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Responsible lending practices in relation to consumer credit cards

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.

We submit that a large amount of activity in the finance sector marketplace is based on short term competition for growth or market share rather than sustainable practices. This type of activity is often expressed as sales targets for finance sector staff and applies to a wide range of financial services, including the sale of credit cards 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.

Credit cards have become progressively easier to obtain and are often specifically marketed at younger people. This trend is potentially problematic in itself, however when combined with the use of sales targets it creates an environment where debt pushing becomes almost inevitable.

In addition credit cards are increasingly being offered by, or linked to, institutions that are not traditional financial services providers. This trend appears to be increasing and has arguably led to an oversupply of credit cards in the market. We submit that this saturation makes it even more inappropriate to link sales targets to credit card sales.

The FSU understands that in one major bank, employees are being told to avoid asking customers to nominate their preferred limit in relation to credit cards. Staff then enter the application and await the banks computer to calculate the maximum credit limit allowable. FSU understands that employees' performance ratings are impacted positively by the greater amount of credit attached to the credit card and negatively if they allow customers to nominate less than the bank's systems determine they could have been granted.

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.

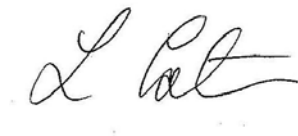
Purchasing any financial product is a serious matter. The financial regulatory system should try to ensure that the majority of credit products are appropriate and do not result in people becoming overly financially committed.

The FSU 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.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'L Carter', with a stylized flourish at the end.

Leon Carter
National Secretary
3 November 2008