SUBMISSION 9.1

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The Secretary
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Committee on Economics
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Inquiry into the National Consumer Credit Protection Amendment (Credit Cards and Home Loans) Bill 2011 – Supplementary Submission

The Australian Bankers' Association (ABA) appreciated the opportunity to appear before the Committee on 25 May 2011. Please find below comments in response to the Committee's request for more information regarding the potential cost implications of the Bill on the banking industry.

Given the short timeframe of two working days in which to provide the Committee with this information, and as mentioned in the hearings, the unavailability of regulations that specify the actual measures banks will need to put in place to comply with the legislation, it is difficult to provide the Committee with an in-depth, precise analysis of cost implications. However, based on the costs of previous implementation of comparable regulatory reform initiatives, it is likely that the costs to industry to implement this Bill would be in the order of $100 to $150 million dollars. Therefore, when considered in conjunction with the costs of implementing other government reform initiatives, the cost is not minimal, as suggested by Treasury in their testimony to the Committee.

The implementation costs to industry are largely related to requirements such as the training of staff, reviews of relevant areas of the bank (such as legal, product and marketing divisions), development of new IT systems, procedural and administrative changes as well as changes to existing systems to ensure compliance.

Furthermore, it is important to note that the costs to industry are not solely related to the temporary transitional period of implementing required changes. There are significant longer term and ongoing costs associated with annual operational costs, the loss of revenue and opportunity costs. Annual ongoing operational costs are estimated to be $40 million per annum across the industry.

Annual operational costs may be attributable to: ongoing training requirements, customer communication costs (to establish, for example, opt-ins or opt-outs), ongoing compliance and record-keeping, system updates and rebuilds and replacement of paper based application forms and key fact sheets to ensure compliance with the 'up to date' provisions of the Bill.

The ABA respectfully submits that a comprehensive cost-benefit analysis should have been undertaken by the Government during the policy development stage of this reform initiative and at the very least prior to the drafting of the Bill. Furthermore, the cost implications to industry should have been included in a Regulatory Impact Statement.

Secondly, the ABA notes from the testimony of Treasury that a revised commencement date for home loan key fact sheets (KFSs) of 1 January 2012 is being considered. The ABA continues to advocate a commencement date of 12 months after the final regulations have been Gazetted. 1 September 2011 and 1 January 2012 commencement dates would provide a completely inadequate transitional time period for banks to develop and implement home loans KFSs, particularly in light of the fact that all final regulations may only be available at the end of June 2011.

The KFS is intended to be a customer specific document. Banks will therefore need to do considerable work to build processes and systems that will generate a document that meets the proposed legislative provisions. Extensive staff training and procedural and administrative changes will be required, particularly given the civil, criminal and strict liability penalties that attach to home loan KFSs under the Bill. These requirements are further complicated by the number of distribution channels that may be impacted, the number and timing of planned technology releases/changes per year and the complexity of the information to be provided.

During the implementation of Phase 1 of the credit reform project, the industry consistently outlined to the Government the difficulty of implementing changes by 1 January. A commencement date of 1 January 2012 is unsuitable as most banks freeze IT systems changes in the run up to and over the Christmas and New Year period to avoid disruptions to consumers over one of the busiest retail periods of the year. Required changes would therefore need to be operationalised by November in order to ensure the implementation date was achieved. Therefore a 1 January commencement date as opposed to 1 September is of little benefit to the industry. The industry requires at least 12 months from the finalisation of regulations to implement the provisions related to home loan KFSs.

A decreased timeframe for implementation will only lead to increased business costs, risks of widespread non-compliance and the risk of unsatisfactory results for consumers. The ABA has provided the Committee with data that shows there is no systemic or wide spread problem with credit card debt, so it is difficult to understand the urgency of the Government in imposing such short deadlines, especially when regulations have not yet been released, nearly six months after the Government announced it would fast track these changes.

In conclusion, the ABA respectfully requests that the Committee take their time in considering the Bill in light of the significant impacts that the Bill may have on the banking industry and gives serious consideration to the suggestions made to improve the Bill in our initial submission to the Committee.

Yours sincerely

Steven Münchenberg