



E-News Update

June 2009 | Grant Halverson CEO, GFG Group

As we continue to work our way through the Global Financial crisis and evaluate the impact on growth and changes in consumer behavior, the use of credit cards and changes in spending patterns has been under much scrutiny. It is often held up as a litmus test as to how consumers are feeling and how much of their spending has been transferred between credit cards, cash and debit cards.

With that in mind GFG reviewed some research undertaken by McLean Roche in order to establish some benchmarks and really provide a good basis for comparison as we move through this unprecedented time.

In this e news we have summarized some of the key findings, as always I welcome your comments and feedback

THE AUSTRALIAN CONSUMER CREDIT MARKET

1. Key Trends in Consumer Lending in Australia

	Market Size E2009 Year-End A\$ billion	CAGR 2005-2010 %
Credit cards	35.0*	14.0
Retail store cards	15.5	8.0
Revolving credit	10.0	8.0
Auto lending	28.0	13.0
Student loans	2.5	6.0*
Personal loans	18.0	6.0
Retail instalment loans	12.0	15.0
Total	121.0	10.86

* Credit card receivables only Source – McLean Roche

- Debit cards now hold nearly 30% of all payment transactions with a growth of 15% 2007/2008
- The average credit card cash advance is \$385
- Two thirds of consumer borrowings are made on non-card products
- GE was the dominant player in unsecured lending with a 34% pa average growth in six years
- Credit Card limits have risen to an average of \$8,600
- Spend per card has increased by 8% pa
- Average interest accruing credit card debt is \$2,285, this is still low by international standards
- The average transaction value on credit card is \$144
- MasterCard and Visa control 85% of the market in credit and charge cards
- Merchant service fees have steadily trended downwards to less than 1%
- Overall, non-cash retail payments in Australia rose strongly in 2007/08, as they have for the past decade. The total number of payments increased by 9 per cent, and the total value by 13%

Australian Market Share of Consumer Cards (%) *		
	2007	2009E
ANZ	20	21
Adelaide/Bendigo	1	1
CBA	21	22
GE	9	7
NAB	17	18
St George	1	1 ⁽¹⁾
BankWest	1	1 ⁽²⁾
Suncorp/Metway	1	1
Citibank	8	7
Westpac	18	19
Others (Includes ME, credit unions and building societies)	2.5	2.2

*Consumer Credit and Debit Cards

(1) St George Purchased by Westpac 2008

(2) BankWest purchased by CBA 2009

Key Trends in Credit and Debit Cards

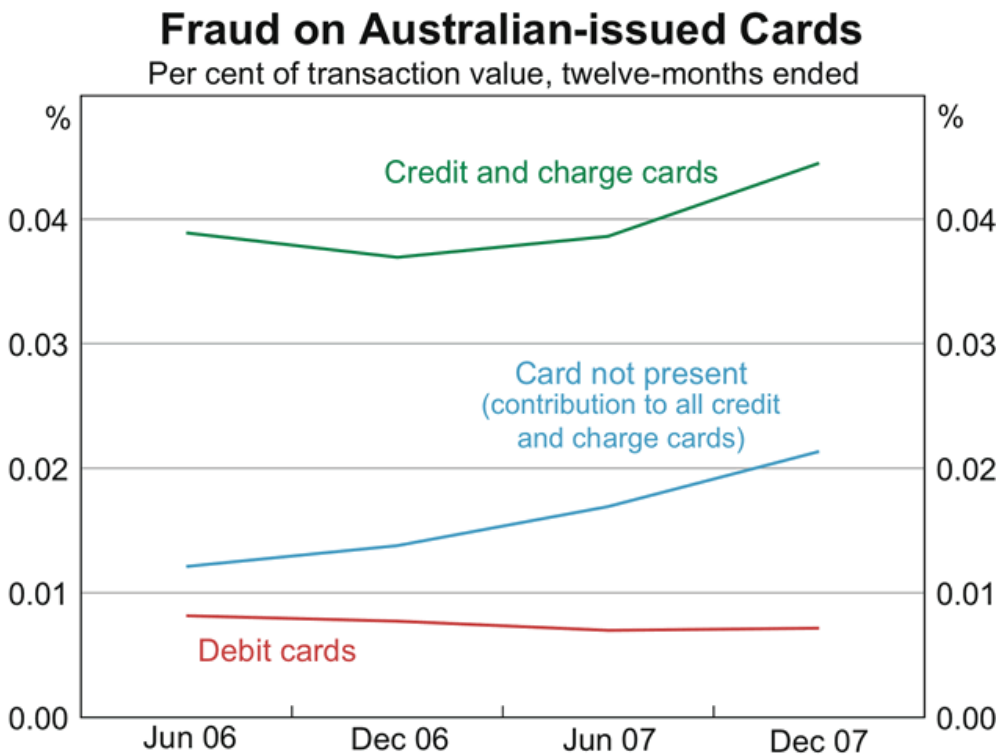
- The four trading banks have increased market share to 82%
- Third tier card issuers market share has declined to 2.2% of 650,000 cards
- Two second tier issuers have been purchased by major issuers –BankWest and St George
- GE's market share has declined the most because of funding issues
- Credit Cards are still only 5% of total consumer debt
- Citibank has retained its market share with card deals including Bank Of Queensland
- Average interest accruing credit card debt is \$2,285, this is still low by international standards
- The average transaction value on credit card is \$144
- MasterCard and Visa control the credit and debit card markets
- Merchant service fees fro consumer cards have steadily trended downwards to 0.50%

Great care needs to be taken in understanding the Australian card market and its key operational costs. The price of failure will be very high while success is not guaranteed given the extremely limited number of unencumbered issuers available

Fraud

Fraud within Australia is still low, but trending upwards in credit card and card not present transactions.

Members Equity has direct experience of fraud at an unacceptably high level; GFG can assist here with issuer risk management alert programs.



Source: APCA

The issuance of EMV cards and the use of modern fraud prevention tools incorporated in GFG's solutions will assist Members Equity effectively manage fraud.

Review of Market Opportunities in Australia

The Australian market has a similar structure to other mid-sized European and Asian markets with consumer credit dominated by a small group of bank and non-banks. The trend in these markets when new entrants arrive is for rapid expansion of the market size and greatly increased competition. The Global Financial crisis has delayed any such entry but has created opportunities for current market players.

Australian consumers have continued to use credit cards even during a significant downturn. The Australian RBA review of interchange has done little to deter consumer use and has not resulted in many new entrants in the Australian market.

Australian card issuers have however been deterred from using airline reward programs with a series of dilutions and increased costs by both airlines and card issuers – this has led to further consumer resentment and a questioning of all reward programs, particularly those that are not differentiated.

Credit card growth will remain moderate however opportunities exist for experienced players and issuers who have respected brands. To maximize these opportunities card issuers will need to understand segmentation and effective use of data.

Products for consumer lending and/or merchant partnering would need to be developed for each relevant profitable segment. It is not a case of one size fits all. Typically, this would involve prioritising business segments of importance to the Issuer, their ability to generate customer satisfaction, revenue and profits. The product specialisation can vary significantly, however the basic business dynamics remain the same – same financial partner system, customer service, credit and risk, operations with variables in marketing, product design and distribution.