1 July 2016

Principal Adviser
Financial System Division
The Treasury
Langton Crescent
Parkes ACT 2600

By email: creditcards@treasury.gov.au

Consultation paper: Credit Cards – Improving consumer outcomes and enhancing competition

The Westpac Group thanks the Treasury for the opportunity to lodge a submission to the credit cards consultation paper. In addition, we endorse the submission lodged by the Australian Bankers' Association.

INTRODUCTION

Credit cards play an important role in fulfilling the needs of many Australians, both as a payments mechanism and a credit product.

The Westpac Group supports a dynamic and competitive credit card market in Australia that provides consumers with the benefits of choice. We consider a range of indicators demonstrate that competition is working effectively in the market today, including the types and number of products available and the range of interest rates available.

Products are offered across three key product categories designed to meet the needs of different customers:

1. Low or no-fee low feature card;
2. Lower interest rate low feature card; and
3. Rewards cards with a rich range of lifestyle benefits, for example, complimentary insurance.

In general, the Bank believes the credit card industry is well-functioning. In addition, the regulatory framework governing consumer credit is robust, particularly the existing legislated responsible lending requirements. These legislative obligations are supported by our own principles of responsible lending and our commercial interests to have customers that are able to service their credit repayments. We have far more to gain from a sustainable, long term relationship with a customer than a customer trapped in a cycle of debt.

Nevertheless, we believe that improvements can be made within the industry. In particular, there is a small subset of vulnerable customers we consider can be better supported.

However, it is essential that the issues facing our vulnerable customers are clearly understood. This will ensure that appropriate and targeted reforms are developed and any unintended consequences of legislative reform are reduced.

We do not agree with the Consultation Paper that customer vulnerability is caused by:

- The inappropriate selection and provision of credit cards as well as certain patterns of credit card use; or
- A relative lack of competition on ongoing interest rates in the credit card market.

Rather, issues with capacity to repay mostly arise from the unexpected life events our customers' may experience. The top three reasons for customers requiring hardship are: job loss, reduced employment hours and illness, not indebtedness. These events unfortunately cannot be predicted at the time a credit contract is entered into.

While the Bank supports opportunities for policy and regulatory reform, we do not consider the proposed Phase 1 reform initiatives are proportionate to the magnitude of the identified problems. We therefore propose alternative options which are underpinned by the Westpac Group's commitment to:

1. Responsible lending;
2. Informed and empowered customers (based on fairness, transparency and product suitability);
3. Better support for our vulnerable customers; and
4. Development of customer centred outcomes based on behavioural economic driven principles.

In addition, it is the Westpac Group's strong belief that our consumer protection framework should not remove the right of the consumer to make an individual decision. Rather it should ensure the provision of timely and effective information to allow customers to make informed decisions and a strong safety-net for when customers are in financial difficulty.

Where the Government is considering the provision of enhanced information, we recommend existing requirements are reviewed prior to the imposition of new obligations, for example, a review of the effectiveness of the key fact sheet under Regulation 28LB of the *National Consumer Credit Protection Regulations 2010*.

We consider the proposals in our submission improve consumer outcomes, support competition and protect vulnerable customers without imposing an undue regulatory burden on the industry and increasing the risk of unintended consequences.

GENERAL COMMENTS

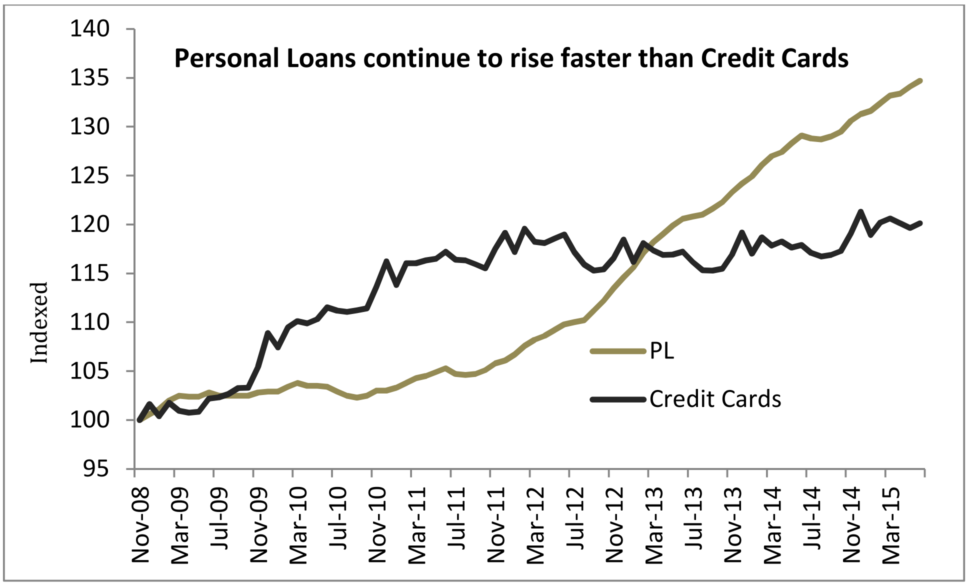
Selection and provision of credit cards and patterns of use

Consumers today are able to choose from a range of products to meet their borrowing needs. The majority of consumers appropriately use credit cards to meet <u>short to medium-term</u> borrowing needs. Other products available for <u>short to long-term</u> borrowing include overdrafts and personal loans.

Credit cards offer customers the choice of a flexible line of credit with a payment mechanism. Conversely, personal loans provide a structured payment plan and may be more appropriate for medium-term borrowing.

In Australia, there is evidence that consumers are selecting the right product for their longer term borrowing needs with personal loans growing faster than credit cards over the last few years (as reflected in Figure 1 below).

Figure 1: Personal loan versus credit card balance growth



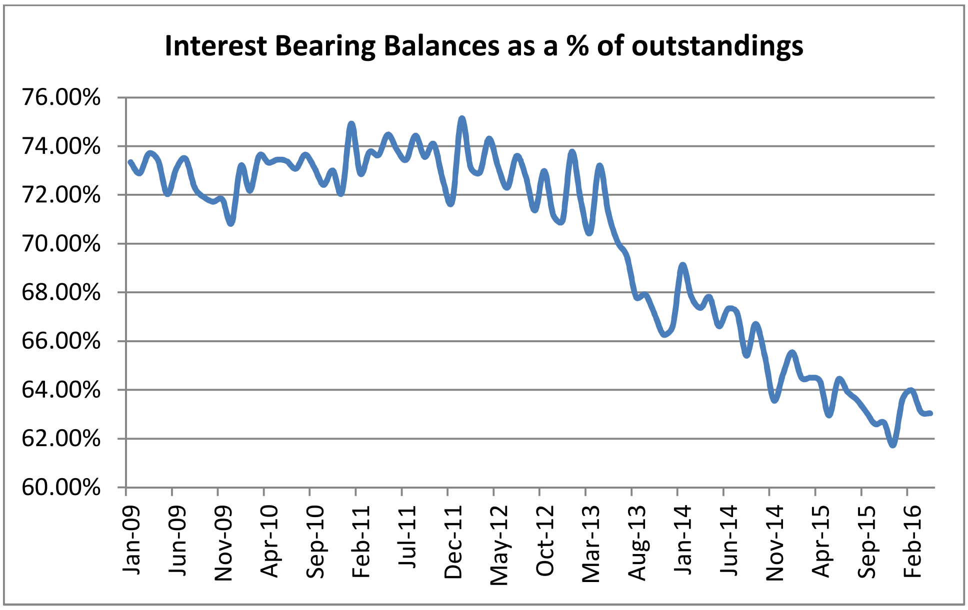
Source: RFI monthly report (personal loan data) and APRA data for Credit Cards

The Westpac Group has strict serviceability assessment criteria and we are required by law (under the *National Consumer Credit Protection Act 2009)* to lend responsibly. These obligations mean that lower income earners appropriately have lower credit limits and lower average balances than higher income earners. For example, the average outstanding balance accruing interest for low income earners[1] is $1,800.

Industry statistics also demonstrate the prudent management of credit card debt. Credit card debt counts for 2.67% of total outstanding household debt[2]. More customers are also paying off their outstanding balance in full within the month and gaining the benefit of the interest-free periods on offer.

In the last three years, outstanding balances accruing interest have reduced by around 10%[3] as reflected in Figure 2. Secondly, a higher percentage of balances are being held in 'low rate" cards than "reward" or "standard" products.

Figure 2: Interest Bearing Balances as a % of outstanding balances



Source: RBA Data

[1] Earning under $25,000 per annum.
[2] Source: APRA data (Housing credit and credit cards)
[3] Market revolve rate dropped 1127 bps since 2012. In the last 3 years balances accruing interest has dropped 9.8%**.**

The Westpac Group's own portfolio data similarly demonstrates that the majority of our customers are managing their credit card debt prudently. Good repayment behaviour is reflected in our credit card portfolio delinquency rate, which is very low at 0.93% (90+ days delinquency[4]).

Prudent debt management is also displayed by the 'revolving' segment of our customer base i.e. those that do not pay the outstanding balance off completely within the interest-free period. The majority of our revolvers make full use of their product features and pay off far more than the minimum repayment required on a monthly basis. 97% of revolvers pay more than the minimum monthly payment in any given month.

Hypothetically, if a customer pays only the minimum monthly payment (which covers both principal and interest) the amortisation period can be long. This is because credit cards are designed to provide maximum flexibility and allow periods of time where only small amounts of principle are being repaid. The possibility of a long amortisation period is reflected in the Minimum Repayment Warning provided on monthly credit card statements[5].

However, as noted above, a possible long amortisation period is not reflective of the way our customers use the product. 98% of all our credit card customers pay more than the minimum monthly payment in any given month. Across all household income bands, our customers take on average two months to pay off their outstanding balance[6].

This reinforces that, in most cases, credit cards are being utilised as intended i.e. as a short to medium-term borrowing tool, often to help customers manage their cash flow cycles.

Nevertheless, we recognise that there is a segment of customers who may inappropriately be using a credit card for long term debt management and we want to ensure the correct policy settings are in place to effectively assist these customers.

However, support should be targeted toward these customers rather than bluntly applied across the broader credit card portfolio and negatively impacting those customers that are effectively managing their debt.

4 Westpac portfolio data over the last 12 months June 2015 – May 2016.

5 The Minimum Repayment Warning shows two alternative scenarios: (1) how long it would take the customer to pay off the credit card balance if only the minimum monthly repayment closing amount due is paid (assuming no new transactions or changes to fees and interest rates); and (2) how much interest would be saved if the closing balance was paid in full within two years.

6 Assuming no new spend on an average account repayment of $1,784 against average balance of $3,480. Taking into account average new spend, the average repayment period is 22.7 months.

Policy options

In assessing how best to support these customers in a targeted manner a number of other points should be noted:

- The majority of these long-term revolving customers are on a low rate card. For example, only 0.54% of our customers have a higher interest rate rewards card and make the minimum monthly payment for more than 12 months.
- These customers are not exclusively 'low income' earners:
    - Low income earners tend to pay off their outstanding balance more often than higher income earners (2 months for low income earners versus 3 months for higher income earners).
    - The proportion of customers making only the minimum monthly payment are higher in higher income earners (between $100,000 and $200,000 per annum) at 17% versus 13% for lower income earners (based on income of up to $25,000 per annum).
    - The default (loss rate) for low-income earners is similar to the default rate across our credit card portfolio (of 2.6%[7]).

We believe it is fundamentally important that we do not exclude customers unnecessarily from affordable credit based on their income.

Increasing the Minimum Monthly Payment

The Westpac Group agrees with the Consultation Paper's conclusion that increasing the Minimum Monthly Payment is an inappropriate policy reform. This would lead to a variety of unintended consequences, for example:

- Adversely impact those customers that need to make reduced payments for a period of time to get back on track (including those affected by circumstances outside their control). For example, job loss and illness;
- Unnecessarily adversely affect those that are on seasonal, commission- based payments and self-employed customers;
- Reduced numbers of customers passing our serviceability assessment (and therefore reduced access to affordable credit);
- Push customers who cannot afford the increased Minimum Monthly Payment to default (leading to a negative credit report); and
- Reduced credit appetite stemming from increased delinquencies, loss rates and revenue impact.

[7] Westpac annual results - As at September 2015.

There is also evidence from the United States that an increased Minimum Monthly Payment reduces portfolio pay down rates i.e. customers make lower repayments resulting in longer pay down periods[8].

Targeted assistance for vulnerable customers

It is important that industry, consumer stakeholders and the Government have the opportunity to work together to develop an appropriate definition of a 'vulnerable customer' for the purpose of regulating credit card issuers. In addition, the definition of 'vulnerable customer' should be set according to the relevant regulatory reform proposed.

As a starting point, we consider support should be targeted towards those customers paying only the minimum monthly payment for prolonged periods of time. For example:

- In relation to credit limit increases this would include customers that have only met the minimum monthly payment consistently within the last 4 months or have had a payment default within the last 4 months.
- In relation to the proactive offer of alternative credit products this would include customers that have only made the minimum monthly payment continuously for 12 months or more.

3.9% of our customers pay only the minimum monthly payment continuously over a 12 month period. Importantly, this proportion continues to decline over time.

As noted above a credit card, is a flexible line of credit and is designed to allow for periods of time where only small amounts of principle are being repaid. For the majority of our customers, this feature is valuable.

However, credit cards are not intended to be the right long term, debt management product. If the minimum monthly payment is used over the long run, the credit card no longer offers enough value for the customer. That is why the Westpac Group proactively offers alternative products to these customers to ensure they have a structured pay down (amortisation period) e.g. a personal loan.

Hardship assistance

The offer of hardship assistance is also an important part of the support we offer vulnerable customers. As noted above, it is mostly change in life circumstances, rather than indebtedness, that lead our customers to require hardship assistance.

All our customers can apply for hardship and we assess individuals on a case-by-case basis. We currently approve approximately 90% of our credit card customers' applications[9].

[8] Study by the Wharton School of the University of Pennsylvania.

The Westpac Group is proud to be the only bank to offer a "Debt Waiver Program", where certain customers can have the debt owed to us wiped.

0.41%[10] of all Westpac Credit Card account holders are currently in hardship (rolling 12 month average). The average period of assistance for unsecured products, such as credit cards, is 3-6 months.

The Westpac Group has run a national awareness campaign on the hardship support we provide our customers. Our collection team that makes proactive contact with a customer following an overdue payment are also trained to identify potential hardship.

Policy Recommendation

All credit card issuers should be mandated to proactively offer 'vulnerable customers' (defined as 'revolvers' making only the minimum monthly payment continuously for 12 months or longer) with another credit product that allows for faster repayment of long term debt, such as a personal loan. The relevant contact details for hardship assistance should also accompany this offer.

SPECIFIC COMMENTS ON PROPOSED REFORMS

PHASE 1

1) Tighten responsible lending obligations to ensure card issuers assess suitability based on a consumer's ability to repay the credit limit within a reasonable period.

Question: How should a "reasonable period" be defined in the regulatory framework?

The Westpac Group supports a strong consumer credit protection regime and the proper assessment of customers to ensure their ability to repay. This is reflected in the Westpac Group's:

- Corporate vision to help our customers prosper and grow;
- Principles of Responsible Lending (through which we have established product-based standards for lending to individuals, with key controls including minimum serviceability standards);
- Our Service Promise, which is to always 'act with integrity and do the right thing by customers';
- Internal framework on customer fairness and suitability; and
- Commitment to seek only to lend what a customer can afford to repay.

---

[9] Westpac data: March to May 2016
[10] Westpac data: December 2015 to March 2016

Giving consumers the right credit limit they can afford not only protects individual and household financial well-being but is also prudent business practice to ensure the bank does not incur credit losses. We have far more to gain from a sustainable, long term relationship with a customer than a customer trapped in a cycle of debt; we lose money on customers that are over-committed and who are unable to manage their debt properly, as they drive higher losses for the bank.

There is a commercial incentive against offering credit cards to customers that can't afford to repay as an increase in impaired credit exposures can adversely affect the Westpac Group's liquidity, capital resources, financial performance and financial condition. In particular, there are implications for the amount of regulatory capital we are required to hold against impaired loans.

The *National Consumer Credit Protection Act 2009* requires the bank to comply with responsible lending conduct obligations. These require us to determine that a credit card is not unsuitable for the customer based on their financial situation, requirements and objectives. We are also required to take reasonable steps to inquire about and verify the customer's financial situation (including income and expenses) and determine whether they can make repayments without substantial hardship.

We therefore consider our responsible lending obligations already ensure that credit card limits are set according to the customer's ability to comply with their financial obligations under the credit contract. This obligation applies at the commencement of the credit contract and an assessment must also be conducted before any increase to the credit limit.

Nevertheless, we support the Consultation Paper's proposal that a credit issuer's serviceability assessment could be enhanced by mandating an obligation to assess a customer's ability to repay the credit limit within a 'reasonable period'.

We would welcome a further discussion with the Government on the definition of 'reasonable period'. We consider 7 years is appropriate as this aligns with maximum terms of many personal loans on offer in the market.

An appropriate cap will help preserve the flexibility of the product while providing a cap that can further prevent credit card customers utilising the product for long-term debt management. However, as noted above this will not necessarily assist those customers in hardship, as most customers experience hardship due to change in circumstances rather than indebtedness or 'inappropriate setting of credit card limits'.

It is also critically important that the obligation on credit card issuers to assess repayment within a reasonable period is confined to serviceability assessment and not the ongoing calculation of the customer's minimum monthly payment (for the reasons cited above and contained in the Consultation Paper).

2) Prohibit issuers from making unsolicited credit limit increase offers including the ability to seek prior consent

The Westpac Group does not support the proposed reform to completely prohibit the offer of unsolicited credit limits. If this is legislated, a credit limit will only be increased when the customer proactively seeks an increase from an issuer.

As noted above, all credit limit increase offers are subject to a full credit assessment under the law. We consider this legal obligation is effectively working today. In any given year, less than 16% of our credit card customers would be approved for a credit limit increase.

Our internal research demonstrates that those that have consented (opted in) to receive unsolicited credit limits consider this is a valuable service as they do not have to spend the time proactively contacting the bank to make a request. We do not consider the Government should legislate in a manner that reduces consumer choice, when the majority of customers are effectively managing their credit limits.

Furthermore, there does not appear to be a market failure that justifies this reform. As noted above, the majority of hardship cases are not caused by inappropriate credit limits. Existing legal obligations ensure that credit limit increases are only offered to customers who have sound credit behaviours based on data across their relationships with the bank. Across the Westpac Group delinquency rates from bank initiated credit limit increases are lower (0.56%) than the average delinquency rate (of 0.93%) across our credit card portfolio over 12 months[11]. This reflects the stringent eligibility criteria applied and the effectiveness of this type of targeting.

The low loss rates (impairment write-offs) across the industry also demonstrate prudent lending.

The existing obligation to ensure a customer gives their consent to receive unsolicited credit limit increase offers ensure that credit card issuers market their products and services to customers in a responsible manner. The Government should not legislate to remove consumer choice and the right to provide informed consent.

[11] Westpac portfolio data as of October 2015.

The Westpac Group seeks consent to send customers written credit limit increase invitations at the card application stage. This consent is not bundled as it is identified as a separate section within the application form.

We consider that credit limit increase offers are an important part of the responsible lending framework. The proposed prohibition therefore carries inherent risk. The Westpac Group prefers to take the “low and grow” approach to provide lower credit limits up front to our customers and grow the limit once the bank has better insights into the customer’s credit behaviours. Behavioural credit scoring is far more reliable than an initial serviceability assessment of a customer’s capacity to repay.

We are concerned that, in a competitive market, a complete prohibition on credit limit increase offers may result in customers being given higher limits upfront at the account approval stage by some credit card providers.

It is far more prudent to directly address the small group of customers for whom over-indebtedness may be an issue.

Policy Recommendation

Rather than mandating a complete prohibition on credit limit increase offers for all customers, the prohibition should be targeted to ‘vulnerable customers’ at risk of over-indebtedness. For the purposes of credit limit increase offers these customers may include those that have only met the minimum monthly payment consistently within the last 4 months or have had a payment default within the last 4 months.

Secondly, the Consultation Paper refers to some credit card issuers circumventing the spirit of the legislation by making unsolicited credit limit increase offers via online banking portals. The current obligation restricts offering <u>written</u> credit limit increase offers without the customer’s prior consent.

The Westpac Group considers that the requirement to receive opt-in consent from customers applies to all direct written communications to customers, including on electronic banking platforms.

Section 133BE of the NCCP Act has been drafted broadly. A written credit limit increase (CLI) invitation includes a communication:

- That offers to increase the credit limit of the contract;
- That invites the consumer to apply for an increase of the credit limit of the contract; or
- Given to the consumer for the purpose of encouraging the consumer to consider applying for an increase of the credit limit of the contract.

If circumvention of the existing law is the basis for further regulation, the Australian Securities and Investments Commission should clarify the existing legislative requirement on written CLIs through revised regulatory guidance.

3) Prohibit issuers from backdating interest charges and charging interest on the portion of the balance that has been paid-off

The Westpac Group notes that the Consultation Paper refers to the 'backdating' of interest. We do not consider 'backdating' is a term that correctly applies to current interest-charging practices. Furthermore, it remains unclear how the proposed reform would specifically apply to the calculation of interest by credit card issuers.

We understand that some issuers may 'backdate' penalty interest if a balance is not paid on time or if a customer defaults while taking advantage of a special rate offer, for example a balance transfer offer. This is not a practice the Westpac Group engages in nor supports.

In addition, Westpac does not backdate interest to prior statement cycles. However, this is different to the application of interest where the actual transaction date and posting date (the date when the transaction appears on the credit card account) straddle the statement date.

Secondly, we consider that consumer understanding of their products and services is vital and remain committed to enhancing transparency and the provision of timely and effective information to our customers.

Rather than mandating how interest is calculated and intervening in pricing decisions, we consider the focus should be on supporting consumer decision making.

The Westpac Group would like to work with Government to utilise behavioural testing to examine whether the description of interest calculations by card issuers could be more effectively communicated to customers and/ or existing disclosures could be enhanced.

For example, consideration could be given to enhanced disclosure on how interest is charged on statements and/ or in the notes section of Key Facts Sheets. It is compulsory to provide consumers with an up-to-date Key Fact Sheet with application forms and before entering into the credit contract and content is prescribed by the National Consumer Credit Protection Regulations. Enhanced disclosure obligations to cover interest calculations could also assist customers to effectively compare the way interest is calculated across credit card products.

4) Require issuers to provide consumers with online options to initiate a card cancellation or reduce their credit limit

Question: How would this option be implemented to be consistent with the Government's commitment to ensure regulation is technology neutral?

Westpac currently provides our customers with the ability to reduce limits online. We support this requirement to be mandated across the industry.

We are supportive of an online banking option for customers to initiate a cancellation on the credit card. However, it is important to draw a distinction between 'click and stop' and 'click and close'. A customer can request to put a stop or block on a credit card. In order to close a credit card account, the customer needs to pay the outstanding balance.

We will need an adequate timeframe for implementation due to the systems changes required. Credit card providers should not be prevented from contacting the customer in a technology neutral-manner to discuss the closure once the online cancellation has been initiated.

These customer conversations are important to allow the bank to continue to improve its product and service offering. This conversation is particularly important for customers wishing to 'click and stop' as it may reveal the customer is in need of hardship assistance.

PHASE 2 (FOR MARKET AND CONSUMER TESTING)

5) Require that issuers provide information on the annual cost of a consumer's credit card use and to prominently display annual fees

Questions: Apart from those detailed, are there other types of information that could be presented to increase a consumer's attention to the cost of their credit card usage? What aspects of the presentation and distribution of the information would be important in ensuring that it is seen and has the intended effect?

The Westpac Group is committed to ensuring our customers can make informed decisions. While the Bank fully supports the need for full disclosure of costs, we consider there is adequate disclosure of costs today through the monthly statement and the Key Fact Sheet, both of which are required by law. These cover both upfront and ongoing disclosures of cost.

- Up front disclosure of cost: *Credit Card Key Facts Sheet* contains standard information about the relevant credit contract. This needs to be provided with application forms and before entering into the credit contract.

- Ongoing disclosure of cost: The *minimum repayment warning* required under Regulation 79B is displayed on the front page of credit card statements. The *minimum repayment warning* is based on current monthly credit card closing balance and shows how long it would take to pay off the credit card closing balance if only the minimum repayment amount was paid each month[12].

[12] A brochure explaining this reform is available here: https://www.westpac.com.au/docs/pdf/pb/Westpac_Minimum_Repayment_Warning_Brochure.pdf

The reform proposed in the Consultation Paper adds another layer of regulation and further documents for customers which are likely to cause more customer confusion.

Costs are dependent on individual behaviours and credit behaviours vary significantly over time. This means any future cost comparison is fraught. The Westpac Group supports the Government reviewing existing legislative disclosure obligations to examine areas for improvement, including monthly statements and the Key Fact Sheet. We consider proposed changes to disclosure should go through a period of behavioural testing to ensure effectiveness.

Any regulation regarding the disclosure of costs should be mandated in a technology neutral manner. For example, statements and online banking platforms. In the interests of a competitive and dynamic market, credit card issuers should also be able to disclose the specific benefits associated with the product.

Furthermore, we remain committed to offering alternative products to customers that are utilising credit cards inappropriately as long-term debt management tool. We consider this best practice approach would better support effective customer decision making (as it is based upon specific, individual customer behaviours), be more cost-effective and reduce the regulatory burden for credit card issuers.

6) Require issuers to clearly disclose in advertising and marketing material a card's interest rate and annual fee

Question: How prominently should the required information be presented to ensure its effectiveness?

ASIC Regulatory Guidance 234 provides guidance to credit providers when advertising credit and financial products and services. The Regulatory Guidance does not specify that annual fees and interest rates must be disclosed in marketing material, but explains that advertisements should:

- not present a one-sided view of a product's key features to overstate the benefits associated with the product;
- give a realistic impression of the overall cost; and
- explain the revert to rate for promotional offers etc.

The Westpac Group is supportive of applying disclosure on fees and interest rates on marketing material for credit cards where practical. We consider this is important information and ensure that customers are aware of fees, interest rates, terms and conditions prior to completing an application form.

Any regulatory guidance must take into account the channels utilised for marketing and advertising, and the ability for full disclosure. For example, short copy media such as banner advertising, search engine marketing copy and outdoor print advertising usually feature key elements of the offer or generic product proposition. These channels direct customers where to find more information. For example, online banner tiles would have a link to a landing page for more information. This interaction is instantaneous.

If the nature of these advertising mediums are not taken into account, additional regulation may reduce the types of marketing available to credit providers. The Bank considers credit product marketing is already highly regulated.

Furthermore, the prominence of information, should take into account the fees and interest rate information provided at other points throughout the customer's purchase decision journey. For example, they are:

- Prominently displayed on our online product pages.
- Provided in Key Fact Sheets prior to customers starting a credit card application and in our welcome packs once a customer has been approved.
- Interest rate details are also available on credit card statements.
- A Fees and Charges booklet available in online and in branches for existing customers.
- Where annual fees are applied, this charge is displayed on the statement both on the paper and electronic versions.

7) Require issuers to provide information about potential savings from switching to lower-cost products.

Questions: To what extent would the information provided under this proposal induce consumers to switch to lower cost cards? What aspects of the presentation and distribution of the information would be important in ensuring that it is seen and has the intended effect?

Our consumer protection framework should take into account the various preferences, requirements and objectives of consumers and should not reduce competition or the dynamic range of products in the market.

Not all consumers want the lowest rate or lowest annual fee card. That is why the Westpac Group offers a range of Credit Cards in three categories:

1. Low/no fee;

2. Low rate; and

3. Rewards.

Each product type is designed to address different customer needs, including those who have a preference for interest rate or fees. Mandating that credit card providers provide information to customers about the potential savings from lower-cost products does not take into account the preferences of consumers, or the rich features associated with credit cards.

There are often rational reasons why customers may choose a higher rate, reward card. Furthermore, mandating the provision of individualised information of this nature would be cost-prohibitive and does not take into account the personal and general advice regimes. Information to customers about the value of the product needs to reflect benefits; not just costs.

As noted in the general comments section of this submission, industry data demonstrates that even without this information being mandated, an increasing number of customers are switching to lower rate cards.

The Westpac Group does not therefore support this proposal however would recommend as good practice that issuers proactively contact their customers when there are opportunities for the customer to better manage their finances and optimise their account choice based on usage.

8) Require issuers to provide consumers with timely electronic notifications regarding the expiry of introductory offers and credit use

Questions: What are the most appropriate triggers to provide these notifications, or should these notifications be periodic rather than tied to specific events? What is the most appropriate method for card issuers to provide these notifications?

The Westpac Group supports the principle of transparency, to ensure our customers can make informed decisions. We already provide customers with information about the expiry of offers, for example, when a customer is nearing the end of a balance transfer promotion period. We also provide our customers with online information to help customers manage their card and avoid unnecessary fees and charges such as overlimit fees[13].

We would be pleased to work with the Government to behaviourally test the use of electronic notifications for customers.

9) Require issuers to provide consumers with alternative payment tools, and proactively contact consumers who are persistently making small repayments

Questions: What factors would maximise the take-up of repayment tools by consumers who are subject to under-repaying? What is the most effective and efficient way to engage consumers who are persistently making small repayments to suggest an alternative course of action?

As a matter of good practice the Westpac Group supports contacting customers where there are opportunities for them to manage their finances more effectively, including opportunities for savings. Scenarios that may trigger contact could include:

- A long term revolver on a rewards card with low levels of spend resulting in a customer having a higher interest rate but not gaining value of the rewards may be better served by a lower rate card or personal loan;

[13] NB: Under the enhancements to the *National Consumer Credit Protection Act 2009* overlimit fees have not been charged on credit contracts entered into after 4 June 2012.

- A customer who misses payments by a few days consistently (e.g. over 6 months) may be better served setting up a direct debit; or
- A customer who consistently makes minimum payments (e.g. over 12 months) may be better served have the balance amortise with a personal loan.

However, not all the scenarios cited above should be mandated for proactive contact. Westpac supports the reform proposal if it is targeted to 'vulnerable customers'.

Policy Recommendation

All credit card issuers should be mandated to proactively offer 'vulnerable customers' (defined as 'revolvers' making only the minimum monthly payment continuously for 12 months or longer) with another credit product that allows for faster repayment of long term debt, such as a personal loan. The relevant contact details for hardship assistance should also accompany this offer.

In addition, the obligation on credit card providers must be to offer and support transition, rather than require the customer to take up another product. Protecting consumer choice and empowered decision making should be maintained as the core principles governing the regulatory framework.

Finally, it will be important to examine whether the proactive contact of vulnerable customers to offer an alternative product triggers other legal obligations, particularly if it is viewed by the regulator as a marketing call. This may include obligations under the Privacy Act (Australian Privacy Principles 7 in relation to direct marketing) and the Do Not Call Register Act. The Westpac Group considers that the Privacy Commissioner and the Australian Communications and Media Authority (ACMA) may need to provide updated guidance to credit providers.

CONCLUSION

The Westpac Group looks forward to the opportunity to continue to work with the Government on developing appropriate policy settings for reform. We consider our objectives are aligned to those of the Government, namely to:

- Empower customers with transparent information;
- Better support vulnerable customers; and
- Enhance consumer centred outcomes based on behavioural economics.

The Consultation Paper contains some important reform proposals which we support, including the opportunity for reforms to go through behavioural testing before the drafting of exposure draft legislation. However, in order to better protect and support vulnerable customers we need to ensure policy and legislative reforms are targeted. This will ensure the unintended consequences for the broader credit card customer base and lending appetite are reduced.

The Westpac Group's strongly believes the consumer protection framework should not remove the right of the consumer to make an individual decision but rather ensure the provision of timely and effective information to allow customers to make decisions and a strong safety-net for when customers are in financial difficulty.