Chapter 5

Helping Australians avoid the credit card debt trap

5.1 A primary concern of the committee in this inquiry is that too many Australians are 'revolving' credit card debt for extended periods of time and getting hit by high interest charges in the process. This chapter explores the problem of credit card debt, and suggests reforms that might help consumers better manage their credit card debt or, better still, avoid accruing it in the first place. The efficacy of existing responsible lending obligations, as they operate in relation to the credit card market, is also addressed.

5.2 An important reform suggested by a number of witnesses during the inquiry was mandating higher minimum repayments on credit card debt. This would better reflect the view that credit cards should ideally be used for transactions and short-term credit, rather than as a long-term debt facility. This chapter considers various options for reform in this regard.

5.3 Consideration is also given to whether the current prevalence of low or zero interest balance transfer offers in the credit card market, as currently structured and marketed, are hindering the capacity of consumers to manage and repay their credit card debt.

5.4 It is clear that some individuals end up in credit card debt because of poor decisions in choosing a card, using that card, and managing their card debt. Though individuals are expected to assume personal responsibility for the financial decisions they make, evidence received in this inquiry indicates that the credit card market is structured in such a way as to make it extremely difficult for individuals to make *informed* decisions about credit card debt. This chapter considers whether the credit card market is, in this respect, failing Australian consumers, and steps that could be taken to help consumers better understand the risks inherent in credit cards. Specifically, the chapter looks at existing financial literacy programs and tools, and weighs options for expanding or improving current offerings in this regard.

5.5 Finally, this chapter assesses the adequacy of existing supports for people experiencing financial hardship due to credit card debt.

Long-term credit card debt and responsible lending obligations

5.6 Ideally, cardholders would be able to pay their balance in full at the end of each statement period and thereby avoid interest charges. However, as ASIC rightly observed, the ability to pay less than the full balance each month (and even to make a very low minimum repayment in a particular month) provides important flexibility to consumers. This can be especially useful when a consumer incurs large expenses in a particular month, and decides to pay less than the full balance on their card in order to free up cash for other expenses.[1]

5.7 However, a problem arises when a cardholder consistently fails to pay their outstanding balance at the end of statement periods, and ends up using their credit card as a borrowing facility, rather than to manage cash. In such instances, cardholders risk taking on significant levels of ongoing debt with little prospect of repaying it in the short to medium term. Given the high rates of interest often charged on credit card debt, they are unsuited as long-term debt facilities, particularly given more affordable products are often available.[2]

5.8 SocietyOne explained to the committee that the problem was not credit cards per se, but rather the use of credit cards as a long-term debt product:

> We think that they are in fact convenient and very useful short-term financing tools and, candidly, are probably one of the most widely used financial products anywhere in the world. The problem, as we see it, is when credit cards are used by consumers to provide something other than very short term financing—that is, medium or even multiyear funding. It is in that scenario that credit cards become some of the most, if not—apart from perhaps payday lending—the most expensive credit choice that is available to Australian consumers for unsecured financing purposes.[3]

5.9 As already discussed in chapter three, consumers often pay little notice to credit card interest rates when comparing the market. Card providers both reflect and reinforce this consumer inattention, inasmuch as they tend to market credit cards as payment systems, rather than as borrowing products.[4] In this sense, while consumers might apply for a credit card on the basis that it represents good value as a payment system, they often end up with what is, in effect, a decidedly poor value debt product without having ever given sufficient consideration to its suitability in this regard.

5.10 Banks acknowledged that credit cards were not an appropriate product for long-term debt. For example, Westpac told the committee:

> A credit card is a flexible line of credit designed to allow for periods of time where only small amounts of principal are being repaid. For the majority of our customers this feature is valuable. However, if the

1 Australian Securities and Investments Commission, *Submission 16*, p. 7; Mr Michael Saadat, Senior Executive Leader, Australian Securities and Investments Commission, *Proof Committee Hansard*, 27 August 2015, p. 28.

2 Australian Securities and Investments Commission, *Submission 16*, pp. 7–8.

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

4 Australian Securities and Investments Commission, *Submission 16*, p. 10.

> minimum monthly payment is used over the long run, the credit card no longer offers enough value for the customer.[5]

5.11 Banks also suggested that consumers were already making appropriate, informed product choices with respect to credit cards and their borrowing needs more generally. For example, Westpac wrote that there is 'evidence that consumers are selecting the right product for their medium-term borrowing needs with Personal Loans growing faster than Credit Cards over the last few years'.[6] Westpac argued that debit cards were increasingly popular as a payment tool, and in fact over the past 12 months spending on debit cards had grown faster than spending on credit cards.[7] Taken together, Westpac concluded, these trends demonstrated that 'consumers are being more prudent with Credit Cards and using them more as a payment mechanism than a borrowing tool'.[8] As already noted in chapter four, the banks also argued that the increased take-up of low-rate cards was indicative of a customer base that was informed and capable of making solid financial decisions in the consumer credit space.

5.12 As explained further below, some witnesses challenged the banks contention that only very small numbers of cardholders were struggling to service their credit card debt, and argued that the incidence of long-term credit card debt was in fact indicative of a failure of the responsible lending obligations in relation to the credit card market.

5.13 The National Credit Act, as chapter two explained, sets out responsible lending obligations that apply to all forms of regulated credit, including credit cards. ASIC is responsible for administering the Act's responsible lending obligations, and its primary guidance in this respect is set out in RG 209. ASIC advised the committee that the responsible lending obligations are principles based, and it was incumbent on a lender to inquire into the financial situation of a borrower and ensure a loan was not unsuitable for that borrower. A loan would be deemed unsuitable 'if the borrower cannot repay the loan contract in circumstances other than with substantial hardship or where the loan contract does not meet the requirements and objectives of the borrower'. When it was put to ASIC that this appeared a rather subjective test, ASIC responded that it would characterise the test as 'scalable', in that:

> …it depends on the situation of the borrower; it depends on the type of loan contract that you are looking to provide the borrower; it depends on the information you already have about the borrower. So there are a range of

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5 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, pp. 15–16.

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

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

8 Westpac, *Submission 21*, p. 7.

> considerations that inform to what extent the lender has to make inquiries and conduct verification.[9]

5.14 ASIC further explained that the responsible lending obligations are:

> …very much a point-in-time obligation; the obligation applies when the consumer applies for a credit card, and the lender has to make an assessment at that time as to whether the credit contract is not unsuitable. Once the consumer has the credit card they may well use the credit card in a way that they did not initially expect to use the credit card, so they might end up in a lot more debt than they expected, or their circumstances might change. The responsible lending obligations do not address anything that happens once the credit is provided.[10]

5.15 Banks insisted that in issuing credit cards and setting credit limits they took the responsible lending obligations very seriously. Westpac reported that it approves less than 60 per cent of applications it receives for new credit, and less than 15 per cent of accounts are eligible for a credit limit increase at any point in time.[11] ANZ advised the committee that it 'filters and rejects on average 35 per cent of potential applicants and, where consumers apply for an unsuitable card, looks to suggest a more appropriate card option'.[12]

5.16 Westpac observed that since the introduction of the responsible lending obligations in the Consumer Credit Act and the subsequent additional reforms regarding credit card lending, key indicators of consumer behaviour showed positive trends. For instance, revolve rates had declined, and average monthly repayments had increased. On this basis, Westpac submitted that there was no need 'for any new regulatory changes to the operation of the consumer credit protection regime'.[13]

5.17 ANZ also argued that recent reforms, including the 2011 requirements regarding minimum repayment warnings, had been 'successful in reducing balances paying interest', and it expected this trend would continue over time.[14] ANZ further advised that in addition to meeting its responsible lending obligations, it also works

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9 Mr Michael Saadat, Senior Executive Leader, Australian Securities and Investments Commission, *Proof Committee Hansard*, 27 August 2015, pp. 24–25.

10 Mr Michael Saadat, Senior Executive Leader, Australian Securities and Investments Commission, *Proof Committee Hansard*, 27 August 2015, p. 28.

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

12 ANZ, *Submission 27*, p. 5; Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 60. The CBA made similar points. Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, p. 10.

13 Westpac, *Submission 21*, pp. 11–12.

14 ANZ, *Submission 27*, p. 16.

with customers to review their needs and goals, including finding the most appropriate credit card for their circumstances and needs.[15]

5.18 Similarly, the ABA submitted that there are already strong protections in place for credit card customers. In addition to the existing responsible lending obligations, 'most members of the ABA have signed on to meet further voluntary obligations under the Code of Banking Practice when dealing with individual and small business customers'.[16]

5.19 While card providers insisted they applied stringent criteria in issuing credit cards, the committee received some evidence suggesting that consumers were still being issued with cards with excessively high credit limits. Mr Les Banton told the committee of his struggles with credit card debt and advised that he had previously been jailed for fraud against the banks and declared bankrupt. He suggested that if he applied for an unsecured personal loan:

> …they would probably knock me back on 13 per cent. With my history and the fact that I am on [the Disability Support Pension]…they would knock me back. Yet they would give me a credit card of 20 per cent.[17]

5.20 The Consumer Action Law Centre and the Financial Rights Legal Centre also expressed concern that people were still being given credit limits that they were unlikely to be able to service. This, they submitted, suggested a failure in the operation of the responsible lending obligations as they applied to credit card lending. In particular, they argued that to the extent credit card providers were assessing the suitability of applicants based on their ability to service the minimum repayment, this was inconsistent with the intention of responsible lending laws and the guidance in RG 209:

> In RG 209 it states that for credit cards, there may be some risks associated with assessing a consumer as having the capacity to repay the contract based solely on being able to meet the minimum monthly repayments. According to ASIC, if by paying only the minimum monthly repayments the consumer is likely to take a long period of time to repay the maximum limit on the card, the credit provider should also consider whether this would meet the consumer's requirements and objectives (i.e. taking a number of years to repay a relatively small debt, and paying high amounts of interest on this debt).
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> While this is positive guidance, it is not a 'black and white' rule and thus has limited impact on credit card provider's behaviour. Currently, many credit

15 ANZ, *Submission 27*, p. 16.

16 Australian Bankers' Association, *Submission 15*, p. 2. On the Code of Banking Practice, which is the banking industry's customer charter on best banking practice standards, see Australian Bankers' Association, webpage, 'Code of Banking Practice', http://www.bankers.asn.au/industry-standards/ABAs-code-of-banking-practice, accessed 4 December 2015.

17 Mr Les Banton, private capacity, *Proof Committee Hansard*, 27 August 2015, p. 5.

> card providers are effectively assuming that consumers will carry long term debt by making minimum monthly repayments in assessing the suitability of a credit contract. To reduce the likelihood that consumers will continue to pay interest over a long period of time, we recommend that credit card providers be required to assess whether a consumer can afford to repay the entire credit limit within three years.[18]

5.21 Ms Kat Lane from the Financial Rights Legal Centre stated that it was absurd that credit card debt and repayment terms were structured in such a way that it could potentially take decades to clear a debt. Yet, as she noted, the idea that a small credit card debt might be repaid over decades was now considered normal:

> My point here is: it is long-term debt and it should not be, and we need to structurally reform that. A line of credit should not be long-term debt. The banks have managed to put that in and we all accept it as long-term debt—they have pulled a swiftie. We need to fix that. They have well and truly Jedi mind-tricked us into thinking that credit card debt should be long term when it should not.[19]

5.22 Ms Lane concluded by suggesting that it was imperative people only be given credit card limits that they could afford to repay in a reasonable period of time. Ms Lane reiterated the Financial Rights Legal Centre's position, set out in a joint submission with the Consumer Action Law Centre, that three years would constitute a reasonable period in this regard.[20]

5.23 Ms Denise Boyd, the Consumer Action Law Centre's Director of Policy and Campaigns, suggested that in implementing this reform it was necessary to be mindful of the risk that preventing certain people from accessing credit cards could push them 'towards even more unaffordable forms of credit'.[21] It was therefore necessary, Ms Boyd stressed, to tackle both the issue of credit cards and other forms of lending together:

> There are some issues there—we appreciate that—but the worst thing you can do is go and take out an expensive line of credit, whether that is a credit card that you cannot afford to pay the debt on or a payday loan.[22]

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18 Consumer Action Law Centre and Financial Rights Legal Centre, *Submission 13*, p. 16.

19 Ms Katherine (Kat) Lane, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 27 August 2015, p. 6.

20 Ms Katherine (Kat) Lane, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 27 August 2015, p. 7.

21 Ms Denise Boyd, Director of Policy and Campaigns, Consumer Action Law Centre, *Proof Committee Hansard*, 22 September 2015, p. 14.

22 Ms Denise Boyd, Director of Policy and Campaigns, Consumer Action Law Centre, *Proof Committee Hansard*, 22 September 2015, p. 14.

5.24 Treasury also suggested, as one option for policy reform, exploring how the responsible lending obligations were operating in the credit card market, with particular reference to:

> …the assessments required of the consumer's capacity to make repayments and of their requirements and objectives. Ensuring credit card providers assess serviceability based on repayments required to pay off debt within a reasonable period could reduce the incidence of credit card distress.[23]

Committee view

5.25 The committee found the evidence received during this inquiry about people struggling with long-term credit card debt deeply concerning. This evidence, which was provided by, among others, consumer groups, financial counsellors, community support groups, and individuals, clearly suggests that too many Australians are struggling under the weight of high-interest bearing credit card debt that they have no prospect of repaying in the short-to-medium term. As such, the committee does not agree with the banks that there is no need to review or refine the responsible lending obligations as they are currently operating in relation to credit card lending. In particular, the committee believes card providers should be explicitly required to evaluate credit based on a consumer's ability to repay their credit limit over a reasonable period, rather than on their ability to meet minimum repayments. While some witnesses have submitted that a 'reasonable period' in this regard would be three years, the committee considers that the exact period should be determined by government in consultation with industry, consumer groups and other interested stakeholders.

Recommendation 6

5.26 The committee recommends that the responsible lending obligations, as they apply to credit card lending, be amended so that serviceability is assessed on the basis of the borrower's ability to pay off their debt over a reasonable period. The government should consult with industry, consumer groups and other interested stakeholders to determine what constitutes a 'reasonable period' in this regard.

Minimum repayments and amortisation periods

5.27 In discussing the problem of long-term credit card debt, many witnesses noted very long amortisation periods are only possible because minimum repayment levels are set so low. While card providers are currently able to set their own minimum repayment levels, as the ABA explained these are typically set at about 2 per cent per month, with a minimum flat repayment between $10 and $25.[24]

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23 Treasury, *Submission 17*, p. 1.

24 Mr Anthony Pearson, Chief Economist and Executive Director, Industry Policy, Australian Bankers' Association, *Proof Committee Hansard*, 22 September 2015, p. 15.

5.28 Ms Turner from CHOICE criticised the fact there is no standardised form for monthly repayments:

> For a consumer with an average balance, if they are with, I think it is, ANZ, their minimum monthly repayment means they will be paying off an average debt for a little over 17 years. Because Westpac sets it differently, for the same amount of debt you will be paying it for over 26 years.
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> That is the difference between two per cent or $25, whatever is greater, and two per cent or $10, whatever is greater. That small change adds a decade of debt. Adding some sort of standardisation would really assist consumers.[25]

5.29 CANSTAR advised the committee it had previously rated low minimum payments as a positive feature of credit cards because this provided added flexibility to the cardholder. However, its position had changed, and its method for rating cards had evolved with it:

> Some years back our credit card methodology in rating viewed the world as 'the greater the flexibility of the product in the hands of the consumer the better it is as a product'. I think that is a sound first principle. This meant we rewarded lower minimum repayments. We looked at the methodology a few years back and said, 'Now this is getting a bit silly.' They are reducing the minimum repayment down to 2.5 per cent, and we said that that was really wrong, because consumers will never repay the debt. So we bumped it up and said that any card that is not actually at least covering interest charges on the minimum repayment is not a good card for a consumer, because they will never by repaid, by definition.
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> Would a minimum repayment solve a problem? It could induce a level of awareness for the consumer because it is a trigger—it is one of those market triggers. Because being on the wrong card and paying a very high rate is still the bigger issue, I think. It forces people to go backwards faster and further. But I think it is a nice market trigger that says that if my minimum repayment is looking really ugly because the interest rate is too high, then maybe it will induce me to look for a better deal.[26]

5.30 According to the banks, in any month only a small proportion of cardholders make the minimum repayment or less, and even fewer cardholders will only make minimum repayments or less consistently over extended periods. For example, Westpac told the committee that only 4 per cent of its customers make the minimum

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25 Ms Erin Turner, Campaigns Manager, CHOICE, *Proof Committee Hansard*, 27 August 2015, pp. 55–56.

26 Mr Stephen Henry Mickenbecker, Group Executive, Ratings and Financial Services, CANSTAR Pty Ltd, *Proof Committee Hansard*, 22 September 2015, p. 37.

repayment continuously over a 12 month period.[27] These customers, it noted, are not exclusively low-income earners, and indeed low-income earners 'tend to pay off their balances more often than higher income earners'.[28] Westpac argued that for cardholders who are 'revolvers', the existing card product meets their borrowing and payment needs.[29]

5.31 The ABA also advised the committee that few cardholders were actually making minimum repayments on an ongoing basis:

> [T]he number of people we are talking about—I am quoting from memory, but I think this is a ballpark figure—I think we said three to four per cent make the minimum repayment in any month, but the number of people who only ever make the minimum repayment, month by month, in a year is very tiny. The industry data suggests it is less than one per cent. There are not that many people out there who only ever make the minimum repayment, and, for most people making minimum repayments, a couple of months later they are back paying more than that.[30]

5.32 Although the banks suggested few cardholders were in fact only making minimum repayments, they nonetheless indicated they would either support or welcome further consideration of a requirement for higher repayments. CBA suggested a minimum repayment standard would 'help customers pay down their debt in a timely and responsible manner'.[31] NAB told the committee that while the matter was complex, 'from our perspective minimum repayments is a topic and an area that we are more than happy to enter into a discussion on'.[32] ANZ also indicated it would

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27 Westpac, *Submission 21*, p. 9. There appears to be a wide variation in some of the figures given to the committee in this regard, to such an extent that this perhaps suggests different approaches to measurement rather than variations from provider-to-provider. For instance, while Westpac reported that 4 per cent of its customers 'make the minimum repayment continuously over a 12 month period', NAB told the committee that only 2 per cent of customers had made the minimum payment or less in any month in the past 12 months, and that only 0.17 per cent of low-rate cardholders and 0.04 per cent of standard rate cardholders had paid minimum repayments or less every month for the last 12 months (Mr Antony James Cahill, Group Executive, Product and Markets, NAB, *Proof Committee Hansard*, 16 October 2015, p. 26). The ABA suggested that the proportion of customers who only pay the minimum payment in any given month was in the order of 3 to 4 per cent (Mr Anthony Pearson, Chief Economist and Executive Director, Industry Policy, ABA, *Proof Committee Hansard*, 22 September 2015, p. 9).

28 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 15.

29 Westpac, *Submission 21*, p. 10; Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 26.

30 Mr Anthony Pearson, Chief Economist and Executive Director, Industry Policy, Australian Bankers' Association, *Proof Committee Hansard*, 22 September 2015, p. 15.

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

32 Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 30.

be 'happy to see [the minimum repayment] higher', while noting that the implementation of such reforms would be critical (as discussed further below).[33]

5.33 Some of the discussion during the inquiry focused on minimum repayment reforms introduced in the United Kingdom in 2011. As a result of these reforms, all card accounts opened from April 2011 have a minimum repayment of at least the total of any interest, fees and charges, plus 1 per cent of the outstanding balance.[34] Coles spoke in support of a higher minimum repayment, and referred in this regard to the UK reforms:

> We also have looked at the UK position, and we would be supportive of changes to repayment terms. We think it would be sensible for customers because, at the end of the day, credit cards are designed for short-term borrowing; they are not really designed for long-term borrowing.[35]

5.34 Westpac told the committee that while the idea of higher minimum repayments was 'directionally correct', it recommended the committee consider:

> …something stronger and more targeted: that all credit card issuers provide an option for customers to pay off their debt within a period of time chosen by the customer—for example, one, three or five years. This would become a new feature of the product in our industry. As an alternative, issuers can proactively offer to targeted customers another product that allows for faster repayment of long-term debt, such as a personal loan. All customers should have an easy way to move balances into a shorter amortisation period. This creates an effective payment plan for the customer. We believe that this should be a point of mandatory conduct for all credit card issuers.[36]

5.35 Westpac argued against simply lifting the minimum repayment levels:

> We do keep making improvements and I think here we have an opportunity for a small set of customers to make further improvements. But what I would argue is that simply moving the minimum payment up, whilst it is directionally correct, would unduly affect the 95 per cent of customers who I think are getting value. But at the same time, and more importantly, moving the minimum payment from two per cent to three per cent, or to 2.5 per cent or four per cent, misses the point, I think. The point is that if we were to give the best advice to someone with long-term debt we would try to get them into an amortisation period that was much shorter than that,

33 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 67.

34 The UK Cards Association, webpage, 'Minimum repayments', http://www.theukcardsassociation.org.uk/individual/minimum_repayments.asp, accessed 3 December 2015.

35 Mr Richard Wormald, General Manager, Coles Financial Services, Coles, *Proof Committee Hansard*, 16 October 2015, p. 46.

36 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 16.

> which is why I think we need to have a mandatory feature on all credit cards so that the customer can simply say, 'This is the balance I am revolving on and I can move it and make monthly repayments that actually make headway.' That is why I suggest something that is quite a bit stronger than the direction even of increasing the minimum payment.[37]

5.36 A number of witnesses, including those advocating higher minimum repayments, warned that policymakers needed to tread carefully in designing and implementing reform in this area. For example, ASIC warned that if the end result was to exclude certain consumers from accessing credit cards, this could simply push them into even more expensive and riskier forms of borrowing.[38]

5.37 CBA also cautioned that any shift to higher repayments would need to be managed in such a way that it did not inadvertently hurt vulnerable customers or, indeed, push them into financial hardship, observing that when it had itself increased its minimum repayments in 2008 from 1.5 per cent to 2 per cent, this had created difficulties for a small number of customers. The bank maintained that these issues were far from insurmountable.[39]

5.38 ANZ indicated that while it would support higher repayments, 'we need to be careful that it does not affect the people you do not really want to impact'.[40] It emphasised that that implementation of any higher repayment would be critical. This was particularly so given the risk that people might be driven to payday lenders and the like:

> If you make it too onerous you have got to remember that some people are a little more on the fringe there, and if you suddenly jack it up you are going to cause some issues for people.[41]

5.39 Treasury also sounded a note of caution on the design and implementation of higher minimum repayments:

> Where that amount might be set—and if there was going to be investigation along those lines—you would also want to make sure that we were thinking through all the unintended consequences in the event that people who, as

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37 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 16.

38 Mr Michael Saadat, Senior Executive Leader, Australian Securities and Investments Commission, *Proof Committee Hansard*, 27 August 2015, p. 30.

39 Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, pp. 1, 3.

40 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 67.

41 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 65.

Senator Dastyari said before, are relying on lines of credit were not tipped out of the transparent market into the non-transparent market.[42]

5.40 Asked about the risk that reforms to shift people from using credit cards as long-term debt facilities would push people into even more risky forms of lending, CHOICE responded:

> Any changes we are looking at here do need to come in tandem with changes to payday loans. There is a review just under way into small-amount credit contracts. There is a lot of work to clean up that industry and associated industries, whether that is rent-to-buy industries that are making people pay more for appliances or whether it is pawnshops connected to payday lenders. There is a lot of reform needed in that market.
>
> Ultimately, in terms of outcomes and what we are looking for, it is not to push people into worse products it is to get the big banks to offer better products for consumers.[43]

ANZ's proposed low-fee, low-interest, low-limit, high-repayment card

5.41 The committee welcomes the fact that during the inquiry several of the banks actively considered how they might structure their products to help customers avoid getting trapped into long-term credit card debt. In addition to Westpac's aforementioned proposals regarding nominated amortisation periods on credit card debt, ANZ made a notable contribution by announcing the development of a low-fee, low-interest, low-limit and high-repayment credit card.

5.42 ANZ explained that if disadvantaged and vulnerable consumers were prevented from accessing the credit card market entirely, this risked reinforcing their financial exclusion and could force them into even risker forms of borrowing, such as payday lending. ANZ told the committee financial counsellors argue that access to small-balance credit is often critical in helping vulnerable people manage unexpected costs or get through short periods of particular financial pressure. ANZ advised that in an effort to help vulnerable consumers better manage their expenditure, it had begun work on a low-rate, no-fee, low-limit and high-repayment card. This product, it suggested, could help vulnerable customers avoid or work through periods of financial hardship, and steer clear of payday lenders.[44]

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42 Mr Trevor Power, Principal Adviser, Financial Systems and Services Division, Department of the Treasury, *Proof Committee Hansard*, 22 September 2015, p. 58.

43 Ms Erin Turner, Campaigns Manager, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 56.

44 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, pp. 61–65.

Committee view

5.43 Evidence presented during the inquiry suggests that consumers would likely benefit from a requirement for higher minimum repayments on credit card balances. The committee is mindful of the need to design and implement any reforms in this regard without inadvertently hurting disadvantaged or vulnerable consumers. In particular, the committee would be concerned about any reforms that inadvertently pushed disadvantaged or vulnerable consumers into even riskier and costlier forms of borrowing, such as payday lending. At the same time, the committee does not believe these risks are insurmountable, and would encourage the government to work with industry, consumer groups and other interested stakeholders to determine how reform in this area can be best designed and implemented.

5.44 The committee further recommends that the government consider alternative approaches to reducing the use of credit cards as long-term debt facilities. In this connection, the committee notes that while it did not have an opportunity to fully consider Westpac's recommended approach to credit card debt amortisation, it believes the idea has merit and is worthy of further consideration.

Recommendation 7

5.45 The committee recommends that the government consider introducing a credit card minimum repayment requirement and alternative means of reducing the use of credit cards as long-term debt facilities.

Balance transfers

5.46 Balance transfer offers, which allow a cardholder to transfer existing credit card debt to a new card at a discounted interest rate for a specified 'honeymoon' period, are a longstanding and common feature of the Australian credit card market. While the interest rate and terms of duration for balance transfers vary widely, zero per cent offers for an extended period are not uncommon. A September 2015 CANSTAR analysis found that at least 46 cards were seeking to attract new customers with balance transfer offers of zero per cent for 12 months or longer.[45]

5.47 The same CANSTAR analysis cautioned cardholders considering a balance transfer to check the interest rate that would apply to any outstanding amount on a balance transfer at the expiry of the honeymoon period (the 'revert rate'). CANSTAR noted that for the 46 cards it had identified that were offering zero per cent balance transfers, the revert rate ranged anywhere from 10.99 per cent to 21.99 per cent.[46]

45 CANSTAR, 'Balance transfer deals on offer', 7 September 2015, http://www.canstar.com.au/balance-transfers/terrific-balance-transfer-deals-on-offer/ (accessed 25 November 2015).

46 CANSTAR, 'Balance transfer deals on offer'.

CHOICE indicated in its submission that the average revert rate for balance transfer offers, which it called the 'sting in the tail', was in fact 20.09 per cent.[47]

5.48 The revert rate, and the incidence of people taking up a balance transfer offer only to find they have made little headway in repaying the balance within the honeymoon period (or, worse still, found themselves deeper in debt), was a significant area of concern for this inquiry. The committee received evidence from a range of witnesses suggesting that balance transfer offers encouraged (or at least facilitated) poor consumer behaviour and, by extension, represented a potential debt trap for the average cardholder.

5.49 For instance, ASIC submitted that balance transfers played on the behavioural biases of consumers:

> Optimistic present biased consumers may take up these offers because they believe they will take advantage of the introductory period to pay off their existing balances, when in fact their financial situation and imperfect self-control makes it likely that they will continue to borrow at a much higher interest rate. Behavioural biases such as overconfidence and present bias are known to influence how consumers make decisions about financial offers.[48]

5.50 Mr Pape made a similar point, emphasising that without any change in behaviour on the part of the cardholder, balance transfers—or, as he termed them, 'credit card roulette'—simply placed the cardholder at risk of falling deeper into debt.[49]

5.51 Similarly, Mr Clitheroe told the committee that balance transfer offers presented a 'debt trap' to consumers who failed to change their behaviour upon accepting an offer. If a cardholder was transferring a balance, he suggested, this was likely indicative of an inability to pay off the balance. As such, Mr Clitheroe suggested that a balance transfer should trigger a process in which the card provider, as a responsible lender, seeks to engage with and support the consumer to change their financial behaviour.[50]

5.52 Ms Lane from the Financial Rights Legal Centre also noted that cardholders often took up a balance transfer, only to further add to their debt on their new card.

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

48 Mr Michael Saadat, Senior Executive Leader, Australian Securities and Investments Commission, *Proof Committee Hansard*, 27 August 2015, p. 23.

49 Mr Scott Pape, Chief Executive Officer, Barefoot Investor, *Proof Committee Hansard*, 22 September 2015, p. 9.

50 Mr Paul Clitheroe, Chairman, Money Magazine, *Proof Committee Hansard*, 27 August 2015, p. 38.

She suggested that responsible lending obligations should be amended to address this problem.[51]

5.53 The Consumer Credit Legal Service (WA) Inc., a community legal centre that regularly works with disadvantaged and vulnerable consumers struggling with credit card debt, took an even stronger position against balance transfers. It argued that balance transfer offers:

> …take advantage of consumers with low levels of financial literacy, who do not understand or consider the actual impact of interest rates until it is too late. Further, while banks are able to offer honeymoon interest period credit cards to lure in vulnerable consumers, there is little incentive for these banks to reduce credit card interest rates in order to become more competitive.[52]

5.54 A joint submission from the Consumer Action Law Centre and the Financial Rights Legal Centre recommended that zero per cent balance transfer offers should be offered for a minimum of two years, and 'for interest-free periods to apply not only to the balance transfer but to new purchases'. They recommended that card providers should:

> …be required to set the minimum repayment amount on the basis that the consumer will repay the transferred balance within the 'teaser' period. In the alternative, there should be restrictions on using the card for new purchases until the transferred debt is repaid.[53]

5.55 CBA advised the inquiry that zero per cent balance transfer cards should be banned outright. The bank is the only one of the major banks that does not offer zero per cent balance transfers. Echoing the abovementioned arguments, CBA told the committee:

> The experience here, and in other markets around the world, is that customers increase their debt and many do not pay off the debt before the end of the offer period. It has been our view that such arrangements are not the right thing for our customers. We believe the committee should consider a total ban on zero per cent balance transfers, a move that would have our full support.[54]

5.56 Questioned by the committee, CBA advised that with up to one third of new applications in the market going to cards offering zero per cent balance transfers, its decision not to offer zero per cent balance transfers made it 'very hard for [CBA] to compete on a long-term basis'. However, CBA maintained that it did not offer

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51 Ms Katherine Lane, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 27 August 2015, p. 2.

52 Consumer Credit Legal Service (WA) Inc., *Submission 12*, p. 7.

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

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

zero per cent balance transfer because such offers were ultimately not in the best interests of customers.[55]

5.57 Balance transfer offers are widely seen by card providers as a means of attracting new customers and increasing their market share. Mr Graham Hodges, ANZ's Deputy CEO, confirmed that balance transfers were a loss leader for the bank, but were nonetheless seen as a valuable means of attracting and retaining customers.[56] The call by CBA—the bank with the largest share of the credit card market in Australia—to ban zero per cent balance transfers was met with some scepticism by some other card providers. In particular, Mr Cahill from NAB told the committee that it was 'interesting that the bank with the largest market share does not support zero balance transfers'. Balance transfers, Mr Cahill argued, were very much a part of the 'competitive mix' in a market that was 'highly competitive'.[57]

5.58 Mr Cahill also challenged the view that customers utilising balance transfers offers were financially vulnerable or likely to be worse off as a result of having accepted an offer. According to Mr Cahill, balance transfer customers were in fact 'four times less likely to move into delinquency that a standard credit card holder'.[58] In light of this finding, NAB took the view that:

> …zero dollar balance transfer can be an extremely useful tool for customers. It allows them to consolidate debt and get their finances under control. We do not believe it leaves the customers…in financial stress. So we support zero balance transfers as part of a competitive industry.[59]

5.59 ANZ also took issue with the notion balance transfer offers represented a 'debt trap', telling the committee that about 70 per cent of its clients on balance transfers (which made up 15 per cent of its total outstanding balances) paid off the balance in full by the end of the balance transfer period. (This figure, it noted, included those people who transferred their outstanding balance elsewhere.)[60] Mr Graham Hodges, ANZ's Deputy CEO, argued that balance transfers were a 'legitimate area for

55 Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, p. 2.

56 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 66.

57 Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, pp. 27–28.

58 Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 28.

59 Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 33.

60 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, pp. 65–66; ANZ, *Submission 27*, p. 7.

competitive activity'; if they were banned, he suggested, competitive activity would simply shift elsewhere within the market.[61]

5.60 Mr Lindberg from Westpac took what might be described as the middle position, suggesting that while zero per cent offers could be useful for customers, their duration should be limited in order to encourage customers to reduce debt faster:

> Balance transfers are an effective way to consolidate and get on top of debt. In my experience, however, they are being used too often to extend debt, and all too often debt continues to build, even during the transfer period. We should encourage customers to face their outstanding debts sooner. This may reduce industry balances, but we believe it is the right thing to do for customers.[62]

5.61 Westpac suggested it was trying to balance the value that many customers enjoyed from balance transfers with the fact that other customers simply end up 'kicking the can down the road' rather than addressing their underlying debt:

> What we want to do is find a way to support customers to face into their debt, give them a reasonable period of time—but not such a long period of time that it goes to the back of their mind—and then move forward.
>
> That is why we are suggesting that we do something to limit balance transfers. We gave real consideration to whether we should make a recommendation to this committee to stop them altogether. We decided that that would not be in the best interests of customers because there are so many who use it appropriately. So we tried to balance the two by saying, 'Let's have some limits.'[63]

Committee view

5.62 The committee shares the concerns expressed by a range of witnesses that balance transfer offers can present a 'debt trap' for consumers. In the worst instances, a consumer may take out a new card in order to take advantage of a seemingly compelling balance transfer offer, and not only to fail to pay off the balance in the honeymoon period but also run up further debt on their old card (which they have not cancelled) and their new card. Equally, the committee notes that balance transfers *can* be used to a consumer's benefit, and do appear to be an important part of the competitive mix in the Australian credit card market.

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61 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 66.

62 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 16.

63 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 23. Westpac suggested such limits should be considered alongside its aforementioned suggestion that customers be encouraged to set an amortisation period on their credit card debt.

5.63 In order to balance the potential benefits and risks of such offers, the committee believes serious consideration should be given to implementing new obligations on card providers in relation to balance transfers. In particular, credit card providers should be required to notify customers when an interest free period is about to expire, and if there is an outstanding balance remaining on the card, to actively engage with the customer to ensure the card is the most appropriate product for them.

Recommendation 8

5.64 The committee recommends that credit card providers should be required to make reasonable attempts to contact a cardholder when a balance transfer period is about to expire and the outstanding balance has not been repaid. In doing so, the provider should be required to initiate a discussion about the suitability of the customer's current credit card and, where appropriate, provide advice on alternative products.

Financial literacy

5.65 Treasury underlined the importance of financial literacy in helping people avoid or manage credit card debt, telling the committee:

> Where consumers have low levels of financial literacy or suffer from behavioural biases, high credit card interest rates can contribute to debt traps for those on lower incomes.[64]

5.66 There are a range of financial literacy programs and informational tools relevant to credit cards that are currently available to consumers and provided by both industry and government. The banks have their own programs and initiatives to help improve general financial literacy, including the use of credit cards. For example, ANZ told the committee that it had invested over $34 million over the last ten years in financial literacy programs such as MoneyMinded and Saver Plus, which were delivered in partnership with government and community organisations. The programs, ANZ reported, 'have a demonstrated track record of improving the basic budgeting, saving and money management skills of lower income participants, including the use of credit cards'.[65]

5.67 The ABA advised the committee that individual banks and the industry as a whole (through the ABA) was already making 'a very significant investment into financial-literacy programs'. According to the ABA, the major banks typically invested between $90 million to $300 million per year in financial literacy and financial inclusion programs.[66] The ABA advised the committee that, in addition to

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

65 ANZ, *Submission 27*, p. 3; Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 61.

66 Ms Diane Tate, Executive Director, Retail Policy, Australian Bankers' Association, *Proof Committee Hansard*, 22 September 2015, p. 14.

legislative and regulatory protections for credit card customers, 'the ABA has augmented these protections with a number of initiatives to improve the financial literacy and understanding of customers'.[67]

5.68 ASIC's MoneySmart website also provides information and other resources to customers to assist them in the selection and management of credit cards. In addition to information about how to avoid fees and charges, the website provides a credit card calculator to help consumers calculate how much they could save be making higher repayments.[68]

5.69 More broadly, ASIC has national responsibility for co-ordinating financial literacy, and works to this end with the Australian Government Financial Literacy Board. As part of this role, ASIC developed and published the *National Financial Literacy Strategy 2014–17*. According to a foreword by the then Parliamentary Secretary to the Treasurer, the Hon Steven Ciobo MP, the strategy 'provides a practical framework for action for stakeholders across the government, business, community and education sectors over the next three years'.[69]

5.70 Notwithstanding the current financial literacy offerings, both in relation to credit cards specifically and financial literacy more broadly, some witnesses suggested there was a need for more targeted efforts to improve understanding about credit cards for particular consumer cohorts. For example, Mr Symons for SocietyOne told the committee that it would be worth exploring:

> …whether there are not things that we could be doing that are not so much just general literacy and awareness raising but really more laser targeted efforts at people who potentially have these carry-forward balances. We could apprise them of options other than the ones that they have today.[70]

Financial literacy in schools

5.71 Mr Scott Pape, also known as the 'Barefoot Investor', argued that even with strong disclosure requirements and general financial literacy efforts, shifting the financial behaviours of adults was 'incredibly hard':

> Jenny Craig and I will never be out of business so long as people enjoy eating and spending. That is what I have learned over the past 12 years of being the Barefoot Investor, and the banks understand this better than anyone, which is why they basically went 'meh' in 2012 when the government began forcing them to include a minimum repayment warning table on statements, saying that a $5,000 credit card debt will take you 33

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67 Australian Bankers' Association, *Submission 15*, p. 2.

68 Australian Securities and Investments Commission, *Submission 16*, p. 6.

69 Australian Securities and Investments Commission, *National Financial Literacy Strategy 2014–17* (September 2014), p. 1.

70 Mr Matt Symons, Chief Executive Officer and Co-founder, SocietyOne Australia Pty Ltd, *Proof Committee Hansard*, 22 September 2015, p. 28.

> years to pay, at which time you would have paid 17 grand. Shocking? Yes. Did it make a difference? No. Today we have a $51 billion credit card problem, and it is growing. The truth is that successfully managing your money is 20 per cent knowledge but 80 per cent behaviour and, as I have said, change is really hard.[71]

5.72 For this reason, Mr Pape stressed the importance educating young people whose financial behaviours are not yet fully formed:

> At schools, kids learn some basic life lessons. They are taught to avoid the sun because it can cause skin cancer and they are taught that smoking is bad for them because it can cause heart disease and lung cancer, yet they are not taught about the dangers of credit cards and how they can cause financial cancer. Get that message across and young people may start to see the truth. If you spend less than you earn, credit cards are irrelevant.[72]

5.73 Mr Pape was particularly critical of the banks taking a lead role in educating children about finance. He contended that having CBA teach children about money through its Dollarmites program was akin to having 'Ronald McDonald teaching our kids about nutrition'.[73] Mr Pape added that when it came to teaching financial literacy in schools, programs such as ASIC's MoneySmart Schools initiative were better placed to provide 'independent, unbiased financial literacy and education'.[74] He added that financial literacy is:

> …a core life skill. It is the one thing that, when you get out of school, and even before you get out of school, you will be tested on every day of your life. It is far too important not to be a core part of the schooling process. It is far too important to allow banks to dictate and hand out their marketing material in schools.[75]

5.74 Ms Pam Mutton, a financial counsellor with Bentleigh Bayside Community Health who appeared before the community with the Consumer Action Law Centre, echoed Mr Pape's concerns regarding the CBA's Dollarmites program:

> The Commonwealth Bank practises cradle-to-grave banking. It starts in school, and you go all the way through. They also use the fact that they

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71 Mr Scott Pape, Chief Executive Officer, Barefoot Investor, *Proof Committee Hansard*, 3 September 2015, p. 1.

72 Mr Scott Pape, Chief Executive Officer, Barefoot Investor, *Proof Committee Hansard*, 3 September 2015, p. 1.

73 Mr Scott Pape, Chief Executive Officer, Barefoot Investor, *Proof Committee Hansard*, 22 September 2015, p. 1.

74 Mr Scott Pape, Chief Executive Officer, Barefoot Investor, *Proof Committee Hansard*, 22 September 2015, p. 3.

75 Mr Scott Pape, Chief Executive Officer, Barefoot Investor, *Proof Committee Hansard*, 22 September 2015, p. 4.

> have the engagement through that Dollarmites accounts. When kids turn 18, they send them the application for their very first credit card.[76]

5.75 However, when asked whether financial institutions or ASIC should deliver financial education in schools, Ms Mutton responded that they should work in cooperation:

> I think it needs to be across the legislative framework and the actual institutions need to take some responsibility. At the institutional end, if they learn to have some responsibility about the information they are providing to their consumers from a very young age, then they will take that through their corporate ideologies, and ASIC underpins that. [77]

5.76 ASIC, it should be noted, already runs a MoneySmart Schools Program, which delivers financial literacy and education in schools. According to ASIC's website, 42 schools across the nation are currently registered as MoneySmart Schools.[78] ASIC's MoneySmart Teaching program also provides cost-free professional development and resources for teachers to enable them to effectively teach young people about money. ASIC has indicated that it hopes to provide professional development to more than 20,000 teachers across Australia by 2017.[79]

5.77 It should be emphasised that the teaching of financial literacy in schools is by no means limited to ASIC's MoneySmart programs. On the contrary, the teaching of consumer and financial literacy is part of the Australian Curriculum, and is guided by the nationally endorsed education learning framework, the National Consumer and Financial Literacy Framework.[80] Nonetheless, it might be noted that while there are currently around 42 schools nationally registered as MoneySmart Schools, the CBA's School Banking program (of which the Dollarmites account is only one component), is currently delivered to around 275,000 students nationally, and CBA is currently investing a further $50 million to expand the program and expects it will reach 500,000 students in 2016.[81]

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76 Ms Pam Mutton, Financial Counsellor, Bentleigh Bayside Community Health, *Proof Committee Hansard*, 3 September 2015, p. 15.

77 Ms Pam Mutton, Financial Counsellor, Bentleigh Bayside Community Health, *Proof Committee Hansard*, 3 September 2015, p. 16.

78 MoneySmart, 'MoneySmart Schools', https://www.moneysmart.gov.au/teaching/moneysmart-schools, accessed 3 December 2015.

79 MoneySmart, 'Professional development', https://www.moneysmart.gov.au/teaching/professional-development, accessed 3 December 2015.

80 Australian Securities and Investments Commission, *National Financial Literacy Strategy 2014–17* (September 2014), p. 18.

81 Commonwealth Bank of Australia, webpage, 'Financial education', https://www.commbank.com.au/about-us/who-we-are/in-the-community/financial-education.html, accessed 3 December 2015; Commonwealth Bank of Australia, *Submission 23.1*, p. 1.

5.78 CBA refuted the criticisms of the School Banking program, telling the committee that the program was intended to 'help children achieve their educational potential', was offered on an opt-in basis to both schools and parents, and was loss-making. The main purpose of the program, according to CBA, 'is to provide young children with a basic understanding of core financial values and money management skills'. CBA also strongly rejected 'any suggestion that School Banking encourages poor financial management practices or encourages children to adopt credit cards'.[82]

5.79 CBA added that it did not 'capture data as part of our school banking program and integrate it into the rest of our banking program'. Rather, the data captured through the School Banking program was maintained in a separate database. CBA advised the committee that unless a customer had an existing home loan, they did not market credit cards to 18 to 21 year olds.[83] They also stated that when a customer turned 18, there was no flag to indicate they had become a CBA customer through the School Banking program.[84]

Committee view

5.80 The committee believes that financial literacy tools and programs could have an important role in helping Australians better understand credit cards and the risks inherent in credit card borrowing. The committee encourages the government and industry to work together to ensure these programs and tools are carefully targeted toward those consumers most at risk of using credit cards as a long-term borrowing facility.

5.81 While there are opportunities to better target financial literacy tools and programs to help improve the behaviours of some adult credit card customers, the committee agrees that financial literacy efforts should have a priority focus on educating young people about personal finance, including, but by no means limited to, credit cards. While the committee notes the concerns expressed during the inquiry about industry involvement in school banking programs, it considers banks can and do make a valuable contribution in helping children learn about personal finance. However, the committee considers that government should take a lead role in ensuring children are learning about personal finance, including the risks of credit card borrowing. The committee welcomes initiatives such as ASIC's MoneySmart Schools Program, and considers there is merit in rolling programs such as this out more broadly.

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82 Commonwealth Bank of Australia, *Submission 23.1*, p. 1.

83 Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, p. 11.

84 Mr Matthew Comyn, Group Executive, Retail Banking Services, Commonwealth Bank of Australia, *Proof Committee Hansard*, 16 October 2015, pp. 8–9.

Recommendation 9

5.82 The government should consider expanding financial literacy programs such as the Australian Securities and Investments Commission's MoneySmart Schools Program.

Hardship supports for people struggling with credit card debt

5.83 The committee received evidence from a number of community support bodies and financial counselling agencies, and from people who had personally struggled with credit card debt. Ms Katherine Temple, a policy officer with the Consumer Action Law Centre in Melbourne, provided the committee with some insight into its work with people struggling with credit card debt, and by extension the scale and severity of the problem in the community:

> Consumer Action's free telephone financial counselling service, MoneyHelp, receives at least 15 calls per day from people struggling with credit card debt. Over 50 per cent of our callers have credit card debt exceeding $10,000, over 28 per cent have debts exceeding $20,000 and nearly every week we get a call from someone with credit card debt exceeding $100,000. However, the number of people contacting MoneyHelp for assistance is likely to be only a small proportion of those who are struggling with credit card debt.[85]

5.84 The committee also heard how the harm caused by credit card debt can be devastating for individuals and the broader community. Ms Temple told the committee that credit card debt:

> …can lead to and exacerbate the marginalisation of struggling consumers. It can result in significant financial hardship and, in some cases, bankruptcy and the loss of the family home. At an acute level, credit card debt can lead to family violence, breakdown and a deterioration in health, including mental health. It can also have a long-term impact on the capacity to provide for health, retirement and education. These are serious and profound impacts. Taking appropriate steps, including regulation, should be an absolute priority for policymakers.[86]

5.85 Westpac told the committee that it had 'proactively offered' 277,000 credit card holders personal loans where the bank believed it might be a more appropriate product. Cardholders in this category included those who are only making the minimum repayment each month for a prolonged period of time.[87]

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85 Ms Katherine Temple, Senior Policy Officer, Consumer Action Law Centre, *Proof Committee Hansard*, 3 September 2015, p. 11.

86 Ms Katherine Temple, Senior Policy Officer, Consumer Action Law Centre, *Proof Committee Hansard*, 3 September 2015, p. 11.

87 Mr David Robert Lindberg, Chief Executive, Commercial and Business Bank, Westpac Group, *Proof Committee Hansard*, 16 October 2015, p. 15.

5.86 Similarly, NAB told the committee that it sought to 'proactively identify customers showing signs of financial stress'. When customers did enter hardship, NAB told the committee, they were provided with 'support through a world-class assistance program that was developed in partnership with the Kildonan UnitingCare'.[88] NAB indicated that less than one per cent of all credit card customers had entered hardship in the previous 12 months, and that the overwhelming majority of these customers had returned to commercial terms within a short period (89 per cent within 30 days, and 95 per cent within 90 days).[89] NAB's advice was consistent with industry data referred to by the ABA, which indicates:

> …less than one per cent of all customers, not just credit card customers, are in a hardship arrangement with their bank. Most customers experiencing financial difficulty have their financial situation restored within three to six months.[90]

5.87 ANZ advised that it had a well-defined process for customers experiencing hardship. This process, ANZ explained, might include discussions with customers about how to minimise the level of interest paid on current debt, and fixed payment plans that might assist in this regard.[91] Appearing before the committee, ANZ further advised that:

> …0.3 per cent of our credit card customers have sought assistance through our hardship program. Nine out of 10 of those customers that are in hardship are there because of unexpected events and, primarily, loss of income from unemployment or divorce or illness, not because of financial over-commitment at the time the card was issued.[92]

5.88 For its part, American Express advised the committee that it actively monitored accounts to help its cardholders avoid hardship:

> It is part of our service ethos. If it is clear that a card member is in difficulty—for example, they are revolving more than they have in the past or their spend patterns are changing dramatically—we contact them proactively and offer support if required. We do not wait until we are asked.[93]

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88 Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 26.

89 Mr Antony James Cahill, Group Executive, Product and Markets, National Australia Bank, *Proof Committee Hansard*, 16 October 2015, p. 26.

90 Mr Anthony Pearson, Chief Economist and Executive Director, Industry Policy, Australian Bankers' Association, *Proof Committee Hansard*, 22 September 2015, p. 10.

91 ANZ, *Submission 27,* p. 17.

92 Mr Graham Hodges, Deputy Chief Executive Officer, ANZ, *Proof Committee Hansard*, 16 October 2015, p. 61.

93 Mrs Rachel Stocks, Managing Director, American Express Australia Ltd, *Proof Committee Hansard*, 22 September 2015, pp. 39–40.

5.89 In addition to the financial hardship processes and initiatives implemented by individual financial institutions, the industry as a whole has taken a number of steps to improve hardship supports. The ABA advised the committee:

> In 2013 the banking industry implemented its financial hardship initiative in consultation with Financial Counselling Australia and other organisations to help vulnerable and disadvantaged Australians. We released an industry guideline going beyond legal requirements to help these customers. This year the banking industry further strengthened this initiative. Consumers can now get more information about the type of support that is available, including when a debt reduction or debt waiver may be appropriate. Banks also provide a range of resources, including the *Doing it tough?* website, to give consumers access to information about assistance and the contacts for banks' hardships teams. Australia's banks provide a range of products and services to consumers, including credit cards, and it is in both parties' interests that people's financial obligations can be met.[94]

5.90 The Consumer Action Law Centre welcomed the fact that the banks had put real effort into training their staff in the management of customers experiencing hardship. However, the Centre suggested that, in general, a conversation about hardship still needed to be initiated by a customer, and a customer often needed to explicitly state that they were experiencing hardship before hardship processes could commence.[95] The Centre argued that this was a particular problem for cardholders who might be making minimum repayments on time, yet still struggling to manage their credit card debt. Such customers, it noted, were unlikely to:

> … self-identify as being in hardship. The system is set up so that, if you make your minimum repayments, which could mean it will take decades before you pay off your debt, you are still 'paying your bills on time'.[96]

5.91 Mr Greenwood suggested that if a customer had only made minimum repayments for an extended period (for instance, six or 12 months) this should trigger some sort of mandatory intervention on the part of the card provider. This could take the form of engagement between the card provider and the customer to ascertain whether the customer needed additional support or advice:

> For example, if a person has got into 10 grand worth of credit card debt and they have not paid it back over 12 months, the fact is that somebody at the bank or some form of communication with that person should reach out and say, 'We think you've got a problem.' And I think you could do that. I do not

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94 Mr Anthony Pearson, Chief Economist and Executive Director, Industry Policy, Australian Bankers' Association, *Proof Committee Hansard*, 22 September 2015, p. 10.

95 Ms Pam Mutton, Financial Counsellor, Bentleigh Bayside Community Health, *Proof Committee Hansard*, 3 September 2015, p. 14.

96 Ms Katherine Temple, Senior Policy Officer, Consumer Action Law Centre, *Proof Committee Hansard*, 3 September 2015, p. 15.

> think that that would be a problem at all in terms of trying to be proactive in trying to control the real problems inside credit card debt.[97]

5.92 While hardship processes and support from card providers are very important, the committee also heard from a number of witnesses about the critical role played by the financial counsellors. A joint submission by the Consumer Action Law Centre and the Financial Rights Legal Centre recommended increased funding for the 'promotion and delivery of financial counselling and support services to assist those struggling with credit card debt'.[98] CHOICE also told the committee:

> We desperately need greater funding for financial counsellors. This is a bit of an 'ambulance at the bottom of the cliff' problem, but it is currently a very underfunded ambulance that is dealing with a very big problem.[99]

Committee view

5.93 The committee welcomes the steps that a number of financial institutions and the industry as a whole have put in place to support customers struggling with credit card debt. At the same time, the committee is concerned that consumers who are struggling with credit card debt but not actually in default, are not receiving adequate support and advice from their bank to help them manage their credit card debt.

Recommendation 10

5.94 The committee recommends that credit card providers should be required to make reasonable attempts to contact a cardholder in cases where a cardholder has only made the minimum payment for 12 consecutive months on interest bearing balances, and thereby initiate a discussion about product suitability and alternative lending products.

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97 Mr Ross Greenwood, Business and Finance Editor, Nine Network, *Proof Committee Hansard*, 27 August 2015, p. 44.

98 Consumer Action Law Centre and Financial Rights Legal Centre, *Submission 13*, p. 6.

99 Ms Erin Turner, Campaigns Manager, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 56.