

Harvey Norman Holdings Limited

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22nd May, 2009

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Submission on the Drafts of National Consumer Credit Protection Bill 2009 (the Bill)

Harvey Norman is the third largest retailer in Australia with aggregate annual sales of \$5.5bn (including sales made by independent franchisees under the "Harvey Norman", "Domayne" and "Joyce Mayne" brands ("Franchisees")) Harvey Norman was established in 1982 by Gerry Harvey and Ian Norman and floated on the ASX in 1987. Revenue is derived from retailing overseas, franchise fees from Franchisees and property investment. Harvey Norman operates a franchise system in Australia with over 197 complexes occupied by Franchisees. Subsidiaries of Harvey Norman Holdings Ltd grant franchises to independent business operators under three leading brand names being "Harvey Norman", "Domayne" and "Joyce Mayne". Franchisees sell products in the following categories being electrical goods, small appliances, furniture, AV/IT, bedding, manchester and floor coverings. Harvey Norman also operates company run complexes in New Zealand, Ireland, Singapore, Malaysia and Slovenia and hold a controlling interest in a Singaporean listed entity called Pertama Holdings Pte.

Harvey Norman welcomes the principles taken from the Council of Australian Governments ("COAG") agreement in late 2008, which presents an opportunity for national regulation to promote the objective of enhanced consumer protection, while also pursuing the objective of enhancing efficiency and achieving regulatory simplification.

However, the outlined details within the national regime appear to go far beyond the COAG agreement. Moreover, we understand that a confidential consultation process preceded the public release of the draft legislation and the specific exclusion of retailers

from this process is unsatisfactory in light of the impact the reforms have on our businesses. It would seem the regulatory impact statement committed to under COAG has not been followed and this puts retailers at a distinct disadvantage given the timing requirement for this submission.

Franchisees currently offer customers the opportunity to apply for credit facilities provided by GE Money. Franchisees have robust policies and procedures in place to ensure their staff comply with all prevailing legislation. GE Money also employs a strong credit assessment process that ensures appropriate lending decisions are made.

Harvey Norman strongly believes that the policy objective of the Bill in providing consumers with appropriate protection could be achieved much more efficiently by providing an exemption for retailers.

Harvey Norman's primary objection to this regulation is that it is not a proportionate response. Franchises have had a long and very successful history of providing customers with excellent consumer finance options for which Franchisees receive very positive customer feedback. The policy objectives of the new regulatory regime would be achieved by the requirement that credit providers, like GE Money, becoming licensed.

In light of the global financial crisis and its impact on the Australian economy, it is imperative that government, consumer financial services and consumer representatives work together to ensure public benefit from implementing the national regime can be identified. This must be achieved before implementation and before any further negative impact on an economy and retail sector currently requiring stimulus. It is our belief that the proposed changes impacting retailers would provide no customer benefit and in fact limit competition and choice based on the following:

1. The proposed responsible lending framework requires pre-assessment for suitability before a customer can apply for a credit product whereas in most cases customers already know that they want credit in the form of interest free finance. This choice is typically based on advertising or their experience having used the product before. The pre-assessment process would take time and require substantial changes to current point of sale processes with no added benefit to customers of Franchisees.
2. Franchisees in Australia currently process around \$5.5bn in annual sales and 20-25 % of this utilizes the GE Money provided credit facility whereby customers make the purchase on interest free terms. Based on regular surveys of customers of Franchisees, consistently 75% of customers say they would not have made the purchase without this payment option. This therefore indicates a very significant risk should Harvey Norman or Franchisees not be able to make all the changes required to comply with the legislation.
3. Since January 2006 Harvey Norman franchisees have processed some 900,000+ interest free purchases for customers of Franchisees and around 70% of these transactions are from repeat users of the credit card facility.
4. We would of course be very concerned with this potential loss of sales for Franchisees, which could also result in job losses.

Harvey Norman's second objection to the current proposal relates to the underlying business model outlined above (Revenue is derived from retailing overseas, franchise fees from Australian Franchisees and property investment). A substantial investment will be required to ensure staff of Franchisees can discharge the

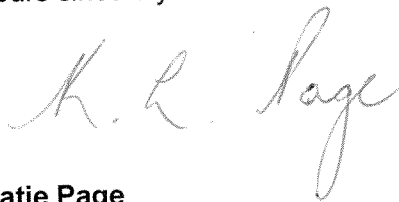
new obligations when helping a customer apply for credit card provided by GE Money. Provision of credit is clearly not the core business of Franchisees and it would be a significant challenge for Franchisees and their staff to provide extensive expertise and capability in the provision of credit as required under the Bill. Accordingly, Harvey Norman and Franchisees propose that the regime facilitates the exemption of retailers, including Harvey Norman and Franchisees, but promotes the licensing of credit providers to ensure customers are providing consumers with the enhanced protection required and comply with the responsible lending framework.

The legislation as it currently appears would create a significant number of operational, economic and practical challenges for Franchisees as follows:

1. The extensive changes to the process of facilitating credit at a point of sale would limit competition and inhibit consumer choice based on the inefficient process and customer interaction that would be required to meet the regulation.
2. Harvey Norman operates a franchise model and facilitating Franchisees and their staff to individually obtain a license or work as credit representatives would be difficult. Franchisees currently have extensive accreditation and training processes in place with the relevant credit provider to ensure Franchisees and their staff adhere to all the requirements in the provision of credit through GE Money.
3. Initial analysis of the required changes suggest a significant and unnecessary increase in operating costs by effectively duplicating activity currently undertaken by the credit provider adding training costs, infrastructure costs, technology costs all of which Franchisees would look to have to pass onto the customers.

In summary, if the legislation is not able to be amended to enable what we think could be a more effective and efficient solution consumer finance may not be supported in Franchisee complexes impacting, customer choice and tender type options, retail sales and retailer employment.

Yours sincerely



Katie Page
Chief Executive Officer
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