

**ANZ SUBMISSION TO THE
AUSTRALIAN GOVERNMENT
ON
*FIRST HOME SAVER ACCOUNTS***



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ANZ welcomes the opportunity to comment on the Government's proposal to establish First Home Saver Accounts (FHSAs) to help aspiring homebuyers save for a first home.

This submission seeks to address aspects of the Australian Government's February 2008 consultation paper: *First Home Saver Accounts*, and includes:

- An overview of an FHSA that ANZ initially proposes to offer;
- Comments on aspects of the Government's consultation paper which ANZ sees as key to the successful implementation of an FHSA; and
- An outline of some issues for which ANZ will require more detailed information in order to assist it to develop a product that meets regulatory requirements.

Proposed product

ANZ is well placed to establish a cash savings account product for first home savers which meets the Government's requirements.

ANZ envisages that key features of such an account would be as follows:

- Regular contributions into the account will earn bonus interest, encouraging account holders to save;
- An ability for account holders to make regular deposits into the account, including salary and dividend income or a regular transfer from another account, to encourage regular contributions into the account;
- A quarterly statement including a savings graph to help them track their savings progress; and
- An ability for account holders to deposit funds through a range of channels, including ANZ's branch network, ATMs, ANZ Phone and Internet Banking

A minimum initial and ongoing balance of \$1000 will be required. On meeting Government requirements for withdrawal, account holders will be able to apply to have the balance of the account transferred as appropriate.

By basing the initial FHSA offering on an existing ANZ savings product, the account will be relatively straightforward to set up and will not require large administrative costs to maintain. However, any features of the account which require customisation (refer discussion under key issues) could potentially impact on costs and delivery timeframes.

In addition to a cash savings account, ANZ believes there could be scope to offer a broader range of responsibly diversified investment and asset allocation options within FHSAs and we would be interested in discussing this further with the Government.

Key issues

While ANZ has a cash saving account that would meet Government requirements, there are a number of regulatory issues which could have a bearing on the implementation or ongoing operation of the FHSA. These issues are raised in the following discussion in order of priority.

Taxation of earnings

ANZ requests clarification on the model to be used for taxation of earnings on account balances. ANZ's preference is for the taxation model adopted to be as simple as possible, in order for it to be easily understood by the account holder, and to minimise any required system changes.

The consultation paper suggests that account earnings will be included in the account provider's assessable income and that tax will be paid by the account provider on the net gain from this business. This Retirement Saving Approach to taxing FHSAs would require ANZ to undertake considerable development work to create a separate fund facility for an FHSA deposit account and would unlikely be achievable by 1 July 2008.

A simpler solution to that proposed, and one which would require minimal process changes to ordinary bank account structures, would be to have account earnings subject to a 'once and for all' taxing point within the account structure itself which would be subjected to a 15% withholding tax under the PAYG system.

Staff training

The level of training required for an ANZ staff member to sell an FHSA will need to be clarified. To ensure the FHSAs are kept simple and low cost, ANZ recommends that FHSAs utilising cash savings be classified as a basic deposit product which can be sold by FSRA Tier 2 accredited staff.

Tier 2 products are generally simpler and better understood than Tier 1 products and, therefore, are subject to less onerous training standards. Tier 2 products are considered relatively straightforward, do not have an investment component, are subject to standard terms and conditions, and are of limited life. Tier 1 products capture those products for which clients place a greater reliance on advice. Staff accredited to provide advice on Tier 1 products undergo more comprehensive training than for Tier 2 products to develop specialist knowledge about the products for which they provide advice.

A requirement that FHSAs be classified as a Tier 1 product, would mean that ANZ's 'front line' telling staff would not be permitted to provide advice on these accounts. Customers who wanted to receive advice about FHSAs would first be referred to a Tier 1 accredited financial planner. A Tier 1 classification would provide an additional layer of complexity and run the risk of prospective account holders reconsidering opening an account on the basis that it is considered too complicated.

Excess contributions

Section 3.3.1 of the consultation paper states that the account provider should collect identifying information from contributors to the account to enable excess contributions to be returned. ANZ acknowledges that a method for dealing with excess contributions is required, however the necessary system changes required to capture this information at the time of deposit are complex and would unlikely be achievable by 1 July 2008. Furthermore, without significant industry-wide coordination, it would not be possible to make the required changes to some deposit channels, such as over-the-counter deposits through other financial institutions.

As a possible alternative, ANZ proposes that excess contributions could be transferred to another ANZ account held by the individual, where one is held. This solution would rely on existing account functionality, thus not requiring complex system changes. In the event that the individual does not hold a separate ANZ account, ANZ proposes that they be sent a cheque.

ATO reporting

Depending on electronic reporting requirements, potentially complex and costly system changes may be needed. Ideally, detailed reporting requirements will be made available as early as possible to enable ANZ to make the necessary system changes. In this context, ANZ would welcome guidance on the types of information required in any ATO reports, the format of the report and any other relevant technical requirements, including transmission method.

In the event that system changes initially prove complex to implement, the Government could consider allowing a more manual reporting process as an interim reporting measure while a longer-term solution is developed.

Standard forms

The Government's consultation paper refers to a standard set of forms for transferring account balances between providers, opening accounts, and withdrawing funds. In the case of account opening, ANZ does not believe a form to be necessary, as accounts would be opened via an ANZ branch in accordance with existing processes, including a requirement for proof of identification for a 100-point check. Product terms and conditions (which would need to be first accepted by the customer) would clearly set out for the customer the prerequisites for opening an account. ANZ would be keen to limit the number of forms required to open an account as each additional form would add to the level of operational complexity, including increased paperwork and the need to maintain stock levels in ANZ branches.

With regard to the other forms deemed necessary to operate an FHSA, as the information they capture may have an impact on required system changes or relevant operational processes, ANZ requests that they be made available for comment as soon as possible.

Asset classes and investment strategies

The Government's consultation paper deals briefly with the issue of asset classes and investment strategies. ANZ suggests that the Government give further consideration to how its policy can facilitate the offer, and use of, a range of investments and asset classes for FHSAs.

Additional considerations

Eligibility criteria

The FHSA consultation paper refers to accounts being held by individuals but it is unclear whether accounts can be jointly held. ANZ would welcome confirmation that FHSAs can only be held by the individual.

Government contributions

ANZ would welcome more detailed information on the way in which Government contributions will be made to FHSAs, including the contribution method, timing and any other prerequisites. For example, whether there will be a requirement that the individual first submit a completed tax return before receiving the Government contribution.

From ANZ's perspective, the optimal contribution method would be through a direct entry deposit into the individual's account from a fixed originating account. In this way, the Government contribution could be identified easily. To encourage take up of FHSAs, the Government could also consider the possibility of 'front loading' the minimum contribution of \$750, with any contribution above this amount contingent on the individual lodging their tax return. This approach would also remove potentially lengthy delays between the individual completing a tax return and the account being credited with the Government contribution.

Contribution limit

The consultation paper asks for comment on the possibility of a \$50,000 (indexed) overall cap on contributions. Based on ABS figures¹, the median value of dwellings purchased by first home buyers in 2005-2006 was \$360,000, meaning that \$50,000 would represent a deposit of approximately 14%, excluding stamp duty and other charges. As the intention of FHSAs is to encourage a culture of saving, ANZ would welcome a policy approach which would allow individuals to save in excess of \$50,000 over the life of the account.

Auctions

Section 4.1.2 discusses the issue of potential delays in accessing funds after purchasing a property at auction. ANZ suggests that the Government explore the use of a deposit bond as a substitute for a cash deposit when signing

¹ *Housing and Occupancy Costs* (2007), Australian Bureau of Statistics, viewed 21 February 2008, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/4130.0.55.001>.

contracts. The use of a deposit bond would allow time for the balance of the FHSA to be released; however a deposit bond would likely involve a cost to the account holder.

ANZ would be pleased to provide further information about this submission and would welcome the opportunity to participate in any working group(s) tasked with developing FHSA legislation. ANZ can be contacted as follows:

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