HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

Westpac Banking Corporation

WBC11QON: **CHAIR:** What would be the consequence of greater movement in the interest rate against the official rate as part of the overall picture of an interest rate of a credit card? If you did it on, say, a more frequent basis, would it lead to a higher or a lower rate?

…

Mr Hartzer: …I'm happy to take that on notice and consider it a bit more.

Answer: We regularly review our credit card interest rates based on a range of factors.

Credit cards are an unsecured credit product and are riskier than mortgage lending, with higher losses incurred. We need to price through the cycle to manage the credit card portfolio on a sustainable, long term basis rather than in response to short-term fluctuations in one cost component.

The cost of funds is not a significant component of the cost for credit cards.

A range of other factors affect credit card pricing including:

- Expected losses (and provisioning);
- Costs of origination, servicing and value-added benefits (such as rewards and complimentary insurances);
- Increased investments in technology and innovation such as limit lock and unlock capabilities, enhancements to fraud detections, introduction of instalment capabilities to help manage debt, continued improvements on service levels through mobile and online banking, including contactless technology;
- Changes in consumer behaviour, including how customers are using credit cards and repayment rates;
- The competitive landscape including the extent of promotional offers e.g. balance transfers with an interest-free period, upfront bonus points offers; and
- Changes in interchange fees.

These factors can move both positively and negatively over the economic cycle and over recent years the movement in a number of these factors has offset reductions in the cost of funds.