Chapter 4

Competition and consumer choice in the credit card market

4.1 This chapter assesses the competitiveness of the Australian credit card market, and the extent to which consumers exercise choice.

4.2 As noted in chapter two, there are at least 80 credit card providers in Australia providing more than 250 products. An important paradox in the Australian credit card market, and one which was thrown into sharp relief over the course of this inquiry, is that despite the large number of credit card providers offering a wide range of products, consumers do not appear to be taking advantage of the options available. This chapter attempts to explain this paradox, and identify regulatory and policy interventions that might help improve the competitive dynamics of the market and enhance the capacity of consumers to make informed choices within that market. In doing so, this chapter builds on the discussion in the previous chapter regarding the need to better focus consumer attention on credit card interest rates.

4.3 This chapter also assesses the ability of consumers to switch from one card to another, and identifies and suggests ways to overcome barriers that might be preventing consumers from switching to a card that is more appropriate to their circumstances and needs.

4.4 Finally, this chapter considers whether innovations such as peer-to-peer lending might provide consumers with superior alternatives to credit card borrowing.

Competition and consumer choice in the credit card market

4.5 The banks were united in the view that the credit card market is, as CBA put it, 'very competitive and innovative'.[1] ANZ, for example, argued that the 'credit card segment is one of the most contested markets in the Australian finance industry', and this competition provided consumers with 'more choice than ever before of both provider and product'.[2]

4.6 Westpac submitted that there were various indicators of the competitiveness of the Australian credit card market, including 'the levels of innovation, the number of credit card providers and wide range of product offerings which suit the needs and behaviours of different customers, low barriers to entry and consumer switching'.[3]

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1 Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, p. 1.

2 ANZ, *Submission 27*, pp. 4–5.

3 Westpac, *Submission 21*, pp. 16–17.

CBA also argued that the attractive incentives for customers to accept a new card or switch cards was indicative of the 'vigorous competition in the market'.[4]

4.7 The banks told the committee that customers can and were taking advantage of the range of credit cards available to choose products appropriate to their needs.[5] Westpac, for example, noted that 30 per cent of credit card balances across the Westpac Group are now held in low-rate accounts, up from 23 per cent in 2010. Westpac further advised the committee that in the last two years low rate cards had accounted for over 50 per cent of new sales.[6] Other banks also reported that low rate cards accounted for a growing proportion of new card applications, and Westpac's figures were broadly consistent with industry-wide trends reported by the ABA.[7]

4.8 The RBA acknowledged that despite the prevalence of high-rate cards and the concentration of the market around the four major banks, there appeared to be 'some significant competition' in the credit card market, at least in terms of product offerings:

> There are a lot of card products out there that offer lower rates and special deals for balance transfers. In many cases, cardholders should be able to lower their interest rates by taking advantage of those offers if they are willing to shop around.[8]

4.9 While some submitters were concerned about the dominance of the four major banks in the credit card market, the committee received little evidence to suggest that there are significant barriers to new entrants in the market. Treasury advised the committee that the Australian credit card market appeared 'no less competitive than other Australian lending markets'. It further suggested that changes to credit card access regimes that were introduced by the *Banking Amendment (Credit Card)*

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4 Commonwealth Bank of Australia, *Submission 23*, p. 6.

5 Mr Anthony Pearson, Chief Economist and Executive Director, Industry Policy, Australian Bankers' Association, *Proof Committee Hansard*, 22 September 2015, p. 20.

6 Westpac, *Submission 21*, p. 9.

7 Commonwealth Bank of Australia, *Submission 23*, p. 5; Australian Bankers' Association, *Submission 15*, p. 7.

8 Dr Malcolm Edey, Assistant Governor, Financial System, Reserve Bank of Australia, *Proof Committee Hansard*, 27 August 2015, p. 10; Reserve Bank of Australia, *Submission 20*, p. 3.

Regulation 2014, which became effective in January 2015, would further reduce barriers to entry into the market for non-bank credit card providers.[9]

4.10 Westpac argued that these barriers were 'relatively low and have not inhibited new entrants', and also suggested barriers had been lowered further still by the January 2015 legislative changes. As evidence of the low barriers to market entry, Westpac pointed to 'an increase in the number of providers and products in the market. Recent new entrants included Woolworths, Coles, ME Bank, Myer and re-entry by Virgin'.[10]

4.11 While evidence about barriers to market entry from the four major banks might be received with scepticism by some, representatives of the community and cooperative banking sector also pointed to strong competitive dynamics on the supply side of the market. Of particular note, COBA advised the committee that the market was generally delivering competitive products and choice to consumers. The challenge, COBA argued, was to ensure 'consumers are informed and empowered to act in their own interests'. To this end, COBA recommended that ASIC devote resources to raising consumer awareness of diversity of product offerings in the credit card market, and the risks of high-rate cards.[11]

4.12 Representatives of comparison websites also suggested that the issue was not so much a lack of credit card options, but apparent consumer inertia. CANSTAR told the committee that despite the wide range of cards available, many consumers had the wrong card and were paying too much interest.[12] Mozo also observed that there were good value products available, but consumers were not moving, probably due to a lack of awareness or because they found switching too difficult.[13]

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9 Treasury, *Submission 17*, p. 4. In relation to these changes, the RBA explained that 'the Access Regimes applying to the MasterCard and Visa systems were varied effective January 2015, along with corresponding changes to the Banking Regulations. The changes are deregulatory in nature, giving the card systems greater flexibility to expand membership beyond existing participants. Following changes to Access Regimes, MasterCard and Visa have published assessment criteria on their websites for potential applicants seeking access to their respective systems, as required under the varied regimes. They are also required to report annually to the Bank on applications to participate, new participants accepted and the reasons for any rejections. Although the revised Access Regimes have only been operating for just over half a year, the indications are that the expanded scope for new participants in the schemes appears to be working, with a number of new participants admitted or progressing applications.' Reserve Bank of Australia, *Submission 20*, pp. 1–2.

10 Westpac, *Submission 21*, p. 3.

11 Mr Luke Lawler, Head of Public Affairs, Customer Owned Banking Association, *Proof Committee Hansard*, 3 September 2015, p. 18.

12 Mr Stephen Henry Mickenbecker, Group Executive, Ratings and Financial Services, CANSTAR Pty Ltd, *Proof Committee Hansard*, 22 September 2015, p. 33.

13 Mr Rohan Gamble, Managing Director, Mozo, *Proof Committee Hansard*, 22 September 2015, p. 33.

4.13 Mr Alan Kirkland, Chief Executive Officer of CHOICE, remarked that while there appeared to be lots of options in the credit card market, it was not clear that consumers were enjoying the benefits of competition:

> Competition, I would say, is not a one-sided force. Competition is about the interactions that occur within a market. Whenever you see a market where there are lots of offers and lots of things available to consumers but consumers are still being ripped off, that is a sign that there is not effective competition in the market and there is a problem that needs to be fixed, and it requires demand-side interventions.[14]

4.14 St Vincent de Paul challenged what it suggested was a neoliberal assumption that people on low incomes possessed the financial literacy necessary to 'interpret the implications of their choices upon their long-term financial situation in an economically rationalist manner'.[15]

4.15 As Treasury explained, even consumers with relatively high levels of financial literacy can struggle to understand and properly compare credit card products, given the multifaceted and complex nature of product offerings:

> …the credit card market is characterised by a large number of products, with these products showing a wide spread of characteristics, including different interest rate and fee structures, balance transfer offers, and rewards. In a way, this suggests that there is competition in the market and there are opportunities for consumers to choose cards suitable for them. However, the complexity of offerings can make it very difficult for consumers to compare products, especially where consumers suffer from behavioural bias such as near-term bias and overconfidence in their ability to constrain future spending.[16]

4.16 ASIC made a similar point, arguing that the actual exercise of consumer choice in the credit card market was made more difficult because of the inherent complexity of the products on offer:

> Credit cards are at least two products in one—a non-cash payment facility and a credit facility, plus a means of withdrawing cash. They are also often bundled and marketed with other financial products (such as insurance) and loyalty points, which make it more difficult for consumers to separate the price and value to them of each feature. This is particularly the case when some of the costs and benefits are immediate and others are realised in the future.[17]

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14 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 51.

15 St Vincent de Paul Society, *Submission 4*, p. 5.

16 Mr Michael Willcock, Acting Deputy Secretary, Markets Group, Department of the Treasury, *Proof Committee Hansard*, 22 September 2015, p. 55.

17 Australian Securities and Investments Commission, *Submission 16*, pp. 8–9.

4.17 CHOICE also asserted that the ability of consumers to understand and compare the value of credit cards, and thereby exercise real choice in the marketplace, is inhibited by the sheer complexity of product offerings:

> 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?[18]

4.18 As the above evidence suggests, helping consumers accurately and easily value and compare credit cards is an important factor in improving the ability and incidence of consumers pursuing better value credit card options. Empowering consumers in this manner is also likely to help create a stronger competitive focus on the pricing of credit cards. Possible reforms in this regard are considered in the next section of this chapter.

Breaking the 'confusopoly': empowering consumers to compare the market

4.19 The banks told the committee that they provide customers and potential customers with tools and information to help them choose an appropriate product.[19] ANZ, in referring to its own tools and calculators to assist customers in choosing a card, also noted that Australian credit card customers:

> …benefit from a strong regulatory environment designed to ensure customers are able to compare products and pricing and make well informed decisions about credit cards.[20]

4.20 In contrast, CHOICE argued that card providers actually rely on confusion to distract consumer attention from high interest rates:

> Some of the international competition thinkers call this 'confusopoly'—a deliberate strategy of product providers across a whole range of markets to make the comparison more difficult by adding lots of different features that are virtually impossible to compare.[21]

4.21 In order to help consumers cut through this confusion, CHOICE recommended that credit card advertising be required to include the monthly cost for a consumer, expressed in dollar terms, of an average card balance based on the interest rate and annual fee. Ms Erin Turner, CHOICE Campaigns Manager, told the committee that such a requirement would:

> …allow people to actually compare costs, not just interest rates, which are somewhat abstract and do not say anything about 'What'll this mean to me?

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18 CHOICE, *Submission 10*, p. 4.

19 Commonwealth Bank of Australia, *Submission 23*, p. 4; Westpac, *Submission 21*, p. 11.

20 ANZ, *Submission 27*, p. 3.

21 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 53. Also see CHOICE, *Submission 10*, p. 4.

> How much does this card cost?' I can look at card advertising at the moment and I cannot tell you how much that card will cost me or how much that card will cost an average consumer. We think there needs to be some sort of average cost on all sorts of advertising and marketing—something that tells you this is higher interest, this is high fee, this is what most people are paying.[22]

4.22 CHOICE also argued that card providers should be required to do more to inform their customers about the range of product offerings available in the market. It recommended that card providers should be required to include information in credit card monthly statements 'about the credit card market generally, including the lowest rate in the market as identified by the RBA'.[23]

4.23 The Consumer Action Law Centre and Financial Rights Legal Centre also argued that consumers would be well served if card providers were required to disclose the average annual cost of their cards across their customer base. They also suggested that the ability of consumers to understand and compare credit cards would be enhanced by requiring card providers to 'include a comparison of the cost of a consumer's current credit card versus the cost of the provider's lowest rate card in a monthly statement'.[24] CHOICE made a similar recommendation in its submission, and also recommended that monthly statements include information about the credit market generally, including the lowest interest rate currently on offer.[25]

4.24 Underpinning these recommendations was the understanding that for disclosure to be effective, it must be, as CHOICE put it, 'timely, relevant and tailored to the consumer'.[26] CHOICE further explained:

> In order for consumers to enjoy the benefits of competition they have got to be able to understand the offers that are on the market and they have got to be able to compare them and match them to their own circumstances. Unless you have those three factors present, consumers cannot actually take advantage of the offers that are there…[27]

4.25 Similarly, the Consumer Credit Law Centre of South Australia argued that credit card disclosure:

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22 Ms Erin Turner, Campaigns Manager, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 53.

23 CHOICE, *Submission 10*, pp. 24–25

24 Consumer Action Law Centre and Financial Rights Legal Centre, *Submission 13*, pp. 14–15.

25 CHOICE, *Submission 10*, p. 25.

26 On the importance of high-quality disclosure, also see Ms Tanya Louise Corrie, Development Lead, Financial Security Specialist, Good Shepherd Australia New Zealand, *Proof Committee Hansard*, 3 September 2015, p. 36; and Ms Katherine Lane, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 27 August 2015, p. 8.

27 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 52.

> …needs to focus on how consumers actually use disclosure and how they make decisions rather than compliance and risk avoidance. For example, merely displaying the interest rate in the credit card offer is not enough. To be effective disclosure must target consumers' behavioural biases. The 'product use model' is recommended, that discloses actual costs of a credit card based on consumers transaction history.[28]

4.26 During the inquiry, the committee considered and sought input from witnesses on the possibility of introducing a comparison rate for credit cards, similar to the comparison rate that is used in the mortgage market. Asked if there would be merit in such an approach, ANZ responded:

> The challenge around that is it is much more complicated because of the whole range of benefits—so rewards and what you are opting for. There is a multitude of structures in there, and I think it makes it really difficult to just have a comparison rate like on other products.[29]

4.27 Similarly, COBA and Bank Australia both explained that while there might be merit in the idea, the complexity of credit card products meant a comparison rate would be very difficult to design and implement.[30] Mr Joel Gibson, Campaign Director at One Big Switch, also remarked that while a comparison rate would be of some benefit to consumers, the multifaceted and diverse nature of credit cards made designing a comparison rate 'very difficult':

> At the moment in the credit card space there are probably half-a-dozen different elements that can be part of a credit card offer or are commonly part of a credit card offer. It might be a balance transfer. It might be an interest-free period at the start of the card. It might be an introductory rate. And there are others as well, of course. When you have all the different permutations and combinations of those half-a-dozen different elements, it can be confusing for people. It can be hard to compare. It can be a case of comparing apples with oranges. That can also be a disincentive to switching.[31]

4.28 A more sophisticated approach to product comparison suggested during the inquiry was providing consumers with access to data about their own credit card behaviours, which could then be used to compare and understand the value of different credit cards. In this connection, several witnesses referred to the United

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28 Consumer Credit Law Centre of South Australia (Uniting Communities), *Submission 29*, p. 7.

29 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 64.

30 Mr Luke Lawler, Head of Public Affairs, Customer Owned Banking Association, *Proof Committee Hansard*, 3 September 2015, p. 22; Mr John Yardley, Chief Operating Officer, Bank Australia, *Proof Committee Hansard*, 3 September 2015, p. 22.

31 Mr Joel Gibson, Campaign Director, One Big Switch, *Proof Committee Hansard*, 16 October 2015, pp. 52–53.

Kingdom's 'midata' program, which was launched in 2011. CHOICE explained that midata is a voluntary scheme:

> …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.[32]

4.29 Currently, midata is used for comparing current accounts, but it may be extended to other products in the future, including credit cards. A November 2015 report by the United Kingdom's Financial Conduct Authority on the credit card market suggested extending the midata initiative to include credit cards may enable consumers to make more informed product comparisons.[33]

4.30 CHOICE strongly argued the case for a similar 'informed choice' system in Australia, and noted that both the Competition Policy Review and the Financial System Inquiry had recommended exploring the benefits of an open data policy for consumers. Appearing before the committee, Mr Kirkland further explained how CHOICE's thinking on this matter had been 'heavily informed' by the UK experience:

> At the core of it is a recognition that, in really complex markets, in order for consumers to make informed choices those choices need to be linked to their own data about how they consume products and services. I will give you an analogy. In the energy market it is hard to make a decision about what the right plan for you is unless it is linked to your individual consumption data. Applying that to credit cards, it is hard to make a decision about what is right for you unless you have a detailed understanding of your monthly patterns in terms of the amount you repay and the residual balance after any payment. To make that easier, the most effective intervention would be to allow consumers to extract their data rather than just reading reams of statements. They should be able to extract it in an electronic form that then allows third parties to build applications that allow consumers to match that data to the offers available, to the credit cards that are available on the market. That is the essence of the reforms in the UK.
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> The way in which it has been done is through a facilitative process where government got together with the key industries—the banking industry and the energy industry—and said, 'Hey, we think we've got a social problem, and you've got a responsibility to work with us to fix it.' They built a collaborative scheme where, in some of those industries, the key providers agree to collaborate and release data. Control of the data is still in consumers hands. It is not that anyone can get access to your credit card

32 CHOICE, *Submission 10*, p. 22.

33 Financial Conduct Authority, *Credit card market study: interim report* (November 2015), p. 94.

> data but it means that you are in a much better position to make decisions about what is right for you.[34]

4.31 CHOICE added that under such a system:

> …rather than going to a comparisons site and just seeing a whole bunch of credit card rates you could be going to an online service that says, 'Based on your consumption data this card will cost you X dollars over the next year, whereas this other one will cost you Y dollars.' It is a much more individualised source of information on what is right for you.[35]

4.32 CHOICE suggested that such a system would need to be heavily controlled by consumer consent, but that it was important that the consumer had access to their own data.[36] To this end, it suggested the government should 'start a process that would open up access for consumers to their own data so it is easier to compare offers in the market, similar to some of the reforms that have happened in the UK'.[37]

4.33 Treasury indicated that midata appeared to be working well in relation to current accounts in the United Kingdom. It explained that the initiative:

> …relies on the cooperation of the industry that holds the customer data. There was quite an exercise to get to the place where that data could be released by all the different competing providers in a standardised format so that a third party intermediary could then use it and bring it up and do the comparison. It also required there to be a third party intermediary. Ultimately, an intermediation industry that helps consumers make better decisions should emerge out of this. We have some very basic comparative websites that do that job but…on the basis that all these products are so various and different that it is very [difficult] to line them up and say, 'I am making an apples-to-apples-to-apples comparison, and I know the first one is the best one.'[38]

4.34 Making a broader point about the value of empowering consumers with their own data, SocietyOne told the committee that 'real disruption' in the consumer credit market would occur when there was a fundamental change in the ability of consumers to access and utilise data about their behaviour through time. Currently, financial institutions have a clear informational advantage:

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34 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, pp. 54–55.

35 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 55.

36 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 55.

37 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 51.

38 Mr Michael Willcock, Acting Deputy Secretary, Markets Group, Department of the Treasury, *Proof Committee Hansard*, 22 September 2015, p. 59.

> They have all the transaction records. They have all the history. They build dynamic behaviour scores. They constantly have a view about who to provide limit increases to and who not to, based on profitability metrics and risks scores et cetera. None of that information typically makes its way into the hands of the borrower in such a way that they can make informed decisions. When will disruption happen? It will happen when borrowers are armed with choices that allow them to determine: 'Which credit product is right for me at this point in time?'[39]

Committee view

4.35 The committee considers that in order to make informed choices in the credit card market, consumers need to be provided with the appropriate tools and information to compare and understand accurately and easily the value proposition of different credit cards. As explained below, consumers would be greatly assisted in this regard if they were provided with access to a summary account of their own historical credit card activity, which could then be used to provide personalised credit card comparisons.

4.36 While the concept of a credit card comparison rate has some basic appeal, the committee is not convinced that a credit card's costs and benefits can be separated from the financial circumstances and behaviour of the cardholder. The sheer complexity and multifaceted nature of credit card products makes it impractical to develop a credit card comparison rate similar to the mortgage comparison rate.

4.37 Given the complexities of designing a credit card comparison rate, the committee believes credit card advertising and marketing material should be required to include a prominent statement of a card's ongoing headline interest rate and annual fee.[40] In addition to helping consumers compare credit cards, this requirement would serve to better focus consumer attention on credit card interest rates. As described in chapter three, if consumers are more focused on credit card interest rates then this would encourage card providers to make their products more competitive in this regard.

4.38 In order to make meaningful comparisons of credit card products, consumers need to understand the value proposition of cards in relation to their own circumstances and financial behaviour. For this reason, the committee strongly supports the development of an 'informed choice' system, similar to the midata system in the United Kingdom, which would ultimately enable consumers to easily compare

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39 Mr Matt Symons, Chief Executive Officer and Co-founder, SocietyOne Australia Pty Ltd, *Proof Committee Hansard*, 22 September 2015, pp. 25–26.

40 Under the National Credit Code, an advertisement for a credit product does not need to include an interest rate, but must do so if the advertisement states the amount of any repayment. Australian Securities and Investments Commission, *Regulatory Guide 234: Advertising financial products and services (including credit): Good practice guidance* (November 2012), p. 21.

credit cards using their own data. While a midata-style system applied to the consumer credit sector has considerable merit, the committee recognises that the implementation of such a powerful tool would take considerable time and effort in Australia. However, the committee also suggests that even basic personalised data, such as aggregated spending and repayment data presented in a standardised and machine-readable format in credit card statements and the like, could be used by a consumer to compare the value of various credit cards using tools designed for this purpose. The committee would expect that over time the data available to consumers would became more comprehensive, thus allowing for even more powerful and focused product comparisons.

Recommendation 1

4.39 The committee recommends that credit card advertising and marketing material should disclose clearly the cost of a credit card for a consumer, including the card's headline interest rate and ongoing annual fee.

Recommendation 2

4.40 The committee recommends that credit card monthly statements should include prominent reminders about a credit card's headline interest rate and ongoing annual fee.

Recommendation 3

4.41 The committee recommends that the government work with key stakeholders to develop a system that informs consumers about their own credit card usage and associated costs. Initially, historic usage and cost data could be provided in monthly statements. Over time, it would be desirable to provide customer-specific, online, machine readable records that would allow credit card users to compare credit cards using online comparison engines.

Switching and closing credit cards

4.42 The ability to switch credit cards—which generally means that not only is a new card account opened but an existing card account is closed—is an important component of a competitive marketplace. If cardholders consider it is difficult to switch cards, this would suggest a failure in this competitive dynamic to deliver real choice to consumers. This section of the report considers whether there are any impediments to switching and, if so, what might be done to reduce or remove those impediments.

4.43 Treasury advised the committee that there 'are minimal barriers to consumers obtaining a new credit card or switching to a different provider, apart from credit assessments and upfront fees'.[41] The major banks claimed that switching cards was a straightforward process, and this was reflected in the incidence of switching in the

41 Treasury, *Submission 17*, p. 4.

market. For example, CBA told the committee that the ease of switching was demonstrated by the fact that more than $1 billion of CBA credit card balances had been switched to low-rate cards since 2011.[42]

4.44 Similarly, ANZ argued that competition in the market made switching a simple process, and estimated that close to one million customers change or add a new credit card each year (approximately 8 per cent of all credit card customers). According to ANZ, this made credit cards the most switched product in Australian banking.[43] Westpac put forward a similar argument, and referred to the Argus 2014 Benchmarking Study, which estimated that:

> …approximately 1.4 million to 1.5 million new Credit Card accounts are opened each year in Australia. This represents around 9% of the 15.7 million accounts currently in the market. Given net account growth is approximately 2% this demonstrates a churn rate of 7% per annum. This data provides strong evidence that consumers are willing to shop around and that switching Credit Card type and providers is relatively easy.[44]

4.45 A recent survey undertaken by Dr Juliana Silva-Goncalves from the Queensland University of Technology casts some doubt on the banks characterisation of the incidence of switching in the credit card market, particularly relative to switching on other banking products and in other consumer markets. According to the survey, while 32 per cent of respondents indicated that they had seriously considered switching credit cards in the past five years, only 17 per cent have actually switched. This figure was lower than the number of respondents who indicated they had switched their home loan (18 per cent), home and contents insurance (28 per cent), energy supplier (29 per cent), main groceries supplier (22 per cent), and mobile phone and internet providers (both 24 per cent).[45]

4.46 A number of witnesses also challenged the bank's characterisation of switching as an easy, straightforward process, particularly when a cardholder wanted to not only apply for a new card but also cancel an existing card. For example, CHOICE told the committee that it was 'incredibly hard to cancel or switch a credit card'. In order to cancel an existing card, CHOICE told the committee, the major banks required customers:

> …either to go into a branch, where they can then hit you with the sales tactics, or to get on the phone. Some of them require you to write to them or

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42 Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, p. 10; Commonwealth Bank of Australia, *Submission 23*, p. 5.

43 ANZ, *Submission 27*, pp. 6–7. NAB made similar points. Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 31.

44 Westpac, *Submission 21*, p. 5.

45 Dr Juliana Silva-Gonclaves, report prepared on behalf of Heritage Bank, *Australians' switching behaviour in banking, insurance services and main utilities* (September 2015).

> send that card. The ANZ say you have to cut your card in half diagonally and send it back to them as a condition before they will even cancel your card—I do not know what happens if you cut it in half in a different direction. This is crazy. This is a time when banks have used closures and fees to force people online for so many other transactions, yet they put so many barriers in the way if you want to do anything to change your credit card.[46]

4.47 In its submission, CHOICE noted that a consumer survey it had commissioned revealed that 27 per cent of consumers who had switched cards had experienced difficulties cancelling their old card. The process of cancelling a card, it wrote, appeared 'stuck in the pre-internet age':

> 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.[47]

4.48 The Consumer Action Law Centre and the Financial Rights Legal Centre also suggested it can be 'incredibly difficult' to cancel an existing credit card, and as a result customers 'may eventually find they have a number of credit cards, and are gradually increasing their overall credit card limit'. They therefore expressed support for an online option for cancelling a credit card.[48]

4.49 Appearing before the committee, banks confirmed that it was not currently possible for a cardholder to complete the process of cancelling a card through an entirely online process. Rather, a cardholder would ultimately need to speak to a representative of the bank, either in a branch or over the phone. This is despite the fact that in some circumstances a person can actually apply for and receive a credit card through an entirely online process, without ever having to speak to a representative of the bank.[49]

4.50 Several witnesses also argued that consumers were discouraged from switching cards because the process requires them to contact merchants and manually cancel any direct debits linked to the card. For example, Coles told the committee:

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46 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 51.

47 CHOICE, *Submission 10*, p. 26.

48 Consumer Action Law Centre and Financial Rights Legal Centre, *Submission 13*, p. 10.

49 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 18; and Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 28; Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, pp. 6–7. Several banks also allow customers to cancel a card by writing a physical letter. For details, see CHOICE, *Submission 10*, p. 26.

> [W]hen customers switch their credit card they have to move the direct debits that are linked to that card. That is, we believe, a complex and time consuming process, and the effort involved in that means that some customers just do not take advantage of better offers.[50]

4.51 The Consumer Action Law Centre and the Financial Rights Legal Centre contrasted the need for consumers to cancel credit card direct debits by contacting merchants with the ability of transaction account holders to instruct their bank to cancel direct debits. They submitted that:

> …there should be no difference in treatment between credit card accounts and other accounts under the Banking Code. In our view, a consumer should be able to instruct their bank to cancel a credit recurring payment authority, as they can with a transaction account direct debit authority. Further, upon cancellation or closure of a credit card account, a bank should take steps to cancel all regular transactions and other standing authorities.[51]

4.52 The RBA, while suggesting there were few formal impediments to switching, also observed that cardholders sometimes experience difficulties in cancelling or modifying some types of periodic or recurring payments that are debited from their accounts:

> These difficulties can arise when a merchant does not act on a cardholder's instruction to cancel a recurring payment, or when the cardholder closes their account but does not take steps to cancel such payments.[52]

4.53 Even the ABA acknowledged that the 'one area where switching can be more complex is in arranging the transfer or cancellation of recurring payments entered into with merchants'.[53]

4.54 Mr Christopher Zinn, a consumer advocate, suggested that enhancing the portability of credit cards, and saving consumers the need to cancel direct debits and the like, would likely make a positive difference.[54]

4.55 In its submission, CHOICE noted that its aforementioned survey revealed that 10 per cent of consumers had not switched because they believed it was too difficult to cancel or update direct debits. CHOICE argued that card providers should make it simple for a customer to arrange the transfer of all direct debits, and provide an automated option for customers to do so. CHOICE recommended:

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50 Mr Richard Wormald, General Manager, Coles Financial Services, Coles, *Proof Committee Hansard*, 16 October 2015, p. 44.

51 Consumer Action Law Centre and Financial Rights Legal Centre, *Submission 13*, p. 9.

52 Reserve Bank of Australia, *Submission 20*, p. 3.

53 Australian Bankers' Association, *Submission 15*, p. 1.

54 Mr Christopher Zinn, private capacity, *Proof Committee Hansard*, 27 August 2015, p. 50.

> 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.[55]

4.56 CHOICE further recommended that to overcome impediments to switching, the industry should work towards account number portability. It noted that while account number portability had been ruled out in a 2011 government-commissioned report on technical grounds, innovations to the payments system since then suggested the matter should be reconsidered.[56] To this end, CHOICE recommended that the government 'commission an independent report to outline practical next steps to facilitate switching, including portable account numbers, in the credit card market'.[57] The Consumer Action Law Centre and the Financial Rights Legal Centre also argued that account number portability for credit cards should be considered.[58]

4.57 ANZ informed the committee that it was already able to assist customers switching from an ANZ card to transfer recurring payments. It acknowledged that further cooperation between providers might be possible, but cautioned that the required infrastructure would likely impose significant costs on the industry.[59] On the possibility of implementing account number portability in Australia, ANZ wrote:

> Credit card schemes operate technology on a global scale ensuring infrastructure investment is spread across a large number of customers and transactions. As a relatively small market, implementing 'card number portability' in Australia would result in significant industry costs.[60]

4.58 While much of the discussion above concerns what some consider technical or logistical barriers to switching, other witnesses suggested that the barriers to switching had more to do with consumer knowledge (or, more precisely, a lack of it) and behaviours. Asked if there was a need to make it easier for people to bring direct debits with them when they changed card, and the extent to which this was an issue for portability in the current market, CANSTAR responded:

> It is interesting, because the consumer is probably more empowered down that path than ever before—they can go into their online banking in some

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55 CHOICE, *Submission 10*, p. 27.

56 The report in question, which was requested by the then Treasurer, the Hon Wayne Swan MP, was prepared by Mr Bernie Fraser. Australian Government, *Banking Services: cost-effective switching arrangements* (July 2011), http://banking.treasury.gov.au/content/reports/switching/downloads/switchingarrangements_aug2011.pdf.

57 CHOICE, *Submission 10*, p. 27.

58 Consumer Action Law Centre and Financial Rights Legal Centre, *Submission 13*, pp. 10–11.

59 ANZ, *Submission 27*, p. 6.

60 ANZ, *Submission 27*, p. 7.

> institutions and change all of that without too much drama. They do have to go to billers—to the gym, to PayPal et cetera and make those changes also, but there are also online processes. I would imagine that we—and when I say 'we' I mean the industry—could put in certain tools that would make that a little easier. I am not sure that that is actually the barrier, though. It has never been easier to find yourself a second credit card, or a third or a fifth. It is simplicity itself. I am not sure that there is a genuine barrier because, in many, many cases, it is not a case of surrendering or cutting up the old credit card; one has a reasonable period of time to observe those transactions and to then make the changes. So I do not think that those barriers are genuine barriers to switching.[61]

4.59 Mozo agreed with CANSTAR on this point, and added:

> Inertia is a lot beyond the technical and the physical. Particularly, as we have seen in recent tough financial times, there has been a real flight back to the bigger institutions—the big banks and other big institutions. That is part of the inertia as well. People feel more comfortable with a big bank. They are making a choice—a very deliberate choice—to stay with a Big Four bank because they are uncertain about going to a small credit union.[62]

4.60 The results of a credit card survey of 40,000 of One Big Switch members, while by no means disproving the role of technical and logistical barriers to switching, suggest the barriers to switching are largely attributable to a lack of consumer knowledge about the market and certain consumer preferences. According to One Big Switch, the survey revealed 'massive consumer inertia' in the credit card market. In part, it appeared this inertia was underpinned by a lack of engagement and knowledge on the part of consumers regarding credit card interest rates (discussed in chapter three), and a lack of consumer confidence in comparing the market. One Big Switch added that consumers evidently placed a premium on the convenience of having all of their banking accounts in the one place, and indeed 39 per cent of survey respondents reported that this was their reason for choosing their main card. This perceived convenience, One Big Switch suggested, was a factor in people not changing to a product better suited to their needs, and the fact that the banks often bundled credit card products with home loan packages indicated the banks were alert to this dynamic.[63]

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61 Mr Stephen Henry Mickenbecker, Group Executive, Ratings and Financial Services, CANSTAR Pty Ltd, *Proof Committee Hansard*, 22 September 2015, p. 34.

62 Mr Rohan Gamble, Managing Director, Mozo, *Proof Committee Hansard*, 22 September 2015, p. 34.

63 Mr Joel Gibson, Campaign Director, One Big Switch, *Proof Committee Hansard*, 16 October 2015, p. 50–51. One Big Switch's survey results are supported by CHOICE's survey results, which suggest that the biggest reason consumers do not switch cards (apart from being satisfied with their existing card) is that they want to keep all of their accounts together in the one place. CHOICE, *Submission 10*, p. 17.

Committee view

4.61 The committee believes that many of the most significant barriers to switching in the credit card market can be attributed to a lack of consumer awareness, and the difficulties consumers face in comparing the value proposition of different credit cards accurately and easily. This reinforces the need for reforms to enhance the ability of consumers to compare products and properly exercise choice within the market. The committee considers the 'informed choice' system set out above in recommendation 3 would make a substantial contribution in encouraging consumers to switch credit cards when it is in their interests to do so.

4.62 The committee suggests that further consideration should also be given to reforms that would help consumers overcome any technical or logistical barriers to switching. While the issue of switching banking products more generally was considered in a government-commissioned report in 2011, the committee considers there would be value in a government review into technical and systems innovations that might ease the process of switching in the credit card market specifically. As part of this review, the committee recommends that the government consider the feasibility of account number portability in the Australian credit card market.

4.63 Finally, the committee notes that there appears to be no good reason why credit card customers are currently unable to close a credit card account through an online process. As such, the committee recommends that credit card providers should be required to provide an online 'click-and-close' facility to cardholders.

Recommendation 4

4.64 The government should undertake a review into technical and systems innovations that might help facilitate switching in the credit card market, and as part of this review consider the feasibility of account number portability for credit card accounts.

Recommendation 5

4.65 The committee recommends that card providers should be required to provide consumers with the ability to close a credit card through an online process ('click-and-close').

Peer-to-peer lending and differentiated interest rates

4.66 During the inquiry, the committee considered whether peer-to-peer lending might provide consumers with access to an alternative form of credit that, for some cardholders at least, is more affordable than using a credit card. SocietyOne, a leading Australian peer-to-peer lender, informed the committee that it provided consumers with access to personal loans where the interest rate was set according to the credit profile of the borrower.[64] SocietyOne referred to the experience of peer-to-peer lending in the United Kingdom, and noted that the British government had provided crucial signals to the market that peer-to-peer lending was a legitimate and viable alternative to more traditional forms of consumer finance:

> At a policy level, the [Financial Services Authority][65] in the UK decided that there were a number of things that could be done to support the growth of marketplace lending and to present it as a credible alternative to the UK parliament's traditional high-street banks. Some of those initiatives included, at the time, a quite bold policy gesture: 'We will co-invest with investors dollar for dollar on these platforms.' It was a way of credentialing the fact that, from a policy point of view, this was a viable and important option to help drive credit growth and, therefore, job formation, small business development and individual empowerment in the economy.
>
> The second thing that is interesting to note is they created some tax concessions for investors on those platforms to create some advantages that brought it into line with the advantages that are available for other retirement investment schemes. If you look at just those two things, you would say: in and of themselves neither of them are significant, but, as a signalling exercise to the market, it sent a very clear signal that this was a legitimate option for borrowers to consider and it had the support of the government.[66]

4.67 Mr Koch welcomed the emergence of peer-to-peer lending in Australia, and more broadly spoke in favour of differential lending rates for consumers based on their credit risk, both for credit cards and alternative products. He told the committee:

> …there needs to be encouragement for cards which set rates based on the credit rating of the user so good behaviour is encouraged. This business of high interest rates because it is unsecured but treating everyone the same just does not wash. They do it with insurance; why can't they do it with credit cards and make it fair across the population?[67]

4.68 Mr Greenwood suggested to the committee that the emergence of peer-to-peer lending might help to address the lack of microcredit for small business in Australia. The lack of microcredit, he explained, forced many small businesses to fund themselves with credit cards, despite the high expense and risks of doing so:

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64 Mr Matt Symons, Chief Executive Officer and Co-founder, SocietyOne Australia Pty Ltd, *Proof Committee Hansard*, 22 September 2015, pp. 24–25.

65 The Financial Services Authority was abolished in 2013, and its regulatory responsibilities were split between two new agencies: the Financial Conduct Authority and the Prudential Regulation Authority of the Bank of England.

66 Mr Matt Symons, Chief Executive Officer and Co-founder, SocietyOne Australia Pty Ltd, *Proof Committee Hansard*, 22 September 2015, p. 27.

67 Mr David Koch, Finance Editor, Seven Network, *Proof Committee Hansard*, 27 August 2015, pp. 35, 39.

> I would have to say there has probably been many a small business that has gone broke off the back of a credit card as well. That is a really important one to recognise, the lack of microcredit in our country. This is where maybe even peer-to-peer lending will come into it.[68]

4.69 In contrast to the optimism expressed by other witnesses, Ms Lane from the Financial Rights Legal Centre warned that differential pricing of credit would simply make it harder for people in financial hardship, as they would pay higher interest even if they were not in default.[69] Ms Lane was similarly sceptical about peer-to-peer lending, telling the committee:

> I am never against innovation but what I am in favour of at all times is sufficient consumer protection legislation, because consumers go out there and think these people are reasonable, and they may not be. We need to ensure that every consumer in Australia has confidence in financial services in Australia and that they will not be exploited or take out loans that are not properly regulated, with proper mechanisms in place for protection.
>
> So, by all means innovate, but the Australian government has to absolutely make sure that there is properly regulated consumer protection. And peer-to-peer lending is not properly regulated; I can categorically say that. It is not properly regulated currently. When the credit laws came in, it was not properly worked out. There has been no review. There should not be peer-to-peer lending—or, in fact, anything—until we work out whether people are protected.[70]

Committee view

4.70 While noting the need to carefully consider the regulatory and other risks presented by the advent of peer-to-peer lending, the committee is cautiously optimistic that this new and innovative form of lending will ultimately provide consumers with more and better choices when it comes to accessing consumer credit. The committee would encourage the government to carefully consider whether it could be useful and appropriate to provide clearer signals to the market regarding the legitimacy and viability of peer-to-peer lending.

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68 Mr Ross Greenwood, Business and Finance Editor, Nine Network, *Proof Committee Hansard*, 27 August 2015, p. 39.

69 Ms Katherine (Kat) Lane, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 27 August 2015, p. 5.

70 Ms Katherine (Kat) Lane, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 27 August 2015, p. 5.