

01 July 2016

Principal Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email: CreditCards@treasury.gov.au

Credit cards: improving consumer outcomes and enhancing competition

Dear Sir/Madam,

Bendigo and Adelaide Bank (**Bendigo Bank**) welcomes the opportunity to respond to the Government consultation paper, *Credit cards: improving consumer outcomes and enhancing competition (consultation paper)*.

Bendigo Bank is supportive of measures that protect consumers from the potential of financial stress, however we are of the view that these reforms take a “broad brush” approach that impact all consumer segments despite financial stress being the experience of only a small group of consumers.

At Bendigo Bank we have a comprehensive “financial hardship” practise in place that is focused on minimising the stress and impact customers may be experiencing. Some of this is a specific result of previous reforms introduced. In line with our Customer centric approach, we feel we have come to learn that financial stress is a result of a change in consumers’ circumstances and would consider that the reforms proposed are not likely to have a material impact on the most common financial stress cases.

Bendigo Bank is concerned that the reforms proposed, will be implemented without a thorough understanding of the causes of financial stress along with how the reforms will impact the broader industry experience with regard to Credit Card lending. We are also concerned that there are existing and emerging providers of consumer credit that remain outside of such regulation and that they in fact pose a greater threat than do “Credit Cards” e.g.: Pay Day lenders, in store credit, P-to-P Lenders. Equally important is the need to understand how prior reforms that have been implemented have consequently performed against their initial objectives as without any clear objectives and measure of effectiveness, applying more regulation may achieve very little.

Bendigo Bank would like to put forward a concern that the additional reforms, although well intended may have an unintended consequence of driving consumers to seek credit from less regulated lenders as a result of a tightening of credit lending with issuing banks.

To the extent to which it is possible, we therefore feel that any additional reforms that are implemented have clearly defined objectives and measures, so that the effectiveness of each can be assessed. It may be applicable in some cases that the expansion of current legislation would have the same impact as the introduction as new reforms. For example: expanding Key Fact Sheet requirements to encompass greater transparency around interest charge methodologies.

Please find below our specific responses to the proposed reforms.

Phase 1

1. Tighten responsible lending obligations to ensure card issuers assess suitability based on a consumer's ability to repay the credit limit within a reasonable period

Problem addressed - Over-borrowing contributing to financial stress

Bendigo Bank understands the intent of this reform is to help reduce the likelihood of a consumer from experiencing financial stress as a result of over-borrowing, exacerbated by a prolonged period of payback. Whilst Bendigo Bank is fully supportive of measures that will help prevent this from happening, we feel it is important that clarification is made regarding the test of "reasonability" with regards to payback period.

Currently, Bendigo Bank assesses a customer's ability to service their debt obligation based on 3% of maximum drawdown limit, and is also required to comply with the *NCCP Act 2009*. It would be a concern for Bendigo Bank if the introduction of "reasonable period" would in our case relax our affordability assessment criteria at the time of application, having the opposite impact to the intention of the reform.

Whilst Bendigo Bank is supportive of the intent of this reform it is often our experience that financial difficulty is the result of a change in the customer's personal circumstances such as unemployment or illness etc. To this end, it is unclear as to how an upfront assessment based on a reasonable period would circumvent an unforeseeable event from occurring in the future if the fixed repayments are not introduced as with other amortised products.

Bendigo Bank encourages further industry and consumer research to understand what constitutes a "reasonable period", as well as what impact the reforms would have had on financial stress cases. It would be a concern for Bendigo Bank should a consequence of the reform result in consumers seeking credit from less regulated entities.

2. Prohibit issuers from making unsolicited credit limit increase offers including the ability to seek prior consent

Problem addressed - Over-borrowing contributing to financial stress

Bendigo Bank supports the notion that there should never be unsolicited credit limit increase offers made directly to consumers. Bendigo Bank does however believe that the industry should continue to advocate consumer choice where practical to do so and as such should retain the right for a consumer to “opt in” or “opt out” of limit increase offers.

Bendigo Bank would however support potential reforms that broaden restrictions for Credit Card providers to offer limit increases to consumers that have opted in. For example consumers who have “recently” experienced financial hardship would be ineligible to receive any offer.

3. Prohibit issuers from backdating interest charges and charging interest on the portion of the balance that has been paid-off

Problem addressed - Complex application of interest charges

Bendigo Bank supports the notion that interest shouldn’t be applied to the portion of the balance that has been paid-off, as noted in the Consultation Paper our approach to interest is based on the statement date and the portion of outstanding debt. However, we feel that it should be the right of the institution to determine how they apply interest charges, as this is a key competitive driver and differentiator within the market. It is also our view that it is reasonable for financial institutions to charge interest from the purchase date, as this is the date that credit has been extended.

Bendigo Bank does however feel that this needs to be balanced with transparency to ensure consumers understand and have available sufficient information to know how they will be charged interest. Interest charging information could be included as a mandatory item on the Key Fact Sheets (“KFS”). We would welcome further measures that ensure that consumers have available clear and concise information with regard to interest calculations along with the hierarchy of how repayments are applied to outstanding balances.

4. Require issuers to provide consumers with online options to initiate a card cancellation or reduce their credit limit

Problem addressed - Over-borrowing through accumulation of multiple cards

Bendigo Bank supports the approach to allow consumers to reduce their card limit online or cancel their card, but believe that this should be a point of difference through service offering opposed to legislation.

The provision of online account cancellation may not in the most part resolve any financial stress concerns as the consumer segment in question for hardship are not likely to resolve any outstanding balance, therefore inhibiting their ability to cancel their credit card.

A potential consequence of this reform may be that this will become a new marketing channel. Once consumers have initiated the request, the issuing Bank will have the opportunity to speak to the consumer and subsequently make a counter offer or influence them to retain or not reduce their limit.

Phase 2

5. Require that issuers provide information on the annual cost of a consumer's credit card use and to prominently display annual fees

Problem addressed - Lack of competition on ongoing interest rates; consumers in unsuitable card products; over-borrowing and under-repaying

Bendigo Bank acknowledges that information regarding the key financial commitments of an account is currently available on the Website, DL Brochures, as a mandatory item on the key fact sheet, within the customers' contract and a line item on their statement. Credit card statements are issued monthly and account information can be accessed anytime online for customers with e-banking logon.

Without further specific information it would be our assessment that the information is currently available to customers to access at their convenience. Should the industry adopt the provision of further information across multiple platforms, it would need to be done in consideration of an appropriate time allowance for implementation, and we would caution the over use of information as confusing consumers opposed to making it clearer.

6. Require issuers to clearly disclose in advertising and marketing material a card's interest rate and annual fee

Problem addressed - Lack of competition on ongoing interest rates; consumers in unsuitable card products; over-borrowing and under-repaying

Bendigo Bank is supportive of the concept to increase the transparency of the consumer's financial commitments regarding their Credit Card facility.

We would consider with further consultation what constitutes "clearly disclose". I.e. would this be above and beyond current disclosure statement requirements as noted under point 5.

7. Require issuers to provide information about potential savings from switching to lower-cost products

Problem addressed - Lack of competition on ongoing interest rates; consumers in unsuitable card products; over-borrowing and under-repaying

Bendigo Bank is unclear on how this proposed reform is able to be achieved. It would be our assessment that this information has always been available to consumers and is primarily dependent upon the product features the consumer is after. It is also important to take into consideration the consumers spending and repayment behaviours as this is what determines the costs incurred. The very fact that credits cards are revolving credit facilities is the reason that consumers are attracted to them.

Bendigo Bank would consider steps to ensure other Bendigo Bank Credit Card products are brought to Customers attention periodically. For example, product information incorporated into card security brochure that is sent annually.

Bendigo Bank does support clarity, informed decision making and the provision of information to consumers when and where they choose to utilise (i.e. multi-channel) but caution the over use of information as confusing consumers opposed to making it clearer. Consumers ultimately make the choice in the first instances as to the product that best suits their needs but we would prefer to see Customer Life Cycle Management as a tool to inform consumers.

Bendigo Bank finds it difficult to find a significant correlation with product choice and financial hardship. As previously stated, we believe it is more often the case that financial hardship is a result in a change in consumer's circumstance and not product choice.

8. Require issuers to provide consumers with timely electronic notifications regarding the expiry of introductory offers and credit use

Problem addressed - Over-borrowing and under-repaying

With appropriate time allowances for development Bendigo Bank would be supportive of introducing further notification mechanisms.

Bendigo Bank would like put forward for consideration that there is a small segment of consumers that do not utilise electronic notification mechanisms, and as such should be broadened out to traditional mail notification.

9. Require issuers to provide consumers with alternative payment tools, and proactively contact consumers who are persistently making small repayments

Problem addressed - Consumers in unsuitable card products; under-repaying

Bendigo Bank urges caution as to making assumptions around consumer's financial position and how they choose to utilise their card product. For example: It is not always the case, that minimum credit card repayments equate to financial difficulty, nor is there always a correlation that financial difficulty is a result of credit card debt.

All Banks provide a tool for customers on their statement which clearly details the time it would take based on minimum repayments and then provides an increased repayment example to repay all their credit card debt.

Customers are only contractually obliged to make minimum repayments on their credit card facilities, which is also the case with most amortised debt. However, customers can make the choice to repay more. The very fact that credits cards are revolving credit facilities is the reason that consumers are attracted to them, as such the frequency and amount of repayments can be determined by the consumer.



Bendigo Bank would welcome the opportunity to discuss further once The Treasury has considered all submissions.

Yours Sincerely

A handwritten signature in blue ink, appearing to read "M. O'Shea".

Michael O'Shea
Head of Customer Led Innovation
Bendigo and Adelaide Bank

The Bendigo Centre, Bendigo
Victoria Australia 3550
PO Box 480, Bendigo
Victoria Australia 3552
Telephone (03) 5485 6444
Facsimile (03) 5485 7668
www.bendigobank.com.au

Bendigo and Adelaide Bank Limited
ABN 11 068 049 178

