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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Members

Matters relating to credit card interest rates

The Consumer Action Law Centre (**Consumer Action**) and the Financial Rights Legal Centre (**Financial Rights**) welcome the opportunity to provide a submission to the inquiry into credit card interest rates.

Overall, we are concerned by the increasing levels of credit card debt in Australia, and the impact this indebtedness is having on consumers. Briefly, our submission address the following:

- levels of credit card debt;
- the impact of credit card indebtedness;
- the impact of previous credit card reform;
- barriers to switching credit cards;
- credit card marketing;
- credit card disclosure;
- responsible lending;
- minimum monthly repayments;
- value of loyalty programs; and
- credit card transaction costs.

Our comments are detailed more fully below.

1. Summary of recommendations

Recommendation 1

Increase funding for the promotion and delivery of financial counselling and support services to assist those struggling with credit card debt.

Recommendation 2

Enable consumers to instruct their bank to cancel direct debits from credit cards, as they can with a transaction account direct debit authority.

Recommendation 3

Card providers be compelled to offer consumers simple online options to cancel credit cards.

Recommendation 4

Require credit card providers to inform consumers when switching that all direct debits will be transferred to their new card. We also suggest a broader consumer education campaign that improves understanding of how switching works.

Recommendation 5

Require credit card providers to provide consumers with a list of recurrent payments on their credit card annually or bi-annually to encourage consumers to review their direct debits.

Recommendation 6

Consider implementing 'account number portability', which could make switching credit cards simpler and easier for customers by allowing them to change banking service providers without changing their bank account or credit card number.

Recommendation 7

Require a minimum 'free' balance transfer period of two years, which must include new purchases.

Recommendation 8

Require low annual fees and interest free periods to be extended to two years.

Recommendation 9

Require credit card providers to set the minimum repayment amount for balance transfers and other 'teaser offers' 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.

Recommendation 10

Require credit 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.

Recommendation 11

Credit card disclosure generally move towards a 'product use' model, whereby disclosure of credit card costs is based on a consumer's actual transaction history.

Recommendation 12

Ensure that consumer testing of credit card disclosures is undertaken prior to implementation of any proposed credit card disclosure reforms.

Recommendation 13

Require assessments of suitability for credit cards to be based on whether the consumer can afford to repay the full credit limit within three years without suffering significant financial hardship (subject to Recommendation 9).

Recommendation 14

Require credit card providers to ask consumers what credit limit they are seeking, and not offer limits in excess of that suggested by the consumer.

Recommendation 15

Consider increasing minimum monthly repayments for new cardholders, and 'nudging' current cardholders to repay more than their minimum monthly repayments if possible, by messages on statements about the benefits of higher repayment amounts.

Recommendation 16

Consider ways to reduce cross-subsidisation in the credit card market, including individualised disclosure that demonstrates how much is required to be spent on the credit card in order to earn a certain value of rewards.

Recommendation 17

A regulator, preferably the Australian Securities and Investments Commission or Australian Competition and Consumer Commission, be given responsibility for enforcing payment surcharging rules.

Recommendation 18

Require payment surcharge amounts to be prominently disclosed to consumers early in the process of a transaction.

Recommendation 19

Lower interchange fee caps to increase payments system efficiency and lower product prices for consumers.

2. About the contributors

Consumer Action is an independent, not-for profit consumer organisation based in Melbourne. We work to advance fairness in consumer markets, particularly for disadvantaged and vulnerable consumers, through financial counselling, legal advice and representation, and policy work and campaigns. Delivering assistance services to Victorian consumers, we have a national reach through our deep expertise in consumer law and policy and direct knowledge of the consumer experience of modern markets.

The Financial Rights Legal Centre (formerly known as the Consumer Credit Legal Centre NSW) is a community legal centre that specialises in helping consumer's understand and enforce their financial rights, especially low income and otherwise marginalised or vulnerable consumers. We provide free and independent financial counselling, legal advice and representation to individuals about a broad range of financial issues. Financial Rights operates the Credit & Debt Hotline, which helps NSW consumers experiencing financial difficulties. We also operate the Insurance Law Service which provides advice nationally to consumers about insurance claims and debts to insurance companies. Financial Rights took over 25,000 calls for advice or assistance during the 2014/2015 financial year.

3. Levels of credit card debt

Australian credit card debt is continuing to grow rapidly, in line with a huge growth in household debt. The majority of Australian households now have a net credit card debt.[1] Statistics released by the Reserve Bank of Australia show that as at May 2015 there were 16 million credit cards with outstanding balances of $51.2 billion. Almost 64% of outstanding balances, or $32.6 billion, was accruing interest. This represents an incredible 47.3% increase in balances accruing interest over the past 10 years.[2] These statistics correspond with the huge increase in household debt. Since March 1977, we have seen the percentage of household debt to disposable income increase from nearly 40% to over 140%.[3]

Many cardholders identify themselves as 'transactors': consumers who pay outstanding balances before incurring interest or penalty charges. In fact, ANZ's recent financial literacy survey just on two-thirds of card holders (65%) claimed they had always paid their main card balance in full during the last 12 months.[4] However, the proportion of credit card balances accruing interest indicates this figure is overly optimistic. A significant number of consumers are actually 'revolvers': consumers who pay minimum monthly repayments or a fraction of the outstanding balance and incur high interest rate charges—around two thirds of outstanding balances actually attract interest.[5] This tendency towards identifying oneself as a transactor, when in fact you are a revolver, is a basic behavioural bias. Consumers tend to underestimate

[1] Australian Bureau of Statistics, '4102.0 - Australian Social Trends 2014', 12 June 2014, available at: http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4102.0main+features402014#credit
[2] Reserve Bank of Australia, 'Statistical Tables - Credit and Charge Card Statistics C1', 2015, available at: http://www.rba.gov.au/statistics/tables/index.html#money-credit
[3] Treasury Ministerial Brief, 'Credit Card Interest Rates', 25 March 2015.
[4] ANZ, 'ANZ Survey of Adult Financial Literacy in Australia', May 2015, p. 56, available at: http://www.financialliteracy.gov.au/media/558752/research-anz-adultfinancialliteracysurvey2014-fullreport.pdf.
[5] Reserve Bank of Australia, 'Statistical Tables - Credit and Charge Card Statistics C1' (2015); Treasury Ministerial Brief (2015) p. 5.

or are blind to factors that can impede repayment of their credit card balances.[6] People are overly optimistic and have other biases in assessing risk, meaning they are overconfident when it comes to estimating the amount of debt they will incur.[7]

Failing to repay credit card balances every month will not always be an indicator of financial hardship. However, it should be a cause for concern because those on lower incomes are disproportionately burdened with credit card debt. Australian Bureau of Statistics figures show that households in the second lowest household net worth quintile hold considerably more credit card debt ($3,100) than the average ($2,700), being about the same level of debt as the wealthiest quintile ($3,200 of debt). This quintile also holds more debt than the third and fourth quintiles ($2,800 and $2,400 respectively).[8]

The second lowest household net worth quintile bears the same amount of debt as the highest quintile, despite having less than one third of the disposable income ($552 per week compared to $1797). This quintile also has a little less than two thirds of the disposable income of the 'all households' average ($894 per week), while on average bearing more debt. More disturbing is that the credit card debt held by the second quintile is nearly four times the weekly *gross* income of those households ($821).[9]

4. Impact of credit card indebtedness

For many consumers, particularly those who manage to pay off their balances each month, credit cards can 'smooth' the irregularities in income and expenditure patterns and can increase individual financial stability.[10] However, for others, credit card debt can lead to significant financial hardship. In fact, credit card debt is the number one problem for callers to Financial Rights' financial counselling telephone service. Consumer Action's telephone financial counselling service, MoneyHelp, receives nearly 100 calls per week from people experiencing financial hardship who have credit card debt. Nearly 50% of callers with credit card debts have credit card debt exceeding $10,000, while nearly 10% have credit card debt exceeding $50,000. Every week we hear from someone with credit card debt exceeding $100,000.[11]

Debt from consumer credit card use can cause problems at a number of levels. At one level, credit card debt can lead to, and exacerbate, the financial marginalisation of disadvantaged consumers. At another level, some of the reasons behind the steadily increasing levels of credit card debt in Australia are relevant to mainstream credit card users and to the Australian financial system. At an acute level, credit card debt is dangerous for some individual consumers as it can result in financial hardship, bankruptcy and, in some cases, can place the family home at risk. At a generic level, the level of credit card debt of Australian consumers as a whole is

[6] Ali, McRae and Ramsay, 'Consumer Credit Reform and Behavioural Economics: Regulation Australia's Credit Card Industry', *Australian Business Law Review,* Volume 40, Issue 2, 2012.
[7] Dr Richard Tooth, 'Behavioural economics and the regulation of consumer credit', August 2012, para. 47, available at: http://www.srgexpert.com/wp-content/uploads/2015/08/Consumer-Credit-Behavioural-Economics-Case-Study-2012-Final.pdf.
[8] Australian Bureau of Statistics, '2011-12 Household Wealth and Wealth Distribution, 6554.0, Table 6', 2013, available at: http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6554.02011%E2%80%9312?OpenDocument.
[9] Australian Bureau of Statistics, '2011-12 Household Wealth and Wealth Distribution, 6554.0, Table 1', 2013, available at: http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6554.02011%E2%80%9312?OpenDocument
[10] Ali (2012), p. 2.
[11] Based on data collected from Consumer Action's MoneyHelp service between 13 July and 7 August 2015.

cause for some concern in relation to macro social policy objectives and the stability of the financial system generally.

Credit cards are particularly harmful for low-income earners and those who have limited impulse control. For those with the most acute problems with credit card debt, the debt seriously harms their lives. It can cause, amongst other things, family breakdown, violence, crime and deterioration in health (including mental health).[12] Significant credit card indebtedness can also have a long-term impact on the capacity to provide for housing, health, education and retirement.[13] These are serious and profound impacts, and taking appropriate steps (including regulation) to minimise these impacts should be a priority for policy makers.

We note that the number of people contacting Consumer Action for assistance is likely to be only a small proportion of those struggling with credit card debt. These 'hidden consumers' are generally making minimum monthly repayments or even above, but are not in so much financial distress that they would contact a financial counsellor. It is this group that will be paying thousands of dollars in interest payments, reducing their income and their ability to pay for day-to-day necessities and other productive expenditure. In the credit card market, a borrower can pay substantial amounts of interest payments without reaching the point of default. Should a consumer default, often as the result of a triggering event such as loss of employment or illness, this can lead to substantial additional costs such as late repayment fees, debt collection fees and even court costs. In contrast, financial default for one borrower is seldom as significant for a lender, who has a portfolio of borrowers and is able to spread default risk.[14]

In addition to our recommendations below, designed to reduce overall credit card indebtedness, we recommend increasing funding for financial counselling and support services, to assist consumers struggling with credit debt.

Recommendation 1

Increase funding for the promotion and delivery of financial counselling and support services to assist those struggling with credit card debt.

5. Impact of previous credit card reforms

Since the introduction of the *National Consumer Credit Protection Act 2009* (Cth) (**the NCCP Act**), the Federal Government has implemented a number of reforms relating to credit cards. Reforms included:

- banning unsolicited offers to increase credit card limits (unless the cardholder consents to receive such marketing);
- requiring card issuers to notify cardholders if they exceed their credit limit, and prohibiting the lender imposing fees or charges for use in excess of the credit limit;[15]

[12] Financial and Consumer Rights Council Inc., 'Submission to the House Standing Committee on Economics, Finance and Public Administration: Inquiry into Home Loan Lending Practices and Processes', August 2007, p. 3.
[13] Ali (2012), p. 3.
[14] Tooth (2012), para. 45.
[15] *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011* (Cth) Div 5, s133BI.

- requiring card issuers to allocate repayments to the most expensive part of the credit card debt first; and
- requiring monthly credit card statements to tell cardholders how long it will take to pay off the entire balance by making minimum monthly repayments alone.[16]

As well as anecdotal feedback we receive from clients about the usefulness of these reforms, evidence shows that the 2011 credit card reforms (which included the minimum payment warning along with other measures) have actually reduced the proportion of 'revolver' balances since the reforms were introduced.[17] This means that consumers are paying off their credit card debts more quickly, which was one of the key aims of the reforms.[18]

However, we query whether banks are now recouping lost profits as a result of these reforms by keeping credit card interest rates high despite falling bank funding costs.[19] Since the Reserve Bank of Australia (**RBA**) began dropping the cash rate, of the 55 major credit card providers only 16 percent adjusted their card rates in the month after the fall.[20] While the cash rate continues to decline, credit card interest rates have remained high.

6. Competition

The Australian credit card market features around 100 credit card brands offering over 250 products. However, despite the wide range of products on offer, there has arguably been a failure of competition in Australia's credit card market. The four major banks account for around 80 per cent of total outstanding credit card balances,[21] and are failing to compete on price, despite the cost for providing credit actually reducing.

According to Treasury, despite a 2.5 percentage point decline in the cash rate since late 2011, credit card interest rates have remained high. Treasury also reported that there has been a structural increase in the spread between effective credit card interest rates and bank funding costs. Since the global financial crisis, we have seen the average spread between bank funding costs and effective credit card interest rates increase from 6.7% to 8.7%.[22] There does not appear to be a clear explanation for this increase, however, as suggested above we suspect that credit card providers are recouping lost profits and competition is failing to prevent them from doing this. Other industry data also suggests that competition is failing to ensure consumers are only paying efficient costs: credit cards are a gold mine for banks, with the estimated return on equity for a residential mortgage at 24.25%, while the return on equity for credit card loans is 40.25%.[23]

[16] *National Consumer Credit Protection Amendment (Home Loan and Credit Cards) Act 2011* (Cth) and *National Consumer Credit Protection Regulations 2009* (Cth) Reg 79B.
[17] Treasury Ministerial Brief (2015).
[18] *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011,* Explanatory Memo, Election Commitment 7, available at: https://www.comlaw.gov.au/Details/C2011B00057/Explanatory%20Memorandum/Text.
[19] Treasury Ministerial Brief (2015).
[20] Staff writers, 'Credit card users have spent an unnecessary $2 billion in credit card interest', 4 August 2015, available at: http://www.news.com.au/finance/money/credit-card-users-have-spent-an-unnecessary-2-billion-in-credit-card-interest/story-e6frfmci-1227468382163.
[21] Treasury Ministerial Brief (2015).
[22] Ibid.
[23] Ibid.

Below we make some suggestions aimed at improving the effectiveness of competition in the credit card market.

Recurring direct debits

Cardholders face a number of barriers if they wish to switch credit cards. One of the most significant barriers to switching is cancelling recurring direct debit transactions that are set up from a consumer's credit card. Currently, recurrent payments made from a credit card are much more difficult to cancel than payments from a transaction account, and credit card recurrent payments can continue to be made even after the card itself is cancelled.

Consumers commonly establish recurring transactions and standing authorities with third party merchants to pay regular bills, such as insurance, utility bills or fitness club memberships. However, very few consumers would be aware that if they wish to cancel direct debits from their credit card, they must contact each merchant individually.

Problems can arise when a merchant does not act on an instruction to cancel a regular payment. These problems can also arise when a consumer closes their credit card account but does not arrange with third party merchants to cancel regular payments. In this case, a consumer is generally responsible for establishing and cancelling authorities directly with the relevant merchant. They will also be responsible for any transactions debited to the credit card account, even after the account has been closed.

Case study

Thomas decided to close his credit card account with his credit card provider. Three months later, he moved house. Thomas did not provide his credit card provider with a forwarding address, as he was no longer a customer.

The following month, an amount of $653.54 was charged to Thomas' credit card account, despite it being closed. This amount was a regular direct debit from the company providing Thomas' car insurance. Thomas had established a regular direct debit arrangement with his insurer and had not cancelled that arrangement before he cancelled the card. Thomas was not aware that this payment was made.

The credit card provider did send account statements to Thomas' previous address over the next two years. The credit card provider did have Thomas' mobile phone number and could have contacted him at any time, but did not.

Two years following the closure of his account, Thomas received a notice of assignment and final notice from a debt purchasing company in relation to a debt of $838.05. Not knowing the origin of the debt, Thomas wrote to the debt purchaser, requesting information. He never received a response.

Following the lodgement of a dispute with the debt purchaser at the Financial Ombudsman Service, the debt purchaser provided information about the debt. The debt purchaser stated that it had purchased the debt from his credit card provider and that interest had accrued increasing the total amount owing.

Thomas claimed, through FOS, that no amount should have been charged to the credit card account as it had been closed, and that interest charged was due to error by the credit card provider allowing the payment. FOS did not accept this argument, relying instead on the terms of the contract which provide: ‘where a card has been cancelled… you must cancel any periodic payment arrangements which are linked to the Card Account’ and that ‘you will… be liable for standing order authority transactions which have not been cancelled prior to termination’.

The approach taken with credit cards can be contrasted with direct debits on transaction accounts. Clause 19 of the *Banking Code of Practice* requires banks to promptly process a consumer's instruction to cancel a direct debit request. We submit 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.

Recommendation 2

Enable consumers to instruct their bank to cancel direct debits from credit cards, as they can with a transaction account direct debit authority.

Cancelling credit cards

When consumers choose to switch credit cards, not only can debits continue to be taken from the previous card, but the previous card can be incredibly difficult to cancel. This means that consumers may eventually find they have a number of credit cards, and are gradually increasing their overall credit card limit. This is particularly worrying for consumers experiencing financial hardship who take advantage of 'free' balance transfer periods, who find themselves with multiple credit cards and significant credit card debt. This can lead to large overall credit limits that, if fully used, would exceed the person's capacity to repay.

As set out in CHOICE's submission, the process for cancelling a credit card is stuck in a pre-internet era. According to CHOICE's research, in order to cancel a Commonwealth Bank credit card a customer needs to visit a bank branch or call to speak to a customer service representative.[24] Similarly, Westpac and National Australia Bank require consumers to call the bank or send a physical letter to cancel a card.[25]

Requiring customers to personally contact the credit card provider generally results in the consumer having to explain why they wish to cancel, and engaging in a sales discussion with a customer service representative. We support CHOICE's recommendation that card providers should be compelled to offer consumers simple online options to cancel credit cards.

Recommendation 3

Require credit card providers to offer consumers simple online options to cancel credit cards.

Account number portability

We also recommend considering 'account number portability' (**ANP**) to promote competition. This could potentially make switching credit cards simpler and easier for customers by allowing them to change banking service providers without changing their bank account or credit card number.[26] It could also remove the need to amend certain direct debits, as discussed above, which is a key area where perceived or actual problems with switching can arise. However, it is important that consumer are informed by their credit card provider that all direct debits will be transferred to the new credit card. We recommend that credit card providers also be required to provide consumers with a list of recurrent payments on their credit card annually or bi-annually to encourage consumers to review. The New Payments Platform under development is an excellent opportunity to achieve this goal.[27]

The Financial Conduct Authority (**FCA**) in the United Kingdom recently looked at ANP and found that being able to keep bank account details increases consumer confidence in the bank account switching process and that a significant number of individual and small business customers would be more likely to switch if they could retain their account details.[28]

We note that the 2012 'tick and flick' bank switching reforms only applied to transaction accounts, not credit cards or other accounts. These reforms were designed to assist consumers to switch banks, by requiring the consumer's new financial institution to arrange the transfer of all automatic transactions linked to the customer's account and informing associated creditors

[24] Commonwealth Bank, 'How do I close or cancel my CommBank account?', accessed 7 August 2015, available at: https://www.commbank.com.au/support/faqs/737.html.
[25] Westpac, 'How do I cancel my credit card?', accessed 7 August 2015, available at: http://www.westpac.com.au/faq/cancel-credit-card/ and NAB, 'Credit Card Terms', clause 17.2, accessed 7 August 2015, available at: http://www.nab.com.au/personal/credit-cards/credit-card-terms-conditions-and-other-information .
[26] Account and credit card are the same with some banks, while others have two separate numbers. It is proposed that account number portability would apply to both.
[27] Australian Payments Clearing Association,
New Payments Platform', accessed 10 August 2015, available at: http://www.apca.com.au/about-payments/future-of-payments/new-payments-platform-phases-1-2.
[28] Financial Conduct Authority, 'Our review of the Current Account Switch Service and account number portability', 12 March 2015, available at: https://www.fca.org.uk/about/what/promoting-competition/current-account-switch

and debtors about the new account details.[29] Unfortunately, these reforms were largely considered a failure as consumers still considered it too difficult to switch and the program was not broadly promoted by the banks.[30]

Recommendation 4

Require credit card providers to inform consumers when switching that all direct debits will be transferred to the new card. We also suggest a broader consumer education campaign that would improve understanding of how switching works.

Recommendation 5

Require credit card providers to provide consumers with a list of recurrent payments on their credit card annually or bi-annually to encourage consumers to review their direct debits.

Recommendation 6

Consider implementing 'account number portability', which could make switching credit cards simpler and easier for customers by allowing them to change banking service providers without changing their bank account number.

Marketing practices

Lenders generally compete by offering low annual fees, interest-free periods, 'free' balance transfers or member reward schemes to attract borrowers. Our main concern is that these offers are “teasers”, in that they hide the true cost of the card. This includes the high interest rates for new purchases (often exceeding 20 percent) and significant fees . Even if zero percent applies to new purchases during the introductory period, this effectively provides consumers with an incentive to spend excessively during the period as it appears to be “free” money.

A 2005 United States study demonstrates this point. The study used data from a large credit card issuer that randomly assigned a set of pre-approved customers to receive different credit card offers. One group received an offer of 4.9 percent for 6 months, which then went up to 16 percent. The other group received an offer of 7.9 percent for 12 months, which then went up to 16 percent. Substantially more consumers accepted the 4.9 percent offer. Moreover, the study tracked consumers’ actual borrowing and payment behaviour to show that the group with the lower but shorter teaser rate paid on average more interest than they would have paid with the

[29] MoneySmart, 'Switching bank accounts', accessed 10 August 2015, available at: https://www.moneysmart.gov.au/managing-your-money/banking/switching-bank-accounts
[30] Staff writers, 'Reform fails to get customers to switch banks', 29 April 2013, available at: http://www.news.com.au/finance/money/reform-fails-to-get-customers-to-switch-banks/story-e6frfmcr-1226631684082.

higher but longer term teaser rate card. This is because consumers underestimate the probability of continuing to carry a balance after the introductory period expires.[31]

Credit card lenders ‘bundle’ these complex pricing structures in their marketing and product information, which makes the overall costs difficult for the average consumer to understand.[32] Consumers may make poor decisions because they struggle with the complexity of information. Faced with complexity, consumers often resort to simple, but potentially biased, decision rules.[33] Potential borrowers may also fall prey to superficially appealing but poor value offers, such as rewards points.[34]

Lenders eventually offset the costs of these 'teaser offers' by charging high standard interest rates on outstanding balances and new purchases. This takes advantage of two consumer behavioural biases: overconfidence and lack of self-control. As discussed above, consumer overconfidence about their prospects or in their ability to control future spending may lead them to overestimate their ability to pay back debt.[35] This can cause insensitivity to the repayment obligations over the life of the contract and may result in consumers being unprepared for adverse events and use other credit to address short-term needs.[36] Consumers' tendency to underestimate future borrowing is the optimism bias, as we underestimate the likelihood of adverse events that might necessitate borrowing.[37]

If consumers underestimate their future borrowing, issuers can be expected to raise the long-term, contingent elements of the credit card price (such as interest rates that apply after teaser periods and late fees). Credit card providers under-price the short-term, non-contingent elements of the credit card contract as they are not subject to the underestimation bias.[38]

Consumers also generally have imperfect self-control. Imperfect self-control plagues consumption and savings decisions, accounting for the significant problem of insufficient saving for retirement (hence, the existence of compulsory superannuation).[39] Cardholders may plan to repay credit card balances in full each month, but imperfect self-control over time leads to unmanageable debt.[40]

People with significant credit card debt, or 'revolvers', typically take up these 'teaser' offers. However, most never actually realise the advertised benefits and are tempted to overspend under the illusion that this is 'free' money. We recommend that teaser 'free' balance transfer offers be a minimum of two years, and for interest-free periods to apply not only to the balance transfer but to new purchases. Low annual fees and interest free offers should similarly be required to meet minimum standards, such as being available for at least two years. However, to help ensure that consumers will not be tempted to over-commit themselves during the

[31] Haiyan Shui, 'Time inconsistency in the credit card market', 30 January 2005, available at: http://eml.berkeley.edu/~webfac/dellavigna/e218_f05/ausubel.pdf.
[32] Ali et al (2012).
[33] Tooth (2012), para. 35.
[34] Ibid, para. 40.
[35] Ibid, para. 47.
[36] Ali et al (2012); Tooth (2012) para. 49.
[37] Oren Bar Gill, 'Seduction by Plastic', American Law & Economics Association Annual Meetings, 2004, p. 7, available at: http://law.bepress.com/cgi/viewcontent.cgi?article=1013&context=alea.
[38] Ibid, p. 8.
[39] Ibid, p. 7.
[40] Ali et al (2012).

extended 'teaser' period, we recommend that credit card companies be required to set the minimum repayment amount on the basis that the consumer will repay the transferred balance within the period. The assessment of affordability (discussed in section 8 below in further detail) should also be based on this repayment period. In the alternative, there should be restrictions on using the card for new purchases until the transferred debt is repaid.

This would make it more likely that consumers could take advantage of these 'teaser' offers, and less likely that the credit card provider will exploit consumers' behavioural biases. We also recommend providing more individualised cost disclosure to consumers, which is discussed further below.

Recommendation 7

Require a minimum 'free' balance transfer period of two years, which must include new purchases.

Recommendation 8

Require low annual fees and interest free periods to be extended to two years.

Recommendation 9

Credit card companies 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.

7. Credit card disclosure

We recommend improving credit card disclosure, subject to the overarching principle that the purpose of disclosure is to help consumers make informed decisions (and so improve efficiency in markets) rather than being an end in itself. To be effective, disclosure must not only share information but positively influence consumer behaviour.

There is a clear role for disclosure as long as it is going to allow consumers to engage more effectively in markets. However, disclosure will never be able to overcome problems created by products which are unfair, conflicted or overly complex. In these cases, the solution is to re-design the products and sales practices themselves.

Designing effective disclosure

Designing effective disclosure should start with a consideration of how consumers actually use disclosure and how they make decisions, rather than a focus on compliance and risk avoidance. It should be designed with an understanding of what kind of information will be useful to consumers, and when and how to present it for maximum effect.

Currently credit card disclosure is largely based on 'product attributes', such as comparative interest rates. However, merely disclosing the interest rate in the credit card offer, even in a salient way, is not enough. If a consumer believes that they will not borrow on their card, they will not mind the high interest rate, no matter how large the font.[41] To be effective, the required disclosures must target consumers' behavioural biases.

We therefore recommend that disclosure move towards a 'product use' model, whereby credit card providers disclose the actual cost of a credit card based on a consumer's transaction history. This might work in two ways. For consumers who are shopping around for a new card, they should be able to access their last year's transaction history which would also disclose the total amount (in dollar terms) they paid in interest and fees. They could ask new credit card providers to review their transaction history and determine what the total amount they would be charged over a year should they use that card. A similar figure should be provided for periods where incentives (i.e. interest-free periods) don't operate. The other way it could work is for credit providers to be required to disclose the average annual cost figure across their customer base. NAB states that an average cost of a low rate card is as much as $717 per year.[42] We submit that single cost figures such as these would focus a consumer's mind and encourage them to shop around.

We also support CHOICE's recommendation that credit card providers should be required 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. This disclosure would ideally be based on the consumer's actual transaction history for that month. We agree that this is likely to encourage switching and stimulate further competition in the credit card market.

Oren Bar Gill noted that 'the efficacy of a disclosure policy would increase if the disclosed information, although necessarily statistical, is individualized.' An individualised product cost disclosure would be more effective than generalised warnings, which do not take into account our tendency to underestimate the amounts we will borrow.

One recent example are the 2011 credit card reforms,[43] which require credit card providers to disclose how long it will take a consumer to pay off their credit card (and how much it will cost them in interest) if they are only making minimum repayments. The value of this disclosure is that it provides information that:

- is relevant: the information is tailored to the individual consumer and is presented in unambiguous, dollar terms;
- is timely: the information is presented at the point where the consumer is making a decision; and
- prompts a response: having seen the warning, the consumer knows exactly how to reduce the risk they have been informed about.

We strongly support this innovative disclosure, which appears to have had a genuine impact on levels of credit card indebtedness.

Consumer testing

[41] Bar Gill (2004), p. 5.
[42] National Australia Bank, 'Measuring Financial Exclusion in Australia', April 2014, p. 7, available at: http://cr.nab.com.au/docs/measuring_financial_exclusion_in_australia_2014_final.pdf.
[43] *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011* (Cth).

We strongly recommend consumer testing any proposed credit card disclosure. This will ensure that the disclosure does what it is intended to do, that is, help consumers understand products and make informed decisions. This is especially important given the current movement towards permitting providers to use more innovative disclosure.[44] We support this movement, but it will just produce new types of ineffective disclosure unless the innovative disclosure models are refined through consumer testing.

Recommendation 10

Require credit 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.

Recommendation 11

Credit card disclosure move towards a 'product use' model, whereby disclosure of credit card costs is based on a consumer's actual transaction history.

Recommendation 12

Ensure that consumer testing of credit card disclosures is undertaken prior to implementation of any proposed credit card disclosure reforms.

8. Responsible lending

Credit providers, including credit card providers, are required under the NCCP Act to assess the suitability of a credit contract before suggesting it to a consumer or entering into the contract with the consumer. However, we are concerned that some credit card providers are providing credit cards to consumers that are not suitable, and may be unaffordable.

The key steps a credit provider must take to meet its responsible lending obligations include:

- making reasonable inquiries about the consumer’s financial situation, and their requirements and objectives;
- taking reasonable steps to verify the consumer’s financial situation; and
- making an assessment about whether the credit contract is ‘not unsuitable’ for the consumer, including whether payments can be made without “substantial hardship”.[45]

In our view, some credit card providers are not properly assessing whether repayments can be made without substantial hardship, nor are they seeking enough information from consumers to assess the suitability of credit cards prior to them being offered.

Our comments are explained in further detail below.

[44] See for example: Australian Securities and Investments Commission, 'RG 221 Facilitation online financial services disclosures', July 2015, available at: http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-221-facilitating-online-financial-services-disclosures/.
[45] See ASIC RG 209 for further information, available at: http://download.asic.gov.au/media/2243019/rg209-published-5-november-2014.pdf

Affordability based on minimum monthly repayments

Credit card providers currently assess suitability based on whether a borrower can afford the minimum monthly repayments without suffering significant financial hardship. We do not believe this practice is in line with the intention of the responsible lending laws, nor is it in line with the Australian Securities and Investment Commission's (**ASIC**) Regulatory Guide 209 (**RG 209**).[46]

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).

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 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 (unless a shorter 'teaser' period applies - see section 6 above for further information).

Reasonable inquiries about consumers financial circumstances and verification

In practice, credit providers often rely upon generic data to assess a consumer's living expenses, rather than making reasonable inquiries about their actual financial circumstances. Credit providers vary in relation to what information they request, but generally speaking they require a self-assessment of living expenses that is then compared to generic or benchmark data.

However, the use of generic data or benchmarks often fails to take into account:

- particular individual unique needs of a consumer, such as medical expenses;
- costs for dependents, such as school fees;
- discretionary spending; and
- additional transport costs due to living in a remote location.

The extent of verification undertaken by a credit provider in practice is often limited to reviewing proof of income rather than proof of living expenses. Without an assessment of individual circumstances, credit providers may offer a credit limit that the consumer cannot afford.

As set out in RG 209, the use of benchmarks is not a replacement for making inquiries about a particular consumer's current income and expenses, nor a replacement for an assessment based on that consumer's verified income and expenses. The obligation to make reasonable

[46] Ibid, p. 35.

inquiries about, and verify, a consumer's financial situation was considered in detail in *ASIC v The Cash Store (in liquidation)* [2014] FCA 926. Davies J observed (at [42]) that:

> Assessing whether there is a real chance of a person being able to comply with his or her financial obligations under the contract requires, at the very least, a sufficient understanding of the person's income and expenditure. It is axiomatic that 'reasonable inquiries' about a customer's financial situation must include inquiries about the customer's current income and living expenses.'

Requirements and objectives

A consumer's credit contract must meet their requirements and objectives. However, many credit card providers do not ask about a consumer's requirements or objectives are when they apply for a credit card.

The Explanatory Memorandum to the NCCP Act states that 'a credit card has no particular purpose and therefore there would be a limited requirement to understand the consumer's requirements and objectives in this case.'[47] However, in our casework experience, this is not completely accurate as some consumers do obtain credit cards with a particular purpose in mind. This should be assessed by a credit card provider before suggesting or entering into a credit card contract. For example:

- balance transfers;
- interest free purchase options to purchase specific items;
- credit cards for large purchases (e.g. holiday, car);
- managing irregular income and expenditure; or
- starting a "credit history" .

We also note that the Explanatory Memorandum sets out that one intention of the responsible lending laws is to ensure that credit providers do not to offer a consumer more credit than they requested.[1]

RG 209 states that ASIC expects that a credit provider should make inquiries about the maximum limit the consumer requires on the card, as this is a key feature of the product that relates to the consumer's requirements and objectives.[48] ASIC has provided further guidance about what reasonable inquiries about a consumer's requirements and objectives could include.[49] These are:

- the amount of credit needed or the maximum amount sought;
- the timeframe for which it is required;
- the purpose and benefit sought; and
- whether the consumer seeks particular product features or flexibility, and understands the costs of these features and any additional risks.

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[47] *National Consumer Credit Protection Bill 2009* Explanatory Memorandum, Example 3.5, available at: https://www.comlaw.gov.au/Details/C2009B00148/Explanatory%20Memorandum/Text.
[48] ASIC RG 209.
[49] Ibid, p. 13.

For example, if a consumer signs up to an in-store credit card in order to purchase a $3000 item, giving that consumer a credit card with a $15,000 limit probably would not meet their requirements and objectives. However, credit providers appear to circumvent this requirement by not asking consumers what the purpose of the credit is, meaning many credit card providers do not take this into account in determining the limit of the credit facility. Most credit card providers set the limit themselves and do not ask the consumer for the limit they require to suit their own purpose.

Case study

James applied for a credit card after a few months at his new job. The credit card provider did not ask him what his purpose was, or ask him to estimate his living expenses. The credit provider asked for his payslips. James was offered a ridiculously high credit limit that far exceed what he was after. He just wanted to start his credit history and have the flexibility of a credit card, plus use the benefits of salary sacrifice at his new job. James had to fight with the credit card provider to reduce the limit as James knew he was on a 12 month work contract and was inexperienced in using credit cards. James did not want to risk it but the credit card provider told him that it was just in case he needed it.

Credit limits are generally set by the credit provider after asking questions from the consumer about their income and expenditure, and comparing expenditure with benchmarks and algorithms based on the minimum monthly repayments. By not asking the consumer what limit they require, the credit provider is not inquiring into the maximum amount needed, or for what purpose. In our view, this is not consistent with the requirements under the responsible lending laws.

Case study

Alexandra earns $80,000 per annum before tax. She has 2 credit cards, each with an available limit of $20,000. She currently has a balance of $1,000 on one and $0 on the other. She set up a new transaction account with a new bank and applied for a credit card as they offered her a low interest rate, and bonus points with her transaction account. Alexandra was asked to provide her payslips and details of her liabilities which includes a large mortgage of $1,000,000 with a co-borrower. The credit provider did not ask her what the credit card was for, and offered her a limit of $27,000. Alexandra now has an available credit limit of $67,000. If she reached the maximum on all three facilities, she could not afford to pay the three credit cards, nor meet her obligation under her mortgage or her basic living expenses.

A consumer may only require a small credit card balance of $1,000, but as the consumer is not asked to set their own limit the credit provider may offer more and a consumer may accept.

Some consumers will often then get into difficulties in relation to managing the higher limit, believing that as the credit provider offered the higher amount that they can afford it. They may start spending on the credit card outside of their intended needs and be unable to repay the balance and only the minimum amounts.

Recommendation 13

Require assessments of suitability for credit cards to be based on whether the consumer can afford to repay the full credit limit within three years without suffering significant financial hardship (subject to Recommendation 9).

Recommendation 14

Require credit card providers to ask consumers what credit limit they are seeking, and should not offer limits in excess of that suggested by the consumer.

9. Minimum monthly repayments

Low minimum monthly repayments allow consumers to continue to purchase and borrow on their cards, and increase their credit limits, without discharging their monthly balance. The Ministerial Council on Consumer Affairs found in 2008 that the majority of Australian lenders set very low monthly minimum repayments, with 60% of card requiring repayments of 2% or less of the balance outstanding.[50] This allows people to carry long-term debt at very high interest rates. It also allows lenders to assess a consumer's ability to repay on the basis that they will only make minimum monthly repayments, effectively assuming that the borrower will be carrying long-term debt (discussed further below). As noted above, should a consumer make only minimum monthly repayments, they will unlikely show up as "in distress" either at assistance services or in industry data about defaults and bad debt levels. The available data suggest that there are large number of Australian in this category, that is, struggling with high debt levels. Section 3 in this submission presented data from the ABS showing that around two third of credit card debt is interest-bearing. A segmentation analysis of the Australian population found that there is a very large group of people (18.2%) that have high incomes and assets, but also difficulty in managing debts.[51] Credit card debt with low minimum payments encourages over indebtedness.

[50] NSW Fair Trading, 'Reponsible lending practices in relation to consumer credit cards', August 2008, para. 2.8, available at: http://www.fairtrading.nsw.gov.au/pdfs/About_us/Resolving_issues/Responsible_lending_RIS_2008.pdf.
[51] Department of Families, Housing, Community Services and Indigenous Affairs, 'Occasional Paper No. 36: Approaches to Personal Money Management', 2011, p. 37, available at: https://www.dss.gov.au/sites/default/files/documents/05_2012/op36.pdf.

Research suggests that minimum monthly repayments can also have unintended effects.[52] That is, they act as psychological anchors meaning that consumers view the minimum amount as a "safe" level of repayment and commonly make repayments at that level or a level close to the minimum level. The research found that "the mere presence of a minimum payment is enough to reduce the actual amount many people choose to pay on their bills, leading to further interest payments". Other research has found that while raising required minimum payment levels encouraged consumers with low credit card balances to pay a larger fraction of their debt, it also nudged some high-balance borrowers to pay less than they previously did.[53] This research concludes that in order to be effective, credit card "nudges" (as the authors refer to minimum repayment requirements) should encourage payment amounts high enough such that any offsetting effects lead to greater payments overall. The researchers found that this can be achieved by increasing the required minimum monthly repayments.

It may be suggested that increasing the minimum monthly repayment level will cause financial stress to those that can only afford to repay the lower amounts. For example, some consumers may then experience late payment fees or even default. There are two responses to this concern. First, rather than the repayment suggested on the credit card statement being the minimum, it could be an option which might help preserve flexibility while encouraging repayment. Second, it is important to remember that consumers retain important rights to vary their credit agreement should they experience hardship.

While there are problems in mandating a minimum percentage of the outstanding balance that must be repaid, credit cards should not be structured to maximise, rather than restrain, the number of consumers who carry large balances from month to month with significant interest costs. We recommend considering increasing minimum monthly repayments for new cardholders, and 'nudging' current cardholders to repay more than their minimum monthly repayments where possible.

Recommendation 15

Consider increasing minimum monthly repayments for new cardholders, and 'nudging' current cardholders to repay more than their minimum monthly repayments if possible, by messages on statements about the benefits of higher repayment amounts.

10. Value of loyalty programs

Consumer magazine CHOICE found that credit card reward schemes provide little value to consumers unless they are big spenders, since rewards cards nearly always charge hefty annual fees.[54] CHOICE found in May 2014 that credit card reward programs delivered little or nothing to consumers who spend less than $18,000 a year. At that spending level – the average for Australians – card fees would likely nullify any gains.

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[52] Neil Stewart, 'The Cost of Anchoring on Credit-Card Minimum Repayments', 2009, available at: http://personal.stevens.edu/~ysakamot/175/assignment/anchoring.pdf.

[53] Jialan Wang and Benjam Keys, 'Reverse Nudges: Minimum Payments and Debt Paydown in Consumer Credit Cards', available at: http://publicpolicy.wharton.upenn.edu/issue-brief/v2n4.php.

[54] CHOICE, 'How to choose the right credit card: How to avoid hidden fees and sneaky interest', August 2014, available at: https://www.choice.com.au/money/credit-cards-and-loans/credit-cards/buying-guides/credit-cards.

Worse, it's possible to actually lose money on reward-linked cards. If a consumer spends $12,000 a year, he or she will only early about $56 in rewards, while annual fees can range from $50 to as much as $495. The outlook improves only slightly with higher spending levels. At $24,000 a year, cardholders would earn a mere $113 in rewards. At $60,000, cardholders are eligible to claim about $284 worth of rewards.

A CHOICE investigation of 63 reward credit cards found that consumers would need to spend at least $2,000 per month to get any return, while those who spent $1000 a month or less would pay more in annual fees than they get back in rewards.

Converting the points into goods can be equally unrewarding. If a cardholder spends $1,000 a month it would take about five-and-a-half years to earn the points equivalent to purchase a digital camera worth $500. Cardholders would need to spend at least $6,600 on an average card to earn enough points for a $50 toaster.

Mozo Pty Ltd (**Mozo**), a credit and financial product comparison website, recently found among 119 rewards cards in Australia that a third of them are hardly worth having, delivering less than $20 in rewards value each year. Mozo also found that there are other potential traps with rewards cards. If the cardholder does not pay off the debt in full within the interest-free period, the interest rates charged on the outstanding amount is usually much higher than non-rewards cards.

Kirsty Lamont, director of Mozo, says that the average interest rate on rewards cards is almost 20 per cent compared to an average rate on non-rewards cards of about 14.5 per cent. And the average annual fee is about four times higher at about $160 compared to just over $40 for non-rewards cards.[55]

Those consumers that are able to benefit from rewards programs are effectively cross-subsidised by consumers who are struggling to pay off their credit card debts, and pay high interest rates and charges. We argue that efficient markets should not experience this level of cross subsidisation.

Recommendation 16

The Government consider ways to reduce cross-subsidisation in the credit card market, including requiring individualised disclosure that demonstrates how much is required to be spent on the credit card in order to earn a certain value of rewards.

11. Transaction costs

Consumer Action and Financial Rights recently provided a detailed submission to the RBA Review of Payments Regulation, which addressed a number of issues relating to transaction

[55] John Collett, 'Not much value in rewards credit cards', Sydney Morning Herald , 27 August 2014, available at: http://www.smh.com.au/money/not-much-value-in-rewards-credit-cards-20140826-106lgo.html#ixzz3hAKsWL40.

costs for credit cards.[56] Ultimately, the decision whether to implement these recommendations rests with the RBA.

We have reiterated a number of the key points in our submission to the Review of Payments Regulation below. In particular, we note the issue of surcharging for credit card payments. It is clear that excessive surcharging is a major concern for consumers, with the Financial System Inquiry (**FSI**) panel receiving over 5,000 submissions in relation to credit card surcharges.[57] We are concerned that particular industry sectors continue to charge above the 'reasonable costs of acceptance' for credit cards, particularly the airline and ticketing industries.

Surcharging

Over-surcharging will continue despite targeted changes unless a regulator is made responsible for enforcement. Without regulatory oversight, rules designed to limit surcharging are likely to be widely ignored. We recommend that a regulator, preferably ASIC or the Australian Competition and Consumer Commission (**ACCC**), be given responsibility for enforcing payment surcharging rules. The regulator would need to enforce these rules robustly in order to send a clear message to merchants that the days of excessive surcharging are over. The regulator should prioritise enforcement activity on sectors that are known for excessive surcharging, such as the airline and taxi industries.

In relation to the airline industry, the market is currently dominated by four airlines: Jetstar, Qantas, Virgin and Tiger. As set out in the Issues Paper, each of these companies impose a surcharge for use of credit or scheme debit cards. Some limited exceptions apply to this rule: Jetstar and Tiger waive the surcharge for some MasterCards, and Qantas waives the surcharge for debit or Qantas Cash cards if departure is within 7 days.[58] Surcharges are now disclosed before any personal details are entered, which is an improvement on previous practice.

However, the cost of these surcharges is still not prominently displayed in the price advertised online, and thus the advertised price is generally not a reflection of the true cost of the service. This is particularly the case with airlines such as Tiger, which offer very few non-surcharged payment options.[59]

In our submission to the RBA on its consultation on the reform of the payment system, we also suggested that the RBA may need to consider how it can reformulate its standards and other regulatory measures to prevent surcharging being used in an anti-competitive way by merchants in concentrated markets. In certain markets that rely on online payment (such as event ticketing), there is no practical alternative but to pay by credit or scheme debit cards. For example, Ticketek charges a payment processing fee of 1.95%, which applies to all purchases

[56] Consumer Action Law Centre and Financial Rights Legal Centre, 'Submission: Review of Card Payments Regulation Issues Paper', 24 April 2015, available at: http://consumeraction.org.au/wp-content/uploads/2015/04/Submission-to-RBA-payments-regulation-24042015.pdf.
[57] Financial System Inquiry, 'Second Round Submissions', 2015, available at: http://fsi.gov.au/consultation/second-round-submissions.
[58] Reserve Bank of Australia, 'Review of Card Payments Regulation - Issues Paper', 2015, p. 32.
[59] The only non-surcharged payment method offered by Tiger is Debit MasterCard payments: Reserve Bank of Australia, 'Review of Card Payments Regulation - Issues Paper', p. 32.

made by credit or debit card.[60] The online portal appears to only allow customers to purchase tickets using credit or debit card.

In these circumstances, the imposition of a surcharge will not facilitate a switch to other payment methods because no other payment method is practical, given the business models of the traders in the market. In addition, the imposition of a credit card surcharge can (and often does) amount to a 'hidden' cost that distorts competition because it hides the true cost of the good or service from the customer. Consumers are either unaware of the surcharge, or only become aware of the surcharge after a number of online steps have been taken (such as the entering of personal information) by which time the consumer has made a time and emotional investment in the transaction going ahead.

Disclosure of surcharges

We recommend requiring payment surcharge amounts to be prominently disclosed to consumers early in the process of a transaction. The failure to adequately disclose payment surcharges may constitute misleading or deceptive conduct if it creates the impression that no surcharges are applicable.[61] The ACCC has taken legal action against a number of airlines for misleading consumers in the way that surcharges are displayed (referred to as 'drip pricing').[62] However, this will not deal with excessive surcharging. It will only deal with the way in which surcharges are displayed.

We caution against relying on disclosure exclusively to deal with excessive customer surcharging. Consumers may not have a choice about whether or not they pay a surcharge (for example, when purchasing concert tickets) and in any case surcharges are often only disclosed late in the transaction. By this stage, consumers have committed to buying the product and the decision to pay the surcharge may not actually reflect their economic interests.

Interchange fees

There has been significant debate about the regulation of interchange fees in recent times.[63] We note the FSI panel's conclusion that "payments system efficiency could be increased by lowering interchange fee caps." The panel considered that the transitional costs of lowering interchange caps "would be outweighed by lower product prices for all consumers, resulting from lower fees charged to merchants, and reduced cross-subsidisation."[64]

Given the consumer benefits that are likely to result from lowering interchange caps, we support this measure. The reduction in interchange fees for the international systems has not prevented continued strong growth in the card systems in Australia, and may in fact stimulate growth.

[60] A 'service/delivery' fee is also separately charged, which can be up to $10.50 (as per the Ticketek website accessed on 23 April 2015).

[61] See the recent example of Aldi supermarkets: Madeleine Heffernan, 'Aldi under fire on disclosure of credit card, tap-and-go fees', Sydney Morning Herald, 23 April 2015, available at: http://www.smh.com.au/business/retail/aldi-under-fire-on-disclosure-of-credit-card-tapandgo-fees-20150422-1mp4wo.html.

[62] Australian Competition and Consumer Commission, 'Media Release: ACCC takes action against Jetstar and Virgin for drip pricing practices', 19 June 2014, available at: http://www.accc.gov.au/media-release/accc-takes-action-against-jetstar-and-virgin-for-drip-pricing-practices.

[63] See Consumer Action Law Centre and Financial Rights Legal Centre, 'Submission: Review of Card Payments Regulation Issues Paper' for further information.

[64] Financial System Inquiry, 'Final Report', 2015, p. 173, available at: http://fsi.gov.au/publications/final-report/.

There are also international examples of card systems that function effectively without any interchange fees.[65]

Recommendation 17

A regulator, preferably the Australian Securities and Investments Commission or Australian Competition and Consumer Commission, be given responsibility for enforcing payment surcharging rules

Recommendation 18

Requiring payment surcharge amounts to be prominently disclosed to consumers early in the process of a transaction.

Recommendation 19

Lowering interchange fee caps to increase payments system efficiency and lower product prices for consumers.

Please contact Katherine Temple on 03 9670 5088 or at katherine@consumeraction.org.au if you have any questions about this submission.

Yours sincerely

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[65] Reserve Bank of Australia, 'Review of Card Payments Regulation - Issues Paper', p. 30.