

# Interest Rate Misperception in the Credit Card Market

Tianyu Han (UC Berkeley)

---

Discussion – Andrea F. Presbitero\*

CEPR European Conference on Household Finance 2023, Torino – October 5-6, 2023

\*International Monetary Fund & CEPR

The views expressed are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management

## The paper in one slide

- **Research question:** Does more transparent information on credit cards' interest rate affect borrowers' behavior?
- **Main results:**
  1. People have a wrong perception of their CC interest rate, and (only) those who underestimate  $r$  borrow more (survey evidence)
  2. Increasing the salience of  $r$  reduces misperception and CC debt (RCT)
  3. Results are short-lived and consistent with people ignoring bad news
- **Main comments:**
  1. Novelty of the contribution
  2. Interpretation
  3. Policy implications

# 1. Novelty of the contribution

The paper primarily builds on a literature connecting consumers' behavioral biases and financial decisions. **How to differentiate from this literature?**

- Seira et al. (2017) combine **administrative, RCT and survey data** on Mexico to show that **interest rate disclosure does not change debt levels** (but a warning against overconfidence reduce future borrowing)
- Ferman (2016) runs an **RCT** in Brazil varying the degree of interest rate disclosure and finds that **high-risk clients increase their elasticity to interest rates** if disclosure is prominent

## 2. Interpretation: Institutional context

- A USD 1.3 trillion credit card industry!
- In 2021, in China 38% of adults owned a credit card (up from 8% in 2011), compared to 67% (62% in 2001) in the US and 50% (36% in 2001) in the EA (Global Findex)
- How do banks **promote** credit cards?
- How is the credit card market **regulated**?



# Is credit card advertisement in China as evasive as in the US?



## Citi Prestige Card

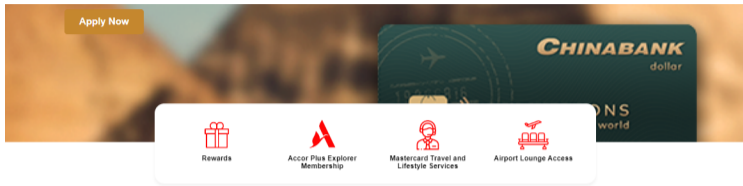
- ✓ Exclusive fast earn
  - RMB 1 = 1.5 points, USD 1 = 12 points
  - 18 points = 1 airline
  - You can redeem your points for hotel partners membership points, various gifts, or as cash rebate
- ✓ Be rewarded as you spend via Digital Wallets
  - RMB 1 = 1.5 Citi Points via UnionPay
  - RMB 2 = 1.5 Citi Points via Alipay, JD Pay, Meituan Pay, and Suning Pay
- ✓ Complimentary 4th night at any hotel booked by Concierge
- ✓ Comprehensive Insurance
- ✓ Access to 24-hour Citi Prestige Global Concierge



## Citi PremierMiles Card

- ✓ Earn Citi Miles faster
  - RMB 12 = 1 Citi Mile
  - USD 1.5 = 1 Citi Mile
  - 1 Citi Mile = 1 Airline Mile\*
- ✓ Be rewarded as you spend via Digital Wallets
  - RMB 12 = 1 Citi Mile via UnionPay
  - RMB 25 = 1 Citi Mile via Alipay, JD Pay, Meituan Pay, and Suning Pay
- ✓ Redeem miles from multiple airlines worldwide
- ✓ Travel with peace of mind – high sign and fly coverage, flight delay (RMB1,000 for over 3 hour delay) and lost card protection

# Is credit card advertisement in China as evasive as in the US?



## Benefits of The Chinabank Destinations World Dollar Mastercard

### Air Miles Rewards Program

Get 1 Rewards Point for every USD1 spend. 1 Rewards Point is equal to 1 airline mile which you can redeem from our premium airline partners.

### Low Foreign Transaction Fee

Enjoy guilt-free shopping abroad or online with a low foreign transaction fee of 1.7%.

### Welcome Gift

Enjoy a free Accor Plus Explorer Membership valid for 1 year upon meeting a minimum spend of PHP5,000 within 60 days from card delivery date.

### Comprehensive Travel and Inconvenience Insurance

Get up to USD360,000 comprehensive travel and inconvenience insurance coverage when travel tickets are purchased using your China Bank Destinations World Dollar Mastercard.

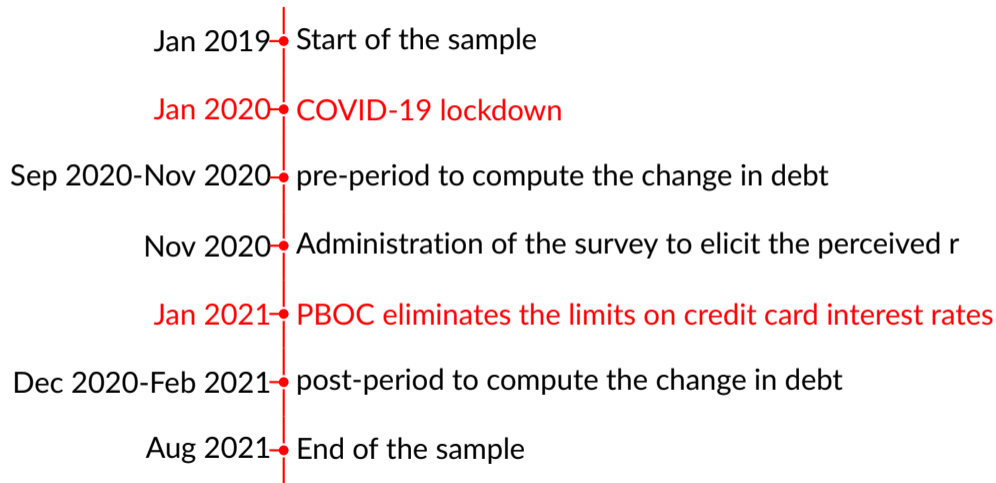
### Mastercard Travel and Lifestyle Services

Connect to unmatched travel, dining, and entertainment perks and privileges, with a 24/7 Travel and Lifestyle Manager to assist you.

### Airport Lounge Access

Relax in utmost comfort at over 1,000 airport lounges and enjoy exclusive dining, retail, and spa offers in more than 400 airports across 120+ countries.

## 2. Interpretation: Potential Confounders



## 2. Interpretation: Questions

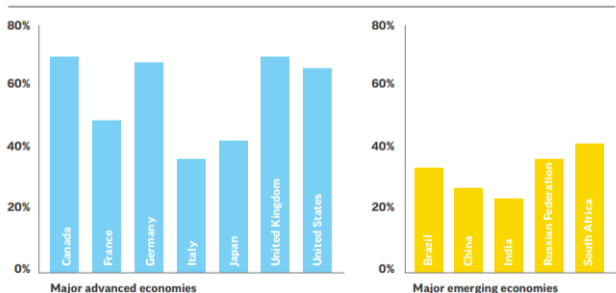
- In January 2021, the PBOC eliminated the limits on credit card interest rates (prior to the removal, the annualized interest rate was capped from at least 12.75% up to 18.25%)
  - ⇒ Could this policy make rates more 'visible' and affect borrowing?
    - What is the average rate charged by the bank (and its distribution)?
    - A distribution of errors ranging from -15 to +15 pps looks implausible given the rate limits
- Could the survey results be affected by the differential exposure to lockdowns (for instance, job loss and a decline in income could make some consumers more attentive to the cost of credit)?



### 3. Policy implications

- With CC debt rising and delinquencies ( $> 6$  months) at 1% at end-2021, misperception could lead to inefficiently high levels of household debt
- As misperception is persistent, which should be the policy response? Financial literacy is low compared to other countries

**FIGURE 1: WIDE VARIATION IN FINANCIAL LITERACY AROUND THE WORLD**  
(% OF ADULTS WHO ARE FINANCIALLY LITERATE)



Source: S&P Global FinLit Survey

## 4. Minor comments

- Footnote 2— **40% of US credit card holders do not know their cards' interest rates**—is super important: bring it into the main text; and cite existing work (e.g., Ponce et al. 2017)
- Report size effects in USD and/or as a percentage of income/salary (quantifying the elasticity of borrowing to change in misperception is important to differentiate the paper)
- Consider citing the literature on misperception of inflation (Weber et al. 2022)
- I suggest using 'misperception' rather than 'bias'
- Why is misperception (and perceived rate) higher for educated individuals?

## 5. To sum up

- Very **interesting question**, analyzed in a novel **emerging market setting**, with good mix of admin, survey and RCT data
- Need to **better explain the contribution**—maybe exploiting some institutional features in China (removal of limits on rates?)
- Still work in progress, looking forward to reading a new version