Australia and New Zealand Banking Group Limited

Response to Questions on Notice following 5 October 2016 House of Representatives Economics Committee Hearing

Proof Hansard page: 26-27

Question

Mr KEOGH: In your evidence you indicated that nine out of 10, in the hardship category, you are helping are there because of an unexpected event—primarily, loss of income, unemployment, divorce or illness, which are quite outside of the bank's control. If that is the case, does that not indicate that one in 10 of those people, 10 per cent, was someone suffering from financial hardship at the time the credit card was issued to them?
Mr Hodges: It may not. It may—
Mr KEOGH: That was the implication. If nine in 10 were not, one in 10 were.
Mr Hodges: It may be something else that they have, rather than just a credit card.
Mr KEOGH: But it would have been at the time the card was issued.
Mr Hodges: I am not sure about that. I would have to confirm what we wrote last year.
Mr KEOGH: Can you confirm that for us?
Mr Elliott: Yes.
[…]
Mr Hodges: Yes. I explicitly said nine out of 10 of those customers in hardship because of unexpected events—primarily, loss of income from employment, divorce or illness—not because of financial overcommitment at the time the card was issued. I made that point because that is what our hardship people had told us. I cannot tell you, specifically, about the other 10 per cent that—
Mr KEOGH: If we could find that out, I think that would be very useful.

Answer

When customers apply for a hardship arrangement, ANZ will ask why the customer is unable to meet their repayments. The most important reasons given are generally unemployment or income reduction. Across ANZ approximately one in ten customers seeking hardship arrangements have told us in recent years they were overcommitted.

"Overcommitment" can arise as a result of unexpected bills (such as large household item replacement, car repairs), ineffective household budgeting (eg not anticipating all bills or education costs), or debt accumulation over a significant period of time using different products (eg mortgages, credit cards, other personal lending). The customer may owe money to different financial institutions or creditors.

When credit cards are issued, banks are required to ensure that customers are not financially over committed. Under ASIC Regulatory Guide 209, this includes requirements to make reasonable inquiries about the customer's financial situation and conduct an assessment to check that the credit contract is 'not unsuitable'. A credit contract would be judged unsuitable where the "consumer will be unable to meet their payment obligations, either at all or only with substantial hardship".

For standard new lending applications, the ANZ approval process involves a series of steps, each of which must be satisfactorily passed. These steps include checks related to income verification, uncommitted monthly income calculation, statistical comparison of risk and credit bureau checks.

Comprehensive credit reporting will give a clearer view of a customers' financial situation when a credit cards is issued or a credit limit increased. It will show liabilities to all financial institutions to be independently identified, minimising the risk of under-disclosure. ANZ expects to be providing and receiving CCR data in 2017-18.

Please also refer to the ANZ answer to the Question on Notice on financial hardship (Hansard page 38).