



# Consumer Credit Code Disclosure: When too much is not nearly enough

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# Introduction

- Acknowledgements:
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# Introduction (Cont)

- “Information Asymmetry” a key element of “market failure” in consumer transactions.
  - Schwartz and Wilde (1979)
  - Treblicock and Dewees (1981)
  - Treblicock (2003)
  - Duggan (1982)

# Introduction (Cont)

- Gross inequality of access to information is acute in the consumer credit market
  - Rogerson (1969)
  - Crowther (1971)
  - Molomby (1972)
- *Consumer Credit Code*
  - ◆ *“Truth in Lending”*
  - ◆ *“Product Flexibility”*

# Consumer Credit Code

- Covers all forms of consumer credit
  - Explanatory Memorandum
  - *Rafiqi & Thomas –v- Wacal Investments*
  - *Ss4,5 and 6*
- Provides for comprehensive disclosure regime through use of “financial table”
  - Ss14 and 15
  - Enforcement by civil penalties ss100 - 106

# Is it Working?

- Justin Malbon:
  - ◆ *Taking Credit: A Survey of Consumer Behaviour in the Consumer Credit Market*. Report done for The Consumer Credit Code Post-implementation Review Committee (1999);
  - ◆ *Shopping for Credit?: An Empirical Study of Consumer Decision-Making* (2001) 29 ABLR 44

# Malbon's Conclusions

- Compared Housing, Personal Loans, Credit Cards and Linked Credit
- Linked Credit has the:
  - Highest number of persons who considered the loan “on the day”. (32%)
  - Lowest response to “ease of comparison” (55%)
  - About the same for “read the information” (77%)
  - Highest for “just before signing up” (66%)
- “..truth in lending objectives face a number of hurdles in the linked credit market.”

# Emperical Research Options

- Surveys
  - Less control for researcher
  - Malbon “questioned” the veracity of some responses
- Focus Groups
  - Some more control for researcher
  - More like “opinions”
  - Did expose participants to “real life” documents
- Experiments
  - More control for researcher
  - Can reduce participant control to the bare minimum required for ethical reasons
  - More reliable results
- Action Research
  - Exit Polls on car yards
  - Long term project with the co-operation of industry
  - Real life contracts and customers
  - Very expensive.

# The Experiment

- To test whether consumer credit contracts could be quickly and easily understood.
- To test whether contracts with disclosure in compliance with the *Consumer Credit Code* were easier to understand than those which embedded the disclosure items in the operative clauses.

# Preliminary Criteria

- All participants received a “set” of documents typical to the purchase of a used car with linked credit.
- Included:
  - Vehicle Purchase Contract
  - REVS Search clearance
  - Privacy Act Authority
  - Consumer Credit Contract
- Not told which was the most important

# Preliminary Criteria (Cont)

- “Normal Documents” disclosed the important features of the credit contract as required by s15 of the *Consumer Credit Code* in a “financial table” at the beginning of the contract.
- “Embedded documents” did not have a financial table and included these features in the operative clauses (proxy for a Pre-1996 Contract)

# Preliminary Criteria (Cont)

## The Questions

- What is the interest rate of the loan?
- What is the total cost of the loan?
- What is the total amount payable under this loan?
- How much will a late payment cost me?
- If I pay the contract out early, will I pay extra fees?
- Did I get consumer credit insurance with this loan?
- Can the credit provider's employees come onto my private property to repossess the car without my consent?
- Can the credit provider add other credit fees and charges after I sign this contract?
- Was there any commission paid on this loan?

# Preliminary Criteria (Cont)

- Distractions
  - ◆ Sound
  - ◆ Visuals
  
- Non-Distractions
  - ◆ Exam style conditions

# Pilot Study

- Small groups (16/24)
- Only 1 answered “What is the total Cost of the Loan?” correctly.
- New wording “What is the loan costing you?”

# Sample

- Convenience and cross-sectional.
- University of Queensland students from all schools.
- Recruitment by advertising in lectures, on web sites and “barking” in the Great Court
- \$10 each
- Names recorded
- Age and Gender
- 283 tested (256 at St Lucia) Document Error excluded 68
- N=215

# Data Collection

- Lecture Theatres
- Matrix:

Normal Docs	Embedded Docs
No Distractions	Distractions

# Results and Analysis

- N = 215
- 1 Outlier (included)
- Range 2 to 8 /9
- Mean was 5.3/9
- Median was 5/9
- Mode 6/9

# Results and Analysis

Q1. Interest rate on the loan.(209)	97.2%
Q2. Total cost of loan (16)	7.4%
Q3. Total amount payable under loan (166)	77.2%
Q4. Cost of late payment.(142)	66.0%
Q5. Extra fees for paying contract out early(148)	68.2%
Q6. Consumer credit insurance (110)	51.2%
Q7. Repossess car from private property! (59)	27.4%
Q8. Other fees and charges (130)	60.5%
Q9. Was there any commission paid? (147)	68.4%

# Results and Analysis

- Of the 215 respondents, 112 read the normal contracts and 103 read the embedded contracts
- No difference in Mode
- Normal Contracts mean = 5.48
- Embedded Contracts mean = 5.10
- This is “just” statistically significant (Levene and t-test)
- Variance (using Eta Sq) attributable to documents = 2.9%

# Results and Analysis

- No statistically significant differences created by
  - ◆ Distractions
  - ◆ Age
  - ◆ Gender
  - ◆ Ipswich v St Lucia
- Poor or Patchy Comprehension overall
- Code compliance counted for only 2.9% of the Differences in comprehension

# Conclusions

- Research
  - ◆ More work on different variables and different kinds of contracts
  - ◆ Action research in the market place
  - ◆ The cognitive dynamics of disclosure and comprehension – “where do people look” and “what do they want”

# Conclusions

## ■ Policy

### ◆ Improve Disclosure

- Simpler
- Less Text Based
- Needs Research

### ◆ Rely less on disclosure as a means of consumer protection

### ◆ Unfair Contracts Legislation

- ★ Victoria, UK and the current review