Financial Services

Treasury defends reforms

Jane Searle

The compliance costs for banks stemming from the coming credit reforms will have no impact on borrowers, Treasury has argued, suggesting competition in the banking industry will absorb extra costs.

Treasury's position is at odds with statements from major bank executives that the costs of legislative change are worn by consumers. They estimate that aspects of the pending reforms will cost several hundred million dollars annually, costs likely to be passed on to customers.

The government's credit card and home loan changes take effect in July, 2012, and include: a ban on unsolicited credit limit increase offers; require repayments of highest interest debt first; and a specified buffer for transactions above a credit limit.

In its response to an inquiry into the pending bill, Treasury acknowledged that costs would be incurred.

"Lenders will incur relatively larger costs in implementing the reforms in respect of over-limit transactions, requiring repayments to be allocated to highest interest first, and disclosure of the impact of making minimum repayments in statements than the other reforms," it said.

But Treasury argued that lenders determined the price of their products according to a range of different factors, including internal costs.

"It would therefore not be correct to assume that simply because there is an increase in those costs that there will be a commensurate increase in the price charged to consumers," Treasury said.

It said internal assessments had been done on the effect of extra compliance costs and it considered, "These costs will have no impact on price as there will be countervailing competitive pressures."

Banking competition has been a key policy of the minority Labor government and Treasurer Wayne Swan has promised reforms to stimulate competition, including looking into account number portability and approving covered bond issuance.

Industry fears Treasurer Wayne Swan's reform package will have adverse impacts. Photo: ALEX ELLINGHAUSEN

KEY POINTS

- Reforms to practices and charges for credit cards and home loans take effect in July, 2012.
- Visa claims US card reforms have led to less credit being offered.

In a late submission to the consumer credit inquiry, Visa Australia pointed to adverse impacts from a similar reform package, the US Credit Card Act.

"In discussions we have had with the US card sector, the following trends are emerging: the extension of less credit to consumers; significant changes in fee structures and levels including price; higher borrowing costs for creditworthy customers; and very little marketing for new accounts," Visa spokesman Adam Wand said.

In particular, Visa said the retrospective ban on credit increase offers was counter-intuitive to responsible lending.

That sentiment has been echoed by several card issuers, who suggest the measure could encourage the extension of more credit upfront as opposed to gradual limit increases – which industry claims is current practice – based on a customer's repayment performance.

"It is hard to clearly identify what mischief is being targeted by this measure," Mr Wand said.

"Issuers almost only extend such offers to their more creditworthy customers and, under current arrangements, card holders can already request a cessation of this service."

In contrast, a joint consumer advocate submission singled out unsolicited credit increase offers as a particularly damaging aspects of current practice.

Consumer Action Law Centre policy officer David Leermakers said the ban on written credit limit increase offers should be extended to invitations by phone or in person.

Mr Leermakers cited 2009 research which showed more than 82 per cent of card holders who were unemployed, studying or held a healthcare card had been offered limit increases, "suggesting offers are often made to people who may not be able to afford the extra credit".

In earlier submissions, NAB said the changes would present legal risks and operational concerns.

"Given the massive increase in compliance obligations and fear of steep criminal penalties for basic administrative processes, we believe there will be a shift in the market that disadvantages the smaller players and decreases the ability of the market to be flexible and innovate," the bank said.

ANZ disputed the need for more rules and said it was disappointed policy was announced during early consultation with industry.

Coalition bid to save exit fees fails

George Liondis

Home loan exit fees will be scrapped from July 1 after a last-minute attempt to overturn a government ban on the charges was voted down in the Senate.

Treasurer Wayne Swan hailed the Senate victory as a win for consumers after the Greens and Family First's Steve Fielding voted with the government to defeat a motion to block the ban going ahead.

Independent senator Nick Xenophon introduced the motion and was backed by Liberal and National senators.

Mr Xenophon had pushed for the blanket ban proposed by the government to apply only to the big four banks and not to smaller lenders.

Home loan borrowers pay mortgage exit fees, which can run into the thousands of dollars, when they try to close out a loan early and change to another lender.

The government stepped in to ban the charges as a key plank of its reforms to boost competition in the home loan market.

All the major banks except Westpac have scrapped their exit fees in recent months in expectation of the government's ban.

But smaller lenders had campaigned against the policy, warning it would hurt them more than the major banks and reduce competition in the mortgage sector.

Mr Swan said the ban would free home owners to switch mortgages without being hit with hefty charges.

"Getting rid of exit fees is a victory for Australians because it removes one of the biggest roadblocks preventing families from getting a better banking deal," Mr Swan said.

"Lenders will have to win the loyalty of their customers with good service and competitive lending rates, not by shackling their customers with mortgage exit fees.

"It's disappointing the Coalition couldn't support Australian consumers, and instead tried to keep exit fees in place and lock families into uncompetitive mortgages."

Perpetual says Sevior will be back

Duncan Hughes

Perpetual chief executive Chris Ryan attempted to end speculation about star fund manager John Sevior's future by claiming Mr Sevior would be returning to the wealth manger after his planned six-month long-service leave.

Mr Ryan said he had had a meeting with Mr Sevior yesterday morning and confirmed he would be staying, though there had been no discussions on whether Mr Sevior would be returning to his current role as head of Australian equities.

"As far as he is telling us and as far as we know, he is coming back," Mr Ryan said.

Perpetual's share price yesterday slipped 2¢ to $25.40, the lowest since July 2009, after Morningstar reported that senior Perpetual management had given an ambivalent response to a question on whether Mr Sevior would resume stewardship of the flagship $6 billion Perpetual Concentrated Equity Fund.

Its failure to provide a definitive answer restoked fears about how much money might quit the fund manager if Mr Sevior emerged as a competitor, either in a boutique, or with a rival manager. But Mr Ryan claimed there was no cause for the speculation.

"After 17 years, John is taking a well-deserved break," he said. "John and the company have always worked well together to find a role for him that is mutually beneficial to him and Perpetual. We look forward to working with him in the same way on his return to Perpetual."

Mr Ryan, who dismissed suggestions the share price had dipped on speculation about Mr Sevior's future, added that the company had a strong track record of being able to manage transitions.

The speculation was triggered by Morningstar analyst Jack Gorrie's report to clients that stated Perpetual management dodged a question on Mr Sevior's intentions by saying they "expected him to return but that in six months anything could happen".

"We believe that there's a distinct possibility Sevior may not return to Perpetual, and have formulated our analysis on this strategy accordingly," Mr Gorrie said.

He said it had previously recommended the fund because of "Sevior's investment prowess", particularly his "uncanny ability to manoeuvre an enormous portfolio with a focused mandate, delivering the goods year in, year out". The fund has been downgraded from recommended to investment grade.

John and the company have always worked well together ... we look forward to working with him in the same way on his return.
Chris Ryan, Perpetual chief executive

The Concentrated Equity Fund aims to provide long-term capital growth and income through investment in quality industrial and resources shares and other securities.

It has been a top-quartile performer over the past three, five and 10 years, dropping to second quartile during the past 12 months.

During Mr Sevior's break, which was expected to start next month, the fund would be run by his "hand-picked" replacement Paul Skamvougeras, who has been running the SharePlus Long Short Fund, which has around $100 million under management, since early last year.

"Mr Skamvougeras was promoted unusually rapidly through the ranks of Perpetual's Australian equities team, and has no meaningful long-term track record upon which to be judged," Mr Gorrie said.

"Outperforming consistently with such a hefty asset base is an assignment few can complete," he said. "It also presents meaningful liquidity issues. Exiting larger positions and finding opportunities in small-cap stocks will be problematic."

Mr Sevior was also involved in Mr Ryan's strategic review, which would be updated in August.

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Focus on sovereign risk

Risk manager Moody's Analytics has developed a tool to help banks model, quantify and manage the sovereign risk exposure in their portfolios. **John Kehoe**

Argo expects 20pc lift

Listed investment company Argo Investments said it expected about 20 per cent growth in operating profit after tax for 2010-11. Rob Patterson, who retired as managing director last year will be nominated for election as a non-independent non-executive director at Argo's annual meeting in October. Non-executive director Ian Johnson has announced his resignation. **Jane Searle**

WHK warns on profit

Financial planning firm WHK Group said earnings before interest and tax would fall to $41 million to $42 million this year because of tough trading conditions and natural disasters. Earnings last year were $46.1 million. **George Liondis**