

## TREASURY

### SENATE ECONOMICS REFERENCES COMMITTEE INQUIRY INTO MATTERS RELATING TO CREDIT CARD INTEREST RATES: QUESTION

Notice Given: 22 September 2015

Senator Dastyari asked Treasury, upon notice, on 22 September 2015 the following:

Earlier today we spoke to the ABA, and I outlined to them a couple of broad ideas that have been raised and looked at. I will leave you with the same things to take on notice. ... The ideas that have been raised so far that we would not mind, as we go through this process, having some feedback from Treasury on are:

First, credit card portability, which is about giving consumers the power to take their numbers with them like they do with mobile phones. We heard from peer-to-peer lenders today who also think that that should extend to people being given some of the data the banks have collected on them.

Secondly, looking at how you can better improve and perhaps even make industry and government provide funding for financial literacy programs.

Thirdly, changing the rules to allow more competition and different types of lending, including peer-to-peer lending. That would include flexible, tailored, personal lending rates. Some of that would include looking at what happened in the UK where the government put something like 54 million pounds into the peer-to-peer space as an investment, which ended up helping to promote a new industry. That ended up, as I understand—and I am sure you will look into this—being a financial plus for the government in the end. They got repaid with interest.

Fourthly, looking at what the UK are doing with minimum repayments. Effectively, at the moment, the words 'capacity to repay' and 'responsible lending' are determined by the banks.

Finally, banning unsolicited offers and removing the ability to opt in—at the moment you can have an opt-in arrangement—and looking at different types of targeting, particularly with regard to children. These, and there may be others as well, are five ideas that have come out of three days of evidence. We want to try and find practical policy changes without necessarily blowing up the entire market. Do you want to comment on that?

## ANSWER

**Treasury:** The answer to the Honourable Member's question is as follows:

Treasury welcomes the suggestions that have been put forward during the course of the inquiry, many of which are worthy of further consideration. As we noted in our opening statement to the Inquiry, the challenge is to find responses that best address consumer biases and protect vulnerable consumers without imposing senseless regulatory costs on all providers. The Government's Regulatory Impact Assessment framework is likely to be the best framework under which to assess the benefits and regulatory impacts of the proposals.

In regards to some of the specific proposals mentioned, Treasury provides the following information to aid the committee's considerations of the options presented to it.

**Credit card number portability:** Treasury notes that this has been looked at previously in the context of transaction accounts as part of Bernie Fraser's 2011 'Banking Services: Switching Arrangements' report, commissioned by the then Government. The Committee may wish to consider Mr Fraser's analysis of account number portability and the issues involved in forming its final views.

**Financial literacy:** As set out in Treasury's submission, the Government currently funds a number of programs to improve financial literacy and capability. These include: ASIC's MoneySmart program, which includes both a website that provides free, independent financial guidance as well as a teaching program that builds the capacity of teachers to teach financial literacy in their classrooms. Under the Families and Communities Programme, the Department of Social Services funds organisations to provide Financial Capability services and Commonwealth Financial Counselling. These are free, confidential services that provide practical support to help build longer-term capability and financial resilience. The Department of Human Services provides the Financial Information Service – a free, confidential service that provides information on how to manage financial affairs, informing consumers of available financial products, using credit cards in sensible ways, and reducing debt.

**Allow more competition from competing lending sources, including peer-to-peer:** Treasury notes the Government's response to the recent Financial System Inquiry commits to a number of actions to support greater competition in financial markets including increasing access and use of data to support new business models, support for a comprehensive credit reporting regime, implementing periodic reviews of competition in the financial system and including competition in ASIC's mandate.

**Look at what the UK are doing with minimum repayments:** The UK Cards Association amended their lending code of conduct in 2011 to clarify that the minimum payment should avoid negative amortisation. For cards issued since April 2011, this means the minimum payment covers interest, fees and a proportion of the balance outstanding from the previous month. A minimum payment calculated as a percentage of the balance carried forward is also permitted as long as it would normally prevent negative amortisation. This principle has not been explicitly prescribed in the Australian regulatory framework.

**Banning unsolicited offers and removing the ability to opt in:** The current legislation only prohibits credit card providers from making unsolicited offers to increase a consumer's credit limit in written form.