ASIC

Australian Securities & Investments Commission

REPORT 580

# Credit card lending in Australia

July 2018

## About this report

This report discusses the findings from ASIC's review of credit card lending in Australia between 2012 and 2017.

In particular, it looks at consumer debt outcomes over this period, the effect of balance transfers, and the operation of key reforms for credit cards that commenced in 2012.

**About ASIC regulatory documents**

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**Consultation papers**: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

**Regulatory guides**: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

**Information sheets**: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

**Reports**: describe ASIC compliance or relief activity or the results of a research project.

## Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the National Credit Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

# Contents

# Executive summary

1 Credit cards are credit contracts that offer consumers regular advances up to a specified limit, with the total amount of credit available decreasing as advances are made. These contracts give consumers flexibility about how much of the balance owing they repay (subject to a contractual minimum amount, which is often less than 3% of the balance).

2 Although this flexibility can make credit cards a useful tool for consumers, some concerns have been raised about their distribution and use:

(a) *Credit card product design and long-term debt*—Consumers can carry large balances on their cards for extended periods at high interest rates, including balances that they have no prospect of repaying in the short-to-medium term (or that may cause financial harm in the future if their circumstances change).

(b) *Credit card marketing and increasing debt levels*—Some features of credit cards offered to consumers, such as high interest rates or balance transfers, can lead to many consumers carrying more debt over time.

(c) *Credit card selection*—Consumers can face challenges selecting credit cards suited to their actual behaviours, in that:

(i) behavioural biases may affect product selection and use, causing consumers to choose a credit card because of certain features (e.g. interest-free periods and balance transfer offers) rather than a card that aligns with their behaviours, resulting in additional costs; and

(ii) differences in credit card features and terms can be difficult for consumers to assess.

3 Since 2012, the *National Consumer Credit Protection Act 2009* (National Credit Act) has contained additional requirements for credit cards intended to address some of these issues. However, more recent inquiries, such as the Senate Inquiry into credit card interest rates (Senate Inquiry), have concluded that these issues persist within the Australian credit card market.

Note: Studies in other jurisdictions have found similar issues. See the Financial Conduct Authority (FCA), MS14/6 *Credit card market study: Final findings report* (July 2016).

4 The Senate Inquiry also expressed concerns about the effect of balance transfers. Balance transfers allow consumers to transfer some or all their credit card balance to another card and pay minimal or no interest on the transferred amount for a specified promotional period. This can give consumers an opportunity to pause or reduce interest charges on their outstanding balance (giving the consumer a chance to pay off the debt), or to switch credit providers.

5 In the Senate Inquiry's view, these transfers can present a 'debt trap' for consumers. That is, the Inquiry was concerned that consumers could increase their total credit debt if they transfer a balance to a new card to take advantage of an offer but:

(a) fail to pay off the transferred balance in the promotional period;

(b) keep the card the balance was transferred from; and

(c) make new purchases on one or more of the cards.

## ASIC's review of credit cards

6 In 2017, ASIC began a review into credit card lending in Australia, looking at issues highlighted by regulatory reforms and the Senate Inquiry. The review focused on three areas:

(a) *Consumer outcomes*—We sought to identify the debt outcomes for consumers from their credit card products over time, with particular attention to consumers who are in arrears, carry debt at a high interest rate for a long period, or repeatedly make low repayments.

(b) *Balance transfers*—We looked at when and how balance transfers are used, how they are repaid and their effect on aggregate credit limit and debt levels over time.

(c) *Effectiveness of key reforms*—We wanted to look at the effect of the additional requirements for credit cards, especially:

(i) disclosures intended to help consumers choose credit cards and encourage them to make larger repayments; and

(ii) requirements standardising how repayments are allocated to outstanding balances.

7 Twelve credit providers participated in our review. These providers covered the vast majority of the credit card market and include the major banks, a mixture of mid-tier banks, foreign banks, customer-owned banking institutions and non-bank lenders.

8 We also consulted with other stakeholders, including domestic and international government agencies, industry associations and consumer advocacy groups.

### Data analysis and research

9 As part of our review, we obtained the following data:

(a) *Quantitative data*—Credit providers gave us 659 data points for each credit card account open between July 2012 and June 2017 (21.4 million accounts in total), including data about the consumer, the type of card, and balance transfers, as well as general usage and repayment data.

(b) *Qualitative data*—Credit providers answered 51 questions about responsible lending, hardship processes, their response to the additional requirements for credit cards, the availability of balance transfers and proactive action they took on consumer debt issues.

10 We conducted a data linking exercise using the quantitative data so that our review and analysis could be conducted on a 'whole of wallet' or 'person level' without knowing the identity of each consumer in our dataset. This is important as consumer outcomes may not be clear based on each card in isolation.

11 We also commissioned consumer research about the uptake and use of balance transfers and followed up with additional research as needed.

Note: For more information about our methodology, see the appendix to this report.

## Snapshot of the market

12 We sought to understand the credit card market in Australia more generally. Based on the data we collected, at June 2017:

(a) there were over 14 million open credit card accounts (an increase of over 300,000 since July 2012);

(b) outstanding balances totalled almost $45 billion (an increase since 2012, although balances showed signs of seasonal variation);

(c) outstanding balances on cards where interest was being charged totalled $31.7 billion (a decline from over $33 billion in 2012); and

(d) consumers were charged approximately $1.5 billion in fees over the previous year, including annual fees, late payment fees and other amounts for credit card use.

13 Our data linking exercise indicated that 12.3 million people owned the 21.4 million cards in the dataset. There is a difference between the number of people and the number of credit cards because the linking exercise identified those consumers who were highly likely to have more than one card.

14 Most consumers had only one credit card between 2012 and 2017: 62.1% of cards were not linked to any other card. Consumers with multiple cards generally had two cards. The linking exercise indicated that less than 5% of consumers had five or more credit cards between 2012 and 2017.

Note: For more information about the credit card market in Australia and how it is regulated, see Section A.

# Summary of key findings

## Consumer outcomes

### Findings 1–2: Credit card debt is a problem for many consumers, and problems can persist over time

15 In our review, we identified four situations where credit card debt is potentially problematic and developed indicators for each category:

(a) *Severe delinquency*—The account has been written off or is in the worst state of delinquency that the relevant credit provider reported to us.

(b) *Serious delinquency*—The account has been 60 days (or more) overdue in the previous 12 months.

Note: There were differences in how some credit providers reported delinquency information to us. We standardised this information where possible, but there may be minor differences between providers' cards. We have considered these differences when developing and using the indicators.

(c) *Persistent debt*—The average balance of the credit card is 90% of the credit limit over the previous 12 months and interest has been charged.

(d) *Repeated low repayments*—The consumer has made eight or more repayments on the account at or below 3% of the credit limit and interest has been charged over the previous 12 months.

16 At June 2017, 18.5% of consumers with a card satisfied at least one of the problematic debt indicators. We found:

(a) over 178,000 people were in severe delinquency;

(b) almost 370,000 additional people were in serious delinquency;

(c) around an additional 930,000 people had persistent debt; and

(d) roughly a further 435,000 people made repeated low repayments.

17 Some satisfied more than one indicator, sometimes for multiple cards. For example, at June 2017:

(a) 1.7% of consumers were in severe delinquency on at least one card;

(b) 5% of consumers were in serious delinquency on at least one card;

(c) 10.8% of consumers had persistent debt on at least one card; and

(d) 8.5% of consumers made repeated low repayments on at least one card.

18 Not all consumers with persistent debt and repeated low repayments may currently be vulnerable or experiencing harm. However, consumers in these situations may be at risk of future problems, potentially driven by changes in life circumstances. These consumers may also be charged more interest compared to other finance options.

19 We found some areas of particular concern: young people were more likely to be in delinquency, and multiple card holders were over-represented in our indicators. Additionally, over 890,000 consumers who were in problematic debt in 2013 also met our indicators in 2017. It was relatively more common for consumers to meet the persistent debt or repeated low repayment indicators in both 2013 and 2017, suggesting that there is scope for further measures to help these consumers.

### Finding 3: Some consumers have credit cards that are not well suited to their behaviours or needs

20 Many credit providers have promoted cards with higher interest rates that have additional 'lifestyle' benefits such as reward programs and longer interest-free periods. Consumer behavioural biases can mean that consumers select a card based on these promoted benefits rather than on how they are likely to use the credit card in practice.

21 We looked for consumers with products that were not suited to their behaviours. Specifically, we looked for consumers who:

(a) carried a balance and were repeatedly charged interest on a high-interest rate card;

(b) repeatedly exceeded their credit limit; and

(c) had a card with relatively high fees that they did not regularly use.

Note: For the purposes of our review, we defined a high-interest rate card as a card with a purchase rate of over 20% for three or more months.

22 At June 2017:

(a) 19% of consumers (who we had enough information about) were charged interest for three or more months in the previous year on a high-interest rate card;

Note: Some consumers were excluded from this analysis due to data issues.

(b) 10.7% of consumers had exceeded their credit limit for two or more months in the previous year; but

(c) we did not find evidence of consumers having cards with substantial fees that they did not regularly use.

23 For consumers that were repeatedly charged interest on high-interest rate cards, we estimate that the amount of interest charged could have been reduced by at least $621.5 million in 2016–17 if interest was charged at 13%.

24 Consumers with cards that were not suited to their behaviours were also more likely to satisfy our problematic debt indicators.

### Finding 4: Few credit providers take proactive steps to address persistent debt, low repayments or products that are unsuited

25 We asked credit providers whether they proactively take steps to prompt larger repayments, look for potential hardship or products that do not suit consumers' behaviours.

26 In general terms, few take these proactive steps:

(a) nine of the 12 providers do not proactively contact consumers that make payments at or near the minimum amount for an extended period to prompt them to repay more of their outstanding balance; and

(b) eight of the 12 providers did not proactively look for signs of potential consumer harm (other than through training frontline staff to look for signs of financial difficulty after a consumer initiated a discussion).

27 Consumers who are in persistent debt, or repeatedly making low repayments, are profitable for credit providers. However, providers have obligations to conduct themselves efficiently, honestly and fairly.

28 Two credit providers have begun pilot programs to proactively identify and engage with consumers that meet their own indicators of potential harm, low repayment behaviour or unsuited products. Others were considering or developing their own initiatives.

29 Credit providers should implement these types of initiatives, with indicators of potential harm or problems framed to capture an appropriate pool of consumers. We consider that this is consistent with:

(a) their obligations to engage in credit activities efficiently, honestly and fairly; and

(b) a culture of prioritising consumers' interests.

## Balance transfers

### Findings 5–6: Balance transfers are more common with certain types of consumers and credit providers

30 At June 2017, balances had been transferred onto 7.6% of open credit card accounts. Across the five years of our review, consumers transferred $12.4 billion in balances.

31 The use of balance transfers varied substantially between providers: some do not promote balance transfers and represent fewer than 1% of the accounts that received a transferred balance. By comparison, some larger credit providers held between 15% and 20% of all accounts open at June 2017 that had received a transferred balance.

32 Rates during the promotional period also varied between providers, although 79% of balance transfers in our dataset had a promotional rate of 0%. Consumers said that reducing debt was a key motivation to transfer balances, and that the promotional rate was an important consideration when deciding on a particular transfer.

33 Almost all balance transfers had a promotional period of 24 months or less. The most common periods were six, 12, 15 and 18 months; 60.9% of balance transfers had a promotional period of between 12 and 18 months.

34 Consumers with a higher level of credit card debt across all their cards were more likely to transfer balances.

### Findings 7–8: While many consumers reduce their credit card debt after a balance transfer, the ‘debt trap’ risk is real for one-third of consumers

35 To consider the effect of balance transfers on debt levels, we compared the total balance of all the consumer’s cards at the start of the transfer to the total balance shortly after the promotional period ended.

36 We found that approximately:

(a) 53.1% of consumers reduced their total debt by 10% or more, with almost 8% paying the debt off completely;

(b) 15.3% of consumers maintained relatively stable total debt levels; and

(c) 31.6% of consumers increased their total debt by more than 10% (with 15.7% increasing their debt by 50% or more).

37 Consumers who transferred more than one balance were less likely to reduce and more likely to increase their total credit card debt during the promotional period (but achieved relatively better outcomes on later transfers).

38 These findings suggest that the ‘debt trap’ risk for balance transfers noted by the Senate Inquiry exists and affects a substantial proportion of consumers.

### Finding 9: Consistent repayments may help consumers who transfer balances to reduce their debt, but credit providers can do more

39 Despite prompts from the Senate Inquiry for credit providers to remind consumers with an outstanding debt from a balance transfer that the promotional period is about to end, many consumers do not receive any warning. The interest rate on outstanding debt after this period is usually significantly higher than the promotional rate.

40 Of the 10 credit providers that offer promotional rates on balance transfers, five do not take proactive steps to remind customers who have not repaid the transferred amount that the promotional period is about to end.

### Findings 10–11: Most consumers do not cancel cards after transferring balances and continue to use them, resulting in interest charges

41 Over 63% of consumers who transferred balances did not cancel any of their other credit cards. Older consumers were slightly less likely to cancel other cards after transferring a balance.

42 If a consumer did cancel a credit card, this most commonly occurred soon after the balance was transferred. Consumers were progressively less likely to cancel cards during the six months after the balance was transferred.

43 Most consumers (53.8%) used the card with the transferred balance. This included 21.7% of consumers with interest charges exceeding $5 in fewer than six months of the promotional period, and 32.1% with interest charges in six or more months. Consumers who used the card were less likely to reduce their debt during the promotional period.

Note: We analysed card use on cards opened with a balance transfer with a promotional rate of 0%.

44 Some consumers appeared to use both their old cards and their new card(s) with the transferred balance. Consumers who did not cancel a card, and who used both their old and new cards, were more likely to increase their total debt during the promotional period.

## Effectiveness of key reforms

### Findings 12–14: Many consumers are not using the Key Facts Sheet when choosing a credit card

45 The Key Facts Sheet is a standardised one-page document intended to help consumers compare credit cards and choose one that suits their needs. However, the data available for accounts opened online suggests that many consumers are unlikely to have engaged with the Key Facts Sheet when applying for their credit card.

46 Most credit providers offer tools to help consumers choose cards. Some provide interactive tools that prompt consumers to think about what features are important to them or how they use their credit cards.

### Findings 15–17: The requirement to first allocate repayments to balances with higher interest rates saves consumers money

47 Under the additional requirements implemented in 2012, credit card repayments must be allocated to balances with higher interest rates before those with lower interest rates (unless the consumer requests otherwise). This reform was intended to standardise practices and prevent terms that maximised the time and money needed to repay credit card debt.

48 This requirement has saved consumers money; prevailing practices before 2012 were inconsistent across credit providers, but generally less favourable for consumers. Eight of the 12 credit providers have applied this requirement to all their consumer credit cards.

49 However, four providers (American Express, Citi, Macquarie and Latitude) continue to apply previous practices for some or all credit cards contracts entered before July 2012. We estimate that 525,000 consumers may have been charged extra interest as a result, including on more than one card. While these four credit providers are not breaking the law, they are charging their longstanding customers more interest than they should, and their conduct is out of step with the rest of industry.

50 In anticipation of a new Banking Code of Practice, from 2019 Citi and Macquarie will no longer use the previous method of allocating repayments for grandfathered credit cards. American Express has also indicated it will make this change in 2019. Latitude is considering its position.

Note: The new draft Code was lodged with ASIC for approval under s1101A of the *Corporations Act 2001* (Corporations Act) in December 2017. The current version, issued by the Australian Banking Association (ABA) in 2013, is the Code of Banking Practice.

**Finding 18: There was no evidence of a repayment 'spike' at the two-year amount disclosed on the minimum repayment warning**

51 The minimum repayment warning is a disclosure on the credit card account statement that compares the total cost and time to pay off the balance through minimum repayments with an alternate repayment which would repay the balance over two years. The warning aims to highlight the effect of making minimum repayments and encourage higher repayments.

52 Based on a sample of credit cards from some credit providers in our review, we did not find evidence of a 'spike' in repayments at the level included on account statements.

## ASIC's expectations and actions

### ASIC's expectations

53 In response to our findings, we expect improvements in credit providers' practices. We will also be continuing our work on credit cards to ensure the problems we have found are addressed.

**Issue 1: Credit providers should take proactive steps to address problematic credit card debt and products that do not suit consumers**

54 We are concerned by the amount of problematic credit card debt we found. Although not all consumers with problematic debt will be vulnerable, some may be in financial difficulty now, while others may be at risk of harm in the future.

55 We expect credit providers to proactively look for signs of problematic credit card debt. The steps that should be taken vary based on the severity of the problems and how long they have persisted.

56 We note that the regulatory regime in the United Kingdom now requires proactive steps to be taken to address persistent credit card debt, including forbearance in some cases. While this is not the case in Australia, we nonetheless expect credit providers to significantly expand their efforts in this area. By 30 September 2018, ASIC will publish the list of credit providers that have committed to introducing proactive measures to address problematic credit card debt and products that do not suit consumers.

### Issue 2: Credit providers should minimise the extra credit provided to consumers who regularly exceed their credit limit

57 Some consumers regularly exceed their credit limit. We obtained information from some credit providers about the extent to which they allow consumers to exceed their credit limit, and found that current practices vary greatly.

58 There is some scope under the National Credit Act for consumers to exceed their credit limit. This can give consumers access to credit for emergency purposes, or avoid discontent or embarrassment if transactions are declined that would take them only slightly above their credit limit. However, regularly exceeding the credit limit creates risks of financial hardship.

59 We are concerned about the extent to which a small number of credit providers are allowing consumers to exceed their credit limit, as well as the lack of clarity about this practice. We expect credit providers to review, and where necessary reduce the extra credit they allow consumers to access.

60 Our view is that credit providers should not ordinarily allow consumers to exceed their credit limits by more than 10%. We will consider further action if this practice is not curtailed.

### Issue 3: Credit providers should take proactive steps to help consumers repay their balance transfers

61 All credit providers should tell consumers when the promotional period for a transfer is ending. Under the new Banking Code of Practice, credit providers that are members of the Australian Banking Association (ABA) will be required to provide 30 days' notice before the promotional period for a balance transfer is ending.

62 We will contact credit providers that are not members of the ABA and request that they make a similar commitment. By 30 September 2018, we will provide information on ASIC's MoneySmart website about those credit providers that will not be providing notice.

63 In line with paragraphs 54–56, we think credit providers should also:

(a) proactively look for and engage with consumers who are not reducing a transferred balance as the promotional period continues; and

(b) actively promote structured payment arrangements to help consumers steadily pay down transferred balances where they wish to do so.

### Issue 4: Credit providers should encourage consumers to review the credit cards they hold when they transfer a balance

64 The fact that consumers do not cancel an old card after a balance transfer is increasing the risk of higher total debt levels over time.

65 The Government has amended the National Credit Act to make it easier for consumers to cancel credit cards. This reform provides an opportunity for credit providers to ensure that balance transfer offers achieve their intended purpose—that is, an ability for a consumer to benefit from a reduced interest rate without increasing their total debt levels.

### Issue 5: Balance transfer offers should be designed to take into account additional spending

66 Some consumers make new purchases on credit cards with transferred balances that are benefitting from a 0% promotional rate. In these circumstances, new purchases generally do not receive the benefit of an interest-free period unless the consumer pays off the closing balance in full, including the transferred balance on which interest is not charged.

67 We consider that there is scope for fairer outcomes in this (and similar) contexts. This could include excluding balances with a 0% promotional rate from the amount that needs to be repaid for an interest-free period to apply.

68 To encourage best practice, by 30 September 2018 we will highlight on ASIC’s MoneySmart website those credit providers that have committed to taking a fairer approach.

### Issue 6: Credit providers should develop tools to help consumers choose credit cards that reflect their actual needs and use

69 Many credit providers have developed tools to help consumers to choose credit cards, in some cases interactive tools.

70 Future developments in this area should focus on providing tools that allow consumers to better choose products that match their actual needs and use.

Note: The Government has accepted the recommendations of the Independent Review into Open Banking and that regime will apply to credit card data: see Treasury, *Government response to the Open Banking review* (9 May 2018).

71 The tools provided should cater as much as possible to known consumer biases that may affect product choice and use, as these biases can result in additional costs or risks of harm.

72 In our view, developing tools to encourage consumers to choose cards that suit their actual needs and use is consistent with credit providers' obligations to engage in credit activities efficiently, honestly and fairly, as well as culture of prioritising consumers' interests.

**Issue 7: The repayment allocation requirement should apply to all credit cards, including those entered into before July 2012**

73 We are concerned that hundreds of thousands of consumers who have had a credit card for six years or more are missing out on the benefit of more favourable allocation of repayments.

74 All credit providers that have not applied the requirement in the National Credit Act to every credit card should do so as soon as possible. We note that the ABA has included a commitment in the new Banking Code of Practice reflecting the repayment allocation requirement that will apply to all consumer credit cards provided by subscribers to that code.

## ASIC's actions

**Action 1: Responsible lending practices should be enhanced through the implementation of the recent reforms**

75 Based on the information provided to us, responsible lending assessments for credit cards can be improved.

76 Some credit providers reported that in some or all cases, they were conducting these assessments based on a consumer's ability to make the contractual minimum repayment when the entire credit limit is used. Others were assuming that repayments on other credit cards would only be made at the contractual minimum (and that those other cards were also fully used).

77 During our review, the Government amended the National Credit Act to give ASIC the power to prescribe a period for assessing whether a credit card contract or credit limit increase is unsuitable (for the purposes of responsible lending). The rationale of this change was to tighten the existing obligations to address the harms identified by the Senate Inquiry.

78 We propose to prescribe a period of three years for these assessments: see Consultation Paper 303 *Credit cards: Responsible lending assessments* (CP 303). We encourage credit providers to give feedback on our proposal. CP 303 also sets out our expectations about the assumptions used in assessments.

### Action 2: Information on ASIC's MoneySmart website

79 We will engage with industry about how they address our findings and expectations and improve their credit cards and behaviours. By 30 September 2018, we will publish on our MoneySmart website information about credit providers that:

(a) have committed to develop and introduce proactive measures to address problematic credit card debt and products that do not suit consumers;

(b) are taking fair approaches to additional purchases on balance transfers; and

(c) are not providing notice to consumers before balance transfer promotional periods end.

80 We may consider providing information about other matters relevant to our review and findings.

### Action 3: Follow-up work on credit cards

81 Our work on credit cards will continue beyond 2018. We will conduct a follow-up review in two years to track:

(a) the amount of problematic credit card debt and number of cards that do not suit consumers (e.g. consumers that repeatedly exceed their limit);

(b) the effect of balance transfers on debt outcomes; and

(c) whether card cancellation rates change.

# A The credit card market in Australia

**Key points**

Credit cards are regulated under the National Credit Act framework, with additional specific requirements introduced in 2012. Further requirements start in July 2018 and in 2019.

At June 2017, there were:

- over 14 million open credit card accounts in Australia with total outstanding balances of almost $45 billion;
- total outstanding balances of $31.7 billion on cards where interest was being charged; and
- approximately $1.5 billion of fees charged over the previous year.

Most consumers had only one credit card (62.1% of cards were not linked to any other card); some consumers had multiple cards.

## How credit cards are regulated

### Australia's consumer credit framework

82 ASIC took over the regulation of consumer credit on 1 July 2010 under the *National Consumer Credit Protection Act 2009* (National Credit Act). This Act established a national consumer credit framework, administered by ASIC as the single national regulator.

83 The National Credit Act contains a licensing regime that imposes minimum standards of conduct for credit providers and other participants, including requirements for:

(a) competence;

(b) membership of an external dispute resolution (EDR) scheme;

(c) compensation arrangements;

(d) adequate compliance and risk management systems; and

(e) responsible lending obligations, which require credit licensees to take certain steps before providing a credit card to a consumer or increasing a cardholder's credit limit.

Note: The licensing regime also provides mechanisms to cancel credit licences and ban persons from engaging in credit activities.

84 For example, credit licensees must make inquiries into a consumer's requirements and objectives, and make inquiries into and verify a consumer's financial situation. They must assess this information and not provide or suggest credit that will not meet the consumer's requirements and objectives or where they will not be able to meet their financial obligations without substantial hardship.

Note: For ASIC's guidance on these requirements, see Regulatory Guide 209 *Credit licensing: Responsible lending conduct* (RG 209).

## Additional requirements for credit cards

85 In 2011, Parliament introduced additional requirements for credit cards in the *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011* (Home Loans and Credit Cards Act). The Explanatory Memorandum to this Act acknowledged that credit card contracts differ from other credit contracts and therefore require specific regulation.

86 This is because:

(a) credit providers only require consumers to make repayments calculated at a low percentage of the outstanding balance, which means consumers can carry high balances for a significant period at relatively high interest rates;

(b) differences in features between credit card products are not easily visible to consumers; and

(c) credit cards are long-term arrangements, which means the credit provider may, over time, significantly change the terms of the contract or the consumer's obligations.

87 The additional requirements:

(a) state that credit providers must give consumers a Key Facts Sheet;

(b) specify how repayments should be applied under credit card contracts;

(c) prohibit additional fees for the use of credit cards above the credit limit unless consumers have given their consent; and

(d) restrict the making of unsolicited offers to increase a credit card limit.

Note: See Section D for our findings on the effectiveness of some of these reforms.

88 In 2015, the Senate Economics References Committee conducted an inquiry into credit card interest rates and other matters (Senate Inquiry). In its final report, the Committee expressed concerns that some consumers may never repay their credit card debt or may take a long time to do so, while paying a relatively high interest rate on their balance.

Note: See Senate Economics References Committee, *Interest rates and informed choice in the Australian credit card market* (December 2015).

89 Credit card balance transfers were also seen as a potential ‘debt trap’ (i.e. rather than offering a low-cost way to reduce debt, many consumers may transfer their debt from card to card and subsequently increase their spending and their overall debt).

90 The Senate Inquiry final report recommended further requirements, including that providers:

(a) tell consumers about the features of their cards, making it easier for them to switch or cancel an account online, and

(b) base responsible lending assessments on the consumer’s ability to pay off the balance over a reasonable period.

91 After Treasury consulted in 2016 on many of the recommendations, the Government decided to implement further reforms in a phased approach. Table 1 summarises the first phase of these reforms in the *Treasury Laws Amendment (Banking Measures No. 1) Act 2018* (Banking Measures Act).

**Table 1: Further requirements for credit cards**

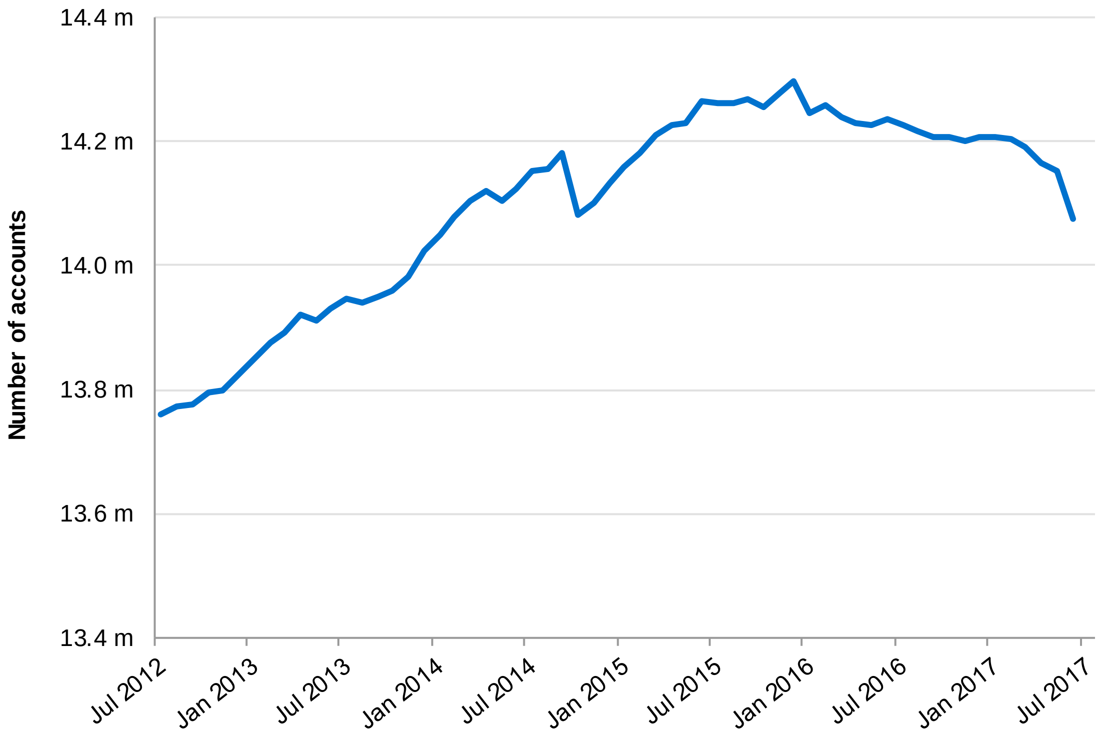
| Requirement | What it means |
| --- | --- |
| Responsible lending | From 1 January 2019, consumers will be considered to only be able to meet their financial obligations under a credit card contract with substantial hardship where they cannot repay the credit limit within a period prescribed by ASIC. The effect of this change is that providing a credit card to a consumer who cannot repay the limit within the prescribed period will be prohibited by the responsible lending obligations.<br>Note: We propose to prescribe a period of three years for all credit card contracts: see Consultation Paper 303 *Credit cards: responsible lending assessments* (CP 303). |
| Unsolicited credit limit offers | From 1 July 2018, credit providers must not make unsolicited credit limit increase invitations, including communications that:<br>• offer to increase the credit limit;<br>• invite the consumer to apply for a credit limit increase; or<br>• are given to encourage the consumer to consider applying for an increase.<br>Note: Under the Home Loans and Credit Cards Act, these communications were permitted if the consumer first provided their express consent. The Banking Measures Act removes the consent defence, prohibiting any unsolicited offers. |
| Changes to interest calculations | From 1 January 2019, credit providers will be prohibited from charging interest on a day based on events that occur afterwards—for example, retrospectively applying interest charges on a balance that has had the benefit of an interest-free period. |
| Credit limit reduction and cancellation | For credit card contracts entered into after 1 January 2019, credit providers must give consumers the right to ask to reduce their credit limit or cancel the contract. Providers must give consumers a way to use these rights online. If a consumer makes a request, the credit provider must:<br>• not suggest something that is contrary to the consumer’s request; and<br>• take reasonable steps to ensure the request is dealt with as soon as possible. |

## Snapshot of the market, 2012–17

### Number of credit cards and volume of interest and fees

92 The 12 credit providers in our review gave us data on 21.4 million credit card accounts. Based on this data, at June 2017 there were 14 million consumer credit card accounts open. This represents an increase of over 300,000 accounts since July 2012. There was a steady increase in the number of open accounts in 2012 and 2013, and more fluctuation in later years: see Figure 1.

**Figure 1: Number of open credit card accounts, 2012–17**

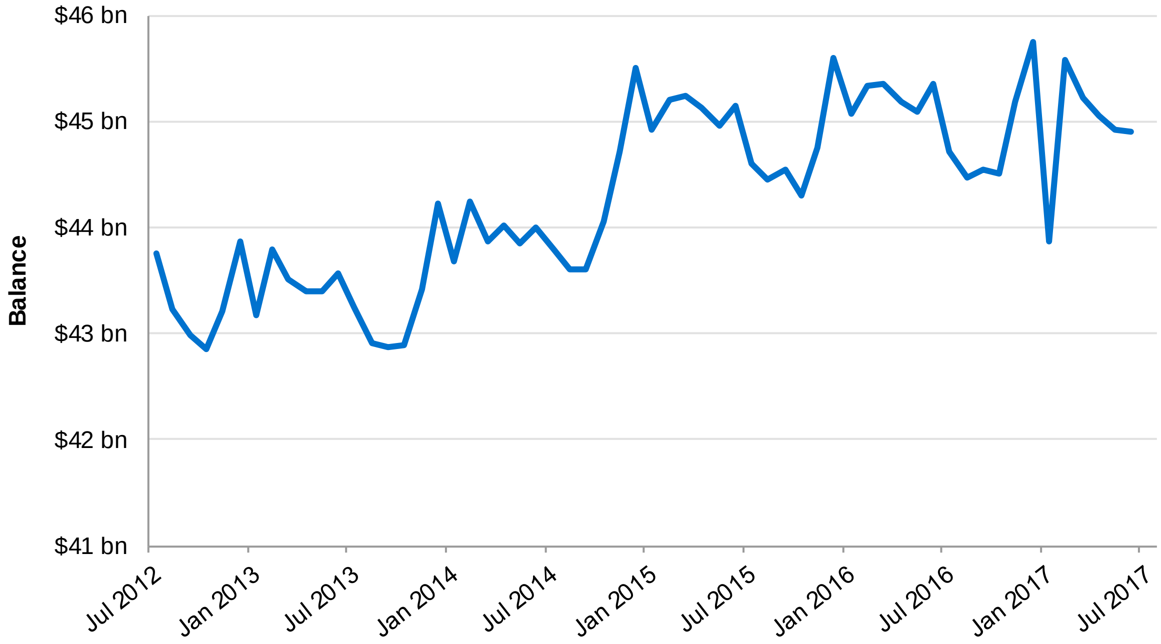



Note: See paragraph 92 for a description of the trends in this figure.

93 At June 2017, there were balances outstanding of almost $45 billion, a general increase since July 2012, when balances outstanding were $43.8 billion. However, the data displays seasonal variation, with relatively higher outstanding balances during some months of the year: see Figure 2.

Note: Some accounts may also be in credit (e.g. because the repayments on the card exceed the amounts debited). These amounts have not been included for this analysis.

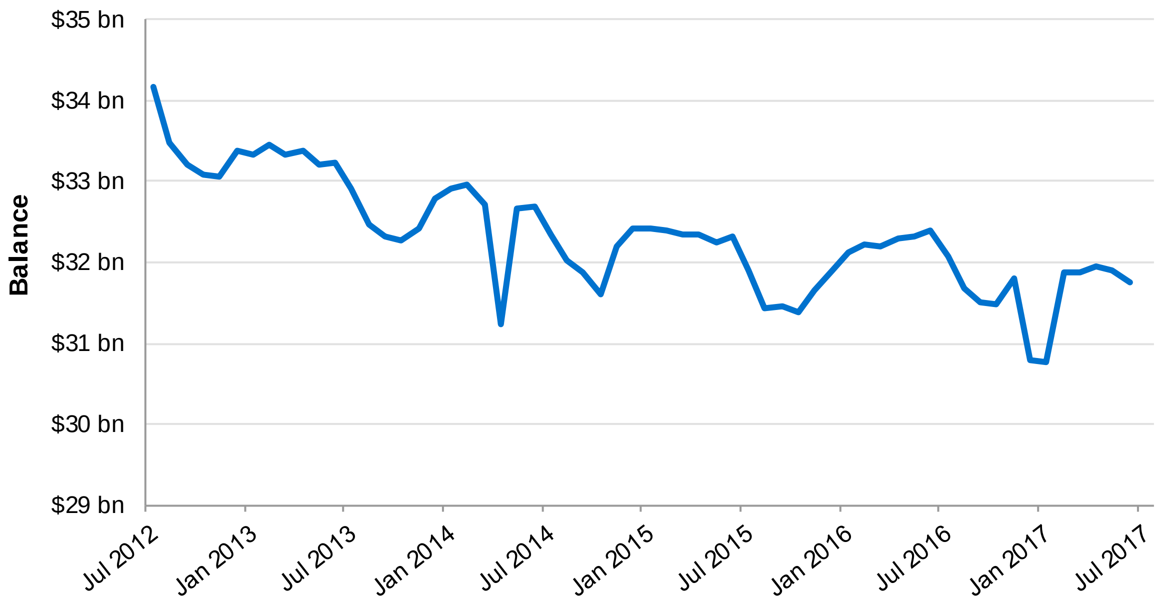
**Figure 2: Outstanding balances on credit card accounts, 2012–17**




Note: See paragraph 93 for a description of the trends in this figure.

94 Although the total balances outstanding have generally increased since 2012, the outstanding balances on accounts being charged interest has trended downward since 2012. At June 2017, the outstanding balances on accounts being charged interest was approximately $31.7 billion: see Figure 3.

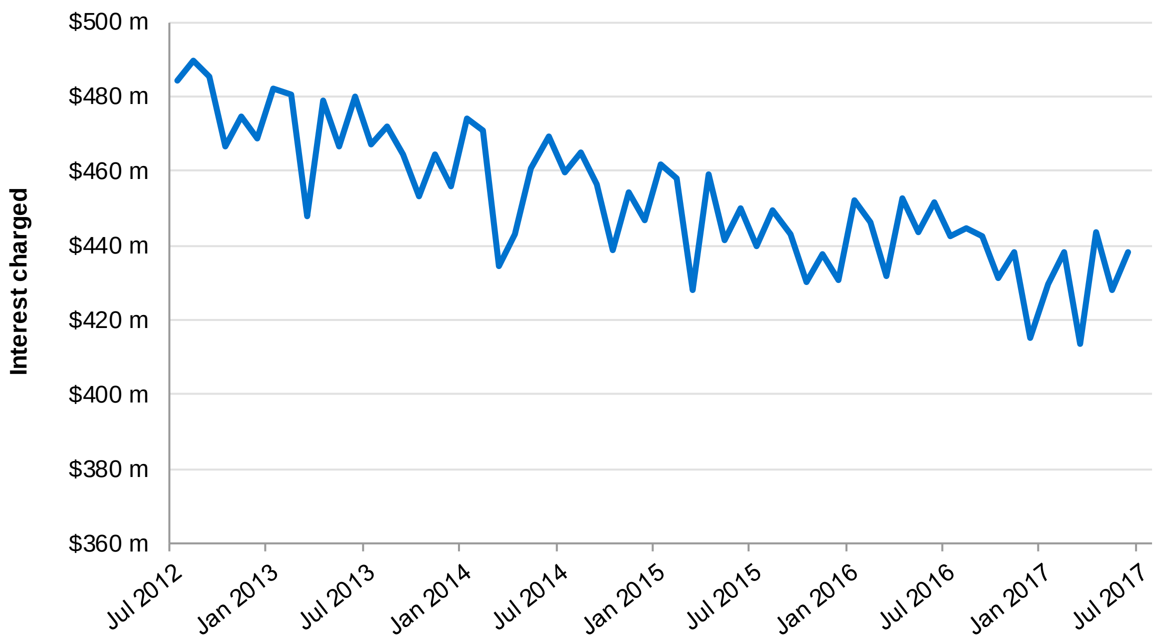
**Figure 3: Total balances on credit card accounts where interest is being charged**




Note: See paragraph 94 for a description of the trends in this figure.

95 Figure 4 outlines the interest charged on credit card accounts between 2012 and 2017. There has been a general downward trend in the aggregate amount of interest charged to accounts each month, from $489.6 million in August 2012 to between $410 million to $445 million in 2017.

**Figure 4: Total interest charged on credit card accounts, 2012–17**




Note: See paragraph 95 for a description of the trends in this figure.

96 In addition to interest charges, we obtained data on fees charged to credit card accounts, including annual fees, late payment fees and other transaction-related charges. This data indicates that approximately $1.5 billion in fees was charged to credit card accounts in 2016–17. This figure has increased each year since 2012–13.

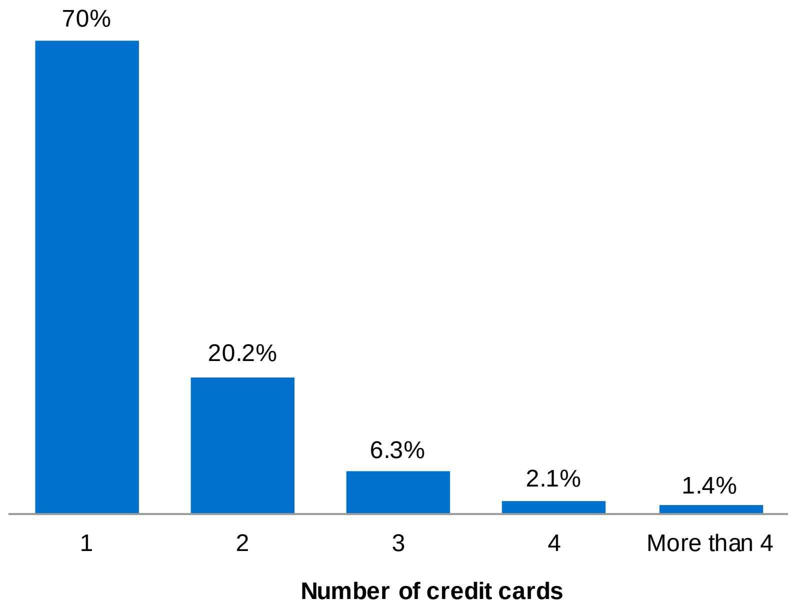
## Cards for each consumer

97 Our data linking exercise indicates that approximately 12.3 million people own the 21.4 million accounts in the dataset—that is, the data linking exercise strongly suggests some consumers have more than one credit card.

98 Most consumers held one credit card between 2012 and 2017: 62.1% of accounts are not linked to any other account. Of the consumers with multiple credit cards, most held two cards. The data linking exercise indicates that less than 5% of consumers held five or more credit cards between 2012 and 2017.

99 Figure 5 outlines the number of open cards for each consumer at June 2017. At that time, 70% of consumers had one open card, and a further 20.2% had two open cards. The remainder of consumers had more than two open cards.

**Figure 5: Number of consumers with multiple credit cards, June 2017**




Note: See paragraph 99 for a description of the trends in this figure.

# B Consumer outcomes

**Key points**

Credit card debt causes problems for some consumers—at June 2017 18.5% of consumers satisfied our problematic debt indicators. Younger consumers were relatively more likely to be in delinquency, while those with multiple cards were over-represented in our indicators.

Some consumers have cards that are not well suited to their actual needs or behaviours, highlighting the challenges consumers face in selecting an appropriate credit card.

Only a few providers are taking proactive steps to look for and address persistent debt, repeated low repayments and potential hardship.

100 A significant area of focus in our review was the debt outcomes consumers experience with their credit cards.

101 We were concerned that consumers can carry large balances for extended periods at high interest rates, including balances that they have no prospect of repaying in the short-to-medium term (or that may cause financial harm in the future if their circumstances change).

102 Consumers can also face challenges selecting credit cards suited to their actual behaviours, in that:

(a) behavioural biases may affect product selection and use, which means that consumers may choose a credit card because of certain features (e.g. interest-free periods and balance transfer offers) rather than a credit card with features that would suit their behaviours, resulting in additional costs; and

(b) differences in product features and terms can be difficult for consumers to assess.

Note: The additional requirements for credit cards discussed in Section A are aimed at addressing some of these issues.

103 In our review, we explored:

(a) whether consumers have credit card debt that is causing them problems or has the potential to cause them problems in the future (we refer to this as ‘problematic debt’), and how this debt changes over time;

(b) whether some consumers have credit cards that are not suited to their actual behaviours; and

(c) what credit providers do in response to these issues.

Note: For a discussion of debt outcomes related to balance transfers, see Section C.

104 We also considered some aspects of current responsible lending assessments that may be relevant after the further requirements in the Banking Measures Act that relate to responsible lending commence from 1 January 2019.

Note: For details of this reform, see Table 1. For our proposal to prescribe a period of three years for all credit card contracts under this reform, see CP 303.

## Problematic debt

105 Credit cards allow consumers to spread out the cost of their expenses over time and give them flexibility in how much of the balance owing they repay. Although credit cards are a useful tool, this flexibility has contributed to poor debt outcomes for some consumers.

106 There is no single definition for problematic credit card debt, and attempting to define it as a concept is challenging. For example:

(a) looking at the total outstanding balance in isolation means the analysis will not consider if that amount is a significant debt for that consumer;

(b) examining behaviours at a single point in time means the analysis will lack context about whether a consumer's usage pattern is for a short period or indicative of longer-term challenges; and

(c) reviewing each card in isolation means the analysis will not reflect total credit card debt outcomes where consumers hold multiple cards.

107 The effect of problematic debt on consumers can be financial: carrying large balances for a significant period at relatively high interest rates is expensive compared to other debt options. There can also be non-financial harms, such as reduced consumption or stress due to substantial or unaffordable debt.

108 In examining problematic debt, we looked at three scenarios:

(a) *Failure to make minimum repayments*—We consider that not making the minimum repayments required (excluding short-term oversights) is clear evidence of debt that is causing problems for a consumer.

(b) *Significant long-term debt*—Consumers who carry substantial amounts of debt relative to their credit limit for a prolonged period are at risk of financial harm or more severe problems if their circumstances change. Stakeholders were concerned about consumers who use nearly all their credit limit and do not effectively repay their debt. The Senate Inquiry also expressed concerns about this behaviour, noting that some consumers have no prospect of repaying what they owe in the short-to-medium term.

(c) *Small repayments*—Where consumers make relatively small repayments for a prolonged period (e.g. the contractual minimum, or amounts near that minimum) the cost of credit card debt substantially increases, creating risks of financial harm if this occurs regularly.

Note: These scenarios broadly correlate with the types of problematic credit card debt identified by the FCA in its credit card market study: see FCA, MS14/6 *Credit card market study: Final findings report* (July 2016).

### Indicators of problematic debt

109 To measure the prevalence of these scenarios, we developed four problematic debt indicators: see Table 2. These indicators reflect the three scenarios, with some additional conditions to filter out:

(a) occasional variations in behaviour that do not detract from the overall risk of harm; and

(b) practices that may not cause problems, such as regularly carrying a large balance at no cost.

110 In developing these indicators, we looked at the different ways credit providers recorded and reported delinquency information and tested alternatives to identify accurate measures. We also conducted a data linking exercise to analyse a consumer's debt situation across all their credit card accounts (rather than only an individual account-based assessment): see the appendix to this report.

**Table 2: Overview of problematic debt indicators**

| Indicator | Description |
| --- | --- |
| Severe delinquency | The account has been written off or is in the worst state of delinquency that the relevant credit provider reported to us.<br>Note: There were differences in how some credit providers reported delinquency information to us. We standardised this information where possible, but there may be minor differences between providers' data. We have considered these differences when developing and using the indicators. |
| Serious delinquency | The account has been 60 days (or more) overdue in the previous 12 months. |
| Persistent debt | The average balance of the credit card is 90% of the credit limit over the previous 12 months and interest has been charged. |
| Repeated low repayments | The consumer has made eight or more repayments on the account at or below 3% of the credit limit and interest has been charged over the previous 12 months. |

Note: Because the indicators for a specific month (e.g. June 2017) are based on data about the consumer's card(s) during the preceding months, the first month we have an indicator for is in 2013.

111 For the purposes of our analysis, where several indicators applied to an account or across a consumer's credit cards, we treated the account or consumer as being in the 'worse' state (unless otherwise indicated). We consider severe delinquency to be the worst state, with repeated low repayments the least worst.

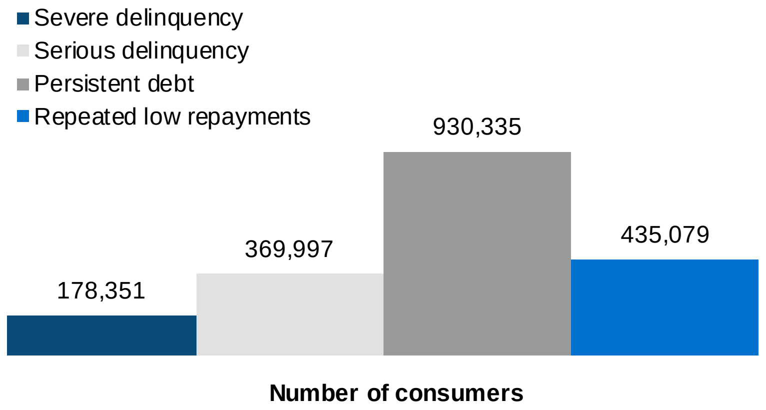
## The incidence of problematic debt

**Finding 1: Credit card debt is a problem for many consumers**

112 We found that 18.5% of consumers satisfied one or more of our problematic debt indicators in June 2017: see Figure 6. Some of these consumers are in actual harm, while others are at greater risk of problems in the future.

113 We also found that problem debt is not randomly distributed. As outlined in paragraphs 118–125, younger consumers were over-represented in our delinquency indicators, while consumers with multiple cards frequently appeared in indicators, highlighting areas for further work.

**Figure 6: Problematic credit card debt, June 2017**




Note: See paragraphs 114–115 for a description of the data in this figure.

114 In June 2017 18.5% of consumers, or more than 1.9 million people, satisfied one of the problematic debt indicators. The data indicated:

(a) over 178,000 people were in severe delinquency;

(b) almost 370,000 additional people were in serious delinquency;

(c) around an additional 930,000 people had persistent debt; and

(d) roughly a further 435,000 people made repeated low repayments.

115 Some consumers satisfied more than one indicator, either for one card, or different indicators for different cards. When we looked at the indicators separately, at June 2017 approximately 1.7% of consumers were in severe delinquency, 5% were in serious delinquency, 10.8% carry persistent debt and 8.5% made repeated low repayments. Just over half of the consumers who made repeated low repayments also satisfied one of the other indicators.

116 These findings were broadly consistent across the period for which we had data, although the overall level of problematic debt appears to have declined slightly over recent years (from 20% in June 2014).

117 We are concerned about the amount of problematic debt we found. This represents a substantial amount of consumer harm (or risks of worsening problems in the future).

118 We considered if problematic debt was more or less common based on certain consumer features, such as:

(a) the number of cards held by the consumer;

(b) the age of the consumer; and

(c) the consumer's credit provider.

119 We also considered problematic debt in the context of balance transfers. We found that consumers who transfer balances were over-represented in our problematic debt indicators: see Section C.

### Multiple cards

120 Consumers with multiple cards open in the last 12 months were over-represented in every problematic debt indicator at June 2017. The proportion of consumers that satisfied each indicator increased as the number of cards increased. For example, 14.2% of consumers with one card were in problematic debt in June 2017, compared to 31.2% of consumers with three open cards.

121 The correlation between the number of cards and the proportion of consumers potentially displaying problems was greatest for those making repeated low repayments: 5.4% of consumers with one card satisfied this indicator, compared to 31.8% of consumers with five cards and 42.6% of consumers with six or more cards.

122 This is not a surprising finding, and may reflect the substantially higher aggregate credit limits of consumers with multiple cards.

### Consumer age

123 Younger consumers had a higher overall incidence of problematic debt at June 2017, but also in earlier periods. At June 2017, 21.2% of consumers aged 18–29 satisfied one of our indicators, compared to 10.8% of consumers aged 65 and over.

124 However, the distribution of consumers across the different indicators varied significantly by age. We found that a greater proportion of young consumers were in delinquency: at June 2017, 3.3% of consumers aged 18–29 were in severe delinquency, compared to 1.7% of the whole population and 0.7% of consumers aged 65 and over. For consumers making repeated low repayments, the distribution was relatively uniform across age categories, with a slightly higher proportion of consumers aged 45–64 in this category.

#### Credit provider

125 We found some variation in the incidence of problematic debt based on who provided the credit card. This variation could be driven by many factors, including differences in:

(a) portfolios (e.g. providers with younger portfolios may have higher rates of delinquency);

(b) lending practices; and

(c) providers' responses to problematic debt.

### Changes in problematic debt over time

**Finding 2: Some consumers have problems with debt over time, especially persistent debt**

126 Most consumers who had problematic debt in 2013 were not in this state in 2017. However, close to 60% of consumers with persistent debt carry this debt over long periods of time, and almost 50% of consumers who make repeated low repayments continue to do so 12 months later.

127 To find out how problematic debt changes over time for consumers, we analysed the data we received to identify whether consumers remained in problematic debt, progressed to a worse category of debt or whether their situation improved. We conducted this analysis over the full period for which credit providers gave us data.

#### Comparison from 2012–13 to 2016–17

128 Most consumers with problematic debt in June 2013 did not satisfy our indicators in June 2017; however, 24.5% of these consumers did not have an open credit card in the later period. A majority of consumers who still had an open credit card in June 2017—over 890,000 people—were in problematic debt across both periods.

129 Consumers who were in persistent debt, or making repeated low repayments, were relatively more likely to meet these indicators in both June 2013 and June 2017:

(a) 38.2% of consumers with persistent debt in June 2013 still had persistent debt in June 2017; and

(b) 35.4% of consumers making repeated low repayments were still doing so in June 2017.

Note: These figures include every consumer that satisfied these indicators (even if they also satisfied a 'worse' indicator).

### Comparison at yearly intervals

130 We looked at changes over yearly intervals (e.g. June 2016–June 2017). We did this by segmenting consumers based on their status (in problematic debt, not in problematic debt or no open card) in the earlier period, and then determining their status in the later period.

131 Table 3 shows how the status of consumers' debt changed from June 2016 to June 2017 (based on the problematic debt indicators for those months). For example, the uppermost left cell in Table 3 indicates that 88.7% of consumers who did not have problematic debt in June 2016 also did not have problematic debt in June 2017.

Note: Problematic debt indicators for a specific time are based on data about that consumers card(s) for the preceding period: see paragraph 110 and Table 2.

**Table 3: Proportion of consumers in June 2017 with indicators in June 2016, worst state**

| Status in June 2016 | No problematic debt (June 2017) | Severe delinquency (June 2017) | Serious delinquency (June 2017) | Persistent debt (June 2017) | Repeated low repayments (June 2017) | No account open (June 2017) |
|---|---|---|---|---|---|---|
| No problematic debt | 88.7% | 0.4% | 1.6% | 3.4% | 1.8% | 4.3% |
| Severe delinquency | 9.6% | 24.4% | 5.5% | 3.2% | 1.2% | 56% |
| Serious delinquency | 29.7% | 13.9% | 31.2% | 12.8% | 6% | 6.4% |
| Persistent debt | 25.1% | 2.9% | 8% | 58.7% | 4.9% | 0.3% |
| Repeated low payments | 33.1% | 1.7% | 5.3% | 10.3% | 48.2% | 1.4% |
| No account open | 96% | 1.5% | 1.9% | 0.3% | 0.3% | N/A |

132 The key findings from this analysis relate to:

(a) consumers in severe delinquency;

(b) the proportion of consumers who remain in persistent debt and continue to repeatedly make low repayments; and

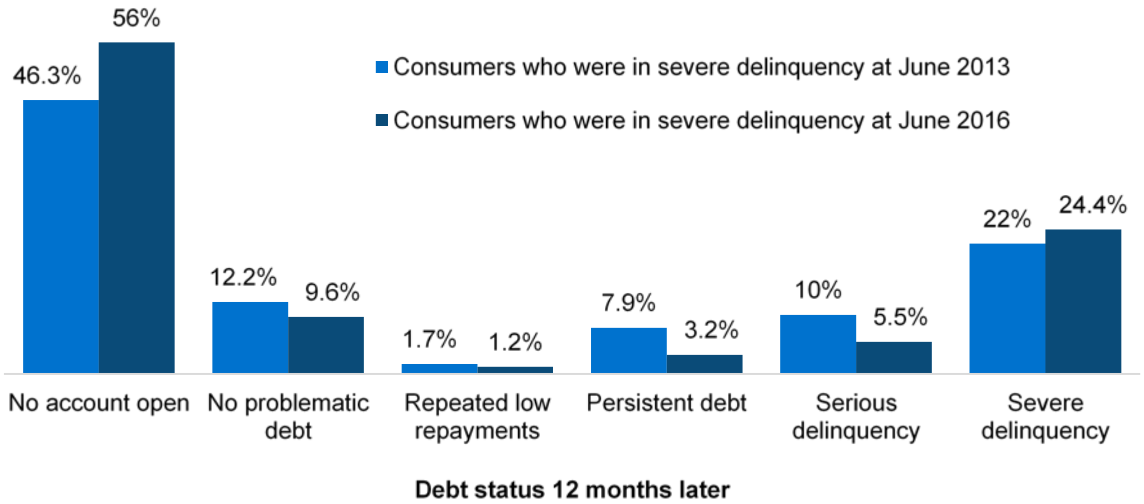
(c) transitions for consumers who did not have a credit card.

*Severe delinquency*

133 As Table 3 shows, most consumers who were in severe delinquency in June 2016 (56%) did not have an open card in June 2017. This transition is unique to this indicator (i.e. consumers with other indicators were much more likely to still have an open card 12 months later) and may reflect a decision by credit providers to cancel these cards to stop further debt being accrued.

134 Changes in rates of severe delinquency also changed across the period we analysed. Figure 7 shows the transition for consumers who were in severe delinquency from June 2016– June 2017 compared to June 2013–June 2014.

**Figure 7: Transitions from severe delinquency, 2013–14 and 2016–17**




Note: See paragraph 135 for a description of the trends in this figure.

135 In earlier periods, a larger proportion of consumers kept their card. Figure 7 shows that 53.7% of consumers who were in severe delinquency in June 2013 kept their card, with 31.7% either in a different state or not in problematic debt in 2014. The proportion of consumers keeping their card and moving to a less severe state has decreased steadily since 2014 to 19.6%, with a corresponding increase in consumers without an open credit card in the later period.

*Persistent debt and repeated low repayments*

136 The proportion of consumers that remain in persistent debt over time was largely unchanged during the period we analysed. This proportion was 57.9% from June 2013– June 2014 and 58.7% from June 2016–June 2017.

137 Similarly, the proportion of consumers that continue to make repeated low repayments has not changed, being 48.3% for June 2013–June 2014 and 48.2% for June 2016–June 2017.

138 This suggests a relative lack of focus by credit providers on measures to help consumers with persistent debt or who make repeated low repayments: see paragraphs 166–189. These findings also indicate that more can be done to help these consumers.

*Transitions for consumers who did not have a credit card*

139 A greater proportion of consumers who did not have a credit card in June 2016 were in delinquency in June 2017 (compared to those who had a card but were not in problematic debt 12 months earlier). We also observed this outcome across earlier periods.

140 Possible reasons for this outcome include:

(a) younger consumers with their first credit card may experience difficulties (younger consumers were over-represented in our delinquency indicators); and/or

(b) there may be a positive correlation between holding a card and not having problematic debt and a lower risk of future problems (e.g. due to good financial habits or increased financial capability).

141 By comparison, consumers without a card were unlikely to be in persistent debt or making repeated low repayments 12 months later. This is partly due to the way our indicators work: only consumers who opened the card shortly after the earlier time could satisfy the definitions.

*Worsening of debt more generally*

142 Some consumers did move from one state to a worse state in subsequent periods. From June 2016, the following proportion of consumers moved to a ‘worse’ state by June 2017:

(a) 17.2% of consumers making repeated low repayments;

(b) 11% of consumers in persistent debt; and

(c) 13.9% of consumers in serious delinquency.

143 Compared to other transitions, a relatively large group of consumers moved from serious delinquency into severe delinquency. This may be explained by the similarities between the indicators for these types of problematic debt.

## Credit cards that do not suit consumers’ behaviour

**Finding 3: Some consumers have credit cards that are not suited to their behaviours or needs**

144 We identified instances where consumers had cards that did not suit their behaviours, particularly high-interest rate cards where interest was charged. There were also consumers who repeatedly exceeded their credit limit. This suggests that some consumers struggle to choose appropriate cards; these concerns have previously been identified and have resulted in some additional regulatory requirements.

145 One aim of the Senate Inquiry's recommendations was to empower consumers to better value and compare credit cards and make it easier for them to switch to a product that best suits their needs and circumstances.

146 The recommendations were informed by evidence that:

(a) consumer decision making was affected by behavioural biases; and

(b) consumers focus more on some features (e.g. balance transfers and rewards programs) compared to other features such as interest rates.

147 The recommendations were made even though there were requirements included in the Home Loans and Credit Cards Act to allow easier product comparisons and help decision making.

Note: For a discussion of this issue and the Key Facts Sheet, see Section D.

148 In the United Kingdom, the FCA's credit card market study found that consumers do not always choose the best credit card for their circumstances. The reasons suggested by the FCA included:

(a) consumers could not effectively compare the different cards available (e.g. they may not know the actual terms they will be offered when they apply for a credit card);

(b) they have given insufficient weight to certain product features; and

(c) their actual card usage differed from what they expected.

Note: See FCA, MS14/6 *Credit card market study: Final findings report* (July 2016).

149 We explored whether some consumers had credit cards that are not suited to their actual behaviours. As with problematic debt, this concept does not have a single definition. We explored three scenarios:

(a) *High-interest rate cards with interest charges*—Consumers who carry debt for a prolonged period on a card with a relatively high interest rate would be better suited to a lower-interest rate card.

(b) *Credit limit repeatedly exceeded*—Consumers who repeatedly exceed their credit limit may:

(i) be better suited to a card with a higher limit (if they can afford it), as they will avoid unnecessary fees; or

(ii) have problems with their debt.

Note: These consumers may also be in persistent debt.

(c) *High-annual fee cards with little use*—Consumers who have a card with a relatively high annual fee that they do not use very much may be better suited to a card with a lower fee (or, in some cases, no card).

### High-interest rate cards with interest charges

150 We defined a high-interest rate card as a card with a purchase rate of over 20% for three or more months. We looked for accounts where interest was charged for three or more months, to avoid including consumers who were only occasionally charged interest.

Note: We excluded accounts where data issues meant we could not determine whether the card was a high-interest rate card. This affected all accounts of one large provider.

151 Based on data from July 2016–June 2017, 1.8 million consumers were carrying a balance and being charged interest on a high-interest rate credit card. This represents:

(a) 19% of consumers who we had enough information about; and

(b) 43.2% of consumers who held high-interest rate credit cards during that period.

152 Over the same period, 3.4 million consumers were charged interest for three or more months on cards that were not high-interest rate cards, representing 52.4% of consumers who held those cards. Even though a greater proportion of consumers who carry balances and are regularly charged interest do so on cards that are not high-interest rate cards, we found a substantial number of consumers who may be better suited to a card with a lower rate.

Note: Some consumers may have interest charges on both types of cards.

153 As a group, consumers carrying balances on high-interest rate cards could have saved a substantial amount of money if the balance was on a card with a lower rate. Based on the proportion of debt where interest was being charged, we estimate that consumers could have saved at least $621.5 million if they were charged an interest rate of 13%. Many providers offer cards with rates at or around that figure (or lower for some cards).

Note: This estimate only includes accounts where we had enough information to calculate how much debt was being charged interest, and the rate at which interest was being charged. This does not include all the accounts or consumers described in paragraph 151.

154 Many high-interest rate cards have other features, such as complimentary insurance coverage, rewards programs or other benefits. The extent to which consumers value these features may vary, and some stakeholders consider that these features do not provide value for money for consumers who are being charged interest.

155 The 19% of consumers who carried a balance and were being charged interest on a high-interest rate card were over-represented in our problematic debt indicators.

## Repeatedly exceeding the credit limit

156 We defined accounts as exceeding their credit limit where the balance was above the credit limit for two or more months over a 12-month period. We found that 10.7% of consumers repeatedly exceeded their credit limit on at least one card from July 2016–June 2017.

157 Separately to our review, we asked seven credit providers about their policies for allowing cards to exceed their credit limit. Allowing consumers to exceed their credit limit can give them access to credit for emergency purposes, and avoid discontent or embarrassment if transactions are declined that would take them only slightly above their credit limit.

158 We found that the maximum amount by which a consumer can exceed their credit limit varies considerably depending on the credit provider.

159 Consumers who are not considered 'high risk' can exceed their credit limit by 10–35% depending on the credit provider. Some providers set the upper threshold as either a percentage or a dollar amount, depending on which threshold is reached first. Dollar amount thresholds ranged from $1,000–20,000.

160 Additionally, we found that:

(a) credit providers do not advise consumers about how much they can exceed their limit by when they enter into the contract;

(b) credit providers do not make inquiries about the consumer's requirements and objectives for being able to exceed their limit;

(c) a consumer's ability to afford credit over their limit is typically assessed on an individual transaction basis in real time;

(d) consumers who already exceed their credit limit are often allowed to continue to use their card and go further over that limit; and

(e) only some credit providers allow consumers to opt-out of exceeding their credit limit.

161 We are concerned that some credit providers allow consumers to access credit substantially above their credit limit, and that the amounts by which the limit may be exceeded are not clearly disclosed. These practices can result in consumer harm by exposing consumers to the risk of financial hardship.

162 Credit providers should review and where necessary reduce the amounts by which they let their consumers exceed their credit limits in coming months. We will be communicating further with industry about our expectations for practices relating to consumers exceeding their credit limits.

## High-annual fee cards with little use

163 We found very few accounts with a relatively high annual fee where use of the card is low.

## What credit providers do

164 Given our findings about problematic debt and unsuited cards, we asked credit providers about any proactive measures they take to identify these issues (and to contact those consumers).

165 We also asked about:

(a) prompts to make larger repayments when consumers have made low repayments for an extended period;

(b) the availability and promotion of structured payment plans (which may help address some of the concerns about issues that arise out of the amount of flexibility a credit card can provide and the low minimum payments required); and

(c) reminders about repayments, including overdue repayments.

### Proactive measures

**Finding 4: Few credit providers take proactive steps to address persistent debt, low repayments or products that are unsuited**

166 Few credit providers have taken proactive measures to address ongoing problems other than delinquency. Consumers who are in persistent debt or repeatedly making low repayments may be profitable; this means there may be limited incentives for providers to act.

167 Some providers have started to take proactive measures to deal with persistent debt, repeated low repayments and cards that do not suit consumers. Credit providers should implement these types of initiatives, with indicators of potential harm or problems framed to capture an appropriate pool of consumers.

#### Suitability and hardship

168 Three credit providers said they proactively monitor their portfolios for cards that do not suit consumers, including one provider that started a pilot program in late 2017. Three other providers have cancelled unused cards or reviewed cards that move into delinquency very soon after they are opened.

169 The indicators used by the three credit providers vary, but include:

(a) high credit limit use and exceeding the credit limit due to interest charges;

(b) making repayments at or near the contractual minimum for a consecutive number of months;

(c) the way the card is used (e.g. cash advances or payments on payday loans);

(d) being in delinquency;

(e) holding an inactive credit card; and

(f) issues with other products (e.g. financial hardship or delinquency).

170 We welcome such measures to proactively look for unsuited cards or other issues that indicate consumer harm. However, it is important that indicators (e.g. repayment levels) capture an appropriate degree of harm, rather than targeting only the very worst cases.

171 One of the three credit providers also wrote to customers affected by a product offering change to encourage them to consider if the card product remained suitable. The letter referred customers to a tailored landing page which provided information about alternative cards based on data analysis on the customer's account.

### Credit provider contact and alternative product offerings

172 Credit providers who proactively look for unsuited cards or other signs of harm generally contacted customers through various means, including text messages, emails, online notifications, letter and phone calls. Providers said the communications generally contained information about behaviours, products and features that may help the customer. Some providers mentioned that contacting customers by phone can be challenging.

173 Take-up rates of alternative products and services offered during or after these proactive communications are relatively low (frequently below 10%). This may reflect satisfaction with a current card, inertia, or challenges with regulatory requirements. One provider who offered unsecured personal loans to some customers said that most could not satisfy the responsible lending requirements.

174 We recognise that these issues can be challenging. However, letting customers remain in a product in these circumstances without any intervention creates risks of financial harm.

175 One provider had a product change where they mailed out replacement cards with more favourable terms and conditions for some customers, such as lower interest rates, annual fees and increased interest free days. Customers with a rewards credit card who did not use the rewards were sent a more suitable low-interest rate product.

176 This provider said they achieved a 93% activation rate on the new cards. This indicates to us that ensuring the design and features of the current credit contract remain appropriate for the consumer may be a key way to address these issues in some circumstances.

### Structured payment plans

177 Five of the 12 credit providers indicated that they offer structured payment plans to customers who are not in hardship, to help them to reduce their balance or repay a large purchase by instalments.

178 These plans frequently involve:

(a) a lower interest rate than the purchase rate;

(b) a fixed repayment term of between three and 36 months;

(c) customer selection of the structured payment amount, either a large purchase or part of the customer's credit card balance; and

(d) a set monthly repayment amount based on the other features of the plan.

179 Many credit providers promote these plans to their customers. One of the providers proactively contacts customers when they have:

(a) a balance of $200 or more and have repaid their balance in full each month for the previous six months;

Note: In this case, a consumer may be charged more interest on a structured payment plan.

(b) made only a minimum repayment at least nine times in the last 12 months; or

(c) transferred a balance.

180 Structured payment plans may be able to address some of the risks of poor outcomes that consumers can face because of the flexibility credit cards offer. Credit providers should continue to develop and promote these arrangements, particularly for consumers seeking to reduce their debt or who are experiencing problems based on the information available.

Note: We also found that consumers who make consistent repayments are more successful at repaying a transferred balance: see Section C.

### Prompting larger repayments

181 Nine of the 12 credit providers indicated that they do not proactively contact customers who make repayments at or near the minimum repayment for an extended period to prompt them to make larger repayments.

182 One provider has an ongoing program to proactively contact customers to prompt them to make larger repayments and reduce their debt. Customers are contacted by phone when monthly minimum repayments have been missed, the account has operated close to its limit for a period, or for other poor conduct. This program has been in place for 25 years.

183 Two large providers are running pilot programs to test the effectiveness of such proactive strategies, including taking steps to prompt customers to make larger repayments. One program explores product suitability for

customers with one or more characteristics, including minimum repayments and high limit use. As one outcome of this pilot, the provider may prompt customers to make larger repayments on their credit card. The other pilot program is being conducted by a provider in partnership with the Behavioural Economics Team of the Australian Government.

Note: For more information, see the Behavioural Economics Team website.

184 One credit provider conducted internal analysis, during a pilot, of the effectiveness of proactive contact with customers. Different message types and channels were used to encourage them to repay their outstanding credit card balance. The provider sought to understand whether using words such as 'debt' and 'balance' in these communications and giving the message a social angle caused a change in repayment behaviour.

185 Email reminders that encouraged customers to pay more towards their 'debt' to avoid paying more interest resulted in the highest number of customers repaying their outstanding balance. SMS reminders that their payment was due the following week were most successful (for this channel) in changing customers' behaviour to repay their balance. Based on the pilot, the provider is currently developing reminders for all its credit card customers.

### Repayment reminders

186 Credit providers have developed comparatively sophisticated ways to remind customers about repayments, including when repayments have been missed. All 12 providers said they notify customers of overdue repayments. The method, timing and frequency of notifications may vary depending on the customer's credit risk profile, the card and the severity of the delinquency.

187 Ten of the 12 credit providers indicated that they had analysed the effectiveness of contacting customers who missed repayments. The internal analysis conducted by four providers indicates that contacting customers that have missed a minimum monthly payment by SMS is the most effective method to result in repayments being made.

### Incentives to act

188 Generally, credit providers' proactive measures were more common where there were direct incentives to act. For example, credit providers have less incentive to take proactive action if customers are meeting their contractual requirements even if they have potentially problematic debt in that these customers may be profitable. Some providers do not look for this type of harm until the customer's issues crystallise into either delinquency or customer-initiated contact (e.g. a request for hardship assistance).

189 The FCA made similar findings—in particular, providers had few incentives to deal with customers who had persistent levels of debt or who repeatedly made minimum payments as these customers are profitable; most providers

did not routinely intervene to address this behaviour. The following case study outlines some of the changes the FCA has made to its rulebook to address issues with problematic debt being carried over time.

**Case study: Remedies for problematic debt (FCA)**

Following their credit card market study, the FCA had significant concerns about the scale, extent and nature of problem credit card debt in the United Kingdom and providers' limited incentives to reduce this debt.

The FCA used its rulemaking powers to develop remedies to address the issues it identified and put consumers in greater control of their borrowing while keeping the flexibility of credit cards.

Note: ASIC does not have rulemaking powers like those used by the FCA.

The remedies include measures to require proactive action to address persistent debt, which is defined as consumers paying more in interest, fees and charges than they have repaid of the principal over 18 months.

Specifically, the following remedies apply:

- At 18 months, providers must prompt customers in persistent debt to change their repayments if they can afford to and provide information about debt advice services and the implications of repeatedly making low repayments.
- At around 27 months, providers must send a reminder if repayments indicate a customer is still likely to be in persistent debt at 36 months.
- At 36 months, providers need to intervene if a customer remains in persistent debt. Providers must help the customer by proposing ways of repaying more quickly over a reasonable period, usually between three and four years. Examples include transferring the balance on the credit card to a lower-interest personal loan. Where the customer is unable to repay more quickly, the provider must show forbearance such as by reducing, waiving or cancelling any interest or charges. The FCA generally expects providers to suspend the cards of customers that have been shown forbearance, and those who do not respond.

Note: See FCA, PS18/4 *Credit card market study: Persistent debt and earlier intervention—Feedback to CP17/43 and final rules* (February 2018).

190 Some of the challenges identified by credit providers—including low take-up rates and regulatory requirements—indicate the importance of product design. This is particularly the case for credit cards where there have been issues in choosing cards that suit consumers' actual behaviours, as well as substantial amounts of problematic debt.

191 Designing products that suit actual behaviours, and ensuring that the right products are provided to the right consumers, is entirely consistent with:

(a) credit providers' general obligation to carry on their business efficiently, honestly and fairly; and

(b) a culture of prioritising customers' interests.

### Reactive measures

192 The National Credit Code provides a framework for varying credit contracts based on financial hardship. All credit providers in our review provide financial hardship assistance to credit card customers in some circumstances.

193 We asked credit providers about the assistance they provide, including the type and length of assistance, as well as common reasons for hardship. The type of assistance provided generally differed based on the likely length of the hardship and included debt waivers, payment reductions or deferrals, and reductions or waivers of interest and fees.

194 To determine the type of financial hardship assistance to offer, credit providers generally seek to understand the nature and reasons for the financial hardship, as well as the customer's financial situation. This work is usually undertaken by a dedicated team, with other customer-facing staff trained to identify signs of hardship and refer customers as appropriate.

195 Credit providers said the most common reasons identified by consumers for their financial hardship included:

(a) redundancy/unemployment;

(b) reduced income;

(c) illness/injury;

(d) financial over-commitment; and

(e) separation/divorce.

196 The number of hardship variations is relatively low: in late 2017 around 0.3% of credit card contracts had been varied due to hardship. Credit providers are not required to vary contracts, and in some cases variations may not be an appropriate response to the consumer's circumstances.

## Credit cards and responsible lending

197 The responsible lending obligations in Ch 3 of the National Credit Act apply to consumer credit cards. The Banking Measures Act has amended these obligations so that, from 1 January 2019, the suitability of a credit card contract must be assessed on a consumer's ability to repay the maximum credit limit within a period determined by ASIC.

Note: See CP 303 for our proposal to prescribe a period of three years for all credit card contracts.

198 To inform our work implementing the requirements of the Banking Measures Act, we asked credit providers about their current responsible lending practices, including assumed repayment levels for the proposed new card or limit, assumed repayments on other credit cards, and benchmarks used.

## Proposed new credit cards

199 Almost all credit providers currently assess a consumer's capacity to meet their financial obligations under a credit card by assuming that the consumer will use the full credit limit and make monthly repayments of a fixed percentage of the credit limit. The most common fixed percentage assumed is 3%, although this varies between providers.

200 The fixed percentage used by four credit providers is (in most cases) the same as the contractual minimum percentage of the balance owing that consumers are required to repay. That is, these providers check to see if the consumer can afford the minimum repayment if they use the full credit limit.

201 Generally, credit providers add a small buffer to the highest possible minimum repayment (e.g. assessing whether the consumer could repay 3% of the credit limit a month if the minimum repayment is 2.5%). One provider adds a $10 buffer to the minimum payment assuming the limit is fully used.

202 One large provider that assumes a fixed percentage of 3% indicated that their current assessments broadly equate to a consumer being able to repay the credit limit within five years. From our modelling, we reached a similar conclusion.

203 Most credit providers do not vary their assessments based on the features of the products, such as interest rates, annual fees or rewards programs. We note that these features can be highly relevant to whether the proposed card is well-suited to the consumer's actual behaviour.

## Credit cards with other providers

204 Credit providers ask about other cards the consumer holds. Where these cards are being kept, providers make broadly similar assumptions about the consumer's repayments on those cards, frequently based on a fixed proportion of the credit limit. A minority of lenders assume repayments equal to the greater of that proportion and another amount, such as a customer-stated repayment or a proportion of the balance.

205 Assumptions about repayments on the new card and other cards are the same for many credit providers, although at least two providers assume lower levels of repayments on cards provided by others than on their own cards.

206 For our expectations about assumptions on the levels of repayments on existing cards, see CP 303. We expect providers will also assume that the consumer is making repayments on their other cards that are sufficient to repay the limit of that card in the period we prescribe.

### Use of benchmarks in responsible lending assessments

207 Credit providers gave us information about the benchmarks they use in serviceability assessments.

Note: For guidance on the use of benchmarks, see RG 209.

208 As set out in RG 209, benchmarks can be a useful tool in the verification process, but are not a replacement for making inquiries about a particular consumer's current income and expenses, nor a replacement for an assessment based on that consumer's verified income and expenses.

209 Most credit providers in our review (eight out of 12) rely in some way on the Household Expenditure Measure (HEM) as a benchmark when doing serviceability assessments. Six of these providers use an adjusted HEM, which takes into account, for example, the consumer's income. This reflects the reality that consumers on higher incomes generally have higher expenses. Each of the eight credit providers that use HEM (or adjusted HEM) assess serviceability on the greater of either declared living expenses or the relevant benchmark.

210 Two credit providers verify declared living expenses against the Henderson Poverty Index and use the higher of the two amounts in their assessments.

211 We are continuing to examine this information, as well as quantitative data we received on income and expenses. This will inform our future work on responsible lending, including any updates to RG 209.

Note: ASIC has commenced civil penalty proceedings in the Federal Court against Westpac Banking Corporation for a number of contraventions of the responsible lending provisions of the National Credit Act: see Media Release (17-048MR) *ASIC commences civil penalty proceedings against Westpac for breaching home-loan responsible lending laws* (1 March 2017).

## ASIC's expectations and actions

### ASIC's expectations

212 Based on the findings of our review, we expect credit providers to improve their practices; our views on areas for improvement are set out below.

**Issue 1: Credit providers should take proactive steps to address problematic credit card debt and products that do not suit consumers**

213 We are concerned by the amount of problematic credit card debt we found. Although not all consumers with problematic debt will be experiencing harm, some may be in financial difficulty now, while others may be at risk of harm in the future.

214 We expect credit providers to proactively look for signs of problematic credit card debt. The steps that should be taken vary based on the severity of the problems and how long they have persisted.

215 By 30 September 2018, ASIC will publish the list of credit providers that have committed to introducing proactive measures to address problematic credit card debt.

**Issue 2: Credit providers should minimise the extra credit provided to consumers who regularly exceed their credit limit**

216 Current practices around allowing consumers to exceed their credit limit vary greatly depending on the provider. We are concerned about the extent to which a small number of credit providers are allowing consumers to exceed their credit limit, as well as the lack of clarity about this practice.

217 Our view is that credit providers should not ordinarily allow consumers to exceed their credit limits by more than 10%. We expect credit providers to promptly review, and where necessary reduce, the extra credit they allow consumers to access.

## ASIC's actions

218 We are taking action to improve practices in relation to responsible lending. We will also be continuing our work on credit cards, including:

(a) public updates around changes made in response to our review; and

(b) follow-up work to track whether the problems we have found are resolved.

**Action 1: Responsible lending practices should be enhanced through the implementation of the recent reforms**

219 Based on the information provided to us, responsible lending assessments for credit cards can be improved.

220 During our review, the Government amended the National Credit Act to give ASIC the power to prescribe a period for assessing whether a credit card contract or credit limit increase is unsuitable (for the purposes of responsible lending). The aim of this change was to tighten existing obligations to address harms identified by the Senate Inquiry.

221 We propose to prescribe a period of three years for these assessments: see CP 303. We encourage credit providers to give feedback on our proposal, including our expectations about the assumptions used in assessments.

### Action 2: Information on ASIC's MoneySmart website

222 We will engage with industry about how they address our findings and expectations, and improve their credit cards and behaviours. By 30 September 2018 we will provide information on our MoneySmart website about credit providers that have committed to develop and introduce proactive measures to address problematic credit card debt and products that do not suit consumers. We may also provide updates on other matters.

### Action 3: Follow-up work on credit cards

223 Our work on credit cards will continue beyond 2018. We will conduct a follow-up review in two years to track:

(a) the amount of problematic credit card debt and number of cards that do not suit consumers (e.g. consumers that repeatedly exceed their limit);

(b) the effect of balance transfers on debt outcomes; and

(c) whether card cancellation rates change.

# C Balance transfers

## Key points

The balance transfer 'debt trap' risk does exist—that is, a substantial minority of consumers increase their total debt during the balance transfer period. This occurs even though our consumer research indicated that reducing debt is a key consideration when balance transfers are taken out.

Most consumers do not cancel a card after transferring a balance, and the evidence suggests that many consumers continue to use cards after balances are transferred.

Additional measures could help consumers who transfer balances avoid the debt trap risk, including encouraging them to review their cards and promoting structured payment plans.

224 Balance transfers allow consumers to transfer some or all of their credit card balance from one card to another.

225 Many credit providers offer balance transfers where the consumer pays a lower rate of interest (promotional rate) on the transferred amount for a specified period (promotional period). This can give consumers an opportunity to pause or reduce interest charges on an outstanding balance for a period. At the end of the promotional period, interest is charged on any remaining portion of the transferred balance at a higher rate.

Note: Some credit providers also charge a fee for balance transfers, often as a proportion of the balance transferred.

226 Our review focused on balance transfers due to concerns raised by the Senate Inquiry that these transfers can be a potential debt trap for consumers. In their view, consumers risk increasing their total amount of credit card debt if they transfer a balance to a new card to take advantage of an offer but:

(a) fail to pay off the transferred balance in the promotional period;

(b) keep the card the balance was transferred from; and

(c) make new purchases on one or more of the credit cards.

Note: See Senate Economics References Committee, *Interest rates and informed choice in the Australian credit card market* (December 2015) at paragraphs 5.46–5.64.

227 In our review, we explored:

(a) when and how balances are transferred;

(b) why consumers transfer balances; and

(c) whether consumers repay transferred balances and what happens to their total credit card debt during and after the promotional period (i.e. if the 'debt trap' risk exists).

## Overview of transfers, 2012–17

**Finding 5: Balance transfers are more common with certain types of consumers and credit providers**

228 We found that consumers with a higher level of credit card debt across all their cards were more likely to transfer balances. The size of the balances also varied, with younger consumers more likely to transfer smaller balances.

### Number of balances transferred

229 For credit card accounts open in June 2017, just over 1 million had a balance transferred onto them at some stage; this is equivalent to 7.6% of all open accounts. Including cards that were cancelled by June 2017, the total proportion of all cards with a transferred balance at some stage was 8.3%.

230 The proportion of credit cards with a transferred balance varied by credit provider. Table 4 outlines the number of credit cards open in June 2017 that had received a transferred balance at some stage by lender.

Note: This table reflects data given to us by 10 credit providers. Two providers did not supply data on balance transfers; based on information given to us by those providers, we do not believe that their omission affected our analysis.

**Table 4: Credit cards with a balance transfer, by credit provider**

| Credit provider | Number of cards with a transferred balance | Proportion of total market share |
|---|---|---|
| Credit provider 1 | 205,386 | 19.2% |
| Credit provider 2 (Brand 1) | 192,060 | 18% |
| Credit provider 2 (Brand 2) | 165,897 | 15.5% |
| Credit provider 3 | 164,774 | 15.4% |
| Credit provider 4 | 156,995 | 14.7% |
| Credit provider 5 (Brand 1) | 44,205 | 4.1% |
| Credit provider 5 (Brand 2) | 41,128 | 3.9% |
| Credit provider 6 | 36,927 | 3.5% |
| Credit provider 7 | 30,301 | 2.8% |
| Credit provider 8 | 29,149 | 2.7% |
| Credit provider 9 | 1,130 | 0.1% |

| Credit provider | Number of cards with a transferred balance | Proportion of total market share |
|---|---|---|
| Credit provider 10 | 101 | Less than 0.1% |
| **Total** | **1,068,053** | **100%** |

231 Table 4 highlights that some credit providers do not promote balance transfers and represent fewer than 1% of the accounts that received a transferred balance. By comparison, some larger credit providers held between 15% and 20% of all accounts open at June 2017 that had received a transferred balance.

232 Our data linking exercise suggested that these 1,068,053 credit cards are owned by almost 800,000 people. Approximately 187,000 (23.5%) of these people owned more than one credit card with a transferred balance.

233 This is largely consistent with our consumer research. Nearly three quarters (72%) of people who completed our survey indicated they were using a balance transfer for the first time.

234 Table 5 shows the breakdown of these consumers by age (as at 30 June 2017) and the number of cards owned. It indicates that consumers aged 30–49 were more likely than other consumers to own one card or multiple cards with a transferred balance.

**Table 5: Consumers with a transferred balance on one or more credit cards, by age**

| Number of cards with a transferred balance | 18–29 years | 30–49 years | 50–64 years | 65+ years | Age not specified |
|---|---|---|---|---|---|
| None | 91.7% | 88.4% | 92.9% | 97.7% | 97.6% |
| 1 | 6.8% | 8.8% | 5.3% | 1.8% | 2.2% |
| 2 or more | 1.5% | 2.8% | 1.8% | 0.5% | 0.2% |

## Amount of money transferred

235 Based on the data we received, consumers transferred $12.4 billion in balances from 2012 to 2017.

Note: We only requested data on the most recent balance transferred to each card. Approximately 20% of cards have received multiple balance transfers. When these additional transfers are considered, the total balances transferred would increase.

236 We analysed the size of transferred balances and whether this varied by age of the consumer as at 30 June 2017: see Table 6.

**Table 6: Size of transferred balance, by age**

| Size of transferred balance | Proportion of accounts | 18–29 years | 30–49 years | 50–64 years | 65+ years |
|---|---|---|---|---|---|
| Less than $5,000 | 39.1% | 58.3% | 37.8% | 33.8% | 42.2% |
| $5,000–9,999 | 35.6% | 30.5% | 36.9% | 35.6% | 31.1% |
| $10,000–20,000 | 19.6% | 8.1% | 19.7% | 23.6% | 20.2% |
| More than $20,000 | 3.9% | 0.7% | 3.7% | 5.4% | 5% |
| Data unavailable | 1.8% | 2.4% | 1.8% | 1.6% | 1.4% |

237 Table 6 indicates that over half of transferred balances were smaller than $10,000, with the most common amount being between $0 and $4,999. Younger consumers were relatively more likely to transfer a smaller balance, and less likely to transfer a balance over $10,000.

238 This is largely consistent with our consumer research. 82% of people who completed our survey indicated that their last balance transfer was for less than $10,000, with less than $5,000 being the most frequent amount.

239 We also looked at whether consumers with higher balances across all their cards conducted a larger proportion of balance transfers. We did this by comparing total balances in June 2017 for all consumers that transferred a balance that month. Table 7 breaks down the 26,300 balances transferred in June 2017 by the total balances of the relevant consumers.

**Table 7: Number of consumers who transferred balances in June 2017**

| Total debt on all credit cards at June 2017 | Number of consumers who transferred a balance | Number of consumers with a credit card | Proportion of consumers who transferred a balance |
|---|---|---|---|
| Less than $5,000 | 3,928 | 5,258,651 | 0.1% |
| $5,000–9,999 | 5,987 | 1,285,826 | 0.5% |
| $10,000–20,000 | 7,616 | 669,060 | 1.1% |
| More than $20,000 | 8,425 | 355,419 | 2.4% |
| Data unavailable | 344 | 1,917,805 | Less than 0.1% |

240 Our analysis suggests that a greater proportion of balances are transferred by consumers with more credit card debt. Of the balances transferred in June 2017, 32% were transferred by consumers with total balances exceeding $20,000. Those consumers represented 2.4% of all consumers with more than $20,000 in credit card debt.

## New cards and existing cards

241 Balance transfers are frequently offered on ‘new’ cards. This involves consumers opening a new credit card account, and transferring a balance from an existing credit card onto that card (with a promotional rate for a promotional period). The Senate Inquiry received evidence that this is a way for providers to attract new customers and increase market share.

242 However, consumers with a credit card generally do not have to open a new card to access a balance transfer. All credit providers in our review make balance transfers available to existing customers that meet their criteria.

243 Each provider has a different set of criteria for transferring a balance to an existing account. Common criteria include minimum spends on their credit card, maximum number of balances transferred in a period, proportion of credit limit used, minimum size of balance transferred, payment to balance ratios, credit rating and history of delinquency.

244 Not all credit providers promote balance transfers to existing customers. Half of the providers promote balance transfers to existing customers, but limit the customers that receive this information based on criteria. For example, a customer may receive this information if they opt in to receiving promotional material, have been a customer for less than six months and meet the criteria to make a balance transfer.

245 The data we were given suggests that it is more common for consumers to transfer balances to new cards than existing cards. 68.6% of cards onto which balances were transferred were ‘new’ cards.

## Features and promotional terms

246 The availability of balance transfers varied substantially between providers: see Table 4 and paragraph 231.

247 The promotional rates and periods offered also varied between providers. Most (79%) of the balance transfers in our dataset had a promotional rate of 0%. This was consistent with some comments in the consumer research about the importance of the ‘interest-free’ period: see paragraph 258.

248 Almost all balance transfers in our dataset had a promotional period of 24 months or less. The most common periods were six, 12, 15 and 18 months; 60.9% of balance transfers had a promotional period of between 12 and 18 months.

## Why consumers use balance transfers

**Finding 6: Reducing debt is a key motivation for transferring balances**

249 Our consumer research suggested that reducing the amount of credit card debt was a key reason for transferring balances; this reason was also evident in how transfers were selected, with comparatively more focus on the promotional period (and rate).

### Choosing to use a balance transfer

250 Our consumer research indicated that consumers see balance transfers as a convenient and easy way to manage their credit card debt, and as an opportunity to consolidate debt and ‘take a break’ from interest charges.

251 The most common reason given by consumers for choosing to transfer a balance was to manage debt that was getting out of hand (43%). Other reasons included making a transfer to manage a one-off expense (22%), due to a change in personal circumstances (20%), receiving unexpected bills (18%) or due to a change in income (15%).

252 One third (33%) of consumers reported that they made a balance transfer to move debt from an existing credit card with an expired interest-free period. Consumers who had transferred balances before were more likely than others to transfer balances for this reason.

253 The reasons given during the consumer survey were broadly reflected in the one-on-one interviews. Common reasons given in the interviews included to:

(a) cover a specific expense;

(b) pay back debt incurred due to a change in circumstances (e.g. job loss or illness); and

(c) address ‘debt creep’ and reduce interest charges.

254 Most people that chose to transfer a balance did not consider alternative debt solutions (59%). Those that did considered personal loans (46%), selling personal belongings (28%), asking to borrow from others (23%), payday loans (22%) or mortgage extensions (17%).

### Selecting a balance transfer

255 Consumers reported varying degrees of research into balance transfers before selecting a credit provider. Consumer research undertaken by another party suggests that 29% of consumers were not actively looking for a balance transfer when they were offered one and decided to take it up. For some, it was a ‘spur of the moment’ decision.

256 One consumer, whose promotional period had finished, explained why they accepted a balance transfer offer:

> ‘I have seen advertisements for balance transfer cards on the television and heard about them on the radio. I also received a letter in the mail from my bank … I was not looking for balance transfer, however, when I looked at the savings I would receive I decided to take advantage of the offer. I had been hearing of balance transfer cards for a number of years but when I received the letter in the mail, I applied that day to transfer existing debt.’

257 Other consumers said that they had done a substantial amount of research, comparing offers from different providers, sometimes using third-party websites to make the comparisons easier.

258 Where consumers do research, the consumer survey indicated that the most commonly evaluated feature was the length of the interest-free period. Fees (including transfer fees) and interest rates after the end of the promotional period were considered less frequently. This aligned with what consumers told us during one-on-one interviews, where many people highlighted the importance of the promotional period (and, implicitly, the promotional rate).

259 One consumer, who had transferred multiple balances and whose promotional period had ended, stated:

> ‘The only feature that was important to me on the balance transfer card was the period that was interest free. The interest rate did not interest me as I plan to pay off before the interest is activated.’

260 Another consumer who had transferred multiple balances and whose promotional period was still going, said:

> ‘The most recent time I applied for a [balance transfer] I did a Google search with different banks. The only differences I noticed were the length of interest free period which was offered, along with the annual fees. What mattered to me was the length of interest free offered. I had a substantial figure which I needed longer time to pay off.’

## Debt outcomes and balance transfers

**Finding 7: A substantial minority of consumers increase their debt during the balance transfer promotional period**

261 While many consumers either reduced their debt or kept it relatively stable after a balance transfer, a substantial minority of consumers do not. As reducing debt appears to be a key reason for transferring balances, this suggests that there is a ‘debt trap’ risk for some people.

262 We looked at how total credit card debt changed before and after a balance transfer for consumers who had transferred balances only once from July 2012 to June 2017 and those who had transferred balances multiple times.

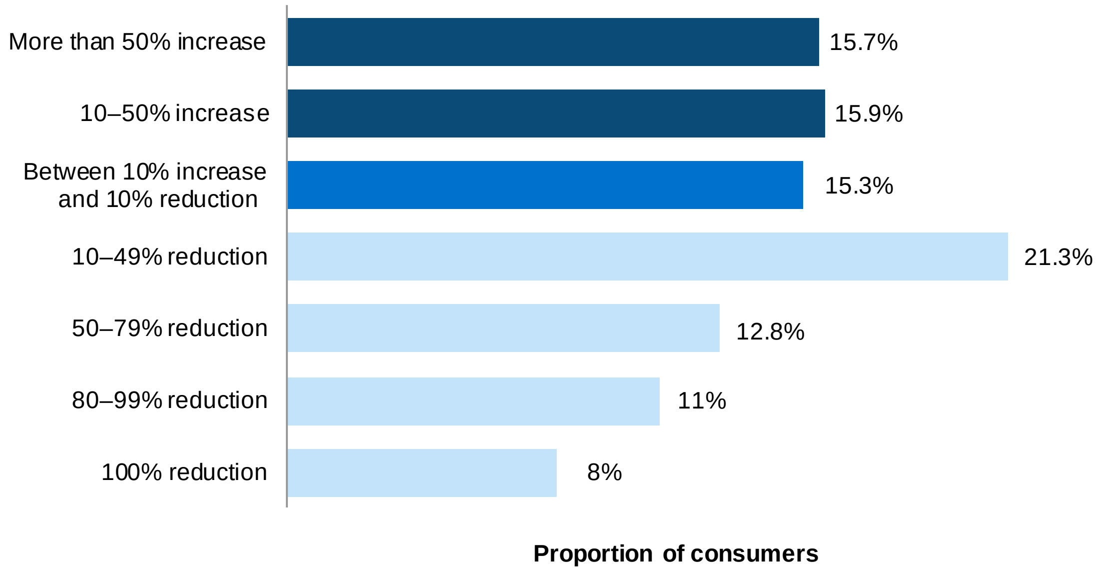
## Consumers who transferred one balance

### Total debt

263 To see how a consumer's credit card debt changed before and after a balance transfer, we compared the total balance across all the consumer's cards: see Figure 8. This was calculated from the first month the transferred amount appeared on the relevant card (or, if a large portion had been repaid immediately, from the third month) to two months after the promotional period ended.

Note: This analysis was completed where all necessary data was provided. We excluded cards where transfer date, amount and promotional period were not available and cards where the promotional period had not yet ended.

**Figure 8: Debt change for consumers who transferred one balance**




Note: See paragraphs 264–265 for a description of the trends in this figure.

264 Based on the data we received, 53.1% of consumers reduced their total credit card debt by 10% or more, including 8% of consumers who reduced the debt by 100% and a further 11% who reduced the debt by 80% or more.

265 For a substantial minority of consumers (31.6%), their total credit card debt increased by 10% or more during the promotional period. Of particular concern is the 15.7% of consumers whose credit card debt increased by more than 50%. This reinforces the Senate Inquiry recommendations about engaging with consumers who are not repaying a balance and ensuring consumers have access to consumer-tested reminders about the end of promotional period.

### Debt on the balance transfer card

266 We also conducted this analysis looking just at the card onto which the balance was transferred. The results were similar, although when the balance transfer card is considered in isolation, the reduction in debt is greater: 59.8% of consumers reduced the debt on that card by 10% or more, with 21.4% increasing the debt on that card by 10% or more.

267 When looking at the balance transfer card, consumers with a smaller starting balance were more likely to experience large proportional increases in credit card debt. For example, 24.5% of consumers with a balance transfer amount of less than $2,000 increased their debt by 50% or more, compared to 2.9% of consumers with a balance transfer amount of $10,000 to $20,000.

268 Similarly, consumers who transferred less than $2,000 were less likely to decrease the debt by 10% or more: 45.7% did this, compared to 68.9% of consumers with a balance transfer amount of $10,000 to $20,000. These results could be partially explained by the different sizes of transferred balances.

269 We also looked at whether the change in debt levels varied based on credit provider. There were variations, although we cannot be sure if these are due to different practices or differences in the providers' offers or customers. For example, one provider with relatively more consumers who increased their debt by 10% or more (39.7%), and correspondingly relatively fewer consumers who decreased their debt by 10% or more (37.6%).

Note: See paragraph 266 for statistics for all credit providers who provided data.

270 Based on other information we received, we believe that this variation could be explained by differences in the balance transfer terms and nature of those providers' customers.

271 One credit provider has started promoting structured payment services to help consumers repay a transferred balance, and another has advised they will offer these services soon: see paragraphs 177–180. However, these services started too recently for us to analyse their effectiveness.

## Consumers who transferred more than one balance

272 We repeated the analysis described in paragraph 263 for consumers who had transferred more than one balance. We did this to see whether consumers who transferred multiple balances had:

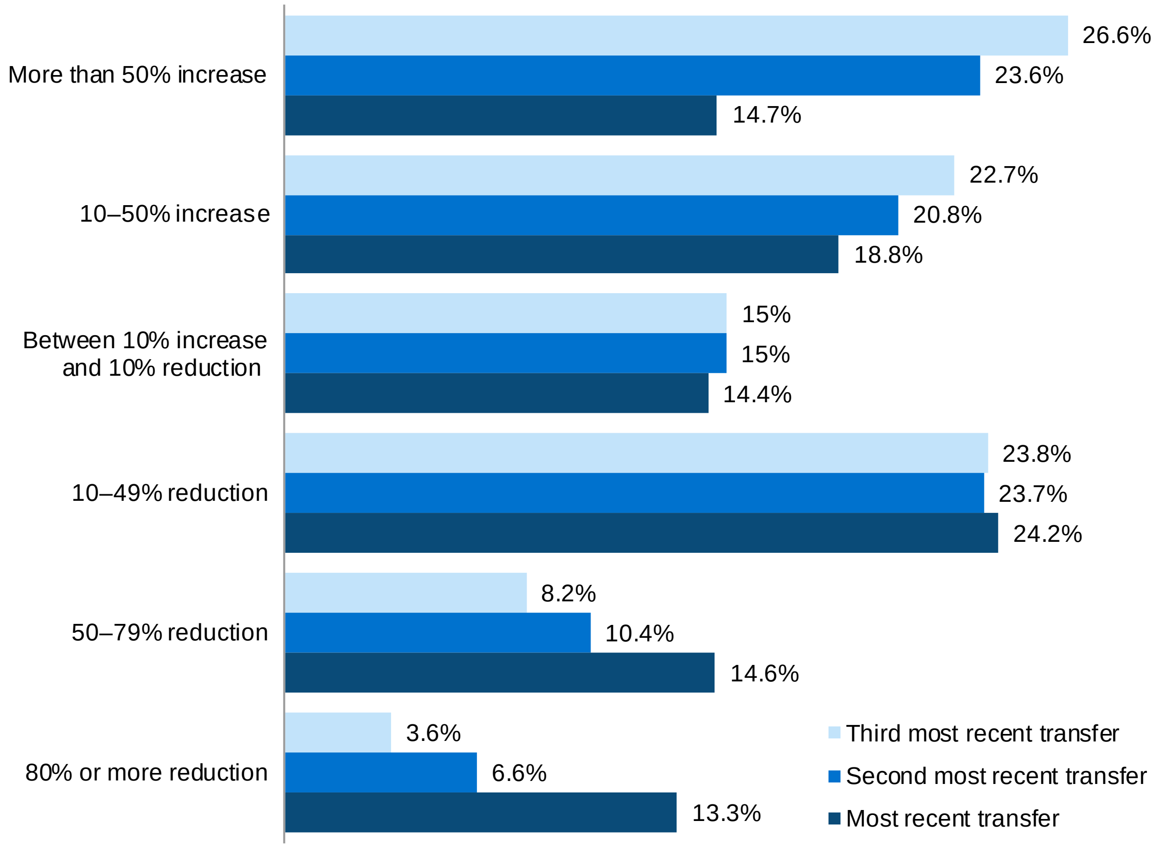
(a) different debt outcomes generally compared to consumers who transferred a balance once; or

(b) different outcomes for different balances (e.g. whether outcomes improved with later transfers).

273 We did this analysis where sufficient information was available, looking at each balance transfer in isolation (i.e. by comparing total debt levels before and after each balance transfer).

274 In general terms, consumers who transferred more than one balance were less likely to reduce their total credit card debt and more likely to increase their total credit card debt during promotional periods (compared to those who transferred one balance). Figure 9 shows how the outcomes for consumers who transferred more than one balances changed with each transfer.

**Figure 9: Debt change for consumers who transferred multiple balances**




Note: See paragraphs 275–276 for a description of the trends in this figure.

275 Figure 9 suggests that consumers achieved relatively better outcomes on later balance transfers. On the most recent balance transfer, 33.5% increased their debt by 10% or more and 52.1% decreased their debt by 10% or more. These results are close to, but slightly worse than, the outcomes for consumers who only transferred one balance.

276 By comparison, on the previous balance transfer, 44.4% increased their debt by 10% or more and 40.6% decreased their debt by 10% or more. For consumers where data for three balance transfers was available, those outcomes were worse again on the earliest transfer.

277 We compared how these consumers' debt changed during their latest balance transfer and their most recent previous one. 47% of consumers achieved a 'better' outcome, either because they reduced more of their debt on the latest transfer than they had on their previous transfer, or because their debt increased less. 25% of these consumers achieved a worse outcome.

## Consumers with problematic debt

**Finding 8: Consumers who transfer balances are over-represented in each of the problematic debt indicators**

278 Consumers with at least one balance transfer in the last five years were over-represented in each of the problematic debt indicators: see Table 8.

279 We looked to see if consumers who had transferred a balance were over-represented in the problematic debt indicators in June 2017. We did this analysis for cards that were capable of meeting the problematic debt indicators (i.e. for cards that were open in 2016–17).

Note: See paragraph 110 and Table 2 for details of these indicators.

**Table 8: Consumers with problematic debt indicators for accounts open July 2016–June 2017**

| Number of cards with a balance transfer | Problematic debt | Severe delinquency | Serious delinquency | Persistent debt | Repeated low repayments |
|---|---|---|---|---|---|
| 0 | 16.8% | 1.6% | 4.6% | 9.8% | 7.2% |
| 1 | 34.1% | 2.9% | 8.9% | 19.9% | 19% |
| 2 or more | 36.1% | 2.7% | 9% | 18.5% | 24.2% |
| Overall | 18.5% | 1.7% | 5% | 10.8% | 8.5% |

Note: Some consumers may satisfy more than one problematic debt indicator. Those consumers are only counted once in the overall 'problematic debt' percentage.

280 Consumers who had one card with a balance transfer were almost twice as likely to be in either severe delinquency, serious delinquency or persistent debt compared to consumers who had not transferred a balance, and over two and a half times as likely to be making repeated low repayments.

281 There may be some consumers with transferred balances who are in persistent debt or making repeated low repayments, but who are not having difficulty managing their debt. For example, some consumers may be able to afford to repay a large transferred balance in full, but are choosing to repay slowly to maximise the effect of a 0% promotional rate.

282 Even with these scenarios, our analysis suggests that consumers who transfer balances show an increased propensity for problematic debt. This is consistent with consumer research, where consumers stated that balances were often being transferred in response to difficulties with debt.

## Repayments and reminders

**Finding 9: Consistent repayments may help consumers who transfer balances to reduce their debt, but credit providers can do more**

283 Making consistent repayments during the promotional period may help consumers to repay a transferred balance.

284 To that end, appropriate structured payment plans may make it easier for consumers to repay what they can afford during the promotional period: see Section B. We encourage credit providers who offer balance transfers to make these and other tools available to their customers with additional measures to support consumers who are transferring balances.

### Consumer behaviour

285 Due to our findings about how debt levels change during a balance transfer, we also looked at common repayment behaviour.

286 Our consumer research suggests that consumers took different approaches to repaying transferred balances. One group of consumers appeared to have a clear plan or schedule for repaying the debt, whereas others displayed a more laidback attitude (and were less likely to have a plan) and more likely to see a balance transfer as a pause or break from debt than a debt elimination tool.

287 One consumer, whose promotional period was continuing, stated:

> 'I took the amount of the debt and divided it by 24 months and worked out what would need to be transferred on an automatic transfer each week. If I could afford extra I would (pay more) but there is no money left over to pay any more off the debt.'

288 We looked at whether consumers who showed evidence of 'having a plan' were more likely to repay the balance. This is a subjective concept. Given the range of potential plans, our consumer research and tools providers are starting to offer, we focused on consumers who made comparatively consistent monthly repayments at a rate intended to repay the balance by the end of the promotional period.

289 To determine what constitutes a consistent repayment, we created a band based on amounts needed to repay the debt from two months before to two months after the end of promotional period. For example, for a transferred balance of $3,000 with a promotional period of nine months:

(a) the upper end of the band is $3000 / (9–2) = $428.57; and

(b) the lower end of the band is $3000 / (9+2) = $272.73.

290 We considered that consumers were making consistent repayments if they repaid an amount in this band for 50% (rounded down) of the promotional period: see Table 9 for our findings on consumers with one balance transfer.

**Table 9: Effect of consistent repayments on account balance, one balance transfer only**

| Account balance on credit card with balance transfer | Proportion of total population | Consistent repayments | No consistent repayments |
|---|---|---|---|
| 80% or more reduction | 27.4% | 45.9% | 26.1% |
| 50–79% reduction | 10% | 12% | 9.9% |
| 10–49% reduction | 22.4% | 12.6% | 23% |
| Between 10% reduction and 10% increase | 18.9% | 10% | 19.5% |
| 10–50% increase | 11.8% | 9.1% | 12% |
| More than 50% increase | 9.5% | 10.5% | 9.5% |
| Number of consumers | 346,994 | 22,019 | 324,975 |

291 Only a small number (6.4%) of consumers made consistent repayments of this type. However, 45.9% of these consumers reduced their balance by 80% or more compared to 27.4% of all consumers.

292 We conducted similar analysis for consumers who transferred multiple balances. The results of this analysis were similar, both in terms of the proportion of consumers making consistent repayments, as well as the increased likelihood for the balance to be substantially repaid.

293 We consider that making consistent repayments for a substantial amount of the promotional period can help consumers to repay a transferred balance. However, we note that some consumers might not be able to afford to repay a balance within the promotional period.

294 More generally, our consumer research indicated that consumers thought they met their initial intentions only part of the time, including for repayment of the transferred balance.

295 To that end, appropriate structured payment plans may make it easier for consumers to repay what they can afford and may help those consumers to reduce their debt during the promotional period.

### Credit providers’ tools and services

296 Given our findings about debt outcomes and repayments, we sought to understand what tools are made available to consumers who transfer balances to help them repay their debt. Our view is that credit providers can assist consumers who transfer balances to achieve a better debt outcome by developing and providing tools.

297 We were also informed by the recommendations of the Senate Inquiry. In response to concerns about debt trap risk, the Senate Inquiry recommended that credit providers tell consumers when the promotional period is about to end and actively engage with consumers who have not repaid the transferred balance. More generally, it also made recommendations about contacting consumers who had made minimum payments for a substantial period.

298 To understand current practice, we asked credit providers about:

(a) services they proactively promote to consumers who transfer balances to help them repay their debt; and

(b) reminders consumers receive about the end of the promotional period.

*Prompting consumers to make larger repayments*

299 Three credit providers told us they take proactive steps to prompt consumers to increase repayments to repay more of their outstanding balance after making a balance transfer:

(a) One provider has an established program of phoning consumers who make low repayments over a six-month period to discuss debt reduction and increased repayments.

(b) Another provider prompts consumers who make a balance transfer about structuring repayments into fixed instalments using a self-service tool that is available online.

(c) The third provider has taken proactive steps to contact groups of consumers for pilot programs relating to product suitability and the effectiveness of different communication channels.

300 A few other providers also indicated that they made their consumers aware of automatic repayment options using direct debt.

301 We support the view of the Senate Inquiry and recommend that lenders should proactively prompt consumers with balance transfers to make larger repayments. This can be achieved by developing tools to prompt consumers to make regular larger repayments and/or identifying groups of consumers for targeted communications prompting larger repayments.

*Reminders for consumers towards the end of the promotional period*

302 Half of the credit providers that offer balance transfers with a promotional rate take proactive steps to remind consumers with an outstanding debt that the promotional period is about to end. Reminders are given using channels such as monthly statements, emails, letters and SMS.

303 Information is most frequently provided on the monthly statement. Effective notifications include the promotional rate, promotional period and the end date. An additional reminder is often provided in the month before the promotional period ends.

304 Despite prompts from the Senate Inquiry, many consumers do not receive any reminders. This exposes consumers to the risk that the balance transferred to their credit card may not be repaid and be subjected to interest charged at a much higher rate (sometimes the cash advance rate).

305 We support the Senate Inquiry recommendation that credit providers offering balance transfers with promotional interest rates should take proactive steps to notify consumers about the end of the promotional period.

## Cancelling and using cards

**Finding 10: Most consumers do not cancel cards after transferring balances**

306 Based on our data linking exercise, more than 63% of consumers did not cancel a credit card after transferring a balance: see Table 10.

### Failure to cancel cards

307 We explored whether people who transferred balances cancelled one or more cards within six months of the transfer. Stakeholder feedback highlighted challenges consumers have faced in cancelling cards and concerns were also expressed during the Senate Inquiry that holding onto several cards when balances are transferred can be part of the debt trap risk.

Note: See Table 1 for new requirements in the Banking Measures Act intended to make it easier to cancel cards.

**Table 10: Proportion of balance transfer consumers who cancel a card**

| Cancelled cards | Proportion of consumers | 1st transfer | 2nd transfer | 3rd transfer | 4th transfer | 5th or more transfer |
|---|---|---|---|---|---|---|
| No cards cancelled | 63.2% | 64.9% | 61.1% | 58.4% | 55.3% | 50.5% |
| Before or less than 1 month after transfer | 12% | 12% | 12% | 12.1% | 12.1% | 14.2% |
| 1 month after transfer | 6.4% | 6.4% | 6.3% | 6.3% | 6.5% | 6.7% |
| 2 months after transfer | 3.1% | 3% | 3.2% | 3.5% | 3.7% | 4.2% |
| 3 months after transfer | 2.4% | 2.2% | 2.5% | 2.7% | 3.3% | 3.7% |
| 4 months after transfer | 2.0% | 1.8% | 2.2% | 2.4% | 2.9% | 3.3% |

| Cancelled cards | Proportion of consumers | 1st transfer | 2nd transfer | 3rd transfer | 4th transfer | 5th or more transfer |
|---|---|---|---|---|---|---|
| 5 months after transfer | 1.7% | 1.6% | 1.9% | 2% | 2.5% | 2.7% |
| 6 months after transfer | 1.4% | 1.3% | 1.7% | 1.8% | 2.1% | 2.4% |
| More than 6 months | 7.8% | 6.9% | 9.2% | 10.7% | 11.7% | 12.4% |
| Number of consumers | 490,828 | 339,230 | 99,989 | 32,422 | 11,331 | 7,856 |

Note: This analysis only includes consumers where we had information about another card that could have been cancelled. For some consumers, we did not have information about another card (i.e. because the credit provider of that card was not part of our review, or because our data linking exercise did not link their cards). When these consumers are included in the analysis, the proportion of consumers who did not cancel a card increases.

308 As noted above, over 63% of consumers did not cancel a credit card after transferring a balance. Consumers are most likely to cancel cards shortly after a balance is transferred; card cancellation rates steadily decline over the following six months. Consumers transferring second or subsequent balances are more likely to close cards. Even so, slightly over half (50.5%) of consumers transferring their fifth balance do not close a card.

309 Our analysis produced different results to our consumer research in this area. Most consumers who participated in our survey said they cancelled at least one card. Of consumers who kept cards, the reasons given included emergency use (33%), day-to-day use (27%), to earn points or rewards (25%), did not bother to cancel (16%) or cancelling was too hard (11%). Approximately 25% of these consumers said they had a balance on other cards, suggesting that they had not consolidated all their debt.

310 By cancelling cards when new ones are taken out, consumers can reduce the risk of going further into credit card debt. If the original card is not cancelled, the consumer will have a higher cumulative credit limit and the possibility of accumulating a larger debt over time. Some people who took part in our consumer research said this had happened to them.

311 The high proportion of consumers who do not cancel a card after a balance transfer may be exacerbating the risks of overall debt levels increasing over time. In addition to the new requirements in the Banking Measures Act, further proactive measures could include:

(a) encouraging consumers to review their credit card holdings when they transfer a balance; and

(b) promoting use of transfers in a way that is consistent with debt consolidation and reduction.

312 Two smaller providers said they take steps to prompt consumers to cancel old credit cards after making a balance transfer. One of these providers offers to help cancel the old credit card if the balance is transferred when the new card is opened. The other may require evidence from the consumer that they have cancelled the credit card the balance has been transferred from.

313 We think there is scope for credit providers to take proactive steps to prompt consumers to cancel old credit card accounts when the balance is transferred to a new card to reduce the risk of the consumer accumulating additional debt on the old card after making a balance transfer.

### Use of cards with transferred balances

**Finding 11: Many consumers use their credit cards after transferring balances**

314 Because of our findings about debt trap risk, we also looked at the extent to which consumers used their new cards after transferring balances. We found that a significant proportion of consumers continue to use their card after transferring a balance, and evidence that some continue to use multiple cards.

315 Based on the data we had, we focused on consumers that had transferred one balance onto a new card with a promotional rate of 0%. For these cards, we considered that interest charges on the card with the transferred balance were likely to be indicative of use of that card.

Note: Another possible explanation for interest charges on these cards is missed payments.

316 Very occasional or accidental use of these cards may result in small interest charges. We expect that many interest charges will be small, because for cards opened after July 2012, the National Credit Act requires repayments to be allocated to higher-cost debt first. For that reason, additional purchases are likely to be repaid before a transferred balance with a promotional rate. As a result, when looking at card use, we also included a threshold of $5 in interest charges per month in one or more months.

Note: For our findings on the effectiveness of these provisions, see Section D.

*The card with the transferred balance*

317 We found that a majority of consumers (53.8%) used the credit card with the transferred balance. This included 21.8% of consumers with interest charges exceeding $5 in less than six months of the promotional period, and 32.1% with interest charges in six or more months. When we lowered the threshold to $1, we found that 63.8% of consumers had used the card with the transferred balance.

318 This was broadly in line with our consumer research. Of people who completed our survey, 65% told us that they had made additional purchases on the card. Some people who took part in one-on-one interviews indicated that this was affecting their ability to pay down the debt.

319 One consumer whose promotional period was still going, said:

> 'My plan was to pay it off during the interest free period. This is not going to plan because I keep using it to buy things. My debt is less than when I started but by 6 months in I was hoping to have it nearly all paid off.'

320 We also looked at the correlation between using this card and changes in the debt on that card during the promotional period. Table 11 shows how the balance on the card changed for consumers who did (and did not) use the card during the promotional period.

**Table 11: Difference in account balance at the end of the promotional period, depending on additional use (with $5 interest charges as an indicator of use)**

| Change to account balance on credit card with balance transfer | No additional use of card | Additional use in 1–5 months | Additional use in 6+ months |
|---|---|---|---|
| 80% or more reduction | 43.6% | 23.9% | 12.7% |
| 50–79% reduction | 12.7% | 10.2% | 5.8% |
| 10–49% reduction | 30.3% | 21.1% | 12.1% |
| Between 10% reduction and 10% increase | 7.7% | 26.5% | 28.6% |
| 10–50% increase | 2.9% | 10.6% | 22.4% |
| More than 50% increase | 2.7% | 7.7% | 18.4% |
| Number of consumers | 85,900 | 40,432 | 59,589 |

321 Consumers who used their cards during the promotional period were substantially less likely to reduce the debt, and more likely to increase the total amount owing. This was particularly true for consumers with interest charges exceeding $5 in six or more months (indicating heavier card use).

### *Use of new and old credit cards*

322 We looked at whether consumers who transferred a balance to a new card used both their old and new cards during the promotional period. To do this we used the same subset of consumers in Table 11 (i.e. consumers who opened one credit card with a 0% balance transfer over the five years) to see if consumers who transfer a balance to a new credit card and have a card other than the new card continued to spend on their old card during the promotional period.

> Note: We used the same definition of card use as for the card with the balance transfer. To identify card use on a different card, we looked to see if the account balance increased from one month to the next during the promotional period.

323 Of consumers who kept other cards open, 48.7% used the new card and other cards, 45.9% used only the other cards, and 2.8% used only the new card. Consumers who did not cancel a card and used both their old and new cards were more likely to increase their total debt during the promotional period.

## ASIC's expectations and actions

324 Our data analysis indicates that the 'debt trap' risk for balance transfers does exist. As identified in the Senate Inquiry, most consumers seem to have positive outcomes, reducing their debt during the promotional period. However, a substantial proportion of consumers increase the amount they owe after transferring their balance, and consumers who transfer balances were over-represented in our problematic debt indicators.

325 In general terms, increasing debt levels appear to correlate with continued use of the previous credit card. This may be in part be due to low levels of card cancellation (even though many consumers take out a balance transfer to reduce or consolidate their debt).

326 Our analysis also suggests that using cards with transferred balances is relatively common, even where consumers keep other cards. There was correlation between use of this card and increasing debt levels, particularly for repeated use.

327 Some evidence, both from the data analysis and consumer research, suggests that more structured repayment plans may help consumers who are seeking to reduce debt. Some providers now offer these types of arrangements, but more can be done. We encourage all providers to proactively consider how they can help consumers to reduce their credit card debt, including through active analysis and engagement.

### ASIC's expectations

328 Based on the findings of our review, we expect improvements to current practices.

**Issue 3: Credit providers should take proactive steps to help consumers pay down their balance transfers**

329 Credit providers should tell consumers when the promotional period for a transfer is ending. Under the new Banking Code of Practice, credit providers that are members of the ABA will be required to provide 30 days' notice before the promotional period ends. We will contact credit providers that are not members of the ABA and request that they make a similar commitment.

330 Consistent with Issue 1, we consider that providers should also:

(a) proactively look for and engage with consumers who are not reducing a transferred balance as the promotional period continues; and

(b) actively promote structured payment arrangements to help consumers steadily pay down transferred balances where they wish to do so.

331 In this regard, we note the Senate Inquiry recommendation about engaging with consumers who have not reduced their balance during the promotional period. We look forward to working with credit providers as they seek to explore and develop their approach to improving consumer outcomes, including for consumers who transfer balances.

**Issue 4: Credit providers should encourage consumers to review the credit cards they hold when they transfer a balance**

332 The proportion of consumers that do not cancel an old card after a balance transfer may be increasing the risk of higher total debt levels over time.

333 The Government has amended the National Credit Act to make it easier for consumers to cancel credit cards. There is scope for additional measures to encourage consumers to use balance transfers in a way that is consistent with switching or debt repayment. We note that any measures may require consumer testing.

**Issue 5: Balance transfer offers should be designed to take into account additional spending**

334 Some consumers make purchases on credit cards with transferred balances that are benefitting from a 0% promotional rate. In these circumstances, new purchases generally do not receive the benefit of an interest-free period unless the consumer pays off the closing balance in full, including the transferred balance on which interest is not charged.

335 We consider that there is scope for fairer outcomes in this (and similar) contexts. This could include excluding balances with a 0% promotional rate from the amount that needs to be repaid for an interest-free period to apply.

## ASIC's actions

336 As outlined in Section B, we will also continue our work on credit cards and follow up to see if the problems we have found are addressed.

337 For balance transfers, we will provide information on our MoneySmart website about credit providers that are:

(a) are taking fair approaches to additional purchases on balance transfers; and

(b) failing to provide notice to consumers before promotional periods end.

Note: See paragraph 222 for full details of this action.

# D Effectiveness of key reforms

**Key points**

Additional regulatory requirements were introduced on 1 July 2012 to help consumers make informed decisions when choosing credit cards and making repayments. They also made the allocation of repayments consistent across credit card providers.

We considered the effectiveness of some of these requirements—the Key Facts Sheet, allocation of repayments and the minimum repayment warning—to inform any future changes to the regulation of credit cards.

## Why additional requirements apply

338 The National Credit Act includes requirements specifically for credit cards: see paragraph 85.

339 The reason for these requirements—in addition to the general requirements that apply to all consumer credit contracts—were outlined in the Explanatory Memorandum to the Home Loans and Credit Cards Act:

(a) consumers are only required to make repayments on credit card debt calculated at a low percentage of the outstanding balance, and can carry large balances for a significant period at relatively high interest rates;

(b) there is low visibility of the effect of differences in features between credit cards; and

(c) credit cards are long term contracts in which the credit provider may, over time, change the terms of the contract and the obligations of the consumer resulting in significant changes to the original terms, and which can affect the matters described above.

340 Additionally, the long-term nature of credit card contracts can mean that the consumer’s circumstances, needs and usage of their card may change significantly during the life of the product. In this way credit cards are different from other credit products where funds are provided and then repaid across a specified term.

341 In broad terms, these reasons reflect potential issues identified by the Senate Inquiry, such as:

(a) the challenges consumers face in selecting a card that is suited to their actual behaviours and objectives; and

(b) the risk of the nature of credit card products and behavioural biases meaning consumers carry large balances for a significant period.

342 As part of our review, we looked at the effectiveness of three reforms introduced by the Home Loans and Credit Cards Act:

(a) the Key Facts Sheet;

(b) the way repayments must be allocated; and

(c) the minimum repayment warning.

343 We chose these reforms because they:

(a) have not been reviewed since 2012 and sufficient time has passed to consider whether they have helped to address the relevant issues; and

(b) are intended to address risks of poor product selection and low repayments, which may help inform any further reforms arising from the Senate Inquiry recommendations (see paragraph 4.9 of the Explanatory Memorandum to the Banking Measures Act) and our review.

## The Key Facts Sheet

344 A Key Facts Sheet is a single sheet of information about a credit card contract, in a format prescribed by the National Credit Regulations. It contains information about:

(a) the minimum credit amount;

(b) minimum repayments (or how those repayments will be calculated);

(c) the interest rate that applies to purchases, cash advances, promotional period and balance transfers;

(d) the length of any interest-free period; and

(e) any annual and late payment fees.

345 The Explanatory Memorandum to the Home Loans and Credit Cards Act states that the intention of the Key Facts Sheet is to:

(a) provide the consumer with key information in an accessible form to help them in deciding whether to enter into a particular credit card contract with the particular credit provider;

(b) allow consumers to compare different credit cards more easily by providing information in a standardised form;

(c) allow consumers to have a better understanding of how to use their credit cards more efficiently to minimise the amount they pay in fees and interest; and

(d) help consumers more easily adapt their behaviour to minimise costs or move to another card more suited to their spending habits.

346 This intention reflects challenges associated with selecting a credit card that is suited to the consumer’s actual behaviours. In particular, behavioural biases may affect product selection and use, causing consumers to select

products with features that are not well suited to their behaviours and that result in additional costs.

Note: For a discussion of behavioural biases that may affect how consumers select and use credit cards, see *ASIC's submission to the Senate Inquiry* at paragraphs 35–44 (PDF, 131 KB).

347 We found evidence of consumers with credit cards that do not suit their behaviours: see paragraphs 149–163.

348 These challenges have been identified in other contexts. The Senate Inquiry made three recommendations in part designed to improve 'how consumers might be empowered to better value and compare credit cards and switch to a product that best suits their needs and circumstances': see the Senate Inquiry final report at paragraph 1.11.

349 In the United Kingdom, the FCA also found that consumers do not always choose the best credit card for their circumstances: see paragraph 148.

350 As part of our review, we considered the extent to which Key Facts Sheets are likely to have influenced consumer behaviour and addressed challenges associated with product selection. To do this, we looked at:

(a) what tools the credit providers in our review generally use to help consumers select credit card products;

(b) the form and accessibility of the Key Facts Sheets prepared by these providers; and

(c) how frequently they are downloaded.

**Finding 12: Tools are generally available to help consumers choose cards, including interactive or 'needs first' tools**

351 All credit providers make tools available for consumers for at least some of the credit cards they offer. The number, complexity and comprehensiveness of these tools varies between providers; some only have product-specific webpages while others have a range of tools and information.

352 Almost all credit providers offered some form of static, side-by-side comparison tool with information about cards they provide, often in a table format. Where available, these tools were generally prominently located on providers' websites and in addition to the required Key Facts Sheet.

353 Some credit providers also offered interactive tools. These tools generally ask consumers which features they value most highly (e.g. rewards points, a low annual fee, or the ability to transfer balances) and then recommend one or more products based on their answers. Some interactive tools were based on responses about the consumer's intended use of the card.

354 Where credit providers had information about how often their online tools had been accessed, this data generally suggested that webpages with static tools were visited more often than webpages with interactive tools.

355 We support the development of tools to help consumers choose appropriate credit card products. We think these tools should be available early in the decision-making process, as information provided after a decision has been made will not help consumers compare and select a credit card. The tools described above were available before the application process.

356 We also think that appropriately designed and tested interactive tools that allow product comparisons while taking into account behavioural biases that can result in consumers choosing products that do not suit their needs may have an important role to play in this regard. As noted by the Senate Inquiry, the development of tools that can use data about a consumer's behaviours would be particularly powerful.

Note: The Government has accepted the recommendations of the Independent Review into Open Banking and that regime will apply to credit card data: see Treasury, *Government response to the Open Banking review* (9 May 2018).

### Finding 13: Many Key Facts Sheets include information about multiple products

357 Credit providers can prepare a Key Facts Sheet that contains information about more than one credit card product in a table format. 11 credit providers told us that they prepare Key Facts Sheets in this way on at least some occasions. Different versions of Key Facts Sheets are available through different channels for different product classes or at different times.

358 We consider that Key Facts Sheets with information about several products can make it easier for consumers to compare products. We encourage credit providers to develop these types of Key Facts Sheets, especially for use by consumers before they choose to apply for a particular card.

### Finding 14: Many consumers are not using the Key Facts Sheet when choosing a credit card

359 Five credit providers gave us data about the number of times their Key Facts Sheets had been accessed online in 2016–17. We compared that data to the number of successful online credit card applications during the same period.

360 We found:

(a) for three of those providers, the number of downloads was between 3.5% and 16% of the number of successful online applications;

Note: This analysis does not include one brand of one credit provider due to data issues.

(b) for one provider, the number of downloads was between 27% and 41% of the number of successful online applications; and

(c) for one provider, the number of downloads exceeded the number of successful online applications.

361 This does not mean that these proportions of applicants looked at a Key Facts Sheet. In some situations, a Key Facts Sheet may have been downloaded multiple times by the same person, or by a person whose application for a credit card was rejected. However, the data does suggest that many consumers may not have engaged with the Key Facts Sheet when applying for their credit card.

## How repayments are allocated

362 The Home Loans and Credit Cards Act introduced requirements about how repayments must be applied to amounts owing on credit cards. For credit card contracts entered into from 1 July 2012, repayments must be allocated:

(a) first, to amounts requested by the consumer;

(b) second, to any remaining amount of the closing balance of the most recent account statement, with amounts subject to higher interest rates repaid first; and

(c) third, in accordance with the credit card contract.

Note: This requirement does not strictly apply to contracts entered into before 1 July 2012.

363 The required allocation means that amounts with higher interest rates are generally repaid before amounts with lower interest rates. The Explanatory Memorandum to the Home Loans and Credit Cards Act states that the intention of this requirement is to:

(a) address practices where some credit providers were allocating repayments in a way that maximises the amount and time required for the consumer to repay their credit (i.e. by allocating repayments to amount subject to lower interest rates first); and

(b) help consumers to compare different credit card products, as the same repayments can produce different results according to the allocation hierarchy under the contract.

364 The requirement addresses both:

(a) card selection, effectively standardising the way in which repayments are allocated (removing a point of difference that consumers need to consider when selecting a product); and

(b) the problem of carrying high debt over time, as the amount of interest payable is reduced compared to other ways of allocating repayments.

365 As part of our review, we:

(a) examined the changes that providers have made to how they allocate repayments, including for credit card contracts entered into before 1 July 2012;

(b) where possible, considered what effect changes to the allocation of repayments has had on the amount of interest charged to consumers; and

(c) asked about the number of consumer requests for repayments to be first allocated to specified amounts.

### Finding 15: Most, but not all, credit providers have applied the new requirements to all credit cards

366 Eight of the 12 credit providers in our review told us that they have applied the new repayment allocation requirements to all consumer credit cards, including accounts opened before 1 July 2012. Four lenders have not: American Express, Citi, Latitude (some products only) and Macquarie.

367 We estimate that 525,000 customers of these four providers may have been charged more interest because the previous allocation continued to apply, sometimes on more than one card. While these four credit providers are not breaking the law, they are charging their longstanding customers more interest than they should, and their conduct is out of step with the rest of industry.

368 Two of the credit providers who have continued to use the previous allocation told us that they apply the new requirements on the consumer's request. However:

(a) the number of consumers who had made such requests was small; and

(b) the ability to make these requests was not publicised.

369 In anticipation of a new Banking Code of Practice, from 2019 Citi and Macquarie will no longer use the previous method of allocating repayments for grandfathered credit cards. American Express has also indicated it will make this change in 2019. Latitude is considering its position.

### Finding 16: The new requirements produce better outcomes than previous practices

370 We found that before 1 July 2012 there was no consistency among credit providers in the order of repayments to consumers' credit card balances. Some providers also had different repayment allocations for the various types of credit cards they offered.

371 Before 1 July 2012, most credit providers allocated repayments first to the proportion of the credit card balance with the lowest interest rate and last to the proportion of the balance with the highest interest rate.

372 Two of the 12 providers indicated that they had conducted internal analysis about the effect of the new requirements on the amount of interest charged to their customers.

373 One provider observed a decrease in the effective interest rate (the gross interest charged as a percentage of balances outstanding) and in interest charged to customers on credit card balances since 1 July 2012.

374 Another provider has conducted extensive internal analysis, which indicated that depending on the consumer's spending behaviour, some consumers were charged the same amount of interest under the new requirements, while some consumers were better off and charged less interest.

**Finding 17: Consumer requests for variations to repayment allocations are not common, but consistent with what was intended**

375 Five of the 12 credit providers indicated they had entered into agreements with some customers in 2016–17 to alter the general allocation of repayments. That is, some consumers asked for repayments to be allocated to specific amounts. These requests were not common.

376 The most frequently given reasons for these requests were:

(a) repayment of a specific purchase that was subject to an instalment plan; and

(b) for payments to be allocated according to a structured payment plan to repay the customer's credit card balance.

377 These reasons are consistent with the intended circumstances for alterations in the Explanatory Memorandum to the Home Loans and Credit Cards Act.

## The minimum repayment warning

378 From 1 July 2012, credit providers must include a minimum repayment warning on credit card statements.

379 The minimum repayment warning must be on the front page of the statement and must set out:

(a) how long it will take to pay off the closing balance if only minimum repayments are made and the total amount payable over that time;

(b) an alternative repayment which would repay the balance within two years and the total amount payable over that time;

(c) the saving the consumer would make if they repaid the closing balance within two years instead of making minimum repayments; and

(d) contact details for consumers in financial difficulty: see Table 12.

**Table 12: Sample minimum repayment warning**

**Minimum Repayment Warning:** If you make only the minimum payment each month, you will pay more interest and it will take you longer to pay off your balance. For example:

| If you make no additional charges using this card and each month you pay… | You will pay off the Closing Balance shown on this statement in about… | And you will end up paying an estimated total of interest charges of… |
|---|---|---|
| Only the minimum payment | [period] | [total interest 1] |
| [repayment 2] | 2 years | [total interest 2], a saving of [savings 2] |

**Having trouble making repayments?** If you are having difficulty making credit card repayments, please contact us on [phone number]. We may be able to assist you.

Source: Regulation 79B(2) of the National Credit Regulations

380 This information gives consumers two scenarios for how much the credit card debt will cost to pay out in full and how long it will take to repay. Both calculations assume that there are no new transactions or fees and that interest rates remain the same.

381 The minimum repayment warning is intended to make consumers aware of the consequences of only making minimum repayments, and therefore prompt larger repayments.

382 The Regulation Impact Statement for this reform noted that:

(a) some consumers do not fully appreciate how much only making minimum repayments would cost them in the long term;

(b) better disclosure (including a warning) could increase consumer understanding of the implications of making minimum repayments; and

(c) there was some evidence of reduced debt levels after warnings were introduced in other jurisdictions.

383 The intention to promote larger repayments reflected concerns that consumers may carry large amounts of debt on a credit card at a high interest rate for a lengthy period. Similar concerns were identified by the Senate Inquiry, prompting changes in the Banking Measures Act.

384 As part of our review, we looked for evidence about the effect of providing this information to consumers. We note that there is broader consumer research into encouraging larger repayments being conducted by the Behavioural Economics Team of the Australian Government, Department of the Prime Minister and Cabinet.

385 We looked at proportion of consumers who made repayments at (and below) the two-year repayment amount for three providers who told us about the assumptions they make when preparing the warning.

**Finding 18: There was no evidence of a repayment 'spike' at the two-year amount disclosed on the minimum repayment warning**

386 There was no evidence (either in 2012 or 2017) of an unusually large number of repayments at or around the amounts we calculated as the two-year amount.

387 None of the credit providers reported that they had measured the effect of the minimum repayment warning on repayments. However, one credit provider looked at changes in repayments more broadly at the time the minimum repayment warning was introduced. They observed decreases in interest charged on outstanding balances at that time; we also noticed this trend in our dataset.

## ASIC's expectations

388 In response to our findings, we expect improvements in credit providers' practices.

**Issue 6: Credit providers should develop tools to help consumers choose credit cards that reflect their actual needs and use**

389 Many credit providers have developed tools to help consumers to choose credit cards, in some cases interactive tools. However, our findings on problematic debt and product suitability suggests that consumers still struggle to select cards that are well-suited to their actual behaviours.

390 Future developments in this area should focus on providing tools that allow consumers to better choose products that match their actual needs and use. For example, Open Banking may present an opportunity for data-based tools to aid with product selection.

391 The tools provided should also cater as much as possible to known consumer biases that may affect product choice and use, as these biases can result in additional costs or risks of harm.

392 In our view, developing tools to encourage consumers to choose cards that align with actual needs and use is consistent with credit providers' obligations to engage in credit activities efficiently, honestly and fairly, as well as culture of prioritising consumers' interests.

**Issue 7: The repayment allocation requirement should apply to all credit cards, including those entered into before July 2012**

393 We are concerned that hundreds of thousands of consumers who have had a credit card for six years or more are missing out on the benefit of better repayment allocation. This issue affects customers who have continued their relationship with a credit provider for a long time.

394 All credit providers that have not applied this requirement to every credit card should do so as soon as possible. We note that the ABA has included a commitment in the new Banking Code of Practice reflecting the repayment allocation requirement that will apply to all consumer credit cards provided by subscribers to that code.

# Appendix: Methodology

395 In 2017, ASIC began a review into the credit card market, focusing on:

(a) consumer outcomes for credit card products over time, particularly where debt is held at relatively high interest rates for a long time;

(b) the effect of balance transfers on consumer debt levels over time, including when and how balance transfers are taken out, the repayment experience and the effect on aggregate credit limit and debt levels; and

(c) the effect of some key regulatory of the Home Loans and Credit Cards Act reforms relating to credit cards.

396 This review was our first thematic look at credit cards and associated consumer outcomes since becoming Australia's consumer credit regulator in 2010. Additional requirements for credit cards and other regulatory developments also suggested that issues may exist in this market.

## Participants in our review

397 The 12 credit providers that participated in our review comprise the vast majority of the Australian credit card market. Based on data collected by the Australian Prudential Regulation Authority (APRA), the 10 authorised deposit-taking institutions (ADIs) in our review make up 98.5% of the APRA-regulated credit card market; we believe the two non-ADIs in our review are the largest credit card providers of that type.

398 In alphabetical order, these credit providers are:

(a) American Express Australia Limited;

(b) Australia and New Zealand Banking Group;

(c) Bank Australia Limited;

(d) Bendigo and Adelaide Bank;

(e) Citigroup Pty Ltd;

(f) Commonwealth Bank of Australia;

(g) HSBC Bank Australia Limited;

(h) Latitude Personal Finance Pty Ltd;

(i) Macquarie Bank Limited;

(j) National Australia Bank;

(k) Victoria Teachers Limited (Bankfirst, formerly Victoria Teachers Mutual Bank); and

(l) Westpac Banking Corporation.

399 We also consulted widely with other stakeholders, including:

(a) domestic and international government agencies, such as the Reserve Bank of Australia (RBA), the Australian Prudential Regulation Authority (APRA), the Treasury, the Department of Prime Minister and Cabinet and overseas regulators;

(b) industry associations and other bodies; and

(c) consumer advocates, including community legal centres, Legal Aid, and other consumer advocacy groups.

## Data collection and analysis

400 We asked the credit providers for a substantial amount of data:

(a) *Account-level quantitative data on consumer credit cards*—This amounted to 20 million lines of data across all 12 lenders for accounts that were open at any time between July 2012 and June 2017, with approximately 660 data points per account.

(b) *Qualitative data about existing practices*—We asked 51 questions about matters including responsible lending, hardship processes, the additional requirements for credit cards, the availability of balance transfers and proactive action taken by credit providers.

### Quantitative data request

401 The participating credit providers were asked to supply data for up to 659 fields for each consumer credit card account that was open at some time between July 2012 and June 2017.

402 The data fields included:

(a) information about credit card holders (e.g. income and expenses);

(b) product information (e.g. product class, interest free days and open and close dates);

(c) information about the most recent balance transfer on the card, including transfer amount, promotional period and interest rates;

(d) general information about the use of the card between 2012 and 2017, including outstanding balances, credit limits, interest rates, fees and failures to make payments; and

(e) masked demographic information for the data linking exercise (see paragraphs 409–411).

403 The five-year period was important so that we could assess the effect of consumer behaviour over time particularly if consumers had:

(a) potentially problematic debt; or

(b) made changes to their account (e.g. a balance transfer).

404 We needed to look at each of a consumer's cards to determine what effect those cards and their use had on the consumer's debt outcomes. This meant our review could not be based on a small sample dataset.

405 To ensure each provider could respond to our data request, we discussed with providers the type of data stored and its accessibility and gave them draft data requests for feedback. The feedback we received helped us make the data requests simpler and smaller. Although each lender received the same request, we worked with lenders one-on-one where some data was unavailable or in a different form.

406 Providers were also invited to participate in a pilot response to the data request to ensure the final data set could be transferred securely and to give them feedback on issues we identified.

407 We received approximately 20 million lines of data for the 12 lenders representing approximately 21.4 million credit card accounts that were open during the five-year period.

408 To ensure our analysis was accurate, we sought clarification from providers on issues we identified with the data provided and received some additional data. This also confirmed how we would deal with known issues or gaps in the data available (e.g. some fields were treated as 'missing' or 'not applicable' for the purposes of our analysis).

### Data linking

409 The account-level quantitative data that credit providers gave us included masked consumer information. Although we could not identify individuals from the information we received, we could potentially identify where one individual held multiple credit cards with different credit providers.

410 In a 'data linking' exercise, we identified likely cases of consumers holding multiple credit cards. Where we were sufficiently confident that the consumer information on two accounts was very similar or identical, we proceeded on the basis that one consumer held both accounts.

411 This exercise allowed us to analyse the data on a consumer level, rather than for individual accounts. This is important for our review because:

(a) each credit provider does not necessarily see a consumer's whole financial position (e.g. whether they have cancelled an account with another provider and transferred the balance); and

(b) the overall consumer outcomes may not be discerned by analysing a single credit card account in isolation.

### Qualitative survey

412 We asked each provider to respond to a qualitative survey. The survey contained 51 questions requesting information about:

(a) consumers and their cards;

(b) responsible lending;

(c) balance transfers;

(d) consumer repayments;

(e) financial hardship; and

(f) the additional requirements that apply to credit cards.

413 The qualitative survey was designed to capture providers' processes and identify where they:

(a) took proactive steps to identify consumers with products that do not suit their needs; or

(b) offered help to consumers in repaying their credit card debt.

## Consumer research

414 We engaged an independent research consultant to conduct consumer research on balance transfers to give us an in-depth understanding of consumer attitudes, intentions, experiences and behaviour in addition to the data we collected from credit providers.

415 In particular, we were interested in consumers' motivations for taking out balance transfers, how they are used and managed (and how this differs from intentions) and the effect of transferring balances on consumers' financial situation.

416 The research was both qualitative and quantitative, including:

(a) interviews with consumers who had taken out balance transfers;

(b) online forums; and

(c) an online survey.

### In-depth interviews

417 The aim of the qualitative research was to understand consumer motivation and behaviours for balance transfers and the repayment of debt.

418 Respondent-led interviews were conducted with 16 consumers in Melbourne, Sydney and Brisbane to draw out their stories.

419 The consumer's journey was explored in five key stages, including the context for the debt accumulation, their consideration of a balance transfer (including alternatives), the decision to transfer a balance, the promotional period and time after that period expired.

### Online forums

420 Two online discussion forums of 16 people each were held after the in-depth interviews to provide national coverage. The forums were held over several days allowing the target audience to talk to one another.

421 The discussion groups were split according to whether consumers had transferred one balance or several. The groups included a representative mix of consumers with different demographic features and credit providers.

### Online survey

422 A quantitative survey of 800 consumers with balance transfers was designed to capture important information to help us understand the attitudes and behaviours of consumers who take out these transfers.

423 This survey included questions about the prevalence of multiple credit card ownership among consumers who have transferred balances, including the frequency of use, balances, total credit limits, whether the debt was increasing and what repayment strategies were being adopted.

Note: In many cases, we could conduct similar analysis based on data supplied by credit providers. Unless we say otherwise, our findings in this report are based on analysis of quantitative data supplied by credit providers.

# Key terms

| Term | Meaning in this document |
|---|---|
| ABA | Australian Banking Association |
| account | A credit card account |
| account switching | Changing from one account to another |
| ADI | Authorised deposit-taking institution |
| APRA | Australian Prudential Regulation Authority |
| ASIC | Australian Securities and Investments Commission |
| ASIC Act | *Australian Securities and Investments Commission Act 2001* |
| balance transfer | Where a consumer transfers a balance from one credit card to another credit card from the same or different provider |
| Banking Code of Practice | A new code of conduct to be issued by the ABA, pending ASIC approval, which sets standards of good banking practice when dealing with individual or small business customers, prospective customers and their guarantors<br>Note: The new draft Code was lodged with ASIC for approval under s1101A of the Corporations Act in December 2017. The current version, issued by the ABA in 2013, is the Code of Banking Practice |
| Banking Measures Act | *Treasury Laws Amendment (Banking Measures No. 1) Act 2018* |
| consumer | A natural person or strata corporation<br>Note: See s5 of the National Credit Act |
| Corporations Act | *Corporations Act 2001*, including regulations made for the purposes of that Act |
| credit | Credit to which the National Credit Code applies<br>Note: See s3 and s5–6 of the National Credit Code |
| credit assistance | Has the meaning given in s8 of the National Credit Code |
| credit contract | Has the meaning given in s4 of the National Credit Code |
| credit licensee | Holds an Australian credit licence<br>Note: See s35(1) of the National Credit Act |
| credit provider | Has the meaning given in s8 of the National Credit Code |
| FCA | Financial Conduct Authority (UK) |
| high-interest credit card | A credit card with a purchase rate of over 20% for three or more months |

| Term | Meaning in this document |
|---|---|
| Home Loans and Credit Cards Act | *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011* |
| National Credit Act | *National Consumer Credit Protection Act 2009* |
| National Credit Code | National Credit Code at Sch 1 to the National Credit Act |
| National Credit Regulations | National Consumer Credit Protection Regulations 2010 |
| persistent debt | An account where during the previous 12 months:<br>• the average credit use is 90%; and<br>• interest has been charged |
| repeated low repayment behaviour | An account where during the previous 12 months:<br>• the consumer has made eight or more repayments at or below 3% of the credit limit; and<br>• interest has been charged |
| Senate Inquiry | An inquiry by the Senate Economics References Committee into credit card interest rates |
| Senate Inquiry final report | Final report issued by the Senate Inquiry, *Interest rates and informed choice in the Australian credit card market* (December 2015) |
| serious delinquency | An account where during the previous 12 months the account has been 60 days or more overdue |
| severe delinquency | The account has been written off or is in the worst state of delinquency that the relevant credit provider reported to us<br>Note: There were differences in how some credit providers reported delinquency information to us. We standardised this information where possible |

# Related information

### Headnotes

balance transfers, cancellation, credit cards, credit limits, credit providers, Key Facts Sheet, interest, minimum repayment warning, problematic debt, persistent debt, repayments, repeated low repayments, responsible lending, serious delinquency, severe delinquency

### Regulatory guides

RG 209 *Credit licensing: Responsible lending conduct*

### Legislation

Banking Measures Act

Corporations Act, s1101A

Home Loans and Credit Cards Act

National Credit Act, Ch 3, Pt 3-2, Pt 3-2B, s5, 35(1)

National Credit Code, s3, 5–6, 8

National Credit Regulations, reg 79B, Pt 3.5, Sch 6

### Consultation papers and submissions

CP 303 *Credit cards: Responsible lending assessments*

*ASIC's submission to the Senate Inquiry* (PDF, 131 KB)

### Media and other releases

17-048MR *ASIC commences civil penalty proceedings against Westpac for breaching home-loan responsible lending laws* (1 March 2017)

### Other documents

FCA, MS14/6 *Credit card market study: Final findings report* (July 2016)

FCA, PS18/4 *Credit card market study: Persistent debt and earlier intervention—Feedback to CP17/43 and final rules* (February 2018)

Senate Economics References Committee, *Interest rates and informed choice in the Australian credit card market* (December 2015)

Treasury, *Government response to the Open Banking review* (9 May 2018)