

Consumer Priorities

Abacus Convention 2007 – regulatory affairs conference



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About consumers

- 40% of consumers want to improve their management of their finances in the next 12 months
- 50% don't understand 50%
- A literacy study conducted in 1997 found that:
 - On the prose scale, 44.1% of Australians have poor or very poor skills.
 - On the document scale 44.8% of Australians have poor or very poor skills.
 - On the quantitative scale 43.3% of Australians have poor or very poor skills.

Consumer views on ADIs

- In general, appears members feel more connected.
- Can have positives and negatives
- Direct to consumer lending seems generally responsible - however are you doing enough to help consumers avoid fringe lending?
- Outsourcing is a vulnerability - brokers, debt collection
- Need to make sure values carry through

Consumer movement priorities

- Movement wide priorities are outlined in CFA election challenge
- Most of the issues touch on ADIs and financial institutions generally in some way
- Key issues:
 - Responsible lending
 - National credit regulation
 - Close loopholes in the Code
 - Regulation of brokers – finance and mortgage

Consumer movement priorities (cont)

- EDR coverage
- Unfair contract terms regulation
- Re-proritisation of consumer affairs, including:
 - A joined up comprehensive approach
 - A Minister for Consumers and Competition, with responsibility for effective markets
 - A strong consumer voice

Some specifics – penalty fees

- Why do we call them penalty fees?
- Disclosure does not remedy illegality
- Already significant movement
 - Concession products
 - Inward cheque dishonour
 - NAB
 - ANZ
- > 25,000 consumers have downloaded our assistance letter
- Government and regulator attention

Some specifics - responsible lending

- Irresponsible includes lending to people who are likely to default - but it is much more than that.
- Seems many institutions confuse responsible lending with profitable lending
- Real question whether consumer and business interests align here

Individual impact – Case Study 1

- Credit card
- Unsolicited limit increases and debt collection
- Loss of employment
- Hardship not identified
- Debt sold
- Collector obtains judgment and proceeds to bankruptcy

Individual impact – Case study 2

- Application for \$800 interest free purchase
- Credit assessment undertaken
- \$10,000 line of credit given to consumer

Individual impact – Case Study 3

- Consumer in receipt of Centrelink benefits
- Paid into transaction account over many years
- Consumer discovered availability of concession account only recently
- Bank claim that it is the consumers' responsibility to identify most suitable account

Challenges

Clearly there are challenges:

- Stakeholder attitudes
- Competitive pressures
- Other business pressures

The alternatives

Economic, market and regulatory risks

- There have to be limits on consumers' ability to service ever increasing levels of debt
- Risk of backlash
- Regulatory risk – if institutions do not feel they can steer a responsible course alone, is the alternative is to lobby and support effective regulation?

What could ADIs do?

- Don't encourage irresponsible borrowing through irresponsible marketing and don't hide irresponsible marketing behind twee consumer warnings and responsible borrowing pamphlets
- Financial inclusion – is about more than providing concession accounts
- Must also consider role in helping consumers avoid fringe lending practices
- This could involve mainstream alternatives eg Low-interest or no-interest loans - however purpose and method of delivery very important to success

What could ADIs do? (cont)

- Address levels of fees and charges
- Examine collection practices
- Ensure use of brokers is not leading to adverse outcomes
- Unsolicited limit increases
- Improve hardship policies and connections

How could ADIs do it?

- Seems to be one very obvious home for initiatives of this kind
- In a Code
- Encourage commitment to this initiative