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Dear Patricia,

MS14/6.1 – Credit card market study: terms of reference

This is the Financial Services Consumer Panel's comments on the scope of the proposed credit card market study.

We welcome the FCA's announcement that it will be conducting a market study in this area. The potential for consumer detriment in the credit card market is great. Most over-indebtedness in the UK still arises from the use of credit cards and overdrafts, and the Panel has long argued that there should be more of a level playing field in the regulatory approach to different forms of credit.

The Panel agrees with the scope. In addition, we believe it is important that the FCA looks at whether or not credit card providers are doing proper affordability checks. Simply looking at a consumer's credit reference agency data and payment history does not determine affordability. It is possible to take out multiple credit cards and, provided the minimum balance is paid off each month, this will not raise a flag on the credit reference. Consumers can – and do – get into serious debt this way, and the point at which they start to miss minimum payments is way too late.

The Panel also believes that the study needs to understand the different ways that credit cards are used by consumers and the way that these different patterns of use interact with the particular product features and prices. The target segments for advertising and marketing should also be of interest, as well as the amount of money firms expend on these activities.

Finally, we hope that the FCA will look at cross-subsidisation in this market. Conventional wisdom is that people who do not pay off their balance in full, or incur late payment charges, subsidise those who do clear their balance every month. But there are questions about who these consumers are, and the extent of the cross-subsidy.

We look forward to engaging further with the FCA as the market study progresses.

Yours sincerely



Sue Lewis
Chair
Financial Services Consumer Panel