Welcome deterrent on the cards

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Consumers have responded to rising rates by paying down their cards.

WOULD lower credit card interest rates be a good or a bad idea?

Even Treasury has now acknowledged that the spread between official rates of 2 per cent and credit cards rates that are often above 20 per cent has risen sharply.

So, if the current somewhat breathless Senate inquiry into credit cards finds they should be lower, would regulating them down be a good idea?

I don’t think so because the evidence at the moment suggests that higher interest rates are having a very desirable effect on Australians who use credit cards.

Consumers have responded to rising rates by paying down their cards and reducing the amount they actually pay interest on substantially.

In 2014, repayments exceeded transactions by $7.6 billion and the $34.2 billion accruing interest has fallen to levels last seen in 2010.

The number of cash advances is also well down on previous years, which is a big change in behaviour when you consider the growth in the number of cards and available credit.

That is not to deny that many people have problems managing credit cards — they do — but the numbers suggest the high effective interest rates are acting as a warning that it is dangerous to use credit cards to borrow money for anything more than a very short time.

If rates were to fall to, say, the US average of 15 per cent, would the problem of credit card indebtedness get worse or better?

What the credit card numbers show is that there is a core of customers who unwisely revolve the credit on their cards and pay a very high price for doing so.

With around $34 billion revolving, these customers are paying around $500 million a month in interest costs, which arguably should be almost $200 million lower if a tighter credit card spread was operating.

The banks use all sorts of arguments to justify higher credit card interest rates including a repricing of risk and more spending to prevent fraud and improve security, but the alternative observation might be that the banks are having to squeeze harder to milk the same amount of cash out of a more educated credit card consumer. The harder they squeeze and rely on gimmicks such as balance transfers, rewards programs and misleadingly small minimum repayments, the harsher the lesson being learned by less disciplined consumers who are falling into the credit card debt trap.

Those learning these lessons are surely then less likely to come back and repeat the mistake over and over, which is undoubtedly one of the reasons credit card repayments have been outstripping transactions for many years.

While there is little doubt that banks use every trick in the book to encourage the use of credit cards and to discourage sound practices such as paying them off in full every month, a growing number of customers are doing just that and simply refusing to take part in the expensive revolving credit merry-go-round.

Those who choose to get on the ride repeatedly should have learned the cost of admission through bitter experience and are obviously either happy to pay it, inattentive and price insensitive or are in genuine financial trouble that will have been worsened or perhaps even caused by their unwise use of credit cards.

It is this last group that the Senate inquiry, the banks and the consumer groups should be concentrating on, rather than being distracted into issues such as credit card interest rates. Indeed, higher credit card rates should be a strong stimulus for consumers to seek out the many other forms of short-term credit that are significantly cheaper if not as convenient as the card that is already in the wallet.

As Treasury pointed out, some consumers suffer from an overconfidence in their ability to limit future spending. The rational response for the overconfident consumer once they have been bitten hard by revolving credit is to move to other approaches such as a personal loan for longer term expenses or a small overdraft for short-term needs.

The genuine shopaholic probably needs to use the cold turkey approach of using their own cash or a debit card, with the credit card either frozen in an ice block or cancelled.

Using regulation to "fix" the perceived problem of high credit card rates risks lumping such costs on to those who can least afford to pay them and to remove the high-rate incentive to change behaviour. In the eternal battle between education and regulation, education should win every time and fostering greater financial discipline and resilience is a much better alternative than trying to protect us from ourselves.

2020 VISION LEADS

TO BIONIC BOON

COULD the next Cochlear or Resmed have been sitting, largely forgotten, right under our noses?

While our new Prime Minister Malcolm Turnbull's technology credentials have been widely canvassed, it was Kevin Rudd's Australia 2020 summit back in 2008 that decided to spend $50.7 million on further developing a bionic eye in Australia.

Funded by the Australian Research Council and involving numerous teams from major Universities and research institutions, the retinal prosthesis, or bionic eye, is now readying for a commercial future with Bionic Vision Technologies raising $10 million and looking towards a share market float late next year.

Headed by executive chairman Robert Klupacs, the company has an ambitious aim of clinical trials next year and attaining CE certification for the technology by 2019, which would open up 60 per cent of the world's population for implants.

It is not a field it has to itself, with companies such as Second Sight, Pixium Vision and Retina Implant AG all developing bionic eyes, but Mr Klupacs is confident the Australian eye has key medical and software advantages.

With the initial inherited target disease retinitis pigmentosa being more prevalent in Asia, he said Australia is a logical place to market the device, using bionic vision centres as a distribution method, which is similar to Cochlear's bionic ear approach.

Like all technology companies there are significant risks but Australia has a solid record of commercialising medical devices. While Mr Klupacs admits the initial market size for the implants would be low, he says it would still enjoy high margins — but it is not all about money. "If you can make a blind person see that is a really exciting prospect and there is an altruistic edge to this project which has kept the various teams working together so well," he says.