Additional comments by Senator Nick Xenophon

Are the banks having a lend of us on credit cards?

1.1 Mr Ross Greenwood, Business and Finance Editor, Nine Network, hits the nail on the head when he describes a system where 'some of the poorest and most vulnerable in our community subsidise the wealthiest in our community'.[1] The system adopted by credit card providers has in practice provided more benefits to those who are well off and has often come at a heavy price for those who are less well off.

1.2 The Committee heard that for some, quite possibly those who grew up with positive financial role modelling and those fortunate enough to receive some level of financial education, paying down the complete outstanding balance on a credit card at the end of each month results in a useful and often free service. As Mr Greenwood states 'a good customer pays nothing for their credit card'[2] and is also rewarded with points or other benefits associated with the loyalty schemes of their providers.

1.3 Sadly for many Australians, this is not the case. Mr Greenwood also described the plight of those at the other end of the spectrum:

> If you go to the Insolvency and Trustee Service Australia, which records part X bankruptcies and also broad bankruptcies in Australia, what it has found over a period of time is that those people most prone to bankruptcy in Australia are males under the age of 28, at an amount of less than $5,000. It is credit card debt. What happens is that those people—males under the age of 28, and increasingly females as well—for amounts of less than $5,000, are now mostly going to part X, so they are going into schemes as distinct from going bankrupt, but they are subsidising…people who pay off our credit card balances each month.
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> …
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> [T]he point is that the person who is suddenly in that position—who gets the offer through the mail and whose car has just broken down but who has to go to work—in the real world has to say, 'I've got to fix the car; I've got to put new tyres on the car; I've got to do whatever I do.' It is sheer desperation.[3]

1.4 The Committee heard of the practices adopted by banks that employ behavioural science techniques to target 'the perfect credit card customer…somebody

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1 Mr Ross Greenwood, Business and Finance Editor, Nine Network, *Proof Committee Hansard*, 27 August 2015, p. 37.

2 Mr Ross Greenwood, Business and Finance Editor, Nine Network, *Proof Committee Hansard*, 27 August 2015, p. 37.

3 Mr Ross Greenwood, Business and Finance Editor, Nine Network, *Proof Committee Hansard*, 27 August 2015, p. 37.

who is responsible enough to pay off the interest but too indebted to ever pay off the principal'.[4]

1.5 Mr David Koch, Finance Editor, Seven Network, highlighted the predatory behaviour of banks, informing the Committee that 'the stats say you are more likely to get divorced than you are to change banks'.[5] With this knowledge, banks entice new customers with interest free periods at a loss, knowing that once the customer is reeled in, they will potentially stay with the bank for life.

1.6 I commend the Committee for acknowledging, in Recommendation 6 of the report, the need to apply credit card lending on the basis of the borrower's ability to repay the debt. The committee heard, at a public hearing on 26 August 2015, of the relative ease and necessity of differential lending rates:

> **Senator XENOPHON**: I have a question to David Koch. You talk about lower interest rates for the good risks. Firstly, how easy would it be, with algorithms, to objectively rate the risk and set the rate? Secondly, is the flip side of that higher interest rates for bad risks, or should those bad risks not have the same access to credit cards or at all?
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> **Mr Koch**: The information is readily available on every single Australian through their credit report and their credit score. It means a financial institution would actually have to treat a credit card customer as an individual to make a decision, rather than one of five million customers—'You've all got to pay the same rate and we're just going to hose out increases in credit card limits because that is what we get rewarded for internally: the more customers that borrow more, the bigger the profits are going to be.' Getting that information to build a risk-based pricing system is pretty easy these days. If an insurance company can do it with your premiums, your own bank can, which has your own financial life on the screen in front of them. But it means you are going to have to focus. This is why I believe that there should be no unsolicited credit cards or increases in limits. When a customer comes to you and says, 'I would like a credit card,' they have made a decision and you have got to make, as a financial institution, an individual decision based on that customer. I think then we start to get a bit of a marrying of the minds.
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> **Senator XENOPHON**: So it is not so hard.[6]

1.7 Mr Koch aptly states that a credit card is a 'dream merchant'[7]—they offer easy money, enticing and enabling Australians to spend beyond their means. Is this responsible lending?

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4 Mr Ross Greenwood, Business and Finance Editor, Nine Network, *Proof Committee Hansard*, 27 August 2015, p. 37.

5 Mr David Koch, Finance Editor, Seven Network, *Proof Committee Hansard*, 27 August 2015, p. 38.

6 *Proof Committee Hansard*, 27 August 2015, p. 52.

7 Mr David Koch, Finance Editor, Seven Network, *Proof Committee Hansard*, 27 August 2015, p. 39.

1.8 Mr Paul Clitheroe, Chairman, Money Magazine, acknowledges that:

> …credit cards are a wonderful thing (and) lower fees and charges are great but at the end of the day we as a community of people need to say that the big institutions have all the marketing power and the poor little consumer wants all of this stuff and has no idea of the consequences.[8]

1.9 Institutions seem to be getting a disproportionate amount of revenue from credit cards used by those who can least afford it and rewarding those that never pay a cent of interest with loyalty program points.

1.10 Mr Alan Kirkland, Chief Executive Officer, CHOICE, informed the Committee that:

> …the evidence from the caseworker organisations is that although a lot of disadvantaged people end up with long-term debt that is not the intention when they first engage with credit cards; it is just that it turns into long-term debt because they are given too high a credit-limit increase that builds up over time. They are not sent the signals, through their statements, that alert them to the risk early in the interactions with their credit card account. If we can protect people at the front end then we can stop that, what is overwhelmingly short-term debt initially, turning into long-term debt.[9]

1.11 I am encouraged by the report recommendations to increase product disclosure and transparency, greater provision of consumer credit card usage data on statements and contacting consumers and discussing the suitability of their credit card. However more can be done.

1.12 Mr Koch and Mr Greenwood suggest consumer warnings, such as those found in gambling venues and on cigarette packaging. Mr Christopher Zinn, a consumer advocate suggests calling credit cards 'debt cards', 'because frankly that is what they are'.[10]

1.13 I call for greater scrutiny of the ethical behaviour of our lending institutions. Rather than using manipulative techniques to groom consumers to become dependent on debt, institutions should be held responsible.

1.14 It is essential for the sake of millions of Australian consumers that the recommendations contained in the Committee's report be acted upon as soon as possible.

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8 Mr Paul Clitheroe, Chairman, Money Magazine, *Proof Committee Hansard*, 27 August 2015, p. 43.

9 Mr Alan Kirkland, Chief Executive Officer, CHOICE, *Proof Committee Hansard*, 27 August 2015, p. 56.

10 Mr Paul Clitheroe, Chairman, Money Magazine, *Proof Committee Hansard*, 27 August 2015, p. 46.

Recommendation 1

1.15 Consideration should be given, in conjunction with consumer groups and experts, to providing appropriate warnings on credit card statements and credit card advertisements.

Nick Xenophon

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