



AN INDEPENDENT NON-PROFIT CONSUMER ORGANISATION

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## **MEDIA RELEASE**

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### **AUSTRALIAN BANKS MAKING HUNDREDS OF MILLIONS OF DOLLARS EACH YEAR FROM UNLAWFUL FEES?**

A ground-breaking report released today by Australia's leading consumer advocacy organisation, the Consumer Law Centre Victoria, reveals that Australian banks are slugging consumers hundreds of millions of dollars in fees that could be unlawful.

The potentially unlawful fees are known as "penalty fees". Penalty fees are charged by banks to their customers when a customer is in "breach" of their contract with the bank. Common examples of penalty fees include cheque or direct debit dishonour fees, account overdrawn fees and credit card late payment fees. The average cost of these fees is between \$25-\$50.

"This is the most significant investigation into so-called bank 'penalty fees' ever undertaken in Australia. The results are shocking and confirm similar studies undertaken overseas," said Chris Field, Executive Director, Consumer Law Centre Victoria.

"In Australia, it is a well-established legal principle that a fee charged by a company upon a customer's breach is lawful only where the fee is a genuine estimate of the costs to the company that result from the breach. Where the fee is exorbitant, extravagant or out of all proportion to the actual cost, it is an unlawful penalty," said Nicole Rich, author of the report and Supervising Solicitor, Consumer Law Centre Victoria. "Bank penalty fees charge consumers exorbitant sums of money in comparison to what it actually costs banks to process these breaches," said Ms Rich.

"We estimate that Australian banks could be charging consumers cheque dishonour fees between 5 to 16 times what it costs them to process a cheque dishonour," said Ms Rich. "Direct debit dishonours are even worse – Australian banks could be charging direct debit dishonour fees between 64 to 92 times what it costs them to process the dishonour. Banks claim that they charge penalty fees to cover the cost to them of processing a customer's default, but the penalty fees they charge are excessive and out of all proportion to their costs," Ms Rich said.

Ms Rich added, "Australian banks could be generating hundreds of millions of dollars in profit each year from penalty fees. It is difficult to make an accurate assessment because Australian banks do not disclose any information about penalty fees".

The report, *Unfair fees: A report into penalty fees charged by Australian banks*, also finds that the cost of penalty fees is not shared fairly among consumers. Low-income consumers, those least able to afford penalty fees, bear the biggest share of the cost because they are not able to avoid penalty fees.

"Penalty fees can have a devastating impact on low-income consumers, contributing to their ongoing financial exclusion," said Ms Rich.

The report finds that competition in the Australian banking market has not been effective in restraining penalty fees.

