Consumers’ credit card repayment decisions: The role of higher anchors and future repayment concern

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A R T I C L E   I N F O

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A B S T R A C T

We investigated two aspects of credit card repayment decisions: the extent to which the anchoring effect of minimum repayment information may be mitigated by information on alternative anchors, specifically repayments that would repay the balance in two years (Study 1) or nine months (Study 2); and the role of future repayment concern. In two experiments, three realistic credit card statements were presented with different outstanding balances. Participants, who were randomly allocated to one of four information conditions depending on supplementary information provided on the statements, stated how much they would repay that month. They were then asked about concerns they would have about repayment difficulties if they had a fixed consumer loan over three years. In Study 1 the alternative two-year repayment anchor had a negative effect on percent repayment, whereas in Study 2 the nine-month repayment anchor had a significant positive effect, especially for those with higher future repayment concern. Also, in both studies, future repayment concern had a direct inverse effect on repayment decisions which partially mediated the effect of disposable income. It is concluded that the addition to credit card statements of a table of cost and duration information for a range of repayment amounts may usefully support repayment decisions.

1. Introduction

The world economy is now seven years from the financial crisis of 2008, the start of the Great Recession, which brought the highest ever records of personal and national debt. The use of credit cards in the UK had greatly increased in the period 2001–2008 and the number in issue rose from fifty to over seventy-one million, more than the UK population. However, after the crisis there is evidence that fewer people continued to hold credit cards, in 2010 the number issued had dropped by 14.3 million even though the adult population had grown by two million (UK Card Association, 2011). From 2009 there appears to have been a levelling and slight decline in the use of credit cards, partly explained by the consequences of the credit crunch as people sought to pay off their debts, and with lower confidence levels spent less. However, from 2014 the UK economy began to emerge from the recession, with forecasts reflecting increased confidence in economic growth. Lending for mortgages has increased, and after a flat period for borrowing for over three years, amounts of outstanding loans are rising again.

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As the UK government sought to steady the economy, protect financial institutions and introduce fiscal measures to reduce the public deficit, attention became focussed on high consumer debt and the link with credit cards. In 2008 credit card loan providers were required to show a warning about the consequences in terms of a longer loan and higher cost of only making minimum payments on outstanding balances. In 2009, US legislation known as the Card Accountability Responsibility and Disclosure (CARD) Act instructed loan companies to include additional information on credit card monthly statements of the costs to repay at minimum rate and within time duration of three years. In Australia a Consumer Credit Protection Amendment Act in 2011, ensured that loan providers inform customers of the cost details to clear their outstanding balance with minimum repayments and the necessary level of repayments to clear the balance in two years (Ali, McRae, & Ramsay, 2012). The intention of US, Australian and UK regulations was to help consumers to manage their outstanding balance with minimum repayments and the necessary level of repayments to clear the balance in two years (Ali, McRae, & Ramsay, 2012). The intention of US, Australian and UK regulations was to help consumers to manage their outstanding balance with minimum repayments and the necessary level of repayments to clear the balance in two years (Ali, McRae, & Ramsay, 2012).

In conclusion, there is consistent experimental evidence that the presence of minimum repayment information on credit cards results in an unintended anchoring effect whereby those paying more than the minimum are biased towards it. In the next section we review research investigating how supplementary information might help credit card borrowers to overcome this potential bias.

2. Research questions and hypotheses

2.1. The effect of minimum repayment information on repayment decisions

The minimum repayment amount can act as an anchor, a number that can bias judgments and decisions (Tversky & Kahneman, 1974). Many studies have illustrated the prevalence of the anchoring effect in a variety of domains (for a review see Furnham & Boo, 2011). Specific research in the UK on the effect of minimum repayment information on credit cards repayment decisions was carried out by Stewart (2009) in a survey and an experimental study. The experiment manipulated the inclusion of minimum repayment information on a credit card statement and found that its presence reduced partial repayments: the mean partial repayment was significantly higher for a group not presented with minimum repayment information, 40% of the outstanding balance, compared to 23% for the group that was presented with it. Stewart’s findings were confirmed by Navarro-Martinez et al. (2011) who conducted experiments with US participants and analysed UK credit card field data. Their first experiment replicated Stewart’s study with two conditions; minimum repayment information absent or present. This confirmed the significant negative effect of the presence of minimum repayment information. In a second experiment the manipulation of the presence of minimum payment information again had a significant negative effect. However when participants’ self reported propensity to make minimum payments every month was added as an independent variable to regression analysis the findings were more complex. While increasing the minimum payment level had a positive effect for participants with a moderate to high propensity to make minimum payments, it had little impact for those with a lower propensity to repay the minimum.

In conclusion, there is consistent experimental evidence that the presence of minimum repayment information on credit cards results in an unintended anchoring effect whereby those paying more than the minimum are biased towards it. In the next section we review research investigating how supplementary information might help credit card borrowers to overcome this potential bias.

2.2. The role of supplementary information in repayment decisions

Uncertainty or the level of knowledge of the decision maker can make a difference to the impact of anchors on judgement (Mussweiler & Strack, 2000). The key information that could reduce consumer borrowers’ uncertainty is the total cost and loan duration that would result if repayments were made at a certain level. We have previously argued that such information should be presented clearly and explicitly to support informed credit decision making (McHugh, Ranyard, & Lewis, 2011; Ranyard, Hinkley, Williamson, & McHugh, 2006). Furthermore, we found in an earlier credit card and mortgage repayment study that total cost and loan duration information can affect repayment decisions (McHugh & Ranyard, 2012). In two experiments, participants (N = 242; 301) were randomly assigned to four information condition groups (with or without total cost; with or without loan duration information). There were small but significant effects of both items of information, though