22 June 2016

Principal Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: CreditCards@tresury.gov.au

Dear Sir/Madam,

Treasury consultation on credit cards: improving consumer outcomes and enhancing competition

The Customer Owned Banking Association (COBA) welcomes the opportunity to comment on Treasury's consultation on credit cards: improving consumer outcomes and enhancing competition**.**

COBA is the industry association for Australia's customer-owned banking institutions – credit unions, mutual banks and mutual building societies.

Our members are Authorised Deposit-Taking Institutions (ADIs) regulated by APRA under the Banking Act 1959, and are Australian Financial Services and Credit Licensees, regulated by ASIC.

Collectively, the sector we represent has $99 billion in assets and provides the full range of retail banking products, including credit cards, to more than 4 million customers.

Credit cards offered by customer owned banking institutions, compared to the big four banks[1], have:

- substantially lower average rates;
- more free days; and,
- lower annual fees.

COBA welcomes well-considered measures to improve competition and consumer outcomes in the credit card market. COBA believes that there are competitive products and genuine choice in the credit card market, but that consumers are not always informed or empowered to act in their own interests.

While Treasury's consultation paper recognises the importance of financial literacy, COBA believes that Government and agencies such as ASIC could do more to ensure that consumers are better informed about the diversity and range of offerings in the credit card market and the risks of high-rate cards.

[1] Based on data sourced from Canstar Online Database, 17 June 2016.

Promoting competition and consumer choice will improve consumer outcomes in the credit card market. The credit card market, like the wider banking and financial services market, is dominated by the major banks. The Financial System Inquiry found that:

> *Some sectors of the financial system are concentrated. In particular, the banking sector is concentrated, with the four major banks being the largest players in many aspects of the financial system and having significant market influence. Such concentration creates risks to both the stability and degree of competition in the Australian financial system.*[2]

The FSI made 12 recommendations relating to competition, including measures to level the playing field in banking, increase regulator accountability and strengthen the focus on competition in the financial system.

COBA welcomed the Government's response to the FSI and supports swift implementation of recommendations that will improve competition and therefore consumer choice, including in the credit card market.

It is important to recognise that the credit card market is already highly regulated and has been subject to consecutive waves of regulatory reform in recent years, with the impact of the latest initiatives (e.g. comprehensive credit reporting reform) still to be assessed.

In our view, there is a high risk that additional regulatory imposts on credit card providers at this stage could be counterproductive. The cost of regulation is ultimately imposed on consumers and additional regulation can have a chilling effect on competition, choice and innovation. In addition, regulatory compliance imposes a disproportionately heavy burden on smaller players.

COBA believes that the Government's proposal to subject 'Phase 2' of the proposed credit card reforms to consumer testing is an excellent initiative. COBA is concerned that some of the credit card reforms, implemented by the passage of the *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011*, were developed with little evidence provided to suggest they would improve outcomes for consumers, as well as little concern shown for the increased regulatory burden they imposed on credit card issuers. Accordingly, COBA proposes that the Government undertake a review of the 2012 reforms (particularly the key fact sheets) to assess whether or not these changes have had an impact on consumer behaviour. We suggest that this could be done as part of the consumer testing during Phase 2.

If it is proved that these changes have had no impact on consumer behaviour, we would like to see them revisited. If there is no consumer benefit to regulation, it is just a cost to business that is disproportionately borne by smaller players, and has the ultimate impact of decreasing competition and increasing costs for consumers.

COBA provides the following specific feedback in relation to Treasury's questions:

Prescribe a credit limit to be unsuitable if a consumer cannot afford to repay the limit within a reasonable period

There are mixed views in our sector about this proposal. Some COBA members oppose the proposal and suggest that the Government should instead provide more support for financial literacy in order to raise consumer awareness.

If this proposal were to go ahead, there is a need to take a cautious approach to avoid unintended consequences, for example in relation to credit cards for business accounts. Also, guidance would be needed on how to account for joint commitments and spouse living expenses in credit card applications.

In relation to the specific question of how a reasonable period should be defined, COBA members suggest that the UK model adopts too short a timeframe. A longer timeframe, e.g. a period of less than or equal to 10 years, is suggested. Also, the 'reasonable

[2] Financial System Inquiry Final Report November 2014

period' should consider the value of the limit approved, e.g. a longer period for higher value loans.

A low value exemption should be considered, e.g. exclude the 'reasonable period' assessment for credit cards with smaller limits, such as $2000. This would mitigate the risk of lower income consumers being forced into pay-day loans with much higher interest rates and poorer consumer outcomes.

Prohibit unsolicited credit limit increase offers

COBA agrees that where the customer has not opted-in to receiving limit increase offers, offers should be prohibited. However, we consider that customers should continue to be able to opt-in to receive limit increase offers. Where customers opt-in, providers remain subject to their responsible lending obligations, and the customer can still, of course, decide not to accept the offer. Rather than ban the ability to opt-in to receive credit limit increase offers, the Government should further explore options for self-service credit limit management, where customers can proactively manage their limits by engaging with their issuer online or via phone..

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

COBA members are concerned about the costs of implementing this proposal

Credit providers will incur costs as a result of the systems' changes required, coupled with reduced interest income. This may have the unintended consequence of putting upward pressure on interest rates and fees, particularly in relation to low-rate credit cards.

Fees are already rising, partly due to other regulatory measures in relation to interchange fees. The latest Reserve Bank survey of bank fees[3] shows that credit card fees increased by 6.6 per cent last year, with annual fees on non-reward cards rising by 4.7 per cent last year. Customer owned banking institutions typically offer lower fees on credit cards. Based on data sourced from Canstar Online Database, 17 June 2016' the average fee charged by mutual ADIs is $33.90, compared to the 4 major banks[4] which charge $61.70.[5]

COBA is concerned that the costly regulatory changes could undermine our sector's ability to continue to offer the substantially lower average rates, more free days and lower annual fees compared to the big four banks.

An alternative approach would be to highlight warnings and promote greater transparency around interest free periods so that interest free periods are more easily understood by consumers.

Card issuers are required to provide consumers with the option to cancel their credit card, or reduce their credit limit, via simple electronic means

COBA members support this proposal and see clear consumer benefits in it. The proposal's implementation could help address the questionable retention practices of some credit providers (e.g. incentives given to retention teams when customers call to cancel cards). However, COBA members are also keen to ensure that low-technology solutions remain available (such as email with call-back to verify), rather than having legislation mandate online changes, which would result in costly system changes for some of our members.

Our members have no objection to card providers being required to act on a cancellation request within a reasonable time period. Where a consumer cancels a credit card and there is a remaining debt, the customer must offer repayment arrangements

[3] http://www.rba.gov.au/publications/bulletin/2016/jun/pdf/bu-0616-6.pdf
[4] Not including major bank sub-brands such as St George.
[5] The analysis compares standard personal credit cards (unsecured), with gold, platinum and premium cards excluded The analysis does not factor in introductory rates and package rates.

in writing, which the provider must accept or decline within a reasonable period (e.g. 14 days).

Issuers to provide consumers with information about the annual costs of their credit card use and clearly display annual fees

As mentioned above, COBA proposes that the Government revisit and undertake consumer testing on some of the 2011 reforms such as the key fact sheets. Some COBA members are concerned that these reforms have had little impact on consumer behaviour and are an unnecessary regulatory burden with limited consumer benefit.

While some COBA members support this proposed reform, we would object to the proposal being made mandatory. We would prefer this be left to industry as good practice.

In addition to the proposed information, COBA suggests that Treasury also consider testing the following information on statements:

- annual comparison rate (e.g. interest rate plus annual fee)
- repayment of the outstanding balance over a fixed period of time (e.g. 2 years).
- Monthly and year-to-date interest
- Charging annual fees each month

Issuers to prominently disclose in advertising and marketing material a card's interest rate and annual fee

While some COBA members support this proposed reform, we would object to the proposal being made mandatory. We would prefer this be left to industry as good practice. Experience shows that disclosure can detract from marketing with little consumer benefit.

In relation to the question of how prominently should the information be presented, COBA members suggest that rather than displaying information in all advertising, customers be referred to the website/call centre/branch for full details, or information be provided with the application form or in product brochures. COBA suggests that the information should not be any more prominent than current loan rates. We also suggest that Treasury test whether disclosure of introductory and revert rates has a positive impact on consumer behaviour.

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

COBA members are concerned that this proposal implies that providers review customer accounts, which does not always occur as standard business practice. We are concerned if this is prescribed, as it would be a significant regulatory compliance burden for smaller players. We would prefer this be left to industry as good practice.

We are also concerned that customers might find it intrusive if credit providers contact them (particularly those making minimum repayments) and we are also concerned that this could be abused by some providers looking to use hard-sell tactics on customers.

COBA believes that it is best left up to providers to make decisions about appropriate product offerings for customers.

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

Some COBA members are supportive of this proposed reform, and suggest that one-month notification is sufficient via either a customer's preferred notification channel or via monthly statements rather than prescribe additional notification.

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

COBA members are not supportive of mandating this proposal, as providers are best place to make decisions on appropriate management of customer relations. We would prefer this be left to industry as good practice.

COBA looks forward to the results of consumer testing about the 'Phase 2' proposed measures and continuing our engagement with Treasury in this area.

Please contact Sally MacKenzie on 02 8035 8450 to discuss any aspect of this submission.

Yours sincerely

LUKE LAWLER

Head of Public Affairs