



COMBINED PENSIONERS AND SUPERANNUANTS ASSOCIATION OF NEW SOUTH WALES INC.

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18 April 2008

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

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

Combined Pensioners and Superannuants Association of NSW Inc (CPSA) was founded in 1931 in response to pension cuts. CPSA is a non-profit, non-party-political membership association serving the interests of pensioners of all ages, superannuants and low-income retirees. The aim of CPSA is to promote the rights and improve the standard of living and well-being of its members and constituents. CPSA has approximately 140 branches and affiliated organisations with a combined membership of over 15,500 throughout NSW. CPSA serves the interests of its membership and broader constituency at the local, state and federal levels.

Consumers' options to pay ordinary household bills in cash continue to be eroded. Utility companies have mostly done away with a meaningful shopfront presence in the community. Customers are increasingly manipulated into making payments by automatic bank transfer or credit card transaction. This reduces the administration costs of utility companies and, generally speaking, these arrangements benefit a time-poor community.

However, the shift from cash payment to payment by electronic transfer has been seized upon by financial institutions to saddle consumers with some of the risks involved in these arrangements. Specifically, customers are penalised for hiccups in the electronic payment system, with penalties set at seemingly arbitrary levels without a thought for whether the cause of such hiccups, mostly defaults, could have been avoided by customers.

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This principle – the customer pays in cases where a default has occurred – originates from the time where bills were either paid in cash or by cheque. Obviously, defaults where the only payment options are cash and cheque were by definition entirely within the control of the customer and it was therefore reasonable that, not only any penalty charges should be paid by the customer, but also that such charges should have a deterrent effect by being set at a level above the actual damage caused by a default.

With the increasing automation of utility payments, the scope for errors outside the control of the customer has widened to the point where the customer's control of their bank accounts has greatly diminished. To a large extent, financial institutions allow this risk to play out as, on balance, the benefit exceeds the cost.

It follows that responsibility for any defaults should not solely fall to the customer's side. Responsibility should be shared between financial institution and customer on the basis of (1) demonstrable fault, since default may not be the fault of the customer and (2) cost recovery only, since both parties accept the risk of default on commercial grounds.

It is for these reasons that CPSA supports the amendments proposed in the Australian Securities and Investments Commission (Fair Bank and Credit Card Fees) Amendment Bill 2008.

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