1 August 2018

Australian Securities & Investments Commission
Level 5, 100 Market Street
Sydney NSW 2000

Westpac Place
Level 7
275 Kent Street
Sydney NSW 2000

By email: creditcards@asic.gov.au

Dear Sir/Madam

ASIC Consultation Paper 303 - Credit cards: Responsible lending assessments

We refer to Consultation Paper 303 – Credit cards: Responsible lending assessments, issued by ASIC on 4 July 2018 (**Consultation Paper**).

References in this submission to 'Westpac', 'we', 'us' and 'our' are to the Westpac Banking Group, including Westpac, St. George Bank, Bank of Melbourne and BankSA.

We appreciate the opportunity to respond to the questions set out in the Consultation Paper. Our responses are as follows:

ASIC Question B1Q1: *Do you agree with our proposal to prescribe a three-year period? If not, why not?*

Westpac response: We support ASIC's proposal to prescribe a three-year period for the purposes of incoming section 160F of the *National Consumer Credit Protection Act 2009* (Cth) (**NCCP Act**).

We anticipate that this will have the effect of reducing the maximum serviceable credit limits that we will be able to offer customers under the NCCP Act. For completeness, in many cases, the customer's theoretical maximum serviceable limit is not the credit limit that we actually offer the customer, instead offering a lower limit based on other reasons arising from the credit risk assessment.

As ASIC observed in the Consultation paper, a three-year period will ensure that Australian consumers (including low income consumers) continue to have reasonable access to credit. The proposed three-year period also strikes a reasonable balance between the two objectives of:

- ensuring that customers can afford to repay their credit card within a reasonable period of time; and
- ensuring ongoing reasonable access to credit,

and takes into account the nature of credit card products as revolving, rather than amortising, credit facilities.

ASIC Question B1Q2: *Should we prescribe a period of two years for consistency with other requirements, such as the minimum repayment warning under reg 79B of the National Consumer Credit Protection Regulations 2010 (National Credit Regulations)?*

Westpac response: No (for the reasons set out above in response to question B1Q1).

Further, our preliminary internal forecasts suggest that most of the impact on average assigned limits will be felt by lower income customers. We are concerned that a two-year period may unreasonably restrict consumers' ability to access credit cards and this may have unintended consequences, such as incentivising the use of less regulated alternatives, such as 'payday lenders'.

ASIC Question B1Q3: *Do you agree with our proposal that the prescribed period apply to all classes of credit card contracts? If not, why not?*

Westpac response: Out of a general desire for simplicity and clarity (for both industry participants and particularly for consumers), we recommend that ASIC prescribe a single period to apply consistently across credit card product types, irrespective of application types and features.

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

Westpac response: To ensure compliance with the prescribed period by 1 January 2019, we would need to make systems changes to all of our credit decision engines and borrowing capacity calculators to reflect:

- how we assess a customer's ability to repay a new credit card limit over a three-year period; and
- how we determine the customer's repayment liabilities on existing credit card contracts based upon the same assumptions.

In addition to the system changes, we would need to update our credit policies and processes specific to determining a customer's borrowing capacity and communicate these changes to all of our distribution channels.

We understand that the current position is we must make these changes by 1 January 2019 and are working toward that timeframe.

We also note ASIC's expectation that when assessing whether a credit card is 'not unsuitable' for a consumer with other credit card contracts, providers will assume that the consumer is making repayments on the other contracts based on the assumptions set out in paragraphs 48 to 51 of the Consultation Paper.

The payments required to pay off a credit card limit within a particular period depend on the interest rates that apply to that credit card. We do not currently ask credit card applicants for this information. If we were required to amend our application and assessment processes across a number of channels and brands to seek and use additional information (such as the interest rates that apply to a credit card a customer has with another financial institution), that would add an additional level of complexity to this regulatory change that would make it more difficult to be compliant by 1 January 2019.

ASIC Question 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)? If not, why not? Should any other assumptions be made?*

Westpac response: We generally agree with the assumptions set out in paragraphs 48 to 51 of the Consultation Paper. However, we would be grateful for any additional guidance that ASIC can provide in relation to the following:

- The Consultation Paper is silent on annual fees. We treat annual fees like any other transaction – when charged they are applied to the customer's credit card balance. Because of this, we do not consider that the incoming legislation requires us to separately have regard to annual fees when calculating maximum serviceable limits. We would be grateful for ASIC's confirmation that it agrees with this assessment.

- The Consultation Paper states that ASIC expects that when assessing whether a credit card is 'not unsuitable' for a consumer with other credit card contracts, providers will assume that the consumer is making repayments on the other contracts based on these assumptions, rather than the minimum repayment amount required under those contracts.

  We support this expectation in principle, but note that the repayments required for a customer to pay off their credit limit over a three-year period will depend on the interest rate that applies to the contract in question.

  We do not generally have visibility of these interest rates. For this reason, and because of the observations set out in response to question B1Q4 above, we are seeking guidance from ASIC as to how in practice we can implement this assumption without seeking information about the actual interest rates that apply to customers' credit cards with other financial institutions.

As ASIC has observed, the applicable interest rate affects the assumed payment (eg. an assumed payment of 3.8% to re-pay the balance over three years where the interest rate is 22%). It would be helpful if ASIC could provide an assumed payment percentage (eg. 3.8% per month) that providers should assume customers are making on their credit cards with other financial institutions.

We would be happy to discuss our submission with ASIC if that would assist its consultation process. Please contact Michael Wolter directly on 0481 918 116 or via email on Michael.wolter@westpac.com.au if you have any questions in relation to this response.

Yours sincerely,

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