

Additional Comments by Coalition Senators

1.1 Coalition Senators wish to thank all those who participated to this inquiry and in particular the Committee Secretariat for producing such a thorough report on an important issue. While the majority report includes a number of sound recommendations, we would like to make additional comments to complement these outcomes.

1.2 The Government has already commenced addressing some of the 11 recommendations by implementing actions as a result of the Financial System Inquiry, including addressing interchange fees and customer surcharging. The Government has moved to legislate a ban on surcharges that exceed the 'reasonable costs' faced by merchants in accepting cards.

1.3 The Government announced in its 2015–16 Budget earlier this year a pilot financial inclusion action plan for vulnerable individuals as part of Australia's G20 commitments.

1.4 However, in considering the most appropriate responses to the problems of ensuring an appropriate regulatory regime for credit cards a number of considerations are important.

1.5 First, the evidence presented to the inquiry shows that the vast majority of Australians use their credit cards responsibly and the proportion of individuals using their credit cards for long term debt is small. Evidence provided during the hearings indicated that low income earners generally managed their credit cards well.

1.6 Given this, the most effective regulatory response will address the problems of misuse of credit cards while not imposing wider costs across the economy and society.

1.7 As part of its red tape reduction agenda the Government has committed to an ongoing process of reducing the cost of unnecessary or inefficient regulation imposed on individuals, business and community organisations. In addressing the very real problems identified for some credit card users we need to ensure that the regulatory approaches adopted are 'fit for purpose' and targeted.

1.8 Credit cards are not in essence an amortising financial tool. They are a revolving line of credit that helps households manage cash flows. As such they are both important and complementary to other financial products available to consumers.

1.9 Consideration must be given to ensuring credit limits are tailored to each client's circumstances. The Committee heard that the model used in the United Kingdom assesses credit card applicants against more stringent requirements and includes a minimum repayment formula that sees repayments calculated on the basis of interest, fees and 1% of the principle. Coalition senators feel this deserves further research as an option in Australia.

1.10 Second, elements of recommendation 3, while having merit in their intent at least, appear to be unduly prescriptive and likely to stifle beneficial innovation and growth by firms seeking to meet market needs for more information.

1.11 Third, recommendation 4, which relates to mechanisms to facilitate switching in the credit card market and account number portability, which have been previously examined in Australia and elsewhere at times with adverse findings, does however bear further investigation in our view. Account number portability offers, at least in theory, significant consumer benefits through the encouragement of competition, as evidenced by similar measures implemented in the mobile telephone market. On that basis we feel the concept is deserving of further inquiry.

Senator Sean Edwards
Economics Committee Deputy Chair

Senator Matthew Canavan
Committee Member