

From: [David Leermakers](#)
To: [Committee, Economics \(REPS\)](#);
cc: [consumer action ceo](#); [Coorey, David](#); [Karen Cox](#); [Richard Brading](#);
Subject: follow up re National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011 inquiry
Date: Tuesday, 31 May 2011 11:21:02 AM
Attachments: [national consumer credit amendment inquiry - documents referred to in evidence by Consumer Action Law Centre.docx](#)
[image001.png](#)

Dear Committee members,

I write on behalf of the Consumer Action Law Centre, the Consumer Credit Legal Centre NSW, National Legal Aid and the Wesley Mission. You will recall that we spoke to you on Wednesday 25 May regarding the committee's inquiry into the *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011*. Thank you for providing the opportunity to discuss the bill with you.

At the hearing we intended to raise as a point of concern that the current drafting of the bill only prohibits *written* Unsolicited Credit limit increase offers (see 133BE(5)). In our view, there is no reason why the prohibition should be limited to written communication, as the same harm could be caused by invitations delivered by phone, or in person (for example by branch staff or by door-to-door marketers). We recommend the bill is amended to prohibit invitations, however delivered.

In addition, Carolyn Bond (Consumer Action Co-CEO) also referred to two documents in her evidence to the Committee which may be relevant to the inquiry. Links to those documents, and a short summary of key points are attached.

Apologies for the delay in getting this information to you. Please feel free to contact me if you would like to discuss these points further.

Regards

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Consumer Affairs Victoria and Sweeny Research (2009) *Unsolicited Credit Card Limit Increase Offers.*

[http://www.consumer.vic.gov.au/CA256902000FE154/Lookup/CAV_Credit_Grant_Resources/\\$file/credit_grant_resources_sweeney_research_impact_of_ucclios.pdf](http://www.consumer.vic.gov.au/CA256902000FE154/Lookup/CAV_Credit_Grant_Resources/$file/credit_grant_resources_sweeney_research_impact_of_ucclios.pdf)

Some key findings:

- 84% of Victorian credit card holders had received an unsolicited credit card limit increase offer (UCCLIO). The incidence of receiving unsolicited offers was prevalent among those who are unemployed (84%), studying (83%), or hold a Health Care Card (82%), suggesting that offers are often made to people who may not be able to afford the extra credit.
- 56% of those who have received an unsolicited credit limit increase have accepted the offer on at least one occasion. Those who accepted the offers were more likely to be found among those who only make minimum repayments on their credit card (64%) and those who have three or more credit cards (73%).
- Almost half (45%) of consumers who only make minimum credit card repayments believe they are worse off after accepting a UCCLIO (compared to 10% of those who pay their balance in full each month). Increased debt and over spending is cited as the main reason for being worse off after accepting a UCCLIO. Those who only make minimum repayments are also more likely to regret accepting the increase offer (41% regret accepting the UCCLIO) compared to 7% of those who pay their credit card balance in full each month.
- A sizeable proportion of these consumers who only make minimum repayments also agree that they are struggling to make re-payments after accepting the increased credit (28% strongly agree/agree compared to 14% for the total sample) and are struggling to meet other financial commitments because of the extra credit card debt (31% strongly agree/agree compared to 13% for the total sample).

Paul Harrison, Marta Massi and the Consumer Action Law Centre, *Congratulations, You're Pre-approved* (2008)

<http://www.consumeraction.org.au/downloads/CongratulationsYourePreApprovedfullandfinalreport150808.pdf>

Some key findings:

It was found that UCCLIOs use at least six different forms of psychological manipulations to promote and sell an increase in credit amongst their customers. These manipulations are:

1. The format of the UCCLIO leads to low-involvement, trust, and the use of the peripheral route to understanding.
2. Expertise increases trust, in that the UCCLIOs take the shape of letters signed by managers and directors of the banks i.e., financial experts. In the letters, customers are reassured that they can afford the credit increase by a credible source i.e., an expert.
3. Consumers of financial products are likely to use heuristic processing, rather than systematic processing when considering a credit limit increase offer.
4. The use of the statement, "Pre-approved" implies psychological ownership, and property rights. In addition, consumers who have been told that they have pre-approval will then assume that this is the "status quo", resulting in a psychological barrier to reject the status quo.
5. UCCLIOs are "loss-framed", in that the letter is structured in a way that suggests the offer is something special whose missed acceptance would be a loss to them. Evidence from behavioural economics suggests that losses are felt greater than gains, and individuals will seek to avoid loss, more than to seek gains.

6. Financial institutions use scarcity in the format of the UCCLIO to increase perceived consumer utility and desire for the credit increase.