Economica
CENTENARY 1921-2021

The conflict between consumer intentions, beliefs and actions to pay down credit card debt

Paul Adams, Benedict Guttman-Kenney, Lucy Hayes, Stefan Hunt, David Laibson and Neil Stewart

We attempt to increase credit card payments through behaviourally-informed disclosures tested in experiments across 3 UK lenders. The first experiment finds no effect of adding disclosures to credit card statements. The second experiment targets credit card users paying their bills via automatic minimum payments. This group commonly and repeatedly only make minimum payments. Few consumers respond to the intervention. The treatment causes an average reduction in consumers paying only the minimum and a reduction in credit card debt that is not sustained. Adding cost information to the disclosures does not significantly change responses, however, adding a reminder does increase response rates. Effects are primarily driven by the subgroup of consumers with 0% balance transfer debts. The continuing patterns of repeated minimum payments among consumers with automatic minimum payments do not appear to be explained by liquidity constraints. They are also inconsistent with the majority of stated preferences showing intentions for debt reduction. An explanation appears to be that consumers have mistaken beliefs. They under-estimate how long debt will take to amortise whilst only making minimum payments and avoid information telling them otherwise.