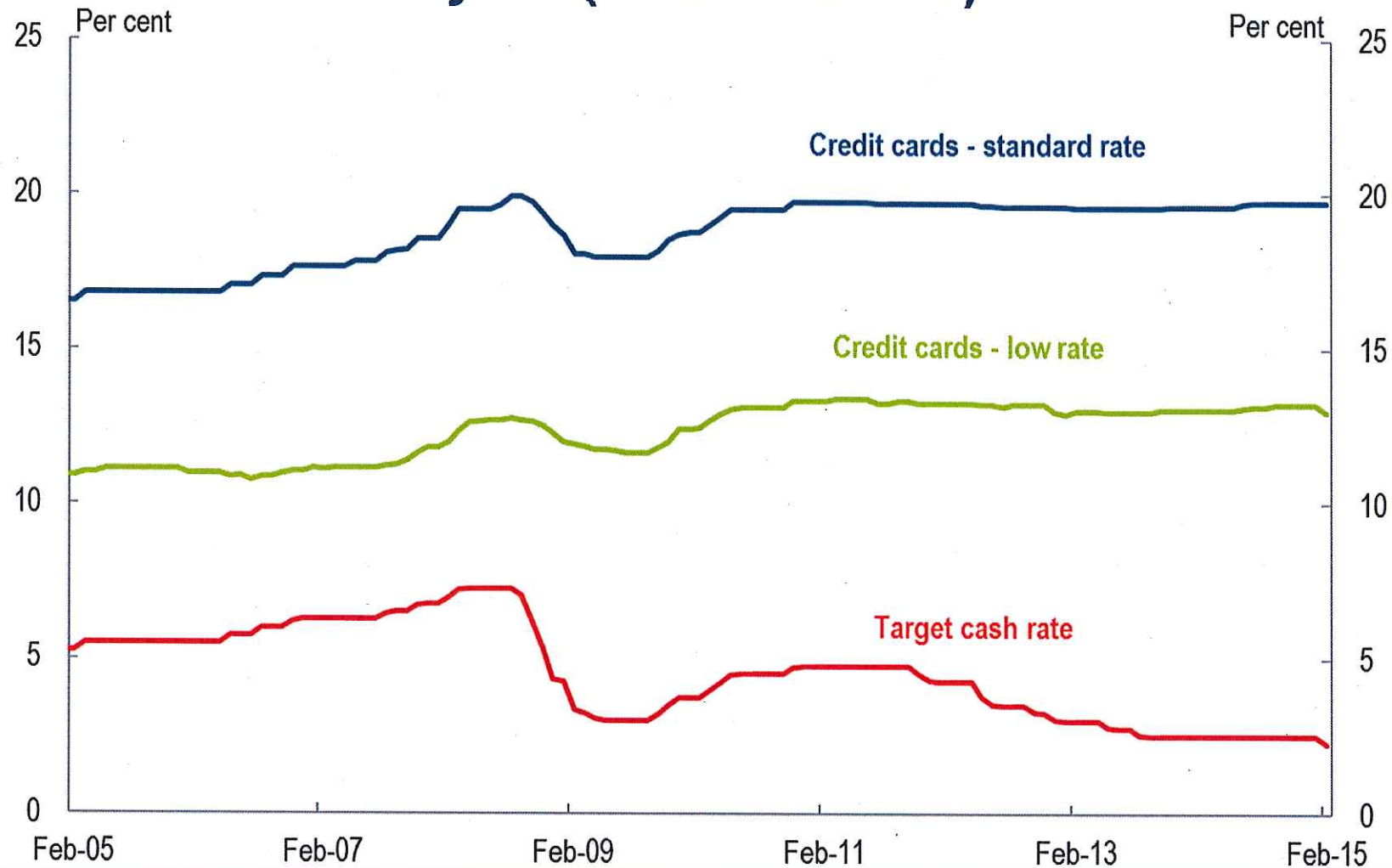




Australian Government
The Treasury

Credit Card Interest Rates

Credit card rates unresponsive to current easing cycle (since Nov-11)



Source: Reserve Bank of Australia

There are low barriers to entry in the Australian credit card market

- Around 100 credit card brands
- Over 250 products
- Zero/low-interest balance transfer offers are prevalent
- Few barriers to changing cards
- Issuers appear to compete more on rewards, balance transfers and annual fees than headline interest rate

A sample of credit cards on offer

Virgin Money Low Rate Card



10.99% p.a.

0% balance transfer,
6 months

Up to 44 days
interest free

\$99 annual fee

No rewards

Bankwest Zero MasterCard



17.99% p.a.

2.99% balance
transfer, 9 months

Up to 55 days
interest free

No annual fee

No rewards

Citibank Rewards Classic Card



20.99%

**0% balance
transfer, 18 months**

Up to 55 days
interest free

\$89 annual fee

Rewards – travel,
cashback, retail
gifts, etc.

American Express Velocity Platinum



20.74%

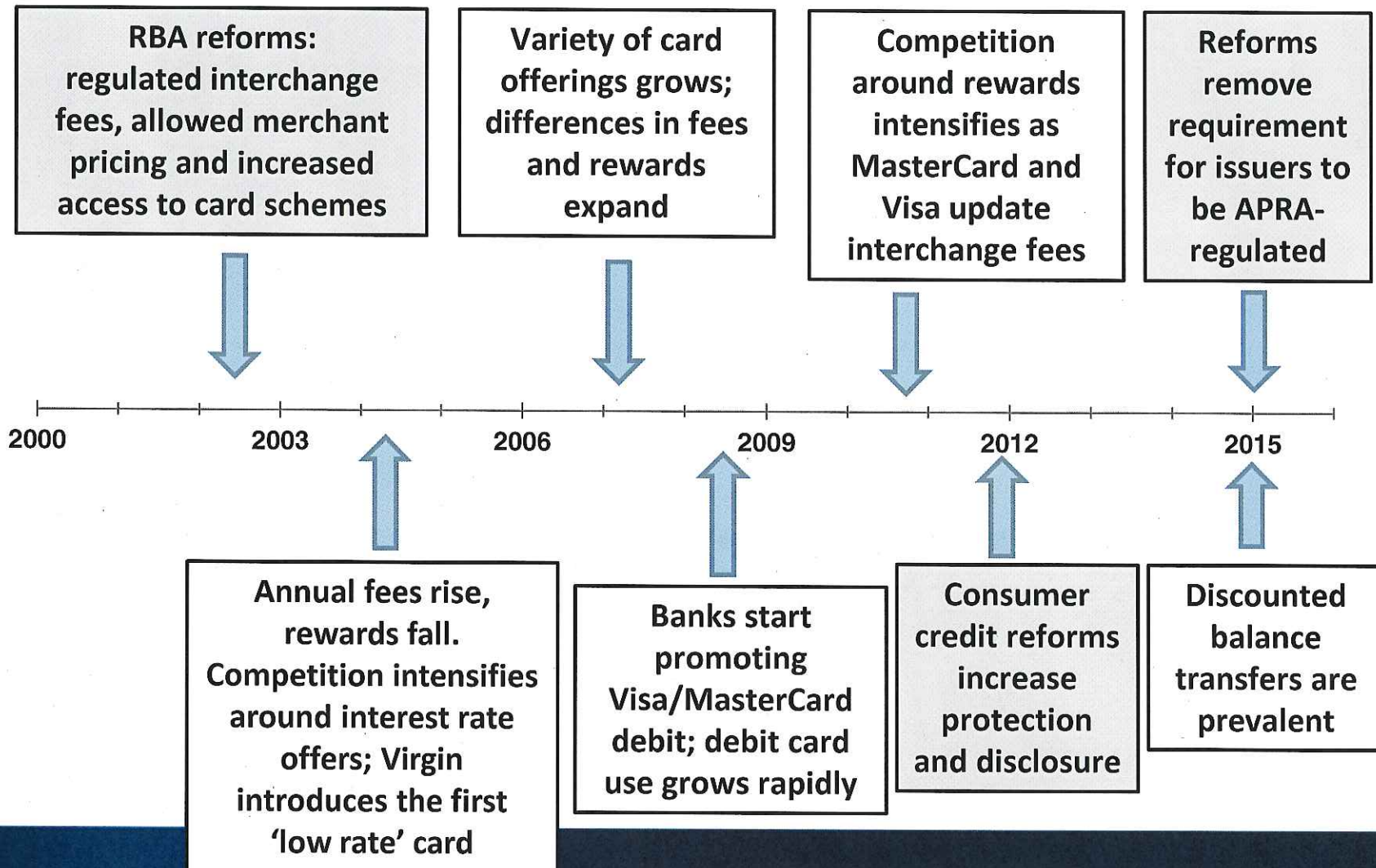
0.99% balance
transfer, 6 months

Up to 44 days
interest free

\$349 annual fee

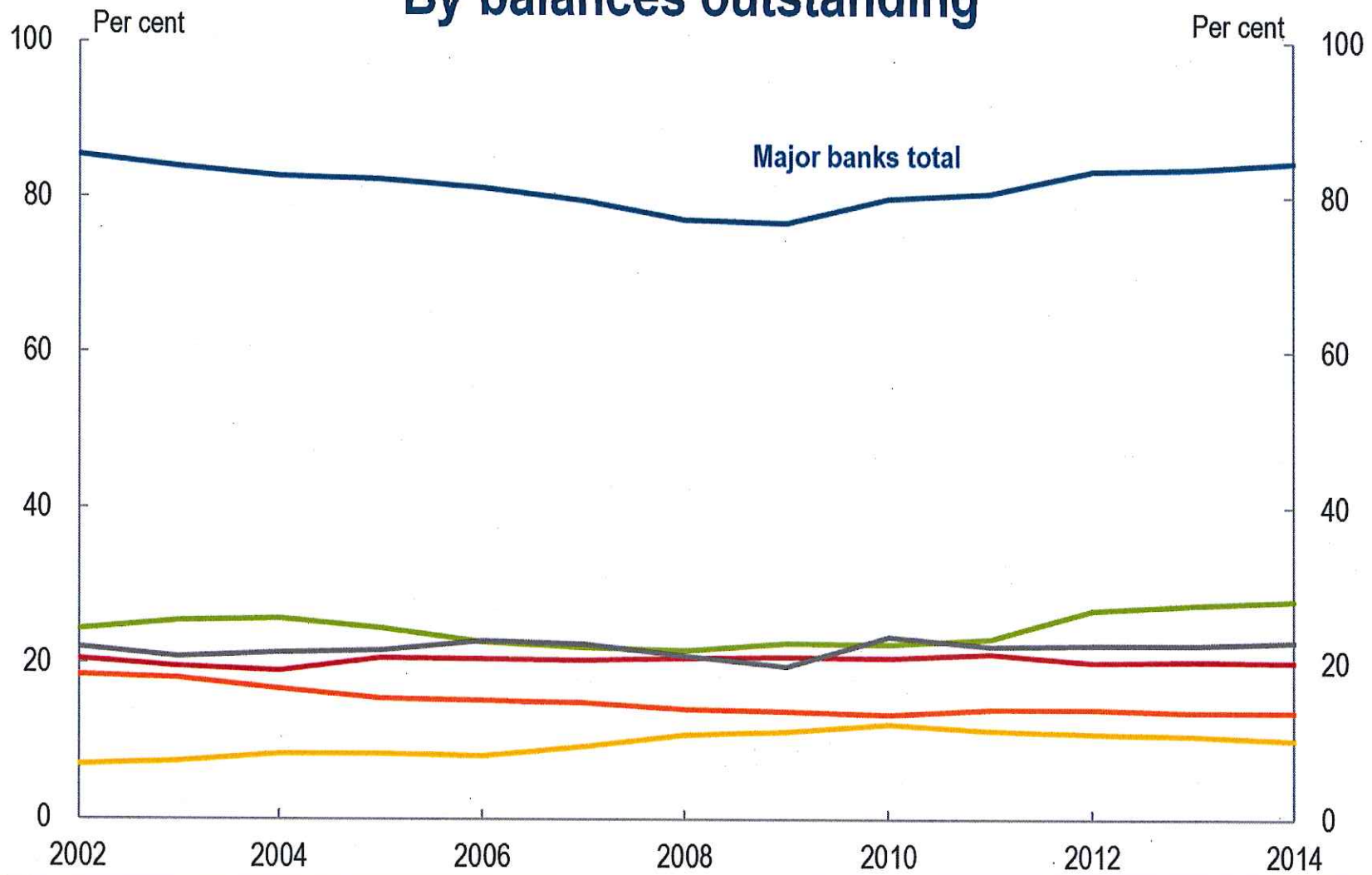
**Frequent flyer
points +
complimentary
domestic flights**

Evolution of credit card market



Credit card issuer market shares

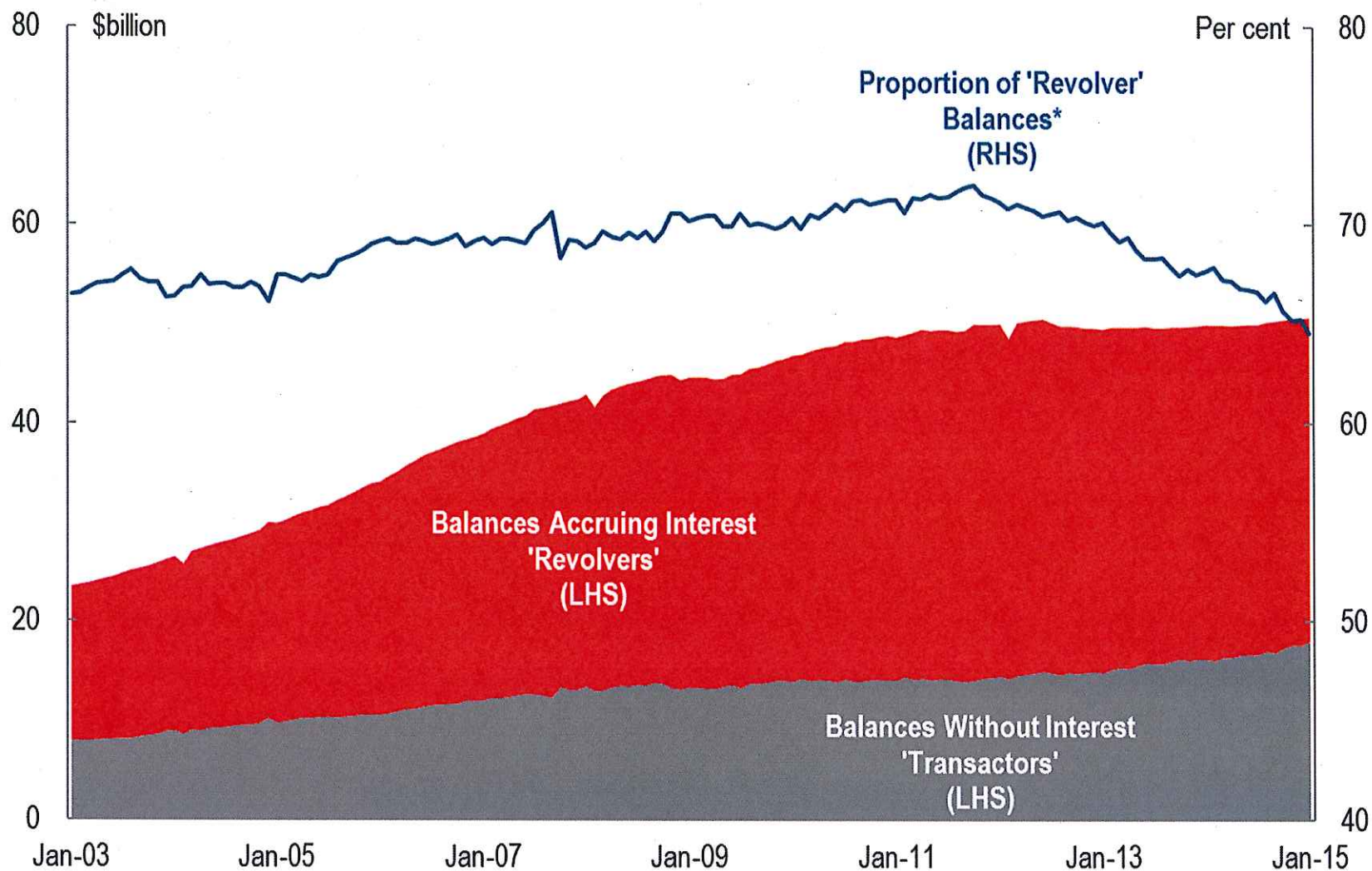
By balances outstanding



Source: APRA

— NAB — CBA — ANZ — WBC — Citi

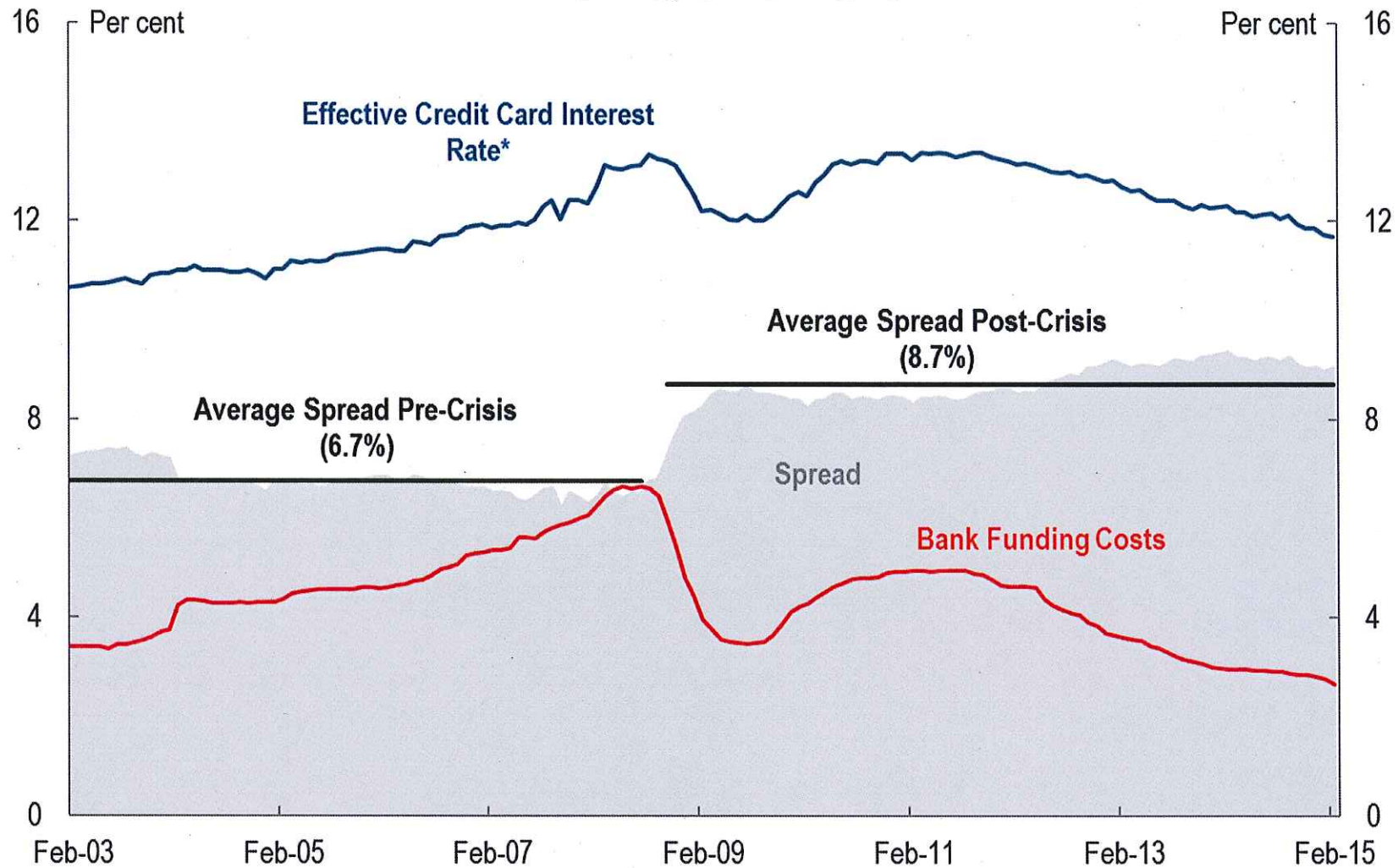
Proportion of balances accruing interest has fallen



* Break adjusted at July 2013

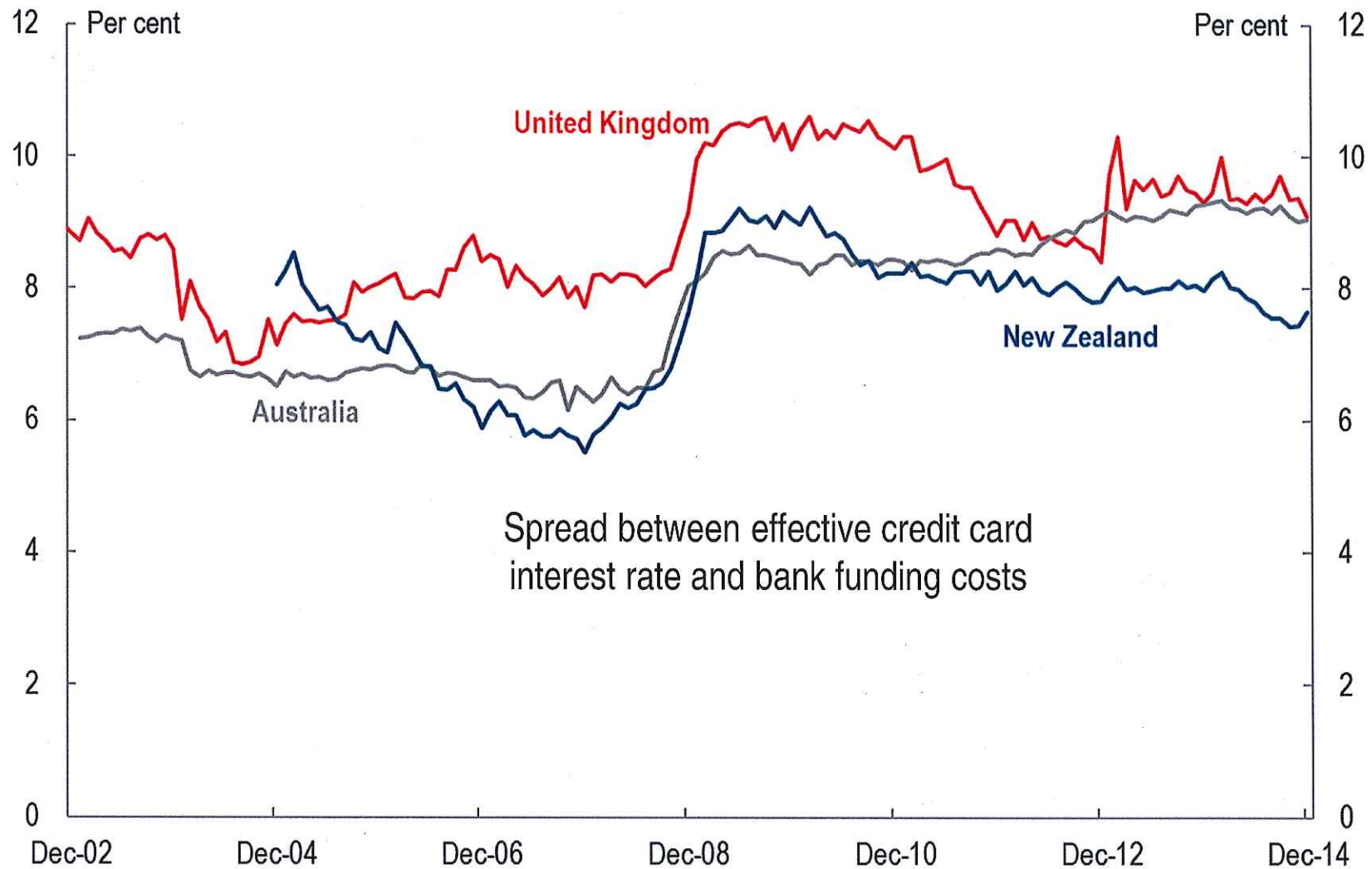
Sources: Reserve Bank of Australia, Treasury

Spreads earned by card issuers increased with the financial crisis



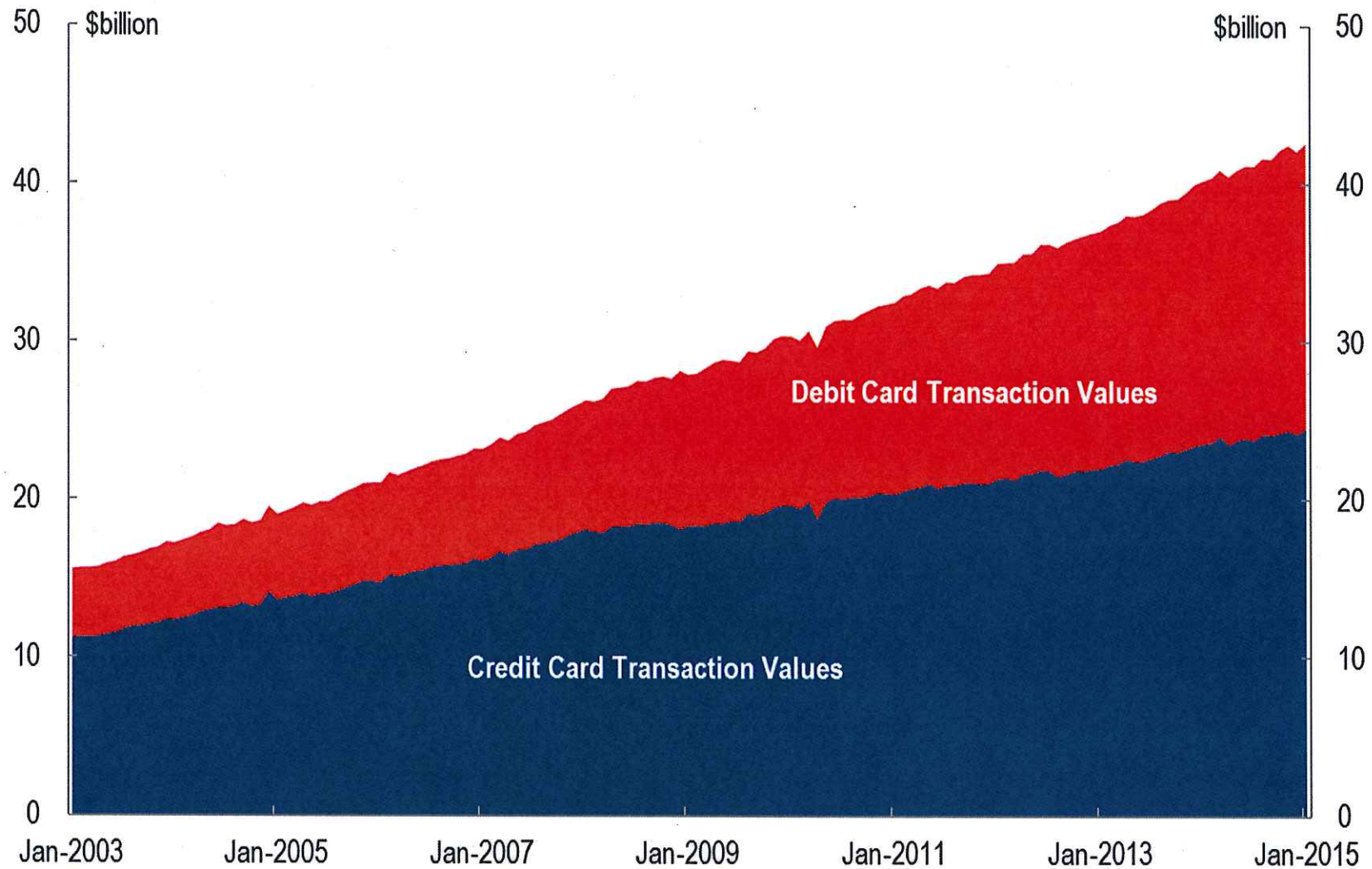
* Calculated using the proportion of 'revolvers' actually paying interest and the progressive take-up of low rate cards.
Sources: Reserve Bank of Australia, Treasury

Similar evolution in spreads in other countries



SPARES

Credit card and debit card transactions

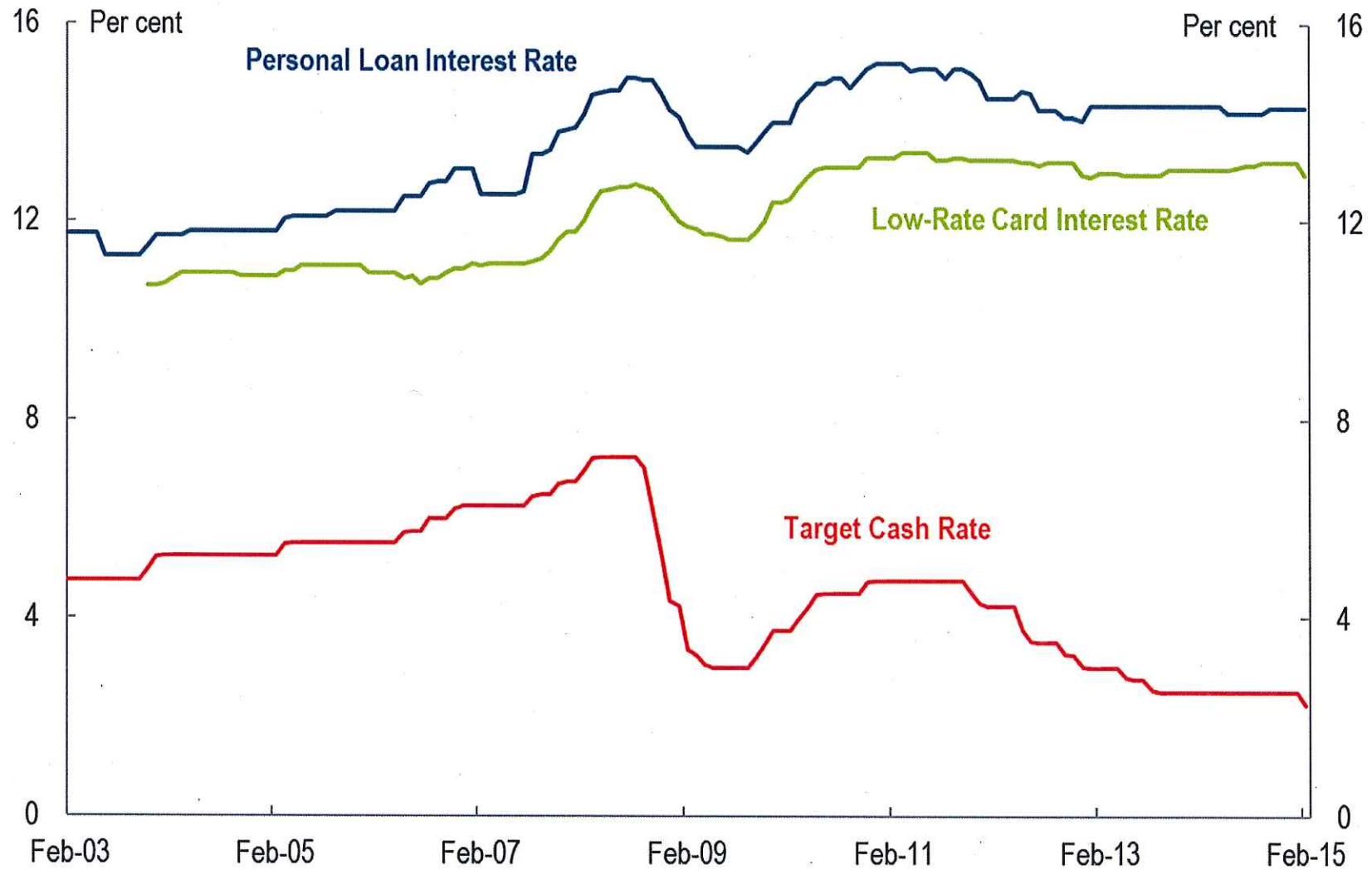


Source: Reserve Bank of Australia

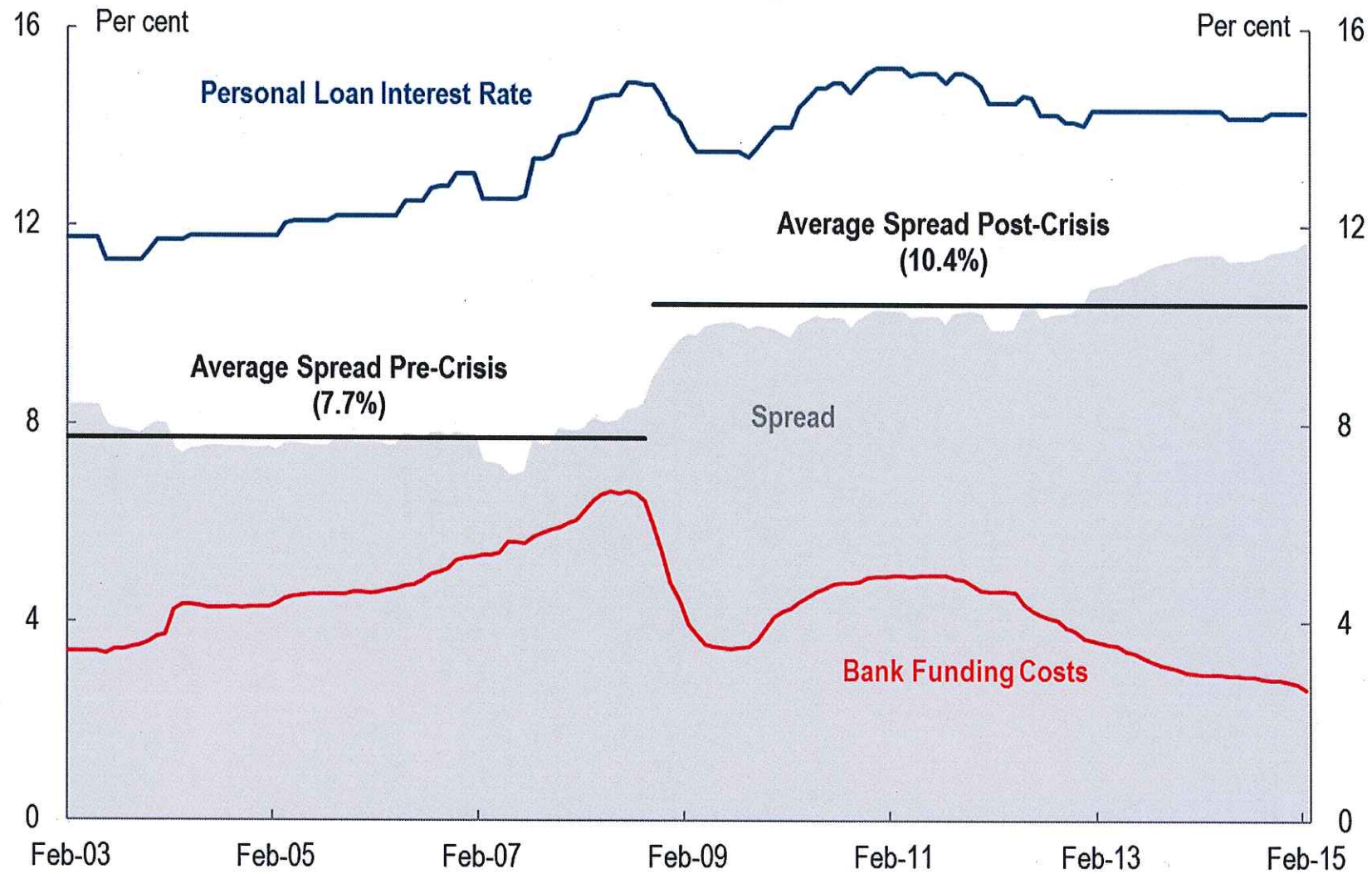
Household debt to disposable income



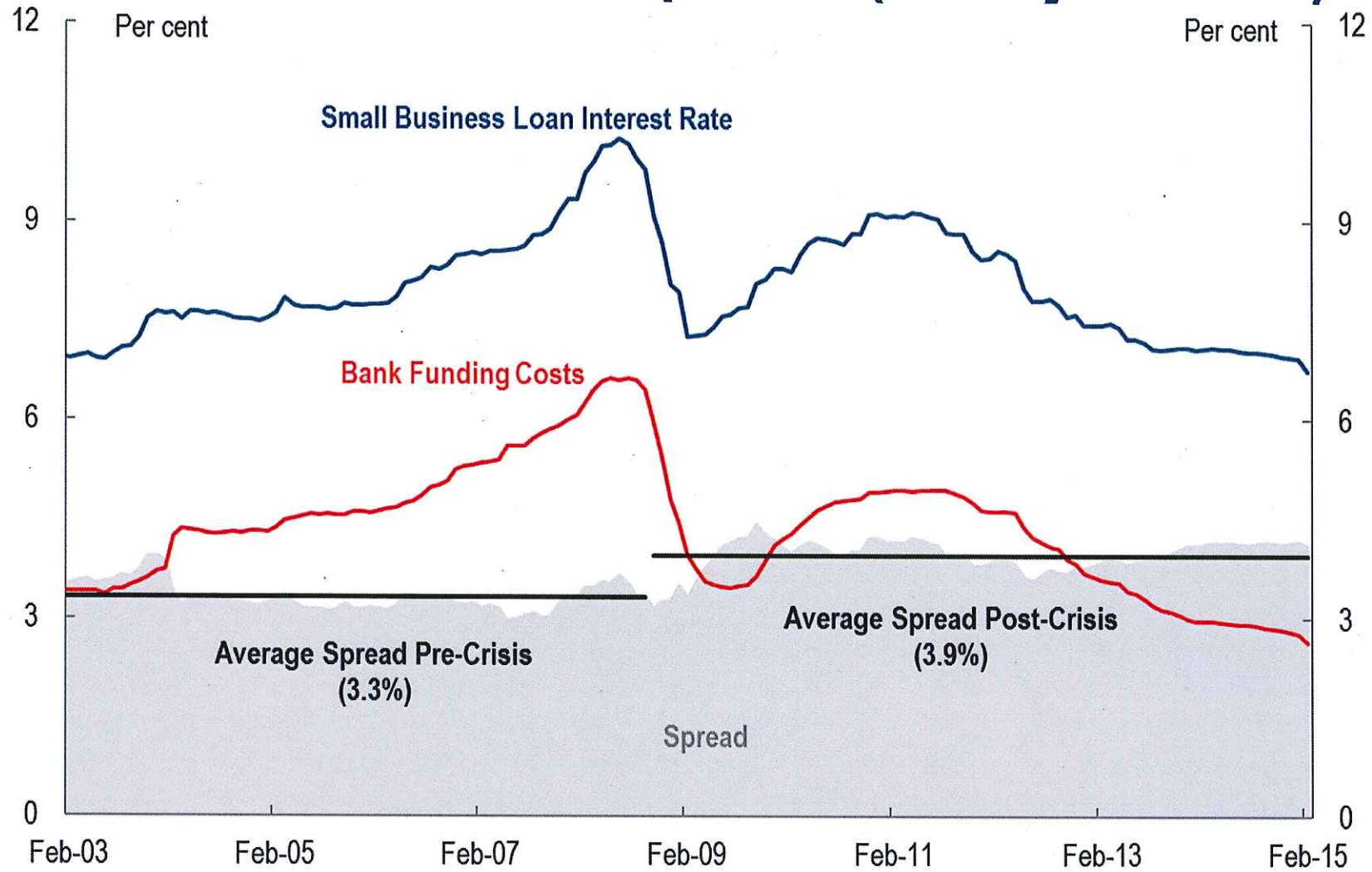
Low-rate credit cards and personal loans



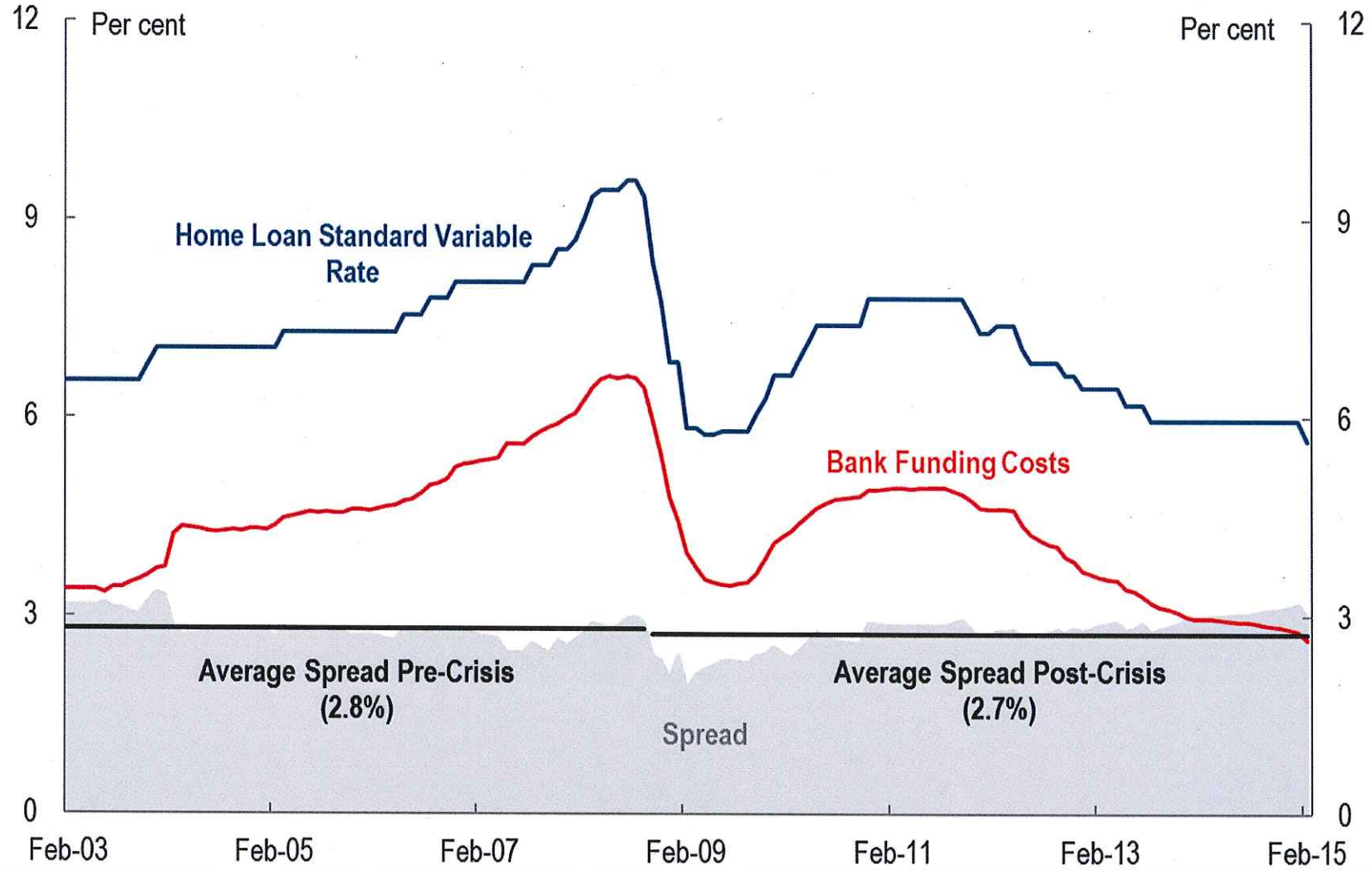
Personal (unsecured) loan spreads



Small business loan spreads (mostly secured)



Home loans – interest rate and bank funding costs



Sources: Reserve Bank of Australia, Treasury

Estimated return on equity: mortgages vs. credit cards

Internal Ratings Based Approach

Residential Mortgages

Capital	
Loan Size	\$ 100.00
Risk Weight	18.0%
Capital Requirement	8.0%
Equity	\$ 1.44

Net Interest Margin

Mortgage rate	5.00%
Cost of Funds	3.00%
NIM	2.00%
Op. cost to income ratio	50.00%
NIM (net op cost)	1.00%
Defaults*	0.60%
Loss Given Default**	5.00%
Loan Losses	\$ 0.03
After tax return	\$ 0.68

Return on Equity (ROE)

ROE	47.15%
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Standardised Approach

Residential Mortgages

Capital	
Loan Size	\$ 100.00
Risk Weight	35.0%
Capital Requirement	8.0%
Equity	\$ 2.80

Net Interest Margin

Mortgage rate	5.00%
Cost of Funds	3.00%
NIM	2.00%
Op. cost to income ratio	50.00%
NIM (net op cost)	1.00%
Defaults*	0.60%
Loss Given Default**	5.00%
Loan Losses	\$ 0.03
After tax return	\$ 0.68

Return on Equity (ROE)

ROE	24.25%
-----	--------

Credit Card Loans

Capital	
Loan Size	\$ 100.00
Risk Weight	75.0%
Capital Requirement	8.0%
Equity	\$ 6.00

Net Interest Margin

Effective Credit Card Rate	12.00%
Cost of Funds	3.00%
NIM	9.00%
Op. cost to income ratio	50.00%
NIM (net op cost)	4.50%
Defaults*	1.50%
Loss Given Default**	70.00%
Loan Losses	\$ 1.05
After tax return	\$ 2.42

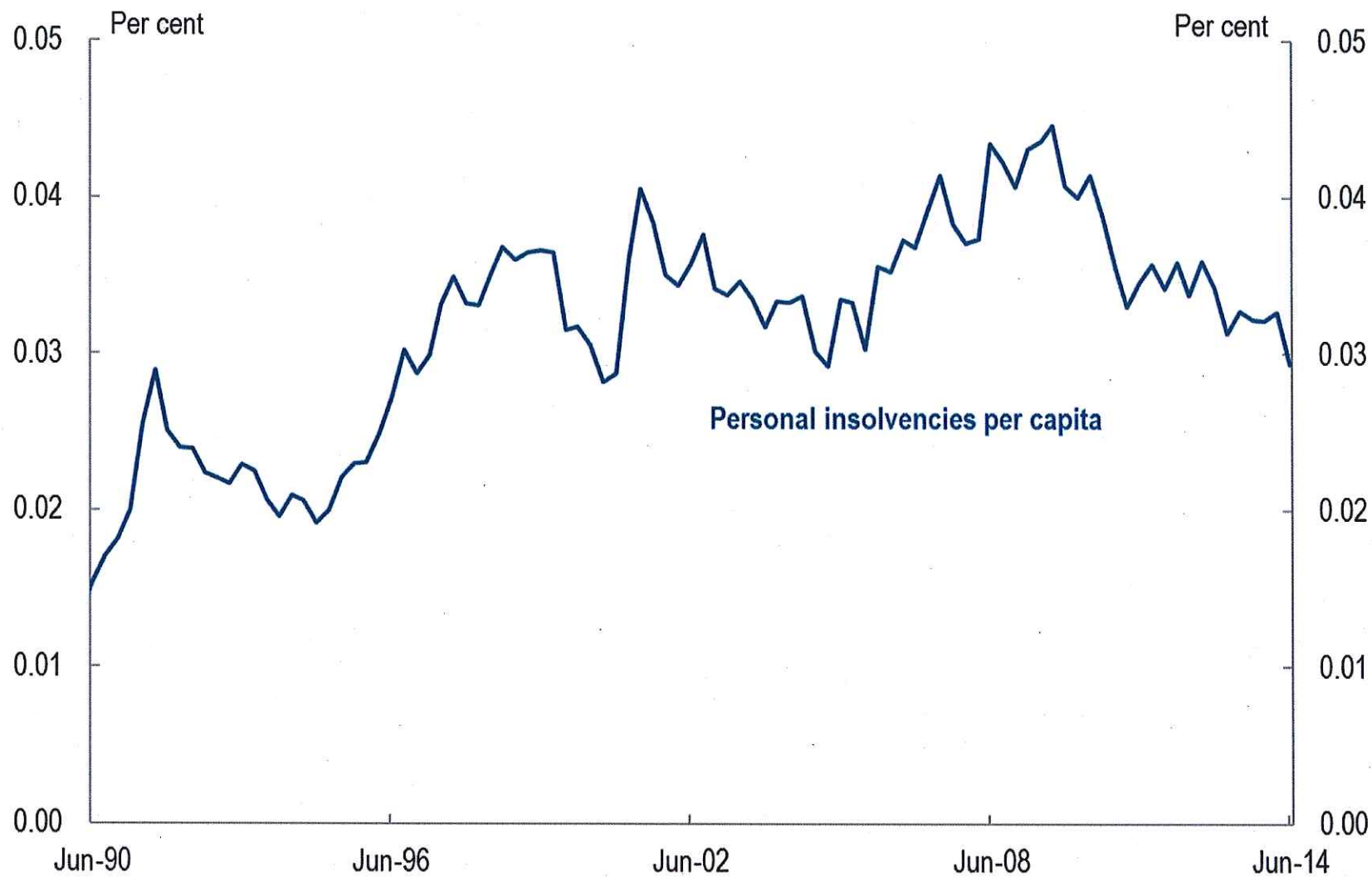
Return on Equity (ROE)

ROE	40.25%
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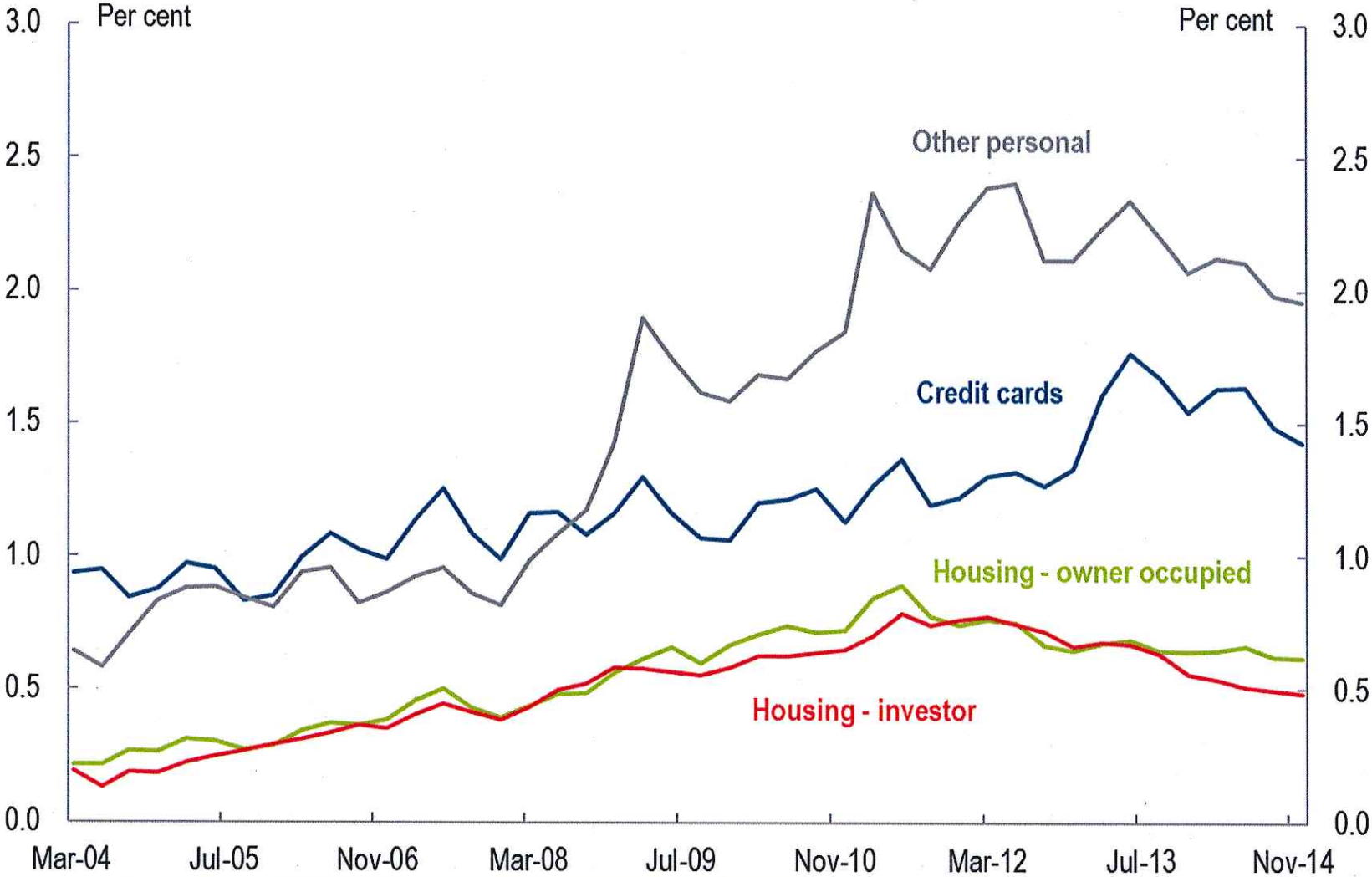
*Proxied by non-performing loan rates

**Assumptions

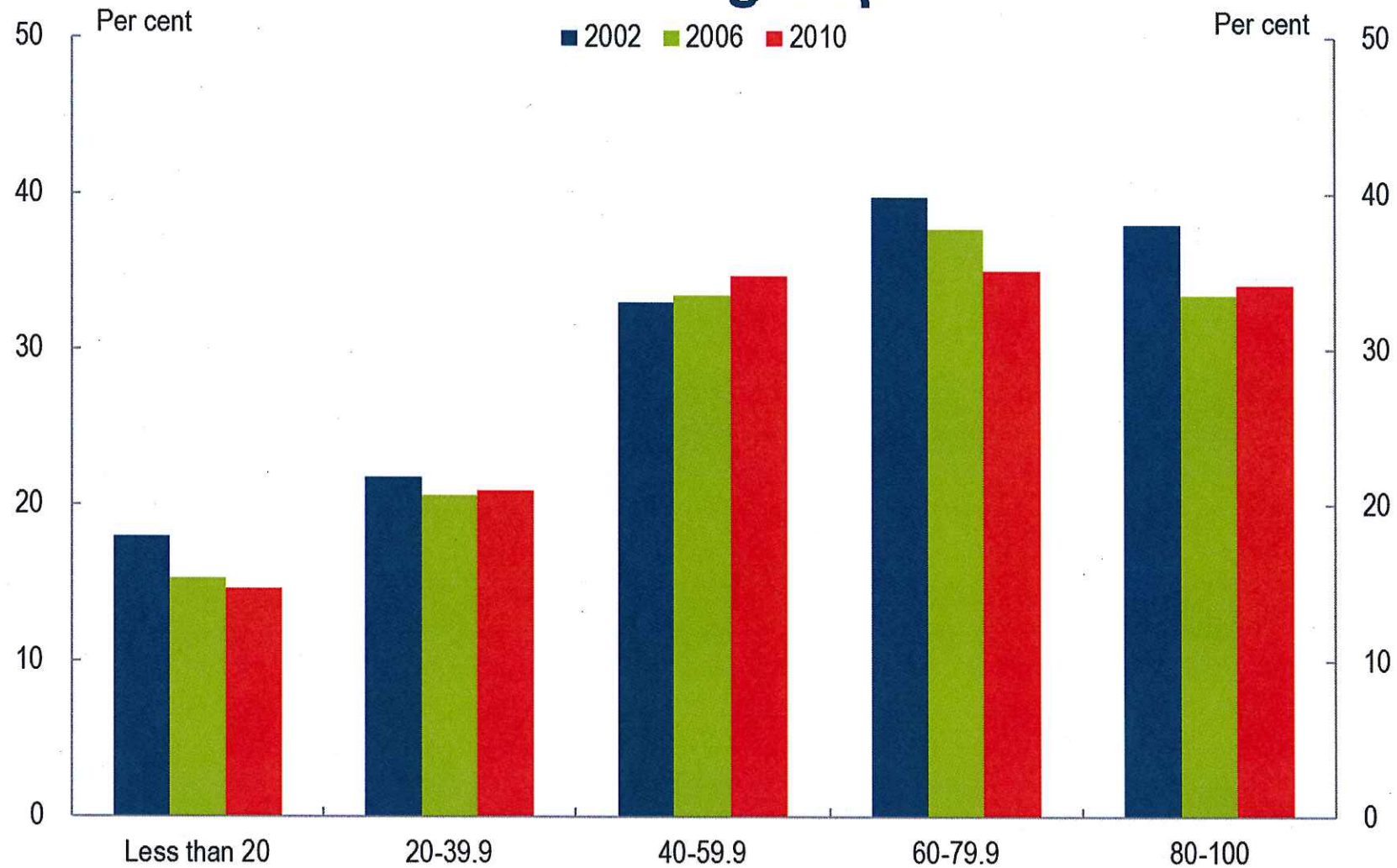
Personal insolvencies



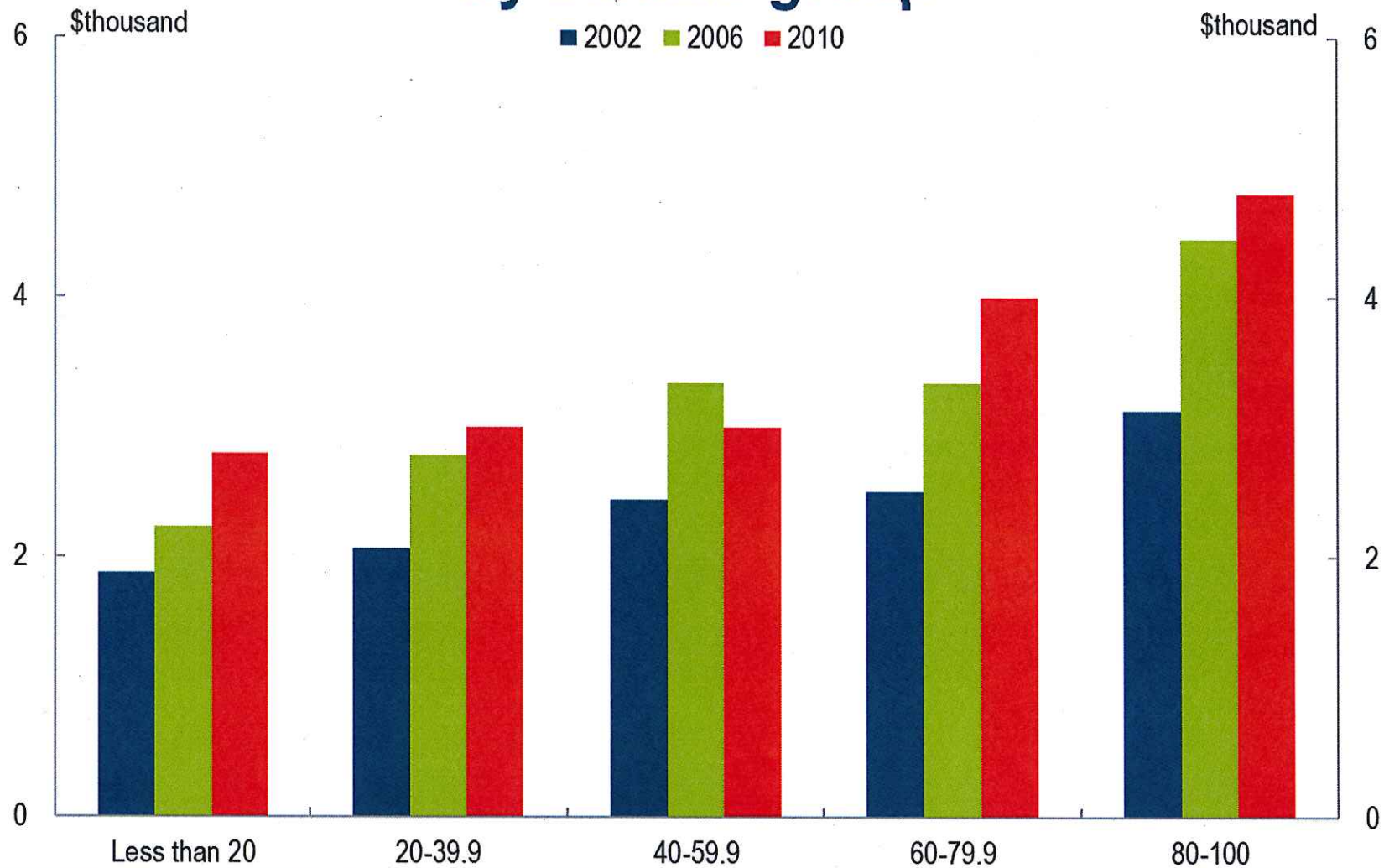
Non-performing loans



Share of households with credit card debt by income group



Median level of credit card debt by income group



Credit card behaviour by household income

Table 4.1 Credit card behaviour by household income

	Low-income	Middle-income	High-income	All
Paid credit card off in full	31%	48%	62%	48%
Did not pay off credit card in full	29%	35%	27%	30%
Credit card behaviour unknown	2%	1%	1%	1%
Does not have a credit card	38%	16%	10%	20%
Total	100%	100%	100%	100%

Base = 1,180. Columns may not sum to 100 per cent due to rounding error.

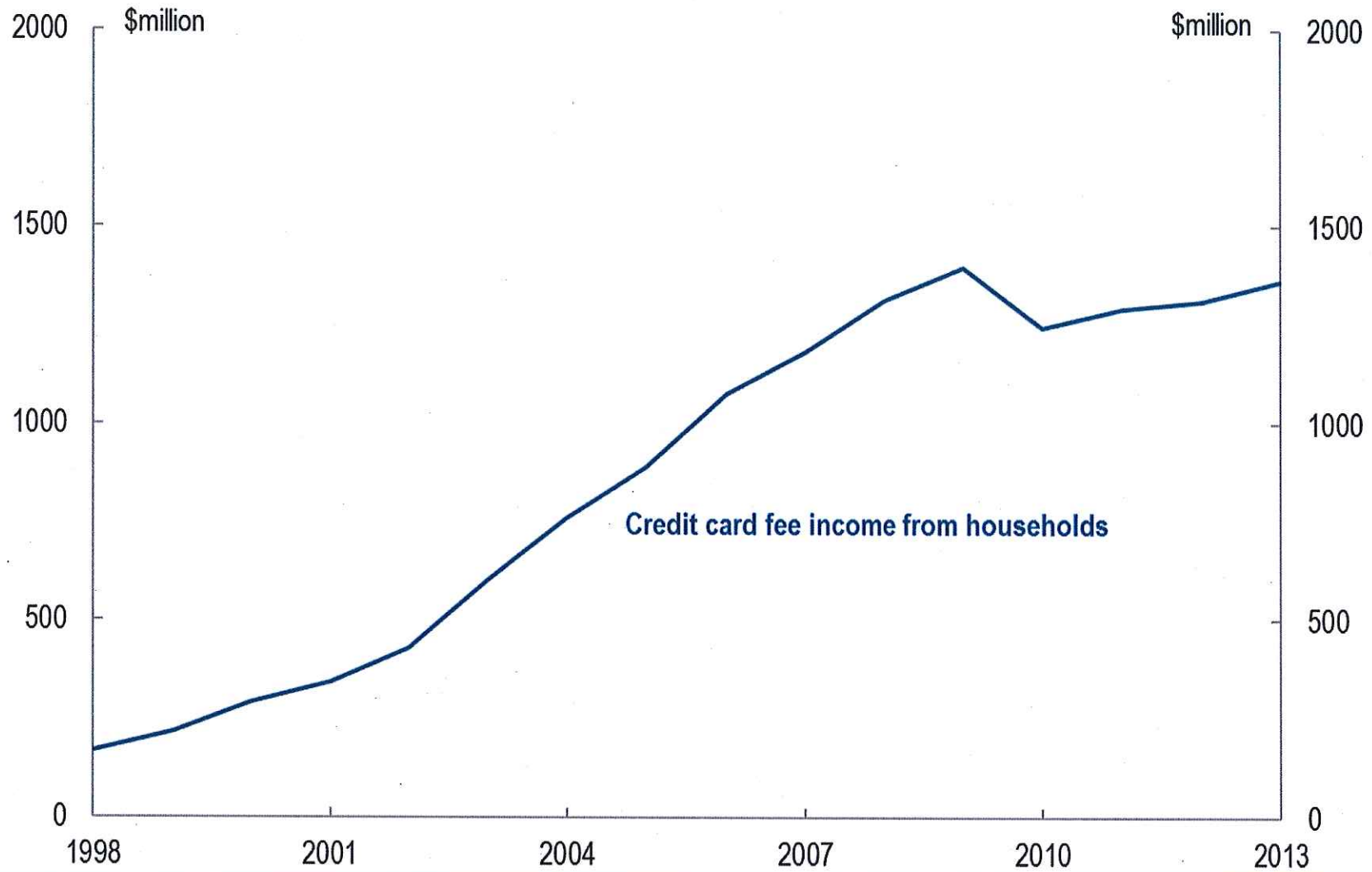
Almost 10 per cent couldn't make minimum card payments

Table 7.1 Proportion of respondents who reported being in financial difficulty in the past 12 months.

	Low-income	Middle-income	High-income	All
Couldn't afford to pay household bills on time	32%	21%	11%	21%
Couldn't afford to buy food and groceries	23%	11%	5%	12%
Couldn't make minimum credit card payments	11%	10%	7%	9%
Couldn't afford to pay mortgage or rent on time	12%	8%	3%	8%
Some kind of financial difficulty	39%	27%	15%	26%

Base = 1,180

Domestic credit card fee income



Source: Reserve Bank of Australia

Current Balance Transfer Offers
As at 30 January 2015

Financial Institution	Card	Interest rate (% p.a.)	Cash		Rewards program?	Balance Transfer Rate (% p.a.)	Balance transfer period (months)
			advance interest rate (% p.a.)	interest rate (% p.a.)			
AMEX	Qantas Discovery Card	20.74	n/a	n/a	Y	0.99	6
AMEX	Qantas Premium Card	20.74	n/a	n/a	Y	0.99	6
AMEX	Qantas Ultimate Card	20.74	n/a	n/a	Y	0.99	6
AMEX	Platinum Edge Credit Card	20.74	n/a	n/a	Y	0.99	6
AMEX	Velocity Platinum Card	20.74	n/a	n/a	Y	0.99	6
AMEX	Velocity Escape Card	20.74	n/a	n/a	Y	0.99	6
AMEX	Low Rate Credit Card	11.99	n/a	n/a	N	0.99	6
ANZ	ANZ First	19.74	21.49	21.49	N	0	16
ANZ	ANZ Low Rate MasterCard	13.49	21.74	21.74	N	0	16
ANZ	ANZ Low Rate Platinum	13.49	21.74	21.74	N	0	16
ANZ	ANZ Platinum	19.74	21.49	21.49	N	0	16
Bankw est	Breeze MasterCard Classic	12.24	21.99	21.99	N	0	4
Bankw est	Breeze MasterCard Gold	12.24	21.99	21.99	N	0	4
Bankw est	Breeze MasterCard Platinum	12.24	21.99	21.99	N	0	4
Bankw est	Zero MasterCard Classic	17.99	21.99	21.99	N	2.99	9
Bankw est	Zero MasterCard Gold	17.99	21.99	21.99	N	2.99	9
Bankw est	Zero MasterCard Platinum	17.99	21.99	21.99	N	2.99	9
Bankw est	More MasterCard Classic	19.99	21.99	21.99	Y	0	18
Bankw est	More MasterCard Gold	19.99	21.99	21.99	Y	0	18
Bankw est	More MasterCard Platinum	19.99	21.99	21.99	Y	0	18
Bankw est	Qantas MasterCard	19.99	21.99	21.99	Y	0	12
Bankw est	Qantas MasterCard Gold	19.99	21.99	21.99	Y	0	12
Bankw est	Qantas MasterCard Platinum	19.99	21.99	21.99	Y	0	12
Citibank	Signature	20.99	21.74	21.74	Y	0	6
Citibank	Prestige	20.74	21.24	21.24	Y	0	6
Citibank	Qantas Signature	20.99	21.74	21.74	Y	0	6
Citibank	Platinum	20.99	21.74	21.74	Y	0	24
Citibank	Errirates Citibank World	20.99	21.24	21.24	Y	0	9
Citibank	Clear Platinum	13.99	21.74	21.74	N	0	9
Citibank	Classic	20.99	21.74	21.74	Y	0	18
Citibank	Simplicity	19.99	19.99	19.99	Y	0	12
Citibank	Virgin No Annual Fee	18.99	20.99	20.99	N	0	14
Citibank	Virgin Low Rate	10.99	21.69	21.69	N	0	6
Citibank	Virgin Flyer	20.74	20.99	20.99	Y	0	6
Citibank	Virgin High Flyer	20.74	20.99	20.99	Y	1.9	12
CBA	Awards	20.24	21.24	21.24	Y	5.99	5
CBA	Gold Awards	20.24	21.24	21.24	Y	5.99	5
CBA	Platinum Awards	20.24	21.24	21.24	Y	5.99	5
CBA	Diamond Awards	20.24	21.24	21.24	Y	5.99	5
CBA	Low Fee	19.74	21.24	21.24	N	5.99	5
CBA	Low Fee Gold	19.74	21.24	21.24	N	5.99	5
CBA	Low Rate	13.49	21.24	21.24	N	5.99	5
CBA	Low Rate Gold	13.49	21.24	21.24	N	5.99	5
GE Capital	Coles Rewards MasterCard	19.99	19.99	19.99	Y	0	18
GE Capital	Coles No Fee MasterCard	17.99	17.99	17.99	Y	0	18

HSBC	HSBC Credit Card	17.99	21.99	N	0	6
HSBC	HSBC Platinum Credit Card	19.99	21.99	Y	0	8
HSBC	HSBC Platinum Qantas Credit Card	19.99	21.99	Y	0	6
Macquarie Bank	Jetstar MasterCard	14.99	21.74	Y	0	10
Macquarie Bank	Jetstar Platinum MasterCard	19.99	21.74	Y	0	10
Macquarie Bank	Woolworths Money Everyday card	19.99	21.99	Y	0	9
Macquarie Bank	Woolworths Money Qantas Platinum Credit card	20.49	21.99	Y	0	9
NAB	NAB Low Rate Visa Card	13.99	21.74	N	0	12
NAB	NAB Low Fee Card	19.74	21.74	N	0	12
NAB	NAB Premium Card	19.74	21.74	N	0	12
NAB	NAB Flybys Reward Card	19.99	21.74	Y	0	12
NAB	NAB Velocity Rewards Card	19.99	21.74	Y	0	12
NAB	NAB Velocity Rewards Premium Card	19.99	21.74	Y	0	12
NAB	NAB Qantas Rewards Card	19.99	21.74	Y	0	12
NAB	NAB Qantas Rewards Premium Card	19.99	21.74	Y	0	12
St George	Amplify	19.49	20.74	Y	0	6
St George	Amplify Platinum	19.49	20.74	Y	0	6
St George	Amplify Signature	19.49	20.74	Y	0	6
St George	Vertigo	13.24	21.49	N	0	16
St George	Vertigo Platinum	12.74	21.49	N	0	16
Westpac	Altitude	20.24	21.24	Y	3.99	6
Westpac	Altitude Platinum	20.24	21.24	Y	3.99	6
Westpac	Altitude Black	20.24	21.24	Y	3.99	6
Westpac	Low rate	13.49	21.49	N	0	14
Westpac	55 Day	19.84	21.29	N	0	6
Westpac	55 Day Platinum	19.84	21.29	N	0	6

Source: Card issuers' websites