Credit card lending in Australia—An update

Report 604 | December 2018

About this report

This report gives an update on ASIC's work on credit cards and outlines how credit providers are addressing the concerns we identified in July 2018.

ASIC's work on credit cards—At a glance

Credit providers are making changes to address the issues we identified in our review of credit card lending this year.

Changes include:

› **proactive steps** to help consumers with problematic credit card debt

› **fairer approaches** for balance transfers

› **commitments** to restrict the amount by which consumers can exceed their credit limit.

ASIC will monitor these changes and conduct another review in 2 years.

Background

In July 2018, ASIC released Report 580 *Credit card lending in Australia* (REP 580), which highlighted that more than one in six consumers is struggling with credit card debt. Our review found that:

- in June 2017 there were almost 550,000 people in arrears, an additional 930,000 with persistent debt and an additional 435,000 people repeatedly repaying small amounts; and
- consumers carrying balances on high-interest rate cards could have saved more than $621 million in interest in 2016–17 if they had carried their balance on a card with a lower interest rate.

REP 580 set out our expectations for where improvements were needed to promote better consumer outcomes and to address our findings. This report gives an update on the changes credit providers have made and the initiatives that are being trialled.

What we have done

Since REP 580 was released, we have engaged with industry to confirm their plans for addressing our findings. In response to our inquiries, the 10 largest credit providers that were part of our review (American Express, ANZ, Bendigo and Adelaide Bank, Citigroup (Citi), CBA, HSBC, Latitude, Macquarie, NAB and Westpac) have given commitments to change many of their practices. These commitments are described in this report.

We note that these commitments are voluntary and go beyond the current legal obligations under the *National Consumer Credit Protection Act 2009* (National Credit Act).

We also contacted the broader industry and other credit providers that participated in REP 580 to reiterate our expectations.

Since REP 580 was released, we have prescribed a three-year period for credit card responsible lending assessments. This means that credit providers must not provide a credit card with a credit limit that the consumer could not repay within three years. This reform starts on 1 January 2019. For more information about this reform, see Report 590 *Response to submissions on CP 303 Credit cards: Responsible lending assessments* (REP 590).

Changes being made and next steps

Many credit providers are:

- trialling proactive measures—such as tailored communications and/or structured payment arrangements—to help consumers with potentially problematic credit card debt or who are failing to repay balance transfers;
- restricting the amount by which consumers can exceed their credit limit to 10%;
- taking a fairer approach to balance transfers, such as allowing interest-free periods on new purchases; and
- enhancing disclosure about cancelling old credit cards.

  Note: Law reforms that start on 1 January 2019 will make it easier for consumers to cancel credit cards: see Table 1 in REP 580.

Table 1 summarises the changes being made by each credit provider based on the following five stages:

- **Stage 1**— No commitment to change.
- **Stage 2**— No commitment as yet, but the provider has confirmed it is actively considering the issue.
- **Stage 3**—Some progress made (e.g. a partial change or a commitment to change where some key design elements are still being determined).
- **Stage 4**— Measures well progressed with implementation in 2019.
- **Stage 5**— Changes implemented or piloting underway.

The way we have classified the changes within each stage has involved a degree of judgment, as the nature and scope of different measures vary.

We expect all credit providers to address the issues we identified in REP 580. Failure to improve consumer outcomes may lead to further action by ASIC, including the use of ASIC's new product intervention powers.

We will monitor the initiatives summarised in this report and how credit card providers implement recent law reforms. We will also examine what providers who were not part of our review are doing.

In two years, we will conduct a follow-up review to track:

- the amount of problematic credit card debt and number of cards that do not suit consumers (e.g. where consumers repeatedly exceed their limit);
- the effect of balance transfers on debt outcomes; and
- whether card cancellation rates change.

Table 1: Overview of changes made to address issues identified by ASIC in REP 580

Credit provider	Proactive steps and consumer outcomes	Restrictions on exceeding limit	Repayment allocation	Proactive steps and balance transfers	Reviewing other cards	Fairer approaches to balance transfers
American Express	4	1	4	3	4	2
ANZ	5	5	5	3	4	4
Bendigo	2	5	5	Not applicable	Not applicable	Not applicable
Citi	4	4	4	4	4	3
CBA	5	4	5	4	4	4
HSBC	4	4	5	4	4	5
Latitude	3	5	4	Not applicable	Not applicable	Not applicable
Macquarie	5	5	5	4	4	4
NAB	3	5	5	4	4	2
Westpac	5	4	5	3	4	2

Key to Table 1

1	No commitment to change
2	No commitment as yet, but the provider has confirmed that it is actively considering the issue
3	Some progress made
4	Measures well progressed with implementation in 2019
5	Changes implemented or piloting underway

Note: 'Not applicable' means that these measures do not apply as these providers do not offer balance transfers.

Measures to improve consumer outcomes

In Sections B and D of REP 580, we made clear that we expect credit providers to:

- take proactive steps to address problematic credit card debt and products that do not suit consumers;
- minimise the extra credit provided to consumers who regularly exceed their credit limit; and
- allocate repayments for all credit cards in the more favourable way required for cards taken out after July 2012.

Proactive steps

Problematic credit card debt

Nine credit providers have committed to measures intended to proactively address problematic credit card debt. These providers are American Express, ANZ, Citi, CBA, HSBC, Latitude, Macquarie, NAB and Westpac.

Each of the initiatives varies slightly. All the initiatives involve a degree of proactive contact with consumers who have, or are at risk of, problem credit card debt based on the providers' own criteria. Providers such as ANZ, Macquarie and Westpac have already conducted piloting exercises.

Some providers have committed to change but are still determining the subsets of consumers that will be targeted and the nature of that communication. We consider that these are important elements of the initiatives and that this work should occur as soon as possible.

Many initiatives, such as those being developed by CBA, Citi and Westpac, include promotion of structured payment arrangements.

Others, such as those being developed by ANZ, HSBC and NAB, include a focus on developing and providing information to educate consumers about credit cards and improve their financial capability.

In addition to these measures, Macquarie is developing further restrictions on cash advances, gambling transactions and overlimit amounts with the intent of reducing problematic credit card debt.

ASIC welcomes these commitments. However, it is important that:

- the measures are implemented in a way that does not limit their potential effect (e.g. through restrictive criteria that must be satisfied before proactive contact occurs); and
- credit providers closely monitor—and, if necessary enhance—their approach to problematic credit card debt.

The remaining credit provider, Bendigo and Adelaide Bank, has committed to provide tailored disclosure on account statements (next to the existing minimum repayment warning) and is considering additional electronic communications.

Cards that do not suit consumers

The credit providers we engaged with are taking different approaches to addressing products that do not suit consumers.

Some providers, such as ANZ, Macquarie and Westpac, are addressing these issues through the initiatives described above (e.g. offering structured payment arrangements with an interest rate discount) or through changes to product design.

Other providers, such as CBA, HSBC and NAB, intend to use their proactive communications to encourage consumers to consider whether their product continues to suit their needs.

Restrictions on exceeding credit limits

Nine of the 10 credit providers committed to restricting the maximum amount by which a consumer can exceed their credit limit to 10% or less. Most of those providers indicated that some consumers would be able to access a smaller amount of, or no, additional credit.

A small number of credit providers (particularly Macquarie, Citi and ANZ) committed to change their previous practices to further restrict how much or how often additional credit could be provided.

The provider who did not commit to restrict maximum overlimit amounts to 10% or less was American Express. We are further considering our position on this issue.

Allocation of repayments

For accounts opened from July 2012, the National Credit Act requires credit providers to first apply repayments to amounts accruing higher interest rates.

In REP 580 we identified four credit providers (American Express, Citi, Latitude and Macquarie) who had not applied these rules to older customers. We estimated that almost 525,000 consumers were charged more interest as a result.

All four credit providers have now committed to extend these rules to all consumers. Macquarie has implemented this change. The other three providers have committed to make this change during 2019.

Measures to improve balance transfers

In Section C of REP 580 we made clear that we expect credit providers to:

- take proactive steps to help consumers pay down their balance transfers;
- encourage consumers to review the credit cards they hold when they transfer a balance; and
- design balance transfer offers to take into account additional spending.

We note that of the 10 credit providers we engaged with:

- one (Bendigo and Adelaide Bank) does not offer balance transfers with a promotional rate; and
- another (Latitude) has indicated that it will no longer accept balance transfers.

The following measures we discuss relate to the other eight providers.

Proactive steps

Eight credit providers (American Express, ANZ, Citi, CBA, HSBC, Macquarie, NAB and Westpac) have committed to some form of additional measures.

These initiatives range from an additional reminder shortly before the promotional period expires (American Express) to more comprehensive communications throughout the promotional period (CBA, HSBC and Macquarie).

Some providers are also:

- promoting structured payment arrangements, or the establishment of direct debits, to facilitate consumers steadily repaying a balance transfer; and
- taking into account consumers who struggle to repay balance transfers in their proactive measures to address problematic debt.

Reviewing other cards

Eight credit providers committed to update their disclosure to prompt consumers to think about cancelling old credit cards when transferring a balance. While the location and nature of the prompt varies, many providers plan to put this disclosure on relevant forms. One provider (Macquarie) may use pop-ups.

Fairer approaches to balance transfers

Four credit providers (ANZ, CBA, HSBC and Macquarie) committed to allowing consumers who transfer a balance to have an interest-free period for new purchases.

ASIC welcomes these measures, which may address consumers' concerns about the need to keep old credit cards after a balance transfer.

Two providers (American Express and Westpac) are considering this issue. One provider (Citi) has committed to more clearly disclose that interest-free periods will not be available in these circumstances.

ASIC's actions

We will continue to monitor how credit providers address the issues identified in REP 580, including reducing the proportion of consumers who:

- have problematic credit card debt;
- have products that do not suit them; and
- increase their total debt after a balance transfer.

This monitoring work will not be restricted to the 10 credit providers discussed in this report; we expect all providers to address the concerns we identified in REP 580.

We may consider future action—including using new powers—if our concerns about consumer harm are not addressed.

As outlined in REP 580, we will conduct a follow-up review in two years to track:

- the amount of problematic credit card debt and number of cards that do not suit consumers (e.g. where consumers repeatedly exceed their limit);
- the effect of balance transfers on debt outcomes; and
- whether card cancellation rates change.

Law reforms

In March 2018 the Australian Government passed the *Treasury Laws Amendment (Banking Measures No. 1) Act 2018*, which included some further requirements for credit cards.

These requirements are described in detail in Table 1 in REP 580 and include:

- a power for ASIC to prescribe a period for the purposes of credit card responsible lending assessments (we have now exercised this power: see REP 590 and the *ASIC Credit (Unsuitability— Credit Cards) Instrument 2018/753*);
- a prohibition on unsolicited credit limit increase offers;
- changes to interest calculations, particularly when applying interest charges retrospectively; and
- the rights to request credit limit reduction and card cancellation online, supported by additional restrictions on what credit providers can do after a request is made.

We will closely monitor the implementation of these requirements. In particular, we will check whether:

- credit providers implement the requirements in an appropriate way;
- the new online functionality for credit limit reduction and cancellation requests is sufficiently widely available; and
- the requirements—including the responsible lending requirement we have given effect to in our instrument—are achieving the goals intended by the Government.

Key terms and related information

Key terms

ASIC	Australian Securities and Investments Commission
balance transfer	Where a consumer transfers a balance from one credit card to another credit card from the same or different provider
consumer	A natural person or strata corporation
credit	Credit to which the National Credit Code applies
credit contract	Has the meaning given in s4 of the National Credit Code
credit provider	Has the meaning given in s8 of the National Credit Code
high-interest credit card	A credit card with a purchase rate of over 20% for three or more months
National Credit Act	*National Consumer Credit Protection Act 2009*
National Credit Code	National Credit Code at Sch 1 to the National Credit Act
REP 580 (for example)	An ASIC report (in this example numbered 580)

Related information

Legislation

Treasury Laws Amendment (Banking Measures No. 1) Act 2018

National Credit Act, Ch 3, Pt 3-2, Pt 3-2B

ASIC documents

REP 580 *Credit card lending in Australia*

CP 303 *Credit cards: Responsible lending assessments*

REP 590 *Response to submissions on CP 303 Credit cards: Responsible lending assessments*

ASIC Credit (Unsuitability— Credit Cards) Instrument 2018/753

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the National Credit Act and other applicable laws apply to you, as it is your responsibility to determine your obligations. Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.