



MEDIA RELEASE

Friday, 11 May 2007

TIME WELL OVERDUE FOR BANKS TO CUT THEIR EXCESSIVE PENALTY FEES

Consumer Action Law Centre has written to the Australian Bankers Association (ABA) and Abacus – Australian Mutuals demanding that banks, credit unions and building societies put a stop to penalty fees that impose unfair charges on consumers.

The letters, sent jointly with CHOICE, are the latest salvo in the two consumer groups' campaign to stop the charging of unfair, excessive and unlawful penalty fees to Australian consumers.

Penalty fees are fees charged for a customer default, such as making a late payment, overdrawing their account or having a cheque or direct debit payment bounce because they do not have enough funds in their account to cover the payment.

Nicole Rich, Director – Policy & Campaigns at Consumer Action, said the issue of penalty fees had been continuously raised with the banks since 2004, yet they had done little to curb their high fee take.

“Penalty fees being charged in Australia are out of all proportion to the underlying costs they are supposed to be recovering. This has led to an increasing reliance by financial institutions on customer error or disadvantage to generate profits,” Ms Rich said.

“The UK Office of Fair Trading has been cracking down on excessive fees using the UK’s unfair contract terms laws, and now there are reports the New Zealand Commerce Commission is reviewing whether credit card late payment fees are reasonable.”

“While the Australian industry may be anxious to cut off any similar moves in Australia, endless discussions and industry self-regulation simply won’t work because the industry has become so reliant on penalty fee income.”

“We welcome the ABA’s moves to come clean on the amounts of penalty fees being charged and make it easier for consumers to compare the penalty fees across different banks. However, disclosure is ultimately a bit a red herring as it is the excessive nature of the fees, not whether they are hidden, that makes them unfair and probably unlawful.”

Ms Rich said national unfair contract terms laws would allow the Australian Government to follow the UK’s lead and end unfair penalty fee charging in Australia, but the Government and regulators such as ASIC and the Reserve Bank could also be working together now to reduce these fees.

Consumer Action and CHOICE have put a 4-point plan to the banks, credit unions and building societies:

1. Axe inward (deposited) cheque dishonour fees.
2. Provide real-time information to consumers when they have insufficient funds to make a due payment. This could include simply declining payments without charging a fee, or an automated system to notify consumers by email or text message, or by automated message via the ATM or EFTPOS system, before the payment is processed.
3. Axe credit card over-the-limit and account overdrawn honour fees, or at the very least offer consumers a choice between declining transactions (at no cost) or charging a reasonable fee no more than the actual cost to the bank or say 2-3% of the amount by which the consumer has exceeded the limit/overdrawn their account.
4. Make sure that all other penalty fees are limited to the actual costs incurred by the institution.

Media Contact: Nicole Rich, Director – Policy & Campaigns 03 9670 5088 or 0417 348 571

Consumer Action Law Centre
Level 7, 459 Little Collins Street
Melbourne Victoria 3000

Telephone 03 9670 5088
Facsimile 03 9629 6898

info@consumeraction.org.au
www.consumeraction.org.au