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Dear Richard

CP 303 Credit Cards: Responsible Lending Assessments

The Australian Finance Industry Association [AFIA] welcomes the opportunity to comment on ASIC's proposal for the prescribed period to be used when assessing a credit card contract or credit limit increase is unsuitable.

AFIA is well place placed to advocate for the finance sector given our broad and diverse membership of over 100 financiers operating in the consumer and commercial markets through the range of distribution channels including digital access. More specifically, collectively AFIA's members represent a significant portion of the credit card market regulated under the National Credit Act [NCA]. More detail on AFIA is available from: www.afia.asn.au.

AFIA welcomes ASIC's engagement on this issue, including a number of stakeholder meetings with our members and the broader industry during this and previous consultations. Our submission is based on feedback received, including through ongoing discussions held with members that offer NCA-regulated credit cards.

While Members have contributed to the discussion, from an organisational view the position being put by AFIA may not reflect their specific position on all of the issues. These will get captured through the relevant member's organisationally-targeted submission.

We understand that ASIC is proposing to use its power under NCA s. 160F to prescribe a three-year period for responsible lending assessments for new credit card contracts or credit limit increases through a legislative instrument.

ASIC intends to finalise the instrument in August/September this year. As we discussed at our recent meeting, the sooner ASIC can finalise this instrument the better given the need for our members and other

NCA-regulated credit card providers to implement the changes. Many members have IT lock-down periods that start in November to ensure stable IT systems over the peak Christmas season.

We provide the following feedback to the questions raised in section B of the Consultation Paper (CP 303).

B1Q1 Do you agree with ASIC's proposal to prescribe a three-year period?

We note the proposal to prescribe a 3-year period for assessing a consumer's ability to repay a credit limit and make the following comments.

ASIC may like to consider the impact adopting a three year versus a five-year period has on providing access to other credit products.

We note that the revised Code of Banking Practice [CoBP] (as approved by ASIC) references a 5-year period to assess a customer's ability to repay the credit card limit. We understand that for NCA-regulated credit cards that ASIC's legislative instrument will dictate the relevant compliance period for responsible lending assessments (ie three years) taking precedence over the CoBP. We would appreciate if ASIC could confirm our understanding.

B1Q2 Should we prescribe a period of two years for consistency with other requirements?

We do not support such an approach. A two-year period would place a significant impact on the ability for customers to obtain credit that suits their needs.

We note the Consultation Paper at figure 2 shows, based on the Paper's assumptions, that if a two-year period were to be prescribed a customer's minimum monthly repayments would be 5.2 per cent rather than 3.8 per cent for a three-year period (as proposed). We also note that the UK FCA has not taken such an approach instead prescribing a period of 3 to 4 years.

B1Q3 Do you agree with our proposal that the prescribed period apply to all classes of credit card contracts?

AFIA supports this proposal that the prescribed period should apply to all classes of NCA-regulated credit cards. This will ensure consistency of treatment within providers and across industry. It will also lower the complexity of the reforms and implementation costs for affected members.

B1Q4 What changes would need to be made to systems and processes to ensure compliance with the prescribed period by 1 January 2019?

Members have advised us that they propose to make the following changes to systems and processes to ensure compliance by 1 January 2019:

- Implement prescribed changes to new customer contracts and existing customer contracts where an increased limit is being sought.
- Use a consistent interest rate (currently proposed to be 22% - as detailed in paragraph 35 of CP303) when considering the paydown period for existing credit card liabilities and when calculating the proposed paydown period for other credit card limits (either for the member's issued card or that issued by another financier) already held.

  If ASIC decides that the prescribed period does not apply to all classes of credit card (contrary to this submission and comments raised in B1Q3), then members would be keen to understand how an alternate approach could provide a consistent outcome with accurate extraction of pricing information noting that there are in excess of approximately 150 credit cards on issue in Australia.
- In relation to paragraph 51 of CP303, we note that it applies to the assessment process for new NCA-regulated credit card contracts only.

  If ASIC intends to broaden the requirement such that the 3-year paydown period calculation for credit card limits applies to other consumer credit products, members would see this as a new requirement which would impact other systems materially such that compliance by 1 January 2019 might not be possible.

B1Q5 Do you agree with our expectations about the assumptions that should be made when assessing whether a consumer can repay the credit limit within three years (see paragraphs 48–51)?

Members have provided the following comments on the assumptions ASIC expects should be made when assessing whether a customer can repay the limit within three years as follows:

- Mandatory fees seem to have been excluded in the calculations referenced in Figure 2 yet can have a sizeable impact on paydown assumptions – a member provided an example where inclusion of regular fee amounts increased the paydown assumption from 3.8% to approximately 4.5%.

  Can ASIC please confirm that mandatory fees have been excluded?
- Members would like clarity:
  - On whether calculations should include their own regular ongoing contractual fees associated with obtaining the credit card e.g. annual fee.
  - On whether calculations should include other financial institution (OFI) fees or exclude them given the impractical nature of collecting fee and interest amounts on OFI debts.

- On the possibility of not conducting a new affordability assessment but treating the following as a contract variation:
    - A customer is seeking to move to a credit card contract that better meets their needs - in particular, a card with a lower interest rate with the same Financial Institution/Issuer and
    - The limit on the new card is equal to or less than the customer's current credit card account limit
- On whether ASIC has considered the impact of the proposed 3-year period on the ability of customers to switch Financial Institutions and whether there is a risk that customers will be unable to do so under the proposed changes.
- On whether there is a possibility of the 1 January 2019 deadline being extended to cater for the additional system changes that will now be required – especially given ASIC's legislative instrument may not be finalised until September and the fact many members have IT system lock down periods from early December.

Next steps

Should you wish to discuss our feedback further, or require additional information, please contact me at helen@afia.asn.au or Karl Turner, Associate Director – Policy (Acting) at karl@afia.asn.au or both via 02 9231 5877.

Kind regards

Helen M Gordon

Helen Gordon
Chief Executive Officer