

## **No Limits: Exploring the Psychology of Unsolicited Credit Card Limit Increase Offers**

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### **Abstract**

The issue of credit card debt has become an increasing concern in recent years. In Australia, for example, there is currently \$42.5 billion worth of outstanding debt on credit cards, with \$30 billion (over 70 per cent) bearing interest. Further, in 2001, Visa reported that 32 per cent of consumers had not paid their card off in the previous 12 months, which suggests that interest-bearing debt in Australia is held by approximately only 1/3 of credit card borrowers. An important element of credit card marketing is the use of psychological manipulations to encourage consumers to take-up credit. In this article, we examine the use of language and imagery in unsolicited credit card limit increase offers, and how these might influence consumers' decisions to increase their credit card limit. The analysis found that the use of terms that focused on the benefits of credit card use, such as "choice", "freedom", and "peace of mind" were used consistently to convince consumers to increase their credit card limit, whereas the use of terms that could be considered more pragmatic and with direct reference to the nature of the product, such as "debt", "repayment" and "loan", were rarely used. Similarly, the use of colour, text changes, and images, were used which may have an influence over a consumer's ability to rationally consider whether the increase is appropriate for them. The paper concludes by recommending that government and representative bodies need to take into account the psychological manipulations used by credit card providers when developing consumer policy and codes of ethics.

## **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 on a regular basis, and lobby groups seek to influence legislation to protect vulnerable groups from over-committing themselves. To some degree, the use of credit as a means of participating in the marketplace has become normalised (Christiansen 2008), however, the idea that this process of transacting is 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 there needs to be a similar critical attitude toward the credit card industry as there is for the cigarette industry (Galanoy 1980). Further, it is arguable that consumer credit marketing focuses not on the fact that credit involves debt, but on the “benefits” associated with it. 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 resellers, 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 provision of information by the cardholder prior to the increase being granted.

UCCLIOs (we understand the industry refers to them as Credit Limit Increase Programs) enables 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 enables 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 the vast majority of 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 [Australia’s largest retailer]” (Nolan Norton Institute 2001, p. 8).

## **Background**

It is now generally accepted in psychology, economics, and marketing, that human behaviour is dependent on 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, which 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 concession in relation to policy 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 effect consumers’ decisions to take up credit. In particular, the recent growth of the UCCLIO as a marketing mix component has meant that no research exists that examines this particular form of credit promotion, and how it might influence consumer attitudes and response. This paper attempts to address this neglect, and uses elements of psychological theory and previous research into credit, to explore how consumers might respond to the UCCLIO.

In relation to the effect of psychological manipulations on credit card use, Bertrand et al. (2005) found that the use of psychological manipulations had some effect on consumers’ decision to take up short-term loans. With regard to the actual offer letter, 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 a lack of financial knowledge, age, number of credit cards, and delay of gratification, all contributed to credit card debt. In one study (Warwick and Mansfield 2000), 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 to debts 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 distant than cash from the transactional experience (Simmel 2004), and that this distance is less concrete, and therefore, requires more psychological resources to form a defensive attitude, and assume conscious self-control against psychological manipulations based around positive and simple messages (Baumeister 2002). 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 instalment loans with more caution and more involvement, than when using a credit card. In summary, then, 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 emergence of the UCCLIO as a marketing tool has created a further level of concern amongst consumer advocates (Christiansen 2008; Jiminez 2007). It is arguable that the

UCCLIO is a combination of a sales tool, and a promotion, and therefore the analysis of the UCCLIO needs to consider psychological factors around both of these elements of the marketing mix. Further, the UCCLIO letter is more than a means of communicating information; it reduces the potential level of engagement with the issue because it requires little cognitive effort beyond a decision to agree or disagree with the offer. In contrast, the process for completing a credit card application requires the consumer to participate in a range of cognitive and physical activities, including the completion of personal details, such as name, address, phone number and date of birth, the process of calculation of income and expenditure, the collation and verification of materials such as payslips, and forms of identification, and, at times, the involvement of the customer's spouse in the application process. Clearly, the UCCLIO is a "low-involvement" means of gaining additional credit.

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, part 4). 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). Section 52, for example, prohibits "conduct that is misleading or deceptive, or is likely to mislead or deceive", and case law suggests that Courts can take into account whether a particular class of consumers were likely to be misled or deceived by the conduct. Advertising in relation to some products is banned (e.g., tobacco products) or restricted (e.g., gambling). Such restrictions are based on concerns that advertising can lead consumers to purchase particular products that they may not otherwise purchase. However, there are no such restrictions on credit advertising and promotion.<sup>1</sup>

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 Productivity Commission 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 credit card marketing influences consumer decision-making. We suggest that this type of research is needed if marketers, and legislative bodies, are truly concerned about the growing problem of debt amongst vulnerable consumers.

### **Methodology**

The researchers examined 17 unsolicited credit card limit increase offers that had been sent to customers in the form of, usually, a promotional letter, and a completion form. In addition, the researchers invited banks and credit providers to provide them with examples of UCCLIOs. One bank responded, and provided the researchers with four examples of offers. For the purposes of this research, a UCCLIO was required to have all of the following elements: 1. It must offer an increased limit on a current credit card (as opposed to some other special offer, such as a balance transfer), 2. The target customer must therefore, already be a bank customer, and 3. It does not require customer to provide information such as income details, i.e., the credit has been "pre-approved". 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 2.25, which is an analytical tool that allows the researcher to identify key themes, concepts

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<sup>1</sup> Note, however, that Part 9 of the Consumer Credit Code (Aus.) contains some minor provisions related to credit advertising, for example requiring particular disclosures if a monthly payment is stated.

and ideas from unstructured text. The researchers examined the use of terms that could be considered to be a positive or desirable attribute of a particular credit product. The attribution of each word, and whether it represented a desirable or undesirable meaning was tested amongst an expert panel, which consisted of a psychologist, two marketing academics, a senior government policy advisor, and a consumer advocate. For example, the word “choice” is intuitively perceived by most to be a benefit, whereas the word “debt” is most often perceived to be a negative reference. The initial and exploratory findings are reported below.

### **Findings**

In all of the UCCLIOs that were examined for this research, the use of the word “debt” is referred to only once, in the “important information” page provided with one of the UCCLIOs. In addition, this UCCLIO was one of those provided by the banks, rather than those provided by consumers. The 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”, and “Would you like a credit limit increase?” appeared in more than 50 per cent of the UCCLIOs sent to consumers. All of 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.

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 xxx 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 a difficult to read light orange. On another offer, in 20pt font, are the words, “You deserve the privileges of gold”. Other bolded text 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.

Of the 21 UCCLIOs examined, five provided customer information that would alert the customer to the issues around requesting 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, not debt, and the consistent use of the term flexibility, reinforces the positive heuristic.

### **Discussion**

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 that 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 a rational consumer, who considers the pros and cons of a particular choice, and, after weighing up their options, chooses the product that provides the most utility. Consumer regulation implies, through its focus on the improvement of information disclosure, that, for the most part, this is a process that is carried out in the conscious mind. 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).

The use of colour, text changes, and images, in the UCCLIOs in this study may have an influence over a consumer’s ability to rationally consider whether the increase is appropriate for them (Fiske et al. 1979). The use of these manipulations, while reasonable in the context of the marketing of goods and services, must be considered in relation to the use of “important information” and product disclosure in these UCCLIOs, which were consistently of a smaller font, hidden within the form, or couched in positive terms of the benefits of credit. At best, the assumption might be 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 has the choice not to use the credit, the offer avoids highlighting that debt is the result of utilising the increased limit.

This article does not seek to remove the responsibility of consumers to be aware of the nature of credit, or the pitfalls associated with increasing credit. In addition, we do not dispute the banks and finance have certain responsibilities to shareholders, and therefore will utilise 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.

### **Limitations and Future Research**

As this research is the first of its kind in this particular context, it must be classified as exploratory. Although attention was paid to the classification of terms and images, the findings are not definitive beyond the subjective judgement of the expert panel and the researchers. Further, many of the detailed findings have not been included in this paper due to space restrictions. However, the findings are useful in assisting marketers, policy makers, and consumer advocates in understanding the ways in which the UCCLIO may be utilising psychological manipulations to unfairly target consumers. Future research will encompass an examination of consumer response to these forms of marketing (such as Bertrand et al. 2005), taking into account implicit and explicit attitudes, and how these influence behaviour.

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