

5 February 2017

Hon. Katy Gallagher MP [senator.katy.gallagher@aph.gov.au](mailto:senator.katy.gallagher@aph.gov.au)  
Shadow Minister for Financial Services, Australian Labor Party  
11 London Circuit,  
Canberra ACT 2061

Dear Ms. Gallagher

**Question Time enables a significant opportunity to “right the wrongs” re  
Three Researched Injustices in the Australian Financial Services Industry**

**The Writer has assembled a welter of evidence in software files for Item 1. (listed further below) of:**

- \* **Reserve Bank's stringent regulatory powers over the commercial banks prior to the 1980s**
- \* **Reserve Bank's Payment Systems Board's 'extensive powers' to request any financial information from the commercial banks that it chooses to ask for**
- \* **Annual financial reporting for last 26 years by the U.S. Federal Reserve to the U.S. Congress on 'Profitability of Credit Card Operations of large U.S. Credit Card banks'**
- \* **A pie chart for 'Costs' and a pie chart for 'Revenues' of U.S. MasterCard and Visa Credit Card Issuers that display interest and late payment fees exceed 80% of 'Revenues'**
- \* **Unconscionable Conduct re some Credit Card Products (misleading and deceptive conduct, predatory advertising) and usurious interest rates patently targeted at Australians with poor Numeracy and Literacy skills**

**Credit Card Products should follow the 'User Pays Principle' so that all Credit Cardholders pay the cost of their revolving line/s of credit. The Writer has prepared:**

- A. Ten Written Questions (re Credit Card Products) for the Shadow Minister for Financial Services to submit to the Minister for Revenue and Financial Services during Question Time in the Lower House of Federal Parliament**
- B. Comprehensive Grounds/Reasons why the Shadow Minister for Financial Services should submit Ten Written Questions (re Credit Card Products) to the Minister for Revenue and Financial Services, during Question Time - contains many graphs and tables mostly from RBA reports/submissions**

**Could you put me in touch with an academic familiar with Legislation/Statutory Law for me to post my CD that contains A. and B. above? Because you will require an informed opinion re my understanding of the RBA's “extensive powers” which it exercised until the early ‘80s.**

The Federal Labor Party has been lobbying for a royal commission into the Australian Financial Services Industry. Some independent senators, including Nick Xenophon, Derryn Hinch, Jacqui Lambie and Pauline Hanson support such a royal commission.

It would take a royal commission several years to investigate the performance across an abundance of products for all the ADIs in the Australian Financial Services Industry. The Labor Opposition needs to identify which areas of Financial Services are unconscionable and predatory, by submitting well researched Written Questions in Question Time, thence provide further justification for a royal commission into those specific products.

Below are **Three Researched Injustices:**

**Item 1.**

Some Credit Card Products evidence misleading and deceptive conduct, usurious interest rates and predatory advertising targeted at Australians with poor Financial Literacy.

## Item 2.

Excessive remuneration increases by the Boards/CEOs of the 'Four Pillars' that enjoy Oligopoly advantages/benefits with no scrutiny whether the costs are covered according to Usage. **Attachment 1.**

## Item 3.

*Four Pillars* hold up to \$1,000 billion in transaction deposit accounts:

- No interest of material consequence is paid to depositors (2 *Pillars* pay no interest, 2 others pay 0.1% pa interest) and charge an account keeping fee eg. \$5 p/m.
- Invested by the *Four Pillars* returning market-rate revenue.

I worked for CBA for 37 years, retiring in 2007. I evidenced a lot of change in CBA and across the banking sector - some good and some bad.

Whilst working at CBA, I studied part-time at Macq Uni for 10 years attaining a B.A. in Eco (1977) and Masters in Applied Finance (2001) - Student No. 69251916. "*Economics can give you the confidence to run against the herd*".

I worked in various CBA H.O. departments from 1974 'til 2007. For my initial four years from 1970, I worked at four North Shore branches. When assisting customers at the 'enquiry counter', the mindset was to direct the customer to the product that best suited that customer. Now the mindset at bank branches is often to induce a customer to a product that has concealed '*Spiders*'.

The same rapacious mindset applies with advertising for mobile 'phone plans, insurance contracts and energy plans. There has never been a greater need for courageous regulators to protect Australians with only Level 1 and Level 2 'Numeracy', 'Literacy' and 'Prose' skills which constitute over 40% (9.3 million) of the Australian population of 23.13 million.

My final position at CBA prior to retirement was in Social and Corporate Infrastructure. **Attachment 2** is a photocopy of some of my former CBA business cards. In retirement, when not playing golf, cycling or ocean swimming, I have assembled a welter of evidence that establish that some/all of Australia's three financial services regulators have abrogated some of their statutory obligations with regard to '*inter alia*' predatory advertising and usurious pricing (interest rates/fees) of Credit Cards.

In the mid-'70s I dealt with four RBA colleagues in Note Issue (John Graham, Vince Laing, John Jewell and Lance Cochrane). They all possessed a firm conviction for RBA's role to regulate the commercial banks. But based on my extensive investigations of Credit Card Products, the RBA has abrogated its statutory duty to the detriment of 33% of Credit Cardholders that are *Revolvers*, whilst *Transactors* (67%) enjoy the considerable convenience of their revolving lines of credit for free.

'*Persistent Revolvers*', as identified by the RBA - **Attachment 3** - possess only Level 1 or Level 2 Numeracy and Literacy Skills (as measured by the Productivity Commission and the ABS).

'*Persistent Revolvers*' have paid a hefty price since the 18% cap on Credit Card interest rates was removed by the RBA in 1985 – GE Money Go MasterCard credit card has a cash advance rate of 29.49%. There are over 16 million Credit Cards in Australia. *Persistent Revolvers* hold 12.54% of those 16 mil Credit Cards. *Persistent Revolvers* pay 80% of the Interest, Penalty Fees and Cash Advance Fees shown in **Attachment 4** pie chart.

The Campbell Committee report's recommendations were implemented (*circa* 1980s). Prior to that Australian banks had been highly regulated - dating back to the failure of banks in the 19th century. The particulars of deregulation are well covered by:

- \* Dr. Diana Beal "**Overview of Financial Services Post-Deregulation**" - 2002; and
- \* Battellino and McMillan "**CHANGES IN THE BEHAVIOUR OF BANKS AND THEIR IMPLICATIONS FOR FINANCIAL AGGREGATES**" - July 1989.
- \* Consumer Affairs Victoria - **Regulating the cost of credit** - Research Paper No. 6 2006

Prior to 1985 the maximum interest rate that could be charged on Credit Cards had been set at 18% pa by the Reserve Bank of Australia.

Until the mid-80s the Reserve Bank regulated the Australian banks with '*an iron fist*'. In the 1970s interest rates offered by the NBFIs rose (NSW Permanent, Advance, St George, '*et al*') attracting large depositors' balances away from the banks due to NBFIs not being capped at 3¾% on savings accounts and 6½% on savings investment accounts. The Reserve Bank's initial reaction was to impose under the **Financial Corporations Act (Cth)** the same interest rate caps (upon the NBFIs) that applied to commercial banks.

The '*User Pays Principle*' of paying the market price for a 'good' or 'service' applies in all sectors of any open market economy, even in the banking sector (e.g. housing loan, personal loan, corporate loan, syndicated infrastructure loan, overdraft, buying foreign currency, buying a bank cheque, issuing a personal cheque, buying a money box etc.).

But not in Credit Cards where '*Persistent Revolvers*' (who hold 12.5% *circa* of the 16 million Credit Cards in Australia) pay for the cost of the revolving lines of credit enjoyed by 70% of Credit Cardholders known as *Transactors* that enjoy a *Free Ride*.

I have expended well over a hundred hours -

- (i) downloading about 50 PDFs of 'Submissions', 'Reviews', 'Reports', 'Staff Working Papers' and 'Enquiries into Credit Cards', then in Adobe 'Copy File to Clipboard' extracted the contents in readily accessible htm files. Then I read and colour background key text, graphs etc; and
- (ii) linking all those htm and PDF files in the **Attachment 5** 'Defined Terms and Documents' with a directory of all files, so I can readily search key words and then source and reference them.

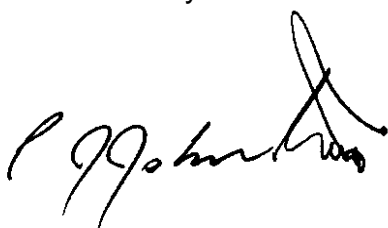
**Attachment 6** are the 21 Chapter headings/titles copied from my htm file titled '**Grounds/Reasons**'. My '**Ten Written Question**' for 'Question Time' in The House Of Representatives are pursuant to Parliamentary website "[Infosheet 1 - Questions](#)" – **Attachment 7**. I propose that my '**Ten Written Questions**' would be submitted (*not in one fell swoop*) to the Federal Minister for Revenue and Financial Services. Last week I emailed a similar letter to this letter to your colleague, Andrew Leigh. Andrew's Office Manager, Jacob White, responded on 3 Feb that I should write to you.

You will require an informed opinion re my beliefs of the RBA's "*extensive powers*" which it exercised until the early '80s. My extensive *R&D* evidences that the Reserve Bank has breached its statutory duty. Hence, could you put me in touch with an academic familiar with Legislation/Statutory Law for me to post my CD that contains A. and B. above, as well as a plethora of 'Defined Terms and Documents' and embedded links to documents, reports, submissions etc that I rely upon? Once he/she has reviewed my two documents A. and B (listed in my heading) and reported back to you, I will happily post two copies of that CD to you.

My CD will auto open (in a Windows operating system) at my follow-up letter to you and would reference/open this letter. If you use a MAC computer, I can provide to you the root address to access my letter to you and the above two documents. (I could provide my files to you on a USB stick hard drive. However, there is no integrity of the files therein, whereas there is in a burnt CD.)

I await communication details of an academic familiar with Legislation/Statutory Law (that has a social conscience for the plight of Australians with only Level 1 and 2 Financial Literacy Skills), so I can post my CD to him/her to report to you re the robustness of **A.** and **B.** in my heading.

Yours sincerely



**Philip Johnston**