

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (a)

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From: Louise Petschler [lpetschler@choice.com.au]
Sent: Wednesday, 27 September 2000 12:11 PM
To: sue.morton@aph.gov.au
Subject: follow up info



appendix iii.doc

Dear Sue

Thank you for the copy of Hansard from the Committee's evidence. I've sent through some very minor corrections via fax.

I also wanted to send through a copy of the section from the consumer groups submission regarding fee disclosure (to the Chapman inquiry) relevant to the question Senator Allison asked regarding international developments in disclosure. The submission is very long, and I thought it might be helpful to have it available as a stand alone in light of Senator Allison's questions.

If you were interested in additional material on disclosure generally, I would be happy to provide further comment.

Current moves to amend the Consumer Credit Code (led by the NSW Government) to include comparison rates for credit are relevant to broader concerns about disclosure in financial services. Comparison rates would involve lenders using a standard formula which adds in all the ongoing and upfront costs of a loan to provide a more realistic rate on the cost of credit. These rates will (hopefully) be required to be displayed in advertising, and also on lenders' premises, and will enable consumers to make more informed decisions about the most appropriate form of credit for them. The reforms would reflect legislative requirements in the US and UK on truth in lending.

The US Government has recently extended its truth in lending requirements to pay day lenders - which is a new and growing industry in Australia (the Qld Minister for Fair Trading has recently released a report on possible regulatory responses to this new form of credit provision in Australia and concerns about the industry, available on their web site).

ASIC's fee disclosure working group (on which ACA is represented) is also working to improve the standard of fee disclosure for consumers. Delia Rickard at ASIC (in their Canberra offices) is the lead officer for this group, and has much background information on measures being taken

ASIC's evidence and submission to the Chapman Inquiry outline in detail the Commission's approach on fee disclosure and I believe cover some issues relevant to international comparisons.

Many thanks for your assistance and help with ACA's evidence to the Committee. Please let me know if I can be of any help in providing further information.

With best regards

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Appendix III - International Developments

International Comparisons in Bank Fee Disclosure

Introduction

The provision of an effective disclosure regime for consumers of banking services is a key to having well informed consumers with the ability to effectively shop and compare fee and service structures.

Unfortunately, the level of disclosure in Australia has not been at a standard, which would engender an effective level of consumer understanding and education.

The Reserve Bank of Australia's (RBA) report into 'Bank Fees in Australia' pointed out that 'most concern about bank fees centres on the cost of running a bank account and making transactions'. It noted that 'in general' banks do not effectively communicate some of their more cost-effective ways in which consumers can conduct their regular banking.

While the consumer movement does not advocate for Australian banks and other financial service providers to simply follow international leads, we do encourage governments and the financial institutions themselves to better assess the changes and developments that are occurring abroad.

International comparison of the costs of banking

The recently completed report on "Competition in United Kingdom Banking" also known as the Cruikshank Report graphically points out that Australian consumers pay the second highest level of fees amongst the countries surveyed by the report (UK, USA, Canada, Australia, France and Germany). The report found that Australians pay well over \$250 a year in fees and charges for a standard personal current account. This compares with less than \$20 dollars in the United Kingdom and \$100 in the United States.

Further still, the Cruikshank Report also gives Australia the second lowest innovation rating, which is explained by the high level of fees and charges and relative inaccessibility of alternative means of electronic banking.

International Fee Disclosure Regimes

The Cruikshank report notes that the manner in which banks elucidate their fees and charges differs considerably across countries:

In Germany, many banks charge their current account customers a monthly fee, which covers all transactions. In France, there are no administration fees, cheques are free by law, credits are not charged for and cardholders can make unlimited free EFTPOS payments and ATM withdrawals. As well, in the USA there is a system whereby banks charge a monthly fee, which entails a certain number of transactions with additional transactions attracting an additional fee. Other American banks offer free banking provided that the customer elects to have their salary deposited into the account. This all compared rather favourably with Australian banks which impose fees on an itemised basis for most current account facilities and some monthly fees.

While there is no comprehensive study available comparing disclosure regimes in different countries, some useful information can be gleaned from the following case studies:

United Kingdom

The banking system in the UK generally operates under a voluntary code. This code (which is also followed by building societies) sets in place a standard by which banks have to deal with their personal customers. It sets standards for good banking practice, which its subscribers are obligated to follow as a minimum. This code operates under the hope that competition and market forces will engender higher competitive standards, which are designed to draw customers. This scheme has a limited set of disclosure rules, though it is due for review this year.

Proposals have been made in the Code review process, which would require UK banks and building societies to warn customers of any charges they face every time they use ATMs. This move is a result of recent UK outcry surrounding ATM surcharges imposed by one of the UK's major banks, but would apply to all fees not just surcharges. Under the proposal the code will require banks and building societies to flash up warning signals about any potential imposition of a fee or charge with each withdrawal. This practice is expected to become industry best practice. Indeed, Barclays Bank has already adopted this course of action for all ATM fees.

In a further demonstration of UK consumers' lack of willingness to tolerate exorbitant fees and charges, a group of major British banks has now dropped plans to introduce ATM surcharges for non-customers (AFR 5/7/00).

USA

The US also has very limited disclosure rules for bank fees. However, a growing controversy in the US about ATM surcharges has led to proposals to improve disclosure on ATM screens and through ATM signage.

Although surcharging is not prevalent in Australia at this stage, it is important to keep a watching brief on surcharging because of its ability to spread rapidly once introduced. A ban on surcharging was lifted in the US in 1996. Just one year later 80% of large banks (and 57% of all financial institutions) imposed ATM surcharges (Journal of Retail Banking Services, Vol 20, No.4 p.35).

The new disclosure rules in the US require banks to:

- provide warnings to consumers about surcharging when issuing cards;
- post notices on ATMs warning about surcharges;
- advise consumers on screen before imposing a surcharge on any transaction (including the amount of the surcharge); and
- provide consumers with an opportunity to terminate the transaction without cost.

Ireland

Ireland has experienced some recent difficulties with banks failing to disclose correct interest rates and/or bank fees, leading to costly litigation and settlements.

A "Code of Practice on Transparency in Credit Charges for Personal Customers" is now in place. The Code is voluntary, but has the Support of the Government. Institutions have undertaken to be fully compliant with the Code by October 2000.

The Code has a general provision on fee disclosure:

"Notices will be displayed at branches and outlets advising customers how to access information on charges for standard products. This information will include, in the case of current accounts, how such charges may be reduced. Information on charges for non-standard services will be given as a matter of course when these services are requested."

It also has a unique requirement for "pre-disclosure" on current accounts that is an extremely positive consumer development:

"Where fees and charges are accumulated and applied periodically to current accounts, the customer will be advised at least 10 working days before deduction. In cases where these fees and charges total more than £10 a breakdown of the amount being deducted will also be given. A breakdown of amounts less than £10 will be available on request."

Conclusion

Obviously, more information from overseas would be useful, but it is difficult to obtain without additional resources. It is clear from the information available that momentum is building in several jurisdictions for improvements in fee disclosure, including a trend towards prior disclosure of fees on ATMs in the US and the UK, and all fees in Ireland.