



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

6 August 2010

Mr Geoff Miller
National Credit Reform Green Paper
Corporations & Financial Services Division
The Treasury
Email: consumercreditgreenpaper@treasury.gov.au

Dear Mr Miller

Comment on National Credit Reform Green Paper 2010

Abacus – Australian Mutuals is the industry body for customer-owned financial institutions, representing 104 credit unions, 9 mutual building societies and 25 friendly societies. Our member institutions serve 6 million Australians and hold total assets of \$70 billion.

Abacus welcomes this opportunity to provide feedback on Treasury's National Credit Reform Green Paper. Abacus has been a strong supporter of the national credit reform process to date, as we strongly believe that a national regime will be better for competition, better for institutions and better for consumers. However, we believe that now is not the time to consider further amendments to credit regulation, with the new national regime still undergoing implementation tasks.

Abacus encourages Treasury to continue to engage meaningfully with industry in any consideration of reform proposals which occur as a result of this Green Paper. The needs and concerns of smaller Authorised Deposit-taking Institutions (ADIs), including Abacus members, will not necessarily be the same as larger ADIs, and Treasury should be careful not to confuse the wider public interest with the interests of these larger institutions.

Identifying the need for further reform

Meeting the regulatory compliance burden is a significant factor in the steady consolidation of the mutual ADI sector in recent years.

Regulatory compliance has fixed costs and therefore smaller ADIs are more adversely affected than major banks by new financial sector regulation.

A 2007 report¹ on compliance costs released by ASIC and the Finance Industry Council of Australia found that the main concerns of the financial sector with regulation are:

- poor implementation of some legislation;
- some regulation is seen to be unnecessary; and
- the volume of regulatory requirements is difficult to manage.

¹ *A Report on Costs of Financial Services 2007* Chant Link & Associates. ASIC. December 2007.

The FSR laws introduced in 2001 were intended to benefit industry participants by “reducing administrative and compliance costs”², but this good intention was not delivered and the FSR regime imposed a significant regulatory compliance burden on ADIs for little or no consumer benefit. The FSR regime has been subject to ongoing amendment and revision since it was introduced.

Abacus believes that in most cases the case for further reforms in credit has not been made, especially where any further reforms would extend the application of the credit regime to non-consumer areas, such as credit to small business. We do not support unnecessary changes when the current regime is yet to be fully implemented. No case has been made to extend protections specifically afforded to consumers to business credit relationships.

To be clear, Abacus does not support the implementation or consultation on any reforms outlined in the Green Paper at this stage.

Where issues are largely outside the scope of current credit regulation such as consumer leases and reverse mortgages, then there may be a stronger case for addressing those matters of concern through reforms in the future. Yet, the majority of issues addressed in the Green Paper are likely to be within the scope of the new regime. By addressing these issues now, without affording the new regime an opportunity to be tested, this is difficult to determine for certain.

With the implementation of the national credit regime barely six months old, it is premature to consider pursuing any additional legislative or regulatory amendments. Whilst we appreciate that Treasury is working to implement a timeframe imposed through the COAG process, the timeline adopted by COAG is simply unworkable and has the potential to undermine the already significant reforms achieved in credit regulation.

Many of the issues addressed in the Green Paper are a response to the concerns of the Ministerial Council on Consumer Affairs (MCCA). In our view, this is not a reasonable basis for the development of good policy.

Further, throughout the Green Paper, Treasury supports this view by noting that proposals for reform are not properly able to be considered as the consequences of the recent reforms are yet to be fully realised.

For example:

MCCA developed six regulatory options prior to the transfer of the regulation of consumer credit to the Commonwealth to address this issue. The Phase One credit reforms, already implemented by the Commonwealth, provide a robust mechanism to fully address MCCA Option 3 and to partially address the concerns in Option 4.

And:

² Explanatory Memorandum to FSR Bill 2001.

If further investigation confirms the case for maintaining the status quo, this would involve no change to the current regulatory approach. The benefit of maintaining the status quo is that there would be no additional costs compared with implementing a new regulatory framework for small business lending. However, the same degree of regulatory variation... under the current system would remain for small business borrowers and for industry.

Abacus would suggest that the inclusion of reform options that Treasury notes are not required, in addition to speculation as to the possible impact of the recently-introduced reforms, highlights our view that there is no need to pursue additional reform at this stage.

Conclusion

Abacus strongly urges policymakers to ensure that all new regulatory measures are absolutely necessary, proportionate, and carefully targeted. Abacus and its members credit unions and building societies recommend that Treasury delay pursuing additional reforms until the recently introduced national credit regime has been given a reasonable time to be implemented and tested.

Please contact me on 02 8299 9053, or Matt Gijselman from Abacus Public Affairs on 02 8299 9048 or email mgijselman@abacus.org.au, to discuss any aspect of this submission.

Yours sincerely

A handwritten signature in black ink that reads "Mark Degotardi". The signature is written in a cursive style with a prominent initial 'M' and a distinct 'D'.

MARK DEGOTARDI
Head of Public Affairs