Case 1: Bank Responsibility

Credit and access to credit can be defining aspects in the financial success of many people. Credit allows people to borrow money that can help them afford expensive every-day items like a washing machine or car, invest in themselves either through schooling or business, and overcome emergencies when they might not have the money to solve them otherwise. There are, however, many dangerous aspects to credit use as well; it allows individuals to pay a price – interest – to spend beyond their means.

Of particular notoriety are credit cards, as they give instant access to borrowed money at a higher price than many other types of loans. Their convenience allows some people to use them to accumulate rewards and smooth their spending, but it also makes it very easy for people to overspend if they don’t properly budget their money. It is not uncommon for people to spend more in interest paying off a purchase than they did for the original item.

When individuals apply for a credit card, they are either declined, or approved with a certain line of credit. This credit line caps their ability to make purchases on the card, which limits the risk the bank takes on from each customer and the amount of debt that customer can accrue on a single card. After the customer has shown a consistent ability to make payments on time, it is common for the customer to either request a credit line increase or for the bank to raise it for them.

Karen is a director of a team at a large, public bank that evaluates when to proactively raise customers’ credit lines. From a financial perspective, her team makes a lot of money, but she is concerned that by raising customers’ credit lines, they are causing customers to accumulate more debt, pay more in interest, and even default at a higher rate. Ida, an analyst on her team, shares this concern and presents an idea for a policy change that would stop raising the credit lines of customers most likely to accumulate too much debt, even if it would be profitable for the bank to do so.

Brett, another analyst on the team, disagrees with this strategy. He argues that it is not the bank’s responsibility to make financial decisions for their customers. If he was a customer who needed additional credit

for any reason, he would be upset to know that the bank was trying to make that decision for him rather than let him manage his own finances. Furthermore, the bank has a responsibility to its shareholders to bring in as much money as it can, and this strategy is not aligned with that responsibility. Ida responds that the bank also has a responsibility to drive the best outcomes for its customers and that if it can help prevent customers from accumulating debt that they regret later, it is their responsibility to do that as well.

Study Questions:

1. Who does the bank have responsibilities to? Shareholders? Customers? The public? What is involved in those responsibilities? Should some of those responsibilities be prioritized over others?

2. Is it important that the bank pick a policy that gives customers the opportunity to make their own financial choices? Why?

3. Are all of the bank's customers the same? Will some be affected by the policy differently than others? Does this mean anything for the bank's choice of policy?

4. Should the bank implement the proposed strategy? Why or why not?