Credit card lending in Australia: Staying in control

Report 788 | July 2024

About this report

This report provides information on how Australians use credit cards and on the consumer harm that can result from problematic design, distribution or use of credit cards. It is based on a review of credit card lending in Australia completed by ASIC.

Contents

Executive summary 3
The credit card market in Australia 11
Tackling problematic debt 17
Using credit card features effectively 23
Choosing credit cards to suit consumers' use 29
Assisting consumers experiencing financial stress 31
Meeting the design and distribution obligations 34
Monitoring other credit card reforms 41
Appendix: Methodology 44
Key terms and related information 48

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations 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.

Executive summary

Credit cards have traditionally been a popular choice of credit for many Australian consumers. When used effectively, they provide a flexible form of credit, allowing consumers to use repeated advances up to a pre-approved limit. At the same time, the design, distribution, and use of these cards can result in significant consumer harm. In particular:

- **The complexity of credit cards makes it hard for consumers to choose products that meet their needs**—Consumers can face challenges choosing credit cards that suit the way they use their card. Some consumers may choose a credit card because of particular features (e.g. interest-free periods or rewards points) but if they don't ultimately use the card in a way that allows them to benefit from these features, they can end up incurring significant additional costs without obtaining the benefits.
- **Credit cards can become a form of expensive, 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.

Understanding how credit card providers reduce the risk of these harms to consumers has long been of interest to ASIC. This latest report follows a similar ASIC review in 2018. While we observed some improvements since 2018, we found the following:

- Too many consumers still struggle with problematic credit card debt. For example, some consumers are unable to make minimum repayments, repeatedly make only small repayments or have significant long-term debt. This is a particular problem for younger consumers, those with more than one credit card and those who take out a cash advance.
- While many consumers used balance transfers with reduced interest rates for a promotional period to reduce their debt, the percentage of consumers who fully repaid their debt by the end of the promotional period varied significantly across lenders (from 7.7% to 67.3%).
- Many consumers are still carrying a balance and accruing interest on high-interest rate cards (with interest rates of over 20% applying to purchases). Consumers on high-interest rate cards could have saved over $468 million if they were on a low-interest rate card.
- Some credit card providers are failing to analyse their own data to identify consumers who may be at risk of financial hardship and communicate what assistance may be available.

Our review identified **five key areas of better practices** that lenders should focus on to better support their customers:

- **Lenders can help consumers tackle problematic debt**, by incorporating data driven triggers, consumer education and targeted reminders, and waiving debts of vulnerable consumers, where appropriate.
- **Lenders can help consumers to use credit card features effectively**, by building in automatic or periodic repayments, transaction limits, regular reminders and promotion of features such as instalment plans.
- **Lenders can help consumers to choose credit cards that suit the way they are likely to use them**, by promoting targeted credit card selector tools, and conducting ongoing assessment of how consumers are using high-interest rate or high-fee cards.

- **Lenders can help consumers experiencing financial stress,** by using data analysis to identify consumers at risk of hardship and communicating about assistance that may be available.
- **Lenders can meet the design and distribution obligations**, by using objective parameters to consider consumer outcomes and specific and measurable review triggers.

ASIC's review of credit cards

ASIC's vision is for a fair, strong, and efficient financial system for all Australians, which includes helping consumers to manage their financial lives. ASIC has broad regulatory oversight of credit cards, including licensing credit providers, monitoring compliance with their legal obligations, and enforcing breaches of the law.

The credit licensing regime imposes minimum standards of conduct for credit providers, including requirements for competence, adequate compliance and risk management systems, and responsible lending obligations, which require credit licensees to undertake an assessment of a consumer's financial situation and requirements and objectives before providing a credit card to a consumer or increasing a cardholder's credit limit.

Our review focused on changes in card usage and indicators of problematic debt(where consumers have persistent high levels of debt, repeatedly make only minimum repayments or are in serious or severe delinquency), the impact of certain credit card features, and lenders' implementation of the design and distribution obligations.

This review did not focus on individual cases or lenders' compliance with the responsible lending obligations. However, we recognise that these are key obligations across all consumer credit products and their impact on retail lending, including consumers' access to credit cards, is of constant interest to industry and consumers. To that end, we note that the responsible lending obligations are principles-based provisions (not prescriptive), that allow flexibility in how lenders undertake assessments, allowing for lenders to consider different sources of income and, if appropriate, the use of equity from assets.

2018 review

In 2018, ASIC conducted an extensive review of Australia's credit card market, which included analysis of data from 1 July 2012 to 30 June 2017 (2018 review). ASIC's findings from the 2018 review were published in Report 580 *Credit card lending in Australia* (REP 580).

The 2018 review identified $45 billion in outstanding credit card balances and that 18.5% of consumers with a credit card met at least one of our problematic debt indicators (as defined in REP 580 at paragraph 110). In the 12 months to June 2017, consumers could have saved $621 million if they had a card with a lower interest rate. Following a balance transfer, 15.9% of consumers increased their total debt by 10–50%, and 15.7% increased their total debt by more than 50%.

Later in 2018, we published Report 604 *Credit card lending in Australia—An update* (REP 604), which set out changes lenders had made or were making in response to ASIC's expectations highlighted in REP 580.

In REP 580 we stated that we would review credit cards again within 2 years. However, due to uncertainty in the market during the COVID-19 pandemic, this review was deferred until 2023.

Current review

In our current review we explored:

- whether consumers have credit card debt that is causing them harm or has the potential to cause them problems in the future (we refer to this as 'problematic debt'), and how this debt changed over time
- whether some consumers have credit cards that are not suited to their needs and the way in which they use their credit card, and
- what proactive and reactive actions lenders undertake in response to these issues.

As part of our latest review, we sought the following data from 13 lenders that collectively provide the vast majority of credit cards in Australia:

- **Quantitative data**—Lenders gave us 1,274 data points for each credit card account that was open between January 2017 and December 2022 (i.e. 20.1 million accounts in total) including data about card types, certain card features (e.g. balance transfers and instalment plans), general card usage and repayments.
- **Qualitative data**—Lenders answered 49 questions about design and distribution obligations, proactive and reactive problematic debt actions, financial hardship, instalment plans and balance transfers.

Note: One participating lender received a modified version of the qualitative survey due to a current enforcement matter.

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 'consumer level' without knowing the identity of each consumer in our dataset. This is important as consumer outcomes may not be clear based on an analysis of each card in isolation.

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

Snapshot of the market

We sought to gain a broad understanding of the credit card market in Australia. Based on the data we collected, as at December 2022:

- 11.8 million credit card accounts were open (down from 14.1 million in January 2017)
- outstanding balances totalled $32.9 billion (down from $44.0 billion in January 2017 despite strong credit usage during the Christmas period in 2022)
- outstanding balances on cards where interest was being charged totalled $19.0 billion (down from $31.2 billion in January 2017)
- consumers were charged approximately $1.2 billion in fees over the previous year, including annual fees, late payment fees and other fees for credit card use (down from $1.4 billion in 2017), and
- total interest charged to consumers was $243 million (down from $435.8 million in 2017): see Figure 1.

We observed a steep decline across all of these measures from March 2020, which correlates with the start of the COVID-19 pandemic. Although the primary cause of this decline cannot be stated with certainty and other factors such as changes to regulatory obligations, lenders' credit risk appetite and consumer sentiment may have contributed, it seems likely that the impact of the pandemic, including government and industry responses, played a significant role in this decline.

Figure 1: Snapshot of the Australian credit card market

Note: See the paragraphs above for a description of this figure (accessible version).

Our data-linking exercise indicated that 11.6 million consumers owned the 20.1 million credit card accounts that were open at any time during the 6-year review period. The number of consumers and the number of credit card accounts differ because the linking exercise identified consumers who were highly likely to have more than one card.

Most consumers had only one credit card between 2017 and 2022—60.5% of cards were not linked to any other card. Consumers with multiple cards generally had two cards. The linking exercise indicated that 8.5% of consumers had four or more credit cards between 2017 and 2022.

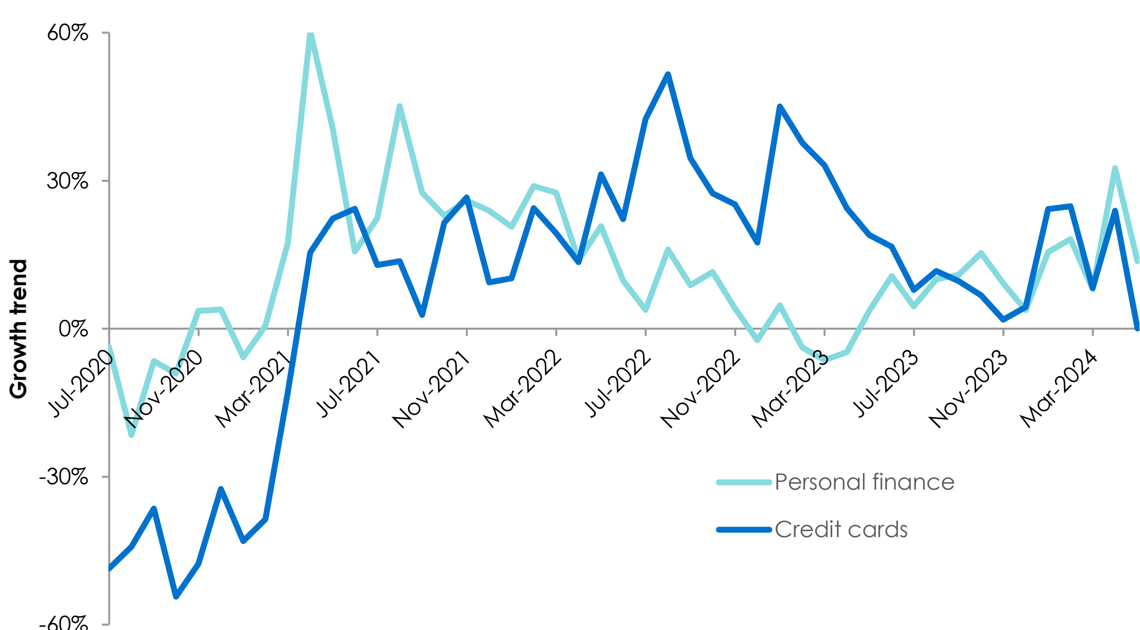
Note: For more information, see The credit card market in Australia.

Recent data published by the Reserve Bank of Australia (RBA), indicates there has not been an increase in the number of open credit card accounts since the end of our review period in December 2022. Spending and total outstanding balances on credit cards have increased slightly since December 2022, but the total amount of credit card debt accruing interest has not.

Data from the Australian Bureau of Statistics (ABS) for the period July 2020 to May 2024 shows that recently growth in credit cards and other personal finance products (including fixed term lending products used for non-business purposes including travel, holidays, vehicle purchase and personal investments and excluding spending on credit cards) track relatively closely. However, it also shows that there was a clear divergence between April 2022 and April 2023 where credit card growth was increasing against personal finance.

The sharp rise in personal finance from early-mid 2021 was matched by a sharp rise in credit card spending. This likely reflects base effects, as spending levels during the COVID-19 lockdowns in 2020 were unusually low compared to the higher levels in 2022 when there were no lockdowns. It appears that over the past few years growth in credit card lending and personal finance have been influenced by a range of factors, including the economic shock associated with COVID-19, rather than specific regulatory obligations or changes made by lenders: see Figure 2.

Figure 2: Trend in personal finance compared with credit cards



Note: See the paragraph above for a description of this figure (accessible version). Based on lending indicators for May 2024 published by the ABS.

Lenders' responses to ASIC's expectations

We reviewed how lenders have responded to the expectations in REP 580 and REP 604.

Based on lenders' responses, we found that lenders have generally taken our findings and expectations on board, but there are still areas where lenders can do more to support good consumer outcomes: see Table 1. For example, lenders could do more to address problematic debt and products that do not suit consumers' credit card usage, and encourage consumers to better manage balance transfers.

Table 1: Summary of ASIC's expectations set out in REP 580 and lenders' responses

ASIC's expectations	Lenders' responses
1. Credit providers should take proactive steps to address problematic credit card debt and products that do not suit consumers	All lenders have implemented proactive and reactive measures to varying degrees to deal with consumers in problematic debt. Of the 13 lenders in our review, 10 lenders proactively contacted consumers who made payments at or near the minimum repayment amount for an extended period. ASIC considers this to be better practice and encourages all credit card lenders to implement this practice. **Note:** For more information, see Tackling problematic debt.
2. Credit providers should minimise the extra credit provided to consumers who regularly exceed their credit limit	All lenders have capped their cards' overlimit threshold to a maximum of 10% as per ASIC's recommendation in REP 580 and lenders' commitments in REP 604. REP 580 found 10.7% of consumers repeatedly exceeded their credit limit on at least one card from July 2016 to June 2017. The figure fell to 6.48% for the period from January 2022 to December 2022.

ASIC's expectations	Lenders' responses
3. Credit providers should take proactive steps to help consumers repay their balance transfers	Since 1 July 2019, the Banking Code of Practice has required banks to give customers 30 days' notice before the balance transfer period ends. All lenders appear to comply with the Code, but a few lenders do not take any additional proactive steps to help consumers repay their balance transfers. **Note:** For more information, see Balance transfers.
4. Credit providers should encourage consumers to review the credit cards they hold when they transfer a balance	All lenders offered balance transfers at the start of the review period, but only seven of the lenders offered balance transfers as at December 2022. All of these seven lenders have responded to our expectations.
5. Balance transfer offers should be designed to take into account additional spending by offering the interest-free period for new purchases on cards with a balance transfer	Of the 13 lenders that participated in our review and offered balance transfers for part or all of the review period, four did not apply the interest-free period to new purchases if there was a balance transfer on the card. Until the balance transfer was paid down new purchases were charged at the purchase rate. Two of these lenders stopped offering balance transfers from 2022.
6. Credit providers should develop tools to help consumers choose credit cards that reflect their actual needs and use	All lenders with more complex credit card offerings have developed tools to help consumers choose credit cards that meet their actual needs and use.

Summary of key findings

Our review identified **eight key findings**:

› As a market overview, **the number of open accounts, outstanding balances, interest charged and fees paid have reduced since our 2018 review**, with a steep decline observed across all these measures from around March 2020 to mid-2021. This correlates with the start of the COVID-19 pandemic.

› **Personal lending growth remains low after accounting for inflation**, although it has increased since mid-2023. The share of credit card balances accruing interest is also at historically low levels, suggesting that households are not relying on or substituting other forms of personal credit. **While new products such as buy now pay later products continue to rise in popularity, they accounted for around 2% of all card purchases (including debit and credit cards) in FY2022–23**.

› **While the number of consumers with problematic debt has decreased, many consumers still struggle with problematic debt**, particularly younger consumers, consumers with more than one credit card and consumers who take out a cash advance.

› **Some credit card features appear to correlate with positive consumer outcomes**, such as increased reduction in debt, when they are used as designed, but **lenders should be proactive in supporting their customers to use these features effectively**. Consumers with balance transfers who made consistent repayments experienced a greater reduction in the debt they transferred by the end of the promotional period, so lenders should consider how they can assist consumers to adopt this behaviour, including by providing consumers with more regular reminders to make regular payments or by offering to schedule regular payments for consumers.

› **Some consumers still hold high-interest credit cards that do not suit their credit card usage**, which can result in consumers paying more interest than necessary.

- **Lenders provided additional assistance to consumers during the COVID-19 pandemic**. The number of consumers receiving lender assistance arrangements for credit cards peaked between May 2020 and July 2020 and returned to a more static state similar to pre-COVID levels from March 2021. From January 2017 to December 2022, we found that **not all credit card providers analysed data to identify consumers who may be at risk of financial hardship**.
- **Lenders have generally implemented the design and distribution obligations.** However, ASIC has seen evidence of consumer harm and taken action by commencing civil penalty proceedings. We also observed several examples of better practice that industry should consider adopting to help consumers obtain appropriate credit cards and minimise the risk of problematic debt.
- **All lenders have implemented the credit card reforms that commenced in 2018 and 2019**. These reforms included a prohibition on unsolicited offers to increase credit limits, the right to request a credit limit reduction and card cancellation online, a prohibition on charging interest retrospectively and changes to responsible lending assessments. Implementation of these reforms did not appear to generate a significant change in card use, limits or cancellation rates.

How lenders can support consumers with credit cards

In addition to our key findings, we observed a number of examples of better practice which some, but not all, lenders had implemented to support consumers: see Table 2. ASIC encourages all lenders to consider adopting these practices to better support their customers to manage their credit card debt.

Table 2: Action lenders can take to support consumers

Type of support	Action
Tackling problematic debt	› Provide consumer education and targeted reminders on ways to reduce persistent debt. For example, one lender trialled sending SMS reminders to encourage consumers with problematic debt to make repayments earlier and pay more than the minimum repayment amount, which resulted in a 28% increase in payments › Identify key cohorts who struggle with problematic debt (e.g. younger consumers), and provide them with targeted communications about the benefits of making greater repayments than the minimum repayment amount › Provide options to consumers identified as having problematic debt, such as assisting them to transfer to a more appropriate card that suits their needs and use › Waive debts for vulnerable consumers in perennial debt (such as elderly consumers) who have paid more in interest than the value of their credit card › Exclude consumers with problematic debt from marketing campaigns designed to increase spending on credit cards

Type of support	Action
Using credit card features effectively	› Build in automatic or periodic repayments for balance transfers to assist consumers in making additional repayments, as additional repayments result in better consumer outcomes › Offer consumers transaction limits or blocks on cards with a balance transfer to limit additional spending › Provide regular reminders to consumers with balance transfers about the benefits of making larger, regular repayments during the balance transfer promotional period › Promote certain credit card features, such as instalment plans, as a way to pay down persistent debt balances
Choosing credit cards that suit consumers' use	› Promote targeted credit card selector tools that remove inappropriate cards from consideration and highlight cards that are likely to meet the individual consumer's needs, objectives and use › Assess consumers' use of high-interest rate cards and high-annual fee cards and where appropriate, provide education to consumers about alternative cards that may better suit their actual credit card use
Assisting consumers experiencing financial stress	› Use data analysis to identify consumers who may be experiencing financial stress and adopt targeted communication strategies to assist those consumers
Meeting the design and distribution obligations	› Demonstrate a focus on consumer outcomes when giving effect to the requirements under the design and distribution obligations **Note:** This includes the development of target markets, distribution conditions and review triggers to identify harms and ensure the product remains appropriate for consumers. › Describe target markets using objective parameters with sufficient granularity, including by using data to consider consumer outcomes from the product › Use specific and measurable review triggers that are based on objective parameters, including rates of financial hardship and problematic debt outcomes to identify where the product may not be performing as expected **Note:** For more information, see areas for improvement under Meeting the design and distribution obligations.

The credit card market in Australia

How credit cards are regulated

Credit cards are regulated 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.

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

- competence
- membership of an external dispute resolution scheme
- compensation arrangements
- adequate compliance and risk management systems, and
- responsible lending obligations, which require credit licensees to take certain steps before providing a credit card to a consumer or increasing a card holder's credit limit.

Credit cards are also subject to the design and distribution obligations by virtue of being a credit facility within the scope of the *Australian Securities and Investments Commission Act* 2001 (ASIC Act).

Additional requirements for credit cards

In March 2018 the Australian Government passed the *Treasury Laws Amendment (Banking Measures No. 1) Act 2018*, which introduced additional requirements for credit cards. These requirements include:

- a prohibition on unsolicited offers to increase a credit card limit
- changes to interest calculations, including a prohibition on applying interest charges retrospectively
- the right to request a credit limit reduction and card cancellation online, supported by additional restrictions on what credit providers can do after such a request is made, and
- the power for ASIC to prescribe a period for the purposes of credit card responsible lending assessments, which ASIC has now exercised, prescribing a 3 year assessment period effective from 1 January 2019 (see REP 580 and the *ASIC Credit (Unsuitability—Credit Cards) Instrument 2018/753*).

Note: For more information about these additional requirements, see Monitoring other credit card reforms.

Snapshot of the market from 2017 to 2022

Key finding: As a market overview, the number of open accounts, outstanding balances, interest charged and fees paid have reduced since our 2018 review, with a steep decline observed across all these measures from around March 2020 to mid-2021. This correlates with the start of the COVID-19 pandemic.

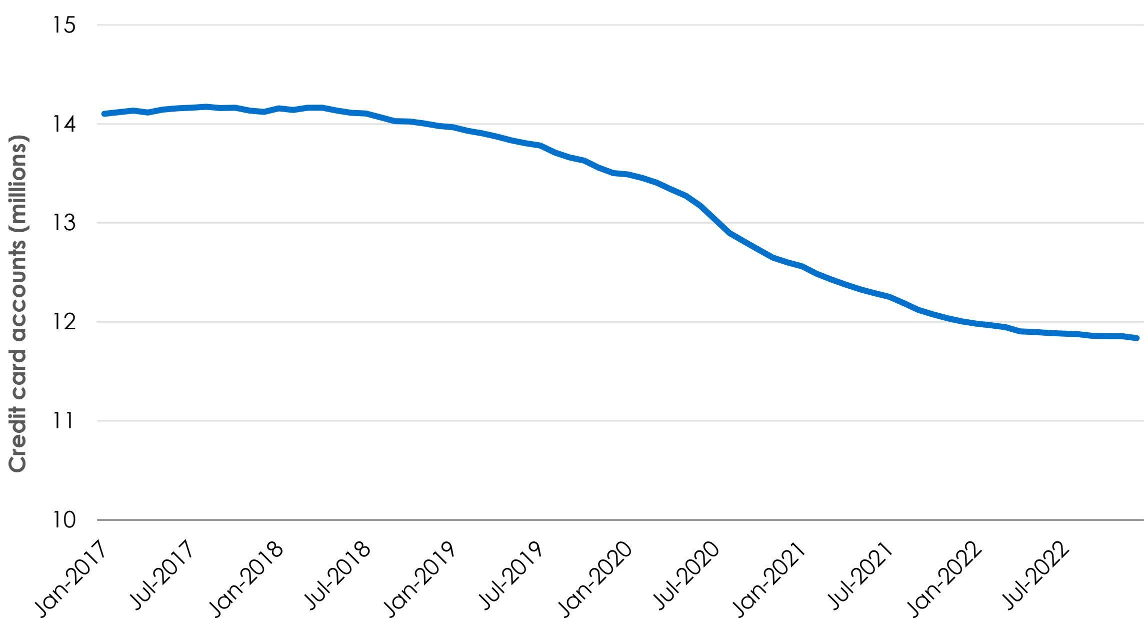
We obtained data for a 6-year period from 1 January 2017 to 31 December 2022 to observe changes in credit card use over that period, and compare those changes with what we saw in our 2018 review, which covered the period from 1 July 2012 to 30 June 2017.

Our data showed that the number of open accounts, outstanding balances and fees and interest charged all followed a similar downward trend during our review period, with steep declines observed between March 2020 and mid-2021. This aligns with the period when COVID-19 pandemic impacts were most prominent. During this period, a range of financial assistance and relief packages were made available by lenders (including waiving of repayments and interest moratoriums) and governments (including early release of superannuation, Centrelink payments and other government assistance). These joint measures may have contributed to consumers reducing their level of debt, therefore reducing the overall fees and interest charges incurred across the market.

Changes in the credit card market from 2017 to 2022

Based on the data we obtained, there were 14.1 million consumer credit card accounts open in January 2017. That fell to 11.8 million accounts by December 2022. This decline in the number of open accounts commenced in the second half of 2018, with a steeper decline observed from March 2020 at the start of the pandemic: see Figure 3.

Figure 3: Number of open credit card accounts (2017 to 2022)



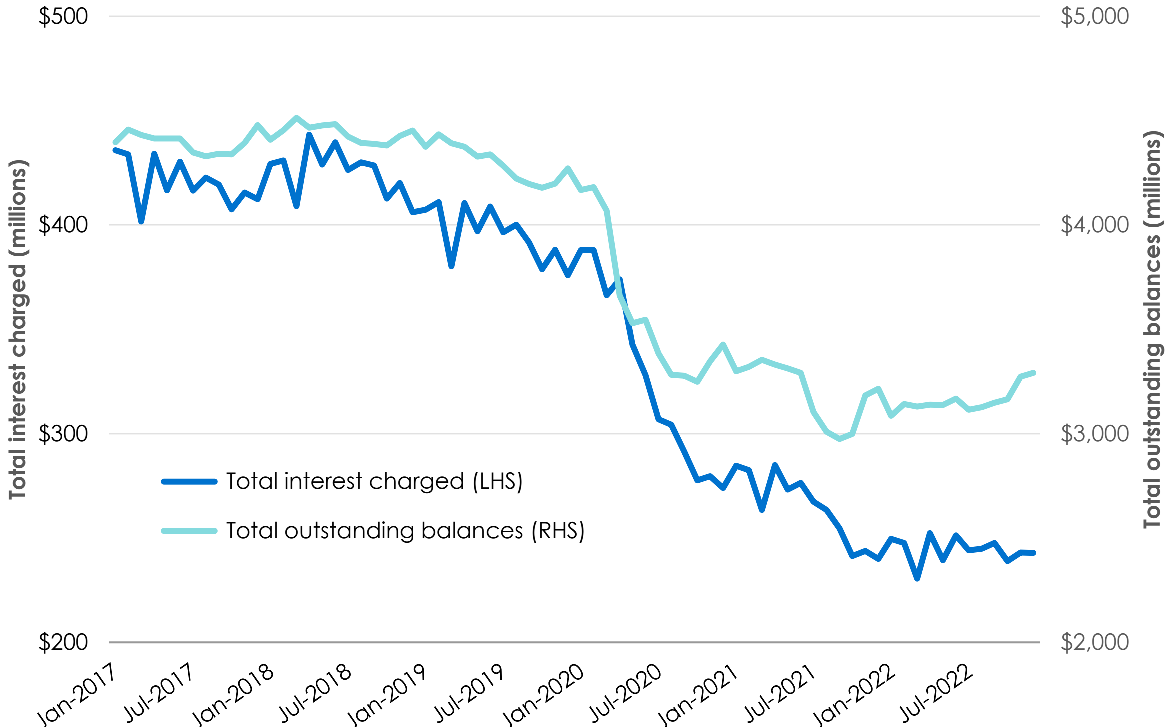
Note: See the paragraph above for a description of this figure (accessible version).

The downward trend we observed in our review was in contrast to what we observed in the 2018 review, where the number of open credit card accounts increased from 13.7 million to 14.1 million between July 2012 and January 2017.

In December 2022, 18–29 year olds were the age band with the smallest proportion of consumers with credit cards, making up just 6.6%, while 45–64 year olds were the largest proportion at 39.9%. There was also a higher proportion of male credit card holders than female, at 55.1% and 44.3% respectively.

The total outstanding balances and interest charged on credit card accounts between 2017 and 2022 also trended down across the review period, with a steep decline from March to December 2020. Total interest charged fell from $435.8 million to $243.0 million, and total outstanding balances fell from $44.0 billion to $32.9 billion: see Figure 4.

Figure 4: Total outstanding balances and interest charged on credit cards (2017 to 2022)



Note: See the paragraph above for a description of this figure (accessible version).

We note that in January 2017, the total interest charged was equal to 1.0% of the total outstanding balances. From March 2020 (the start of the COVID-19 pandemic) to January 2021, this figure hovered between 0.8% and 1.0% and was 0.7% as at December 2022.

These observations differed to what we found in the 2018 review, where the interest charged fell but the total outstanding balances remained reasonably consistent from July 2012 to January 2017. Outstanding balances in the 2018 review marginally increased from $43.8 billion to $44.0 billion and total interest charged reduced from $489.6 million to $435.8 million.

The amount of fees paid by consumers (including annual fees, late payment fees and fees related to particular product features such as cash advances) followed a similar trend, equating to around $1.4 billion per year up to the end of 2019 with a sharp drop in 2020. Interestingly, the

total fees paid by consumers from 2020 to 2022 remained flat, although the total number of open accounts and outstanding balances trended down during this period.

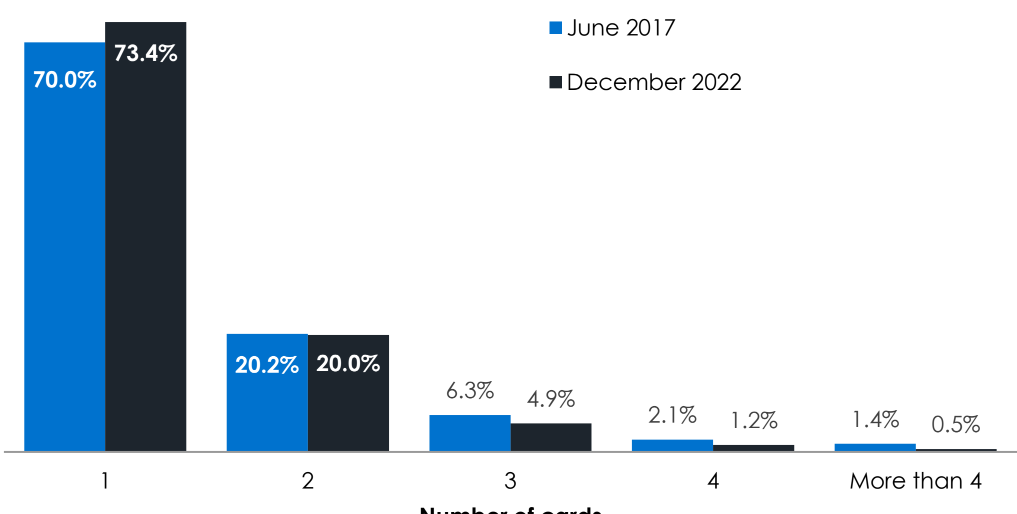
Consumers were charged approximately $1.2 billion in fees over the 2022 calendar year, which was a decline from $1.4 billion in fees in 2017.

Our data showed that 11.6 million consumers held the 20.1 million credit card accounts that were open at any time between 2017 and 2022, with a number of consumers having more than one account during that period.

As at December 2022, the vast majority of consumers held one card (73.4%), 20% of consumers held two cards, almost 5% of consumers held three cards and very few consumers held more than four cards (0.5%).

These figures showed a small increase (3.4%) in the number of consumers holding one card and slight decreases in the number of consumers holding three or more cards compared with the 2018 review: see Figure 5.

Figure 5: Proportion of consumers with multiple credit cards (June 2017 compared with December 2022)



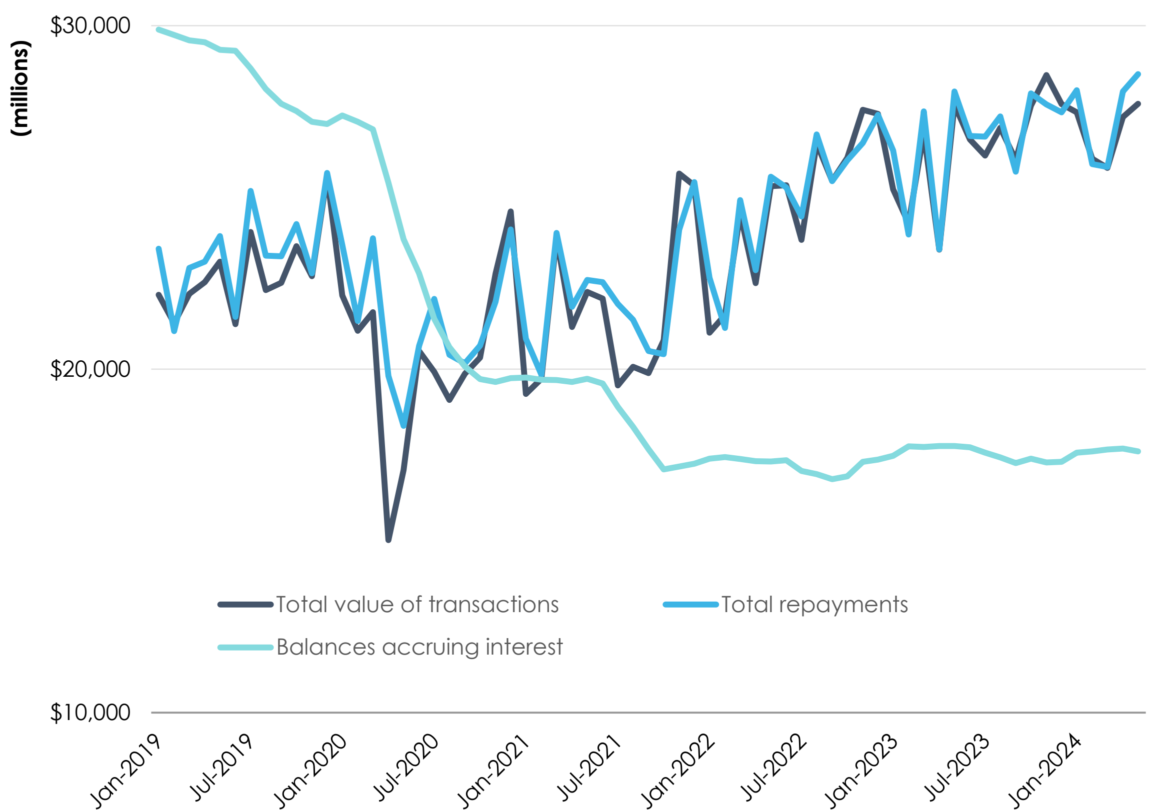
Note: See the paragraph above for a description of this figure (accessible version).

As at December 2022, the median total outstanding balance for consumers with multiple cards was also higher than consumers with only one card. The median of aggregated account balances for consumers with three open cards in December 2022 was $5,911, while consumers with only one open card had a median aggregate balance of $903.

Changes in the credit card market since 2022

We were interested to understand whether the credit card market experienced significant change in the period following the end of our review period in December 2022. Recent data from external sources, including statistics published by the RBA, indicated no significant increase in the number of open credit card accounts since the end of our review period. Spending and total outstanding balances on credit cards have increased slightly since then, but the total amount of credit card debt accruing interest has remained flat: see Figure 6.

Figure 6: Credit card spending and repayment behaviour (January 2019 to May 2024)



Note: See the paragraph above for a description of this figure (accessible version). Based on the statistical tables published by the RBA.

Changes in other personal lending since 2017

> **Key finding:** Although personal credit growth has increased since mid-2023, it remains low after accounting for inflation. Additionally, the share of credit card balances accruing interest is at historically low levels, suggesting that households are not relying on or substituting to other forms of personal credit. While new products such as buy-now-pay-later products continue to rise in popularity, they accounted for less than 2% of all card purchases (including debit and credit cards) in FY2022–23.

The reduction we observed in outstanding credit card balances over our review period—including the steep decline from the start of the COVID-19 pandemic around March 2020—did not appear to correlate with a proportional increase in other forms of personal credit, such as personal loans, small and medium amount credit contracts, and buy now pay later products.

Statistics on authorised deposit-taking institutions (ADIs) from the Australian Prudential Regulation Authority (APRA) show that the value of credit card loans remained flat from mid-2020 to March 2024, while other household loans had a gradual decline: see Figure 7. This indicates that credit card debt did not shift to alternative types of debt with ADIs. We note that 'Other household loans' includes finance leases, margin loans, fixed-term loans and other revolving credit for residential households for personal purposes and does not include home loans.

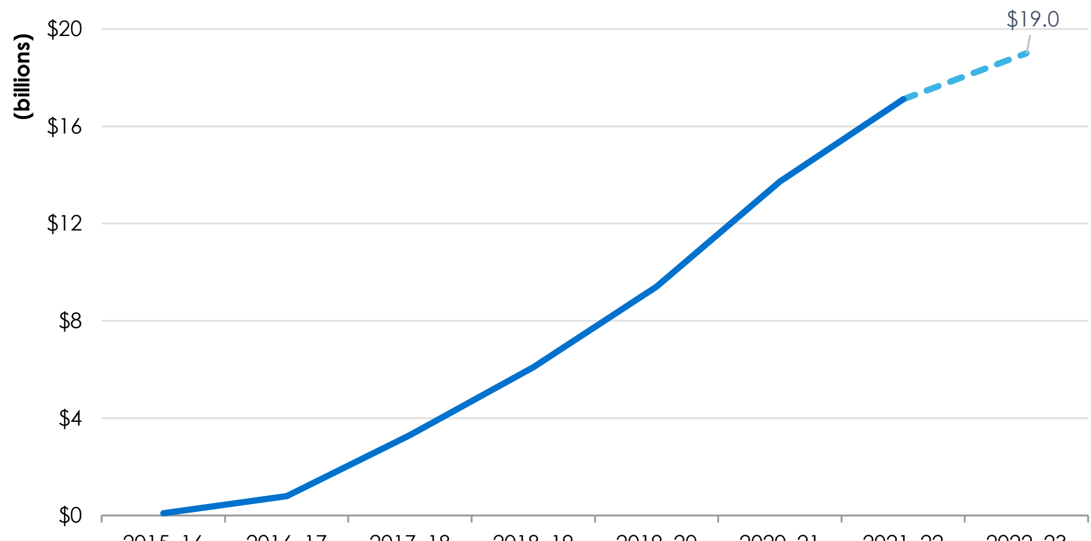
Figure 7: Comparison of the value of credit card loans to other household loans (March 2019 to March 2024)

Note: See the paragraph above for a description of this figure (accessible version). Based on [monthly ADI statistics] published by APRA.

From time-to-time ASIC obtains data from entities on a voluntary basis (where they are not legally required to provide the data) to understand different market segments during periods of interest. From these internal data sources we observed overall growth in the buy now pay later sector. However, recent RBA data indicates that the increase in the dollar value of buy now pay later transactions in FY2022–23 was approximately $19 billion, which is equivalent to around 2% of Australian card purchases, including debit and credit cards (of approximately $950 billion).

Figure 8 illustrates this increase in the value of buy now pay later transactions over time based on the annual reports of large buy now pay later providers (Afterpay, Zip and Humm). Although the rise appears significant (and includes New Zealand operations), it is a far smaller increase than the decrease observed in the credit card market during our review period.

Figure 8: Value of buy now pay later transactions in Australia and New Zealand (FY2015–16 to FY2022–23)



Note: See the paragraph above for a description of this figure (accessible version). Based on buy now pay later providers annual reports.

Tackling problematic debt

Key finding: While the number of consumers with problematic debt has decreased, many consumers still struggle with problematic debt, particularly younger consumers, consumers with more than one credit card and consumers who take out a cash advance.

Indicators of problematic debt

There is no single definition for problematic credit card debt. The impact of problematic debt on consumers can be financial—for example, carrying large balances for a significant period at relatively high interest rates can be more expensive than other debt options. There can also be non-financial impacts on consumers, such as reduced consumption or stress due to unaffordable debt.

In examining problematic debt in this review and our 2018 review, we focused on three different scenarios:

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

To measure the prevalence of these scenarios, we developed four problematic debt indicators: see Table 3. These indicators reflect the three scenarios, with some additional conditions to filter out occasional variations in behaviour that do not detract from the overall risk of harm, and practices that may not cause problems, such as regularly carrying a large balance at no cost.

In developing these indicators, we looked at the different ways lenders recorded and reported delinquency information. 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 for more information about this exercise.

For the purpose of our analysis, we consider severe delinquency to be the worst state, with repeated low repayments being the least problematic indicator.

Table 3: Overview of problematic debt indicators

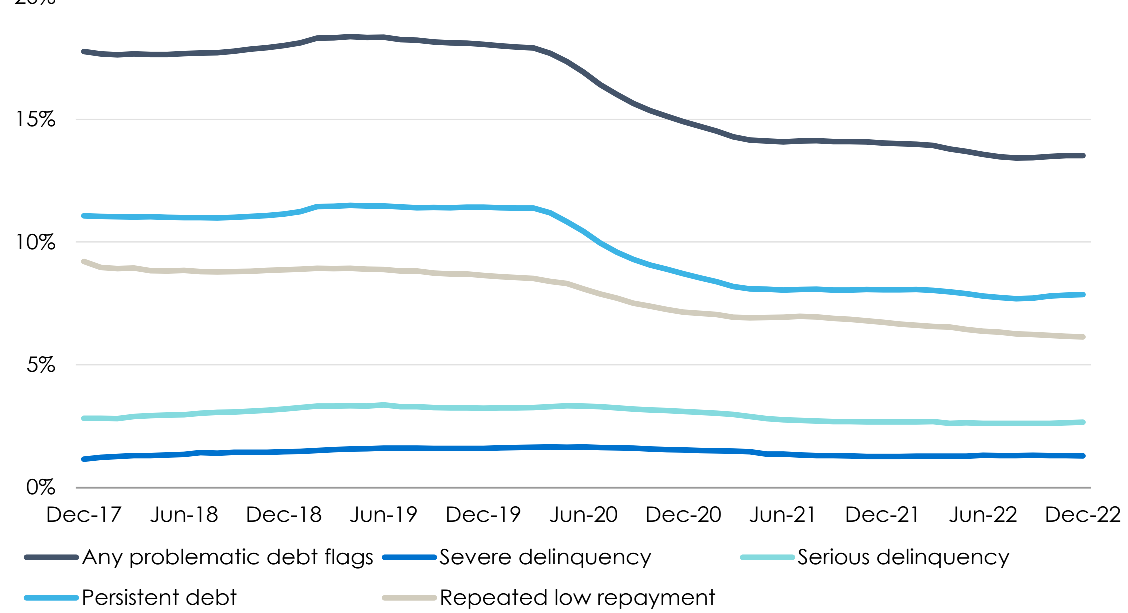
Indicator	Description
Severe delinquency	The account has been written off or is in the worst state of delinquency that the relevant lender reported to us. **Note:** There were differences in how some lenders reported delinquency information to us. We standardised this information where possible, but there may be minor differences between lenders' data. We have considered these differences when 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.

The incidence of problematic debt

Between January 2017 and December 2022, the proportion of consumers satisfying at least one of our problematic debt indicators decreased, with a notable decline between March 2020 and April 2021, which coincides with the start of the COVID-19 pandemic: see Figure 9.

The most significant decreases were observed in the persistent debt and repeated low repayment indicators, while the more concerning indicators (serious and severe delinquency) remained relatively consistent. We note that the proportion of consumers with any problematic debt will be smaller than the sum of the proportion of consumers with each problematic debt indicator as some consumers met more than one problematic debt indicator.

Figure 9: Proportion of consumers who met problematic debt indicators (2017 to 2022)



Note: See the paragraph above for a description of this figure (accessible version).

As at December 2022, 12.2% of all accounts in our review satisfied a problematic debt indicator and 13.5% of consumers satisfied at least one indicator—a decrease from the 18.5% of consumers with problematic debt as at June 2017, but still a significant proportion of consumers.

The proportion of accounts in problematic debt varied significantly across lenders, ranging from 5.9% to 20.7%, indicating that a number of lenders have room to improve how they assist consumers in managing credit card debt.

We saw that on at least one card:

- 1.3% of consumers were in severe delinquency
- 2.7% of consumers were in serious delinquency
- 7.9% of consumers had persistent debt, and
- 6.1% of consumers made repeated low repayments.

The primary cause of the reduction in problematic debt between 2017 and 2022 cannot be stated with certainty. However, it seems likely that the impact of the COVID-19 pandemic, including government and industry responses, and changes in consumer sentiment, played a significant role. The introduction of financial assistance packages and early release of superannuation, together with reduced household spending due to COVID-19 restrictions and consumer uncertainty, meant that funds were available to pay down debts.

The almost universal decline in problematic debt rates across the lenders' accounts from around March 2020 to mid-2021 supports the proposition that the decline in problematic debt during this period was primarily due to the impact of a nationally significant factor, such as the COVID-19 pandemic, rather than any specific changes made by individual lenders.

Consumer cohorts most affected by problematic debt

Although the reduction in problematic debt over our review period is a positive outcome, a significant number of consumers continue to struggle with problematic debt. Young consumers were the most likely cohort to be in problematic debt in both the 2018 review and the current review, indicating that lenders should focus on assisting this cohort to manage their credit card debts.

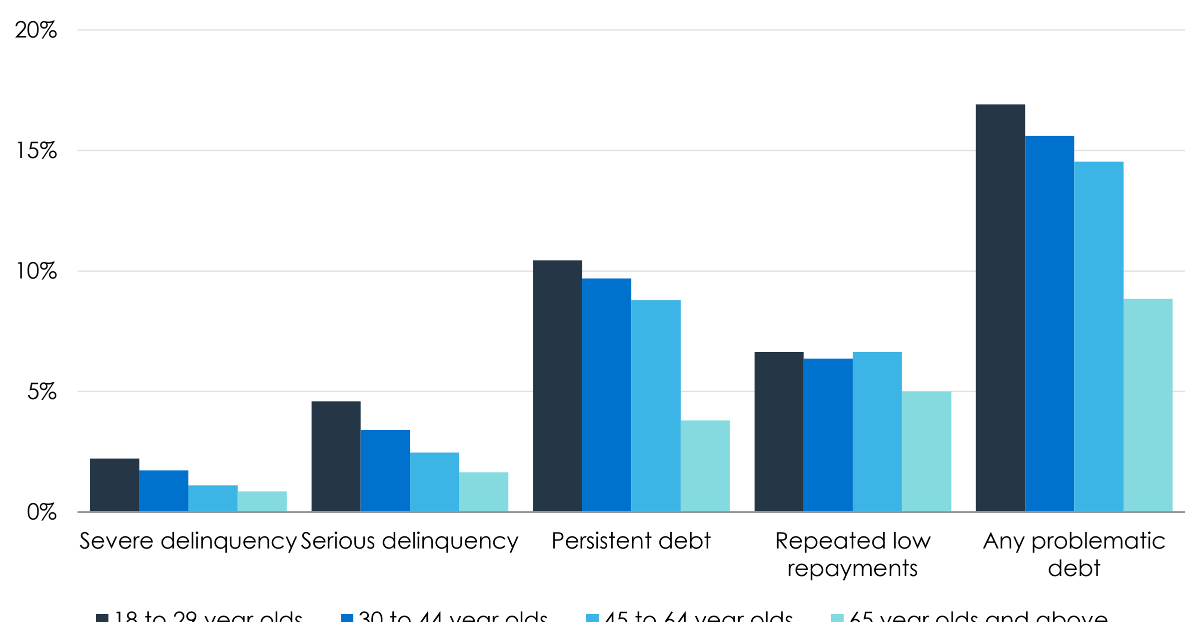
Consumers with low-rate cards and those who took out cash advances also showed higher rates of problematic debt. Consumers with more than one card were also over-represented in problematic debt cohorts in both the 2018 review and the current review.

Breakdown of problematic debt by age and gender

In the 2018 review, younger consumers had a higher overall incidence of problematic debt than other age groups, with 21.2% of 18–29 year olds satisfying at least one indicator at June 2017, compared with 10.8% of consumers aged 65 and over.

This trend continued in the current review, with 16.9% of 18–29 year olds satisfying at least one problematic debt indicator in December 2022, compared with 8.9% of consumers aged 65 and over. Younger consumers are also represented more frequently in each of the problematic debt categories: see Figure 10.

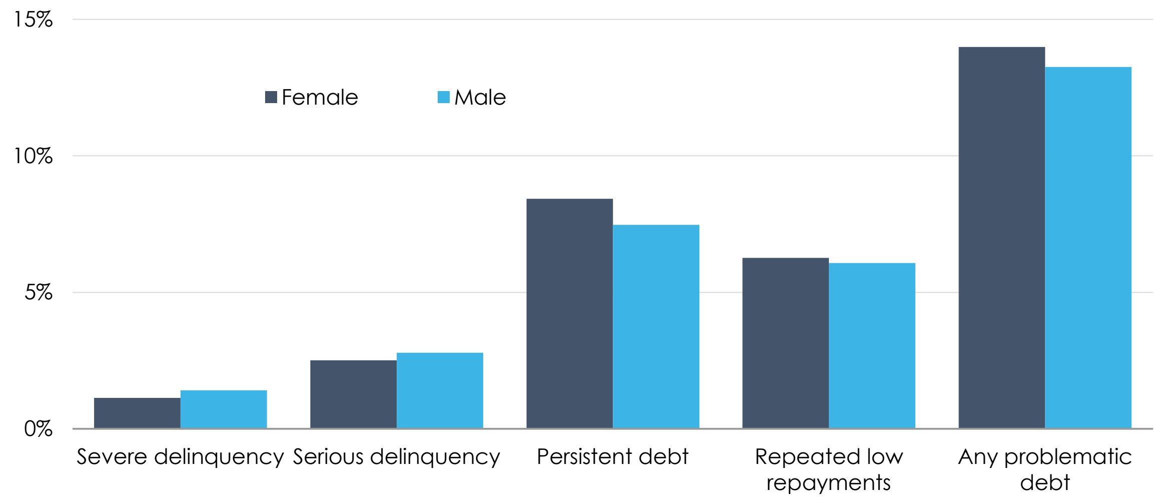
Figure 10: Proportion of consumers with problematic debt by age (December 2022)



Note: See the paragraph above for a description of this figure (accessible version).

In December 2022, a larger proportion of female consumers satisfied at least one of the problematic debt indicators compared with male consumers. Interestingly, male consumers were more likely than female consumers to experience the two worst states of problematic debt: see Figure 11.

Figure 11: Proportion of consumers with problematic debt by gender (December 2022)



Note: See the paragraph above for a description of this figure (accessible version).

Problematic debt associated with different card types

When comparing the types of credit cards that consumers held, low-interest rate cards had the highest proportion of problematic debt in December 2022, with 24.5% of these cards meeting at least one problematic debt indicator. This is in contrast to low-fee cards, of which 9.8% were in problematic debt, and rewards cards, of which 7.4% were in problematic debt. We acknowledge that this difference may be influenced by behavioural factors as consumers who hold multiple cards may choose which cards they can afford to make repayments towards.

Problematic debt for consumers with more than one credit card

Consumers who only held one card made up 73.4% of the market in December 2022, with each additional card making up an increasingly smaller proportion—that is, 20% of consumers held two cards and 4.9% held three cards.

As at December 2022, the proportion of consumers who satisfied each problematic debt indicator increased as the number of cards held increased. For example, 10.8% of consumers with one card were in problematic debt, compared with 24.5% of consumers with three active cards.

This was also the case in the 2018 review, where we found that consumers with multiple credit cards were over-represented in every problematic debt indicator as at June 2017.

How credit providers can assist consumers with problematic debt

Actions taken by lenders to assist consumers with problematic debt are different to lenders' statutory obligations relating to financial hardship arrangements: see also Assisting consumers experiencing financial stress. We were able to categorise lenders' actions into proactive or reactive measures to try and address problematic debt.

Proactive responses

Ten of the 13 credit providers adopted ASIC's definition of problematic debt from REP 580 and used it to identify and proactively offer assistance to help consumers reduce problematic debt. Some lenders have comprehensive problematic debt identification and education programs, which we consider to be **better practice.**

Some examples of the different types of action credit providers took to help reduce problematic debt include:

- offering instalment plans
- providing options to transfer balances to cards that have a lower interest rate
- contacting (via SMS, direct mail, email and the lender's app) and educating consumers with problematic debt, including consumers making sustained minimum repayments, of the benefit of paying more than the minimum monthly repayment—this response also included repayment reminders, alerts for declined transactions and invitations to contact the credit provider to consider making changes to better manage their card, and
- offering consumers the option of using locks, blocks and limits on the types of transactions they use their cards for.

Most credit providers also updated and introduced product selector and comparison tools to assist consumers. These tools include questions about needs and objectives to make certain cards unavailable and trade off certain products over others. Credit provider data showed an increase in the use of these tools by consumers during our review period, particularly for credit providers with multiple credit card types. Research by these credit providers showed a reduction in applications started but not completed and an increase in started applications being completed. This indicates that these tools may help consumers choose more appropriate cards.

Credit provider research also showed a positive change (to differing extents) in consumer behaviour when credit providers proactively engaged with consumers to help limit the likelihood of consumers experiencing problematic debt. These behaviours included consumers making repayments greater than their required minimum repayment.

Reactive responses

We observed that the majority of lenders offered assistance to consumers who were severely delinquent on their credit card. We also noted examples of **better practice** by lenders in relation to problematic debt including:

› making outbound calls resulting in full debt waivers to consumers over 60 years of age who are experiencing perennial problematic debt and who had paid more in interest than the value of their card

› waiving debts for any permanent repayment plans that applied to consumers 75 years of age or older

› identifying an example consumer type for the persistent debt cohort and then directing a specific campaign to those consumers offering structured repayment plans at a lower interest rate, and

› identifying consumers in problematic debt and excluding that cohort from marketing campaigns and annual interest rate increases.

Additional actions lenders can take

The law does not prescribe specific obligations in relation to contemplating problematic debt. We observed that the approach taken by lenders was generally varied or limited.

While some lenders did have a threshold or review trigger for problematic debt indicators, this was not widespread. Where lenders have thresholds to measure problematic debt, they should ensure that the thresholds remain appropriate and are reviewed regularly.

Using credit card features effectively

Key finding: Some credit card features appear to correlate with positive consumer outcomes, such as increased reduction in debt, when they are used as designed, but lenders should be proactive in supporting their customers to use these features effectively. Consumers with balance transfers who made consistent repayments experienced a greater reduction in the debt they transferred by the end of the promotional period, so lenders should consider how they can assist consumers to adopt this behaviour, including by providing consumers with more regular reminders to make regular payments or by offering to schedule regular payments for consumers.

Balance transfers

A balance transfer is a product feature that allows a consumer to transfer some or all of the debt from one credit card to another. In most cases lenders offer a reduced or 0% interest rate for a specified promotional period when debt is transferred to the new card. Most lenders in our review offered a promotional period of 12, 18 or 24 months for balance transfers. This reduced interest rate over the promotional period allows consumers to reduce debt over that period. At the end of this period the transferred balance reverts to a higher rate—in most cases, the standard purchase rate.

All lenders offered balance transfers at the beginning of our review period, but only 7 of the 13 lenders continued to offer balance transfers as at December 2022. We analysed balance transfers across all the lenders and observed that few consumers made a balance transfer during the review period and there was little change in the average value of balance transfers during this period compared to the 2018 review. Our data indicates that consumers who made a balance transfer were generally able to reduce their overall debt, and outcomes for consumers making additional purchases on a new card with a balance transfer improved since our 2018 review.

Note: An 'additional purchase' is defined as a purchase incurring an interest charge in a given month.

There were 804,325 accounts, including those closed before December 2022, that had at least one balance transfer during the review period. This figure is significantly lower than REP 580, which could be attributed to many different factors but also linked to an overall reduction in credit cards and debt levels: see Table 4.

Table 4: Accounts with at least one balance transfer

2018 review	Current review
8.3%	4.0%

In our current review, we found that 85.7% of all balance transfers had a promotional interest rate of 0%, while 6.8% of balance transfers had a promotional rate above 6%.

Where balances were transferred

Across all lenders, there were 4,830,954 new accounts opened by consumers with a lender that they had not previously used. Of these accounts, 9.4% were opened with a balance transfer. We observed that 69.4% of balance transfers were transferred to new accounts, increasing slightly from 68.6% in the 2018 review. However, there are some notable methodology differences.

Note: In REP 580, this analysis relied on a single data point which indicated whether an account was opened with a balance transfer. In the current data collection, we also required that the balance transfer occurred within the collection period, and that the relevant balance transfer information was not missing.

We obtained data about the use of balance transfers across different card types that suggested this feature is being used as designed. Low-interest rate cards and rewards cards constituted the greatest proportion of accounts that received a balance transfer during the review period, making up 9.3% and 3.3% respectively. These figures are to be expected, as consumers pay less interest if the majority of their credit card debt is on a low-rate card, and consumers generally obtain more rewards if they have a larger balance on a rewards card.

Balance transfers and problematic debt

Our data showed that consumers who made one or more balance transfers experienced problematic debt at a much higher rate than the general population. However, this is unsurprising as consumers struggling with problematic debt often seek out balance transfers to help them manage that debt.

We also saw that consumers with higher credit card debt had a higher rate of using balance transfers—that is, 0.01% for consumers with total credit card debt below $5,000 compared with 0.8% for consumers with more than $20,000 of debt.

The data obtained in our review suggests that balance transfers helped some consumers to manage problematic debt: see Table 5.

Table 5: Changes in problematic debt after balance transferred

Period	Percentage of balance transfer consumers satisfying at least one problematic debt indicator
Before balance transfer	32.9%
12 months after balance transfer	30.6%
End of balance transfer promotional period	27.5%

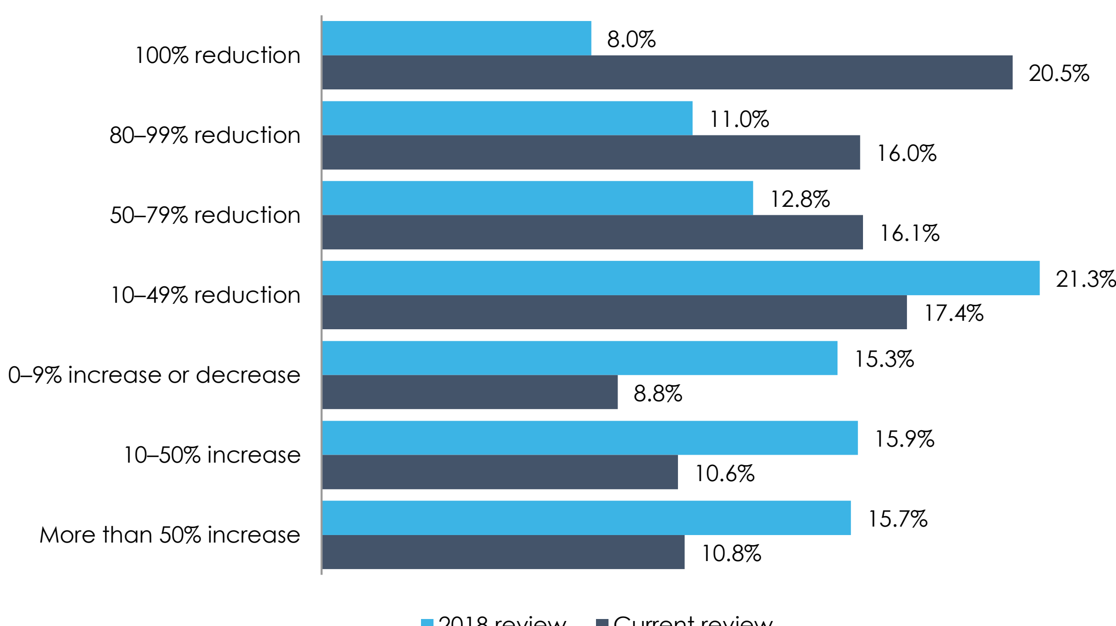
Many consumers who made a balance transfer during the review period did so multiple times. This was less common for balance transfers by 18–29 year-old consumers, of which 28.6% used the feature multiple times. All other age cohorts had between 38.1% and 41.1% of consumers using balance transfers multiple times.

Balance transfers and debt reduction

When used appropriately, balance transfers appear to assist some consumers to pay down credit card debt. We found that 74.2% of consumers who made a balance transfer were able to reduce their total credit card debt, with 52.5% reducing their total debt by at least 50%. Concerningly, we also saw that approximately 11% of consumers experienced an increase of more than 50% in

overall credit card debt after making a balance transfer. Overall, these results appear to be more positive than what we observed in our 2018 review: see Figure 12.

Figure 12: Effectiveness of balance transfer for debt reduction (based on one balance transfer)



Note: See the paragraph above for a description of this figure (accessible version). We note that this analysis is restricted to consumers who only made one balance transfer during the review period. In our 2018 review we found that consumers experienced better outcomes after a second and third balance transfer compared to the first transfer.

To understand debt reduction among consumers who made regular payments during a balance transfer promotional period we looked at the account balances 2 months after the end of the promotional period relative to the amount transferred.

Consumers who made consistent repayments experienced a greater reduction in the debt they transferred by the end of the promotional period. Of consumers who made consistent repayments, 55.1% were able to fully repay the total debt on their balance transfer account, compared with only 40.4% of consumers who did not make consistent repayments. However, only 4.9% of consumers who made a balance transfer made consistent repayments—a concerning decline from the 6.4% of consumers in our 2018 review.

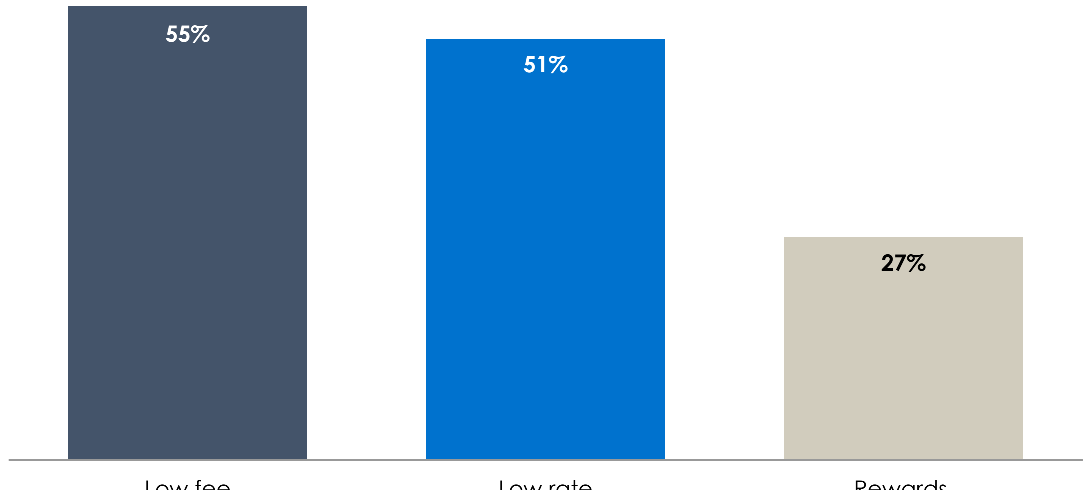
We consider it to be **better practice** for lenders offering balance transfers to encourage consumers to make consistent repayments on their balance transfers during the promotional period. This could be done by providing consumers with more regular reminders to make regular payments or by offering to schedule regular payments for consumers.

Note: Where there was missing or not applicable account balance information in the 2 months after the promotional period, we excluded the account from this analysis. This may occur when the account has been closed, or if the relevant month lies outside our review period.

We observed a distinct split in the rates of repayment between the lenders. Half of the lenders had less than 26% of consumers who fully repaid their debt by the end of the promotional period, with the lowest full repayment rate being 7.7%. In contrast, the other lenders had repayment rates of at least 43%, with one lender being a clear outlier with a full repayment rate of 67.3%.

We also saw that significantly more consumers who transferred their balance to a low fee or low-rate card fully repaid the debt during the promotional period compared to consumers who transferred to a rewards card: see Figure 13.

Figure 13: Proportion of consumers who fully repaid debt by end of promotional period



Note: See the paragraph above for a description of this figure (accessible version).

Impact of additional purchases on cards with a balance transfer

One key metric that can impact the effectiveness of balance transfers is additional purchases. This results in extra spending on the card the balance is transferred to, which increases the overall debt. Consumers were defined as having made additional purchases in a particular month if they incurred interest charges of $5 or more for that period. Further, we only reviewed accounts that were opened with a balance transfer and had a promotional rate of 0% to exclude any accounts where the interest charged may have been attributable to previous balances or to the transferred balance amount.

Over a third of consumers used their balance transfer card to make additional purchases in at least 6 different months during the promotional period. This figure was a slight increase from our 2018 review, where 32.1% of consumers used their balance transfer card for additional purchases in 6 or more months. However, the proportion of consumers using the balance transfer card for additional purchases in 1 to 5 months was lower than our 2018 review (i.e. 17.99% compared with 21.8%).

If we broadened our definition of additional purchases to include an interest charge of $1 or more in a single period, we found that 59.77% of consumers made additional purchases at least one time, which is also lower than the figure observed in our 2018 review (i.e. 63.8%).

Instalment plans

Instalment plans are arrangements where regular payments (calculated as a fixed amount or percentage of the closing balance) are made to pay off an agreed amount over a fixed period. These payments are separate to the minimum repayments made on a revolving balance.

Through instalment plans, credit card holders can use their existing credit limit to split repayment of a purchase or current balance over a set period and pay a fixed fee as opposed to the standard interest rate applicable to the balance on the card. Eight lenders offered instalment plans during our review period.

Instalment plans can be interest and fee free, or charged at a reduced annual rate or a fixed monthly fee (e.g. 1.5–6.5% of the balance) generally starting at a minimum of $150 over 3 months.

Instalment plans were used approximately 3.5 times more often than balance transfers, and as at December 2022, 6.5% of all credit card holders had an active instalment plan.

We found that instalment plans were most commonly used by 18–29 year olds. However, consumers aged 45–64 had the highest average instalment balance.

As at December 2022, instalment plans had the following characteristics:

- a median effective interest rate of 0%
- an average balance of $3,147.48, and
- an average fee of $6.60.

As instalment plan balances are included in the existing credit card balance, they do not contribute to increased indebtedness. Further, instalment plans are usually offered on more favourable terms than standard credit card purchases, and some lenders allow existing balances to be transferred into instalment plans as a means of reducing persistent debt balances. Due to the significant variation between the instalment plans offered by the lenders, we were unable to analyse any relationship between instalment plans and consumers with problematic debt.

We observed that instalment plans can result in positive outcomes for some consumers if they are used as designed. We found that many consumers who took out an instalment plan reduced their total credit card debt. For consumers who took out an instalment plan, we looked at the total level of debt in the period that the consumer took out their first instalment plan. We then compared this to the total debt remaining after 3 months to calculate the change in debt.

Of the cohort we observed, the majority (62.8%) experienced a reduction in their net debt, with 9.7% of consumers experiencing a 50–100% reduction in their net debt 3 months after taking out an instalment plan(s), 29.2% experiencing a 10–49% reduction in their net debt, and 24.0% experiencing a decrease of 0–9% in their net debt. The remaining cohort (37.1%) of consumers experienced an increase in their net debt ranging from 1% to over 100%.

Structured payment plans

Structured payment plans are arrangements that enable consumers to defer all or part of their balance to a payment plan. These arrangements are aimed at assisting consumers to structure and manage their credit card payments, particularly consumers who are experiencing persistent debt balances but are meeting their repayment obligations and do not have a hardship arrangement in place.

Only six of the lenders in our review offered structured payments plans, with some lenders incorporating this option into their pre-existing instalment plan offering, where they allow current balances to be managed via an instalment plan.

Structured payment plans were generally offered at or below the standard card rate with no additional fees. Although some lender research suggested that these types of plans address some of the risks of poor outcomes for consumers, only a small number of consumers have taken up the option of a structured payment plan even when they are proactively offered.

Bundled products

Eight of the lenders in our review offered credit cards as part of a bundle with another credit product, such as a home loan. However, relatively few credit cards in our review were acquired this way—they accounted for only 5.75% of all credit cards.

In December 2022, cards that were part of a bundled offering experienced problematic debt at half the rate of non-bundled products. Bundled products also had lower cancellation rates in all but one month in our review period.

Choosing credit cards to suit consumers’ use

Key finding: Some consumers still hold high-interest rate cards that do not suit their credit card usage, which can result in consumers paying more interest than necessary.

Signs that a consumer holds an inappropriate card

Consumers may pay more in interest and fees than necessary if they do not hold credit cards that suit the way in which they use their credit card. Signs that a consumer may have an inappropriate card include where they:

- hold a large balance on a high-interest rate card (where an alternative lower interest rate card would meet their needs)
- repeatedly exceed their card limit and incur fees (where a card with a higher limit might better meet their needs), or
- pay fees for a card they rarely use.

High-interest rate cards

We defined a high-interest rate card as a card with a purchase rate of over 20% for 3 or more months. High-interest rate cards have become more prevalent since our 2018 review. A large proportion of consumers held at least one of these cards during our review period. However, we found that the overall proportion of consumers who carry a balance and are charged interest on a high-interest rate card (around 19%) was very similar to what we observed in the 2018 review.

Based on the proportion of debt where interest was being charged, we estimate that consumers could have saved up to $468 million if they were charged an interest rate of 13% on a low-interest rate card (noting that most lenders in our review offered low-interest rate cards with an interest rate between 12% and 14%).

Credit limit repeatedly exceeded

We defined accounts as repeatedly exceeding their credit limit where the balance was above the credit limit for 2 or more months over a 12-month period. In the 2018 review we found that 10.7% of consumers repeatedly exceeded their credit limit on at least one card from July 2016 to June 2017. Since then, there has been a reduction in the number of consumers who regularly exceed their credit limit.

During 2022, 6.48% of consumers regularly exceeded their credit limit on one or more accounts and 5.6% exceeded on only one account. Of consumers who held five or more accounts, 0.15% exceeded on one or more of these accounts.

As a result of our 2018 review, we advised that lenders should not ordinarily allow consumers to exceed their credit limits by more than 10%. We were pleased to see that none of the lenders in our current review permitted consumers to exceed their credit limit by more than 10%, and five lenders did not allow consumers to exceed their limit at all.

Our data showed a large decline in total overlimit fees charged to credit cards during our review period.

High-annual fee cards with little use

We defined high-annual fee cards as cards with annual fees of at least $90, and we defined low card usage in any given month as cards where the account balance and consumer payments were both less than $100. In December 2022, a negligible percentage of consumers (i.e. 0.28%) paid annual fees greater than $90 and had low card usage in all of the last 12 months. This result was very similar to what we found in the 2018 review, where 0.27% of consumers held high-annual fee cards with little use.

Assisting consumers experiencing financial stress

> **Key finding:** Lenders provided additional assistance to consumers during the COVID-19 pandemic. The number of consumers receiving lender assistance for credit cards peaked between May 2020 and July 2020 and returned to a more static state similar to pre-COVID levels from March 2021. For the period from January 2017 to December 2022, we found that not all credit card providers analysed data to identify consumers who may be at risk of financial hardship.

In addition to considering what steps lenders took to address problematic debt, we were interested in understanding how lenders identified and assisted consumers who are in or at risk of falling into financial hardship. Financial hardship is where a consumer is unable to meet their obligations under a credit contract (i.e. making repayments).

Consumers may fall into financial hardship for many and varied reasons and it may be temporary, or long term. Financial hardship may be experienced due to an unexpected event or change in circumstances, such as loss of employment, injury and/or illness, relationship breakdowns, or natural disasters. Consumers may show signs of financial stress before going into financial hardship.

Regulatory framework for financial hardship

The National Credit Code provides a framework for varying credit contracts based on financial hardship. Under s72 of the National Credit Code, a consumer is able to give the lender notice, either verbally or in writing, of their inability to meet their obligations under a credit contract, known as a hardship notice.

If a consumer gives their lender a hardship notice, the lender must consider varying the consumer's credit contract and advise them of the decision within specified timeframes. Variations to the credit contract can include payment deferrals, reduced payment arrangements, interest-only periods, term extensions, capitalisation of arrears or interest-rate reductions.

ASIC advises consumers experiencing financial hardship to talk to their lender as soon as possible and request assistance. If they are unhappy with the service received or their lender's decision, they should make a complaint to their lender in the first instance. If they are still not happy with the lender's response, they can contact the Australian Financial Complaints Authority.

If they have multiple debts or need help applying for financial hardship, they should call the National Debt Helpline on 1800 007 007 to talk to a financial counsellor for free. Further information is available on Moneysmart.

Measures to identify consumers experiencing financial stress

We asked lenders what proactive measures they take to identify when consumers may be in financial stress or at risk of being in financial hardship.

We found that all lenders implemented some type of measure to identify when consumers may be at risk of financial stress or hardship. These measures typically involved training frontline staff to recognise potential triggers of financial stress and discuss the availability of assistance to consumers, or refer them to a specialised assistance team where necessary.

Of note, five lenders proactively used data analysis as a tool to identify when consumers may be in or at risk of being in financial stress, which we consider to be **better practice**. Out of the five lenders, two used a combination of risk indicators such as low or minimum repayment amounts and/or a high utilisation rate and low accumulative repayment ratio to identify and monitor consumers who may be at risk of financial stress.

One lender used indicators such as reduction in income, unemployment benefits and reduction in uncommitted income position to identify consumers who may be at risk. Another lender undertook monthly monitoring of risk indicators including the proportion of revolving balance, accounts incurring late payment fees, use of cash advances or minimum repayments over the previous 6 months to identify consumers who were exhibiting signs of financial stress.

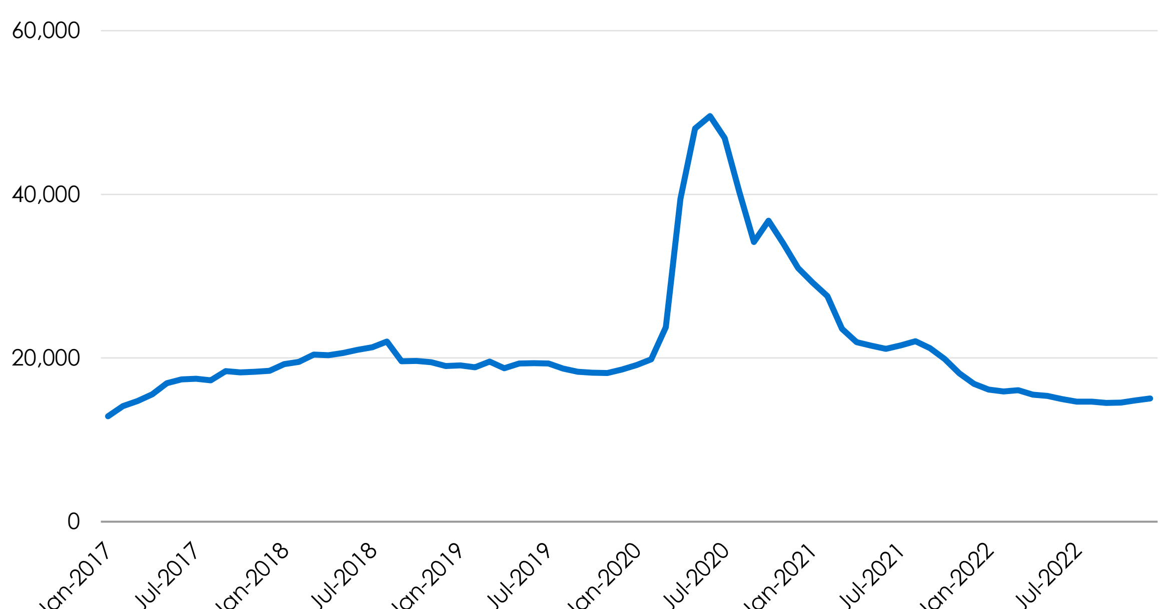
Assistance offered during the COVID-19 pandemic

In addition to their standard financial hardship practices, all of the lenders in our review provided further widespread assistance to consumers during the COVID-19 pandemic. The majority of lenders offered deferrals in payments during different stages of the pandemic—deferrals were initially available for a period of 3 to 4 months per deferral, up to a maximum of three deferrals. Any additional arrangements offered by lenders after the maximum deferral period, including further deferrals, were made on a case-by-case basis based on an assessment of the consumer's situation at the time.

The assistance offered during the pandemic was not proactively offered by lenders to individual card holders—it was advertised on social media platforms, websites and online portals. Due to the volume of card holders impacted by the pandemic, many lenders opted to deal with the volume in a timely manner by developing a simplified, streamlined approach to assistance.

Lenders adopted different practices in reporting assistance during the COVID-19 pandemic. The data in our review showed that the number of consumers receiving assistance on either side of the peak pandemic period was fairly similar. As expected, we observed a peak in the number of consumers receiving assistance in mid-2020 when the bulk of the COVID-related assistance programs were in effect. The number of consumers with assistance tapered down throughout 2021 as fewer temporary assistance arrangements were granted and earlier arrangements expired: see Figure 14.

Figure 14: Number of consumers receiving financial assistance (including payment deferrals) (2017 to 2022)



Note: See the paragraph above for a description of this figure (accessible version).

ASIC's recent review of home lenders' hardship practices

In late 2023, ASIC conducted an extensive review of the hardship practices of 10 large home lenders to understand how they support customers experiencing financial hardship. The findings from this review were published in May 2024 in Report 782 *Hardship, Hard to get help: Findings and actions to support customers in financial hardship* (REP 782) and Report 783 *Hardship, hard to get help: Lenders fall short in financial hardship support* (REP 783).

This review found that an inadequate focus on customers was the core problem that appeared to underlie many of the poor practices observed, including that:

- lenders didn't make it easy for customers to give a hardship notice
- assessment processes were often difficult for customers
- lenders didn't communicate effectively with customers, and
- vulnerable customers often weren't well supported.

As part of this recent hardship review, ASIC considered how home lenders ensure customer awareness of hardship assistance options. Specifically, we noted that to support their customers, lenders should, where possible, use data to identify consumers who may be at risk of experiencing financial hardship and undertake targeted communications with those consumers. This approach is also appropriate to support consumers with credit cards and is considered to be **better practice**.

Meeting the design and distribution obligations

Key finding: Lenders have generally implemented the design and distribution obligations; however, ASIC has seen evidence of consumer harm and taken action by commencing civil penalty proceedings. We have also observed several examples of better practice that industry should consider adopting to help consumers obtain appropriate credit cards and minimise the risk of problematic debt.

Role of the obligations in reducing consumer harm from credit cards

The design and distribution obligations commenced on 5 October 2021. They require issuers and distributors of financial products, including credit cards, to have a consumer-centric approach to the design and distribution of products.

In particular:

- issuers must design financial products that are likely to be consistent with the likely objectives, financial situation and needs of the consumers for whom they are intended
- issuers and distributors must take 'reasonable steps' that are reasonably likely to result in financial products reaching consumers in the target market defined by the issuer, and
- issuers must monitor consumer outcomes and review products to ensure that consumers are receiving products that are likely to be consistent with their likely objectives, financial situation and needs.

Before the commencement of the design and distribution obligations, we engaged with lenders to set out our expectations in relation to their compliance with the obligations, including that consumer harms are addressed in the target market determinations (TMD) and the product features are appropriate.

As part of our review, we were keen to understand how lenders had implemented and were complying with these obligations. We reviewed TMDs for a selection of no interest, low-rate, low-fee and rewards cards, and also asked lenders to describe how they complied with the design and distribution obligations.

We found that all lenders had implemented the design and distribution obligations. However, we observed several examples of better practice that all lenders should consider adopting to improve product design and sales, and improve the use of metrics to identify harms and review product appropriateness.

Given these findings, issuers should consider whether they need to review their TMDs or change their design or distribution practices to address particular risks arising from their credit cards. Examples of these risks include where consumers:

- 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, or

- choose credit cards because of certain features (e.g. interest-free periods and rewards points) when they may not be in a position to take advantage of those features, and so can end up paying additional costs or charges without obtaining any corresponding benefits.

We note that the findings in this review build on previous reports issued by ASIC on compliance with the design and distribution obligations, including Report 770 *Design and distribution obligations: Retail OTC derivatives* (REP 770), Report 754 *Target market determinations for small amount credit contracts* (REP 754) and Report 762 *Design and distribution obligations: Investment products* (REP 762).

The findings in this report should be read in conjunction with those reports and Regulatory Guide 274 *Product design and distribution obligations* (RG 274), which explains our interpretation of the obligations, our expectations for compliance and our general approach to administering the obligations.

Development of target market determinations

> **Areas for improvement**: Describe target markets using objective parameters with sufficient granularity, including by using data to consider consumer outcomes from the product.

Overall, the TMDs we reviewed appeared to meet the legislative requirements set out in Pt 7.8 of the *Corporations Act 2001* (Corporations Act). Since their commencement, the design and distribution obligations applied to new issues of both new and existing products.

Many of the credit card products offered by lenders involved in our review were already in the market when these obligations came into effect on 5 October 2021. Generally, we found that product changes, including creating and retiring credit card products, were largely driven by commercial considerations. The obligations appear to have helped simplify some lenders' products but have not directly led to new or substantially different products.

Overall, lenders appeared to adequately engage in the product design stage of the design and distribution obligations as set out in RG 274, including by establishing a target market by assessing the product (including its key attributes) and the consumer objectives, financial situation and needs for which the product (including its key attributes) is likely to be appropriate. Issuers should describe a target market using objective parameters and sufficient granularity, and by critically assessing the product: see RG 274 at RG 274.80–RG 274.86.

More thorough assessments by some lenders included detailed consideration of data around product performance and consumer outcomes in conjunction with qualitative considerations, such as engaging with relevant product and customer contact teams to understand the product and questions consumers generally raise.

In conducting a satisfactory critical assessment of a credit card product, we expect data considered to include generic product performance data (e.g. average account balance) and consumer outcome data that is specific to the features of the product that is being critically assessed (e.g. for a rewards card, the proportion of consumers who have redeemed points in a particular time period).

Defining the target market

Identifying the class of consumers in a target market

> **Areas for improvement**: Consider refining the target market in relation to the differences between low-interest rate and high-interest rate cards, and in relation to optional features (such as instalment plans or balance transfers) and the consumer's ability to use these features.

Lenders who offer both low and high-interest rate cards must consider these choices in defining the target market for the product. Where there are different target markets for differing forms of a product (as a result of particular options or choices), this must be addressed in the product's TMD. For example, an issuer could describe the target market for the relevant choice or for different permutations of the product, including sub-markets, where appropriate: see RG 274 at RG 274.125.

Our review of TMDs found that some lenders demonstrated better insights into their target markets by including descriptions of the differences in the target markets for different credit cards. Given these variations in approach, the following observations from our review may help all lenders to better define their target markets.

One of the key harms for consumers with credit cards is the possibility of carrying persistent debt for lengthy periods. This harm is exacerbated where they are paying interest on the credit card at high interest rates. Some TMDs addressed this issue by:

- defining the target market by reference to both the ability of the consumer to pay the outstanding balance in full in a short period of time, and their capacity to make the minimum repayments, and
- explicitly referring to the link between a low-rate credit card and the consequent reduction in the amount of interest a consumer would pay relative to a high-rate card.

While we observed that some TMDs referred to specific card features such as balance transfers and instalment plans in the context of highlighting key attributes of the particular credit card that would be suitable for consumers in the relevant target market, some TMDs did not include any references to these features and did not contemplate the outcomes consumers experience when using these features.

Similarly, lenders should also consider whether optional features (such as instalment plans, balance transfers or promotions such as a reduced interest rate on purchases for a period of time) are appropriate for a particular class of retail consumers and address this in the TMD. The optional features or benefits need to be considered over the lifecycle of the credit card and not just at the point of sale.

Lenders should consider whether their data reveals cohorts of consumers who may not be able to take advantage of particular features, and if so, frame their target market accordingly. For example, where the card may be low-rate (and the general target market includes consumers who are likely to carry a balance) but an expired balance transfer rolls onto a high cash advance rate, it may be necessary to define a narrower market of consumers for this feature.

Lenders should also take care that their TMD does not place the onus on the consumer to identify their own objectives, financial situation and needs, and then select a card. We are concerned that approaches such as these may indicate a misunderstanding by lenders of the nature of their obligation to determine the appropriate target market or class of consumers for whom the financial product is likely to be consistent with their likely objectives, financial situation and needs.

Likely objectives, financial situation and needs

> **Areas for improvement**: Define the target market with objective and tangible parameters, and consider the consumer's objectives, financial situation and needs in relation to their capacity to use the features and benefits of a credit card (and not only in relation to their ability to meet the minimum requirements). Consider vulnerable consumers and where appropriate include clear parameters on exclusions and the negative target market.

Issuers should describe a target market using objective parameters and sufficient granularity, and by critically assessing the product: see RG 274 at RG 274.80–RG 274.86. Overall, we saw that the lenders' descriptions of the target market lacked detail in relation to consumers' financial situations. For example, some TMDs did not detail the minimum income requirements for each card and only contained general statements that the card is appropriate for consumers who can demonstrate that they can afford to repay the credit card facility or that they meet the lender's credit assessment criteria. The use of objective and tangible parameters such as minimum income levels is more likely to demonstrate that a lender has appropriately defined their target market.

Further, when certain features or benefits are dependent on a consumer using their card in a particular way, this should be considered in defining the market. For example, a consumer who only needs to use their card for small, infrequent purchases may not fall within the target market for a rewards card that provides benefits based on the amount of spending on the card.

Additionally, many target markets did not contemplate vulnerable consumers, which could be addressed by setting out clearer parameters on exclusions and the negative target market. In some cases, specifying classes of consumers who are excluded from the target market where the product is clearly unsuitable for them could be useful in setting the distribution conditions and restrictions for products: see RG 274 at RG 274.85—RG 274.86.

While TMDs referenced the objectives and needs of consumers in the target market, stronger examples included more details around why and how lenders considered the product, including its key attributes, was likely to be consistent with the needs and objectives of consumers. For example, this includes specifying the purposes for which the product is intended to be used.

Distribution of credit cards

Reasonable steps obligation

An issuer must take reasonable steps that will, or are reasonably likely to, result in distribution being consistent with the TMD (reasonable steps obligation): see s994E of the Corporations Act. To meet this obligation, issuers and distributors must:

- implement effective arrangements that are likely to direct distribution of the product to the target market (see RG 274 at RG 274.139), and
- consider all aspects of a product's distribution, including the distributors, methods, marketing, controls and supervision (see RG 274 at RG 274.144).

An issuer must also have effective arrangements to manage the risks identified in its distribution, taking into account the nature and degree of harm that might result from the financial product not being distributed in accordance with the TMD. Setting appropriate distribution conditions should assist in meeting the reasonable steps obligation.

The TMD must meet the appropriateness requirements in s994B(8) of the Corporations Act. This obligation requires that when a product is issued or sold to a consumer, it would be likely that the consumer is in the target market and it would likely be consistent with the likely objectives, financial situation and needs of the consumer.

While most lenders did not stop offering or modify the design of their credit cards due to the design and distribution obligations, some introduced additional distribution conditions, tools and choice architecture such as product selector tools and design and distribution suitability filtering questions to assist consumers in obtaining products that are appropriate for their likely objectives, financial situation and needs.

Other **positive initiatives** introduced by lenders to help consumers choose a card that is appropriate for them include:

› warnings to disrupt a consumer's journey if their response to a question suggests they are potentially outside the target market of the product they are applying for

  Note: Warnings are not a panacea and there are limitations to disclosure: see Report 632 *Disclosure: Why it shouldn't be the default* (REP 632). In addition, questionnaires should be used with caution to prevent consumers from being able to change their answer to fit within a target market. In REP 762, we were concerned about questionnaires that simply asked whether the consumer had each of the consumer characteristics in the target market.

› digital advertising campaigns linking to 'find out more' landing pages rather than taking consumers directly to an application page, and

› increasing the ease with which consumers can digitally switch between products, which may assist in consumers moving to a credit card that better suits their current objectives, financial situation and needs.

Retail store distribution

Most credit cards in Australia are obtained online or through bank branches. Of accounts that were open on or after 1 October 2021 and for which lenders could identify the application channel, 90.1% were opened either online or in branch.

However, some lenders also distribute credit cards through retail stores at the point of sale, which may present risks for consumers' ability to make informed, independent and considered decisions and their understanding of the costs and suitability of the credit card they are applying for. Lenders should not solely or primarily rely on credit or eligibility criteria to filter out consumers who are not in the target market, particularly where the context of the sales process may influence a consumer's decision-making.

In light of these concerns and separate to our review, ASIC has commenced civil penalty proceedings against two lenders.

We have taken action against Latitude Finance Australia and Harvey Norman Holdings Limited for allegedly misleading interest-free advertising. In particular, ASIC alleges the following:

› From January 2020 to August 2021, advertisements promoting a 'no deposit', 'interest-free' payment method over a 60-month period for purchases at Harvey Norman stores were misleading as they did not disclose that the interest-free payment method only applied if the consumer already had an eligible credit card issued by Latitude, or applied for and was approved for an eligible Latitude credit card (such as the Latitude GO Mastercard), and used that credit card or the account linked to it to purchase the goods from Harvey Norman.

- The advertisements also misrepresented the true cost of the interest-free payment method by failing to adequately disclose essential terms relating to establishment fees and monthly account service fees.

We have also taken action against American Express Australia Limited (Amex) for alleged breaches of the design and distribution obligations on their co-branded credit cards primarily distributed through David Jones stores. On 19 July 2024, the Federal Court of Australia found that Amex contravened s994C of the Corporations Act when Amex:

- ought reasonably to have known that the high cancelled application rates (as high as 60%) for the co-branded credit cards were a circumstance that reasonably suggested that the target market determination for those credit cards were no longer appropriate, and
- failed to cease issuing the credit cards when it had not reviewed the target market determinations.

In our review, we observed examples of **better practices** that some lenders have implemented to assist in ensuring credit cards sold in-store are being distributed to the target market:

- Some lenders are moving towards consumer-led credit card applications, such as allowing consumers to scan a QR code or open a link that directs them to the lender's website without interacting with retail store staff. This change minimises the risk of in-store staff incorrectly filling out an application for a consumer and gives consumers access to information relevant to their decision to apply for the credit card.
- Some lenders are linking retail store staff incentives and competitions to training completion rates rather than credit card issuance rates. We consider that where staff incentives are linked to the volume of credit card applications or approvals, there is the potential for conflicts of interest between staff and consumers.

To consider whether lenders are complying with the reasonable steps obligation, better practices would take into consideration the factors set out in Table 4 of RG 274, including restrictive distribution conditions, targeted marketing and promotional materials, adequate supervision and monitoring and management of conflicts of interest.

Review triggers

Areas for improvement: Use specific and measurable review triggers including triggers based on the incidence or rate of problematic debt and requests for financial hardship assistance.

A TMD must specify review triggers, which are events and circumstances that would reasonably suggest that the TMD is no longer appropriate and requires review: see s994B(5)(d) of the Corporations Act. In our review we saw significant variation in the lenders' approaches to review triggers.

Consistent with our observations in REP 754, we consider that lenders can improve their review triggers in several ways. For example, many TMDs—but not all—included review triggers that were based on the incidence or rate of problematic debt, defaults or financial hardship. We consider that all lenders should consider including these matters as review triggers.

Review triggers should not be based on aggregate data alone but should also test for patterns or clusters of outcomes that suggest the TMD should be reviewed. Examples of different or segmented impacts include:

- consumers carrying persistent debt as a result of using the credit card for cash advances (rather than purchasing goods or services)
- consumers experiencing financial hardship within a short period after taking out the credit card, and
- consumers on low incomes experiencing high rates of problematic debt or financial hardship even though aggregate rates across all consumers are relatively low.

Most lenders had general review triggers relating to complaints, regulatory intervention and significant dealings (where there have been dealings to consumers outside the TMD for a product). However, some lenders did not contemplate vulnerabilities such as financial hardship or problematic debt indicators and did not use numerical thresholds - instead using only subjective terms such as ‘significant increase’, ‘significant change’ and ‘high’, which create a risk of uncertainty and inconsistent application.

Review triggers that are specific, appropriate and based on objective measures or parameters (e.g. a level or rate of change that suggests there is a need for a review) will help lenders ensure that the TMD is likely to be consistent with consumers’ objectives, financial situation and needs.

We consider it to be **good practice** for lenders to:

- measure and contemplate hardship and problematic debt outcomes as potential review triggers
- incorporate review triggers based on the outcomes of consumers using product features that are offered as part of the credit card, such as balance transfers, instalment plans or reward points, and
- use and monitor data to reflect where a credit card may not be performing as expected to determine whether the TMD remains appropriate—for example, if requests for financial hardship assistance or cancellation rates increase.

Monitoring other credit card reforms

Key finding: All lenders have implemented the credit card reforms that commenced in 2018 and 2019. These reforms included a prohibition on unsolicited offers to increase credit limits, the right to request a credit limit reduction and card cancellation online, a prohibition on charging interest retrospectively and changes to responsible lending assessments. Implementation of these reforms did not appear to generate a significant change in card use, limits or cancellation rates.

Summary of the reforms

In March 2018, the Australian Government passed the *Treasury Laws Amendment (Banking Measures No. 1) Act* 2018, which included the following additional requirements for credit cards:

› the power for ASIC to prescribe a period for credit card responsible lending assessments—we have now exercised this power and prescribed a 3-year assessment period: see *ASIC Credit (Unsuitability—Credit Cards) Instrument 2018/753*

  Note: See also Report 590 *Response to submissions on CP 303 Credit cards: Responsible lending assessments* (REP 590).

› a prohibition on unsolicited credit limit increase offers

› changes to interest calculations, including a prohibition on applying interest charges retrospectively, and

› the right to request a credit limit reduction or card cancellation online, supported by additional restrictions regarding what lenders can do after such a request is made.

We did not observe any distinct change in credit card usage following the introduction of each of these reforms.

Responsible lending assessment

Since 1 January 2019, lenders have been prohibited under their responsible lending obligations from providing a credit card to a consumer who cannot repay the limit within 3 years.

ASIC prescribed a 3-year period to strike an appropriate balance between:

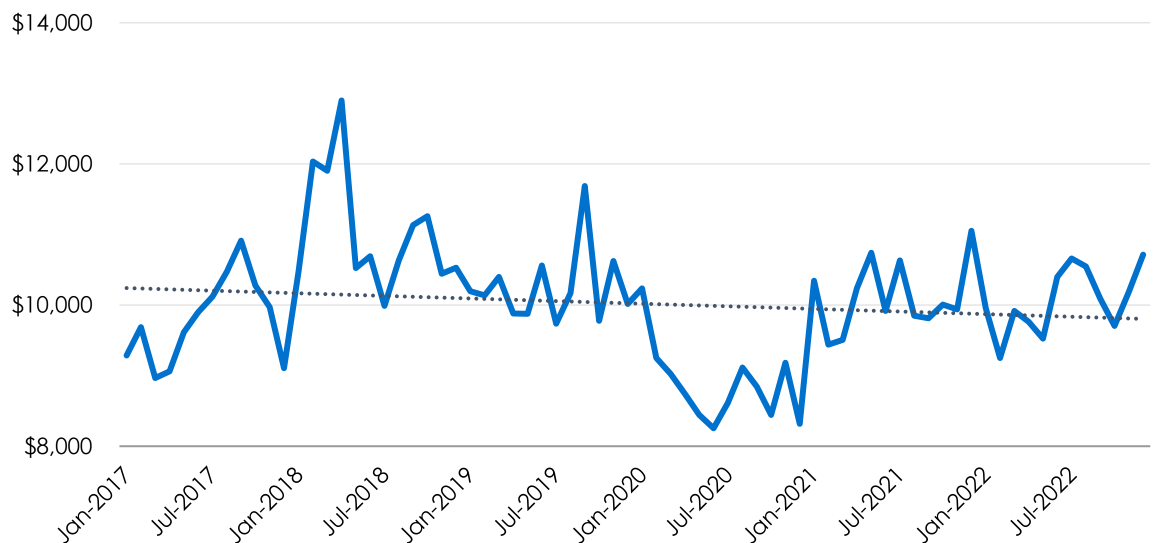
› preventing consumers from being in unsuitable credit card contracts, and

› ensuring that consumers continue to have reasonable access to credit through credit card contracts.

In response to this reform, lenders generally implemented a serviceability allowance of 3.8% (or greater) of the card limit per month, which applied to the serviceability calculations for credit card applications and to the serviceability of all regulated credit product applications (such as for home loans and personal loans) where consumers had an existing credit card. In REP 580 we noted the most common serviceability allowance was 3% of the credit limit.

If this reform had significantly restricted access to credit cards, we would expect to see a notable decline in the average opening credit limit from commencement of this reform. However, we did not observe a significant reduction in the average credit card limit following the introduction of this reform and note that the average credit limit in December 2022 was similar to the average limit observed in December 2018 before this reform commenced: see Figure 15.

Figure 15: Average credit limit at opening (2017 to 2022)



Note: See the paragraph above for a description of this figure (accessible version).

Prohibition on unsolicited offers to increase the credit limit

Since 1 July 2018, lenders must not make unsolicited credit limit increase offers, including communications that:

- offer to increase the credit limit
- invite the consumer to apply for a credit limit increase, or
- are given to encourage the consumer to consider applying for a credit limit increase.

We observed that all lenders in our review had implemented this reform, with many opting to cease making unsolicited offers to increase the credit limit before the prohibition commenced.

Prohibition on applying interest charges retrospectively

Since 1 January 2019, credit providers have been prohibited from retrospectively charging interest—for example, retrospectively applying interest charges on a balance with an interest-free period. This reform provides comfort to consumers who, if they are unable to finalise a balance before the end of an interest-free period, will not be penalised with backdated interest.

All lenders have implemented this reform, with two lenders never having charged interest retrospectively. Three lenders identified breaches of this reform, reported it to ASIC and remediated affected consumers.

Consumer right to cancel cards and reduce credit limits online

For credit card contracts entered into after 1 January 2019, credit providers must give consumers the right to reduce their credit limit or cancel the contract, including a way to do so online. If a consumer makes such a request, the provider must:

› not suggest something that is contrary to the consumer's request, and

› take reasonable steps to ensure the request is dealt with as soon as possible.

All lenders in our review have implemented this reform, but we did not observe a significant change in the proportion of accounts cancelled following implementation: see Figure 16. Rather, less than 1% of credit card accounts were cancelled in most months during our review period.

Figure 16: Proportion of credit card accounts cancelled (2017 to 2022)

Note: See the paragraph above for a description of this figure (accessible version).

Appendix: Methodology

Purpose of our review

In 2023, ASIC began a follow-up review into the credit card market as foreshadowed in REP 580, focusing on:

- trends relating to problematic debt including those relating to REP 604
- the effect of different credit card features and products on consumer debt levels over time, and
- the effect of some key regulatory reforms relating to credit cards, including design and distribution obligations.

The impact of the COVID-19 pandemic together with the introduction of additional requirements for credit cards, including the design and distribution obligations, suggested that a second review of Australia's credit card market was warranted.

Participants in our review

The 13 lenders that participated in our review comprise the vast majority of the Australian credit card market. Based on data collected by APRA, the 10 ADIs in our review make up 97.8% of the APRA-regulated credit card market; we believe the three non-ADIs in our review are among the largest credit card providers of that type.

In alphabetical order, these lenders are:

- American Express Australia Limited
- Australia and New Zealand Banking Group
- Bendigo and Adelaide Bank
- Citigroup Pty Ltd
- Commonwealth Bank of Australia
- Great Southern Bank (a business name of Credit Union Australia Ltd)
- HSBC Bank Australia Limited
- Humm Group Limited
- ING Bank Australia
- Latitude Personal Finance Limited
- Macquarie Bank Limited
- National Australia Bank, and
- Westpac Banking Corporation.

Great Southern Bank, Humm Group Limited and ING Bank Australia did not participate in ASIC's previous review of the credit card market, which culminated in the publication of REP 580 in 2018.

We also consulted widely with other stakeholders, including:

- Australian Financial Complaints Authority, and
- consumer advocates such as Consumer Action Law Centre, Choice, Financial Counselling Australia, Financial Rights Legal Centre, South East Community Links and First Nations consumer representatives.

Data collection and analysis

We asked the lenders for a substantial amount of data:

- **Account-level quantitative data on consumer credit cards**—This amounted to 20.1 million lines of data across all 13 lenders for accounts that were open at any time between 1 January 2017 and 31 December 2022, with approximately 1,274 data points per account.
- **Qualitative data about existing practices**—We asked 49 questions about matters including but not limited to changes in policies and procedures, design and distribution obligations, product features, implementation of law reform and identifying and assisting consumers in or at risk of being in financial stress or hardship.

Quantitative data request

The participating lenders were asked to supply data for up to 1,274 fields for each consumer credit card account that was open at any time between 1 January 2017 and 31 December 2022.

The data fields included:

- application information (e.g. income, employment, application channel)
- information about credit card holders (e.g. income, location)
- product information (e.g. interest rate, open and close dates)
- general information about the use of the card between 2017 and 2022, including outstanding balances, credit limits, fees and failure to make payments, and
- masked demographic information for the data-linking exercise.

The 6-year period had a 6-month overlap with the data collected under REP 580 from 1 January to 30 June 2017. The long data collection period served two main purposes. First, it ensured sufficient data to track long-term consumer behaviours including:

- potentially problematic debt, and
- changes made to a consumer's account (e.g. a balance transfer).

Second, it allowed us to validate our data and confirm that lenders that previously participated in the REP 580 collection were reporting accounts consistently. This is important to enable valid comparisons to the REP 580 findings.

We needed to look at each 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.

To ensure each lender could respond to our data request, we discussed with them 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.

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

We received approximately 20.1 million lines of data from the 13 lenders representing approximately 11.6 million consumers who had open credit card accounts during the 6-year review period.

To ensure our analysis was accurate, we sought clarification from lenders 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 exercise

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

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.

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

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

› the overall consumer outcomes may not be discerned by analysing a single credit card in isolation.

Qualitative survey

We asked lenders to respond to a qualitative survey. The survey contained 49 questions requesting information about:

› their products and processes

› changes made to processes in response to REP 580

› their responses to the design and distribution obligations (which commenced on 5 October 2021), including a desktop review of the lenders' TMDs

- balance transfers
- consumer repayments and repayment plans
- identification of and assistance provided to consumers in financial stress and financial hardship, and
- additional requirements that apply to credit cards.

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

- took proactive steps to identify consumers with products that do not suit their needs
- took proactive steps to address poor consumer outcomes, and
- offered help to consumers in repaying credit card debt.

Key terms and related information

Key terms

2018 review	ASIC's extensive review of Australia's credit card market in 2018, which included analysis of data from 1 July 2012 to 30 June 2017
ABA	Australian Banking Association
ABS	Australian Bureau of Statistics
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 issued by the same or a different credit provider
Banking Code of Practice	A code of conduct issued by the ABA and approved by ASIC, which sets standards of good banking practice when dealing with individual or small business customers, prospective customers and their guarantors
Banking Measures Act	*Treasury Laws Amendment (Banking Measures No. 1) Act 2018*
consumer	A natural person or strata corporation **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 **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 **Note:** See s35(1) of the National Credit Act.
credit provider	Has the meaning given in s8 of the National Credit Code
design and distribution obligations	The obligations contained in Pt 7.8A of the Corporations Act

financial hardship	Where a consumer is unable to meet their obligations under a credit contract (i.e. making repayments)
financial hardship arrangement	Has the meaning given in s6QA(1) of the *Privacy Act 1988*
hardship notice	Has the meaning given in s204 of the National Credit Act
high-interest credit card	A credit card with a purchase rate of over 20% for 3 or more months
instalment plan	An arrangement where regular payments (calculated as a fixed amount or percentage of the closing balance) are made by a consumer to reduce an agreed amount on a credit card over a fixed period
issuer	A person who is subject to the TMD requirements in s994B of the Corporations Act (including sellers in a regulated sale situation), unless indicated otherwise
mean	The average calculated by adding all values in the range and dividing by the number of values in the range
median	The middle value in a rage of values that is sorted in ascending or descending order
National Credit Act	*National Consumer Credit Protection Act 2009*
National Credit Code	National Credit Code at Sch 1 to the National Credit Act
persistent debt	An account where during the previous 12 months: › the average credit use is 90%, and › interest has been charged
RBA	Reserve Bank of Australia
repeated low repayment behaviour	An account where during the previous 12 months: › the consumer has made 8 or more repayments at or below 3% of the credit limit, and › interest has been charged
review period	1 January 2017 to 31 December 2022, inclusive
RG 274 (for example)	An ASIC regulatory guide (in this example numbered 274)
serious delinquency	An account where during the previous 12 months the account has been 60 days or more overdue
severe delinquency	An account that has been written off or is in the worst state of delinquency that the relevant lender reported to us **Note:** There were differences in how some lenders reported delinquency information to us. We standardised this information where possible
target market	The class of consumers described in the TMD for the product under s994B(5)(b) of the Corporations Act

target market determination	Has the meaning given in s994B of the Corporations Act
TMD	Target market determination document

Related information

Headnotes

balance transfer, buy now pay later, cancellation, credit card, credit limit, credit provider, design and distribution obligations, financial hardship, instalment plan, interest, problematic debt, persistent debt, repayment, repeated low repayments, review trigger, serious delinquency, severe delinquency, target market, target market determination, TMD

Legislation

ASIC Credit (Unsuitability—Credit Cards) Instrument 2018/753

Corporations Act 2001, s1101A

National Consumer Credit Protection Act 2009, Ch 3, Pt 3-2, Pt 3-2B, s5, 35(1)

National Consumer Credit Protection Regulations 2010, reg 79B, Pt 3.5, Sch 6

National Credit Code, s3, 5–6, 8

Treasury Laws Amendment (Banking Measures No. 1) Act 2018

ASIC documents

REP 580 *Credit card lending in Australia*

REP 590 *Response to submissions on CP 303 Credit cards: Responsible lending assessments*

REP 604 *Credit card lending in Australia—An update*

REP 632 *Disclosure: Why it shouldn't be the default*

REP 754 *Target market determinations for small amount credit contracts*

REP 762 *Design and distribution obligations: Investment products*

REP 770 *Design and distribution obligations: Retail OTC derivatives*

REP 782 *Hardship, hard to get help: Findings and actions to support customres in financial hardship*

REP 783 *Hardship, hard to get help: Lenders fall short in financial hardship support*

RG 274 *Product design and distribution obligations*