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Australasian Retail Credit Association (ARCA)

Credit Reporting Code of Conduct

The Finance Sector Union (FSU) represents 50,000 members employed in the finance sector across Australia, with the majority of these employed in the major banks. The FSU welcomes the opportunity to comment on the draft code and supports initiatives to ensure responsible lending practices are observed throughout the finance industry and beyond.

At present a large amount of activity in the finance sector marketplace is based on short term competition for growth or market share rather than sustainable and responsible practices. This type of activity is often driven by sales targets for finance sector staff and applies to a wide range of financial services, including the sale of credit and the increase of credit card limits.

The culture of sales targets is, by definition, designed to maximise sales which (even inadvertently) will lead to a higher risk of inappropriate sales occurring. If staff are constantly under pressure to achieve sales then this will inevitably lead to some consumers being sold products that they may not need or be capable of repaying.

A recent survey of FSU members, predominantly in the established banking sector, found that:

- 52 per cent of workers felt obliged to try and sell debt products such as credit cards even when a customer didn't need them;
- 63 per cent felt that inappropriate sales targets are having a negative impact on their ability to provide responsible customer service; and
- 59 per cent felt pressured to make inappropriate sales to meet sales targets.

Sales targets carry the implicit message that ever increasing sales are good and desirable – the FSU does not share this view and believe it is detrimental to consumers, finance sector staff and the provision of good customer service.

Purchasing any financial product is a serious matter. The financial regulatory system should try to ensure that the majority of credit products are appropriate and do not result in people becoming overly financially committed.

The FSU has developed a *Charter of Responsible Lending* that was launched on 1 October 2008. We have included a copy of the *Charter* and ask that it be considered as part of our submission.

We offer the following specific comments in relation to the draft code.

8. Responsible marketing of credit

The FSU supports the measures proposed in section 8.1 to identify consumers who should not be targeted with direct marketing of credit offers; however we believe

there should also be a mechanisms available to all consumers to 'opt out' of receiving any marketing or product offers by mail or in person. This would ensure that consumers do not feel pressured by constant unwanted offers and ensure that finance sector employees do not have to persistently make such offers. The recent report by the Australia Institute on 'intrusive marketing'¹ highlights the frustrations that many people feel in relation to unwanted marketing and the associated costs attached to such unwanted approaches. An 'opt out' mechanism would ensure code subscribers could offer superior customer service and save money by not irritating people.

9. Responsible lending

The FSU is generally supportive of the measures proposed in 9.2; however the current structure only requires two of the four factors to be considered when assessing a credit application. This flexibility may be seen as desirable but it could also have negative consequences by way of ambiguity and the potential to avoid factors that might lead to a credit application being rejected. The FSU submits that the process should be changed to ensure a more rigorous assessment is mandated for every application.

Section 9.3 - The FSU believes that no unsolicited pre-approved credit offers should be made to consumers. This form of marketing has become far more common and is indicative of the unfortunate shift away from a professional 'service' culture where the interests of the consumer were central to the relationship. This has been increasingly replaced by a 'sales' culture where the primary objective is to maximise sales at every opportunity. FSU members are not comfortable with this shift and do not believe unsolicited pre-approved credit offers are a responsible way of marketing credit products.

If consumers wish to buy credit products or increase their credit limit they can generally do so within minutes of contacting a financial institution. Unsolicited pre-approved offers simply increase the likelihood of inappropriate sales occurring and unmanageable debt increasing.

Please feel free to contact James Bennett on (03) 9261 5405 if you have any questions in relation to this submission.

Yours sincerely



Leon Carter
National Secretary
21 April 2009

¹ *Go Away, Please: The social and economic impact of intrusive marketing*, Josh Fear, December 2008.