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31 March 2008

Mr Robert Fitzgerald
Presiding Commissioner
Review of Australia's Consumer Policy Framework
Productivity Commission
PO Box 1428
CANBERRA CITY ACT 2616

Dear Mr Fitzgerald,

Re: ANZ's Responsible Lending Promises

ANZ would like the opportunity to meet with you to discuss our submission to the Draft Report of the Review of Australia's Consumer Policy Framework (February 2008) as well as other issues such as our responsible lending promises and why we introduced them. In anticipation of this meeting I have provided some background below on our commitments, why we introduced them and how they differ from the Australian Capital Territory's (ACT) regulation of credit limit offers.

Our Responsible Lending Promises

In 2005 ANZ was the first Australian bank to introduce responsible lending promises. Under these promises ANZ credit card customers will not receive an unsolicited credit limit increase offer if they:

- Have repeatedly been overdue in making repayments or only made minimum payments in the previous six months
- Have an ANZ account receiving Government benefits (including Centrelink and Department of Veterans Affairs)

As a result of these promises, the pool of customers who would have otherwise received a credit limit increase offer reduced by around 11 per cent.

Other promises we made about responsible lending are to:

- Provide information about easy and efficient ways to reduce your credit card limit

- Ensure the minimum monthly credit card repayment does not fall below 2% of the outstanding balance, unless the customer:
 - Is in financial difficulty and we are assisting with reduced repayments
 - Has accepted a special offer where for a specified period either no interest or a concessional interest rate is charged and no repayment is required
- With any credit card limit increase offer:
 - Outline how much the minimum monthly repayment would increase if the offer was accepted
 - Recommend the offer be rejected if personal circumstances have changed
 - Include information about how to request a lower offer
- Explain in clear and simple terms how interest on a credit card or loan is calculated and charged, what fees may apply and when, and the consequences of late credit payment
- Respond within 48 hours to customers who have contacted us by telephone, and within five days to customers who have contacted us by letter, to advise us of financial hardship. We may also refer a customer to an accredited financial counsellor.

The responsible lending promises do not stand alone. They are part of our Customer Charter, which sets out benchmarks for service to personal and small business customers. Our performance against these benchmarks is reviewed annually by an external auditor and the results published.

The Charter was first introduced in 2001 and ANZ regularly reviews the promises to ensure we keep pace with what our customers and the community expects from us.

ANZ is also looking at new ways we can reduce financial difficulty amongst our credit card customers. We are currently piloting a program aimed at identifying and assisting customers who may be approaching financial difficulty early.

Customers who have been showing behaviour indicating financial difficulty (identified based on the information we already hold about how they use their accounts) are contacted to offer early assistance. These customers are offered options such as temporary fee and interest waivers or reduced minimum monthly payments to help them stabilise their finances. ANZ believes that this assistance is likely to be most effective before financial difficulty becomes unmanageable.

Why We Introduced Our Responsible Lending Commitments

In March 2003 ANZ published results of the first Australian survey of adult financial literacy levels. We undertook to conduct the survey every two years. As a part of our second financial literacy survey conducted in 2004, ANZ commissioned research into understanding personal debt and the causes of financial difficulty.

Our choice of topic was a response to the growth that had occurred in household debt in Australia and the questions asked about this growth, including the marketing practices of lenders. Our objectives were to make an informed contribution to the debate and to inform ANZ's business practices, programs and initiatives that are part of our broader financial literacy agenda.

This research told us that credit providers have a role in causing financial difficulty and both responsible consumer behaviour and responsible lending practices are required. We found that financial difficulty is closely related to the behaviour traits and circumstances of the individual rather than a lack of financial literacy, information and knowledge.

Usually more than one factor and a range of influences are responsible for an individual experiencing financial difficulty. In most cases, financial difficulty for people with borrowings arises from unforeseen circumstances such as job loss, illness or relationship breakdown, often, although not always, combined with what the researchers termed 'unhealthy ways of financial thinking'. The latter included 'living for today' and not thinking about needing to repay credit, being disengaged from finances and spending to 'keep up with the Jones's'.

Our responsible lending promises are a practical response to our research findings. Clearly, we cannot ask our customers whether they are likely to lose their jobs, experience relationship breakdown or develop a gambling problem. We can and do, however, exclude those who live on Government benefits from unsolicited credit limit increase offers (and financial counselors have told us that this group is vulnerable to overindebtedness) and we can and do use behavioural scoring to monitor credit cardholders behaviour. As explained in some detail in an earlier submission, we find this a more accurate and equitable tool for assessing credit applications than manual assessment.

ANZ's research also found that community based financial counsellors play a key role in assisting individuals to address the financial difficulties and hardships that they face.

The ACT's Regulation of Credit Limit Offers

Our responsible lending promises are significantly different to the ACT's amendment to its Fair Trading Act in 2002 which introduced obligations on credit card providers to ask existing customers for new information on

income and expenditure to assess manually whether a credit limit increase should be granted.¹

ANZ's commitment on unsolicited credit limit increase offers does not involve the collection of additional financial information from our customers but instead adds to our standard credit assessment process which relies on the interpretation of information held by ANZ and behavioural scoring. It does not require ANZ to obtain additional information directly from the customer in relation to a credit limit increase offer as the ACT's regulation does.

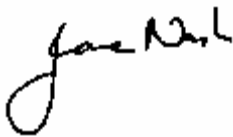
ANZ uses two measures, the receipt of Government benefits and consumer behaviour, as a proxy to identify the customers most vulnerable to financial difficulty. While this may not exclude all vulnerable customers, it represents the most reliable measure available to us. Additional information sourced from the customer is unlikely to identify vulnerable customers any further—such as those who may face future employment instability or other changes to their circumstances.

We believe that our responsible lending commitments demonstrate how the market can meet the objectives of consumer policy without the need for regulatory intervention. As noted in our submission to the Issues Paper, the ACT's intervention in the market was not effective in reducing delinquencies in the Territory, and added additional compliance burden to credit card issuers.

Indeed as a result of this regulation ANZ no longer makes credit limit increase offers in the ACT, meaning customers need to proactively seek these themselves and go through a more onerous application process.

ANZ would be pleased to provide further information on this issue at our meeting and I can be contacted on 03 9273 6323.

Yours sincerely,



Jane Nash
Head of Government and Regulatory Affairs

¹ ANZ's submission to the Productivity Commission's Issues Paper in May 2007 outlined our comparison of manual assessment versus behavioural scoring and why ANZ found behavioural scoring to be more effective. The submission also showed that the credit card delinquency rate in the ACT had remained similar to the rest of Australia subsequent to the introduction of the legislation.