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CUTTING CREDIT CARD CONFUSION

Submission to Senate Economics References Committee
Matters related to credit card interest rates

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ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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INTRODUCTION

Credit card costs are hidden in difficult to interpret percentages, behind worthless rewards points and in bamboozling balance transfer traps. It is far too difficult to answer the most important question: how much does this credit card cost?

CHOICE has analysed trends in the credit card market as well as consumer understanding and use of cards. The results show that while consumers have choice in the card market, there is little competition and plenty of confusion.

This isn't an accident. Credit card providers rely on consumer confusion. This confusion means that nearly four in five people have a credit card with a major bank despite the higher average fees and interest rates. This also allows the major banks to forget about competing on cost and instead increase interest rates on low rate cards at a time when the cash rate is at a record low.

It's time to cut the confusion. Card providers need to be honest and transparent about the real cost of credit cards. Failure to change will see consumers continuing to pay high interest rates and unnecessary costs.

There is no one solution, instead a series of interventions are needed to stimulate demand-side competition. Reforms should make it easier for consumers to compare the true cost of credit card products, to understand their costs each month and to make it easier to switch cards. Structural change is also needed to reduce excessive costs in the payments system.

This submission does not explore reforms needed to assist consumers struggling with high and long-term credit card debt. However, this is an area sorely in need of reform. CHOICE strongly endorses recommendations made by the Consumer Action Law Centre and the Financial Rights Legal Centre, particularly that:

- Additional funding is provided for financial counselling and support services to assist consumers struggling with credit card debt.
- Assessments of suitability for credit cards are based on whether a consumer can afford to repay the full credit limit in a reasonable period without suffering significant financial hardship.
- Credit card providers are required to ask consumers what credit limit they are seeking, and should not offer limits in excess of that suggested by the consumer.

Summary of recommendations

#	Recommendation
1	Credit card advertising should include the monthly cost for a consumer with an average card balance based on the interest rate and annual fee. The figure should be in dollars to help consumers cut through marketing confusion.
2	The federal government should launch a working group to establish principles for an informed choice system for credit cards in Australia, working towards a partnership agreement that allows consumers to access and use their own credit card data. The working group should include government, industry, consumer groups and privacy experts and work towards establishing an informed choice scheme for consumers by early 2017.
3	Card providers should disclose to customers how much they would personally save if they switched to the provider's cheapest card. The disclosure should be expressed in clear terms such as: "This month you will be charged $X in fees and interest. On our low rate credit card you would have paid $X in fees and interest, saving $X." This figure should be expressed in dollars, not as a percentage, and be included on the front page of a monthly credit card statement as well as a range of other communications to customers.
4	Card providers who offer products through sub-brands should be required to include the offerings of sub-brands in the comparison between the consumer's existing card and other offerings.
5	Card statements should include information about the credit card market generally, including the lowest interest rate in the market as identified by the RBA.
6	Minimum monthly repayment should be renamed to 'Payment required to avoid fees.'

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7	All customers on existing products that are no longer marketed should be switched to the card providers' cheapest card. No switch should occur if the legacy product is lower cost. If the legacy product includes special features that may be advantageous to some consumers, the card provider should be required to inform consumers that they are on a legacy product and provide information about personal savings the customer could make if they switched to a cheaper product.
8	The government or an independent party should test any changes to credit card statements to determine the most useful format for consumers.
9	Card providers should be required to offer consumers simple online options to cancel credit cards.
10	The government should introduce legislation to establish a 'tick and flick' switching process to allow customers to easily transfer direct debits to a new credit card. The process should be offered online and in-branch. It should be promoted in credit card statements and other key communications to card holders.
11	The government should commission an independent report to outline practical next steps to facilitate switching, including portable account numbers, in the credit card market.
12	The RBA should lower interchange rates to reduce the cost of paying by card.

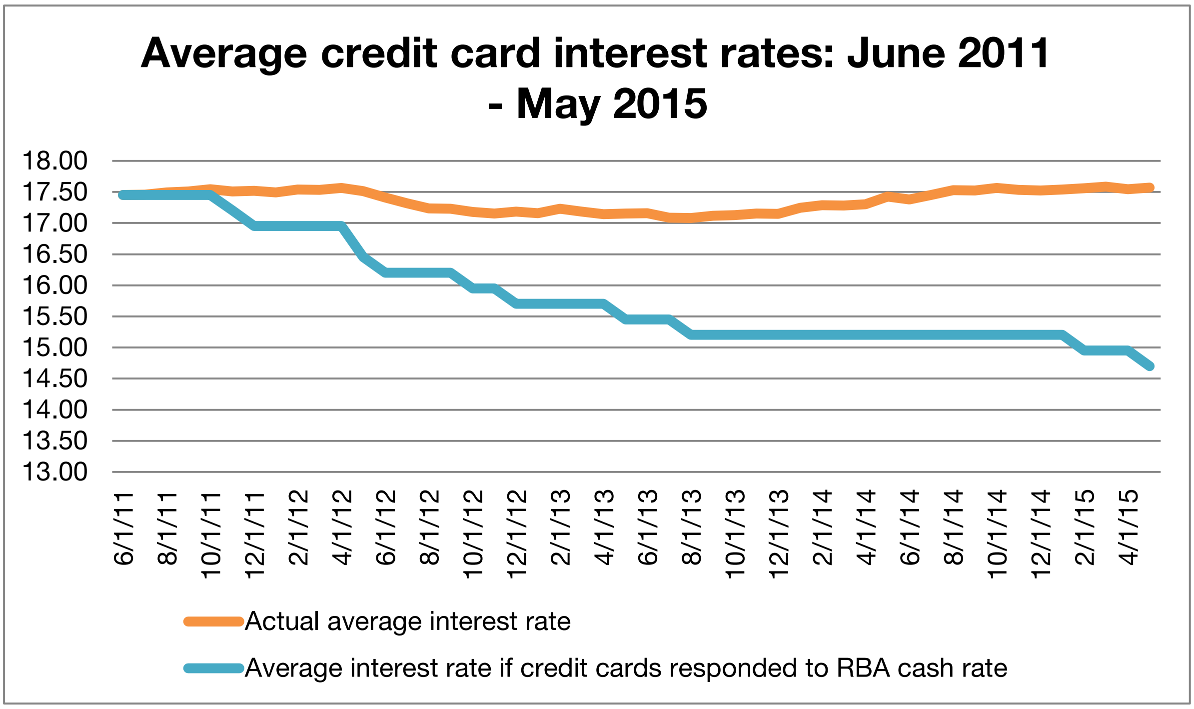
1. Trends in the credit card market

At a time when the cost of providing credit is decreasing, card providers are charging consumers more than ever. Using data supplied by comparison site Mozo, CHOICE has assessed major trends in the credit card market from June 2011 (the point when card interest rates largely stopped responding to movements in the official cash rate) to June 2015.

The Reserve Bank of Australia (RBA) has cut the cash rate by 2.75% since June 2011. Despite this, the data shows that credit card providers are increasing costs for consumers across the board through higher interest rates, higher annual fees and in pushing balance transfer deals with high costs.

Interest rates have increased

The average credit card interest rate at 31 May 2015 was 17.61%. Instead of falling in line with the cash rate, the average credit card interest rate has risen by 0.2% over the last four years from 17.41% in June 2011.[1]



[1] Based on an analysis by Mozo of interest rate changes of over 170 credit cards between 2011 and 2015. Unless otherwise noted, all data in section oneis based on figures supplied by Mozo.

The graph above compares the average credit card interest rate on all cards to the interest rate if cards responded to RBA announcements. If credit card interest rates had moved in line with RBA cash rate announcements, as they largely had before 2011, the expected average interest rate in May 2015 would have been 14.70%.

Few card providers respond to cash rate announcements

Very few card providers have passed on any reduction in interest rates as a result of changes in the cash rate since late 2011. An analysis of over 55 major card providers from November 2011 to May 2015 found that at most 16% of card providers made any change to interest rates in the month after a reduction in the cash rate (see table below). Rate decreases varied by as little as 0.1% right up to several percentage points, suggesting that not all changes were linked to cash movements.

Number of card providers that adjusted interest rates after a change in the cash rate.

Date of RBA decision	New cash rate	Number of card providers that made interest rate decreases within the month	Total number of card providers assessed	Percentage of card providers that made any change to interest rates
2 November 2011	4.50%	6	56	11%
7 December 2011	4.25%	5	57	9%
2 May 2012	3.75%	9	57	16%
6 June 2012	3.50%	7	57	12%
3 October 2012	3.25%	6	57	11%
5 December 2012	3.00%	7	58	12%
8 May 2013	2.75%	8	58	14%
7 August 2013	2.50%	4	57	7%
4 February 2015	2.25%	3	56	5%
6 May 2015	2.00%	4	56	7%

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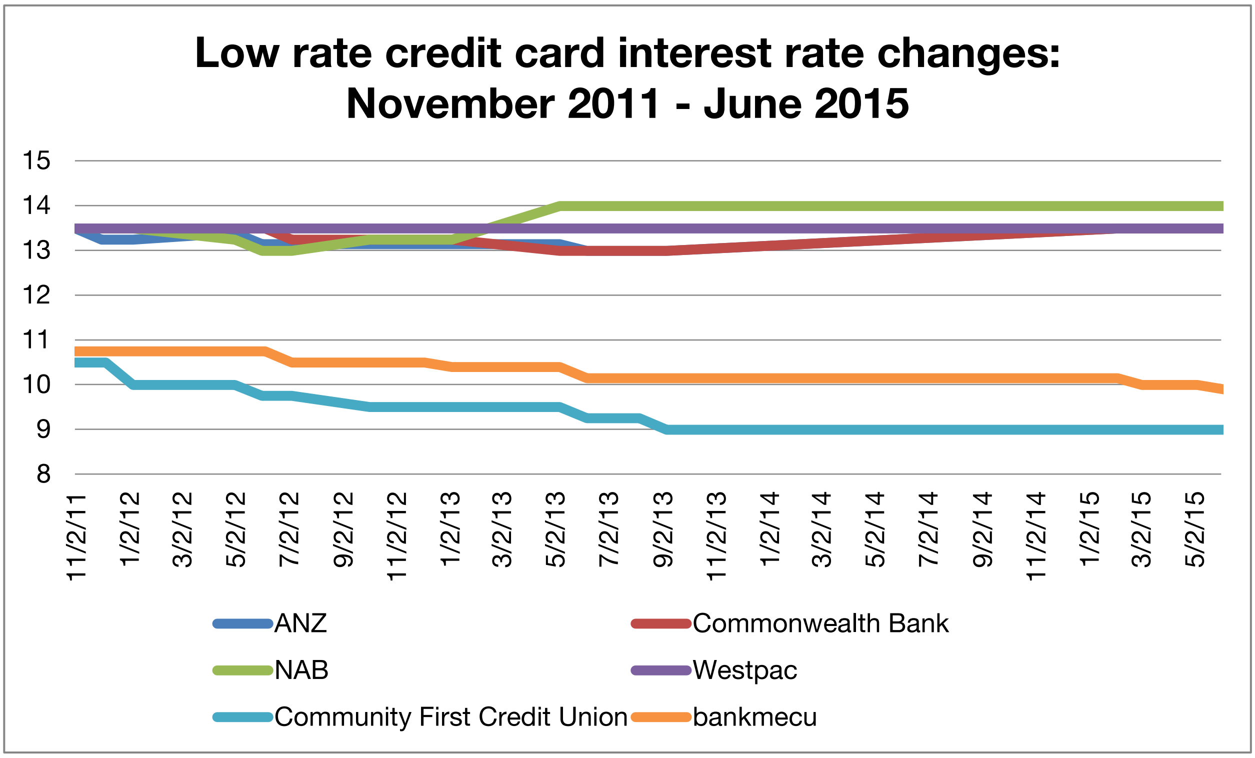
Big banks have increased interest rates on low rate cards

Australia's largest banks are not competing on the basic costs of credit cards. Three out of Australia's four big banks have increased interest rates on low rate cards since 2013. The only big bank which didn't increase the interest rate on their low rate card was Westpac, which kept the interest rate static for five years at 13.49% despite the 2.75% drop in the cash rate.

In comparison, two of the consistently best performing cards (by cost) in the market, Community First Credit Union's McGrath Pink Visa and bankmecu's Low Rate Visa, have dropped interest rates gradually and largely in line with cash rate movements (see graph below).



This development is particularly worrying. Low rate credit cards do not have other features that contribute to the cost of the card for the provider, such as added travel insurance, rewards points or zero currency conversion fees. Low rate cards are no-frills products and should be the most likely to respond to changes to a major cost input like the official cash rate.

Other major costs for big bank credit cards are extremely high. Amongst the big four banks, the average credit card interest rate is 18.98% and the average annual fee is $146. By contrast, the average interest rate for credit cards from credit unions and mutual banks is 14.04% and the average annual fee is $58. The failure of large banking institutions to pass on savings on their low rate credit cards suggests a major problem with the competitive pressure in the credit card market.

Other card costs are rising

The average credit card annual fee has risen from November 2011 to May 2015 from $94 to $115.

Credit card providers are aggressively marketing 0% balance transfer and 0% introductory purchase offers to lure in new customers. The number of 0% balance transfer offers on the market has exploded from ten in June 2011 to 112 now. 0% introductory purchase rate offers have surged over the same period from three in mid 2011 to 47 now.

While these offers may seem to provide a good deal for customers with existing card balances, most transfer offers have a sting in the tail in the form of high revert rates. Instead of reverting to the card purchase rate, it is becoming increasingly common for balance transfer offers to revert to the higher cash advance rate. The average revert rate for 0% balance transfer offers is now 20.09%.

Rewards points: rarely worth the cost

Rewards points are often presented as a valued credit card feature. They're widely advertised and often used to steer consumers to a certain card. For typical credit card users rewards points are useless or, worse, add costs to a card.

Mozo analysis on rewards points from July 2015 has found that consumers need to spend an excessive amount to gain rewards. The average annual fee on rewards credit cards is higher than other cards at $165, the average interest rate is over 2% higher than other cards at 19.73%, and the average 'net' value of a rewards credit card is just $88 per year.

How much do rewards really cost?

Mozo research has found that consumers need to spend over $4000 to get worthwhile rewards.

Reward: $100 cash back
Lowest spend required: $6,966
Average spend required: $24,029
Highest spend required: $40,000 (This would take the average spender 2 years to redeem)

Reward: $100 gift card
Lowest spend required: $6,066
Average spend required: $17,926
Highest spend required: $64,000 (This would take the average spender 3.5 years to earn)

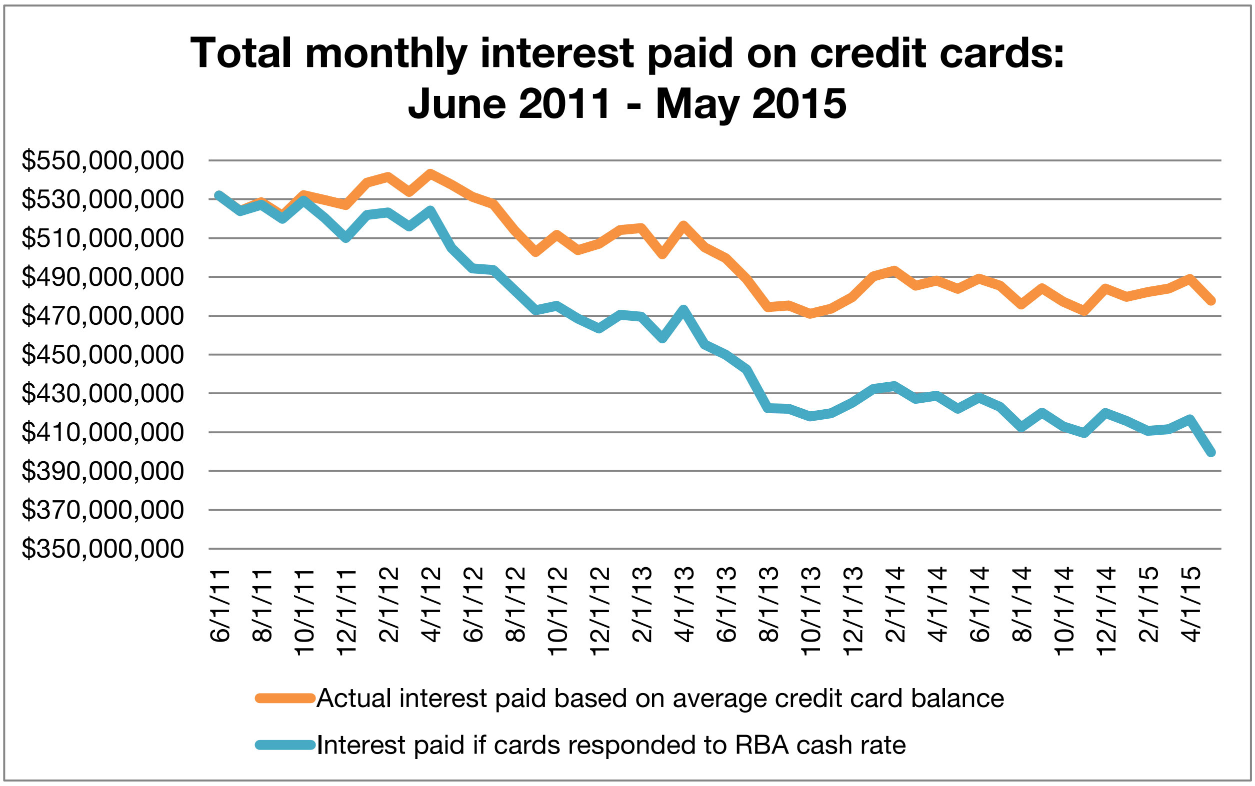
Reward: One Way Flight from Sydney to Melbourne
Lowest spend required: $4,100
Average spend required: $11,893
Highest spend required: $53,333 (This would take the average spender almost 3 years to earn)

Reward: Return Flight from Sydney to London
Lowest spend required: $83,333
Average spend required: $188,913
Highest spend required: $853,333 (This would take the average spender 47 years to earn)

$2 billion and counting: the cost to consumers

The failure of card providers to move interest rates in line with cash rates costs consumers. If credit card interest rates had moved in line with the Reserve Bank cash rate over the last four years, Australian credit card holders would have paid $2.07 billion less in interest since mid-2011.

Based on an average of all card holders, each card holder has paid an additional $281 in interest charges since 2011 because of unnecessarily high interest rates. However, not all card holders pay interest. 58% of people in a CHOICE survey stated that they pay their full credit card balance every month.[2] Looking at only the 42% of people who pay interest on credit cards, this means that an average consumer who has paid interest since 2011 has paid an additional $669.44 because credit card interest rates have failed to respond to the cash rate.



[2] See section two.

2. Understanding consumer behaviour

Consumers are paying too much for their credit cards. Yet, there is a lot of choice in the card market. As noted by the Australian Bankers' Association, there are approximately 200 credit cards provided by over 60 credit card companies with a range of features and price points.[3]

To understand this phenomenon, CHOICE commissioned research into consumer understanding and use of credit cards.[4] Findings show that despite the number of choices available, consumers are not choosing the best deals for their situation; they are paying more than they need to and are not switching products. In short, there is a demand-side failure contributing to a lack of competition despite the number of choices in the market.

Credit card providers are making it difficult for consumers to compare cards and understand costs. With consumers experiencing confusion about the features of cards, difficulty calculating costs and a general lack of engagement with card products, multiple interventions are needed to stimulate demand-side competition.

Factors driving choice of card

Most consumers (45%) have one credit card, 22% have two and only 7% have three or more. 26% of consumers do not have a credit card for personal use. 35% of Gen Ys do not have a credit card, compared to 24% of Gen Xs, 20% of Baby Boomers and 22% of Pre Boomers.

Consistent with recent surveys,[5] CHOICE research found that nearly eight in ten consumers (77%) have their primary credit card with one of the big four banks or sub-brand owned by the big four (like St George, UBank, Bank of Melbourne). Only 10% of people have the credit card they use the most with a small bank, credit union, building society or mutual

[3] See http://www.skynews.com.au/business/business/personal/2015/07/15/lots-of-competition-on-credit-cards.html
[4] CHOICE, survey into consumer use and understanding of credit cards, July 2015. This survey was conducted among 1,679 Australians aged 18-75 years. Of these, 1,244 have at least one credit card. Quotas were set up to ensure the final sample is representative of the Australian population by age groups, gender and state, data was weighed to the latest ABS population data (Census 2011). Fieldwork was administered and managed by GMI-Lightspeed who is a member of AMSRS and abides strictly to codes of conduct for market research and panel management in Australia. Fieldwork commenced on 23rd July, 2015 and completed on 29th June, 2015. Data has been significance tested at 95% confidence level.
[5] See Treasury (2015), Credit card interest rates: http://www.treasury.gov.au/~/media/Treasury/Access%20to%20Information/Disclosure%20Log/2015/1746/Downloads/PDF/Document_1.ashx

bank.[6] This means that most consumers have a credit card that has a higher interest rate and annual fee than other offerings in the market.[7]

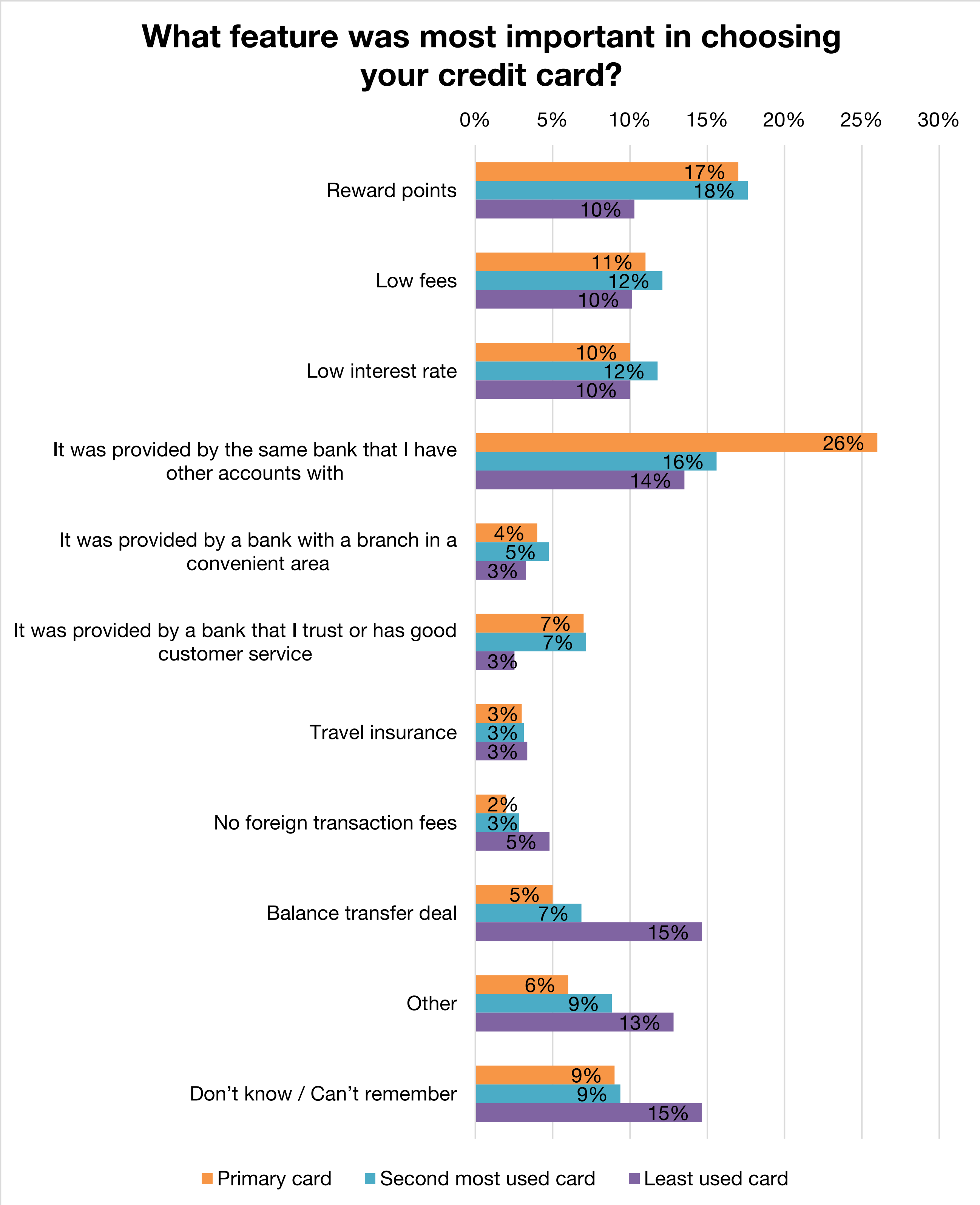
Most consumers say that low costs are the most important feature for them in choosing a credit card. Survey respondents were asked to rank credit card features that were most important to them. The average responses, from most to least important, were:

1. Low fees
2. Low interest rate
3. Interest free period
4. Rewards scheme
5. Product is provided by a bank they have other accounts with
6. Good customer service
7. Easy to use overseas
8. A balance transfer deal
9. Travel insurance[8]

62% of people said that 'low fees' was the most or second-most important feature of a credit card while 51% of people said that 'low interest rate' was the most or second-most important feature of a credit card. In comparison, only 17% of people said that having a card from a bank they have other accounts with was the most or second most important feature of a card.

While consumers say that low costs are most important to them, the reasons they have chosen their credit cards vary significantly. The graph below shows the most important card feature that led consumers to purchase their current card.[9] Only 11% of people chose the card they use the most because of low fees and only 10% because of a low interest rate. 17% of people chose their primary credit card because of the rewards points on offer. 26% of people chose they card they use the most because it was provided by a bank they have another account with. Consumers with three or more cards were more likely to choose a card because of a balance transfer deal.

[6] CHOICE survey. Responses to 'Thinking about the credit card you use most often, who is the provider of this card?', n=1244.
[7] Based on Mozo comparison, section one.
[8] Ibid. Responses to 'How important are the following credit card features to you?' with consumers asked to rank card features on a scale of 1-9 from most important to least important. N= 1244.
[9] Ibid. Responses to 'Which one of the following was the key feature that made you choose to get this card?' Consumers with two or more credit cards were also asked for the reasons they chose their second most used card and the card they use the least often, to get a broader sense of the various drivers behind card purchasing decisions. N=1244 for primary credit card, n=492 for second most used card, n=119 for least used card (only applied to consumers with three or more cards).


What feature was most important in choosing your credit card?
0%
5%
10%
15%
20%
25%
30%
Reward points
17%
18%
10%
Low fees
11%
12%
10%
Low interest rate
10%
12%
10%
It was provided by the same bank that I have other accounts with
26%
16%
14%
It was provided by a bank with a branch in a convenient area
4%
5%
3%
It was provided by a bank that I trust or has good customer service
7%
7%
3%
Travel insurance
3%
3%
3%
No foreign transaction fees
2%
3%
5%
Balance transfer deal
5%
7%
15%
Other
6%
9%
13%
Don’t know / Can’t remember
9%
9%
15%
Primary card
Second most used card
Least used card

Low levels of card switching

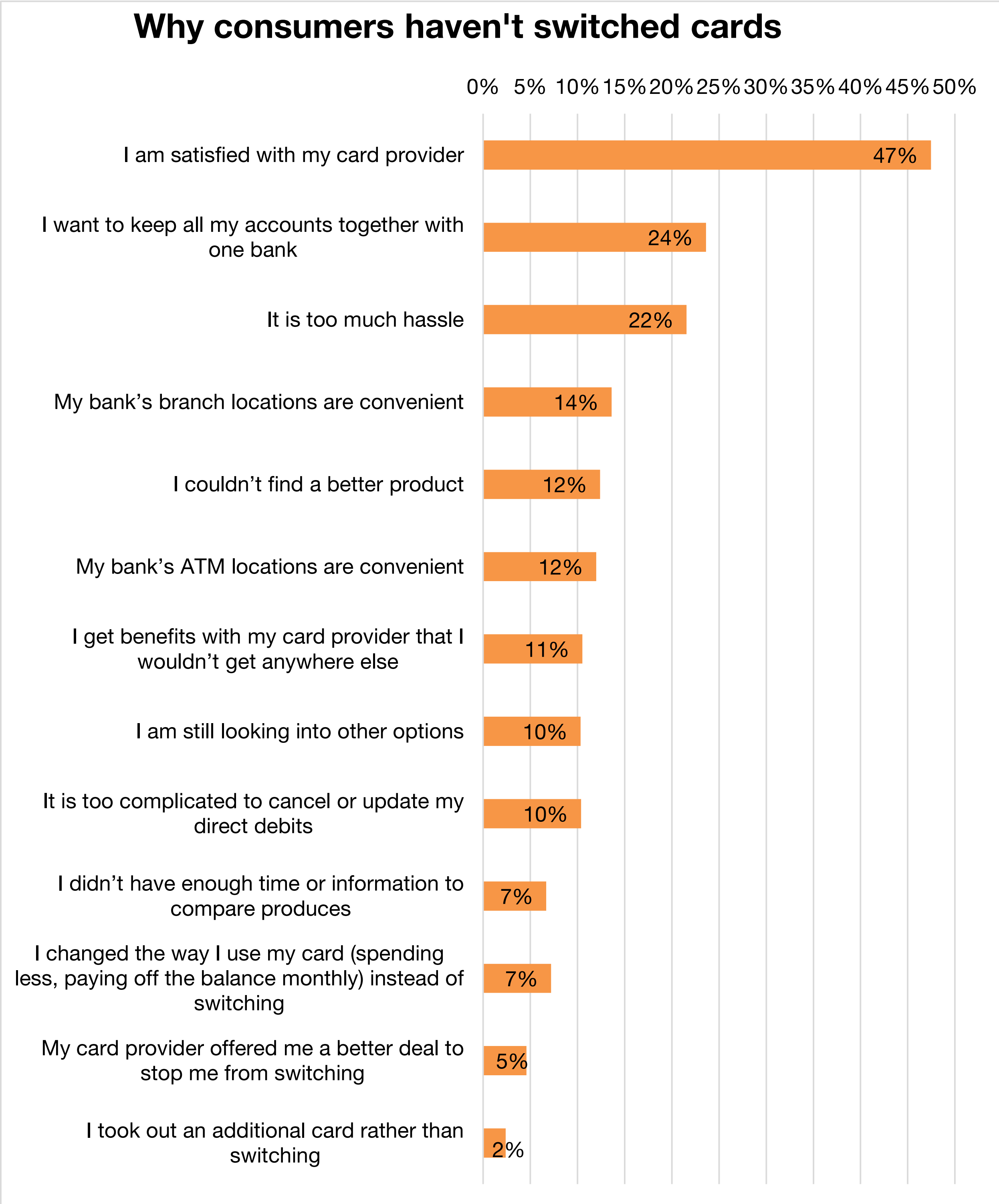
Over seven in ten consumers (72%) have not considered switching credit cards in the last two years. 17% have considered switching but not taken action, leaving only 11% of consumers who have switched credit card products in the last two years.[10] This indicates significant inertia as consumers in poor deals are unlikely to have assessed whether better options are available.

Consumers who did switch cards were largely influenced by sweetheart transfer deals. Consumers said they switched credit cards:

- For an interest free period (29%)
- For a balance transfer deal (29%)
- Because they opened another account with a new bank and wanted to keep all accounts together (26%)
- To access a better rewards scheme (26%)
- To pay a lower annual fee (22%)
- To get a better interest rate (21%)[11]

Nearly half (47%) of people who say they haven't switched say it is because they are satisfied with their current card provider. After this, the main reasons consumers listed for not switching cards was because they wanted to keep all accounts together with one bank (24%) and because of perceived hassle of switching (22%). 10% of people did not switch because they believe it is too complicated to cancel or update direct debits. Just 7% of people didn't switch because they changed their spending behavior (such as spending less or paying a balance monthly).[12]

[10] CHOICE survey, responses to 'In the last 2 years, have you switched or considered switching any of your credit cards to another financial institution?' n=1244.
[11] CHOICE survey, responses to 'What are all the reasons you decided to switch your credit card?', multiple responses allowed. N=136.
[12] CHOICE survey, responses to 'Why did you decide not to switch your credit card?', multiple responses allowed. N=1108.


Why consumers haven't switched cards
0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50%
I am satisfied with my card provider
47%
I want to keep all my accounts together with one bank
24%
It is too much hassle
22%
My bank's branch locations are convenient
14%
I couldn't find a better product
12%
My bank's ATM locations are convenient
12%
I get benefits with my card provider that I wouldn't get anywhere else
11%
I am still looking into other options
10%
It is too complicated to cancel or update my direct debits
10%
I didn't have enough time or information to compare produces
7%
I changed the way I use my card (spending less, paying off the balance monthly) instead of switching
7%
My card provider offered me a better deal to stop me from switching
5%
I took out an additional card rather than switching
2%

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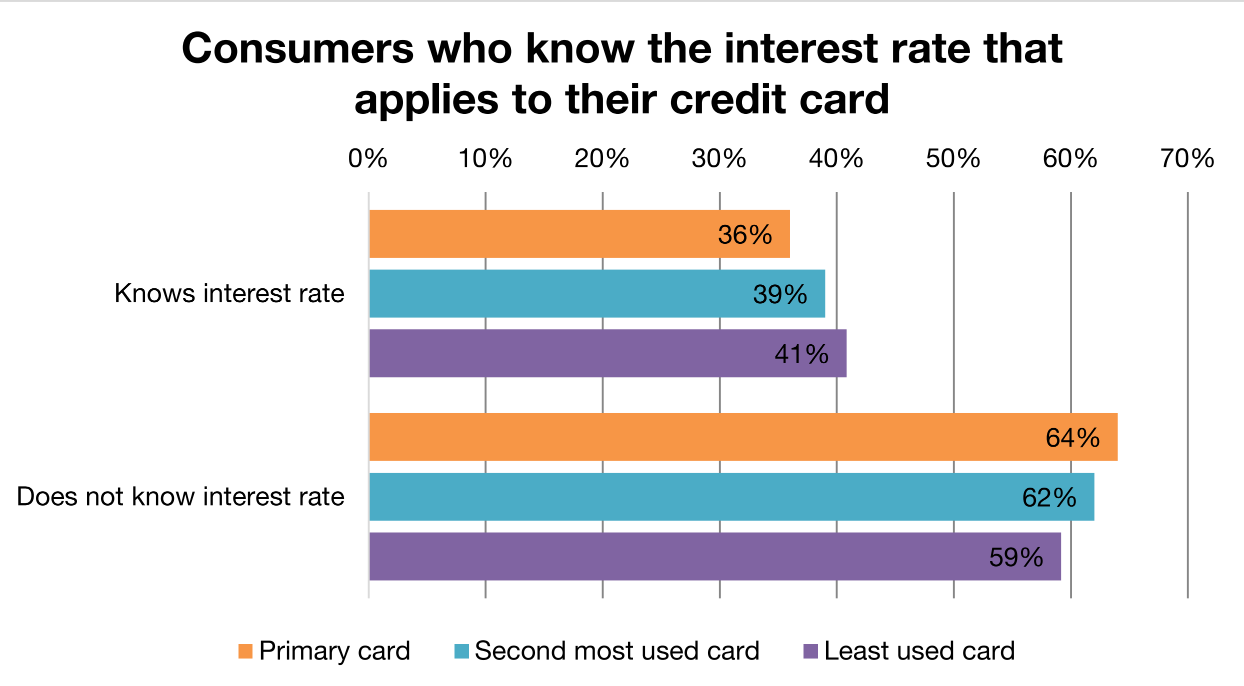
Most consumers do not understand key features of their credit card

Over 64% of consumers do not know the interest rate that applies to the credit card they use most often.[13] This is an increase from 2013, when 48% of consumers did not know the interest rate that applied to their card.[14] Consumers with three or more cards are slightly more likely to know their interest rate.

In addition to this, most consumers do not understand the implications of the minimum monthly repayment amount on their credit card statement. Over half of consumers (54%) said they didn't know or answered incorrectly when asked about the meaning of the minimum monthly payment on their credit card statement. 40% of people incorrectly said that paying the minimum monthly payment meant they wouldn't be charged interest on their credit card debt when it only means late fees won't apply.[15]

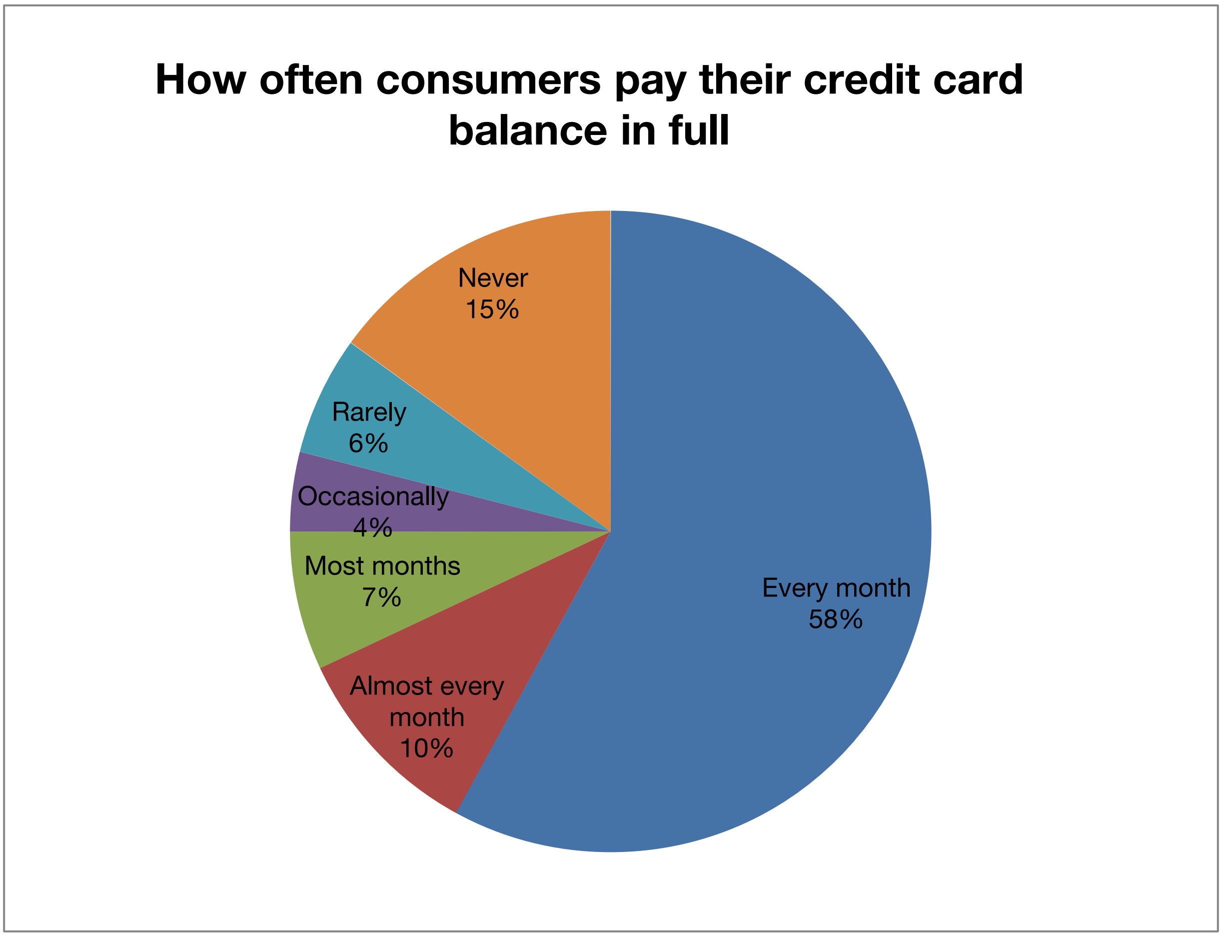


[13] CHOICE survey, Responses do 'Do you know the interest rate on your credit card?', does not know includes 'no' and 'don't know' responses. N=1244 for primary credit card, n=492 for second most used card, n=119 for least used card (only applied to consumers with three or more cards).
[14] CHOICE asked an identical question as part of a nationally representative survey in 2013. See https://www.choice.com.au/about-us/media-releases/2013/june/almost-half-of-australians-do-not-know-their-credit-card-rate
[15] CHOICE survey, responses to 'Every month your credit card statement indicates a minimum monthly payment that is due. Do you think this indicates the amount you need to pay to avoid: Being charged interest on your credit card debt/Being charged penalties for late repayments/Don't know'. N=1244.

These statistics are particularly concerning as most consumers (77%) have a credit card with a major bank with, on average, higher interest rates that cards from smaller banks, credit unions and mutual banks.

Over half of consumers pay their full card balance each month

58% of people pay off the credit card they use the most in full every month. 21% of consumers never pay off their full credit card balance or only do so once or twice a year, indicating they are accruing interest nearly every month. One in five people (20%) on low incomes never pay off their full balance compared to one in ten people on middle (12%) and high incomes (11%).[16]



[16] CHOICE survey, responses to 'In the last twelve months, how many times did you pay off the balance on this card in full?', response options: every month, almost every month (10 or 11 months of the year), most months (6-9 months of the year), occasionally (3-5 months of the year), once or twice in the year, never. N=1244.

3. Reform required to reduce the cost of cards

Making the cost of a card clear

Most people are looking for a credit card with low costs but end up choosing cards based on other factors. This is likely due to the complexity of credit card products, with features like 0% transfer deals, rewards points and even interest rates expressed in percentages, all making it difficult for consumers to compare the true cost of a card.

59% of people said that they would like more information about the exact amount they would pay in fees and interest when choosing a credit card.[17] Simple pricing is needed to help consumers spot the best value card, increase switching and stimulate competition in the card market.

To help consumers cut through the marketing confusion, CHOICE recommends that card providers are required to include monthly interest and fee payments based on an average card balance (as defined by the RBA), in all advertising and marketing material. This disclosure must be prominent and readable. The examples below demonstrate how this change could make card costs clear.

This kind of comparison quickly alerts consumers to the true cost of a card. The current average credit card balance is $4,433 and based on current cards on the market, monthly interest rates can vary by $65.92, or an annual cost of $791.[18] The average consumer who has a credit card with a big bank is paying between $54.67-$109.27 in interest and fees, with $655.16 difference in the annual cost between the lowest and highest rate cards.

Recommendation:

1. **Credit card advertising should include the monthly cost for a consumer with an average card balance based on the interest rate and annual fee. The figure should be in dollars to help consumers cut through marketing confusion.**

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[17] CHOICE survey. Responses to 'To what extent do you agree or disagree with the statement 'I would like more information about the exact amount I will pay in fees and interest when choosing a credit card', answer total 'strongly agree' and 'agree' N=1244.
[18] Average balance calculated using value of credit card balances accruing interest (RBA Credit and Charge Card Statistics C01 13/07/2015) and total credit card holders figure for the 12 months ending June 2015 (Roy Morgan, July 2015). Card interest rates sourced from betterbanking.choice.com.au – correct as of 9 August 2015.

Best and worst cards by interest rate[19]					
Provider	**Card**	**Interest**	**Annual fee**	**Monthly cost**	**Annual cost**
Community First Credit Union	McGrath Pink Visa	8.99%	$40.00	$36.55	$438.55
bankmecu	Low Rate Visa	9.89%	$59.00	$41.45	$497.45
Victoria Teachers Mutual Bank	Visa Platinum Credit Card	9.99%	$84.00	$43.91	$526.89
ME	frank Credit Card	9.99%	$0	$36.91	$442.89
G&C Mutual Bank	Low Rate Credit Card	9.99%	$50.00	$41.07	$492.89
Virgin Money	Virgin Australia Velocity High Flyer Card	20.74%	$289.00	$100.71	$1,208.47
David Jones	American Express Platinum Card (Qantas)	20.74%	$295.00	$101.21	$1,214.47
28 Degrees	Platinum MasterCard	20.99%	$0	$77.55	$930.55
Citibank	Signature	20.99%	$299.00	$102.46	$1,229.55
GE Money	MasterCard	23.50%	$69.00	$92.57	$1,110.82

Big four: cost of low and high rate cards					
Provider	**Card**	**Interest**	**Annual fee**	**Monthly cost**	**Annual cost**
Westpac	Low Rate	13.49%	$59.00	$54.75	$657.05
Commonwealth Bank	Low Rate Credit Card	13.49%	$59.00	$54.75	$657.05
ANZ	Low Rate	13.49%	$58.00	$54.67	$656.05
NAB	Low Rate	13.99%	$59.00	$56.60	$679.22
NAB	Qantas Rewards Premium Card	19.99%	$250.00	$94.68	$1,136.22
ANZ	Frequent Flyer Black	19.99%	$425.00	$109.27	$1,311.22
Commonwealth Bank	Platinum Awards Credit Card	20.24%	$249.00	$95.52	$1,146.30
Westpac	Altitude Platinum - Online Offer (Qantas)	20.24%	$150.00	$87.27	$1,047.30

[19] Interest rates from betterbanking.choice.com.au, correct as of 9 August 2015.

Informed choice: the key to personal comparisons

Currently, a consumer needs to take multiple factors into account in order to determine exactly how much a credit card will cost them per month. Requiring card providers to disclose the average monthly cost of a card will provide a benchmark for card comparison but still won't let consumers know what the best card in the market is based on their individual needs.

If card providers gave consumers machine-readable information about their purchase habits and payment history, this data could be used to compare the best card on the market for each individual. This informed choice approach can be implemented by adapting the UK's open data program for the Australian credit card market.

The UK's Midata programme was launched in 2011. A voluntary scheme, it is based on the key principle that consumers' data should be released back to them in a uniform, secure, machine-readable format. This information will then be able to be used in secure comparison engines to generate personal recommendations. The scheme aims to help consumers make meaningful comparisons about the different products in key markets, with a particular focus on energy and banking.

Implementing a scheme in Australia based on Midata would benefit the competitive process by supporting robust demand-side competition by enabling consumers to make better informed decisions based on their personal preferences, consumption habits and needs. It would also encourage innovation as third parties analyse available open data and identify possibilities for new products and services.

Comparison of cards based on past-use and individual needs is technically possible. But establishing a system will take the cooperation of government, industry and consumer groups.

Both Final Reports of the Competition Policy Review and the Financial System Inquiry recommended exploring the benefits of an open data policy for consumers. Given the confusion and high costs in the credit card market, it makes sense to launch a project focusing on these products.

Recommendation:

2. **The federal government should launch a working group to establish principles for an informed choice system for credit cards in Australia, working towards a**

partnership agreement that allows consumers to access and use their own credit card data. The working group should include government, industry, consumer groups and privacy experts and work towards establishing an informed choice scheme for consumers by early 2017.

Encouraging switching

CHOICE strongly agrees with the Financial System Inquiry that "…financial system participants, in dealing with consumers, should have regard to consumer behavioural biases and information imbalances."[20]

The 2011 credit card reforms included requirements to improve disclosure.[21] The reforms aimed to provide consumers with the right kind of information when they needed it, such as a notice on all statements about how long it will take to pay off a credit card balance if only minimum monthly payments are made. These reforms were important but, as consumers still struggle to understand key features of their credit cards and the implications these features have on costs, more effective, smart disclosure is needed. Increasing consumer understanding of key costs should lead to changes in behaviour as well as increased rates of switching.

Of the 72% of credit card holders that haven't considered switching cards in the last two years, 47% say it is because they are satisfied with their current card provider even though most would not be on the most affordable card on the market and 12% say they could not find a better deal. Both of these reasons point to difficulty consumers are experiencing in comparing their current card with other deals on the market. In addition to increasing understanding of interest rates through advertising, card providers should be informing consumers of the cost of their card in relation to other cards in the market.

To encourage switching and stimulate further demand-side competition in the card market CHOICE recommends that card providers be required to include more information about the value of credit cards in communications with customers, including a comparison of the cost of the current credit card versus the cost of the provider's lowest rate card.

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[20] Financial System Inquiry (2015), *Final Report*, p. 193.
[21] *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011* (Cth).

Similar reforms were implemented in the British electricity market. Reforms were implemented to address high levels of consumer confusion and poor demand-side competition in the electricity market. British electricity suppliers are now required to:

- Give all customers personalised information about the cheapest tariff the supplier offers. This information has to appear on each bill and a range of other communications to customers.
- Present information in a simple and more engaging way.
- Use a new Tariff Comparison Rate in all communications with customers to provide simple information for comparisons.
- Use a new tariff information label setting out key terms and conditions as well as relevant information to help consumers compare offers across suppliers.
- Have transferred all customers on existing expensive 'dead tariffs' (products that are no longer marketed) onto the cheapest tariff. A consumer can remain on 'dead tariffs' if they are cheaper, or as cheap, as the supplier's lowest tariff.[22]
- To deal with multi-branding, suppliers have to inform customers of better deals offered by sub-brands.[23]

As noted by the Chief Executive of the Australian Bankers' Association, Steve Munchenberg, "The interest rate on bank credit card products covers a broad range - from a low of 5.30 per cent to a high of 20.99 per cent. Each credit card product offers a range of benefits - from no frills to premium options."[24] With this variety in the market, card providers can do more to educate their customers about their range of offerings, including the true cost of a consumer's current product compared to the cheapest card offered by the provider.

CHOICE recommends adapting the suite of actions implemented in the UK electricity market, for application in the Australian credit card market. These changes would most benefit consumers who have a credit card with a major bank that offers a range of cards. It will also assist customers on legacy products or who are paying high interest after initially switching because of a transfer deal.

[22] For further information see the Ofgem website: https://www.ofgem.gov.uk/information-consumers/domestic-consumers/understanding-energy-bills
[23] See http://www.telegraph.co.uk/finance/newsbysector/energy/11085860/British-Gas-forced-to-tell-its-customers-Sainsburys-Energy-is-cheaper.html
[24] http://www.smh.com.au/business/banking-and-finance/credit-card-holders-gouged-more-than-2-billion-since-2011-research-shows-20150803-giqveu.html#ixzz3htAhG9Kd

Recommendations:

3. **Card providers should disclose to customers how much they would personally save if they switched to the provider's cheapest card. The disclosure should be expressed in clear terms such as: "This month you will be charged $X in fees and interest. On our low rate credit card you would have paid $X in fees and interest, saving $X." This figure should be expressed in dollars, not as a percentage, and be included on the front page of a monthly credit card statement as well as a range of other communications to customers.**
4. **Card providers who offer products through sub-brands should be required to include the offerings of sub-brands in the comparison between the consumer's existing card and other offerings.**
5. **Card statements should include information about the credit card market generally, including the lowest interest rate in the market as identified by the RBA.**
6. **Minimum monthly repayment should be renamed to 'Payment required to avoid fees.'**
7. **All customers on existing products that are no longer marketed should be switched to the card providers' cheapest card. No switch should occur if the legacy product is lower cost. If the legacy product includes special features that may be advantageous to some consumers, the card provider should be required to inform consumers that they are on a legacy product and provide information about personal savings the customer could make if they switched to a cheaper product.**
8. **The government or an independent party should test any changes to credit card statements to determine the most useful format for consumers.**

Making switching easier

The process of cancelling a credit card is unnecessarily onerous for consumers. Of consumers who have not switched credit cards in the last two years, 22% say they haven't done so because it is too much hassle and 10% haven't because it is too complicated to cancel or update direct debits.[25] Of consumers who have switched cards in the last two years, 27% say they experienced issues cancelling their old credit card.[26]

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[25] CHOICE survey, responses to 'Why did you decide not to switch your credit card?', n=1108.
[26] Ibid, responses to 'What problems, if any, did you experience when switching your credit card?', n=136.

The process for cancelling a credit card is stuck in a pre-internet era. In order to cancel a CBA credit card a customer needs to visit a bank branch or call to speak to a customer service representative.[27] Similarly, Westpac and NAB require card holders to call or send a physical letter to cancel a card.[28]

ANZ requires customers to call or write a letter to cancel a credit card account.[29] In addition to this "ANZ will only cancel the credit card when the account holder has returned it to ANZ cut diagonally in half (including any chip on the card) or has taken all reasonable steps to return it to ANZ."[30] It is unclear if ANZ will cancel a card that is returned cut vertically or horizontally.

There is no reason why the process of cancelling a card should not include an online option. Card providers have little incentive to offer this to consumers, instead requiring most customers to have a sales discussion.

To further assist switching, card providers should make it simple for a customer to arrange the transfer of all automatic transactions (direct debits) to a new card. Currently, if a customer wants to switch credit cards, they need to contact all businesses they have direct debit arrangements with to notify them of the change. Card providers should accept requests directly from customers to cancel direct debits at any time and provide an automated option to transfer all direct debits.

A 'tick and flick' process for direct debit transfers was introduced for transaction accounts in 2012. It is rarely used as it is not promoted by banks.[31] To combat this problem, information about switching credit card products, including direct debit transfers, should be included on a credit card statement and in other key pieces of communication to a customer.

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[27] https://www.commbank.com.au/support/faqs/737.html accessed 7 August 2015.
[28] http://www.westpac.com.au/faq/cancel-credit-card/ and NAB, Credit Card Terms, clause 17.2 http://www.nab.com.au/personal/credit-cards/credit-card-terms-conditions-and-other-information accessed 7 August 2015.
[29] See ANZ Credit Card terms, clause 31 http://www.anz.com.au/resources/d/5/d552bb8041ccf3cf8fa2dfb283c86c53/ANZ-CreditCards-Conditions-Of-Use.pdf?MOD=AJPERES accessed 7 August 2015.
[30] Ibid, clause 31(b).
[31] https://www.australianbankingfinance.com/banking/bank-product-apathy--why--tick-and-flick--failed/

Finally, to further promote switching, industry should work towards portable account numbers. This was explored in a 2011 government-commissioned report into switching.[32] Account portability was ruled out because of technical difficulty as the current payments system is based on numerous bilateral linkages (electronic connections between individual financial services providers).[33] However, since this report the payments industry have commenced work on the New Payments Platform (NPP) to facilitate real-time payments.[34] Account portability should be reconsidered in light of this new investment in payments infrastructure to ensure that account portability can be considered in the design state of the NPP.

CHOICE maintains that portable account numbers are technically feasible. As payment system providers make investment decisions around information architecture, fully portable account numbers need to be incorporated.

Card providers have little incentive to instigate switching reforms, particularly those that require cooperation with competitors. To combat this, CHOICE recommends that the government commissions an independent report to outline practical next steps to facilitate switching in the credit card market.

Recommendations:

9. **Card providers should be required to offer consumers simple online options to cancel credit cards.**
10. **The government should introduce legislation to establish a 'tick and flick' switching process to allow customers to easily transfer direct debits to a new credit card. The process should be offered online and in-branch. It should be promoted in credit card statements and other key communications to card holders.**
11. **The government should commission an independent report to outline practical next steps to facilitate switching, including portable account numbers, in the credit card market.**

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[32] See Banking Services, Cost-effective Switching Arrangements (2011), http://banking.treasury.gov.au/content/reports/switching/downloads/switchingarrangements_aug2011.pdf
[33] Ibid, 2.7.
[34] See http://www.apca.com.au/about-payments/future-of-payments/new-payments-platform-phases-1-2

Interchange fees

MasterCard and Visa have been setting higher interchange fees over the last few years, with additional costs for merchants to accept cards passed on to consumers through higher prices or card acceptance fees. Lowering interchange will reduce costs across the payment system and should make using a credit or debit card cheaper for most consumers.

Lowering interchange fees may make cards with large rewards points programs more expensive. Currently all card users effectively subsidise these rewards schemes through high interchange fees. Lowering interchange rates will stop all users subsidising expensive rewards programs and make the true value of rewards programs more transparent to the consumers who chose to use them.

CHOICE supports the recommendation made in the Final Report of the Financial System Inquiry to reduce interchange fees for card payments. CHOICE's preferred mechanism to achieve this is through a mixture of a hard cap and a weighted average for interchange fees, reset annually.

Recommendation:

12. **The RBA should lower interchange rates to reduce the cost of paying by card.**