

CREDIT LIMIT TRENDS



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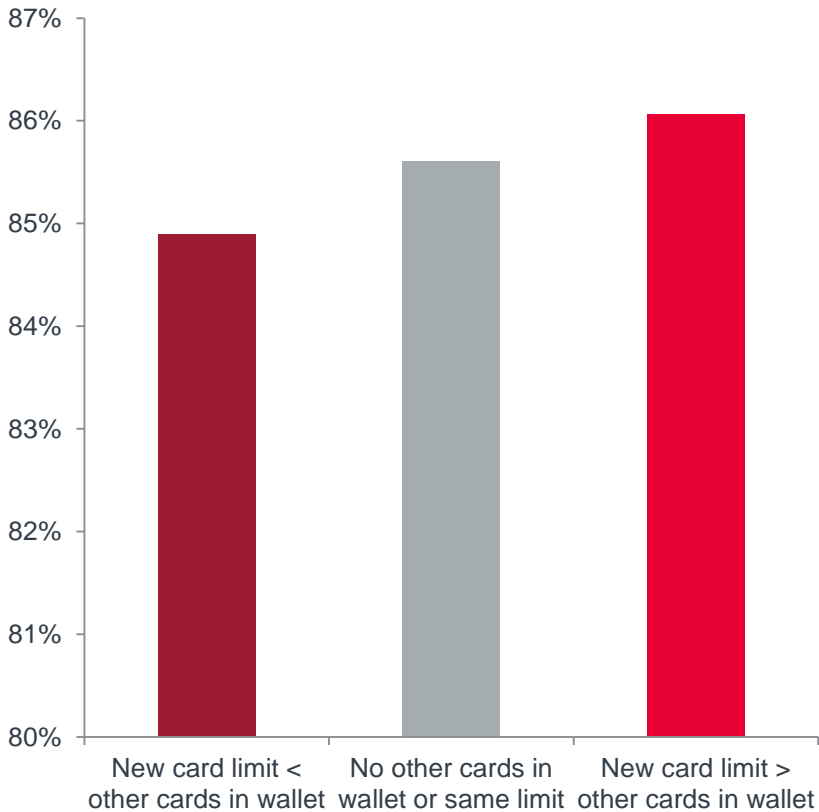
Are we getting it right?

➤ **Credit limit optimization:** A hot topic among Canadian credit card issuers

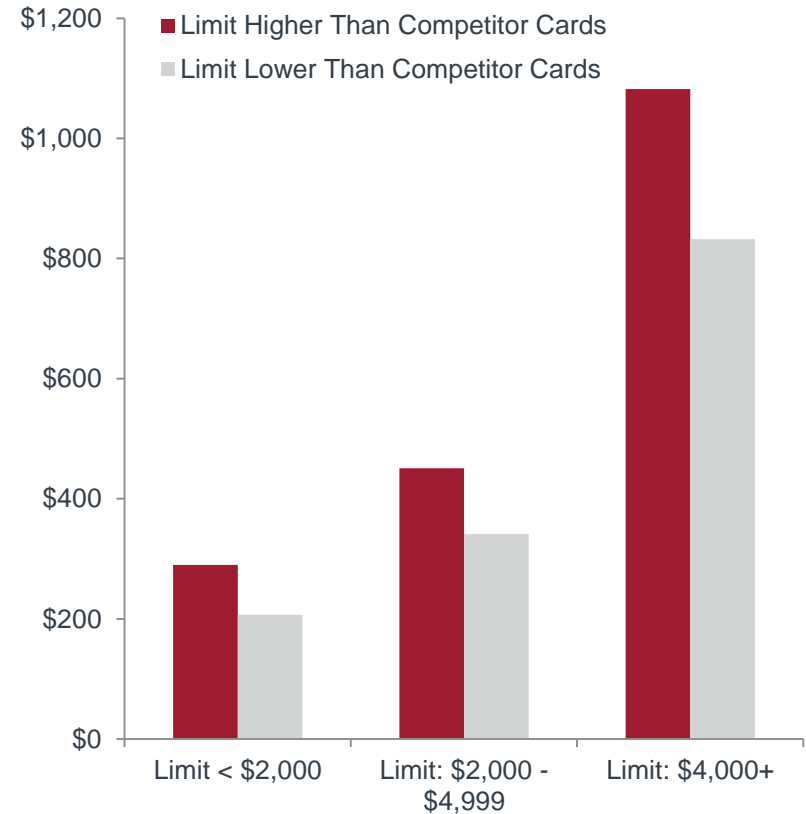
- How do you make sure that you provide your new customers with sufficient credit that will satisfy their spending needs without incremental risk exposure?
- How do you make sure that you adequately assess existing customer's debt repayment capacity to be able to offer them an appropriate CL increase at the right time?
- How do you predict customer behavior with limited information?
- How to assign a limit that ensures you client feels valued and appreciated?

➤ Credit lines can influence card engagement with a card

% spenders in the first 6 months on newly opened credit cards



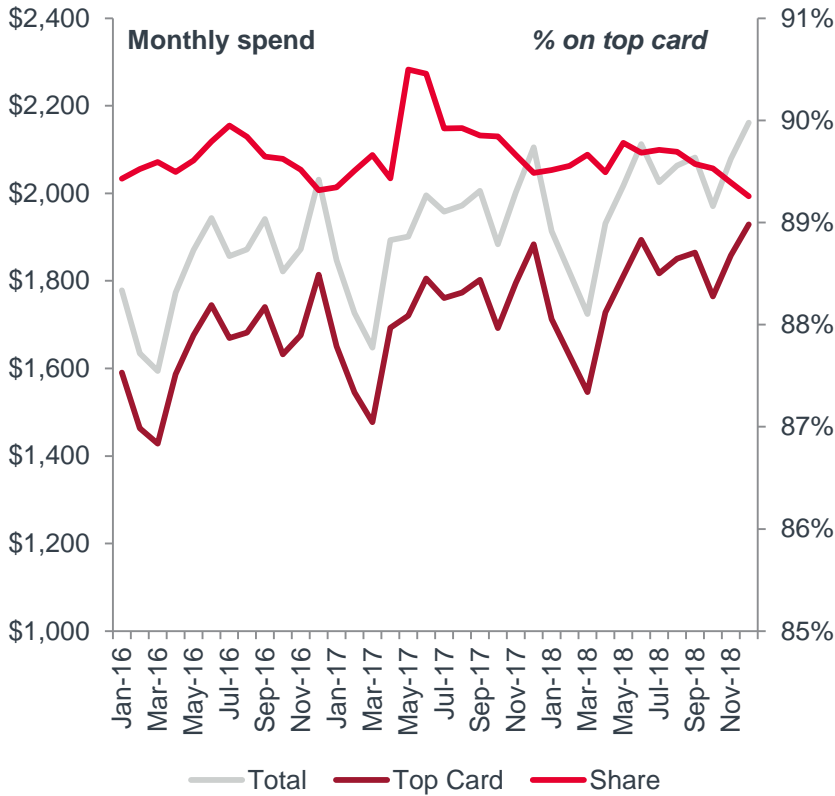
Avg monthly spend – first 6 months on the books



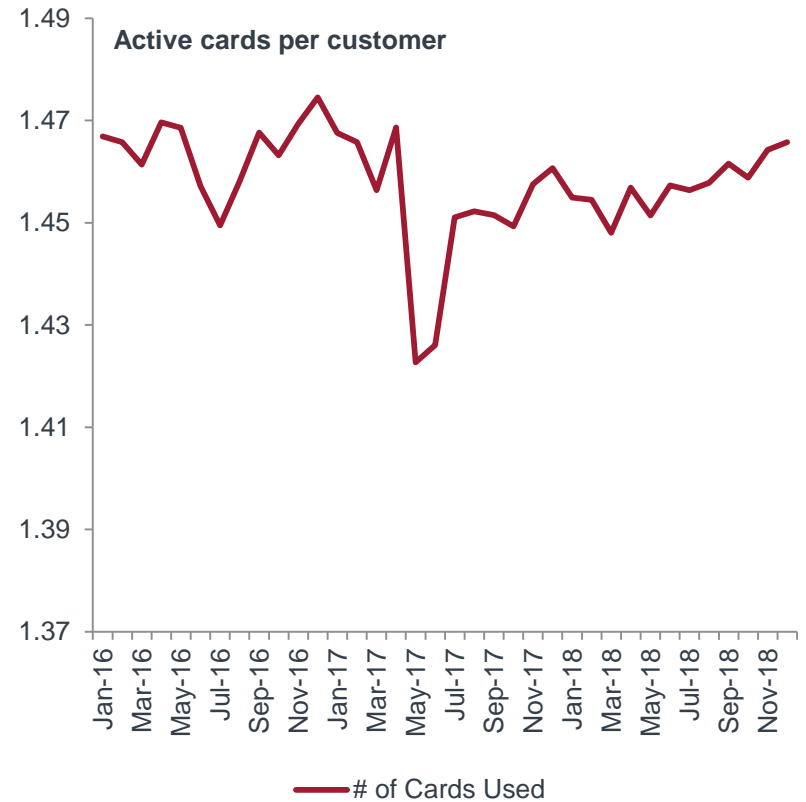
Source: EFX Canada

➤ Canadians are hyper loyal to their primary credit card

Canadians continue to rely heavily on a specific credit card

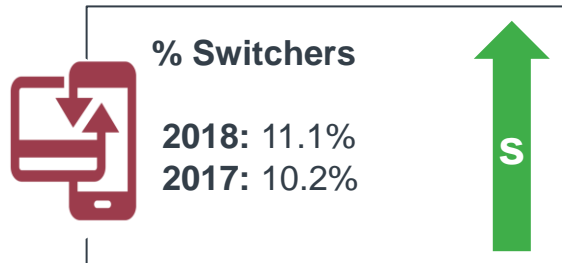


Less than half of consumers use a second card in a given month

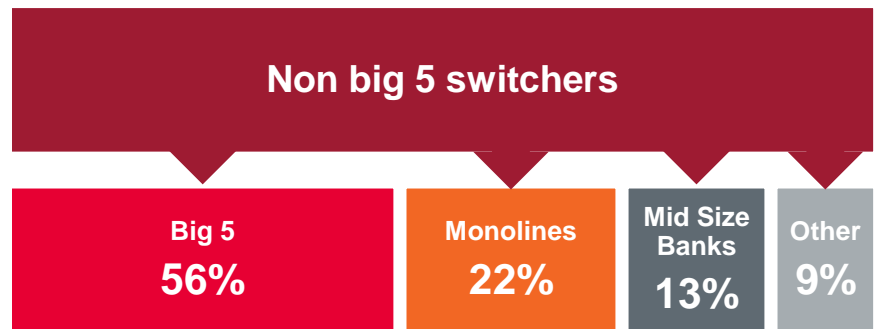
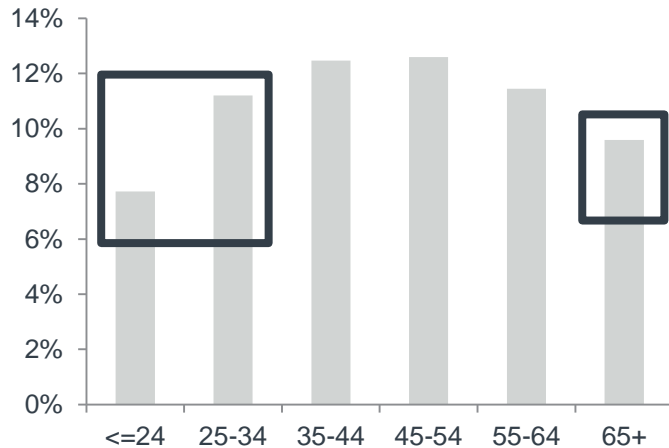


Source: EFX Canada

➤ There have been signs of increased balance movement across cards



2018 Switch % by age group



Switch = change in the top balance driving card in a consumers wallet

Source: EFX Canada

Commonly used techniques



Credit optimization techniques used by FIs

- › Traditional / in-house modeling
 - Scoring models & logistic regression techniques
 - Clustering involves grouping new accounts into an appropriate 'cluster' based on how similar accounts behaved on the books
 - Competitive high limit matching
- › Third party solutions



➤ Quick poll: Are we getting it right?

Question:

**Remember when you last applied
for a credit card...**

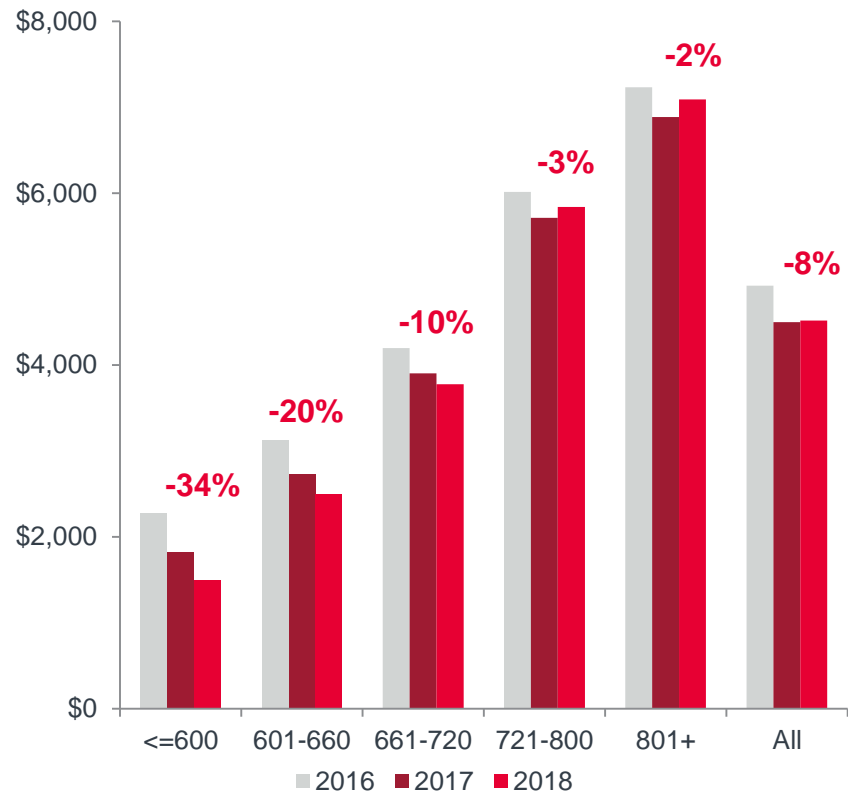
**Was the CL sufficient for your
spending needs?**

We have observed some significant reductions in CL assignments over the last 2 years



Credit card issuers are becoming more conservative with their credit limit assignments

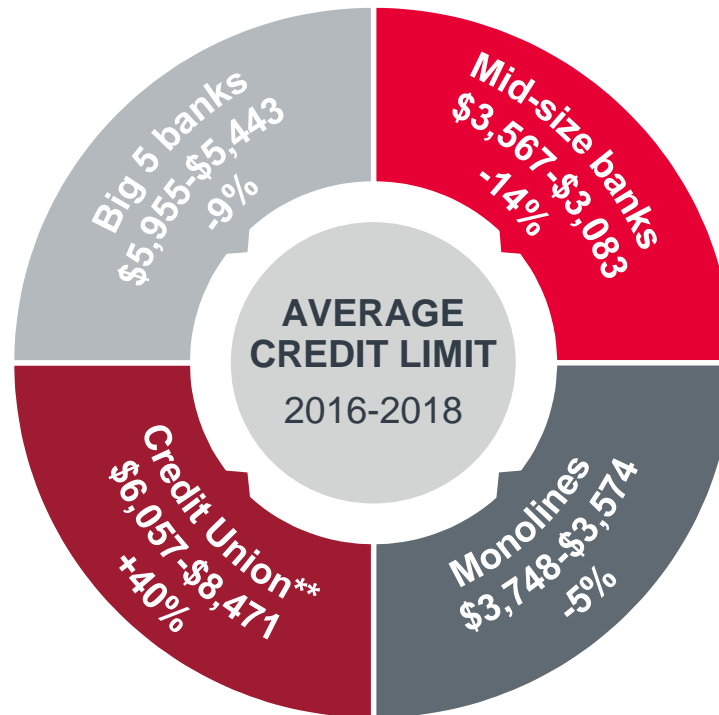
Average credit limit across score groups



Source: EFX Canada

The decline in CL has been driven by some of the big 5 as well as mid – size banks

➔ Banks have been tightening their CL policies



**CUs increase has been driven by CUETS/ Collabria migration
Source: EFX Canada

➤ Millennials receive the lowest credit limits in the country

2018 new account credit limit distribution across age groups



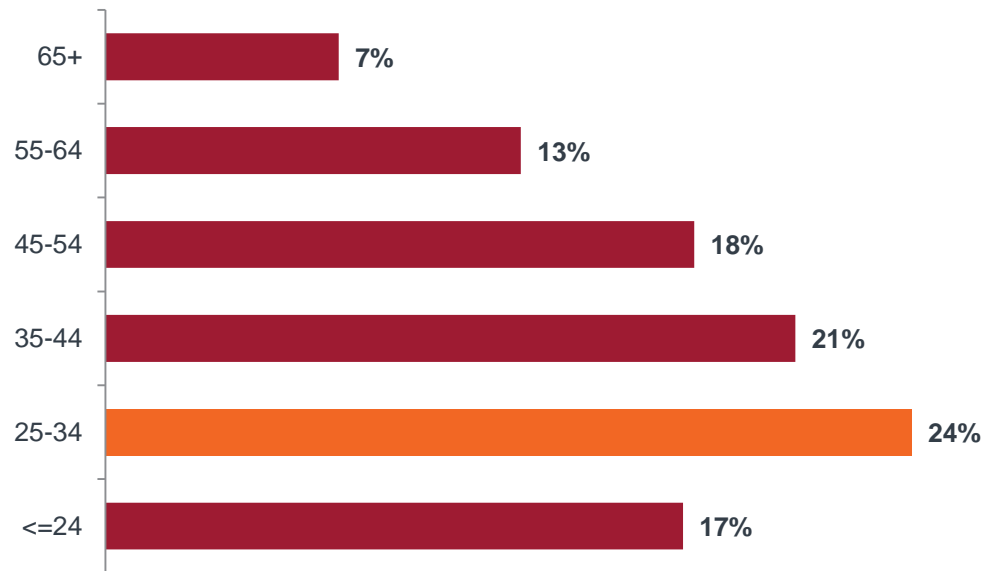
Source: EFX Canada

Is there
a missed
opportunity?



...Millennials are also the largest group to receive a CLI during the first 2 years on the book

Age group distribution of accounts that had a limit increase from Jan 2017 to Jan 2019



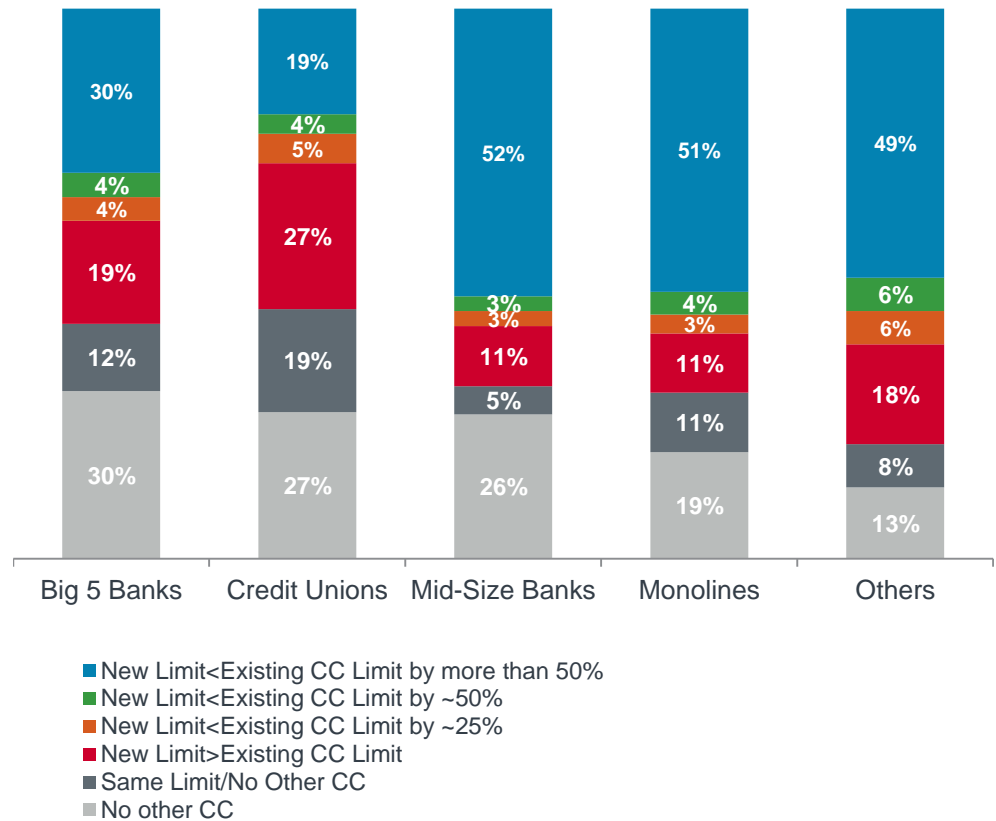
Source: EFX Canada

What else
is in your
customer's
wallet?



The importance of looking outside your book

2018 new Credit Limit Vs Credit Limit on an existing card



Source: EFX Canada

Deep understanding of you target market is critical to successful CL strategy

➤ Important to note



*25% of accounts have a lower limit assigned on their new card **than their average monthly spend on other credit products***



*In 2018, **66%** of accounts that were assigned a lower limit than their existing credit limit belonged to the **720+ score group** consumers*

Source: EFX Canada

CLI strategies are prevalent among Canadian FIs



Issuers are more comfortable with credit limit increases vs limit assignments



24%

of all new accounts opened in January 2017 had at least one limit increase in the span of two years

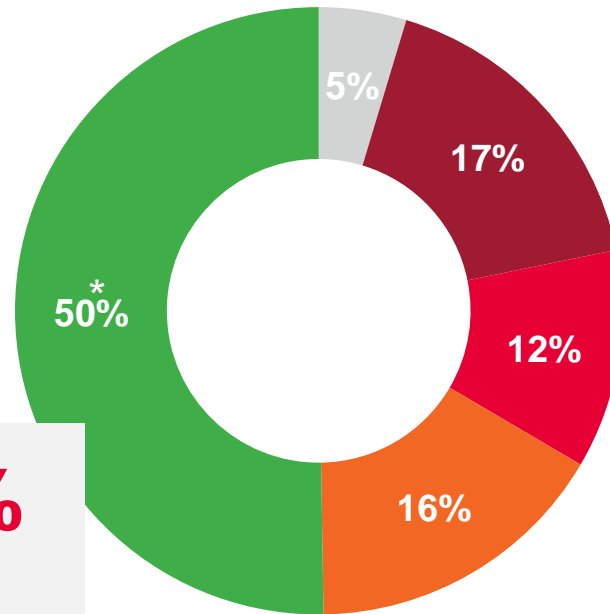
Source: EFX Canada

Doubling the credit limit during an account's tenure is common practice



50% of accounts had their limits more than doubled over the last couple of years..

% Credit limit increase across accounts in 2 years



***47%**
of these accounts belong to Millennials

- CLI <=25%
- CLI 25%-50%
- CLI 50%-75%
- CLI 75%-100%
- CLI >100%

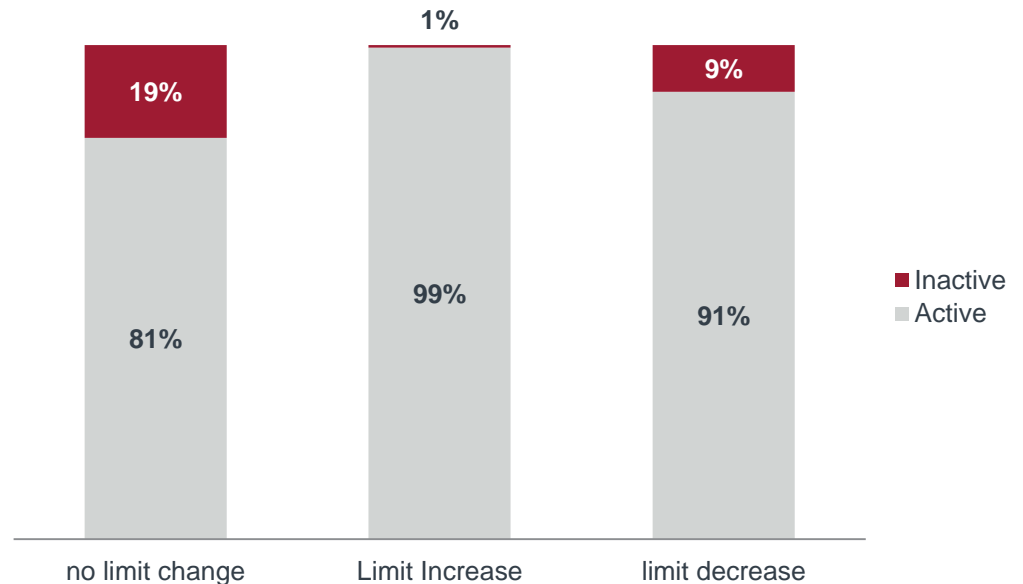
Source: EFX Canada

Account activity tends to be higher with CLIs



Poor CLI/CLD strategies can lead to higher spend attrition

% of active vs inactive accounts as a result of credit limit adjustments



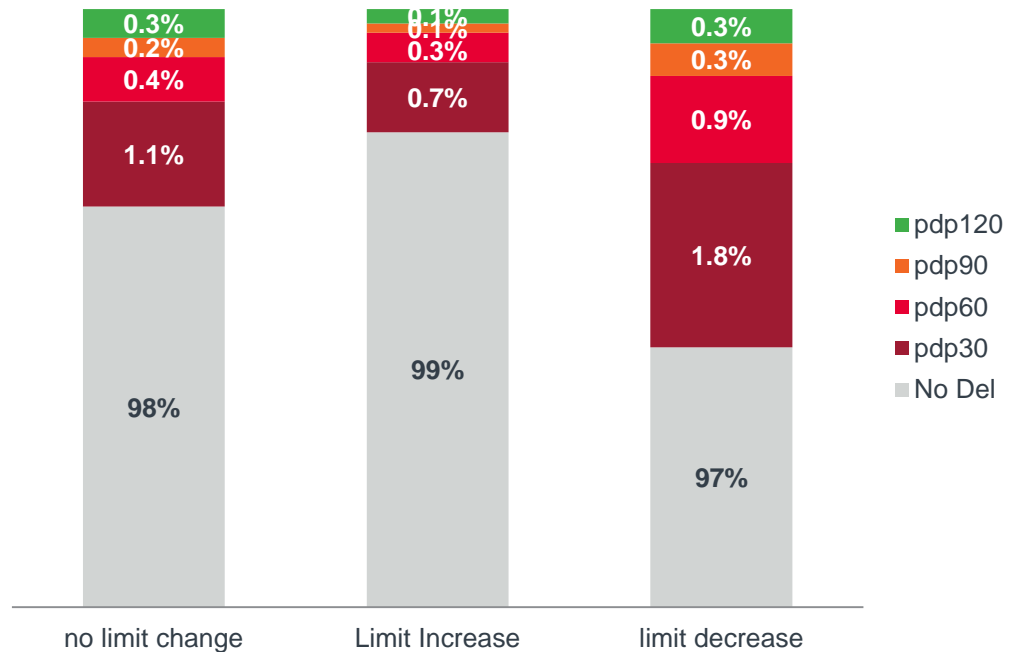
Source: EFX Canada

Delinquency rates are affected by CL strategies



..and tend to result in higher delinquency rates

% of delinquent accounts as a result of credit limit adjustments



Source: EFX Canada

Key learnings

- There is an opportunity for Canadian Credit Card Issuers to become much better at initial Credit Limit Assignments
- Understanding “what else is in your wallet?” is critical to a successful CL strategy
- Millennial customers are becoming increasingly important and Credit Card Issuers need to make sure they tailor their credit limit strategies to this group
- Getting it right from the start is much more rewarding than playing a catch-up game!



The background of the slide is a blurred office scene. In the foreground, the corners of two laptops are visible, one on the left and one on the right. In the background, several people in business attire are standing and talking, their figures out of focus. A large, stylized white arrow graphic, composed of multiple parallel lines, points to the right on the right side of the slide.

QUESTIONS?