

Inaugural Report

March 2019

# Credit Card Nation

But are we losing interest?



# I Executive Summary

## About this report

For many years, economists and business leaders have been concerned about the notion of peak oil and the potential impact that running out of relatively cheap fuel could have on the economy.

While peak oil has yet to occur, this survey has uncovered a startling fact – that we have now reached peak card, as credit card usage in Australia declines at an accelerating pace.

This decline is so significant that many Millennials do not have a credit card at all as banks are often reluctant to provide credit to what they perceive to be a more risky demographic group. In turn, young Australians are increasingly accessing innovative Buy Now Pay Later (BNPL) schemes that better suit their desire for a frictionless customer experience.

This dynamic gives rise to a couple of questions: first, has the credit card outlived its usefulness and, secondly, are there now preferred alternatives in the marketplace that will potentially render the credit card obsolete in the future? If this is the case, what are the ramifications for the credit and retail sectors as well as for consumers?

Consider too the significant advantages for the good consumer from choosing BNPL schemes that have no service or transaction fee applied to their use of this credit. This may go part of the way to explaining the loss of interest in credit cards.



These findings also raise questions for retailers who fail to embrace BNPL accounts as they potentially risk losing market share as shoppers switch to firms with such facilities.

Given its already apparent popularity, the regulatory framework surrounding BNPL is likely to evolve substantially as the sector continues to expand. The framework governing their usage will need to ensure that consumers are educated as to their responsibilities for servicing these facilities, and are fully aware of their obligations and rights when undertaking such transactions.

The long awaited advent of Comprehensive Credit Reporting (CCR) has allowed illion to develop these insights for the first time. This report is the first in a series of thought pieces and analytic studies on the Australian market. Every quarter we will publish something we find interesting on the financial lives of Australians.

## The past and present

Credit cards were introduced into mainstream Australia in 1974, when the major financial institutions combined to offer Bankcard to consumers for the first time<sup>1</sup>.

Today 14.8 million consumer and 0.8 million business credit cards exist in Australia, offered by a range of financial institutions.

Collectively, Australians made 2.9 billion credit and debit card transactions last year, worth \$327 billion<sup>2</sup>, up from 1.4 billion transactions, worth \$207 billion, a decade earlier.

In 2018, the average credit card transaction was worth \$148, compared to \$113 in 2008 as Australia was about to be hit by the Global Financial Crisis. Australia's total credit card limit is now worth a collective \$152 billion, while the average individual consumer limit is \$9,500.

Credit cards are more popular with men than women. While men represent about 49 per cent of the adult population, they hold 56 per cent of all credit cards, and represent 59 per cent of those who are two months or more behind on their repayments.

This suggests that women are more conservative about taking on credit card debt than men, and when they do, are more scrupulous about paying it off to avoid defaulting on their obligations.

On a generational basis, Millennials under the age of 30 are twice as likely as their parents to fall more than two months behind in their credit card payments, suggesting they have greater difficulty balancing spending and debt, regardless of their credit limit.

Millennials now hold significantly less than one credit card per person. This is both an outcome of the difficulty of obtaining credit, as well as the rise of BNPL products that are available.

Consumers who have credit cards with two or more banks are twice as likely to default on their repayments as those with the same number of cards from a single bank, or a lower number of cards in total.

The changing face of our spending patterns is reinforced by the plunging use of cash advances on our credit cards, which has fallen by 35 per cent since 2008<sup>3</sup>.

A decade ago, Australians used their credit cards for cash 35 million times, withdrawing \$13 billion from ATMs or via EFTPOS<sup>4</sup>.

By last year, we were withdrawing cash on our credit cards fewer than 23 million times, for a total of only \$9 billion.

<sup>1</sup> <https://web.archive.org/web/20031002003922/http://www.bankcard.com.au/>

<sup>2</sup> <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>

<sup>3</sup> <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html> - annual totals in Columns C and D for 2008 and 2018

<sup>4</sup> <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>

## The future

The introduction of Buy Now Pay Later (BNPL) products in 2015, is now providing a viable alternative to credit cards with 3.5 million<sup>5</sup> BNPL accounts opened in the last four years alone.

BNPL is a new form of lay-by, where customers pay off a purchase in instalments after receiving their goods. The consumer pays zero interest, but must pay the item off entirely in a set period, typically about two months.

These products are particularly popular with younger Australians under the age of 30, who control a staggering 53 per cent of the entire BNPL market, and women, who represent 67 per cent of all users.

BNPL has grown to be one sixth the size of the entire 45-year-old credit card market, a trend that is likely to accelerate as younger Australians enter adulthood, and those at the other end of the age spectrum reduce their consumption as they move into retirement.

This suggests that Australia has passed the peak number of credit cards.

### Key facts:



Canberra is the credit card capital of Australia, with the highest rate of credit card ownership in the country, and the best record of on-time repayments



Adelaide has the lowest credit card ownership per capita in Australia, indicating continued loyalty to cash payments in South Australia



Darwin, Sydney and Brisbane have the worst rates of paying off credit card debt on time, making them the highest risk debt cities in the country



10,000 bankrupt Australians have credit cards



300,000 Australians have credit cards, despite defaulting on payments with other credit providers



560,000 card holders in Australia have some form of risk indicator



220,000 people have four or more credit cards from four or more financial institutions



There is a direct link between the number of credit cards a consumer has from different banks, and their likelihood of defaulting on their repayments

<sup>5</sup> <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>

## Lending Responsibly

In its review of credit cards in July 2018, ASIC referred repeatedly to needing an understanding of the balance on credit cards to truly assess risk. An individual may have an average credit card limit of \$9,500 per person, or \$152 billion in aggregate, but how utilised is this?

Knowing the limit (capacity), the balance (utilisation) and the trend is fundamental to understanding credit card users' behaviour - all 14.8 million of them.

The Royal Commission and ASIC are keen on banks lending responsibly both to protect individuals and to reduce systemic risk. illion agrees with ASIC that understanding and verifying balance is fundamental to the health of the financial system. Australia should join sophisticated economies and have this data contributed to credit bureaus. Balance powers responsible lending and thereby protects individuals and our financial system.



## Conclusions

- Credit cards provide a valuable way for consumers to manage their cash-flow and lifestyle.
- However, with evolving forms of repayments offering consumers more choice in an increasingly fragmented and competitive credit system, Australia is at the tipping point of its credit card cycle.
- As the market moves towards BNPL schemes, women will take on an increasingly powerful and assertive role in the national economy as they control two-thirds of these accounts.
- Millennials currently represent only 10 per cent of the credit card market, but control 53 per cent of the growing BNPL system.
- Therefore, retailers will need to respond to shifts in how consumers want to purchase and pay off their goods and services over coming years, particularly as younger Australians enter adulthood and constitute a growing and more influential proportion of the spending population.
- However, younger consumers will also need to become better educated about balancing their finances as they currently constitute a much higher proportion of bad debtors than their parents' generation, irrespective of their credit limit.
- An important component of assessing the true risk of any individual to pay off their debts will be the increased use of Comprehensive Credit Reporting (CCR) by lenders.

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# Age comparison in Australia

## Millennials reject credit cards and embrace Buy Now Pay Later services.

Millennial Australians are taking out credit cards at much lower rates than their parents, preferring Buy Now Pay Later (BNPL) schemes to finance their lifestyles.

Given the introduction of tighter borrowing serviceability requirements following the Banking Royal Commission, it is quite possible that the popularity of the credit card product will continue to wane going forward. Added to this, the ongoing service fees and transaction fees applied to credit card accounts means BNPL schemes may in future take an even larger market share of the short-term credit market.

If this trend continues, it could have profound effects on the long-term popularity of credit cards in Australia.

BNPL schemes have grown to be one sixth the size of the entire credit card market in only four years, a trend that is likely to snowball as younger Australians enter the market, and those at the other end of the age spectrum reduce their consumption as they move into retirement.

More than 53 per cent of the 3.5 million BNPLs in Australia are held by Millennials under 30 years of age, compared to fewer than 10 per cent of Australia's 14.8 million consumer credit cards.

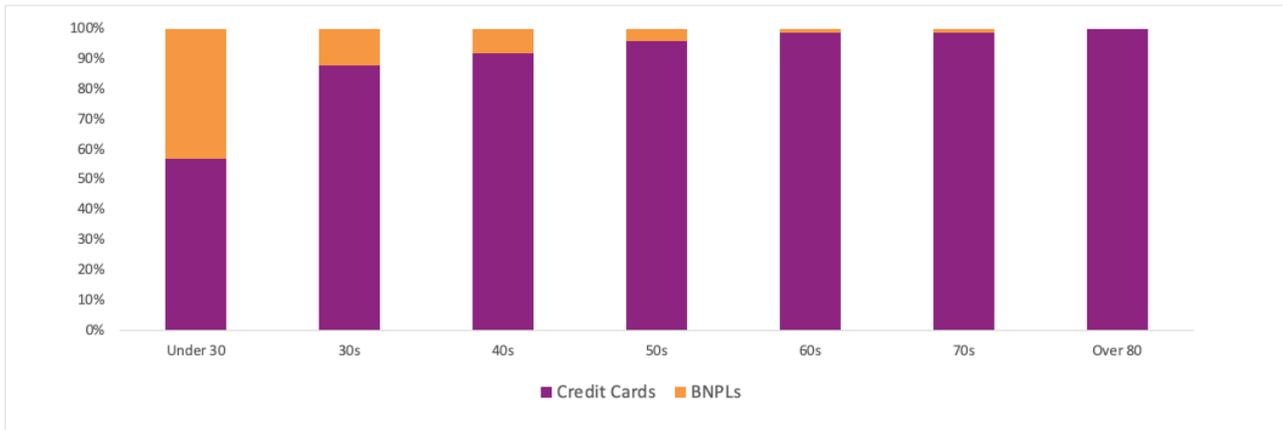
In contrast, Australians in their 30s hold only 17 per cent of BNPLs, plummeting to 10 per cent for Generation X in their 40s, and dropping again to 5 per cent for those in their 50s, 2 per cent for younger Baby Boomers in their 60s and 1 per cent for older Baby Boomers in their 70s.

Australians in their 80s hold only 0.4 per cent of all BNPLs, confirming it is the payment method of their grandchildren, who will become an increasingly important part of the credit market as their numbers grow.

In comparison, credit cards begin their popularity surge for Australians in their 30s, with consumers aged 30-34 holding four times as many cards as those under the age of 25.

Even for consumers aged 25-29, the ownership rate is double that of those under 25. The credit card is not likely to be the first credit experience of the consumer, following the purchase of mobile phones or even personal loans, but they gain significant uptake when consumers establish a more affluent lifestyle.

Credit cards vs Buy Now Pay Later accounts by age



Credit cards vs Buy New Pay Later accounts by age							
Decade	Under 30	30s	40s	50s	60s	70s	Over 80
Credit Cards	57%	88%	92%	96%	99%	99%	100%
BNPLs	43%	12%	8%	4%	1%	1%	0%

**Younger Australians are more likely to default than older Australians**

Mark Twain’s famous remark that “good judgment is the result of experience, and experience the result of bad judgment” certainly rings true when it comes to credit card default rates.

Millennial men and women are twice more likely than their fathers and mothers respectively to fall 60 days behind in their credit card payments.

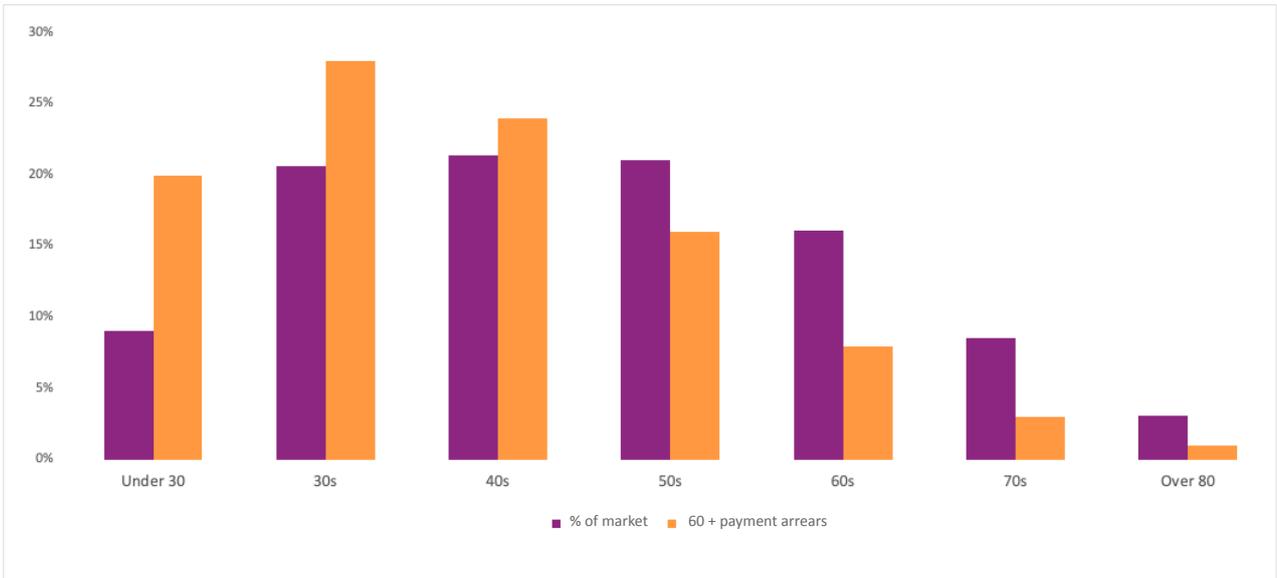
While Millennial men own just 5 per cent of all credit cards, they represent 12 per cent of all those with debts exceeding 60 days. By contrast, their fathers’ generation in their 60s represent 9 per cent of the overall credit card market but only 4 per cent are behind in their repayments.

Similarly, Millennial women hold 4 per cent of all credit cards. They represent 8 per cent of all those with debts exceeding 60 days, while their mothers’ generation in their 60s represent 7 per cent of the overall credit card market but only 3 per cent of late payers.

These findings are consistent with the findings in ASIC’s *Review of credit card lending 2012 – 2017*<sup>6</sup>, where it was noted that credit card debt causes problems for younger consumers in particular, who were ‘relatively more likely to be in delinquency’. ASIC’s report noted that some consumers had cards that were not well suited to their ‘actual needs or behaviours’, highlighting the challenges consumers faced in selecting an appropriate credit card. The report concluded that only a few providers were taking proactive steps to look for and address persistent debt, repeated low repayments and potential hardship.

<sup>6</sup> <https://download.asic.gov.au/media/4801724/rep580-published-4-7-2018.pdf>

Credit cards market share vs 60+ payment arrears by age



Credit card market share vs 60+ payment arrears by age								
Decade	Under 30	30s	40s	50s	60s	70s	Over 80	Total
% of market	9%	21%	21%	21%	16%	9%	3%	100%
% of defaults (60+ payment arrears)	20%	28%	24%	16%	8%	3%	1%	100%



# Gender spending in Australia

**Significant differences exist in the spending patterns of Australian men and women, with men preferring credit cards, while women are increasingly using Buy Now Pay Later options.**

Australians hold 14.8 million credit cards, or almost one for every adult, with a further 3.5 million Buy Now Pay Later accounts<sup>7</sup>.

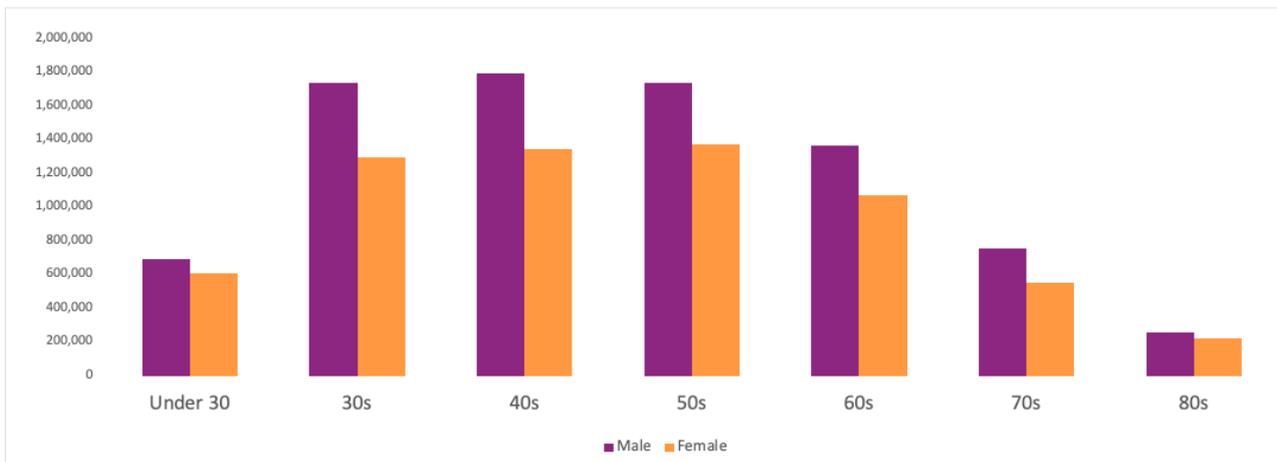
Collectively, Australians made 2.9 trillion credit and debit card transactions last year, worth \$327 billion<sup>8</sup>.

While men represent about 49 per cent of all adults in Australia, they hold 56 per cent of these credit cards. Men are also likely to be worse payers than women, representing 59 per cent of those who are two months or more behind in their repayments.

In comparison, women represent 51 per cent of the population, have 44 per cent of all credit cards, yet only account for 41 per cent of those who are behind in their repayments.

This suggests women are more conservative about taking on credit card debt than men, and when they do, are more scrupulous about paying it off to avoid defaulting on their obligations.

Gender breakdown - number of credit cards in Australia

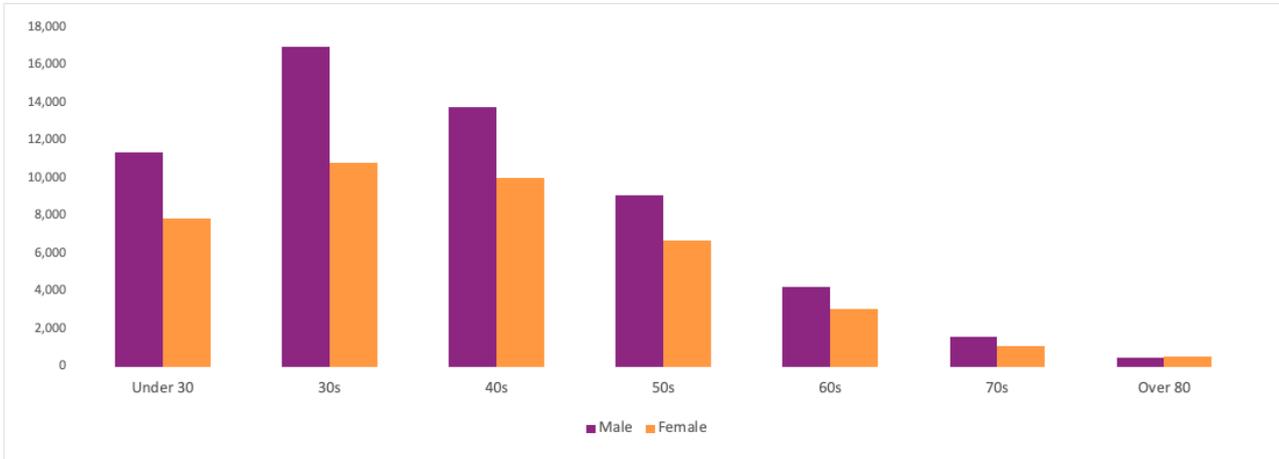


Gender breakdown - number of credit cards in Australia							
Decade	Under 30	30s	40s	50s	60s	70s	80s
Male	692,000	1,738,000	1,791,000	1,735,000	1,368,000	753,000	254,000
Female	607,000	1,296,000	1,346,000	1,374,000	1,068,000	552,000	225,000

<sup>7</sup> ilion collects data on 95 per cent of all credit card accounts

<sup>8</sup> <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>

Gender breakdown - credit card payment arrears by 60 + days



Gender breakdown - credit card payment arrears by 60+ days							
Decade	Under 30	30s	40s	50s	60s	70s	Over 80
Male	11,000	17,000	14,000	9,000	4,000	2,000	1,000
Female	8,000	11,000	10,000	7,000	3,000	1,000	1,000

Further evidence of the conservative nature of female spending habits is found in the exploding use of Buy Now Pay Later schemes, a new form of lay-by, where customers pay off a purchase in instalments after receiving their goods. They pay zero interest, but must pay the item off entirely in a set period, typically about two months.

In around only four years of operation, more than 3.5 million Australians have opened a Buy Now Pay Later account, more than two thirds (69 per cent) of whom are women.

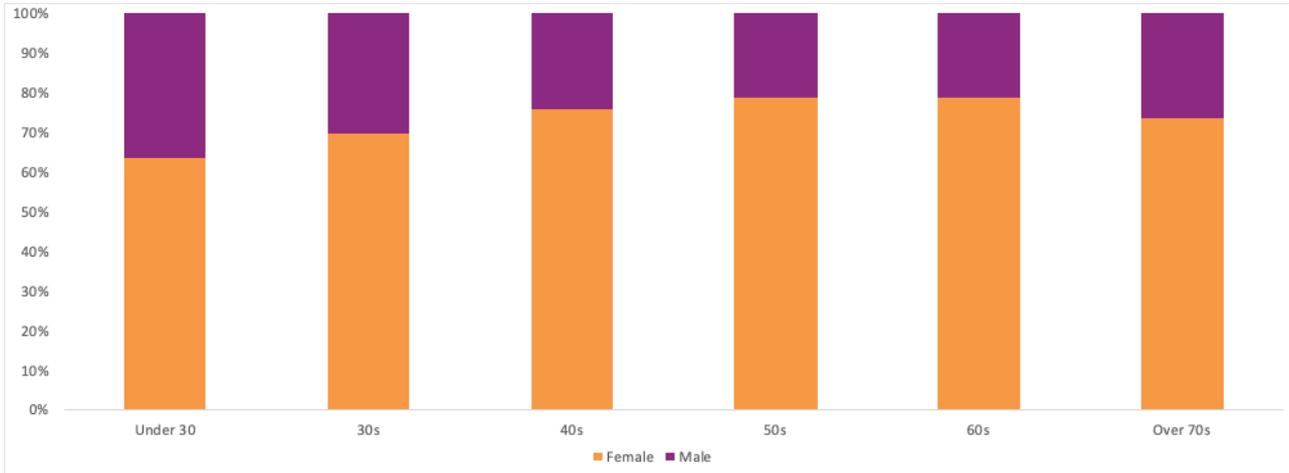
The gender difference is most pronounced in middle-age, with women holding 79 per cent of all accounts held by those in their 50s.

Critics have suggested that some consumers can fall into a cycle of debt using BNPL owing to penalty fees.

However, gross losses have been reported as only 1.5 percent of sales<sup>9</sup>, suggesting that only a very small minority of consumers do not make their total repayments. The vast majority use this system to buy what they need now without incurring the various costs of traditional credit cards.

<sup>9</sup> <https://www.afterpaytouch.com/images/FY2018-Results-Presentation.pdf>

Gender breakdown - Buy Now Pay Later accounts



Gender breakdown – Buy Now Pay later accounts						
Decade	Under 30	30s	40s	50s	60s	70s
Male	36%	30%	24%	21%	21%	26%
Female	64%	70%	76%	79%	79%	74%

Millennials are twice as likely as their parents to default on their credit card payments.

Millennial men under 30-years-of-age own 5 per cent of all credit cards, but represent 12 per cent of all those with debts exceeding 60 days. By contrast, their fathers' generation in their 60s has 9 per cent of the overall credit card market but only 4 per cent of late payments.

Millennial women hold 4 per cent of all credit cards, but represent 8 per cent of all those with debts exceeding 60 days, while their mothers' generation in their 60s has 7 per cent of the overall credit card market but only 3 per cent of late payments.

**Shopaholic males....**

Many stereotypes on spending, particularly in relation to gender, are untrue.

These figures show that men love to use credit cards more than women, with men clearly outranking women in credit card ownership across all age groups.

The data shows that women are far more prudent when it comes to credit card use and much more likely to ensure credit cards bills are paid on time.

# Geographic breakdown of ownership and payments

**Analysis of credit card ownership in our capital cities has shown that people in Canberra love their credit cards and have the highest level of credit card ownership per person by a significant margin.**

Those in Sydney, Melbourne, Perth and Hobart all follow, with slightly higher levels of credit card ownership than the national average.

Brisbane and Darwin credit card ownership is consistent with the national average, but it's a different story in Adelaide, where cash appears to be king, with significantly lower levels of credit card ownership than other Australians.

In terms of people's ability to pay their credit card bills on time, we found that Adelaide, Canberra and Hobart all do this best, with Melbourne and Perth being aligned to the national average. People in Sydney and Brisbane however, are less likely to pay on time and those in Darwin have the lowest propensity to pay on time by a significant margin.

Credit Card accounts at 60+ Days - relative percentage better than national average



## Findings in detail - including regional Australia

**Our study found that those in Canberra and regional ACT have significantly higher levels of credit card ownership per person (11 per cent and 20 per cent higher than the national average). Not only are these people burning the plastic much faster, but they are also the least likely to fall behind on their payments (36 per cent and 29 per cent less likely than the national average).**

At the top end of Australia it's a different picture though, with people in Darwin and the Northern Territory owning fewer cards per person (2 per cent and 13 per cent below average) and having a significantly lower propensity to make their credit card payments on time (26 and 24 per cent below average).

Sydney and Melbourne consumers both have 4 per cent higher credit card ownership than the national average, but Sydneysiders are 12 per cent less likely to pay their card bills on time, compared with Melbournians who are just 1 per cent above the national average.

For those living in regional NSW and regional Victoria it's quite a different story, with people in these states owning 5 per cent and 7 per cent fewer credit cards respectively than the national average. People in these two regional areas are better at paying their credit card bills when compared with their metro cousins, with between 10 per cent and 20 per cent more of them paying on time, compared with the national average.

In Queensland, we found that card ownership on the Sunshine Coast significantly exceeds the Gold Coast and Brisbane (10 per cent higher than the national average compared with 2 per cent higher and 1 per cent lower). We found people on the Sunshine Coast are significantly better at making credit card payments (12 per cent better than the national average) than those in Brisbane who are 11 per cent worse than the national average. People on the Gold Coast fall further behind, with 22 per cent more late payers than the national average.

Cash may be king for people from Adelaide and those in regional South Australia, with 13 per cent and 20 per cent lower credit card ownership rates than the national average. South Australians are much more likely to pay their credit card bills on time however, with the Adelaide average being 14 per cent better than nationwide, and regional South Australia 18 per cent better.

In Western Australia, people in Perth have 6 per cent higher card ownership per person compared with the national average. Those in regional WA, however, are 6 per cent less likely to have a credit card than the national average. Both groups pay their credit card bills very much in line with the national average.

Finally, in Tasmania, people in Hobart are 5 per cent more likely to have a credit card than the national average, while those in regional Tasmania are 2 per cent less likely to have one. All Tasmanians are more likely to pay their credit card bills on time, with those in Hobart in particular being 18 per cent less likely to fall behind on their card payments and all other Tasmanians 7 per cent less likely.

Number of credit cards per State and Territory capital city								
City	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Canberra	Darwin
No. credit cards	3,228,000	2,989,000	1,419,000	695,000	1,234,000	111,000	80,000	81,000
% of market	22%	20%	9%	5%	8%	1%	0.5%	0.5%

Credit card ownership by city against national average



**How does credit risk compare with median house prices?**

A glance at the latest median housing prices in our capital cities shows that while Canberra's house prices are relatively high (\$740k), they enjoy burning their plastic but are least likely to fall behind on their payments.

It's a very different story in Darwin, however, with a median house price of \$519k, but the lowest record of paying off their cards by a country mile.

Sydneysiders are potentially more affluent than Melburnians (\$1.101m compared with \$853k), but they are less likely to pay their credit cards on time.

Adelaide has lower house prices than Brisbane (\$535k compared to \$567k) but has a lower credit risk – South Australians may be less affluent, but are certainly more conservative with their credit cards and are more likely to pay them on time.

Hobart has the cheapest property prices (\$478k) and its residents are very quick to pay off their cards. Perth sits on \$550k but its residents pay off their cards very much in line with the national average.

# Meet illion's Data team...



**Barrett Hasseldine** (left) is illion's head of modelling and holds a BSc in Pure Mathematics and an MBA. He describes his role as a heady mix of pure research and helping clients make sense out of lots and lots of numbers. After working on the Credit Card Nation report, he has decided to consolidate all his credit cards down to one.

**Michael Landgraf** (right) is Manager of Bureau Analytics. He holds a BA (Hons) in Mathematical Statistics and has worked in the credit risk industry for longer than he cares to remember – definitely almost as long as Barrett has been on this earth. He is in charge of data-driven market and customer insights and analytical product innovation. Following publication of this report Michael will re-open his banking passbook and intends to make himself completely unencumbered from all forms of debt.

**Tung Le** (centre) holds a BSc in Applied Mathematics and is the team's modeller. He spends most of his day typically doing what Barrett tells him to do. This includes analysing lots of data and creating scorecards to showcase to clients. He's also responsible for monitoring and reviewing the performance of the software and tools the team uses to crunch the numbers. After working on the Credit Card Nation report, Tung has decided to pay his credit card bills on time.

# About illion

illion is the leading independent provider of trusted data and analytics products and services in Australasia, with the company's consumer and commercial registries representing a core element of Australia and New Zealand's financial infrastructure.

We leverage consumer and commercial credit registries, which comprise data on over 24 million individuals and over 2 million commercial entities, to provide end-to-end customer management solutions to clients in the financial services, telecommunications, utilities and government sectors.

**Trusted Insights. Responsible Decisions.**

## Need more information?

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