-holder (as required), a more significant issue is disparities across banks.

This inhibits use of the option of making of payments under the FCS by way of a credit to an existing account of the depositor at another ADI. Because there is no common customer identification number in use across ADIs, all manner of checks and balances and information requirements are needed to make payments in that way.

For this reason, although protectors of privacy might disagree, it would seem sensible to consider instituting such a common ID number, perhaps based on Tax File Numbers, an approach APRA has eschewed. Yes, there are complications such as for non-residents, minors, and for how to deal with joint accounts, but the approach would appear to have merit also in terms of the competitive benefits from facilitating ease of customer "switching" between banks – a government objective where policy has had little effect to date.

Partly because electronic transfer of balances to an account at another ADI is not simple, APRA's default payment mechanism is by "snail mail" of RBA cheques to the depositors' addresses. In that regard, it would be interesting to know what proportion of correct addresses banks have for their customers – and whether that is declining as customers come to rely more and more on electronic rather than paper based statements.

Another payment option flagged by APRA is to advise customers that their protected deposits would now be accessible through a newly created account at another designated ADI. APRA notes that this may give an unwarranted signal to depositors that this ADI is safer than others, with obvious anti-competitive effects.

Perhaps more relevant in that regard is the benefit the designated ADI gets from the likely "stickiness" of those accounts due to customer switching costs. APRA suggests that the designated ADI could be eligible for compensation for costs involved in establishing accounts. Rather, it might be hoped that competition among ADIs to get this low-cost new business would see them willing to pay for the privilege of being the designated ADI.

There are many other issues raised by the APRA Paper. One is that prescribed accounts (such as Retirement Savings Accounts) are included in the calculation of the protected amount. When the protection limit is reduced from $1 million to some more appropriate figure, this may reduce further the appeal of this (little used) form of superannuation savings.

Another complication arises from the requirement that amounts in joint accounts are apportioned equally. Thus, currently if Mary and Joe have a joint account with $1 million and Mary has $1 million in a sole account, Mary's total deposits are aggregated to $1.5 million, only which $1 million of which is protected.

Again this problem will be more relevant when the protection limit is reduced. So also will become the information challenges involved in explaining to individuals that only part of their deposits are available for rapid access (with the remainder contingent upon the outcome of the ADI's wind-up).

Undoubtedly, there will be many concerns raised by ADIs over the information requirements proposed by APRA and the costs involved in modifying their IT systems. Such costs would seem to be most relevant for those ADIs which have been engaged in recent mergers, and where customer identification arrangements of the merging ADIs are not consistent.

It might also be suggested that the regular reporting required is a case of the tail wagging the dog. The FCS only comes into operation when APRA's other resolution mechanisms for a failing ADI, such as a (possibly government supported) takeover by another ADI, have been rejected. Nevertheless, once IT systems have been adapted, as they should be, to remove any deficiencies in customer identification arrangements, the regular reporting is a simple data-transmission exercise.

Kevin Davis
Professor of Finance, The University of Melbourne
Research Director, Melbourne Centre for Financial Studies
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