Mr CRAIG KELLY: I know we are short for time. I will give you one quick example. A pensioner or a single parent with a credit card limit of $1,000 who may have a $500 outstanding balance with a $25 minimum monthly payment: if they fail to make that payment on time, what would be the additional cost to the bank? So, it is a $1,000 credit limit, $500 owing, $25 minimum monthly payment, and they fail to make that payment on time. What would the cost be to the bank for that $20 fee?
Mr Cohen: We would have to take that on notice and come back to you. I cannot give you that calculation now.

ANSWER

The scenario which Mr Kelly has outlined would require a specific modelling exercise. However, based on work undertaken in 2014 we believe the cost to the bank would be at least $14 in respect of that late payment.

At that time it was calculated that the bank's costs when customers did not make credit card payments on time were $18.99 per late fee charged, based on a credit card balance of $3,500 (which approximated the actual average credit card balance of $3,415 for that period).

This type of fee was recently considered by the High Court of Australia in the Paciocco case. The Court held that in setting this fee the bank may take into account its legitimate commercial interests, such as encouraging the customer to pay on time and the maximum conceivable costs it could incur.

Factors which may affect this cost include:

- the level of debt held by the customer;
- direct costs of additional processing, customer contact and staff handling;
- increased provisioning costs (the bank must provide for expected losses in line with accounting practice and regulatory requirements); and
- increased capital costs (the bank is expected to hold more capital to reflect the increased risk of lending where payments have not been met).