

17 April 2008

Mr John Hawkins
Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Mr Hawkins

Inquiry into the Australian Securities and Investment Commission (Fair Bank & Credit Card Fees) Amendment Bill 2008

The Brotherhood of St Laurence supports the legislation to limit unfair banking and credit card penalty fees.

The Brotherhood of St Laurence is a non-government, community-based organization concerned with social justice. Based in Melbourne, it is working nationally for a better deal for disadvantaged people, and provides important services for people who need them most.

We commend the government's efforts to create a banking system which is fair and accessible for all Australians. Our rationale for supporting the bill is detailed below.

Disproportionate penalty

Being on a tight budget means that low-income people have very limited discretionary expenditure. The standard penalty fee for dishonoured direct debits ranges from \$35 to \$50 and when low-income people are charged these fees, they struggle with other important spending needs such as food, rent and bills. For instance, a Brotherhood customer was recently charged several penalty fees because of a misunderstanding of the direct debit system. He said -\$50 is food for a whole week for my kids. That little extra \$50 that they have charged, it's just shattered me. To someone on a disability pension, \$50 is a fortune. While there may be some cost involved for a bank, the size of these fees seems to be a disproportionate penalty.

Lack of transparent pricing and financial literacy

The pricing structure for penalty fees is not transparent. Fee schedules are not written in plain English and information regarding penalty fees is often embedded within a long, complex document.

In the financial sector, there is now an implicit assumption that people manage their money using the internet and therefore know their account balances at any one time. However, many low income people are not computer literate and rely on statements produced on an infrequent basis (quarterly or half yearly). This makes it difficult for them to keep track of balances and fees.

Clear fee schedules should be seen as an important aspect of banks efforts to promote financial literacy. The Brotherhood commends banks for their efforts to build customers' capacity to avoid penalty fees through tips available on their websites. However, financial literacy is ineffective if it builds people's capacity to understand needlessly complex account structures or unfair fees.

Pricing incentives and consumer behavior

The regulatory system requires that fees are disclosed so that consumers can make an informed choice when they select a bank account. Economic theory suggests that a financial penalty can act as a disincentive from overdrawing repeatedly. Despite this, low income people often find the pricing structure difficult to understand and feel powerless to negotiate. As a result, some low income people repeatedly incur penalties.

Bank accounts for people on low incomes

The Brotherhood commends the major banks for introducing basic bank accounts for people on low incomes, including ANZ's Access Basic, NAB's Concession Card account and the Westpac Basic. These accounts charge either nil or \$10 as a penalty fee for overdrawing and we congratulate the banks for taking consumer feedback on board. However, the Brotherhood finds that most low-income people are not aware of these low fee options. Basic accounts need to be promoted effectively or provided as the default option so that low income people are aware of their availability and their advantages.

Concluding remarks

We commend the progress made by the financial sector in recent years towards promoting financial literacy and inclusion. We look forward to further progress in limiting unfair fees.

Should you have any questions please contact Genevieve Sheehan, Microfinance Manager on (03) 9483 2432.

Yours sincerely



Tony Nicholson
Executive Director