Submission to the

Senate Economic Reference Committee

Inquiry into matters relating to credit card interest rates

National Retail Association

Prepared by the National Retail Association

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1.0 Credit card interest rates and the retail sector

While credit cards are commonly used across a range of business settings, without doubt it is the retail sector that is most exposed to – and impacted by – the costs of credit cards. In many respects, the widespread availability of credit (and debit) cards in recent decades has helped transform the face of retail. It has provided convenience for consumers by removing the need to carry cash for purchases, and by allowing them greater discretion in their purchasing decisions. For retailers, this revolution has meant a reduction in the amount of cash on hand (in turn reducing the risk of crime), access to alternative markets such as telephone and on-line ordering, and reduced administration in previously popular areas such as lay-by or store accounts.

However, this revolution has not been without a downside for retailers. It has required a significant investment in new technology from retailers to stay ahead of security and fraud risks, as well as meeting consumers' expectations in terms of convenience through facilities such as "tap and go" payment terminals. And it has brought with it some regulatory challenges as well.

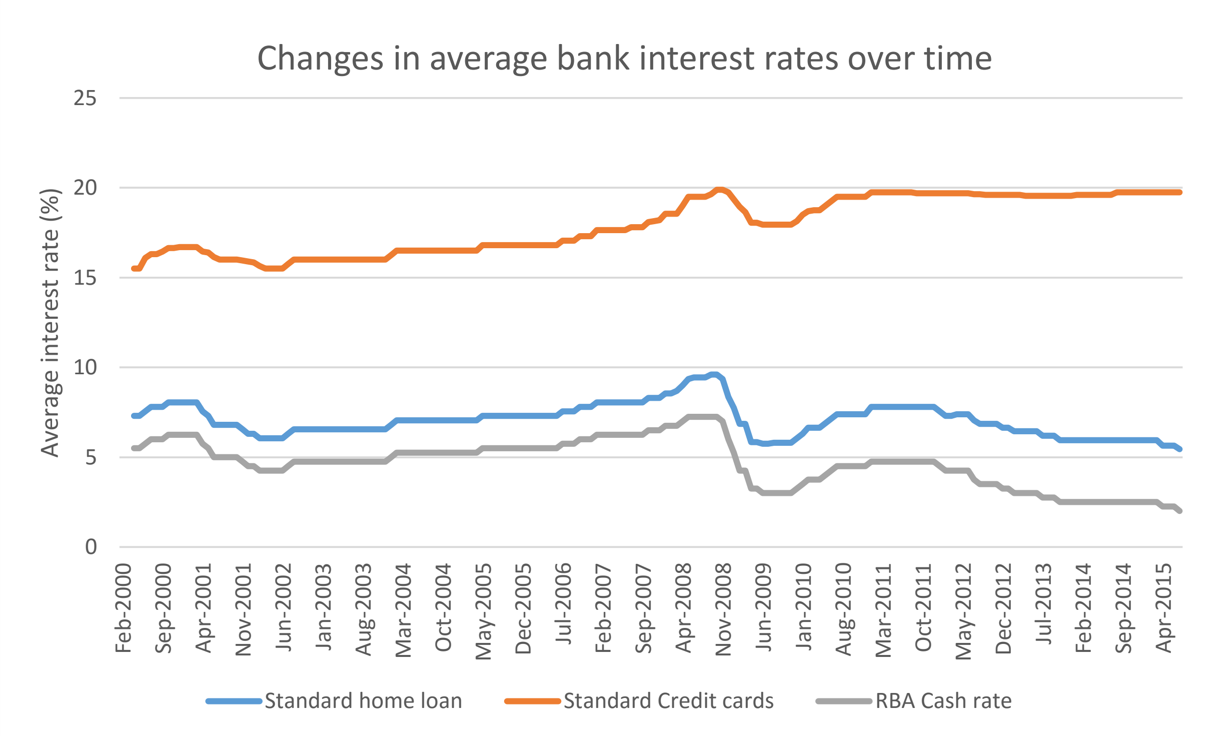
But by far the greatest downside of the credit card revolution for many retailers is the excessive cost of credit card finance. While retailers may benefit from the additional buying power of consumers with an instant credit facility in their pocket, they can also be adversely affected by consumers' decisions to delay or cancel purchases because of the cost of accessing that line of credit. In this regard, excessive credit card interest rates have a generally negative impact on the retail sector.

High credit card interest rates also impact retailers and their staff in a very specific way, and that is in the operation of federal monetary policy. The Reserve Bank uses the cash rate as its primary tool for stimulating the economy. We acknowledge that reductions in the cash rate flow through to home mortgages, thereby putting more money in the pockets of some consumers. (However, they can also result in reduced disposable income for some groups of consumers, such as self-funded retirees.) If, however, the cut to the cash rate is not also passed on as a cut to credit card rates, the intended benefit of the RBA's rate cut is watered down or potentially lost. An analysis of rate movements over the last 15 years (below) shows that this is what has happened in the current downward rate cycle.

Since the current expansionary monetary policy position was adopted in early 2012, average home loan rates have tracked downwards generally in lockstep with the cash rate. Unlike in previous periods of rate reductions, however, interest rates for credit cards have remained largely unchanged despite falls over the same period. This is demonstrated in the table below, which tracks the cash rate and average home loan and credit card rates since early 2000.

If there is a widening gap between home loans rates and credit card rates the full benefit of the rates cut will almost certainly not flow through to the retail sector and – via its businesses and workforce – on into the wider economy. Indeed, if home loan rates are cut and credit card rates are not, there is a financial incentive for consumers to put their additional disposable income into their mortgages instead of spending it. In this way, the power of monetary policy is weakened, and the entire economy is worse off.

For this reason, retailers are keen to see the record lows currently seen in the cash rate and home mortgages also flowing through more strongly to credit cards. The NRA would welcome any measures that would encourage lenders to pass on interest rate cuts through their credit cards as well.



Source: Reserve Bank of Australia time series data

2.0 About the Submitter

The National Retail Association (NRA) is a not-for-profit industry organisation providing professional services and critical information and advice to the retail, fast food and broader service industry throughout Australia. The NRA is Australia's largest and most representative retail industry organisation, representing more than 19,000 stores and outlets.

The NRA's membership is comprised of members from all the sub-categories of retail including fashion, groceries, department stores, home wares, hardware, recreational goods, newsagents, fast food, cafes and personal services like hairdressing and beauty. It also includes both large and small businesses, including the majority of national retail chains, as well as independent retailers and franchisees, and other service sector employers. The NRA has represented the interests of retailers and the broader service sector for almost 100 years. The NRA's aim is to help Australian retail businesses grow.

3.0 Contact information

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