Welcome to the FinCoNet Newsletter

Welcome to the first 2016 edition of the FinCoNet newsletter.

The year has already begun in great style for FinCoNet with the publication of the FinCoNet Report on Sales Incentives and Responsible Lending: A study of the impact of sales incentives on the sale of credit products.

The Report was published in January 2016, accompanied by a press release which attracted much attention to the work and activities of FinCoNet. The text of the press release can be found in this Newsletter along with a link to the published report.

FinCoNet has also confirmed the date and venue of its first Open Meeting: 22 April 2016 in Amsterdam. Further information and a preliminary agenda can be found in this Newsletter.
The first FinCoNet Open Meeting will be held on 22 April 2016 in Amsterdam, the Netherlands.

The FinCoNet Open meeting provides an opportunity for countries to learn about the work of this international Forum and to gain useful insights on the benefits of membership through the value of sharing information and knowledge on supervisory tools and best practices.

The Open meeting will also be directly followed by a closed meeting of the FinCoNet Governing Council.

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Session will be open only to Members of the FinCoNet Governing Council.
New FinCoNet Member – Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin)

BaFin is the integrated supervisory authority for Germany’s financial market. In February 2016 BaFin officially joined FinCoNet.

As an integrated financial supervisor BaFin supervises securities trading and various financial institutions such as

- credit and financial services institutions,
- insurance undertakings,
- pension funds,
- payment institutions,
- asset management companies and
- deposit-guarantee schemes.

BaFin's objective is to ensure the proper functioning, stability and integrity of the German financial system.

Collective consumer protection

One of BaFin's core tasks is collective consumer protection in the field of financial services. BaFin fulfils these tasks in the public interest and in accordance with its statutory mandate: it protects consumers as a whole and therefore does not represent individual customers of financial services providers. The protection of the interests of individual consumers lies within the remit of ombudsman services, dispute resolution entities and consumer organisations. If they are unable to solve a conflict in individual cases, it can only be settled in court.

As part of its investor protection mandate, BaFin also seeks to prevent unauthorised financial business.

BaFin resolves serious irregularities in the interest of all consumers

BaFin counters irregularities at the supervised entities which may have consequences for all customers. Mainly this involves cases in which an institution or undertaking has contravened
BaFin can issue orders to institutions and other companies that are subject to supervision in order to prevent or remedy irregularities it has found in the examination of a complaint.

**How BaFin can provide further assistance**

BaFin offers various means of assistance to consumers. For example, you can file a complaint with BaFin or call BaFin’s consumer helpline. The helpline staff will answer questions or explain the measures available to the costumer wanting to settle a conflict out of court with, for example, a bank or an insurance undertaking.

**Changes in the Organisational Structure**

As of 1 January 2016 the tasks of BaFin with respect to its collective consumer protection mandate were assigned to the newly established Consumer Protection Department. This department consists of seven divisions and is set up under the aegis of BaFin’s Securities Supervision/Asset Management Directorate against the background that this area virtually forms the “breeding ground” for conduct-based supervision.

Additionally, a new division for international consumer protection was established within BaFin’s department for International Policy, Financial Stability and Regulation which reports directly to BaFin’s president. This division represents BaFin in global and European committees and is responsible for ensuring cross-sectoral consistency in international consumer protection matters.

BaFin’s representatives in FinCoNet are the Executive Director of the department for International Policy, Financial Stability and Regulation, Thomas Schmitz-Lippert, and the Head of division for international Consumer Protection, Dr. Dorothee Kohleick.

For more information, please visit the webpage of the Federal Financial Supervisory Authority [www.bafin.de](http://www.bafin.de).
In a public consultation paper published on 12 November 2015, the Central Bank of Ireland has recently proposed a range of increased protections for variable rate mortgage holders. This follows on from the work carried out by the Central Bank of Ireland to date, which has identified a lack of clarity as to what the terms and conditions of variable rate contracts mean, how such rates are calculated and how such rates can change over time. Moreover, the Central Bank of Ireland believes that there are a number of non-financial barriers to mortgage switching that can, at least in part, be addressed by better transparency and more useful information being provided to borrowers.

The Central Bank of Ireland believes there is scope for increasing the level of transparency of variable mortgage rates. The measures proposed in the consultation paper are aimed at increasing transparency and facilitating consumer choices and would build on the strong consumer protection framework already in place to protect mortgage borrowers in Ireland. These existing protections include information to be provided when a borrower is taking out a mortgage, suitability and affordability assessments and protections for borrowers who are in arrears.

Given the importance of the financial decision to take out a mortgage, the Central Bank of Ireland believes that it is essential that consumers can deal with regulated lenders with confidence when taking out a mortgage, that the process is transparent and that their interests are protected. In the case of variable rate mortgages, this means that lenders should be clear with the borrower about the variable nature of the loan and the factors that might cause that rate to change. They should also give borrowers sufficient notice and information to enable the borrower to switch to a different product where they wish to do so.

The proposed measures include the following:

- Statement of factors impacting on the rate – lenders would be required to prepare and publish a summary statement of the factors that impact on the calculation of their variable rate and their criteria and procedures applicable to the setting of such rates. The summary statement would be provided to borrowers when they are offered a variable rate mortgage and made available on the lender’s website on an on-going basis. Lenders would be required to notify affected borrowers of changes to the summary statement and make an updated summary statement available on the lender’s website.

- Information about other mortgage options – lenders would be required to notify variable rate borrowers on an annual basis of alternative options.
mortgage options available from their lender that may provide savings for the borrower. A lender would also be required to provide the borrower with information about where he or she can obtain further information on these products and include a link to the mortgage switching section on the website of Ireland’s Competition and Consumer Protection Commission.

- Notice of forthcoming interest rate increases – the Central Bank of Ireland is seeking views on whether to extend the current 30-day notification period for forthcoming variable rate increases in order to give borrowers more time to consider their options and switch to a different product or lender, if they choose to do so. It is also proposed to require lenders to state the reason for rate changes.

The public consultation closed for submissions on 12 February 2016. The Central Bank of Ireland is now considering the responses received and expects to issue enhanced protections for variable rate mortgage holders this year.

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**Mystery Shopping: A Different Way to “Listen to the Customer”**

By CGAP. This article was originally published on [CGAP.org](http://www.CGAP.org)

So many conversations in financial inclusion recently focus on the customer experience. The prevalence of tools like [Human-Centered Design](http://human-centered-design.org), and techniques such as “Listening to the Customer,” reflect a new focus on understanding consumer behavior and preferences.

This line of research focuses primarily on how a consumer and a product interact. But there is an equally important aspect to consider to bring more consumers into formal finance: How customers interact with the people who first provide these financial services to them. The initial sales experience is a key step in the customer journey: it informs customers of the product options, matches products to their needs, and instills the confidence and trust to ensure continued usage.

But these sales visits rely in large part on individual salespeople and how they interact with customers. This means that there is also a lot that can go wrong for the consumer, which can limit their future use of products, or even worse lead to consumer harm. This underscores the importance of understanding the sales process and the role that sales incentives, staff knowledge, misinformation and biases against certain customers—in particular low-income customers—can play in leading to a positive or negative customer experience.

One of the simplest, most effective ways to monitor and measure this customer—salesperson interaction is using mystery shopping. Mystery shopping involves sending customers to a financial service provider to simulate a typical customer inquiry.

Over the past three years, CGAP, the World Bank and in-country partners that include donors, policymakers and research firms, have partnered to develop a mystery shopping methodology for financial inclusion and consumer protection. These experiences are now available for use in a
Mystery Shopping Technical Guide, which includes instructions on how to design your own mystery shopping, highlights from mystery shopping programs in six markets, consumer questionnaires, training materials, data analysis tips, as well as supplementary tools including product audit forms and sales staff surveys.

Our mystery shopping method includes training actual low-income customers to conduct the visits themselves, to measure the true experiences and challenges these types of consumers face in acquiring quality financial services. Going one step further, in many of the visits customers were trained to portray different needs, experience levels and willingness to pay. By training customers to portray different profiles, it is possible to measure not just what information and advice was given, but how that may differ based on the sales staff’s perception of the customer.

Some of the more interesting insights we have learned from our mystery shopping work include the following:

- In Mexico, sales staff would not mention the low-cost, basic savings account mandated by law, even when consumers presented needs and preferences that clearly indicated this would be the best product option for the consumer.
- In Ghana, sales staff not only did not share the APR of loans—as required by law—many of them had no idea what APR meant, and even got suspicious of shoppers who asked about APR since it seemed so out of line with what typical shoppers asked them.
- In Kenya, social assistance beneficiaries were charged more to purchase food with debit cards by local merchants, and were often made to stand to the side and let other “normal” customers be served first.
- In Malaysia, insurance agents almost universally did not use the Customer Fact Find Form, a detailed tool which is intended to capture key customer information such as health and finances, and be used to assess consumer needs and product suitability. Instead most salespersons focused primarily on the shopper’s tolerance for monthly premium amounts, which the researchers varied from shopper to shopper to measure its impact on product recommendations.

It is our hope that the materials provided in the Mystery Shopping Technical Guide will help more policymakers, providers and researchers probe the role that sales staff have in the quality of financial products consumers are offered. By measuring all information provided during sales visits, and the role that biases and consumer profiles play in sales staff behavior, we can help sales staff to better serve consumers, and make sure that the products and services they receive are truly the ones that best suit their needs.
“How did you get my cell number?” asked a Mystery Shopper

“Umm.. I’m sorry Sir, I don’t really remember because I’ve obtained so many number through data exchange with other salesmen, purchased online through the internet, or provided by my sales leader” the Telemarketer replied.

“Do you have a certain sales target?”

“Yes, of course. I have to make at least 50 phone calls in a day, and total selling amount is around USD 10,000 per month”

While many state officials carrying out incognito visits as a way to evaluate the performance of public services are familiar with the "blusukan" name associated with popular activities undertaken by the President of Indonesia, Joko Widodo, OJK also has a method to evaluate the application of the consumer protection principle conducted by financial institutions by positioning itself as a customer: mystery shopping. Given the similarities between the activities and objectives of “blusukan” and the OJK mystery shopping activities, it would not be wrong to also refer to OJK mystery shopping activities as "blusukan".

As mandated by law, the Indonesian Financial Service Authority / Otoritas Jasa Keuangan (known as OJK) has responsibilities and duties related to financial consumer protection as well as integrated prudential supervision in the financial sector. One of the OJK regulation domains in consumer protection is market conduct supervision, which is carried out by certain units under the supervisory department. This activity is however, separate from prudential supervisory activity. This is known as the twin peak concept of supervisory action.

The scope of work conducted in the domain of market conduct supervision ranges from designing, formulating and providing information, to drawing up agreements, and handling complaints through the dispute settlement process.

One of the OJK supervisory approaches is mystery shopping or the "OJK version of blusukan". This approach has been implemented in several areas, for instance, the marketing of banking products through telemarketing, personal loans and insurance products.

**How does mystery shopping function?**

The first step is to determine the theme of the mystery shopping activities, which is generally influenced by the results of data collection and information obtained on consumer complaints.

One model case from 2014, concerns the many complaints of harassment with regards to product offerings made through short message service (SMS) and telephone. Both the frequency and hours of activity were considered to be disturbing, anti-social and an invasion of consumer privacy. In response to this activity, OJK conducted a mystery shopping exercise in order to identify the parties making the offers via SMS and telephone calls, and also to identify how the consumer data was being obtained.

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1 An approach to find a reality by going to the ground or to the original place.
Furthermore, in order to capture the actual conditions in which financial products are offered by financial institutions, OJK officers act as consumers and interact with financial marketing officers. Mystery shopping activities are generally carried out with the aim of assessing the appropriateness of the delivery of information on products, and particularly to assess the transparency of cost and risks. Mystery shopping activities are also designed to assess the appropriateness of products proposed in relation to the consumer’s profile and financial situation. Based on some of the OJK mystery shopping activities that have been performed in order to evaluate aspects of consumer protection in financial products, it was found that the delivery of information, in particular in relation to costs and risks, is often overlooked either intentionally or unintentionally. In addition, some findings show that in order to achieve a high selling target, marketing officers pay little attention to the suitability of the product sold in relation to the consumer profile, needs and financial situation (in particular, repayment capacity).

What to do with the results of mystery shopping?

Based on the results of mystery shopping exercises, OJK takes appropriate policy and supervisory actions to address the findings. In the case of product offerings through telemarketing in 2014, the OJK Chairman wrote a circular letter to all financial institutions in order to forbid the offering of products through SMS and telephone calls without the consent of the customer. The confidentiality of consumer data was also addressed and financial institutions were required to evaluate contracts with third parties in order to avoid the sharing, selling or purchasing of consumer data.

Have these activities been effective within the framework of consumer protection?

After taking appropriate policy and supervisory actions in response to the findings of mystery shopping activities, OJK undertakes the monitoring of their implementation. For example, in the telemarketing issue, OJK conducted a survey of consumers to assess the effectiveness of the application of consumer protection. The survey showed that the number of telemarketing offers per day fell from 4 SMS or calls to 1 SMS or call per day following the OJK intervention. Surprisingly, consumers reported receiving only 6 SMS or phone calls per month in early 2015.

In conclusion, mystery shopping activity, when followed up by relevant policies and supervisory actions has a significant impact and can help to create a healthy financial system where consumers are on the same level playing field as financial institutions. Mystery shopping can also contribute to increasing soundness and confidence in all financial industry sectors, and which in turn may contribute to the development of sustainably.
Supervision of advertising of retail banking products: the Portuguese approach

Contributor: João Ramiro dos Santo, Central Bank of Portugal

Advertising plays a key role in the willingness and decision-making process of consumers. In its quality of banking conduct supervisor, Banco de Portugal has, since the early days, acknowledged the need to set specific disclosure information duties which credit institutions must comply with, namely in terms of the accuracy and transparency of the information that is laid out. This is all the more important since most advertising campaigns target consumers in time to influence their choices, trying to take advantage of long and well established behavioural biases. As it happens, these choices become increasingly more difficult as product complexity increases, especially considering current levels of financial literacy. All of these incentives for misleading advertising continue to justify public intervention.

Banco de Portugal's regulatory approach to advertising supervision was set out by means of Notice No 10/2008 of 22 December 2008, laying down the supervisory model and the principles and rules regarding information disclosure. The outlined model proved to be highly resilient, mainly because it is flexible and promotes self-regulation. It is based on three main pillars: ex-post supervision, combination of principles and rules, and risk weighted assessment of campaigns.

The first pillar asserts that supervision is performed on an ex-post basis, meaning that credit institutions are free to design and launch advertising campaigns without prior notification to the regulator. With ex-post supervision, institutions are compelled to correct non-compliant advertisements when they are already being circulated, forcing them to bear the inherent remedy cost, in addition to any other administrative sanctions that might be levied. Because of this, institutions have an incentive to be compliant, which enhances self-regulation and reduces the burden of the supervisor. On the other hand, an ex-ante model would be better in terms of preventing non-compliance, and would probably deliver a higher level of consumer protection, but at the expense of very high supervisory costs.

Secondly, Banco de Portugal's supervisory model is a mixed one, to the extent that it is anchored on generic principles, as well as product-specific rules. By definition, a pure principles-based model is not prescriptive and consents to more degrees of freedom, as well as greater flexibility, which in turn allows the regulator to focus more on the outcome. Conversely, a rules-based model is prescriptive by nature, hence more predictable, but may limit innovation and reduce effectiveness. Therefore, the mixed model overcomes some of the limitations of both models, it allows flexibility without loss of predictability, with the latter characteristic being overriding in the context of any ex-post supervisory model. The third pillar requires the regulator to properly assess risks involved in advertising campaigns, namely taking into account criteria such as the size of the target market and the media.

\[\text{Notice No 10/2008 of 22 December 2008} \]
used, information inaccuracy and the potential damage at hand.

Banco de Portugal supervises all advertising of retail banking products and services, irrespective of the wide range of media at stake, which can be classified into three main categories. First, “public ads”, meaning advertising available to the general public, including television, radio, press and billboards. For “public ads” Banco de Portugal has outsourced collecting and reporting through a data-vendor. This is a powerful supervisory tool, as access to campaigns relies on a third party entity and not on credit institutions. Second, “private ads” which cover the advertising only available in branches of credit institutions or other third parties (e.g. points of sale), including posters, leaflets and direct mailing to consumers (e.g. letters and e-mails). Credit institutions are required to report all these ads when campaigns are launched through a dedicated platform. Internet websites are monitored on an ad hoc basis.

Banco de Portugal’s regulatory approach only sets the minimum information content of advertising, which implies that credit institutions are not prevented from disclosing additional information, should they wish to do so. Nevertheless, some of the mandatory information is contingent upon the characteristics of the product that the credit institution decides to highlight in a given campaign. For example, if a particular deposit’s interest rate is highlighted, then the corresponding term of the deposit must also be disclosed; had the institution decided to highlight the deposit’s name instead, no such term disclosure would be required.

The above mentioned regulation (Notice No 10/2008) is essentially comprised of general principles (identification, truthfulness, transparency and balance), rules related to expressions of limited use, and rules for specific products (mortgage credit, consumer credit and banking deposits).

The truthfulness principle, apart from stating that information must be non-misleading and up-to-date, also states that credit institutions may be requested to demonstrate the truthfulness of any piece of information used in advertising. This requirement is of significant importance, considering that it limits the use of information considered to be ambiguous or only partially true.

The transparency principle is perhaps the most important of all the principles, according to which, credit institutions must not omit nor conceal any information deemed necessary for consumers to fully appreciate, case by case, the highlighted characteristics of the product. This raises the question of what information is deemed to be necessary in each case. First of all, there is no unique set of appropriate information for each and every case. On the contrary, this is an open statement, strictly dependent on the product and the highlighted features concerned. This provision is of the essence when dealing with financial innovation, given that it allows for a subsequent definition of information requirements. Nevertheless, some information elements are always judged to be relevant, such as access conditions and restrictions in respect of highlighted characteristics, the nature or aim of the product, the period during which the conditions offered are valid, among others.

The information requirements are set independently from the media used to communicate them, notwithstanding the fact that some specific provisions apply for each medium used, laid down under the transparency principle. For instance, in television advertisements information must be displayed during a period of time long enough to allow for it to be fully read and heard. Likewise, information in radio advertisements must also be clearly heard. Another example concerns font size, where the minimum required varies depending on the medium used for communication, e.g. 17 points for television advertisements.

The principle of balance requires certain specific information to be presented as
prominently as that used for the highlighted feature of the product. If an element of information is displayed with “similar prominence”, that means that consumers are able to capture it immediately once they see the highlighted characteristic. Prominence is usually assessed in terms of the binomial distance/size in relation to the highlighted characteristic, one consequence being that the “similar prominence” concept is inherently subjective. The fact that some pieces of mandatory information are only required to be displayed, whereas others, considered more important, have to be given more visibility, in the sense of “similar prominence”, is a reflection of the truly balanced nature of advertising.

In addition to principles, there is also a set of rules for specific products, namely mortgage credit, unsecured consumer credit and banking deposits. Rules for specific products are very concrete and concise, with examples of consumer credit products being very appealing in this regard, some of which having later been adopted at a European Union level, namely the need to display the corresponding annual percentage rate of charge and the representative example, whenever a particular product feature is highlighted. Another example would be the disclosure of the term and amount of credit, in case a monthly instalment is displayed.

This type of supervision model is very labour intensive, requiring the analysis of a very significant number of advertising campaigns covering a large number of retail banking products and services. In addition to this, some of the requirements are qualitative in nature and have to be applied to each individual case, such as “similar prominence”. In order to undertake this assessment properly, it is vital to keep track of past decisions by establishing benchmark cases. Banco de Portugal works very closely with credit institutions, helping them in the analysis of specific situations or even appraising campaigns on an informal basis.

It would not be unfair to assume that this probably contributes to the very low levels of infringement witnessed so far, with only 2.2 percent of all campaigns in 2014 being non-compliant (2.8 percent in 2013).

The results of supervisory activities are made publicly available in the half-yearly reports published by Banco de Portugal as part of its accountability duties. To the extent that these reports include breakdowns of the advertising campaigns by product and medium, they also allow an assessment of the evolution of the institutions’ commercial strategies.

Looking ahead, the next big challenge appears to lie with digital marketing, within the overall context of digital banking and digital payment means, which is expected to be a lot more customised and dynamic.
Responsible Lending and Credit Cards: Phases of supervision
Contributors: Glen Cochrane, Tim Gough, Christian Groves, Australian Securities and Investments Commission (ASIC)

In the September 2015 edition of this newsletter, ASIC described the work it has undertaken with respect to responsible lending in the payday lending area.\(^1\) In this edition, we focus the responsible lending lens on the credit card area and further explore what is meant by 'reasonable inquiries' under the Australian consumer credit legislation.

ASIC’s spotlight on the credit card market

There are around 16 million credit cards in the Australian market. The credit card is the most frequently used non-cash payment method.

In the 12 month period ending June 2015, credit card payments accounted for 2.2 billion payments with a total value of $285 billion. At the end of June 2015, the total level of credit card debt was $51.5 billion, of which $33.1 billion was accruing interest.\(^2\)

In anticipation of the introduction of the National Consumer Credit Protection Act (Cth) 2009 (the Act), which included new responsible lending obligations applying to all consumer credit products, ASIC conducted a review of a number of card issuers and their approach to initial card applications and subsequent credit limit increases. That review suggested then current practices were unlikely to comply with the new regime.

As a general observation, the typical focus of card issuers was credit risk from a portfolio perspective rather than looking to assess the circumstances of each individual consumer. This was at odds with the new Act, which requires assessments to be made having regard to the individual circumstances of each potential borrower.

Further, most card issuers made no direct inquiries of a consumer when assessing applications for credit limit increases, particularly where those applications were made in response to an invitation from the issuer. Issuers relied on card usage and customer confirmation to the effect that their financial circumstances hadn’t changed, rather than seeking and using current information. In our view, mere confirmation from the customer (without the provision of some information) would not be sufficient to satisfy the obligations imposed by the Act, and reliance on outdated information regarding key matters such as employment and income was unreasonable given that previously obtained information was likely to be of decreasing reliability over time.

Given these concerns, we met with card issuers and shared our view that further, scalable steps, would be necessary. At the time, we chose not to be prescriptive in terms of requirements – what is reasonable will depend on the circumstances, but would necessitate that card issuers consider additional steps rather than solely or


\(^2\) Reserve Bank of Australia, "Submission to the Senate Inquiry into Matters Relating to Credit Card Interest Rates – Senate Economics References Committee", 14 August 2015
predominantly relying on existing customer information.

ASIC took a facilitative approach to encourage change to market practices but most industry participants were reluctant to commit and slow to make necessary changes.

Setting out clear expectations

In September 2012, we made a shift to be more prescriptive and provide industry with our expectations of the minimum level of inquiries card issuers must make in relation to credit card limit increases.

We advised that before approving a credit limit increase application, card issuers should at least make inquiries about, and ascertain, a customer's current level of income and employment status. We also said that additional inquiries might be necessary depending on the age of information held by the card issuer, specifically noting that information obtained through the initial credit card application process is likely to become less accurate or reliable over time.

Having been clear about our expectations, we also made clear that we had shifted from the initial facilitative phase to one of regulatory action where appropriate. To that end, we advised that we would revisit these areas to see the extent to which card issuers had made changes.

Industry response

In January 2014, we conducted a follow-up review of the same group of credit card issuers to identify any practices that failed to comply with our expectations (as set out in 2012). Given the concerns noted above, our focus was on card issuers’ invitations to consumers to apply to increase their credit limits and the relevant inquiries made by card issuers.

Encouragingly, we found that most card issuers had made changes to their practices and, at a minimum, now make inquiries about a consumer’s current level of income and employment status. Some card issuers went further and now make inquiries about a consumer’s expenses too.

Entity-specific concerns

The review of the credit card landscape allowed us to focus on issuers that we believe had failed to make the necessary changes to comply with our expectations as set out for industry in 2012. Despite our guidance, Westpac (one of Australia’s big four banks) remained out-of-step with industry and our expectations.

In ASIC’s view, Westpac was not making reasonable inquiries about the income and employment status of some consumers before increasing their credit limit, and was largely relying on its automated processes rather than making reasonable inquiries of individual cardholders.

With respect to some cardholders, Westpac was relying predominantly on information it held about the cardholder and their internal analysis of that information. This information generally related to the credit card account itself, although for some cardholders it may have extended to other accounts and products held with the bank.

It appeared that the Westpac process had not changed, or sufficiently changed, since the responsible lending obligations commenced for banks in January 2011. Westpac’s invitations to cardholders to apply for credit limit increases contained an affordability statement. The cardholder would be required to acknowledge (in signing the invitation) that if the limit increases to a particular amount, and the full amount is used, then the cardholder’s minimum monthly repayment will increase from the old amount to the new amount.

In ASIC’s view, the affordability statement (without further direct inquiries of the cardholder) did not amount to the card issuer making reasonable inquiries. Cardholders were being advised to make sure they were comfortable with the new higher limit and the new higher monthly payments. However, card issuers are
responsible for making the relevant legislative assessment of unsuitability, not cardholders.

**Entity-specific changes**

Following ASIC raising its concerns, Westpac changed its credit limit increase processes to ensure that, at a minimum, reasonable inquiries are made about a consumer's income and employment status to ascertain their financial situation before the limit is increased.

Westpac now makes inquiries about a consumer's expenses and, depending on the circumstances, may make additional inquiries into the consumer's current financial position to support the limit increase application.

Westpac also committed to a remediation program that includes proactive customer refunds. The program involves a review of credit limit increases previously provided where a cardholder experienced financial difficulty as a result of an inappropriate credit limit increase.

Further, Westpac will make a contribution of $1 million over four years to support financial counselling and financial literacy initiatives.

**Conclusion**

ASIC’s work in relation to responsible lending and credit cards reflects the importance of the Australian credit regime and the need for card issuers, like all consumer credit providers, to comply with their responsible lending obligations.

Our work in this area originally commenced prior to the implementation of the Act. We provided a facilitative period to assist card issuers to comply with their obligations. When this met resistance, we sought to and effectively guided the majority of the credit card market to comply.

In circumstances where we continued to see non-compliance with our expectations, we intervened further. This matter highlights the ongoing work undertaken by ASIC in the context of credit cards and our commitment to take appropriate action within such a large market.

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**FINCONET PRESS RELEASE**

**DATE:** 14 January 2016

**FinCoNet publishes its Report on Sales Incentives and Responsible Lending**

FinCoNet, the International Financial Consumer Protection Organisation, today, 14 January 2016, published its report outlining key findings on the topic of Sales Incentives and Responsible Lending. Sales incentives are, by their very nature, a key driver of both culture and behaviour towards consumers.

The key findings of the report include:

- There is ample evidence that poorly designed sales incentives can cause harm to consumers, individual firms and the financial system.
- The nature of sales incentives and the issues they cause are relatively uniform across jurisdictions.
- There are few specific rules or standards related to sales incentives, nationally or internationally.
- The impact of sales incentive practices crosses industry sectors and national boundaries, requiring a holistic and international approach.

Based on these findings, FinCoNet will continue its work on sales incentives and responsible lending towards publication of a consultation paper on the topic in 2016. Bernard Sheridan, Chair of FinCoNet said “We would encourage supervisory authorities to consider the findings of this report and we invite their submissions to our forthcoming consultation paper. The findings of this report show again the important role supervisory authorities play in ensuring that the best interests of consumers are protected, as well as the need for authorities to be vigilant in this area to ensure that incentive practices are appropriate.”

The report is based on an international survey of regulators in 24 jurisdictions across a range of consumer credit products, as well as a review of international literature published on this topic to date. The full text of the report is available on the FinCoNet website.

FinCoNet

Established in 2013, FinCoNet is an international organisation of supervisory authorities which have responsibility for financial consumer protection. It is a member based organisation and has been set up as a not-for-profit association under French law.

FinCoNet promotes sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision.

Each member of FinCoNet has responsibility for and an interest in protecting the interests of consumers of financial services. FinCoNet seeks to enhance the protection of consumers and strengthen consumer confidence by promoting robust and effective supervisory standards and practices and by the sharing of best practices among supervisors. It also seeks to promote fair and transparent market practices and clear disclosure to consumers of financial services.

FinCoNet’s initial focus is on banking and credit consumer issues.

Contacts

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<tr>
<th>FinCoNet Chair</th>
<th>FinCoNet Secretariat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Bernard Sheridan</td>
<td>Mr. André Laboul</td>
</tr>
<tr>
<td><a href="mailto:finconet@centralbank.ie">finconet@centralbank.ie</a></td>
<td><a href="mailto:andre.laboul@oecd.org">andre.laboul@oecd.org</a></td>
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<td>Mr. Mike Chapman</td>
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<td><a href="mailto:mike.chapman@oecd.org">mike.chapman@oecd.org</a></td>
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</tbody>
</table>

Ms. Sally Day-Hanotiaux
sally.day-hanotiaux@oecd.org