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Media release

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Bank greed: How much is too much?

Australian banks are aggressively encouraging customers to take on more debt regardless of their ability to pay it back, a new survey by The Australia Institute has found.

The survey results, published in *Money and Power: The case for better regulation in banking*, reveal the extraordinary extent to which Australian banks promote consumer debt through unsolicited offers for new credit cards, personal loans or increased credit-card limits.

In the past 12 months:

- Two out of every three respondents reported receiving an unsolicited offer for a new credit card;
- One in two had received an unsolicited offer to increase their credit-card limit;
- One in three had received an offer for a personal loan, and one in five had an offer to increase their available credit on their home loan.

Worryingly, a majority of respondents who were not in paid employment had received an unsolicited offer for a new credit card. One in three people in low-income households had received an offer for a personal loan in the past year without seeking one out.

The Australia Institute's Deputy Director and report co-author Josh Fear said the desire to maximise profit means that the marketing of debt now drives the way banks behave.

"What is not fully understood is that bank workers in Australia are often paid commissions to sell their bank's products. Consumers can no longer be confident that the advice they receive from bank workers is objective and suits their circumstances," said Mr Fear.

The survey found that seven in ten Australians believe that the big four banks have too much market power. Many people also believe that the bigger a bank's profits, the safer it is; the survey found more than three million Australians hold this view.

"The big banks are reaping underlying profits of around $35 billion per year, $20 billion of which is 'super profits' earned because of their market power. The comparison to the mining industry is obvious," said Mr Fear.

Among the recommendations in *Money and Power: The case for better regulation in banking* are:

- Legislating to ensure that interest rates charged by banks move in line with changes to the RBA cash rate, and are set and advertised as a mark-up over the official cash rate;

- Establishing national laws to ensure that credit is not extended to people who do not have the capacity to pay;
- Preventing banks and debt collectors from pursuing debts for loans made to people who did not have the capacity to repay when the money was loaned;
- Banning the practice of 'pre-approving' credit-card offers and/or credit extensions;
- Restricting or banning sales targets and commissions for bank workers.

"These reforms should constitute part of a formal social contract between individual banks and the government," said Mr Fear.

"Signing up to the social contract would then become a condition of maintaining a bank licence. It is increasingly obvious that the big banks in Australia are incapable of controlling themselves in relation to fees and the excessive promotion of debt among vulnerable people. In this situation the government must step in and impose control.

"Without this kind of policy intervention, the profits of the big banks will only get bigger at the expense of the broader community," concluded Mr Fear.

A copy of Money and Power: The case for better regulation in banking is available at www.tai.org.au under Publications

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