

The next crisis: credit card debt

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The [FT has reported](#):

Visa, the world's largest electronic payments network, on Wednesday reported higher third-quarter profit as consumers increasingly turned to credit, debit and charge cards to pay for goods and services.

Net income grew 73 per cent to \$729m, or 97 cents a share, in the three months ending June 30, from \$422m, or 51 cents a share a year earlier, the company said in a statement.

Visa said consumers spent less during the quarter as the global recession inspired greater thriftiness, resulting in a 7 per cent decline in year-on-year cash volumes to \$969bn.

However, the number of processed transactions grew as consumers increasingly used their cards in preference to cash or cheques. The total number of processed transactions was 10.3bn in the quarter, an 8 per cent increase year-on-year.

Visa and rival **Mastercard** have been insulated from the rising credit card losses that have affected banks' card businesses because the companies process transactions but do not lend to consumers.

Let's translate this: a) people know they're in trouble so are spending less on big ticket items but b) they're paying for more and more smaller, everyday, and even essential items on credit. Which means they're putting off the day of reckoning when they just can't pay the debt.

The credit card crisis has yet to hit the banking system. And it's yet to hit tens of thousands (if not more) households in the UK. But it will. When it does the banks will record the next round of losses and as people default their capacity to spend will collapse, giving rise to the next fall in demand.

It will happen.

It's just when.

And Visa portrays this as good news. But when one is looking for companies with distorted values credit card companies are just about the first port of call for any serious enquirer. Their products enslave people, fuel pointless consumption and are (albeit — I presume unwittingly) a key component in much tax and money laundering fraud — as the UBS fall out is showing. It's not much of a track record. If we really want to reform finance Visa and MasterCard would be good places to start.