



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

Credit baseline research

REPORT: July 2020



COLMAR BRUNTON
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The consumer credit landscape in 2019

- 54% of New Zealanders made at least one application for credit in 2019. Buy-now-pay-later applications were most common (29%), whilst overdraft (6%) and short-term loan applications (7%) were least common.
- Nearly all of those who made an application in 2019 were approved at least once (94%). Approval rates are highest for buy-now-pay-later (92%) and lowest for short-term loans (79%).
- About 1 in 5 people (21%) who made an application for credit in 2019 were declined at least once. Decline rates are highest for short-term loans (41%) and new overdrafts (33%).
- Needing to pay existing debts and household bills are among the leading reasons those who were declined credit in 2019 needed it (across credit types).
- It appears banks and finance companies have a roughly equal share of the short-term loan market, whilst long-term loans are mainly sought from banks.

The impacts of being declined credit

- Across all credit types, many of those who were declined had to reduce their spending on important living expenses (such as groceries and energy bills as a result).
- Between 40% and 60% of those who were declined credit were not able to pay for the product, service, or expense they needed it for. This proportion was highest among those who were declined short-term loans.
- However, those who were declined credit were appear to be more likely to say it ended up being a “good thing” than a “bad thing”, although many are agnostic.

Loan repayment difficulties and their impacts

- 34% of people who held a loan in 2019 said they either defaulted (17%) or had to reduce their spending on important living expenses to keep up with the loan repayments (28%).
- Borrowers shared a range of negative experiences after taking out a loan. The most common was having to reduce spending on living expenses ensure they could make the repayments.
- Difficulties repaying a loan most often arose due to personal circumstances (64% of the time), with the most common reasons being an unforeseen expense occurring, or usual expenses (like rent) increasing.
- However, 20% of those who had trouble repaying their loan gave reasons related to the cost of the loan itself. People most often said the interest charges were unaffordable or they underestimated their ability to repay the loan when they took it out.
- Just under half (48%) of those who had difficulties repaying their loan said this had a 'moderate' (37%) or 'severe' (11%) impact on their everyday life. This equates to 18% of all people who taken out a loan, or 9% of all New Zealanders.

In 2018, the Government decided to change the law to better protect Kiwis from debt spirals and predatory lending.

Following MBIE's review into New Zealand's consumer credit regulation and public consultation on suggested law changes, the Credit Contracts Legislation Amendment Act (Amendment Act) was passed on 20 December 2019.

MBIE have commissioned Colmar Brunton to undertake research into the impacts of the law changes.

This report illustrates the baseline – what the consumer credit landscape looked like in 2019, before the law changes came into force.

The key objectives for the baseline research are to understand:

- What the consumer credit landscape looked like in 2019, before the law changes came into force
- How people were impacted when they were declined credit
- How people were impacted when they had difficulties repaying a loan.



Target population	Sample source and survey mode	Sample size	Fieldwork dates	Weighting	Margin of error
<p>New Zealanders aged 18+ who meet at least one of two criteria:</p> <ol style="list-style-type: none"> 1. Applied for new credit in 2019 2. Held a loan in 2019 (either home loan, motor vehicle loan, personal loan, or cash loan) 	<p>Online interviews via Colmar Brunton's online panel.</p>	<p>1,000 respondents</p>	<p>25 June to 9 July 2020</p>	<p>The results are weighted to be representative of the target population by age, gender, location, ethnicity, and household income by household size based on Census 2018 information.</p> <p>As the demographics of the target population were unknown, the sample of those within the target population <u>and</u> those who did not qualify for the survey were weighted together to population proportions, allowing a representative sample of the target population to be derived.</p>	<p>The following maximum margins of error apply for each given sample size:</p> <p>1,000 = +/- 3.1% 750 = +/- 3.6% 500 = +/- 4.4% 300 = +/- 5.7% 200 = +/- 6.9% 100 = +/- 9.8%</p>

Notes to reading the report

Some results are based on more than 1,000 people

To check whether people met the criteria for our target population, we needed to ask them what types of credit they had applied for in 2019 (if any) and whether they held a loan during 2019. The group of 1,000 respondents who met at least one of these criteria are our ‘qualifiers’ on which most of the results in this report are based. However, some results in the report (such as those on pages 10 and 11) are based on all New Zealanders aged 18+, because we wanted to know what proportion of all New Zealanders did certain things in 2019 (like apply for a short-term loan). The base for these results include an additional 575 people who do not fall within our target criteria, but in combination with the 1,000 qualifiers form a nationally representative sample of New Zealand adults.

The results are not representative of all consumer credit applications made in 2019

To ensure the survey was of a reasonable length for respondents, we could not ask those who made multiple credit applications in 2019 about every one of them*. The survey script established which types of credit they made at least one application for in 2019. The six types asked about were: buy-now-pay-later, hire purchase and credit sales agreements, new credit cards, new overdrafts, short-term loans (less than 12 months), and long-term loans (12 months or more). If someone applied for three or more types in 2019, then the survey script selected **two** types about which to ask them follow-up questions. Those who applied for short-term loans were always asked the corresponding follow-up questions, as this is an area of focus for MBIE.

Furthermore, people may have made multiple applications of a single type during 2019 (for example, multiple credit card applications or multiple short-term loan applications). Those who made multiple applications were asked to answer about their **most recent** application that fell within 2019.

The survey results therefore represent a broad selection of credit applications from 2019, but not all.

*Overly long surveys can lead to respondent fatigue and inaccurate data.



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The credit landscape in 2019

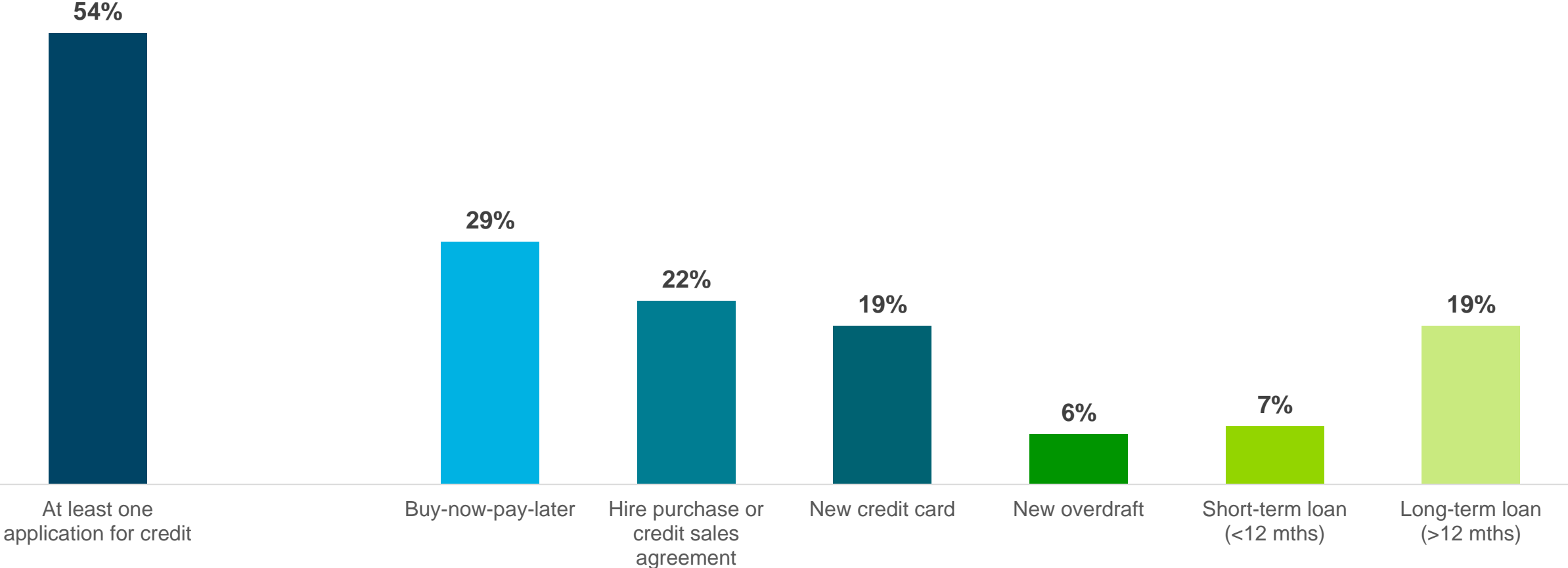


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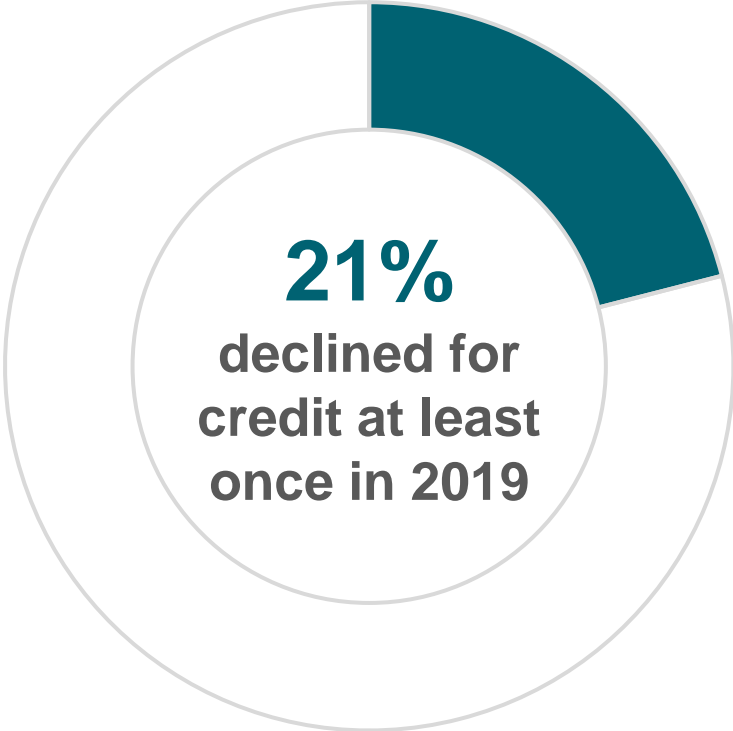
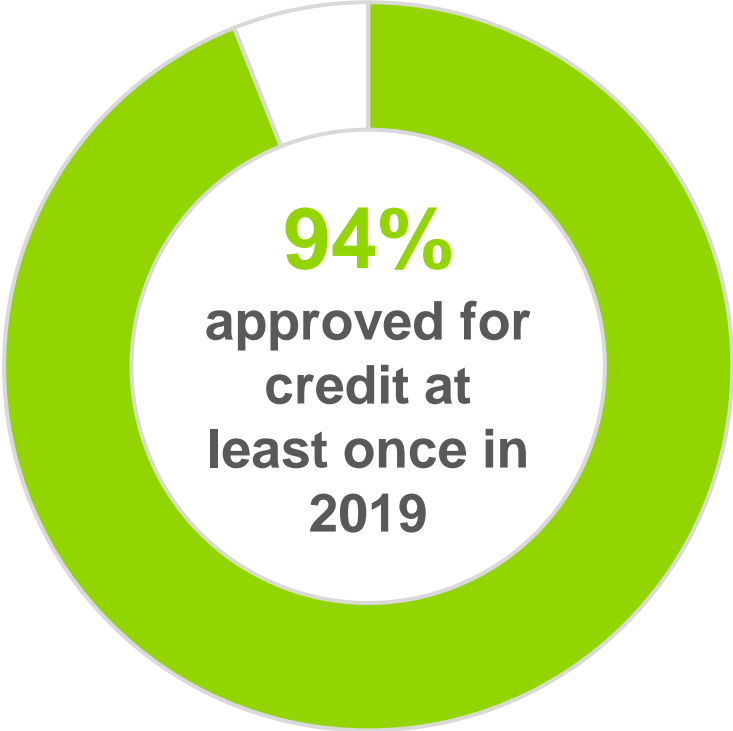
Over half of New Zealanders report having made one or more applications for credit in 2019. Buy-now-pay-later was the most common type of credit applied for, whilst overdrafts and short-term loans were least common.

PROPORTION OF NEW ZEALANDERS WHO APPLIED IN 2019 BY TYPE OF CREDIT



Base: All New Zealanders 18+ (n=1,575)
Source: Q009, Q010, Q012

Most New Zealanders who applied for credit in 2019 said they were approved on at least one of their applications, whilst 1 in 5 said at least one of their applications was declined.



Important note: Due to questionnaire limitations, respondents who applied for more than two different types of credit in 2019 were not asked whether they were approved/declined across all the types of credit application they made, therefore the percentages reported here may slightly understate the true approval/decline rates (8% of New Zealanders report they applied for more than two types of credit in 2019).

Being declined credit was much more common among some groups of New Zealanders than others in 2019.

Groups more likely than average (21%) to be declined for credit at least once in 2019

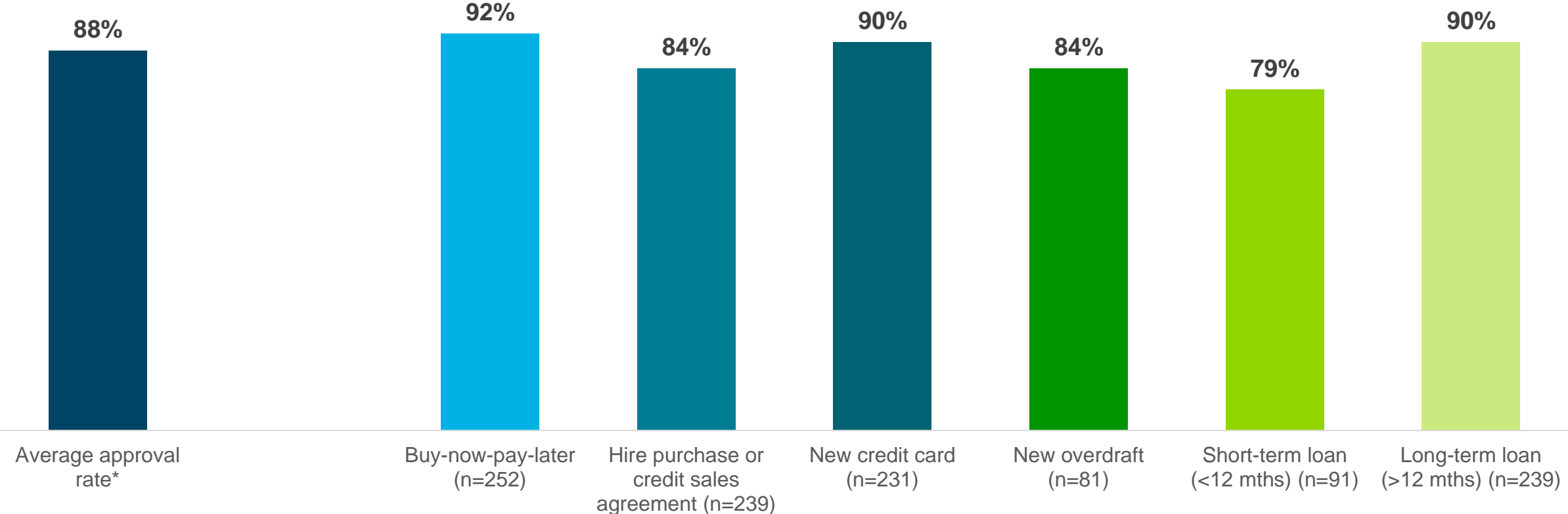
Those who report they are “struggling to make ends meet” financially (56%)
Men aged 18-29 (48%)
Those who report a high level of worry about their ability repay their current debts (37%)
Asian New Zealanders (30%)
Those living in households earning up to \$70,000 annually (29%)
Those whose highest level of education is a non-university tertiary qualification (26%)

Groups less likely than average (21%) to be declined for credit at least once in 2019

Men aged 65 and over (5%)
Women aged 50 and over (8%)
Those living in households earning more than \$100,000 annually (10%)
Those whose highest education level is a university degree (16%)
New Zealand Europeans (17%)
Those who report a low or medium level of worry about their ability to repay their current debts (18%)

Of all the credit types, approval rates were lowest for short-term loans in 2019 and highest for buy-now-pay-later.

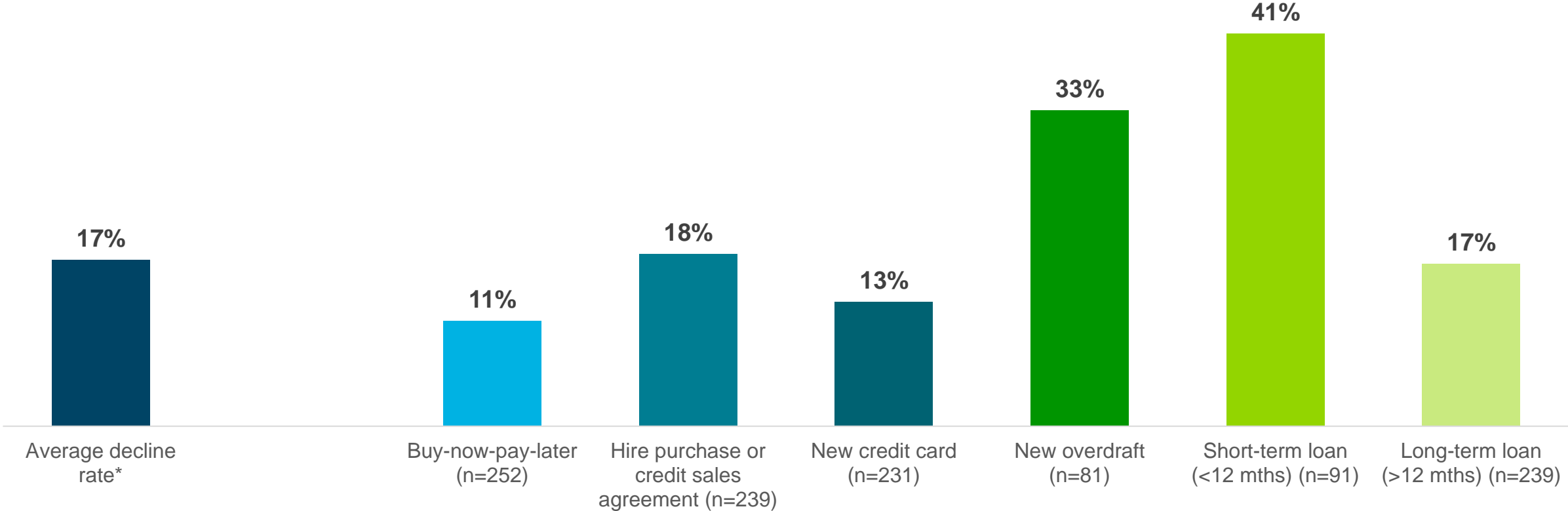
PROPORTION OF THOSE WHO APPLIED IN 2019 WHO WERE APPROVED AT LEAST ONCE



Base: Those who applied for each type of credit in 2019
Source: Q015, Q027, Q039, Q056, Q071
*This is the average approval rate across all six credit types adjusted to factor in the number of applications made in each credit type (i.e. a weighted average).

Two in five of those who applied for a short-term loan in 2019 said at least one of their applications was declined (the highest decline rate). This compares to 11% of those who applied for buy-now-pay later in 2019 who said at least one of their applications was declined.

PROPORTION OF THOSE WHO APPLIED IN 2019 WHO WERE DECLINED AT LEAST ONCE



Base: Those who applied for each type of credit in 2019
 Source: Q018, Q030, Q045, Q061, Q077
 *This is the average decline rate across all six credit types adjusted to factor in the number of applications made in each credit type (i.e. a weighted average).

The value of credit contracts varies greatly by type of credit...

VALUE (OR CREDIT LIMIT) OF CREDIT APPLICATIONS THAT WERE APPROVED IN 2019

	Buy-now-pay-later	HP or credit sales agreement	New credit card	New overdraft**	Short-term loan (<12 months)	Long-term loan (>12 months)
Base	159	128	76	29	51	165
Median	\$180	\$1,800	\$4,500	\$1,000	\$4,400	\$100,000
Lowest	\$25	\$150	\$200	\$50	\$363	\$500
Highest	\$4,000	\$59,999	\$35,000	\$34,444	\$320,000	\$4,300,000
Inter-quartile range*	\$100 to \$500	\$1,000 to \$3,000	\$2,000 to \$10,000	\$450 to \$4,340	\$1,500 to \$10,000	\$12,000 to \$408,000

Note: As declined applications are relatively uncommon, the survey did not collect enough data to present comparison to the above for applications that were declined.

Base: Those approved for an application in 2019 (excluding those who refused to enter a value)

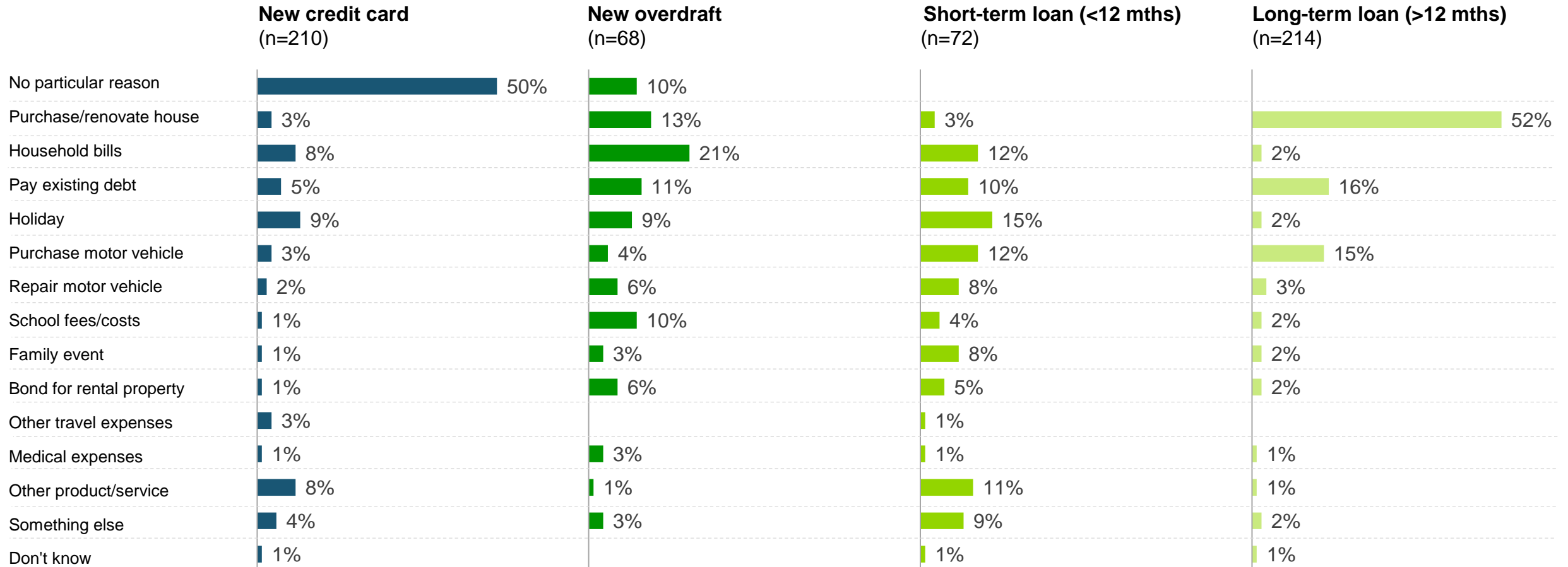
Source: Q017, Q029, Q039, Q056, Q073

*75% of values fall within this range

**Treat results with caution, small base size.

...as do borrowers' reasons for applying for credit.

REASONS CREDIT WAS SOUGHT AMONG THOSE WHO WERE APPROVED IN 2019



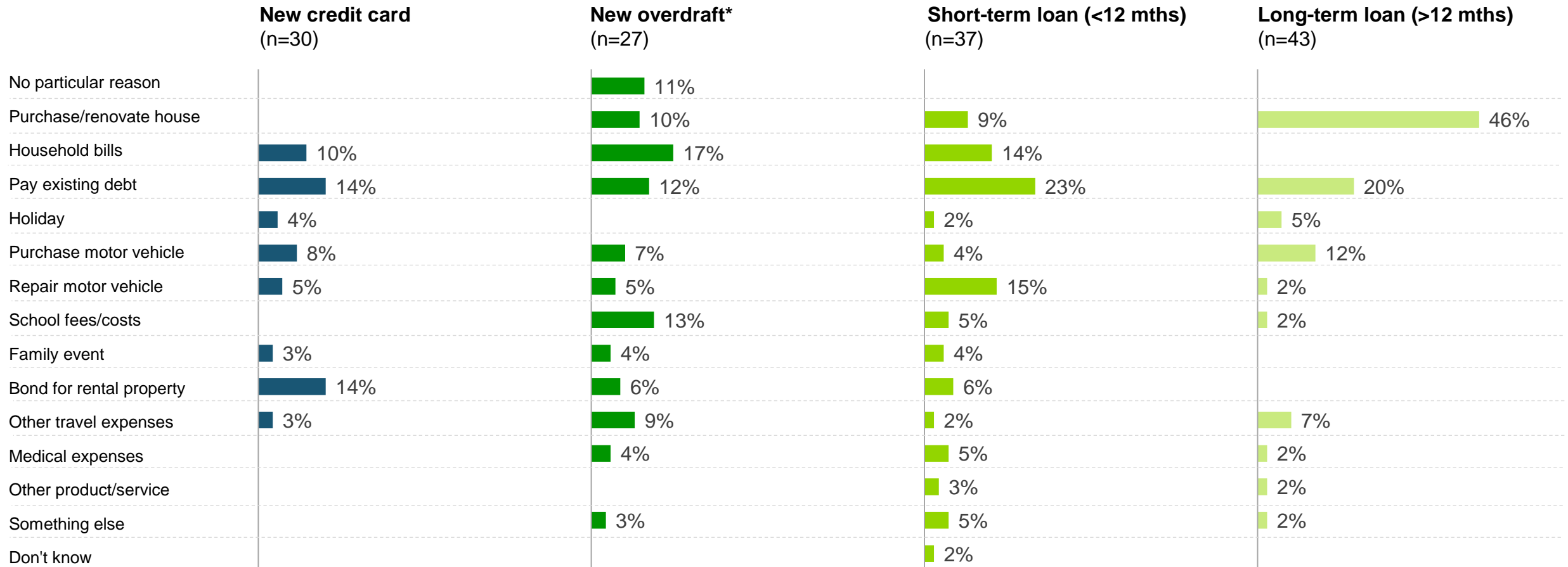
Base: Those who were approved for each type of credit in 2019

Source: Q043, Q059, Q074

Note: Question not asked in relation to buy-now-pay-later or hire purchase/credit sales agreements.

Among those who were declined credit in 2019, many were seeking to pay off existing debt or pay household bills.

REASONS CREDIT WAS SOUGHT AMONG THOSE WHO WERE DECLINED IN 2019



Base: Those who were approved for each type of credit in 2019

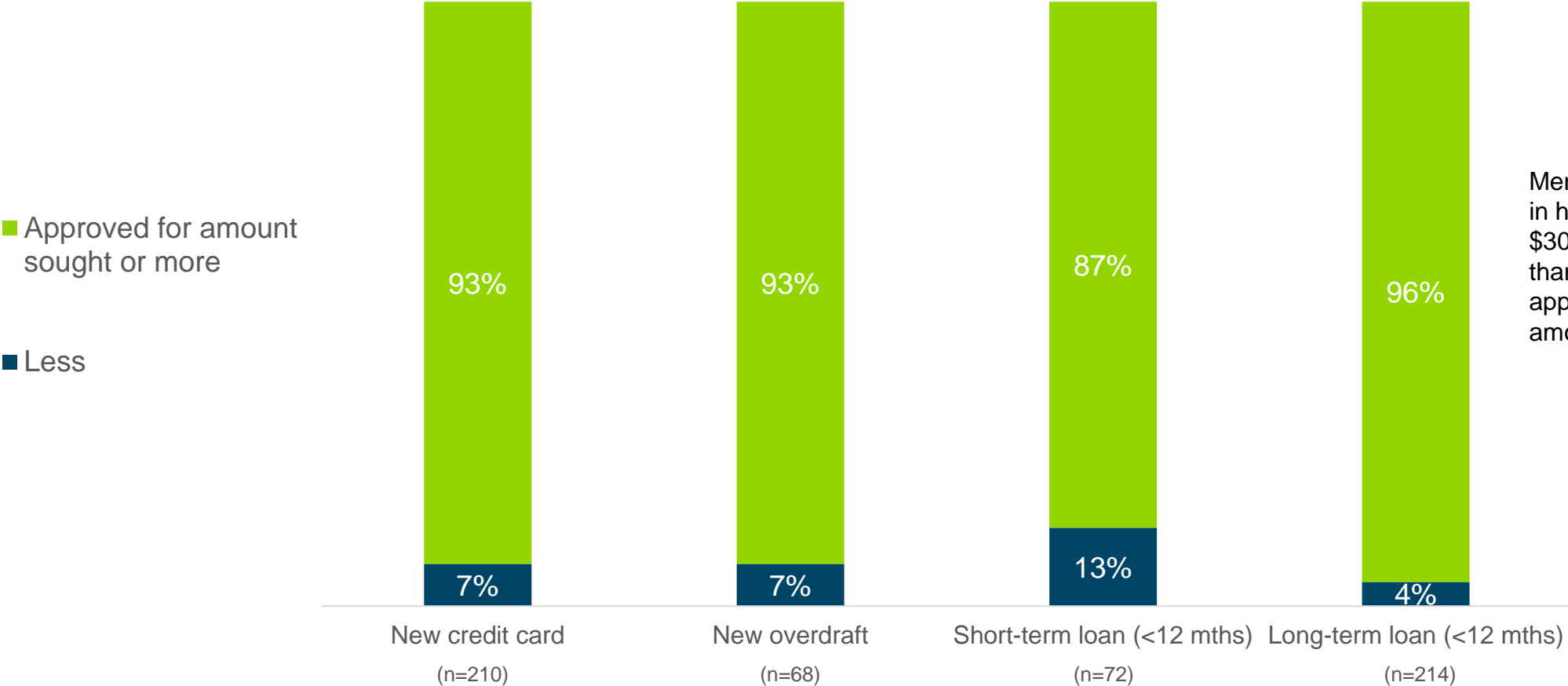
Source Q049, Q064, Q080

*Treat results with caution, low base sizes

Note: Question not asked in relation to buy-now-pay-later or hire purchase/credit sales agreements

Those who are approved for credit cards, overdrafts, and loans generally got the amount of credit they sought.

PROPORTION WHO WERE APPROVED FOR THE AMOUNT THEY APPLIED FOR

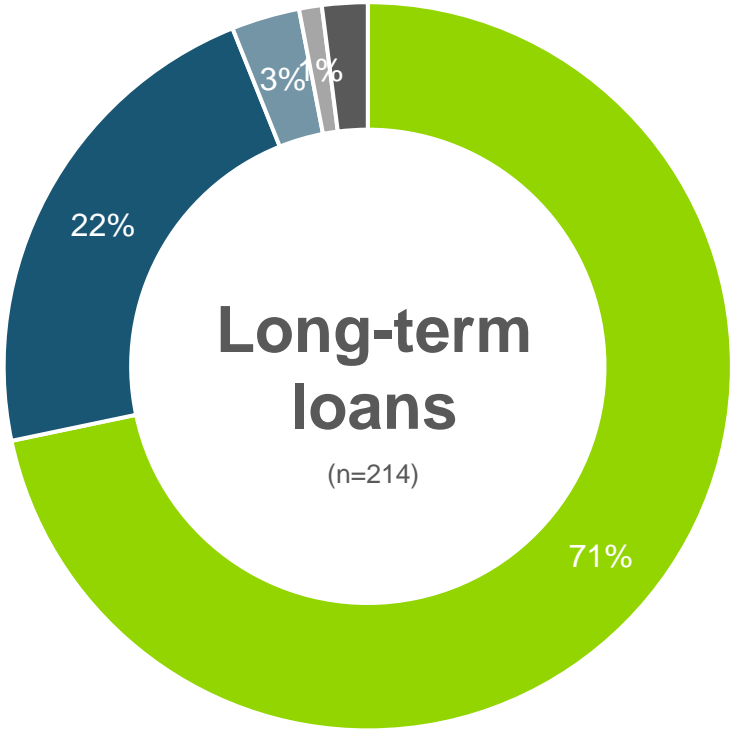
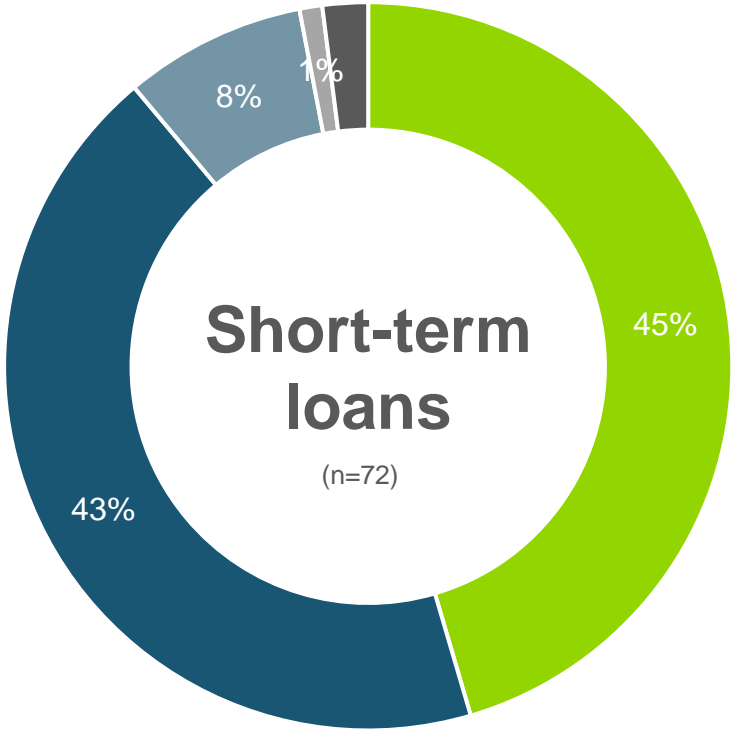


Men aged 18-29, and those living in households earning up to \$30,000 annually, are more likely than average to have been approved for **less** than the amount they applied for.

Base: Those who were approved for each type of credit
 Source: Q044, Q060, Q076

Those who were approved for loans mainly got them from banks and finance companies. Almost as many people who were approved for short-term loans got them from finance companies as banks.

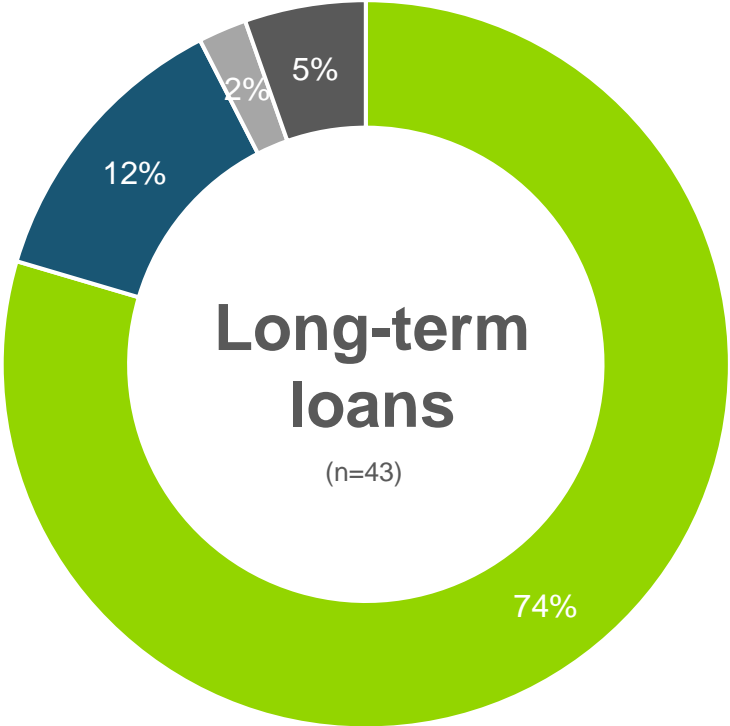
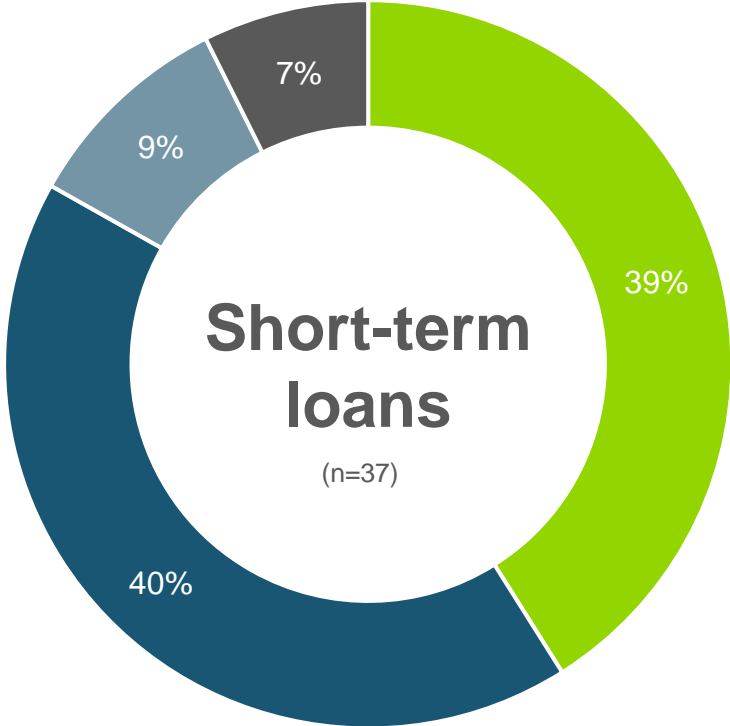
ORGANISATIONS BORROWED FROM IN 2019



- Bank
- Finance company
- Buy-now-pay-later
- Credit union
- Don't know

And there is little difference in the mix of organisations who declined loan applications in 2019.

ORGANISATIONS WHO DECLINED LOANS IN 2019



- Bank
- Finance company
- Buy-now-pay-later
- Credit union
- Don't know

Base: Those who were approved for each type of credit
Source: Q081



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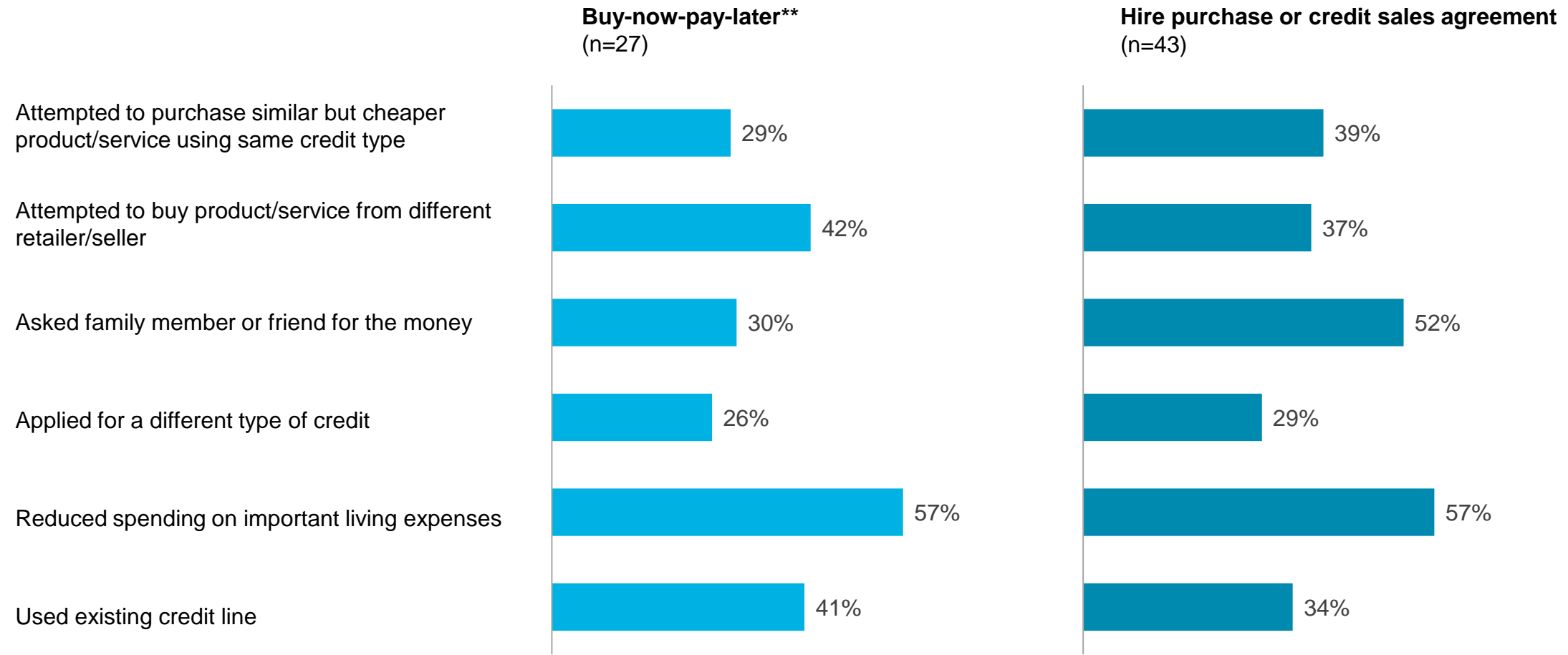
The impacts of being declined for credit



Being declined credit is relatively rare*, therefore the base sizes in this section are small. This means they are subject to a comparatively high margin of error and results should be treated with caution.

More than half of those who were declined for purchases on buy-now-pay-later and hire purchase or credit sales agreements said they had to reduce their spending on important living expenses (such as energy bills and groceries) as a result of being declined.

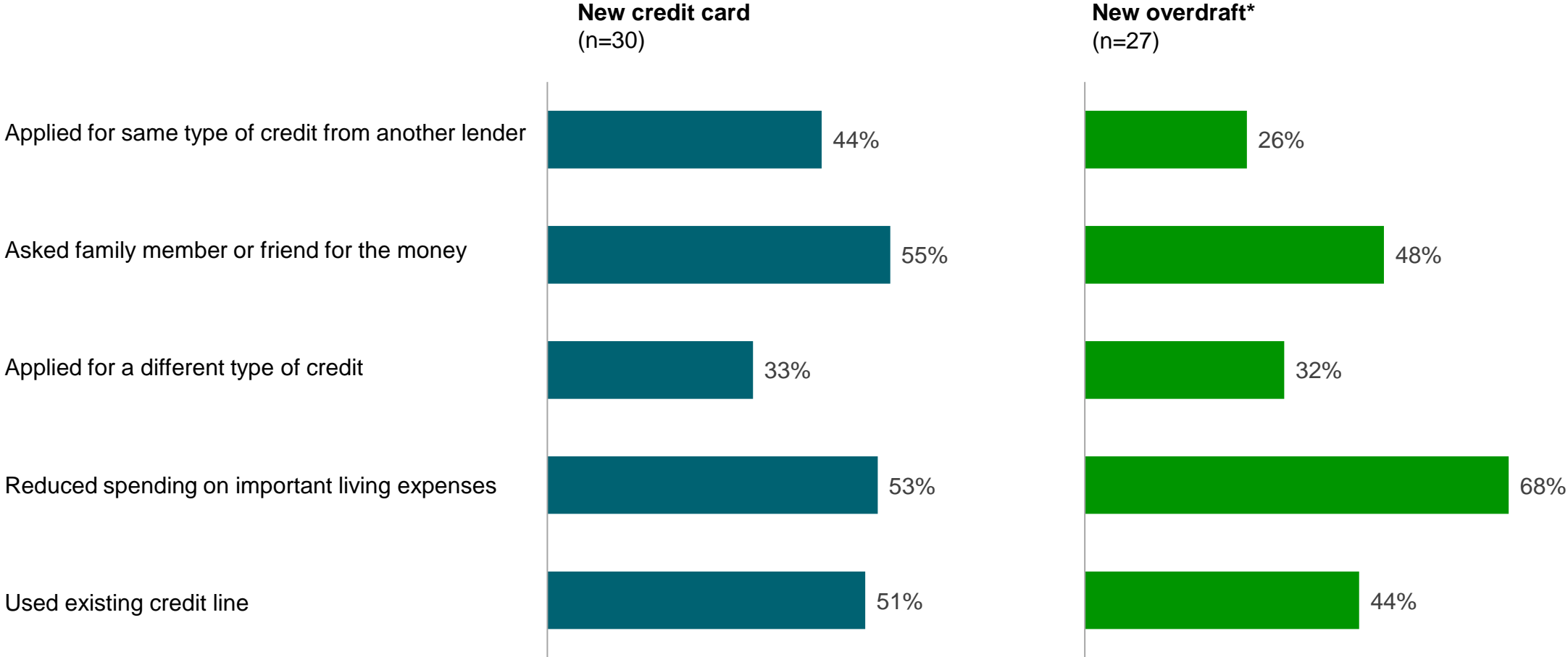
ACTIONS PEOPLE TOOK AFTER THEY WERE DECLINED CREDIT



Base: Those who were declined each type of credit in 2019
 Source: Q021, Q033
 *21% of New Zealanders were declined credit in 2019. See page 9.
 **Treat results with caution, low base size

The story is similar among those whose credit card and overdraft applications were declined. Many had to ask family or friends for the money or tapped into existing credit lines.

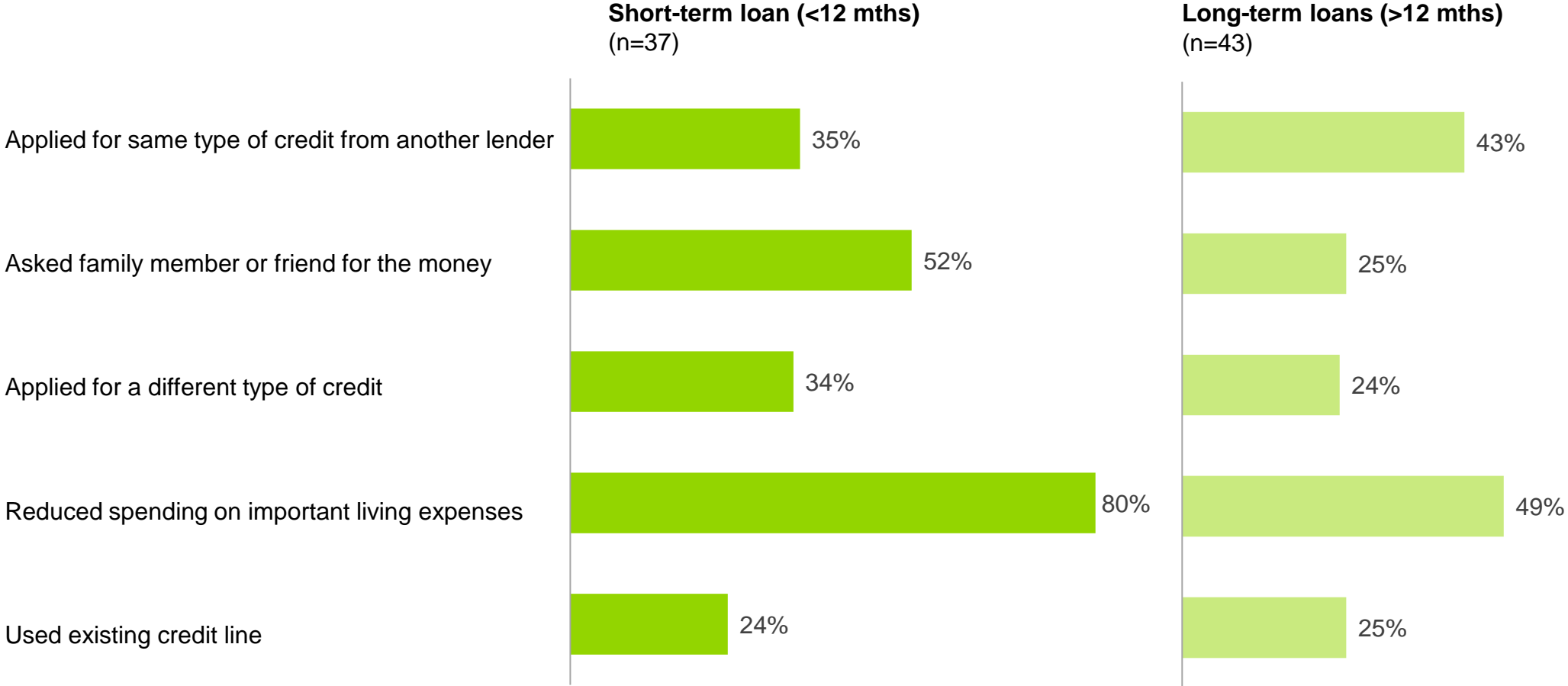
ACTIONS PEOPLE TOOK AFTER THEY WERE DECLINED CREDIT



Base: Those who were declined each type of credit in 2019
Source: Q050, Q065
*Treat results with caution, low base size

Most people who were declined a short-term loan in 2019 reported having to reduce their spending on important living expenses.

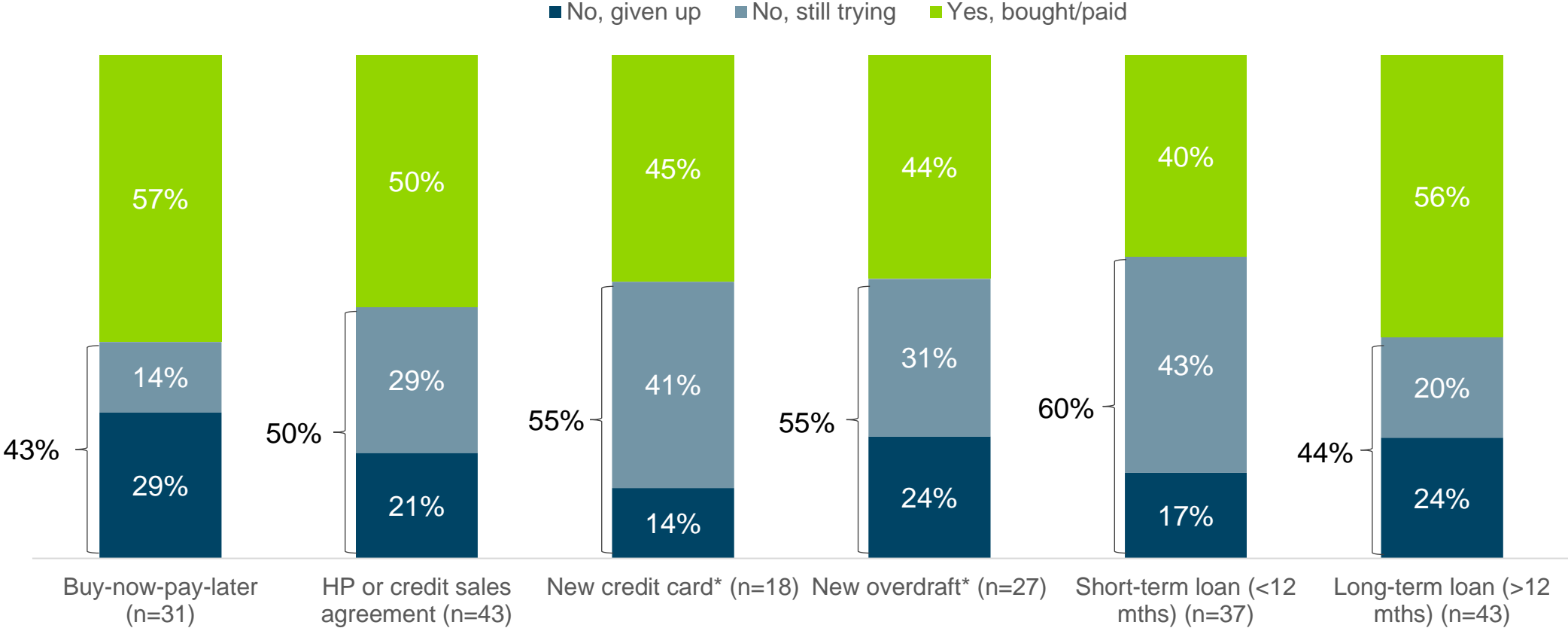
ACTIONS PEOPLE TOOK AFTER THEY WERE DECLINED CREDIT



Base: Those who were declined each type of credit in 2019
Source: Q082

Of all credit types, those who were declined short-term loans are most likely to have been unable to pay for the thing that caused them to apply in the first place – 43% are still trying to find the money, and 17% have given up.

WERE THOSE WHO WERE DECLINED CREDIT STILL ABLE TO BUY/PAY FOR WHAT THEY NEEDED?

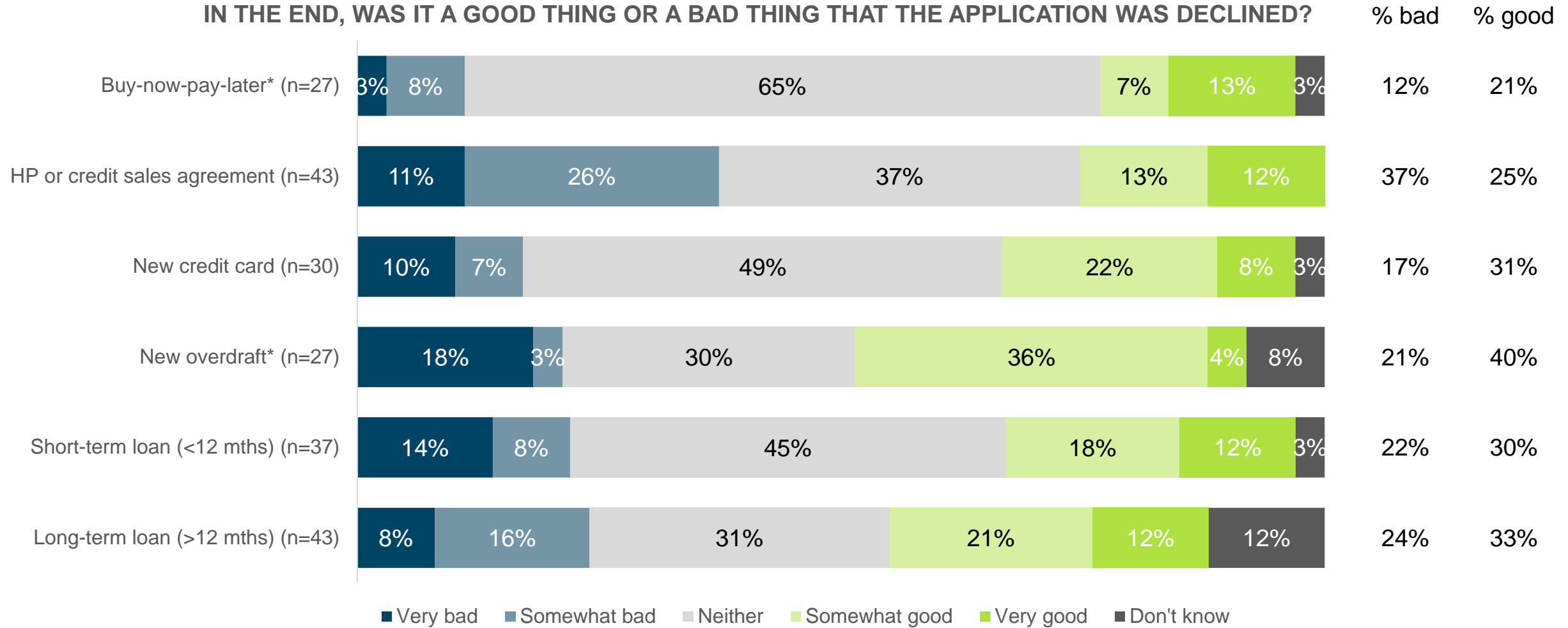


Note: There aren't any groups significantly more/less likely to have been able to pay.

Base: Those who were declined each credit type in 2019 and had a specific reason for applying
Source: Q022, Q034, Q051, Q066, Q083
*Treat results with caution, low base size

Those who were declined credit in 2019 were more likely to say it ended up being a 'good thing' their application was declined than a 'bad thing'.

IN THE END, WAS IT A GOOD THING OR A BAD THING THAT THE APPLICATION WAS DECLINED?



Base: Those who were declined each type of credit in 2019
 Source: Q024, Q036, Q053, Q068, Q085
 *Treat results with caution, low base size



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Loan repayment difficulties and their impacts

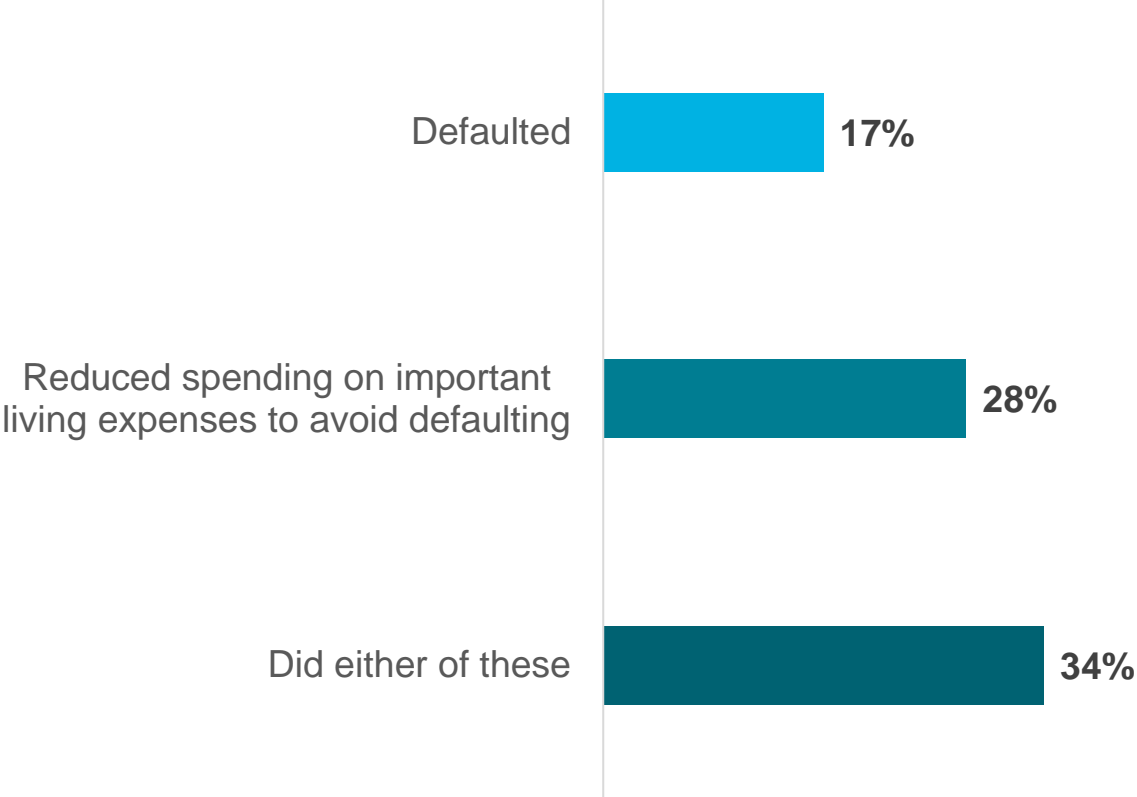


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Forty seven percent of New Zealanders said they held a loan during 2019. Of those who held a loan, 34% said they either defaulted on the loan or had to reduce their spending on important living expenses to keep up with the repayments during 2019.

IMPACTS OF LOANS IN 2019

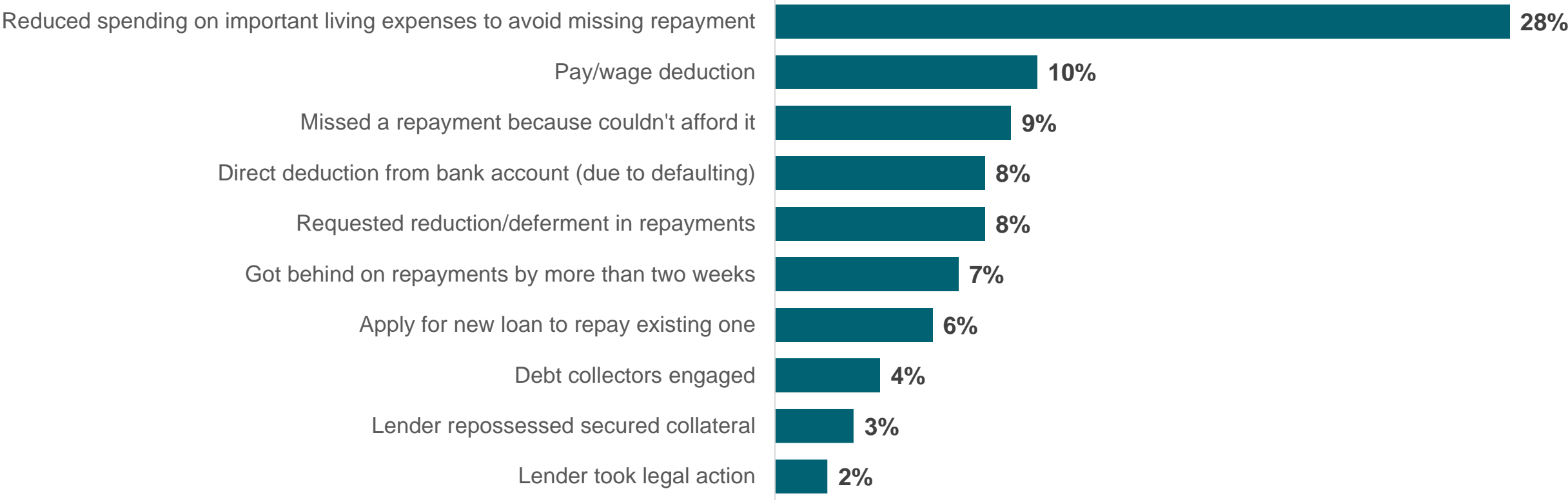


Groups more likely than average (34%) to have defaulted or reduced essential spending to avoid defaulting in 2019	
Men aged 18-29	(63%)
Single-parent families	(63%)
Pacific Peoples	(52%)
Asian New Zealanders	(50%) ¹
Those living in households earning up to \$70,000 annually	(45%)
Those whose highest education level is a non-university tertiary qualification	(41%)

¹ Further analysis shows that 46% of Asian New Zealanders who had defaulted or reduced spending on essentials were Indian and 26% were Chinese (albeit the base size is relatively small; 39 respondents). This seems to follow the broad pattern of those declined credit. Around half of all Asian New Zealanders (52%) who were declined credit in 2019 were Indian, and 27% were Chinese.

Borrowers shared a range of negative experiences after taking out a loan. The most common was having to reduce spending on living expenses ensure they could make the repayments.

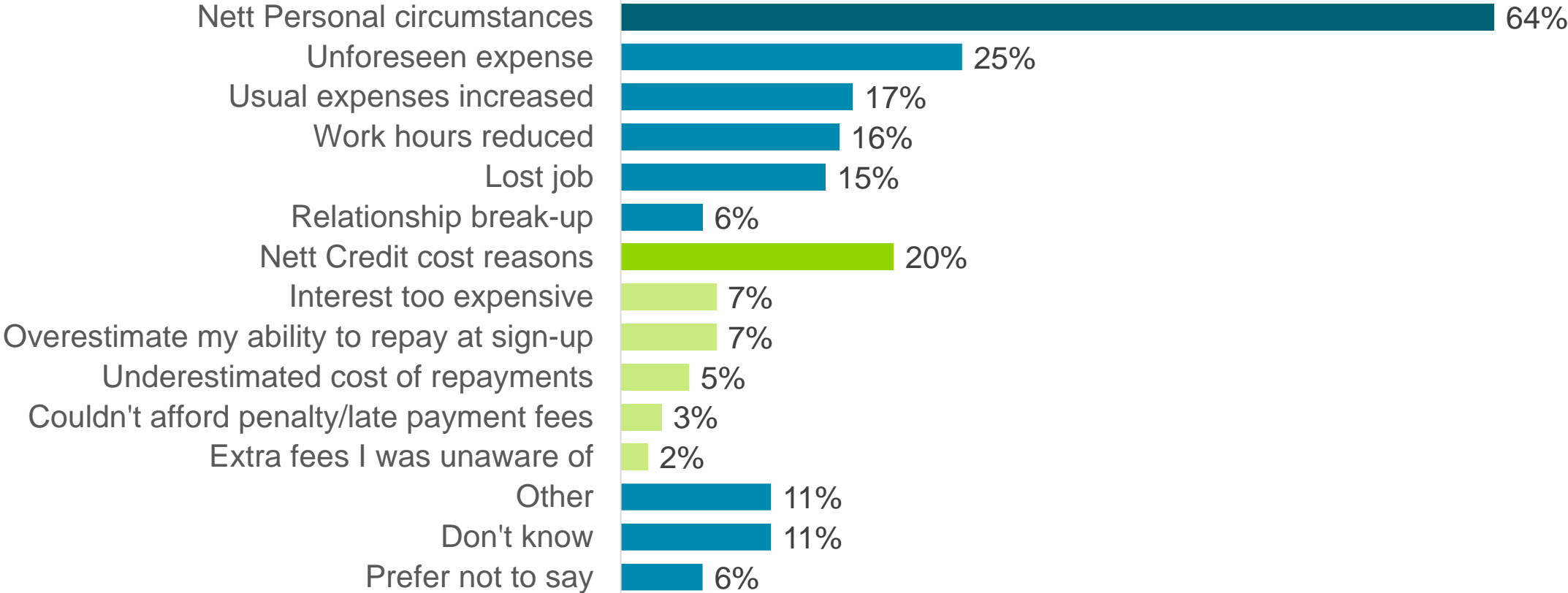
SPECIFIC IMPACTS OF LOANS IN 2019



Base: Those who held a loan during 2019 (n=673)
Source: Q087

Most often, borrowers struggled to repay their loans because of personal circumstances. However, 1 in 5 got into difficulty due to the cost of the loan itself. Most commonly this was a result of interest charges being unaffordable, or borrowers overestimating their ability to meet repayments when they applied for the loan.

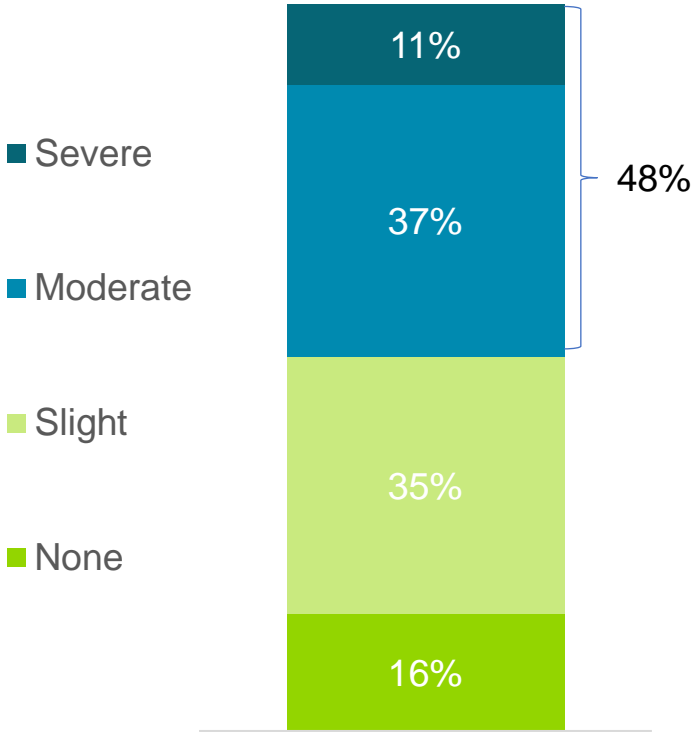
REASONS FOR STRUGGLING TO REPAY LOAN



Base: Those who had difficulty repaying their loan in 2019 (n=247)
Source: Q088

About half of those who had difficulties repaying their loans in 2019 said this had a moderate or severe impact on their everyday life. This equates to 18% of all people who taken out a loan, or 9% of all New Zealanders.

IMPACT OF LOAN DIFFICULTIES ON EVERYDAY LIFE



Note: There are no notable groups that were more/less likely to experience moderate or severe impacts.



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Appendix

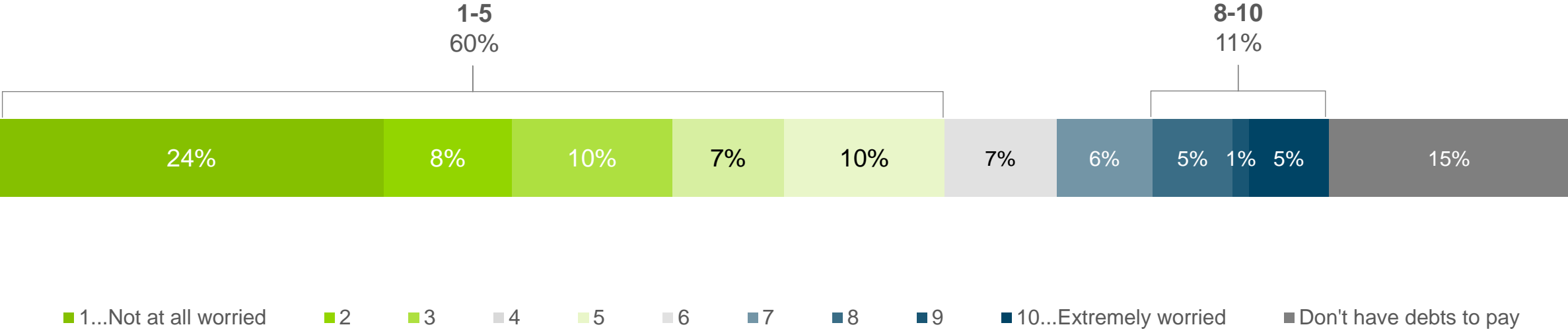


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A minority of New Zealanders (11%) have a high level of worry about their ability to repay their current debts over the next 6 months. Further sub-group analysis is presented on the following slide.

WORRY ABOUT ABILITY TO KEEP UP WITH DEBT REPAYMENTS OVER NEXT 6 MONTHS



The extent to which different groups hold debt, and are worried about repaying any debt varies.

DEMOGRAPHIC DIFFERENCES IN ATTITUDES TO DEBT REPAYMENT

The following groups are **more** likely than average (11%) to be **highly worried** about keeping up with repayments

Single parent families (29%)
Pacific peoples (20%)
Renters (18%)
Māori (17%)
Asian New Zealanders (16%)
Those aged 30-49 (16%)
Two parent families (16%)
Those living in lower income households; 14% of those earning \$30,001 to \$70,000

The following groups are **more** likely than average (60%) to be **less worried** about keeping up with repayments

Those living in higher income households; 68% of those earning \$100,001 to \$200,000
Couples without kids (66%)
Those aged 50-64 (64%)
Owner occupiers (64%)

The following groups are **more** likely than average (15%) to be have **no debt**:

Those aged 65+ (38%)
Those living in lower income households; 22% of those earning up to \$30,000 and 20% of those earning \$30,001 to \$70,000
NZ Europeans (18%)



FOR FURTHER INFORMATION PLEASE CONTACT

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