

# Congratulations, You're Pre-Approved!

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## An analysis of credit limit upselling letters

A report by the Consumer Action Law Centre

Research undertaken by:

Dr. Paul Harrison  
Deakin Business School  
Deakin University, Melbourne

Marta Massi  
School of Marketing and Communication  
Lumsa University, Rome

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Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

Consumer Action Law Centre  
Level 7, 459 Little Collins Street  
Melbourne  
Victoria  
Australia 3000

Ph: 03 9670 5088

[www.consumeraction.org.au](http://www.consumeraction.org.au)



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# 1. Report background

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## Project background

Consumer Action Law Centre (**Consumer Action**) commissioned Dr Paul Harrison, Deakin Business School, Deakin University and Marta Massi, School of Marketing and Communication, Lumsa University (Rome), to study the psychological aspects of one form of credit marketing - unsolicited credit card limit-increase offers (**UCCLIOs**).

The researchers studied 21 UCCLIO letters – 17 provided by consumers and four provided by banks. They applied theories developed from previous research in the fields of marketing, consumer behavior, behavioural economics and cognitive psychology, and described likely ways in which UCCLIOs influenced consumer behavior and decision making.

The researchers make some recommendations from a behavioural perspective based on their findings, and Consumer Action propose how these findings might be applied to consumer policy.

## What is an UCCLIO?

An unsolicited credit card limit-increase offer (UCCLIO) is the offer of a specified increase in the credit limit made to a current credit card customer. These increases are offered by letters personally addressed to the customer, and usually advise that the increased credit limit is “pre-approved”. Accepting the offer is usually a very simple process and in most cases does not require the consumer to provide any financial information.<sup>1</sup>

Consumer advocates and policy makers have been concerned about UCCLIO marketing strategies, and the likelihood that they would lead to more consumer debt, particularly for low-income and otherwise vulnerable consumers.<sup>2</sup> However, little is known about the specific mechanisms used in UCCLIOs that could lead to such an outcome.

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<sup>1</sup> The only jurisdiction that does require the provision of financial information by the consumer is the ACT. See: *Fair Trading Act (ACT) 1992*, section 28A.

<sup>2</sup> For example, see: Consumer Affairs Victoria, *Report of the Consumer Credit Review*, 2006, pages 132 – 143.

The marketing of consumer credit is subject to general requirements in the *Trade Practices Act 1974* (Cth) (**TPA**), with a few further requirements (such as requirements regarding disclosure) in the *Uniform Consumer Credit Code*. The TPA addresses the practice of sending out unsolicited credit (and debit) cards. It is a breach of section 63A of the TPA to send out a credit or debit card to a person unless that person has requested it, or unless the card is a replacement for a card previously issued, as requested by the cardholder. Section 28A of the *Fair Trading Act 1992* (ACT) prohibits credit limits being increased without the creditor making a full analysis of the consumer's capacity to repay, and thus the ACT is the jurisdiction with the consumer law that most strongly regulates UCCLIOs.

The Banking and Financial Services Ombudsman has also published information for bank lenders. The Ombudsman has found that lenders who do not appropriately investigate the borrower's capacity to pay can be liable for maladministration<sup>3</sup>. However, this only results in a remedy for the individual consumer who makes a complaint. The Ombudsman states that the way for lenders to ensure capacity to repay is to require the borrower to "complete an application for new credit as at the date the unsolicited increase was offered."<sup>4</sup> However, this does not appear to have been widely followed.

Given the relative lack of regulation of UCCLIOs and other forms of credit marketing, and the continued concern about the consumer detriment they cause, more thought needs to be given to the best policy response. This was acknowledged in the *Final Report of Consumer Credit Review*, published by Consumer Affairs Victoria in 2006.<sup>5</sup> That report acknowledged the problems caused by UCCLIOs and recommended that section 23 of the *Fair Trading Act 1999* (Vic) (the equivalent of section 63A of the *Trade Practices Act*) be amended to apply to UCCLIOs, not just unsolicited (new) credit cards.<sup>6</sup> This recommendation was supported by the Victorian Government in its response to the Consumer Credit Review, but the Government is yet to introduce any amendment.

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<sup>3</sup> Banking and Financial Services Ombudsman, Bulletin 45 (March 2005) & Bulletin 50 (June 2006).

<sup>4</sup> Banking and Financial Services Ombudsman, Bulletin 50 (June 2006) page 3.

<sup>5</sup> Consumer Affairs Victoria, *The Report of the Consumer Credit Review*, 2006, p 132-156.

<sup>6</sup> The recommendation suggested that credit providers should be permitted to make provisional offers to their customers but the customer would have to positively elect the credit limit or increased credit limit they require. Other recommendations related to improving information disclosure to consumers, such as detailing the time it would take to repay a current and proposed limit if it is fully drawn down.

Consumer policy in relation to credit marketing needs to be informed by an understanding of how marketing influences consumer behaviour in the consumer credit context (and, in particular, how marketing influences consumer psychology).

### Why study UCCLIOs?

There is concern in Australia about the rising level of consumer debt, and the effect that increased debt has on consumers (particularly low-income consumers) and the Australian economy.

Consumer credit has positive and negative aspects. Credit cards are a convenient payment mechanism that can smooth cash-flow and provide a cushion of credit. On the other hand, a credit card is an open-ended credit facility that some have argued is responsible for a dangerous increase in consumer debt levels.<sup>7</sup>

Indeed, the relationship between debt and poverty in developed countries is very strong. While lending and borrowing are important aspects of the modern economy, irresponsible lending<sup>8</sup> and borrowing can harm consumers, particularly low-income consumers.<sup>9</sup>

UCCLIOs are a relevant example of how marketing credit can lead to an increase in debt levels. If, as we argue, the extent (and distribution) of consumer debt should be a concern for consumer policy makers, then research that improves our understanding of how marketing can lead to increased debt is invaluable. If we are to create good regulation or other effective interventions, we need to better understand the nature of that which we seek to regulate.

Behavioural economics recognises that consumers may exhibit systematic departures from economically rational behavior and helps us understand

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<sup>7</sup> Mann, Professor Ronald, *Charging Ahead: The Growth and Regulation of Payment Card Markets*, Cambridge University Press, 2006.

<sup>8</sup> For further discussion of responsible lending, see: Consumer Action Law Centre, *Some views about "Responsible Lending"*, July 2008.  
<http://www.consumeraction.org.au/downloads/RecklesslendingbriefingpaperJuly08.pdf>

<sup>9</sup> And, based on the recent financial crises emanating from the United States, potentially damaging to the national economy.

consumer decision-making.<sup>10</sup> This research into UCCLIOs makes a small contribution to the growing body of evidence relevant to consumer and competition policy design and implementation, which shows that consumers do not always act rationally, and that factors other than the cost and features of goods and services influence their decisions. This calls into question policy solutions that rely solely on providing information.

We argue instead that a policy framework must encompass a range of tools, and that their selection should be informed by evidence, including behavioural economics, to help consumers make decisions that are in their own interests – and the interests of the economy.

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<sup>10</sup> Ian McAuley, *YOU CAN SEE A LOT BY JUST LOOKING: Understanding human judgment in financial decision-making*, Paper to accompany presentation to Australian Bankers' Association: Broadening financial understanding – financial literacy summit, Centre for Policy Development, 2 July 2008.

## 2. Research report

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### Introduction

Credit card debt has become an increasing concern in recent years (Copeland, 2000). Media outlets, such as newspapers, television and radio (e.g., Jiminez, 2007), cover the topic regularly, and lobby groups seek to influence legislation to protect vulnerable groups from over-committing themselves. To some degree, using credit to participate in the marketplace has become normalised (Christiansen, 2008). However, the idea that these transactions are a form of debt is rarely alluded to in credit marketing materials.

Some sociologists argue that credit cards facilitate a culture of “consumerism, escalating indebtedness, and increasing homogenisation of the world’s cultures (Ritzer, 2001, p. 71)”, while social commentators and consumer advocates have argued that the credit card industry needs to be regarded with the same critical attitude as the cigarette industry (Galanoy, 1980). Further, it may be argued that consumer credit marketing focuses on the “benefits” associated with credit cards rather than the fact that credit involves debt. Recent marketing campaigns have portrayed credit cards as, variously, a way to earn rewards, a status symbol, and even a fashion statement (Rich, 2007).

The requirement of credit card lenders, such as banks and finance groups, to sell credit as part of their core business, has resulted in a range of marketing methods being used to encourage consumers to take up more debt. One of these approaches is the use of unsolicited credit card limit-increase offers (UCCLIOs), where current cardholders are offered an increase on their card limit, in circumstances where the cardholder has not sought, or inquired, about an increase. In many cases, these offers claim to be “pre-approved”, and there is little, or no, requirement for the cardholder to provide any information before the increase is granted.

UCCLIOs (we understand the industry refers to them as Credit Limit-Increase Programs) enable lenders to offer additional credit to particular borrowers. Some borrowers receive more offers than others, and only the lender knows exactly the types of borrowers being targeted. UCCLIOs enable lenders to encourage an increase in credit card spending and in overall credit card debt

(including interest-bearing debt) without the need to attract new customers. In addition, some customers receive no, or few, limit-increase offers, while others receive regular offers, accepting one after another, gradually increasing their credit limit over time. While most borrowers continue to pay at least the minimum due each month, consumer agencies report some cases of significant hardship arising from these offers. The Banking and Financial Services Ombudsman (2005), for example, reports receiving an increasing number of disputes “where the disputant claims they were lent money, or provided with credit, they could not afford to repay” (p. 2), and that the increase in these complaints was “mostly in relation to disputes about credit card products” (p. 3).

There is little doubt that the UCCLIO makes a significant contribution to the wider economy. While there are no figures available that identify the percentage of outstanding credit card debt that results from UCCLIOs, a 2001 industry report gives some indication. In arguing that banning UCCLIOs would be bad for the economy, the report says that if there was a ban on “pre-approved” increases, “consumption expenditure in the Australian economy could be reduced by around \$30 billion per annum - more than the annual turnover of Coles Myer” (Nolan Norton Institute 2001, p. 8).

## **Background**

It is now generally accepted in psychology, economics, and marketing, that human behaviour depends upon the environment in which choices are made. For example, psychological experiments have found that people will be influenced by the ways in which an option is framed. This includes the amount of information that they are asked to process, and how far into the future the costs and benefits of the choice are accrued (Tversky and Kahneman, 1992). Similarly, it is also now accepted that people do not objectively interpret events (Shafir, 2007).

However, consumer policy around credit in particular, rarely takes into account this model, preferring to adhere to a purely rational, self-interested interpretation of human behaviour. The major policy concession tends to be a requirement for information disclosure, i.e., providing the consumer with more (and often detailed) information about financial products. In light of our understanding of the “irrationality” of human behaviour, it is surprising that there has been little research into how psychological manipulations might affect consumers’ decisions to take up credit. In particular, the recent growth

of the UCCLIO as a marketing mix component has meant that there is no research that examines this particular form of credit promotion, and how it might influence consumer attitudes and response. This report makes an initial attempt to address this neglect, and uses elements of psychological theory and previous research into credit to explore how consumers might respond to the UCCLIO.

Bertrand et al. (2005) found that the use of psychological manipulations significantly affected consumers' decisions to take up short-term loans. They found that offer letters displaying a small interest rate and monthly repayment table generated a higher take-up rate than offer letters displaying a large table and detailed information about repayment. In other words, consumers were more likely to take-up a loan if the description of the offer was minimal, rather than if many examples, plain language, or detailed information about the terms of the loan were provided. In another manipulation, the research found that male customers' take-up increased with the inclusion of a woman's photo in the corner of the offer letter. On average, any one positive significant feature increased take-up at the same level of one half-percentage point drop in the monthly interest rate.

Research has also been conducted into attitudes toward credit cards amongst college students (e.g., Warwick and Mansfield, 2000; Norvilitis et al., 2003; Norvilitis et al., 2006). Norvilitis et al. (2006) found that the students' age, a lack of financial knowledge, number of credit cards, and attitude toward delaying payment, all contributed to credit card debt. A study of 381 students found that they knew little about the details of their credit card agreement (Warwick and Mansfield, 2000). In this study, only a small number of students were able to report their current interest rate, although most were able to estimate their current outstanding balance. Further, those who overestimated their future income were more likely to be in debt (Seaward and Kemp, 2000). Tolerant attitudes toward debt have been found to increase after students become indebted (Davis and Lea, 1995), and those consumers with credit cards tended to spend less time and more money when making purchases using their credit cards, than when using cash (Feinberg, 1986).

It is also arguable that credit seems more psychologically distant from the transactional experience than cash (Simmel, 1978), and that this distance is less concrete, and therefore, requires more cognitive resources to form a defensive attitude, and assume conscious self-control, against positive psychological manipulations based on positive and simple messages



(Baumeister, 2002). Similarly, by using a credit card much of our transacting does not require face-to-face interaction, and therefore, the social norms around attitudes toward greed and materialism are more easily overcome and the physical (and therefore psychological) experience of handing over cash is removed (Ritzer, 2001).

Amongst the general public, it has been found that a favourable general attitude toward using credit has a positive effect on predicting the amount of credit, as well as correlating with the size of the credit card debt (Chien and Devaney, 2001). Similarly, Sullivan et al. (2000) found that consumers approached installment loans with more caution and more involvement, than when using a credit card. In summary, these studies suggest that those who acquire credit and go into debt may not fully understand the implications of their financial behaviour.

### **Unsolicited credit card limit-increase offers**

The recent emergence of the UCCLIO as a marketing tool has been a further concern for consumer advocates<sup>11</sup>. It is arguable that the UCCLIO is a combination of a sales tool and a promotion, and therefore its analysis needs to consider psychological factors around both these elements of the marketing mix. Further, the UCCLIO letter is more than a means of communicating information; it reduces the potential level of cognitive engagement with the issue because it requires little effort beyond a decision to agree or disagree with the offer.

In contrast, completing a credit card application requires the consumer to participate in a range of cognitive activities, including determining the amount of credit required, the completion of personal details, such as name, address, phone number and date of birth, the process of calculation of income and expenditure, and often, the collation and verification of materials such as pay slips, and forms of identification. Clearly, the UCCLIO is a “low-involvement” means of gaining additional credit.

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<sup>11</sup> Submission to James Merlino MP, Member for Monulk, Report of the Consumer Credit Review, Prepared by Consumer Credit Legal Service (Vic) and Consumer Law Centre Victoria April 2006

See

<[http://www.consumer.vic.gov.au/ca256902000fe154/lookup/cav\\_credit\\_review\\_submission\\_s3/\\$file/14cclsandclcvrreportssubmission.pdf](http://www.consumer.vic.gov.au/ca256902000fe154/lookup/cav_credit_review_submission_s3/$file/14cclsandclcvrreportssubmission.pdf)>

The obligation to disclose information to consumers is at the core of consumer regulation, based on the belief that it “enhances consumers’ ability to assess financial products and make informed decisions (Australian Treasury 1999).”

The key consumer protection provisions in Australia that relate to advertising and marketing are the prohibitions on misleading and deceptive conduct under the Trade Practices Act 1974 (also mirrored in various State legislation) and the Australian Securities and Investments Commission Act 2001. These laws prohibit “conduct that is misleading or deceptive, or is likely to mislead or deceive”. Case law suggests that Courts can take into account whether a particular class of consumers, were likely to be mislead or deceived by the conduct.

Advertising of some products is banned (e.g., tobacco products) or restricted (e.g., gambling). Such restrictions are based on concerns that advertising can increase the number of consumers who buy products that are or may be harmful. However, there are very limited restrictions on credit advertising and promotion, and these restrictions generally relate to the disclosure of the interest rate in certain circumstances (Part 9, Consumer Credit Code).

Further, elements of psychology and behavioural economics have not been considered in legislation around consumer policy, predominantly because policy makers believe that “much policy is already based on, or implicitly accounts for, behavioural economic tenets” (Australian Government, 2007, p. 309). At present, no research exists, as far as we are aware, into the UCCLIO, and how the content, layout, and imagery, of this form of marketing influences consumer decision-making. Indeed, it is suggested that consumer attitudes have gradually shifted from caution to an attitude of entitlement - “I thought the credit card was my money (ANZ Bank 2005, p.26)”. We suggest that in this context, then, this type of research is needed if marketers and legislative bodies are truly concerned about the growing problem of debt amongst vulnerable consumers.

## **Research framework and methodology**

The researchers examined 17 unsolicited credit card limit-increase offers that had been sent to customers, usually in the form of a promotional letter, and a completion form. The researchers also invited banks and credit providers to provide them with examples of UCCLIOs. One bank responded, providing four different offers, bringing the total number of UCCLIOs examined for this research to 21.

For the purposes of this research, each UCCLIO was required to include the following elements:

- It must be a credit card limit-increase offer (as opposed to some other special offer, such as a balance transfer);
- The target customer must already be a bank customer;
- It does not require the customer to provide additional income details, i.e., the credit has been pre-approved, and,
- The application is apparently not subject to a credit assessment e.g., provision of income details, or the submission of a pay-slip.

Analysis was conducted at two levels, 1. An analysis of the language used in the UCCLIO, and 2. A content analysis using analytic induction. The researchers scanned each of the UCCLIOs into Adobe Acrobat 7.0, and converted each document into a word document via optical character recognition (OCR) software. The conversions were then checked for accuracy with the original letter. Where images and colours were used, these were also noted and coded for analysis. In relation to the text, the documents were then input into Leximancer software, an analytical tool that allows the researcher to identify key themes, concepts and ideas from unstructured text. Leximancer uses an internal thesaurus that learns concepts, and creates links between related concepts in the text for analysis.

Using this tool, the researchers examined the use of terms that could be considered to be a positive or desirable attribute of a particular product. For example, the word “choice” is intuitively perceived by most to be a positive attribute, whereas the word “debt” is most often perceived as a negative attribute. The attribution of each word, and whether it represented a positive or negative meaning was then examined independently by the Chief Investigator and the Research Associate. The images and colours were also noted in terms of the key themes that they were portraying.

In addition, a content analysis was conducted that took into account psychological manipulations around a number of relevant theories (including framing, prospect theory, scarcity, trust, branding, maintaining the status quo, the use of heuristics, expert opinion, and bias) by analytic induction. This allows the researcher to be both grounded to established theory, and also to develop theory (Glaser and Strauss, 1967). In essence, analytic induction is a means of “inducing laws from a deep analysis of experimentally isolated instances” (Znaniecki 1934, p. 237). Analytic induction involves a form of

reasoning that aims to make universal statements that ultimately reflect fairly exhaustive knowledge of what is researched. Analytic induction explains a phenomenon which may be supplemented by other quantitative data to provide a fuller understanding.

Again, each of the UCCLIOs was examined independently by each of the researchers. Notes were compared between both researchers, and apparent agreements and any disagreements were discussed amongst the research team. This approach for analysis of secondary materials through isolated analysis, followed by team comparison, is derived from a number of qualitative analytical methods, including techniques such as convergent interviewing, and the long interview.

The next section of this report includes the findings from the analysis of the language and its relationships, used in the UCCLIO offer letters. The predominant analytical method was the Leximancer software, focusing particularly on language and its relationships. A more detailed discussion regarding language usage in UCCLIOs is addressed later in this report.

In all the UCCLIOs that were examined for this research, the use of the word “debt” (that may work to provide a psychological barrier) was referred to only twice, (although these were slightly different versions of the same offer by the same lender). The word was used in the “important information” page – provided as a separate page in one case and on the reverse of the offer in the other. This UCCLIO was one of those provided by the banks, rather than by consumers.

There was substantial use of positive statements highlighting the benefits of increasing the credit limit, such as:

“Get a little more out of everyday with a credit limit increase”

“You never know when you might need a credit limit increase”

“Would you like a credit limit increase?”

“In recognition of your excellent repayment history, we’re pleased to invite you to take advantage of a \$3,000 increase on your ANZ First Free Days Visa card”

“As a valued BankWest customer and in recognition of your excellent repayment record, you are invited to increase the credit limit on your BankWest Zero MasterCard. Even if you don't need the money straight away, it is reassuring to know it's there if you need it, plus you are pre-approved and there is no charge for increasing your limit”

“If you would like to increase your credit limit, you have qualified for the following increase”

The word “increase” appeared in all the UCCLIOs sent to consumers. All these statements were in bold or colour (with gold and blue being the most prominent), and in larger font (greater than 16pt) than the main text of the offer. In an individualist and rational society, the word “increase” is most often used in a positive context, as it connotes success, achievement, and augmentation. The psychology of how a consumer might interpret these statements is discussed in more detail further in this report.

The use of bolding, and larger fonts was found in 40 per cent of the offers. For example, one offer provided by a bank, had the following statements in bold, and in a larger font (18 pt) than the rest of the letter,

“You're pre-approved for an increased limit on your Visa Card”, and,

“pre-approved acceptance”

On this same UCCLIO, directly underneath the latter statement, in half the font size (8pt), was the statement,

“I confirm that if I utilise the new credit limit that is available on my card, I can repay my increased minimum monthly payment of \$(new amount) as required by [name of lender]'s Credit Cards Terms and Conditions, without substantial hardship.”

Similarly, on the next page of this offer is what the bank refers to as “Important Information”. However, this is all in small font (10pt), and the headings are in light orange, which is difficult to read. On another offer, in 20pt font, are the words, “You deserve the privileges of gold”. Other bolded text messages in this offer are “Enjoy gold class travel benefits”, and “Take advantage of this golden opportunity”. The use of colour in many of the UCCLIOs was observed. For example, one offer had an orange highlighter style circle and arrows (that

was designed to look hand drawn) leading the eye from the customer's name, to the new, pre-approved credit limit, to the signature line (we have been advised by the issuing bank that this letter is no longer being used).

Of the 21 UCCLIOs examined, five provided customer information that would alert the customer to the issues around accepting the increase. In most cases, these were on an additional page, and in smaller font than the smallest text on the offer page. On one warning letter, the opening paragraph stated,

Have you really thought about your credit card? Your credit card offers you great flexibility. Flexibility in making purchases. Flexibility in making repayments. Flexibility in managing your debt. But it's important to remember, like any debt, you will have to repay it.

Clearly, the focus of this "warning" is on flexibility, which is repeated four times, rather than debt. The consistent use of the term flexibility also reinforces the positive heuristic.

Some banks did provide information about how customers might voluntarily reduce the amount of the increase offer (12 out of 21), while others provided specific information about the minimum repayment that a customer might be expected to repay per month (three out of 21). Similarly, many of the offers did provide information, usually at the end of the offer letter, that asked the customer to consider their financial circumstances before accepting (seven out of 21). However, as explained in the next section of this report, these "warnings", or "important information" sections are likely to be ignored, missed, or overlooked, in the context of the rest of the UCCLIO letter, and the psychological manipulations contained within.

The next section of this report examines the UCCLIOs in light of our understanding of potential psychological manipulations within the letters sent to customers. Each theoretical proposition is examined by using examples from a number of UCCLIOs, and explaining how consumers' attitudes and decisions may be exploited by elements of the UCCLIO. Further, we summarise previous experiments by other researchers in each of these areas to demonstrate how their work complements our analysis of the UCCLIOs.

In this context, 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.

Each of these propositions is now examined in more detail. Within each proposition, we provide a number of examples to illustrate how this manipulation is manifested in the UCCLIO letter.

#### **1. The format and layout of the UCCLIO leads to low-involvement, trust and the use of the peripheral route to understanding.**

Receiving and considering a UCCLIO can be considered a low- involvement activity. Consumer research suggests that customers tend to take a limited interest in financial services and consider them as a necessity (Aldlanigan and Buttle, 2001; Beckett et al., 2000). In general, research suggests that most consumers do not spend much time thinking about their finances. Thus, traditional consumer behaviour models based upon the sequence, “information - attitude – purchase” (Nicosia, 1966; Engel et al., 1968; Howard and Sheth, 1969; Bettman, 1979) are limited in relation to financial services

(Beckett et al., 2000). It is arguable, then, that a rational and methodical search for information does not shape and direct rational choice in the financial context, but other exogenous factors influence the consumer's disposition to purchase financial products.

Moreover, financial services and products intrinsically require purchases on a recurring base (Turnbull and Gibbs, 1987), and therefore, most financial service consumption is done habitually, rather than on a high-involvement basis. Most consumers do not engage at any substantial level about how their bank or financial institution is managing their finances on an ongoing basis.

They will, invariably, assume that they can trust their bank or financial institution to behave, first and foremost, legally, ethically, and responsibly., Consumers will also assume that the bank will act, as much as possible in their interests, as a customer, and as a citizen. Indeed, this trust is a good thing, in that banks ask their customers to trust them to manage their finances in a responsible and professional manner, and customers “hand over” their finances in good faith.

The format and layout of many UCCLIOs reinforces and encourages the customer to maintain their level of low-involvement and trust of the issuing party in the decision process. In Figures 4.1, 5.1, 2.1, and 3.1, for example, the letter emphasises that the process of applying for the credit increase is simple, straightforward, and requires little effort or practical comprehension on the part of the customer. Figure 4.3 says, “All you have to do is sign the coupon... and mail it back using the reply paid envelope”, while Figure 5.1 reinforces that the process is simple, and, importantly, has no immediate costs (i.e., free), through the statements, “Simply call or complete the acceptance form” and “Return it to us free in the reply-paid envelope”. Similarly, Figure 2.1 emphasises the simplicity of the process through the use of text bolding, “It’s easy to make the change” and through the reiteration of the ease of completion, “It’s easy”, “Simply sign”, and “It’s that simple”, while Figure 3.1 states “All you have to do is sign”. Similarly, in Figures 3.2, 4.4, 1.2, and 4.5, the customer’s role is secondary, because the process is simplified to the point where the customer merely has to sign the form and return it, usually in a reply-paid envelope. UCCLIOs are decidedly different from new credit card applications and other types of loans, which require significant cognitive and physical effort to complete.



It is clear, then, that trust and loyalty are determining factors in influencing choices concerning financial services and products. In addition, “the establishment of trust can also bring about a degree of inertia in buyer-seller relationships” (McKechnie, 1992, p.5). Thus, if we assume that trust is not “taking a risk per se, but rather it is a willingness to take risk” (Mayer et al., 1995, p. 712), it can be argued that consumers, who feel a degree of confidence in trusting banks and financial providers and their offers, are more willing to take “risks”, and will follow the peripheral, rather than the central route to persuasion. Furthermore, in this context consumers will process information heuristically rather than systematically, i.e., use cognitive shortcuts, (Chaiken, 1984), when analysing their offers.

According to Petty and Cacioppo (1981, 1986) there are two distinct routes to persuasion: a *central route*, occurring when the person is motivated and able to engage in effortful cognitive activity and to think about the issue, and a *peripheral route* that “occurs when either motivation, experience, skills, or ability is low” (Cialdini et al., 1981, p.365). “The central route emphasises a thoughtful consideration of the attitude issue, whereas the peripheral route emphasises aspects of the persuasion situation that are clearly tangential to the issue under consideration e.g., the attractiveness of the message’s source” (Cialdini et al. 1981, p. 365).

In Figure 4.1, for example, the customer is invited to continue their trust in the organisation; since she is a loyal and reliable customer, “with a proven credit history”. Similarly in Figure 3.2, the customer’s trust in the bank is reinforced through the letter’s pronouncement that they are “a valued NAB customer”. In all cases, the customer is therefore likely to use heuristics and the peripheral route in agreeing (rather than choosing) to increase their credit card limit.

Similarly, the concept of the “central vs peripheral route” can be also described as systematic vs heuristic processing (Chaiken, 1984). According to Chaiken (1984) systematic processing is “a comprehensive analytical orientation in which perceivers access and scrutinise all informational input for its relevance and importance to their judgement task”. However, the heuristic paradigm (Chaiken, 1978, 1980, 1982, 1984; Chaiken and Eagly, 1983; Eagly and Chaiken, 1984), is a limited processing mode that demands much less cognitive effort, involvement, and capacity than systematic processing.

Most authors agree that the essential characteristic of involvement is the perceived personal relevance (e.g., Petty and Cacioppo, 1981; Richins and

Bloch, 1986; Zaichkowsky, 1985). That is, a consumer's level of involvement with an object, situation, or action is determined by the degree to which he perceives that concept to be personally relevant. According to Celsi and Olson, (1988, p. 211) the focus of cognitive processing is directed by what they call "felt involvement", i.e., a motivational state that affects "the interpreted meanings produced by attention and comprehension processes". Thus, motivation to process information is a function of the perception of personally relevant knowledge that is activated in memory in a particular situation.

In particular, according to research by Aldlanigan and Buttle (2001) in relation to personal involvement in financial services, and based upon the aforementioned involvement models (Laurent and Kapferer, 1985; Zaichkowsky, 1985), personal loans, such as a credit card, are labelled as medium-involvement services. As discussed earlier, it is arguable that the nature of UCCLIO, requiring even less cognitive effort than a personal loan or an actual application for a credit card, would result in even less psychological involvement, than the context investigated by Aldlanigan and Buttle (2001). Furthermore, results suggested that three dimensions of involvement, viz., sign value, pleasure (Laurent and Kapferer, 1985), and interest (Zaichkowsky, 1985) are not relevant in the context of financial services.

Furthermore, Beckett et al. (2000) developed a matrix, based on the work of Dwyer et al. (1987) and Thibaut and Kelly (1959), comparing consumer confidence (low/high) with involvement (low/high). According to the authors, the consumer's disposition to purchase financial products is influenced by exogenous (external) and institutional factors i.e., factors relating to "the importance of trust and loyalty and to the degrees and modes of consumer participation". Thus they suggest that the purchase process is not linear (information - attitude – purchase) based on the search of information by the individual (Nicosia, 1966; Engel et al., 1968; Howard and Sheth, 1969; Bettman, 1979), but that the context in which this information is processed must be considered and it should be assumed that often individuals are not able to process information (Bettman, 1979).

Beckett et al. (2000, p. 17) suggest that calculating costs and benefits is difficult for a consumer of financial services and "it is because of this inability that they create relationships". Furthermore their "interest or involvement in these services is limited, but they still remain a necessity". Therefore, consumers have traditionally used repeat passive behavior to structure their

purchases of simple financial services, especially “transactions” and, to some extent, “deposits and loans” (Beckett et al., 2000). Doney and Canon (1997) demonstrated that when consumers find it difficult to make rational choices based on available information they tend to create relationships and to emphasise trust and loyalty. Moreover they are more likely to do cross-purchases from a single supplier, because they trust the single supplier, rather than looking for alternatives.

Thus it is arguable that financial products, particularly UCCLIOs, are low-involvement activities that do not require systematic processing. Factors such as trust and heuristic cues (the expert and the brand heuristics) make customers more likely to take a risk in relation to the UCCLIO, showing inertia in their relationship with the bank or financial institutions.

## 2. Expertise implies trust

The UCCLIO's take the shape of letters signed by managers and directors of the banks or credit providers, i.e., financial experts. In the letters, customers are reassured implicitly that they can afford the credit increase by the imprimatur of a credible source, i.e., an expert who is familiar with their financial situation. Experts function as guarantees of the customer's ability to manage the credit increase and to repay the “debt”. It is of fundamental importance in this context for current customers of the bank or financial institution to know that the offer comes from an expert source, because, in the absence of other significant elements, people use the expert heuristic to make a judgement (Chaiken, 1984; Petty and Cacioppo, 1984). The UCCLIO promotional letter is also often presented in a format that suggests that the expert is offering this increase as a reward for previous good behaviour.

Consumers are likely to assume that experts have analysed their financial situation, have checked their capability to manage the increase, and through the offer letter – which is a physical manifestation of the institution's acceptance of these factors – have decided to approve the increase. Each of these steps provides *prima facie* evidence to the consumer, that an expert whom they can trust believes that they should accept the credit increase offer. For example, Figure 5.1 uses bold text to highlight that the source of the letter is the **Head of Cards**, and implies that you can trust this source. Everything in the UCCLIO letter aims to reassure consumers that a credible and trustable source is offering them the opportunity to obtain a credit increase.

According to Chaiken (1984), people may have learned or been taught that statements by experts are usually more “truthful” than statements by people who lack expertise. For example, heuristic processing would lead people to expect messages to contain more valid arguments when they come from expert rather than non-expert sources, and to expect attitude objects or attitudinal positions to be more worthy when they are endorsed by many rather than few people. Thus, “if a message is delivered by an expert, its arguments may be perceived as stronger and elaborated on more positively than if the message is delivered by a non-expert” (Chaiken and Maheswaran, 1994, p.461). The importance of the credibility of the source has been proved by several experiments:

a) Ratneshwar and Chaiken (1991) demonstrated that comprehensibility influences the persuasive impact of source expertise: when comprehension of the message is low, subjects rely on the expertise in forming their attitudes, but when comprehension and, hence, systematic processing is higher, source expertise has no impact on subjects' attitudes. The researchers conducted two studies providing subjects with information about a novel product that was attributed to either an expert or inexperienced inventor. In Study 1, comprehensibility of the product information was manipulated by altering information exposure time (an opportunity-related variable), while in Study 2, the same was achieved by varying the availability of relevant prior knowledge (an ability-related variable). Subjects who participated in study 1 (141 male and female undergraduates) were informed that they would provide reactions to one of eight "new inventions and products" filed with the U.S. Patent Office, and were given a three-page booklet. The first paragraph in the booklet informed all subjects that a picture and description of a new product had been "reproduced from U.S. Patent No. 4,348,545 and conformed to the standard Patent Office format, as specified in *Patents and Inventions: An Information Guide*".

In Paragraph 2 of the booklet, two different identities of the patent owner (John D. Harris) were given: “subjects in the high-expertise conditions were informed that Harris was a professor of industrial design at Stanford University and that he had numerous patents to his credit as well as a published book on creativity and product design; whereas, subjects in the low-expertise conditions were told that Harris was a realtor, that he held no other patents, and that he had been trying without success to date to

find a publisher for a book he wanted to write on creativity and product design". Finally in the last page they found the product information.

In study 2, in which 131 male and female undergraduates participated, the source expertise was manipulated in a manner identical to that of Study 1, but three levels of comprehensibility were created. Only the subjects in the high and medium-comprehensibility conditions were shown a picture of the product projected onto a screen for 10 seconds.

According to results, "the expert (vs. inexpert) inventor engendered more positive attitudes among subjects who had relatively poor comprehension of the product information, but not among subjects whose comprehension levels were high. In addition, low- (vs. high-) comprehensibility subjects listed more source-related thoughts, but fewer product information related thoughts, and their attitudes were more strongly associated with their perceptions of source expertise and their valenced source-related thoughts" (p.56).

b) Chaiken and Maheswaran (1994) conducted another experiment involving 367 New York University undergraduates who were asked to read a four-page booklet about a new telephone answering machine, the "XT-100." The booklet conveyed the task importance, source credibility, and message-type manipulations. In particular, page two of the booklet described the source of the "product description". In the high-credibility condition, subjects were told that the description was an excerpt from an authoritative source, the *Consumer Reports*, a magazine specialising in the scientific testing of new products, whereas in the low-credibility condition, subjects were told that the description was an excerpt from a promotional pamphlet prepared by the sales staff of Kmart, a discount retail chain. According to results, the valence of subjects' source-related thoughts was more positive in the higher rather than the lower-credibility conditions. In addition, source-related thinking grew more positive as message type changed from unambiguous weak to ambiguous to unambiguous strong. Results demonstrated that "source credibility affected persuasion partly through its impact on the valence of systematic processing, confirming that heuristic processing can bias systematic processing when evidence is ambiguous" (Chaiken and Maheswaran, 1994, p. 460).

c) Tiedens and Linton (2001) gave 165 students (77 women and 88 men) a short essay to read and asked questions about their attitudes on the essay topic. In the essay, “the author asserted that there was too much grade inflation and that to combat this trend, students in college classes should be graded more harshly”. Specifically, the author argued that the grades should be normally distributed, with the mean grade being a C” (p. 977). All the students read the same essay, but the source was described differently. Half of the participants ( $n = 83$ ) were given the student version of this essay where the author was presented as a student and the essay was formatted as a typical college paper (on regular printer paper, double spaced, centered title, etc.). The other half of the participants ( $n = 82$ ) received the expert version. In this version, the author was presented as a distinguished professor of education, and the essay was formatted to look like a copy of a newspaper editorial (i.e., in column format, justified, etc.).

According to the results, “compared with emotions associated with uncertainty, emotions associated with certainty [from those who read the “expert” essay] resulted in greater reliance on the expertise of a source of a persuasive message” (Tiedens and Linton, 2001, p. 973). In this experiment, when induced to feel certainty-related emotions, “participants were more likely to rely on the expertise of the source”, than when induced to feel uncertainty-related emotions. According to the researchers, “this is a sign that people experiencing certainty emotions processed more heuristically: they based their judgments on superficial cues in the environment” (Tiedens and Linton, 2001, p. 978).

One of the central issues of concern in the marketing of unsolicited card offers are those described as “pre-approved”. As the pre-approved form comes from a trustable source, such as a bank, this will have a strong influence on consumer perception. All the UCCLIOs examined in this research are signed by a person in a position of authority, i.e., an expert, such as a General Manager, Retail Sales & Service (Figures 2.1 and 2.2), General Manager, Consumer and Commercial Cards (Figures 3.1 and 3.2), Managing Director, Card Solutions (Figures 4.1, 4.2, 4.3 and 4.4). The terminology used to describe the role of the letter author will also feed perceptions of trustworthiness – a General Manager will have a level of authority that suggests to the current customer that they can, 1. Trust the source, and 2. Assume the source understands the financial situation of the customer. In conjunction with other factors, such as brand heuristics, and the likelihood of

low involvement, these manipulations strongly affect perception, and ultimate decision-making. This is because “people are aware that experts are often right, and so they might choose to use the expertise cue, rather than the actual content of the message, for their judgment” (Shah and Oppenheimer 2008, p.213).

### **3. Systematic vs Heuristic processing**

It is generally assumed that people analyse and process the information according to a rational and systematic paradigm (Chaiken, 1980), and therefore, consumers will make the “right” choice, i.e., the choice that provides the consumer with the best utility. This approach tends to inform much of government policy and industry procedures around credit marketing, including the marketing of UCCLIOs. According to Chaiken (1984), systematic processing is “a comprehensive analytical orientation in which perceivers access and scrutinise all informational input for its relevance and importance to their judgement task”. Systematic processing, however, has been shown to require more than marginal level of effort and cognitive capacity. People must be highly motivated to process systematically - which is rarely the case – and this mode is affected by situational variables and individual differences that constrain an individual's capacities for in-depth information processing (e.g., time pressures, lack of domain-specific expertise, difficulties with language). In the context of UCCLIOs, then, it is arguable that the consumers who are most susceptible to these marketing strategies are those with less understanding, ease or familiarity with credit. This is not to argue that those with higher levels of financial literacy may not be influenced, however, those with less understanding are more likely to revert to use of heuristics.

According to Chaiken et al. (1989), this processing can be biased depending upon motivational factors, (such as how motivated the individual is to understand the information), and cognitive factors, (such as the perceivers' knowledge and confidence in comprehending the issue under consideration). Thus, people will often use a different kind of processing, referred to as the heuristic paradigm (Chaiken, 1978, 1980, 1982; Chaiken and Eagly 1983; Eagly and Chaiken 1984), which is a “limited processing mode that demands much less cognitive effort and capacity than systematic processing”. In fact, people will tend to focus on the subset of available information that enables them to use simple inferential rules schemata or cognitive heuristics to formulate their judgment and decisions (Chaiken and al., 1989; Eagly and Chaiken, 1993). Indeed, “the primary processing goal of message recipients is

to assess the validity of the persuasive message they encounter” (Chaiken, 1989, p.214), and both heuristic and systematic processing serve this objective (Chaiken, 1982).

The rules of heuristics that define heuristic processing are learned knowledge structures, “simple schemas or decision rules (cognitive heuristics)” (Chaiken, 1984, p. 4) that may be used either consciously or unconsciously by perceivers and that people have presumably learnt based on past experiences and observation (Nisbett and Ross, 1980). According to the heuristic model (Chaiken, 1984, p. 3), “people exert little cognitive effort in judging the validity of a persuasive message and may base their agreement with a message on the basis of a superficial assessment of a variety of extrinsic persuasion cues such as surface or structural characteristic of the message itself (e. g., its length or the numbers of arguments) or communicator characteristics (e.g., expertise, likeability)”. Figure 5.1 uses heuristic processing at a number of levels. Many of the elements in this UCCLIO are manipulated to capture customers’ visual attention, for example, the brand is represented by a large logo (this also incorporates the brand heuristic), and the use of bold text, such as “pre-approved”, and “credit-limit increase”, are also used as heuristics, or decision-making shortcuts. Similarly, Figure 1.1 uses visual heuristics such as the blue colour of the brand logo. Heuristic processing occurs when a person has less capacity or motivation to do well in a task or is less involved in the task (Giner-Sorolla and Chaiken, 1997), as is the case for most consumers in relation to financial products.

The brand name heuristic explains why people evaluate products with positively valenced brand names more favourably. Maheswaran, Mackie, and Chaiken (1992), for example, found that “both consumers’ level of motivation, and the extent to which brand-name based expectations are confirmed by subsequent processing of attribute information moderate brand-name utilization” (p. 317). In Figure 4.4, for example, a customer’s visual attention is captured by images emphasising three key words, viz., “Reductions. Stocktake. Sale”, the picture of the credit card with the main brand (Mastercard), and the sub-brand (which is also a retailer), Coles-Myer Source, in order to obtain the brand heuristic. Similarly, in Figure 4.1, elements of the text stimulate the heuristic processing, e.g., the bolded text, “Get a little more out of every day with a credit increase”, which anticipates the offer contained within the letter.



In Figure 2.2, however, the Commonwealth Bank uses heuristics to make the customer aware of the risks connected to accepting the offer. The words “Not accept” and “Smaller Credit” are emphasised with the bolded text and are visual shortcuts for the customer.

According to the heuristic model, people may apply such rules in judging the probable validity of persuasive communications when they are “unmotivated and unable to process systematically” (Chaiken, 1984, p.8). When the recipient lacks either the motivation or the ability to think carefully about a persuasive message (e.g., because of time pressure, distraction, or message content that the target considers personally irrelevant), the target will seek cues in the message or situation (e.g., the presence of consensus information, the brand name, the expertise source) to determine whether to accept the premise of the message. When motivation and ability to think are high, people generate more positive thoughts when they are in a positive rather than a neutral mood (Petty, Schumann, Richman, and Strathman, 1993), and when the message is presented by a source of high rather than low credibility (Chaiken and Maheswaran, 1994). Thus the systematic processing that legislators (and banks) assume to be the only type of paradigm people use in understanding the UCCLIO’s message is often biased by:

1. Source factors, i.e., credibility of the sources (people tend to trust experts or legitimised sources). When the Managing Director of a bank, who is perceived to be an expert in financial matters, announces that the consumer has the capacity to meet her financial obligations and offers her a pre-approved form, the consumer is likely to accept that every doubt or barrier has been automatically removed by the trust in the expert source. As discussed in the previous section, this reference to trusted and expert sources is an integral component of the UCCLIO (see, for example, Figure 1.2 [Head of Customer Services], 4.4 [Managing Director, Card Solutions], and 3.2 [General Manager, Consumer and Commercial Cards])

2. Contextual factors, i.e., perceived audience evaluation of the message. The more a consumer perceives others have accepted the offer, the more they are likely to accept the persuasive message contained within the offer.

3. Emotional factors, i.e., emotions can influence evaluative judgments by affecting the confidence people have in their thoughts to a persuasive



ANZ Consumer Finance  
Locked Bag 10  
Collins Street West VIC 8007



R03

05 November 2007

## Would you like a credit limit increase?

Dear

I would like to invite you to increase your credit limit on your ANZ Rewards Visa card. If you would like to increase your credit limit, you have qualified for the following increase:

**\$15,000**  
**Current credit limit**

**\$19,000**  
**New credit limit**

Simply complete the enclosed form and send it in the reply paid envelope provided before **3 December 2007**.

Then relax and enjoy the reassurance that you have extra credit available if and when you need it.

If you need more information or would like to increase your credit limit by a smaller amount, please call us anytime on 13 22 73. We'll be happy to answer any questions you may have.

Yours sincerely,

Sue Jeffery  
Head of Customer Services

CLM 815 4509 4991 6216 9272



031

13 November 2007

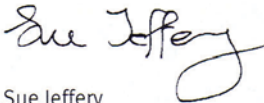
Dear Ms

In recognition of your excellent repayment history, we're pleased to invite you to take advantage of a \$3,000\* increase on your ANZ First Free Days Visa card.

Life can be unpredictable at times, which means you never quite know when you may want access to extra credit. A higher credit limit can give you greater financial freedom and help you handle any unexpected obstacles or opportunities life may throw your way.

Simply sign the attached request form below and return it in the enclosed reply paid envelope before **11 December 2007**. Then enjoy the convenience of having extra credit available if and when you want it.

Yours sincerely,



Sue Jeffery  
 Head of Customer Services

\* Please see overleaf for important information

## Credit Limit Increase Request Form

Ms ,

Account Number

Current Credit Limit

New Credit Limit

\$4,000

\$7,000

By requesting this credit limit increase, I understand that:

- > the credit limit on my ANZ First Free Days Visa card will be increased to \$7,000
- > if I use my current credit limit in full, my minimum monthly payment is \$80
- > if I use my new limit in full, this amount will increase to \$140; and
- > I confirm that I can repay this new limit without substantial hardship.

**Yes, please increase my ANZ First Free Days Visa card credit limit.**

Signature of primary account cardholder

Date

Please return this form by **11 December 2007** in the reply paid envelope to ANZ Consumer Finance, Locked Bag 10, Collins Street West, Melbourne VIC 8007 and allow at least 21 days for processing. You will receive a confirmation letter when your new credit limit is available to use. Please retain a copy of the covering letter for your records. ANZ reserves the right to decline an applicant who is in default under an existing ANZ credit card account at the time the application form is returned.



R03



1 October 2007

## *You deserve the privileges of gold*

Dear Mr I

Congratulations. You have qualified for an ANZ Gold card with a credit limit of \$6,000.

Upgrade your ANZ First card to ANZ Gold and you'll enjoy some very rewarding privileges, especially when you are overseas.

### **Enjoy gold class travel benefits**

To provide you with peace of mind overseas, your ANZ Gold card offers one of the most comprehensive Overseas Travel and Medical Insurance policies available in a gold card\*. Your travel benefits also include commission free travellers cheques from any ANZ branch in Australia and no ANZ Cash Advance fee on overseas cash advances\*.

### **Take advantage of this golden opportunity**

To discover the value of an ANZ Gold card, simply sign the enclosed Gold Card Acceptance form and return it to ANZ using the Reply Paid envelope by **22 October 2007**.

Your new card will be mailed to you along with your ANZ Gold Welcome Kit, which explains the new features and privileges available to you. Please note, an \$87 Annual Account Fee applies to your new ANZ Gold card. However, to make upgrading to ANZ Gold even easier you'll receive a pro-rata refund of any Annual Account Fee paid on your current card.

If you have any questions, please don't hesitate to call us on 13 22 73 at any time.

Yours sincerely,

Steve Rubenstein  
General Manager, Consumer Cards

### **Important Information**

When you upgrade to ANZ Gold your existing account is closed and you will be issued with a new card and card number. Therefore it is important that you stop any payments that are automatically deducted from your current card and redirect them to your new ANZ Gold card. You will also need to select a new Personal Identification Number (PIN) and register your new card details for ANZ Phone and Internet Banking. ANZ Gold card annual percentage rate is 17.99% p.a. as at 1 October 2007 and is subject to change. Terms and conditions available on application. Fees and charges payable. \*Comprehensive Overseas Travel and Medical Insurance is underwritten by CGU Insurance Limited. Terms and conditions apply. For more information please call 13 22 73. This material does not take into account your personal needs and financial circumstances and you should consider whether it is appropriate for you. \*Fees apply to domestic cash advances.





Existing card account number

Credit limit on an ANZ Gold card  
\$6,000

*ANZ Gold Card Acceptance*

Please upgrade me to an ANZ Gold card.

By signing this form I accept my new card with the credit limit shown above and the terms below.

- I authorise ANZ to close my existing card account and replace it with an ANZ Gold card account.
- Any outstanding balance at the time my existing card account is closed, along with any other transactions effected by me or Additional Cardholders on my existing card account, will be transferred to my new ANZ Gold card.
- Any Additional Cardholders on my existing card will be transferred to my new ANZ Gold card.
- Any ANZ CreditCover Insurance policy applicable to my existing card account will apply to my new ANZ Gold card.
- I confirm that I can continue to repay the credit limit stated above without substantial hardship and understand that ANZ may decline my acceptance if my account is in arrears at the time ANZ receives my response.

I have read and understood this acceptance and acknowledge that all the information provided here is true and correct.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Please return this entire form in the Reply Paid envelope by **22 October 2007** to ANZ Consumer Finance, Locked Bag 10, Collins Street West, Melbourne VIC 8007 and allow at least 21 days for processing. Please retain the covering letter for your records.



19 March 2008

030

## You never know when you might need a credit limit increase.

Dear

Life can be quite unpredictable. Which is why you put money away for a rainy day. But every now and then, you may need access to more funds in an emergency. That's why we are pleased to offer you the option of increasing your Commonwealth Bank Low Fee Visa limit from \$4,000 to \$5,200.

### It's easy to make the change

Simply sign and date the request form below and return it by 21 April 2008. We'll then send you a letter confirming your new limit. You may decide that a smaller credit limit increase is all you need. If so, please call **1800 006 742** or specify the amount you require on the request form. It's that simple.

For more information about your credit limit or if you have any other questions, please call us on **1800 006 742**.

If you're happy with your current credit limit, that's great - you don't have to do a thing.

Yours sincerely,



Scott Henricks

General Manager, Retail Sales &amp; Service

## I'd like to increase my credit limit.

Card Number:

Current Credit Limit

\$4,000

Proposed New Credit Limit

\$5,200

- ☐ Yes, I wish to accept your invitation for a credit limit increase on my Commonwealth Bank Low Fee Visa from \$4,000 to \$5,200 and understand that, if I were to use the full amount of this new credit limit, the minimum monthly repayment will increase from \$60 to \$78.
- ☐ I only wish to increase my credit limit by \$\_\_\_\_\_ to \$\_\_\_\_\_ and understand that, if I were to use the full amount of this new credit limit, the minimum monthly repayment will increase by no more than \$15 for every \$1,000 increase in my credit limit.

Please note: if your personal circumstances have changed or are likely to (due to, for example a loss of employment or an increase in your expenses, such as a new loan), please do not accept this invitation.

I agree that if I use the full amount of my new credit limit, I can afford the new minimum monthly repayment.

Signature of Principal cardholder:

Date

/ /



20 November 2007



026

## You never know when you might need a credit limit increase.

Life can be quite unpredictable. Which is why you put money away for a rainy day. But every now and then, you may need access to more funds in an emergency.

That's why we are pleased to offer you the option of increasing your Commonwealth Bank Awards Visa limit from \$10,000 to \$13,500.

### It's easy to make the change

Simply sign and date the request form below and return it by 19 December 2007. We'll then send you a letter confirming your new limit. You may decide that a smaller credit limit increase is all you need. If so, please call 13 2221 or specify the amount you require on the request form. It's that simple.

### Know your limits.

Please do not accept this invitation if your personal circumstances have changed, or are likely to change in the future. This could be due to a loss of employment or an increase in your expenses such as a new loan.

For more information, please call us on 13 2221.

If you're happy with your current credit limit, that's great - you don't have to do a thing.

Yours sincerely,

Scott Henricks  
General Manager, Retail Sales & Service

## I'd like to increase my credit limit.

Card Number:

Current Credit Limit

\$10,000

Proposed New Credit Limit

\$13,500

- ☐ Yes, I wish to accept your invitation for a credit limit increase on my Commonwealth Bank Awards Visa from \$10,000 to \$13,500 and understand that, if I were to use the full amount of this new credit limit, the minimum monthly repayment will increase from \$150 to \$203.
- ☐ I only wish to increase my credit limit by \$\_\_\_\_\_ to \$\_\_\_\_\_ and understand that, if I were to use the full amount of this new credit limit, the minimum monthly repayment will increase by no more than \$15 for every \$1,000 increase in my credit limit.

I agree that if I use the full amount of my new credit limit, I can afford the new minimum monthly repayment.

Signature of Principal cardholder:

Date

Fill out this form and mail to: Consumer Credit Card & Collections, Reply Paid 72551 PARRAMATTA NSW 2124 or fax to 02 96354200 by 19 December 2007.





13 November 2007,

As a valued customer you are invited to accept our invitation for a credit limit increase from \$15,000 to \$20,000 on your Visa Gold

To take advantage of this offer, simply sign and date the Request Form below and return it to us within 21 days from 13 November 2007. Once it's processed, we'll send you a letter confirming your new limit. You may decide that a **smaller** credit limit increase is all you need. If so, please call 13 2221 or alternatively specify the amount you require on your Request Form.

Please do **not** accept this invitation if your personal circumstances have recently changed, or are likely to change for example, due to loss of employment or an increase in expenses (such as new loans).

Naturally, if you're happy with your current limit, you don't have to do a thing.

Yours sincerely,

Grahame Carney  
General Manager, Retail Sales and Service

### Credit Limit Increase Request Form

Current Credit Limit: \$15,000

Proposed New Credit Limit: \$20,000

- ☐ Yes I wish to accept your invitation for a credit limit increase on my Visa Gold from \$15,000 to \$20,000. I acknowledge that the minimum monthly payment will increase from \$225.00 to \$300.00.
- ☐ I only wish to increase my credit limit by \$\_\_\_\_\_ to \$\_\_\_\_\_ and acknowledge that the minimum monthly payment will increase by no more than \$15.00 for every \$1,000 increase in my credit limit.

I agree that if I use the full amount of my new credit limit, I can afford the new minimum monthly payment.

Signature of Principal Cardholder X\_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

Complete and mail to: Consumer Credit & Collections, Reply Paid 79220 PARRAMATTA NSW 2124. Or fax it to: 02 93838086 within 21 days from 13 November 2007





034

66666666 3906 85  
Mr S Sample  
Samplex Pty Ltd  
Unit 6  
66 Sample Street  
SAMPLEVILLE VIC 3333

26 October 2007

Your new  
pre-approved  
credit limit  
\$1500

**get a pre-approved credit limit increase for whatever life has  
in store! NAB Credit Card - 8888 8888 8888 8888**

Dear Mr Sample,

Life's full of pleasant surprises, and being offered an increased credit limit is one of them. We're pleased to offer you a pre-approved credit card limit increase from your current limit of \$500 to \$1500. So now, you could have greater financial freedom.

This bigger credit limit gives you the ability to take advantage of whatever life has in store for you. For example, it could be the big-ticket item that you've always wanted but were unable to get before.

Since you're already pre-approved to apply for this increased credit limit, all you have to do is sign the form below. However, if you'd like a smaller credit limit increase, you can nominate a lesser amount by filling in your preferred limit. Do remember to return the completed form in the enclosed reply-paid envelope by 7 December 2007. You'll then receive a letter confirming the availability of your new credit limit in 10 working days.

For more information about your new credit limit, please call us on 1300 361 138 from 8am to 8pm EST, Monday to Friday.

Yours sincerely,

Sam Nickless  
General Manager  
Consumer & Commercial Cards

Please return the form below in the reply paid envelope provided or mail it to:  
National Australia Bank Limited, Reply Paid 4988, Melbourne VIC 8060. No stamp required.  
NAB reserves the right to decline an applicant whose account is not in order at the time this request is processed.

important information overle

**pre-approved acceptance**

If you would like to accept this pre-approved offer please send us your response by 7 December 2007.

- ☐ **Option 1 - Please increase the credit limit to \$1500 on my  
NAB Credit Card 8888 8888 8888 8888.**

I confirm that if I utilise the new credit limit that is available on my card, I can repay my increased minimum monthly payment of \$37.50 (currently \$12.50) as required by NAB Credit Cards Terms and Conditions, without substantial hardship.

- OR**
- ☐ **Option 2 - Please increase the credit limit to a lesser amount of \$ \_\_\_\_\_ (maximum \$1500)  
on my NAB Credit Card 8888 8888 8888 8888**

Mr Sam Sample  
Samplex Pty Ltd  
Unit 6  
66 Sample Street  
SAMPLEVILLE  
VIC 3333

I confirm I have read and understood the Important  
Information on the reverse of the offer letter.

Signature \_\_\_\_\_

Date \_\_\_\_\_

National Australia Bank Limited  
 ABN 12 004 044 937  
 GPO Box 9992  
 Melbourne VIC 3001



017

66666666 2637 85  
 Mr S Sample  
 Samplex Pty Ltd  
 Unit 6  
 66 Sample Street  
 SAMPLEVILLE VIC 3333

26 October 2007

**you're pre-approved for an increased credit limit on your  
 NAB Credit Card - 8888 8888 8888 8888**

Dear Mr Sample,

As a valued NAB customer you are invited to take advantage of an increased credit limit on your NAB Credit Card from \$500 to \$1500.

A higher credit limit can give you greater financial freedom and help to handle those unexpected expenses that may arise from time to time. Even if you don't require extra credit immediately, it's reassuring to know it's there if you need it.

You're already pre-approved for this increase, so to apply, simply sign your acceptance below, or alternatively you can nominate a lesser amount by simply writing your preferred credit limit on the form below. Return your completed form in the enclosed reply paid envelope before 7 December 2007 and within ten working days you'll receive a letter confirming that your new credit limit is available.

If you'd like more information about your new credit limit, please call us on 1300 361 138 from 8am - 8pm EST, Monday to Friday and we'll be happy to help.

Yours sincerely,

Sam Nickless  
 General Manager  
 Consumer & Commercial Cards

Please return the form below in the reply paid envelope provided or mail it to:  
 National Australia Bank Limited, Reply Paid 4988, Melbourne VIC 8060. No stamp required.  
 NAB reserves the right to decline an applicant whose account is not in order at the time this request is processed.

Important Information overleaf

**pre-approved acceptance**

If you would like to accept this offer please send us your response by 7 December 2007.

**Option 1 - Please increase the credit limit to \$1500 on my  
 NAB Credit Card 8888 8888 8888 8888.**

I confirm that if I utilise the new credit limit that is available on my card, I can repay my increased minimum monthly payment of \$37.50 (currently \$12.50) as required by NAB Credit Cards Terms and Conditions, without substantial hardship.

OR

**Option 2 - Please increase the credit limit to a lesser amount of \$\_\_\_\_\_ (maximum \$1500)  
 on my NAB Credit Card 8888 8888 8888 8888**

Mr Sam Sample  
 Samplex Pty Ltd  
 Unit 6  
 66 Sample Street  
 SAMPLEVILLE  
 VIC 3333

I confirm I have read and understood the Important  
 Information on the reverse of the offer letter.

Signature \_\_\_\_\_

Date \_\_\_\_\_





019

666666666 2983 85  
 Mr S Sample  
 Samplex Pty Ltd  
 Unit 6  
 66 Sample Street  
 SAMPLEVILLE VIC 3333

26 October 2007

Dear Mr Sample,

**You're invited to apply for a new credit limit up to \$14,000.**

An increased credit limit can offer you greater financial flexibility and help to handle those unexpected expenses that may arise from time to time. For example, if a lot of bills arrive at once or you're planning a big overseas trip. That's why we'd like to invite you to apply for a credit limit increase on your NAB Gold Credit Card, **8888 8888 8888 8888** up to **\$14,000**.

If you'd like to accept this invitation, simply complete the enclosed request form which will help us to accurately assess your ability to manage additional credit. We'll write advising you if your request has been successful within 4 working days of receiving your form.

**Please return your application form by 7 December 2007.**

To ensure your request is processed promptly, be sure to complete all sections of the request form and return it no later than 7 December 2007. Either post in the envelope provided to National Australia Bank Limited, Reply Paid 194, Melbourne Vic 8060 (no stamp required) or fax to **1300 363 643**.

If you have any questions about this invitation, simply give us a call on **1300 361 138**, between 8am and 8pm EST, Monday to Friday. We'll be happy to help.

Yours sincerely

Sam Nickless  
 General Manager  
 Consumer & Commercial Cards

# Credit Limit Increase Request Form

Mr S Sample  
Samplex Pty Ltd  
Unit 6  
66 Sample Street  
SAMPLEVILLE VIC 3333

Please complete request form in full in black or blue pen using CAPITAL LETTERS and X where appropriate.

Please return your request form no later than 7 December 2007.

## Section A Credit Limit Request

Card Account Number	8888 8888 8888 8888	Existing credit limit	\$ 10,000	New card limit request	\$ <(maximum (\$14,000))
---------------------	---------------------	-----------------------	-----------	------------------------	--------------------------

I confirm that if I utilise the new credit limit that is available on my card, I can repay my increased minimum monthly payment of \$350.00 (currently \$250.00) as required by NAB Credit Cards Terms and Conditions, without substantial hardship.

Please note: if upon receiving your request, NAB is only able to approve a credit limit increase less than that offered in the letter or requested by you, the lesser limit will apply to your account.

## Section B Are your details correct? Please check your details above and make any necessary changes below.

Street address	Postcode
----------------	----------

## Section C How can we contact you?

Telephone (home)	Telephone (work)	Mobile
------------------	------------------	--------

## Section D Employment Details

Employment status ☐ Full-time ☐ Part-time ☐ Temp/casual ☐ Self-employed ☐ Home duties ☐ Unemployed ☐ Retired ☐ Student

Occupation/job title

## Section E Residential Status

☐ Mortgage ☐ Renting ☐ Boarding ☐ Own outright ☐ Supplied by employer ☐ Living with parents/relatives

## Section F Financial Details (Use whole dollar amounts)

### Your income

PRESENT VALUE  
Primary income before tax \$  ☐ Weekly ☐ Fortnightly ☐ Monthly

PRESENT VALUE  
Primary income after tax \$  ☐ Weekly ☐ Fortnightly ☐ Monthly

PRESENT VALUE  
Spouse/partner income after tax (optional) \$  ☐ Weekly ☐ Fortnightly ☐ Monthly

PRESENT VALUE  
Other income after tax \$  ☐ Weekly ☐ Fortnightly ☐ Monthly

### Liabilities – what you owe

	AMOUNT OWING	MONTHLY PAYMENTS
Mortgage – principal residence	\$ <input type="text"/>	\$ <input type="text"/>

	AMOUNT OWING	MONTHLY PAYMENTS
Other loans/mortgages	\$ <input type="text"/>	\$ <input type="text"/>

	TOTAL LIMITS	AMOUNT OWING	MONTHLY PAYMENTS
All credit cards (including this card)	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>

How much rent do you pay?	\$ <input type="text"/>
---------------------------	-------------------------

Monthly personal expenses	General living expenses (e.g. food, gas, electricity, etc)	\$ <input type="text"/>
---------------------------	--	-------------------------

## Section G Declaration and Signature

Please accept my request for a credit limit increase. I declare I have read and understand the contents of this request form and state that the particulars provided by me are true, complete and correct. These particulars are provided to NAB to enable NAB to assess my request. I understand my request is subject to my having a satisfactory income level.

Primary cardholder's signature

X Signature

Date / /

Return completed request form in the envelope provided to National Australia Bank Limited, Reply Paid 194, Melbourne VIC 8060 (no stamp required) or fax to 1300 363 643.



National Australia Bank Limited  
GPO Box 9992  
Melbourne VIC 3001



Mr S Sample  
Samplex Pty Ltd  
Unit 6 66 Sample Street  
SAMPLEVILLE VIC 3333

&lt;Date&gt;

## you're pre-approved for an increased credit limit on your <card name> <card number>

Dear Mr Sample,

As a valued NAB customer you are invited to take advantage of an increased credit limit on your NAB Credit Card from <\$xxxx> to <\$xxxx>.

A higher credit limit can give you greater financial freedom and help to handle those unexpected expenses that may arise from time to time. Even if you don't require extra credit immediately, it's reassuring to know it's there if you need it.

You're already pre-approved for this credit limit increase, so to apply, simply make your selection by ticking Option 1 and signing the form below. Alternatively, if you'd like a smaller credit limit increase, you can tick Option 2 and nominate a lesser amount by filling in your preferred limit and signing the form below. Return your completed form in the enclosed reply paid envelope before <date> and within ten working days you'll receive a letter confirming that your new credit limit is available.

If you'd like more information about your new credit limit, please call us on 1300 361 138 from 8am – 8pm EST, Monday to Friday and we'll be happy to help.

Yours sincerely,

Sam Nickless  
General Manager  
Consumer & Commercial Cards

Please tick, sign and return the form below in the reply paid envelope provided or mail it to:  
National Australia Bank Limited, Reply Paid 4988, Melbourne VIC 8060. No stamp required. NAB reserves the right to decline an applicant whose account is not in order at the time this request is processed.

Important Information overleaf

### pre-approved acceptance

If you would like to accept this offer please make your selection by ticking either box and signing below by <response date>. Please note: If you do not select an option below your application may be delayed.

☐ **Option 1 – Please increase the credit limit to \$xxxx on my  
<card name> <card number>**

I confirm that if I utilise the new credit limit that is available on my card, I can repay my increased minimum monthly payment of <new monthly payment> (currently <monthly payment>) as required by NAB Credit Cards Terms and Conditions, without substantial hardship. I confirm that my financial circumstances have not adversely changed since my last credit assessment.

OR

☐ **Option 2 – Please increase the credit limit to a lesser amount of \$\_\_\_\_\_ (maximum <new card limit>)  
on my <card name> <card number>**

Mr Sam Sample  
Samplex Pty Ltd  
Unit 6 66 Sample Street  
SAMPLEVILLE  
VIC 3333

I confirm I have read and understood the Important  
Information on the reverse of the offer letter.

Signature

Date

## important information

### have you really thought about your credit card?

Your credit card offers you great flexibility. Flexibility in making purchases. Flexibility in making repayments. Flexibility in managing your debt. But it's important to remember, like any debt, you will have to repay it.

### what's the best way of using your credit wisely?

Any debt facility you agree to requires care in its use. You need to make sure you can maintain your payments within the terms of your credit card contract. Please call us if you'd like another copy of your National Credit Cards Terms and Conditions. Below we've listed some 'tips' to help you manage your credit card account responsibly:

#### tip 1: you can always pay more than your 'Minimum Payment'

Your credit limit is set to help you control your opportunity to overspend. It is important to make sure you manage your balance so the repayment you choose to make is within your budget. The minimum payment amount due on your statement is just that – it's the least you must pay to keep your account in order. You have the option of paying more than the minimum payment amount due. By paying more you will reduce the amount of interest you accrue on the amounts owing e.g. individual purchases and cash advances, until they are repaid in full.

#### tip 2: credit limit increases are optional

This invitation to increase your credit limit is only made if you have a satisfactory repayment history with us – and we believe you may be able to manage the higher limit based on how your account has been conducted. But you don't have to accept the invitation. If you believe your personal circumstances have changed, or are likely to change (for example, through loss of employment or maternity leave) or believe that the additional credit may be beyond your means to repay, then you should decline the invitation.

#### tip 3: stop and call us if you get into trouble

If you find you are unable to make repayments within your budget, or foresee changes in your personal circumstances that may affect your ability to make your repayments, the first thing to do is stop using your card immediately. Then, please contact us at NAB on **13 22 65**. We may be able to restructure your payments or work out a repayment plan to help you manage and ultimately clear your debt.

#### tip 4: you can reduce your credit limit at any time

To reduce your credit limit at any time, please call us at NAB on **13 22 65** or write to us at GPO Box 9992, Melbourne, Victoria, 3000.





Get a little  
more out of  
everyday

18/05/2007

## With a credit limit increase

Dear

I have some great news! As a Coles Myer Source® MasterCard® customer with a proven credit history, you are eligible for a \$4000 credit limit increase\*. That means more credit available for that special purchase, but it's entirely up to you.

**Current Credit Limit**  
**\$10,250**

**New Credit Limit**  
**\$14,250**

To request your increased credit limit, simply complete the form on the following page and return to us in the reply paid envelope provided before 17/06/2007\*.

Your credit limit will be increased within 7-10 working days and will appear on your next statement.

Thank you for being a Coles Myer Source MasterCard customer.

Yours sincerely,

Skander Malcolm  
Managing Director, Card Solutions  
GE Money Australia & New Zealand

**Please see the following page for important information.**

\*In order to obtain this increase, your Coles Myer Source MasterCard account must be open and you must not be in default of your credit contract on the date that your request is processed by us.

PL5-13

## Credit Limit Increase Form

26

Mrs

Account Number

Current Credit Limit  
\$10,250New Credit Limit  
\$14,250

By signing this form, I confirm that:

- The credit limit on my Coles Myer Source® MasterCard® will be increased to \$14,250.
- I understand my minimum monthly repayment will increase from \$228 to \$317 if I use the full amount of my new credit limit (excluding special promotion purchases).
- I can repay this new limit without financial hardship.

If you would like a lower credit limit than the offered amount but higher than your current limit, please write it here \_\_\_\_\_

Or, if you would like a lower credit limit amount than your current credit limit, please call 1300 306 397.

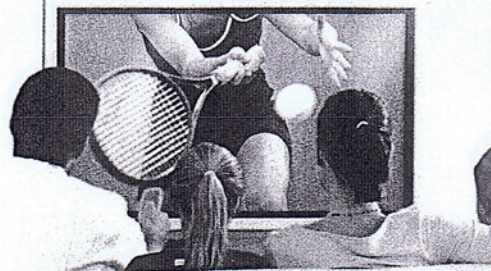
If your financial circumstances have changed since you applied for your card, or are likely to change, we recommend that you contact us before requesting this credit limit increase.

**Yes, I would like to increase my Coles Myer Source MasterCard credit limit.**

Signature:

Date: \_\_/\_\_/\_\_





MRS

Get a little  
more out of  
everyday

27/01/2007

## With a credit limit increase

Dear Mrs

I have some great news! As a Coles Myer Source® MasterCard® customer with a proven credit history, you are eligible for a \$4000 credit limit increase\*. That means more credit available for that special purchase, but it's entirely up to you.

**Current Credit Limit**  
**\$4,000**

**New Credit Limit**  
**\$8,000**

To request your increased credit limit, simply complete the form on the following page and return to us in the reply paid envelope provided before 26/02/2007\*.

Your credit limit will be increased within 7-10 working days and will appear on your next statement.

Thank you for being a Coles Myer Source MasterCard customer.

Yours sincerely,

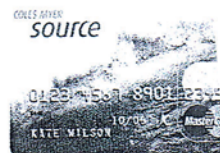
Skander Malcolm  
Managing Director, Card Solutions  
GE Money Australia & New Zealand

Please see the following page for important information.

\*In order to obtain this increase, your Coles Myer Source MasterCard account must be open and you must not be in default of your credit contract on the date that your request is processed by us.

PL5-13

27/05/05



Dear

### We'd like to increase your buying power

As one of our most valued customers, we would like to thank you by extending you the invitation to increase the credit limit on your Coles Myer Source® MasterCard from **\$3,400** to **\$4,000\***.

To apply all you have to do is sign the coupon below before 26/06/05 and mail it back using the reply paid envelope.

### Make the most of your card

You may not use your extra limit every day, but it's good to know it's there if you need it.

Once we process your acceptance, your credit limit will be increased within 7 to 10 days and will appear on your next statement.

Yours sincerely,

Skander Malcolm  
Managing Director, Card Solutions  
GE Money

If you would like a lower credit limit than we have offered, please write in your preferred amount on the coupon below and send it back using the reply paid envelope.

If your personal circumstances have changed since you applied for your card, or are likely to change, please contact us before accepting this offer.

Coles Myer Source® is a trademark of Coles Myer Ltd. ABN 11 004 089 936  
Credit provided by GE Capital Finance Australia ABN 42 008 583 588, trading as GE Money.

PL1-5





27/07/2006

Dear Mrs

You can get a bargain now with an extra \$3000.

If there's something you've really been wanting to buy, a \$3000\* increase to your card's current credit limit could help you get it a whole lot sooner.

As a current Coles Myer Source® MasterCard® cardholder with a good credit history, we're pleased to be able to offer you the opportunity to increase your current credit limit by \$3000\*.

**Current Credit Limit**  
\$4,000

**New Credit Limit**  
\$7,000

To upgrade to the new limit, complete the coupon below before 26/08/2006 and post it using the enclosed Reply Paid envelope. Once we process it, your credit limit will be increased within 7-10 days and the new limit will appear on your next statement\*.

We hope the new credit limit helps you take advantage of some great bargains.

Yours sincerely,

Skander Malcolm  
Managing Director, Card Solutions  
GE Money Australia & New Zealand

**\*PS: See overleaf for important information**

Coles Myer Source® is a registered trademark of Coles Myer Ltd. ABN 11 004 089 936. Credit provided by GE Capital Finance Australia ABN 42 008 583 588 trading as GE Money. This invitation is brought to you by GE Money. PL1-5

## Credit Limit Increase Request

**Coles Myer Source® MasterCard® Account Number:**

**To: GE Capital Finance Australia**

I, \_\_\_\_\_ would like to increase my credit limit on the above account to **\$7,000\***. By signing below I confirm that I am able to make the minimum monthly repayments (without financial hardship) if I use the full amount of the new credit limit offered to me. I understand that my minimum monthly repayment will increase from \$89 to \$156 if I use the full amount of my new credit limit (excluding special promotion purchases).

If you would like a limit lower than \$7,000, please write it here \$ \_\_\_\_\_

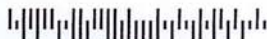
Signature

Date / /



**GE CreditLine™**  
REPEAT PURCHASE & CASH CARD

05/08/2007



MR I



Dear Mr

We are pleased to offer you the opportunity to increase your credit limit on your GE CreditLine account from **\$10,000 to \$13,000**.

To take advantage of this offer, just sign the **Credit Limit Increase Acceptance Form** below and return it in the reply paid envelope before 26/08/2007. We will process your application and if approved, your new credit limit will be automatically applied to your account.

If you have any queries about your GE CreditLine card, visit [www.gecreditline.com.au](http://www.gecreditline.com.au) or call **1300 131 024**.

Yours sincerely,

**The GE CreditLine Team**

**PS. Don't forget this credit limit offer only lasts to 26/08/2007 so you need to hurry!**

GE CreditLine is a credit facility provided by GE Finance Australasia Pty Ltd (ABN 88 000 015 485) trading as GE Money.

## Credit Limit Increase Acceptance

Account Number:

- ☐ **Yes, I/we** would like to apply to increase my/our credit limit to **\$13,000**
- Or
- ☐ I/we would like to apply for a lower amount of \$ \_\_\_\_\_

**For joint accounts, both account holders must sign.**

In the event that your personal circumstances have changed (for example, you are no longer working or are now earning less), or are likely to change (for example, due to maternity leave), you should not accept this offer to increase your credit limit.

By signing below, I confirm that I am able to repay the minimum monthly payment associated with the increase in credit limit on my account. If you choose to increase your credit limit to **\$13,000**, your new minimum monthly payment would be **\$390.00** if you spend up to that limit. **This does not include any special promotions with fixed payments** and nor does it take into account any deferred payment promotions. **The minimum monthly payment for all purchases on your account will be detailed on your statement.** In the event that there is a change in my personal circumstances, I understand that I need to immediately contact GE Finance Australasia Pty Ltd, trading as GE Money, on 1300 131 024.

Signature: \_\_\_\_\_

Date: / /

Signature: \_\_\_\_\_

Date: / /



**GE CreditLine™ 10**  
REPEAT PURCHASE & CASH CARD

Offer Date:  
End Date:

05/08/2007  
26/08/2007



bankwest



Bank of Western Australia Ltd  
ABN 22 050 494 454  
AFSL 236872

28 December 2007



BB362S 01484-02162 (025R)

Card Services  
GPO Box 8411  
PERTH WA 6849  
Telephone 13 17 18  
Facsimile 1300 765 515

## You have been pre-approved for a credit limit increase to \$8,500.00.

Dear

As a valued BankWest customer and in recognition of your excellent repayment record, you are invited to increase the credit limit on your BankWest Zero MasterCard. Even if you don't need the money straight away, it is reassuring to know it's there if you need it, plus you are pre-approved and there is no charge for increasing your limit.

**\$5,000.00**  
**Current credit limit**

**\$8,500.00\***  
**New credit limit**

To accept this special invitation simply call **1300 769 175** or complete the acceptance form attached and return it to us free in the enclosed reply-paid envelope, this offer is valid for 4 weeks from the date of this letter. We'll send you confirmation when your new credit limit is available.

If you want to know more, please call us on 1300 769 175. We're here to help you 24 hours a day, 7 days a week.

Yours sincerely

Richard Shepherd  
**Head of Cards**

\*Please note that BankWest has based this invitation on your excellent account management history - however, it is important that you are comfortable that you can afford your credit limit. If your financial situation has changed recently or is likely to change you should notify us. BankWest reserves the right to withdraw this invitation if your situation has changed. If you are unsure you can afford your current credit limit or this new credit limit, simply specify your preferred credit limit in Option 2.

**If you would prefer not to receive promotional material from BankWest please let us know by calling 13 17 18.**

## Pre-approved Credit Limit Acceptance Form

☐ **Increase Limit Option 1:** Yes, I would like to accept your invitation to increase my credit card limit to \$8,500.00.

I understand that based on a card balance being equal to this new limit, my minimum monthly repayment amount would increase from \$100.00 to \$170.00. I confirm I will be responsible for the repayments and can service the debt without undue hardship.

☐ **Increase Limit Option 2:** Yes, I would like to accept your invitation to increase my credit card limit.

Please increase my limit to \$\_\_\_\_\_ (cannot exceed \$8,500.00). I understand that my minimum monthly repayment amount will increase. I confirm I will be responsible for the repayments and can service the debt without undue hardship.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

28 December 2007

Please return the acceptance form in the reply paid envelope enclosed to:  
BankWest Card Services, GPO Box 8411, Perth WA 6849

message. De Steno et al. (2004, p. 43) argue that “attempts at persuasion would be more successful when messages were framed with emotional overtones matching the emotional state of the receiver and that these changes would be mediated by emotion-induced biases involving expectations attached to arguments contained in the messages”. That being so, UCCLIOs that contain statements such as “greater financial freedom” (Figure 3.4), and “special invitation” (Figure 5.1) will engage an emotional response from the customer, particularly those who lack knowledge about the message topic or who must process under severe time constraints or other forms of stress, e.g. financial or personal.

#### **4. “Pre-approved” implies psychological ownership and property rights**

The UCCLIO’s marketing is fundamentally based on an “endowing” action, i.e., because the credit increase offer is *unsolicited* and *pre-approved*, the customer takes immediate psychological ownership of it. Thus, the pre-approval of the credit increase is a bank initiative, which would be interpreted by the customer as a “gift” that is given to its more “deserving” customers, often “in recognition of their excellent repayment record” (Figure 5.1).

In addition, customers are encouraged to feel that they already “own” the credit increase, in that it has been *pre-approved* and the only thing they have to do is to sign a *completed* form, that has already had most of the key information completed, and to send it by mail in a *pre-paid* envelope. Everything in the UCCLIOS is “predicted” and pre-disposed in order to simplify the process and eliminate both material (e.g., filling out the form, sending it by mail) and immaterial (e.g., psychological, comprehension) barriers. Every element of the offer aims to reduce the customers’ role to a minimum (as stated in Figure 3.1, “all you have to do is to sign the form”). Although Figure 4.5 does not fall under our definition of a UCCLIO, it is worth noting here, in that it follows a different and more appropriate format, by removing the endowment effect, to some degree, by not implying initial ownership of the credit limit. This is done by using the statement, “We will process your application and if approved...”

Generally, then, the UCCLIO letter is framed as a choice involving a loss (if the customer doesn’t accept, he will lose the privilege the bank has conceded to him through the pre-approval) and not as a gain. As Tversky and

Kahneman (1981) have demonstrated, individuals are more likely to be risk-taking for choices involving losses rather than gains. Evidence suggests that people innately tend to develop feelings of psychological ownership for a variety of objects as a consequence of their innate motive to control things (Furby, 1991). Furthermore, individuals naturally tend to be loss averse (Kahneman and Tversky, 1984), and to make attempts to maintain the “status quo” (Samuelson and Zeckhauser, 1988), in that giving up something they have already received or taken possession of, implies a loss that is greater than the gain associated with receiving it (Thaler, 1980). Possession does not need to be physical, as emotional and psychological possession can sometimes have a stronger influence over behaviour than physical or material possession. This phenomenon labeled as the “endowment effect” (Thaler, 1980) has been demonstrated by several experiments.

In a seminal study, Khaneman, Knetch, and Thaler (1990), examined the nature of endowment through an experiment conducted at Cornell University. Students were divided in two groups, the “choosers” and the “sellers”. The sellers received an object (a decorated mug valued at \$5) and were asked to choose between two options: either selling the mug at a price ranging from 50 cents to \$9.50, or keeping the mug and taking possession of it. The “choosers” (who didn’t receive the mug), were asked to choose between receiving either a mug or a sum of money. Thus, both choosers and sellers had to face the same kind of issue, with the only difference being that the first group had to face a positive choice i.e., they didn’t have anything (the mug) to loose; while the sellers perceived one of the options (giving up the mug) as negative i.e., a loss. The results from this experiment suggested that an endowment effect is automatically and instantaneously produced “by giving an individual property rights over a consumption good” (Tversky and Kahneman, 1991). Another fundamental result of these experiments is that “changes that make things worse (losses) loom larger than improvements or gains”, i.e., individuals are naturally loss averse (Kahneman and Tversky, 1984) in that they perceive “the disutility of giving up an object” as “greater than the utility associated with acquiring it” (Kahneman, Knetsch and Thaler, 1991, p.160).

These experiments demonstrate that, in the case of the UCCLIO, an endowment effect is produced as soon as individuals are advised that they have received the credit increase (through the UCCLIO letter) and that surrendering (or losing) what they have just received is made more difficult than it would be if they thought of it as a gain. Thus, it can be argued that the UCCLIO, consisting of a giving action (the customer is given a credit increase)



influences the consumer because it produces a perception of loss that is related to the missed acceptance of the offer.

## **5. UCCLIOs are “loss-framed”**

Evidence suggests that people are influenced by the way a message is presented or “framed” (Tversky and Kahneman, 1981). Individuals naturally tend to avoid an outcome that they perceive will result in a loss, because they are loss averse (Khaneman, Knetsch and Thaler, 1991). Specifically, the UCCLIO’s message is presented according to a loss frame i.e., it is described as a unique and scarce opportunity, and something not to be missed. Moreover, the UCCLIO is framed in a way that presents it as a privilege; something special whose missed acceptance would be a loss for them because of the ease to obtain it (it is pre-approved), and of its scarcity. Both these factors increase the perception of loss if the offer is not accepted. Evidence suggests that loss frames may have greater impact on decisions than comparable gain frames (Kahneman and Tversky, 1979; Tversky and Kahneman, 1991).

Tversky and Kahneman (1981) demonstrated that when decision options are negatively phrased in terms of losses, most people are willing to take a risk to avoid that loss, while when options are phrased positively in terms of gain, people are risk averse. This phenomenon labeled as “framing effect” has been well-established in both the economics and psychological disciplines. For example, Tversky and Kahneman (1981) demonstrated that when making a decision individuals are influenced by the way the problem is formulated. They demonstrated that the same problem framed in different ways can produce different outcomes. This was demonstrated when 152 students from Stanford University were presented with a decision problem. The problem concerned the outbreak of an unusual Asian disease in the USA. Students were asked to choose between two different programs to combat the disease, considering that if program A was adopted 200 people would have been saved whereas if program B was adopted there was 1/3 probability that 600 people would have been saved and 2/3 probability that no one would be saved. Seventy-two percent of respondents chose the option framed as the riskless - that is Program A.

In the second experiments another group of respondents (155) was asked to choose between different formulations of the problem: if program C is adopted 400 people will die and if program D is adopted there is 1/3 of probability that

nobody will die and 2/3 probability that 600 people will die. In this case 78 per cent of participants chose the risky option: “the certain death of 400 people is less acceptable than the two-in-three chance that 600 people will die” (Tversky and Kahneman, 1981, p.453).

In the context of UCCLIOs, we can see how framing will affect consumers’ decisions. In Figure 4.5, for example, the offer is framed as an “opportunity” and something to “take advantage” of. It is implicit in this approach that not accepting the offer would mean losing the privilege of having the credit increase. In Figure 4.4, the credit increase is described in the context of the customer being able to take advantage of a “bargain”, and a unique opportunity that “could help you get it a whole lot sooner”, and to get “something you’ve been really wanting to buy”. In the way that this letter is framed, not accepting this offer will result in a large degree of dissonance, and plays upon the emotional vulnerability of the customer through the leveraging of their consumption desires.

In Figure 1.2, the offer is described as a solution against the unpredictability of life, “you never quite know when you may want access to extra credit”, and as a unique opportunity, “a higher credit limit can give you greater financial freedom”. This implies that a missed acceptance of the offer will result in the customer not having the appropriate tools to face the unpredictability of life, and without the safety or freedom to control any additional expenses. In addition, this framing invokes a potent psychological expectation of potential regret if the offer is not accepted and the customer is faced with a future emergency or opportunity. This, combined with the trust in the institution, provides a very positive framing effect, and ensures that the new status quo of the provided credit amount would be perceived as a loss if the customer did not accept the offer.

## **6. Preapproval leads to “status quo”**

In the context of an UCCLIO, customers are brought to perceive and interpret the credit increase as a new status quo. Statements such as, “You’re already pre-approved” (e.g., Figure 3.2) emphasise a new advantageous situation they can be made real, simply by signing a form. The pre-approval aims to persuade customers that the process has been started and that its completion simply depends upon the customer’s signature. The effect of pre-approval and examples of this in the UCCLIO is covered substantially in section 4. However, what is important here is that in addition to psychological ownership

and property rights, the pre-approval creates a perceived status quo, effectively preventing the consumer from rejecting the offer.

Samuelson and Zeckhauser (1988) have demonstrated that the “status quo bias” occurs as a consequence of loss aversion. According to the authors, individuals have a strong tendency to maintain the status quo “because the disadvantages of leaving it, loom larger than advantages” (Kahneman, Knetsch and Thaler, 1991, p.197). Therefore, it can be argued that individuals, that are naturally averse for losses, would perceive that a rejection of the [already approved] credit increase as a loss and would seek to maintain the status quo, i.e., the privilege they have received.

There is substantial evidence of the status quo effect in the psychological research literature. In one experiment (Samuelson and Zeckhauser, 1988), a first group of participants were given a hypothetical scenario and a choice task without a “status quo” option. This group was asked to consider different portfolios in which to invest (a moderate-risk company, a high-risk company, treasury bills, municipal bonds) after receiving a big inheritance from their great-uncle. A second group was presented with the same problem, but in their task one of the options was designated as the “status quo” (“A significant portion of the portfolio is invested in a moderate-risk company”). Results demonstrated that the options designated as “status quo” became significantly more popular and that the more the options, the bigger the probability that participants selected the “status quo” option.

Other experiments on the status quo bias were conducted by Hartman, Doane and Woo (1991) through a survey of California electricity consumers. Participants were divided in two groups (high and low reliability) and were asked to choose among six combinations of service reliabilities and rates. One of these options was designated as the status quo bias. Both results showed a statistically significant status quo effect in that both the 60 percent of the first group and the 58 percent of the second group selected the status quo option as their first choice.

From this, it can be argued that the unsolicited credit card increase implies a clear “endowment effect” (Thaler, 1980), in that people instantaneously take a psychological ownership of what they have been given (the pre-approval of the credit increase), believe that this is now the status quo, and perceive that giving it up would be a loss.

Furthermore, they are loss averse (Khaneman, Knetch and Thaler, 1990) and tend to preserve the status quo, (Samuelson and Zeckhauser, 1988) rather than lose the privilege (the credit increase) they have gained.

## **7. Scarcity increases perceived utility**

UCCLIO's marketing is also based upon the limited availability of the credit increase. In actuality, the credit increase is perceived as a "limited or scarce privilege" in that the provider implies that not all customers are entitled to this credit increase, and that only a selected number of customers are offered it. In Figure 4.4, for example, the offer is limited both in time – in that there is a clear deadline for return of the letter – and in accessibility - in that only a few (Coles Myer Source Mastercard holders) and reliable ("with a good credit history") customers are offered the increase.

Thus, a scarcity effect, concerning time (the offer has a clear deadline) and the privilege (only a certain number of customers have been offered the credit increase) is created. Scarcity has the power to increase the perceived value or utility of a good, to generate pressure, as customers are given a short amount of time to make a decision, and to construct a vivid representation in the mind of the consumer of future usage, by anticipating pleasure (Lowenstein, 1987).

The scarcity heuristic (Brannon and Brock, 2001) suggests that people judge rare products to be of high value or quality. Scarcity is considered to be a cue to value, such that people uncritically apply an implicit rule, "what is rare is good" (Cialdini, 1993; Lynn, 1992) or "what is scarce is extreme" (Ditto and Jemmott, 1989).

Cialdini (1993) uses terms such as "automatic influence," "click-whir responding," and "brain clouding arousal" to characterise the knee-jerk irrational responsiveness of people to scarcity information. Cialdini (1987) also suggested that the scarcity heuristic is often used by marketers to increase utility, e.g., through the use of "limited edition" labels. The scarcity heuristic is related to commodity theory (Brock, 1968), which suggests that "any commodity will be valued to the extent that it is unavailable" (Brock, 1968, p. 246).

## Discussion

There should be no doubt that banks and credit providers use psychological manipulations to create an environment where certain customers are convinced, often against their better interests, to accept an unsolicited credit card limit-increase offer. For banks and credit card providers to argue that they are not using these manipulations would be disingenuous to both their customers and their shareholders. It is the responsibility of public companies to use all means available to them to ensure the most profit. Not using the psychological manipulations available to them would be tantamount to not fulfilling their role as a profit-making corporation.

There should also be no doubt that banks and credit providers conduct substantial marketing research to understand which psychological manipulations have the most effect on consumer take-up of credit. The range of research tools available to examine motives to consume and barriers to consumption, including advanced statistical modelling and psychological experiments, are an integral part of the finance marketing industry. Indeed, marketing strategies are in themselves valuable research tools, as credit providers are able to assess how effective these offers are, based on consumer response. Again, it would be ludicrous for banks and credit providers to argue that they don't use marketing researchers skilled in individual and social psychology to help them to design marketing campaigns.

Further, these findings show that many of the "warnings" provided by the banks and financial institutions, are not sufficient to provide a "natural break" (Anderson 2005, p. 3), as other factors, including trust in the institution, and the use of heuristics, will take precedence in decision making. Similarly, other disclosure will have little or no effect on decisions regarding a UCCLIO, as a trust relationship has already been established between the customer and the financial provider, and the customer will use heuristics, amongst other things, to decide whether to accept<sup>12</sup> the offer.

Therefore, this report does not seek to argue that banks and credit providers are using psychological manipulations to persuade, encourage, or convince their current customers to take up a credit card limit increase. This is a given – they do. To move the discussion around consumer policy in relation to the UCCLIO forward, we must accept that banks, credit unions and other credit

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<sup>12</sup> Note that in the context of UCCLIOs, the customer "accepts" the offer, rather than applies for the increase.

card lenders do “marketing”. However, there are difficulties inherent in assuming that corporations will voluntarily behave in a way that is socially responsible.

## **Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is defined by Carroll (1991, p.43) as the firms’ ability “to make a profit, obey the law, be ethical, and be a good corporate citizen”. In addition, the general concept of corporate responsibility can be considered as the sum of economic, legal, ethical and philanthropic responsibilities at a micro level.

However, in the context of profit-making organisations, it is questionable whether the concept of corporate social responsibility is appropriate (Friedman, 1970; Velasquez, 1983). Friedman (1970), for example, underlines the “analytical looseness and lack of rigor” of discussions concerning the social responsibilities of businesses and points out that the term CSR is a conceptual contradiction. In fact, he states, only “people can have responsibilities, but business as a whole cannot be said to have responsibilities” in that they are artificial persons.

Friedman (1970) also states that, even if a corporation is made up of persons, each of whom have voluntarily assumed responsibilities – “to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country” – people working for a corporation have no social responsibilities but “social responsibilities of individuals, not of business”. Recent CSR initiatives in banks have been led by individuals within the banks (the most successful of these being championed by CEO or another high-level executive) rather than by an overarching shift in the culture of corporations.

Indeed, Friedman (1970) points out that there is a conflict of interest between corporations and society that makes it impossible for business to be socially responsible. For example, he states, that a member of a corporation should never act against the interests of the corporation and of his employers, such as refraining “from increasing the price of the product in order to contribute to the social objective of preventing inflation” or “hiring ‘hardcore’ unemployed, instead of better qualified available workmen to contribute to the social objective of reducing poverty”.

Moon et al. (2003) also argue that corporations and organisations have been usually described by metaphors e.g., organisation as a machine (e.g., Weber, Taylor) and as an organism (e.g., Spencer, Parsons). According to Morgan (1980), one of the new metaphors for corporations is the political system (e.g., citizen), used to draw attention to conflicts of interest and the role of power in organisations (e.g., Crozier, 1964). Wood and Logsdon (2001) question the appropriateness of the term “citizenship” for corporations in that “they are manifestly not bearers of the political rights that are characteristically seen as fundamental to liberal citizenship”. They argue that corporations cannot be “citizens”, nor behave like “citizens”, because they represent interests transcending “aggregates of individual citizens (e.g., the environment, religious norms, rights claims)”.

Indeed, corporate social responsibility is most often used as a marketing and branding tool, rather than a means by which a corporation can act responsibly solely for the good of the citizenry. Arguments for CSR in corporations are required to be presented in an economic context, rather than purely a social context. It is therefore difficult to rely solely on corporations to voluntarily behave in a way that may be against their corporate interests.

## **Conclusions and recommendations**

This research report sought to examine a specific and discrete component of credit marketing – the Unsolicited Credit Card Limit Increase Offer (UCCLIO), through a content analysis of a selection of UCCLIO letters, using existing research into human decision-making as the foundation for the inquiry.

The past few decades of psychology and consumer research have witnessed a move away from the view that judgments are the product of a rational, logical decision making process, to a view of the individual as a user of heuristics and shortcuts (e.g., Dawes, 1976), who makes judgments and decisions based on “scant data, which are seemingly haphazardly combined and influenced by preconceptions (Taylor 1982, p. 190).”

In the field of social psychology, it has been found that certain elements in the social environment can bias the judgment process. A person who is brightly lit, moving, and contrasting (through the use of seemingly trivial manipulations as small splashes of colour on a shirt) has been found to draw a disproportionate amount of attention (McArthur and Post, 1977; Fiske et al., 1979). Further, Kahneman and Tversky (1973) observed that the use of heuristics or

shortcuts were likely strategies for making non-social judgments, as well as social ones.

As discussed earlier, consumer regulation relies on a belief in rational consumers, who consider the pros and cons of a particular choice, and, after weighing up their options, choose the product that provides the most utility. Through its focus on better information disclosure, consumer regulation implies that, for the most part, this process is carried out in the conscious mind.

However, the notion that increased disclosure will alleviate any issues around psychological manipulations (Australian Government Productivity Commission 2007) can be argued to be a somewhat erroneous if we accept that consumers will, invariably, use shortcuts and heuristics in decision making, particularly when they face large amounts of unfamiliar information (Fine 2007). This makes it more important to involve consumers in the decision-making process when it comes to credit marketing. This may incorporate increased financial literacy, but we argue that financial literacy and disclosure alone will not overcome the natural tendency of the individual to use shortcuts, cues and heuristics when making decisions in a context which has been demonstrated to already be low involvement, and is increased through the format of the UCCLIO.

The use of colour, text changes, and images in the UCCLIOs in this study may influence a consumer's ability to rationally consider whether the increase is appropriate for them (Fiske et al. 1979). While it may be reasonable to use these manipulations in the context of the marketing of goods and services, they were also used in these UCCLIOs for "important information" and product disclosure. This information was consistently of a smaller font, hidden within the form, or couched in positive terms of the benefits of credit.

At best, we can assume that the financial providers are misguided in their use of the warnings; at worst, the assumption would have to be that they are being disingenuous to their customers, and, more importantly to legislators.

Finally, the use of the UCCLIO may also be tempting to consumers because the initial offer urges the consumer to increase their "limit" (not their "debt"), so although the consumer may choose not to use the credit, the offer avoids highlighting that debt is the result of increasing the limit.



This report does not seek to remove the responsibility of consumers to be aware of the nature of credit, or the pitfalls associated with increasing credit. Nor do we dispute that the banks and finance have certain responsibilities to shareholders, and therefore will use psychological manipulations in an effort to increase market share or profits. We do argue, however, that some consumers are more vulnerable to marketing efforts than others, and, therefore legislation needs to at least consider the psychological manipulations contained with credit products such as UCCLIOs.

The following recommendations are based on the discrete and focused analysis conducted in this report. We do not seek to reference any current debate between credit providers and consumer associations, as we believe that the rigour of this report needs to be maintained and focused on the psychological issues raised in the analysis, and theoretical review.

1. The key issue in relation to the UCCLIO, is that it is currently presented as a marketing and promotional letter, rather than an application for an increase in credit (or debt). We argue that involvement must be increased in the cognitive processing of the offer, so that the customer is approaching the application in the same way that they would approach a credit card application. **In this context, we recommend that the UCCLIO offer be presented in the same format as a credit card application.**
2. **Further, we recommend that the UCCLIO form should require the customer, rather than the bank, to nominate a desired credit limit.** In this context, the credit provider will have an upper limit that they would consider offering to the customer, but this should not be disclosed on the form, but taken into account in the approval process. To some degree, this means that the credit provider is taking some responsibility for the credit increase, based on the data provided by the customer, and their assessment of the customer's capacity to repay the increased debt. Requiring the customer to nominate the increase amount will mean that the consumer will consider the application in the same way that they will consider any other credit application, and be more psychologically involved in deciding how much credit they can afford. By forcing the customer to make the decision about how much credit they want, rather than "endowing" them with a predetermined amount, thus making the refusal of the offer a loss, the customer is more likely to make a

better judgement about their capacity to repay, and the credit amount they consider appropriate. We note that the Australian Bankers Association argues that the offer “must be followed by a series of other actions and decisions by the customer (Gilbert 2006, p.5)”.

1. A psychological and temporal “break” should be implemented in the presentation of the UCCLIO. The rationale behind this is to force the customer to engage in their decision about the increase beyond simply accepting it. **At a minimum, we recommend that the UCCLIO application require the consumer to provide up-to-date income and expenditure details, including, but not limited to, providing pay slips or proof of current income.**
2. **We further recommend that in calculating their current income and expenditure, the customer is required to include their current outstanding debt in their expenditure.** This process will oblige the customer to think more thoroughly and methodically about their financial situation, and will slow down the application activity while the customer puts together the materials for the application.
3. **“Warnings” and disclosure should be presented in the same format, and on the same page, as the offer. In addition, customers should be required to sign a secondary section of the application that states they have read and understood the warnings and disclosure and that this signature should follow the warnings and disclosure section.** Again, this serves as a psychological break in the process, by forcing the customer to be more cognitively involved in the decision. Although we recognise that some customers may simply sign the form, we argue that by having a secondary signature section, which follows the warnings and disclosure, this will have an increased effect on customer involvement and honesty (Mazar and Ariely 2006).
4. **The UCCLIO should include the customer’s current outstanding repayment amount, the minimum monthly payment for the current outstanding amount, and the length of time it will take to repay the current debt based on the minimum monthly repayment amount.** This will serve as an “anchor” for the customer to decide whether they are capable of repaying the current outstanding debt, in the context of increasing their debt.

We recognise that implementing these recommendations will not completely remove the possibility of consumers making poor decisions about their finances. However, they are likely to result in the customer becoming more psychologically involved in the decision-making process.

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## Biographies

### **Paul Harrison, PhD**

Dr Paul Harrison is senior lecturer in consumer behaviour and marketing at Deakin University, is a Certified Practising Marketer, and is a member of the Marketing and Management Research Group. He lectures in the area of consumer behaviour, advertising, and strategic marketing in the MBA program at the Deakin Business School. He has consulted to organisations such as Phillip Island Nature Parks (Penguin Parade), Libraries Victoria, the Next Wave Festival, and the Superannuation Complaints Tribunal. Dr Harrison has particular research expertise in the fields of social psychology, relationship and loyalty marketing, branding, and nonprofit organisations. He has published in international journals, and spoken at international conferences and universities, including the Academy of Marketing, Marketing Science, and King's College, London. His current research is focused predominantly on the nature of "difficult" brands, and the psychology of implicit and explicit attitudes.

### **Marta Massi**

Marta Massi is a doctoral scholar at Lumsa University, Rome, and is a visiting research associate at Deakin University, Melbourne. Marta has a Masters degree in Marketing Communication, and Bachelors degree in Business. She has been selected by the Sauvè Scholars Foundation and will be appointed as an Academic Trainee at McGill University, Montréal, for the period August 2008 to May 2009. Her current research is focused on branding and corporate social responsibility.

### 3. Responding to the report findings

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As outlined in the report background, a major driver for this research was a concern that credit marketing was contributing to consumers' debt stress. The findings of the research report are relevant to a range of bodies that wish to respond to concerns arising from debt stress, including Government, regulators, industry and those involved in financial and consumer education.

The extent to which credit cards contribute to debt stress is unclear. Anecdotally, consumer agencies and others have raised concerns about consumers obtaining credit limits that they can't afford.<sup>13</sup> These problems can take some time to emerge, as the required repayments on credit card debt are relatively low.<sup>14</sup> This means that consumers can hold a higher level of credit card debt than other debt without evident hardship.

Overall, defaults on credit cards are relatively low,<sup>15</sup> although the figure would be significantly higher if it was based on the 32%<sup>16</sup> of borrowers who pay interest, and excluded those who paid the total balance each month. Many consumers use personal loans or mortgage credit to refinance credit card debt. While there are no detailed figures available on refinancing of credit cards, refinancing can shift credit card problems to other credit products.

Industry has argued that we shouldn't be concerned about pre-approved credit limit increases because the default level for those accepting such an increase is lower than for all credit card borrowers.<sup>17</sup> However, it would be expected

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<sup>13</sup> For example, "Anglicare Western are seeing growing numbers of consumers who, having established a revolving line of credit at an affordable level, are offered limit increases. These increases are often outside their capacity to repay given their existing income and debt levels. We are of the opinion that these increases are not sound in nature nor conscionable." From Anglicare submission to the Victorian Credit Review.

<sup>14</sup> Often only 2% of the balance outstanding each month.

<sup>15</sup> The most recent figure available is 0.6% between 90 and 180 days overdue for all major bank credit cards for year ending April 2001, Credit Cards in Australia, Nolan Norton Institute (KPMG) Commissioned by Visa International

<sup>16</sup> *ibid* 32% had not repaid their balance in full over the previous 12 months.

<sup>17</sup> *Ibid* A sample from major banks showed 0.3% of these borrowers were 90 days in default after 6 months and 0.5% were 90 days in default after 15 months.

that these consumers, who have been specifically targeted for an offer, would have a lower default rate at least in the short term.

In any case, while the full impact of credit card debt on the level of debt stress is unknown, it is likely to be much higher than indicated by credit card default rates.

The research shows that UCCLIOs are designed to drive some consumers to take on more credit - credit that would not have been considered without such an offer. The industry does not seem to doubt that this form of marketing leads to increased credit card spending, but argues that this is good for the economy.

However, an increase in the use of credit, that is generally not used to acquire assets or build personal wealth, is unlikely to improve the financial wellbeing of the individual, particularly if, as industry has suggested, many consumers would not access this credit without receiving a pre-approved increase. Some of these consumers will become financially overcommitted.

### **Unsolicited “pre-approved” credit**

The two key features of UCCLIOs identified in the research as likely to affect consumer behaviour were the fact that they were “pre-approved” and unsolicited<sup>18</sup>.

While unsolicited “pre-approved” credit is mostly marketed in the form of credit-limit increases, it has also been used for marketing personal loans<sup>19</sup> and overdrafts.<sup>20</sup>

We see little difference in the consumer impact from receiving an unsolicited credit card (which is prohibited by the TPA) and receiving an unsolicited pre-approved credit-limit increase. Limit increases require the consumer to return a signed form, or to click acceptance on a website, but the research report shows that these responses are unlikely to adequately engage the consumer in the credit decision.

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<sup>18</sup> Pre-approved credit is not always unsolicited. For example credit is often pre-approved to a certain amount before the consumer buys a house or car.

<sup>19</sup> We understand that one major bank ran a trial of unsolicited pre-approved personal loans.

<sup>20</sup> For example, the Commonwealth Bank is currently offering pre-approved overdrafts to some customers via email.

We believe that a ban on the use of unsolicited, pre-approved credit as a marketing strategy should be considered. Prohibiting unsolicited, pre-approved credit would not prohibit any particular credit product. Consumers could still apply for a credit card or for a credit-limit increase. The key difference would be that the consumer would choose to make the application, and would be more likely to think through the decision, as many of the psychological techniques identified in relation to UCCLIOs would not be present.

### **Written notices and warnings**

One industry response to concerns raised about UCCLIOs is to include a statement, or warning, in the UCCLIO. However, research shows that, these warnings are often toned down, and may indeed contain positive information about the offer.

Such warnings have little, or no, impact on consumers but simply provide an excuse by industry to take no effective action to minimise the chance of consumers accepting an UCCLIO when it is not in their best interests to do so.

Further research is needed on whether there are any benefits from providing this information.

### **Responses that impact on behaviour**

Lenders are designing their marketing of UCCLIOs to influence consumer behaviour. In the light of this, Government, regulators and educators must also consider new strategies that can equally influence consumer behaviour – rather than rely solely on older strategies that focus purely on educating and informing consumers. It may be that prohibiting, or restricting, UCCLIOs is the only effective way to relieve the impact of this form of marketing.

We support the researchers' recommendations for strategies to interrupt the psychologically manipulative processes involved in UCCLIOs as this would increase the chances of consumers considering whether to accept an UCCLIO.

## Applying the Findings

We believe that:

- Prohibition of the use of unsolicited, pre-approved credit as a marketing strategy should be considered.

If this marketing is not prohibited, Consumer Action:

- recommends that the psychological impact of UCCLIOS be taken into account in responses to problems caused by UCCLIOS, including regulatory, education and dispute resolution; and
- supports the researchers' recommendations to increase consumer involvement in decisions in relation to UCCLIOS.









Level 7, 459 Little Collins Street  
Melbourne Vic 3000  
AUSTRALIA

The Consumer Action Law Centre is an independent, not-for-profit, campaign focused, casework and policy organisation. It is formed by the merger of the Consumer Law Centre Victoria and the Consumer Credit Legal Service, and builds on the significant strengths of these two centres.

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