Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Patricia,

MS14/6.2 Credit card market study: interim report

This is the Financial Services Consumer Panel's response to the Credit Card market study interim report.

We welcome the fact that the FCA's approach to this market study[1], and to market studies in general[2], takes into consideration consumer protection and market integrity, not just competition. The interim report puts forward strong evidence that many credit card customers end up with problem debt. Moving regulation of consumer credit to the FCA should have been a real opportunity to tackle consumer detriment in the credit card market, as the regulator was quick to do with payday lending. We think some tough conduct remedies are called for to protect consumers from exploitative conduct here, too.

We welcome the comprehensive research and analysis underlying the interim report. However, the report is yet another example of over-emphasis on demand-side remedies. Experience tells us that trying to change consumer behaviour in the face of strong behavioural biases that firms can exploit to their advantage is rarely effective. BIS proposed similar remedies in its 2009 credit and store card review[3], yet we still see too many people rolling over credit, or taking on credit they cannot afford, often leading to problem debt.

If the FCA thinks it is right to implement demand side measures, we believe it should demonstrate through extensive consumer testing that they will have the intended impact. In the meantime, the Panel would like to see the FCA consider more supply side remedies, including requiring tougher affordability tests, an increase in the floor for minimum repayments, a total 'per person' credit limit, and a requirement that consumers should always explicitly request any increase in their credit limit. Measures

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[1] FCA (2014). *Credit card market study: Terms of reference*. MS14/6.1
[2] FCA (2015). *Market studies and market investigation references. A guide to the FCA's powers and procedures.* FG15/9
[3] BIS (2009). *A Better Deal for Consumers Review of the Regulation of Credit and Store Cards: A Consultation*

such as these would not be popular, but the Panel believes they are necessary to avoid the stress and misery of problem debt.

The FCA says that the market is working fairly well for consumers, based on levels of switching. However, switching is not of itself proof of a well-functioning market: it does not incentivise firms to reward loyalty. Instead, as has happened in the past, firms may only offer improved interest rates or services to new customers. The Panel believes that, in a well-functioning market, there should be no significant difference in how customers are treated based on whether they are 'back-book' or new customers.

The following sections outline our particular concerns.

Shopping around and switching

Switching only helps drive competition if consumers switch away from high prices and poor service to better value products. The interim report does not produce any evidence that this happens in this market.

We would therefore suggest that the FCA should undertake more research into the quality of consumers' switching decisions in the credit card market. This should include looking at whether people actually switch to a better value product.

On proposed remedies, greater use by consumers of credit card usage data through MiData (in its current form) is unlikely to have a significant impact. We are unaware of any evidence that consumers would use customer specific transaction data. BIS first announced the "potentially limitless" possibilities of the MiData initiative in April 2011, but MiData is still not widely used, four years on.

For price comparison websites (PCWs) to help consumers choose a god value product for them, they need to be independent, and it should be possible to compare products on a single page without advertisements.

If it has not already done so, it would be useful for the FCA to analyse the potential savings from switching for higher and lower risk borrowers. This would help inform the likely effectiveness of proposed remedies to promote shopping around.

Multiple credit cards

The Panel shares StepChange Debt Charity's concerns[4] on multiple credit cards. StepChange reports that a quarter of its clients have three or more cards and their average credit card debt is nearly £20,000. Moreover, levels of debt rise significantly the more cards people have.

In its analysis for this market study, the FCA found that around half (46%) of credit card holders had two or more cards. Each year 14% of consumers with a credit card take out a new one. The extent to which this is an additional card, rather than a replacement, is important. The interim report estimates that 3% of existing customers opened at least one new card and closed a previous card in 2014, which suggests that the remaining 11% were additional.

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[4] http://www.stepchange.org/Mediacentre/Pressreleases/ResponsetoFCACreditCardMarketStudy.aspx

While we appreciate that the FCA took into account multiple card holding in its analysis, we also understand that it intends to conduct further analysis on the role of multiple credit cards in problem debt to inform its final report, which we welcome. In our view, further analysis is particularly warranted in relation to (1) the types of credit card 'offer' that can result in consumer detriment; and (2) getting a better understanding of the consumer journey into financial difficulty, including the role that offers such as 0% balance transfers, interest free credit periods, unsolicited credit limit increases, and affordability checks (or a lack of them) play in the decline of a consumer's financial situation.

Balance transfers

The FCA has concluded that balance transfers do not appear materially to contribute to problem credit card debt. However, there is very little discussion in the interim report about new spend on balance transfer cards (e.g. what proportion of balance transfer users continue to spend and the cost of this spend) which may be an additional factor in unaffordable debt. In addition, the FCA's analysis shows that 29% of balance transfer accounts have not been repaid six months after the end of the promotional period. It is unclear what happens to these balances at the end of the promotional period, and the cost of repaying them.

The fact that 20% of consumers that carried out a balance transfer in 2014 had previously taken out a balance transfer in 2012 and 2013 also seems like a very worrying sign. The FCA reports that repeated balance transfer use was most prevalent among lower risk consumers, and that those struggling to pay were unlikely to be offered subsequent balance transfers. However, consumers categorised as lower risk when they took out the card may no longer be; firms would not necessarily know if affordability had become an issue.

We are also concerned that, as the result of just one missed payment, or breaching the credit card limit, firms can immediately withdraw an interest-free credit card offer, which is likely to result in high interest charges. This is not consistent with Treating Customers Fairly. We think the FCA should look at whether firms sending out text alerts, say, three days before the payment deadline would be effective in helping consumers avoid excessive charges.

There is also an issue with the price transparency and comparability of balance transfers. Some providers charge a transfer fee; others do not. It is difficult for consumers to work out their total cost of credit, and to compare offers. We would suggest the FCA looks at how the price of these products could be presented in a more transparent and easily understood way.

Affordability and creditworthiness

The Panel supports the FCA's wide-ranging review into creditworthiness (including affordability) across all credit markets. However, where there is evidence that consumers are being allowed to extend their borrowing to unaffordable limits, this should be addressed now.

Given the potential long-term nature of credit card debt and the flexible amount that consumers can borrow, it is important to consider that both affordability and creditworthiness may change over time. While firms review creditworthiness, they may not review affordability, and the interim report notes that firms do not always verify income at the application stage. Research commissioned by StepChange Debt Charity shows that working households often use credit cards to manage a drop in income, and this can become unaffordable and problematic quite quickly, for example if the drop in

income is not fully recovered or other costs increase[5]. It can also be difficult for consumers to keep track of their borrowing across multiple cards.

In our view, there is a case for considering a single limit for credit card borrowing across multiple cards, like that recently introduced in Singapore. This would mean that lenders have to take into account a consumer's total credit limit and the total outstanding balances before issuing a card or increasing the credit limit of an existing card. Just as better technology to share and manage data has benefitted firms in terms of their marketing and sales, so too could it benefit consumers in terms of affordable credit management.

The FCA should ensure that there are no more unsolicited credit card limit increases. Consumers should actively request an increase, which should trigger a new affordability assessment.

Minimum payments

Consumers who persistently make only minimum repayments are a cause for concern. This group may represent a relatively small proportion of credit card customers, but a very profitable one suffering high levels of detriment.

At the very least, we would like to see firms make greater efforts to communicate to consumers the implications of only making minimum payments, particularly over any period of time. This might include finding a better term than 'minimum payment'; strengthening the current minimum payment health warning; or thinking more creatively about how to convey this type of information to consumers. For example consumers may be more likely to remember this information if it is presented differently, such as '*Don't get caught out by….*' or '*Watch out for*…'

An increase in the floor for minimum repayments would ensure that the amount borrowed reduces more quickly over time. It could increase the risk that more consumers default, but this risk should diminish if providers conduct proper affordability assessments. The FCA could usefully analyse the impact of increased minimum payments on levels of default, if it has not already done so.

The FCA's proposed remedy of pre-set payment options that reflect the target time to pay sounds attractive, and we would support consumer testing for different options, including providing a comparison against a fixed term loan, which may be more beneficial. Further, the FCA should also look into the reasons why card users do not set up a direct debit to at least make the minimum payment.

Higher risk consumers

The interim report highlights higher risk consumers who use 'Low and Grow' credit cards.

First, the FCA's analysis shows that firms serving higher-risk consumers achieve appreciably higher returns. In a properly functioning market, we would expect these profits to be competed away. The fact they are not suggests issues in this sector that the FCA should explore further.

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[5] https://www.stepchange.org/Portals/0/Documents/media/reports/Bristol_Report.pdf

Second, the FCA's analysis finds that 'Low and Grow' card users are much more likely to have exceeded their credit limit than the generality of card users (20% of Low and Grow users compared with 7% of card users overall). We appreciate this is a minority of Low and Grow card holders, but it nonetheless represents a sizeable and worrying number of consumers. While 'Low and Grow' cards may be useful products for consumers to build their credit rating and to smooth income and expenditure, this evidence indicates that such cards do not always work for consumers and may in fact risk damaging already fragile credit ratings.

Above and beyond individual remedies, we firmly believe that many of these problems could be fixed if financial services providers had a duty of care towards their customers. Having a duty of care would mean that all firms only offer appropriate products with affordable limits to consumers. A duty of care should also ensure that firms have transparent and proportionate fees and charges.

Yours sincerely

Sue Lewis
Chair, Financial Services Consumer Panel