Loyalty Tax Report

finder

March 2020

Executive Summary

Eight million Australians are being hit by a "loyalty tax" – paying more for financial products than necessary by sticking with the same provider. Many lenders and banks will offer discounts to new customers or reduce the costs of their newer products to attract new clients, but existing customers who stay loyal to one provider often miss out. It seems counterintuitive but consumers who stay loyal to one provider for many years can be the ones who miss out on the good deals and the opportunity to make significant savings – and some groups are more blinded by loyalty than others.

Only 59% of Australians, on average, feel that they're getting good value from their financial products. This leaves two in five (41% of the population) who either feel they're not getting good value for money or – worse – have no idea if they are signed up to a competitive home loan, a good value credit card or a high-earning savings account.

The Finder Loyalty Tax Report estimates Australians could be saving up to $8,496 across four common financial products – mortgage, savings, health insurance and credit cards – if they'd switch providers.

Our report analyses consumer trends within the Australian home loan, savings, credit card and health insurance markets. By tracking customer behaviour, the report highlights the need to help Australians regularly compare their options to make sure they are always getting the best deals on their financial products.

Potential savings

- **Credit cards**. $253 saved if transferring the average interest-accruing credit card balance to a 0% balance transfer card.
- **Home loans**. $6,826 saved per year by moving from the average home loan variable rate across the Big Four banks to the lowest rates on the market.
- **Health insurance**. $635 per year potential saving between the highest and lowest priced policies on the same coverage tier.
- **Savings**. $2,346 potential interest earned over three years when switching from the average online savings rate to one of the three banks offering the highest rates on the market, based on the average saving volume in Australia (for further details, see the savings section).

Credit Cards

CC

11 Years with the same provider on average

14% stress about their credit cards

In Australia, 67% of adults have a credit card, while just one in five (22%) can confidently say they are getting good value for money.

While responsible credit card holders pay off their full card balance within the interest-free period (which is usually 55 days), the interest rate charged on a credit card for those card holders who don't pay on time can make a huge difference to the cost of borrowing. According to RBA data, the current average standard card rate in Australia is 20%, with low-rate cards charging only 13%. There would be, for example, a $398 difference in the interest charged between these cards on a $10,000 purchase paid back over one year.

Finder estimates the average Australian who transfers their credit card balance to a 0% balance transfer card could save $253 in one year on the average balance of $3,271. If every Aussie paying interest were to do this, it would result in a total national saving of over $2 billion*.

The average Australian credit card holder has been with the same provider for over 11 years, yet one in seven (14%) say their credit card debt causes them stress. One in four (25%) are completely unaware if they are paying more than they should for their credit card, and a further 14% are convinced that they are not on the best rate.

Finally, a quarter (24%) of borrowers say they would switch if there were an opportunity for better savings, indicating that many borrowers do not realise the potential savings to be had from switching providers.

Respondents that plan on switching credit cards in the next twelve months

	All	Female	Male
Australia	7%	5%	9%

Main reason to switch credit cards

Reason	Percentage
Opportunity for savings	24%
No loyalty to my existing provider	18%
Opportunity for better rewards	17%
I would never consider switching	16%
Dissatisfaction with current provider	12%

Home Loans

HL

7.2 Years with the same provider on average

33% stress about their home loans

The average Australian mortgage holder has been with the same home loan provider for 7.2 years. That's despite three consecutive cash rate drops in 2019. While the RBA slashed the cash rate by 75 basis points between June and October, banks passed on only 57 of those basis points to consumers, on average.

The average owner-occupier home loan in Australia stands at $494,414[1]. Switching from the average variable home-loan rate of 4.55%[2] to one of the lowest in the market (2.49%[3]) could save borrowers a whopping $6,826 per year or $204,793 over the full 30-year life of the loan.

Surprisingly, only 3% of Aussies switched home loans in the past six months for a better deal. One in three adults (33%), or roughly two million people, say that paying their home loan causes them stress, while one in five (21%) say they struggle to pay their home loan.

Only 57% of borrowers feel they are getting good value from their home loan. A staggering 51% of Australians don't even know what their home loan interest rate is. That's 3.4 million mortgage customers who could be paying too much for poor value home loans.

Respondents that plan on switching home loans in the next twelve months

	All	Female	Male
Australia	5%	3%	7%

Main reason to switch home loans

Reason	Percentage
Opportunity for savings	33%
No loyalty to my existing provider	17%
Opportunity for better rewards	8%
I would never consider switching	17%
Dissatisfaction with current provider	11%

Health Insurance

HI

10.6 Years with the same provider on average

17% stress about their health insurance

Australians have been with the same health insurer for 10.6 years on average. Premiums have increased by 81% in that time – adding around $920 per person to the average gold-level policy since 2009. This loyalty is surprising given that 17% of health fund members admit the cost of health insurance premiums is causing them stress. Of Australia's 11.4 million health fund members, worryingly 1.9 million are struggling to pay their premiums each month.

Some policyholders may be overpaying for cover – a Finder analysis of $500-excess gold-level policies found a $635, or 37%, annual difference between the cheapest and most expensive product. With health insurance prices increasing every April, the first quarter of the year is a great time to shop around for a better deal.

Some 784,000 people in Australia switched health insurance in the past six months. This means of Australia's 11.4 million health fund members, 7% made the switch. A further 5% (560,000) plan to make a change in the first half of 2020. While the main reason cited by Aussies for switching is savings (31%), that is not the sole reason. One in eight (12%) said they changed funds because they were dissatisfied with their current provider, while slightly fewer (11%) wanted better service.

Main reason to switch health insurance

Reason	Percentage
Opportunity for savings	31%
No loyalty to my existing provider	14%
Opportunity for better rewards	11%
I would never consider switching	14%
Dissatisfaction with current provider	12%

Savings Accounts

SA

13 Years with the same provider on average

The average savings rate is almost half the RBA cash rate

Nine out of ten Australians (87%) – or 16.9 million people – have a savings account and the average Australian has kept their savings with the same provider for 13 years. Those loyal savers could be getting the raw end of the stick.

The average online savings rate in Australia stands at a measly 0.40% according to RBA data, which is well below the RBA cash rate of 0.75%. This is a surprising arrangement as the online saving account rate has stayed close to the cash rate since the RBA started controlling it in the 90s. However, in 2017, the average savings rate dropped well below the cash rate and stayed there.

While banks have been keeping the transitional savings rate low, they have been increasing the bonus savings rate – a special rate that generally applies to accounts with deposit requirements and withdrawal restrictions. The average bonus savings rate currently stands at 1.5%.

However, there are far better rates available. New banks 86 400, Up and Xinja are all offering ongoing rates of 2.25% with no withdrawal restrictions. For fans of more well-known brands, Ubank, CUA, ING and Suncorp are offering 2.10%, 2.00%, 1.95% and 1.95% respectively – all well above the market average.

Finder research shows Aussies have, on average, $29,270 in savings and save $660 per month. Based on these figures, the average Aussie moving from a traditional savings account to one of the three best rates on the market stands to make an extra $2,346 in interest over three years.

Main reason to switch savings accounts

Reason	Percentage
Opportunity for savings	32%
No loyalty to my existing provider	15%
Opportunity for better rewards	15%
I would never consider switching	14%
Dissatisfaction with current provider	10%

Conclusion

74% of Aussies stress about their finances

Finder's analysis shows the potential savings in these four areas, but there are far more savings to be found. Energy providers, for example, often shift long-term customers onto "standing offers" that are more expensive than the offers available to new customers. While the rates that providers can charge on these offers have been regulated by the Australian Energy Regulator since July 2019, many customers could still get a better deal with a new provider.

Complicated pricing structures often make it hard for consumers to compare quotes to see if one deal is better than another. A staggering 74% of Aussies say they are to some degree financially stressed, 60% of Australians say they want to put aside more money and 24% want to get out of debt in 2020. With significant savings available, doing your homework is the easiest way to make a start.

Sources: The Loyalty Tax Report sources data from a cumulative survey of 9,116 Australians designed by Finder and conducted by Qualtrics SAP between May 2019 and January 2020, as well as Finder's extensive product database, and the Reserve Bank of Australia.

[1] Finder analysis of RBA data, January 2020. Most recent data available as of March 2020.
[2] The pre-March average variable home-loan rate was 4.80% according to RBA data analysed by Finder. In this analysis, we have assumed banks pass on the full 25-basis-point March cut. At the time of writing, 85% of lenders announced that they would pass on the full rate cut to consumers.
[3] Homestar Star Essentials Home Loan, March 2020.

***Methodology:** Average credit card interest rates as reported by Australians (Finder's Consumer Sentiment Tracker, January 2020) were used to estimate the percentage of cardholders paying one of five credit card interest rates: 0%, 9%, 12%, 17% and 22%. The interest paid over one year when paying off the average balance of $3,271 (RBA, November 2019) less a 2% balance transfer fee was calculated for each rate and applied to the proportion of credit-card-owning Australian adults in that rate group. As only one card was considered for each Australian adult, and as users may take different periods of time to pay off their debt, this number should be considered an estimate.

Enter the Finder app

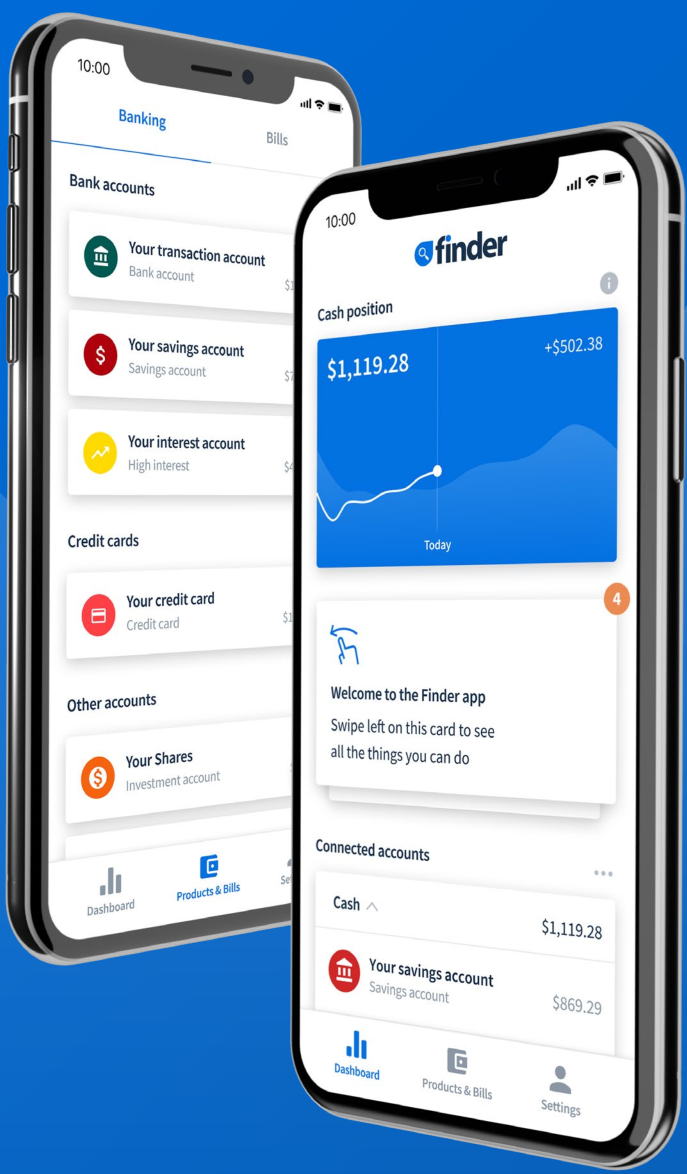
The Finder App, launched in March 2020, was created to curb "loyalty tax". By connecting a user's bank accounts and credit report, it analyses spending and compiles information to help give an overall picture of income and spending habits.

Finding the time for homework and comparing different products can often be the hardest part. The app connects with Finder's database and based on a user's information it will alert them if they could potentially save money by switching to a better deal.

Download it now

Download on the App Store

GET IT ON Google Play



The **Finder Loyalty Tax Report** estimates Australians could be saving up to $8,496 across four common financial products – *Mortgage*, *Savings*, *Health Insurance* and *Credit Cards* – if they'd switch providers.

For more information contact : aupr@finder.com