

MS14/6.2: Annex 9

Market Study

Credit Card Market Study

Interim Report: Annex 9 – Review of financial promotions

November 2015

Summary box

Our review of a sample of financial promotions found:

- There is a wide range of product choice which may accentuate consumer confusion
- Small print is frequently used to explain key product conditions
- The impact of failing to make repayments or adhere to card conditions was not always prominent
- There is evidence that some firms are developing tools to aid consumers' understanding of products and attempting to clarify the impact of conduct, such as making minimum repayments.

Introduction

1.1 In our Terms of Reference we stated:

"We will explore whether consumers have the relevant information on key product features at the outset and the extent to which they consider the terms and conditions to be unclear. In both cases, this could lead to consumers incurring fees and charges that they were not aware of and did not expect when they selected a card. [...] Consumers may have limited attention, which makes them less likely to assess all the product features when making a decision and more likely to only focus on those features that are prominent in marketing material [...] We will also consider whether and to what extent firms exploit these [behavioural] biases in the design and marketing of credit card products."

1.2 The FCA therefore conducted a review of a sample of financial promotions to understand the way in which credit cards were promoted to consumers and whether relevant information was provided.

1.3 This document outlines the way in which we approached our review and its scope, key findings on areas such as the presentation of the representative APR, and detailed findings by credit card types.

Our approach and scope of our review

1.4 The review covered a wide range of financial promotions issued by a sample of 30 firms (both credit card issuers and affinity partners) and approximately 230 promotions overall. Advertising media covered print, digital and broadcast and was identified using material gathered from an external advertising database the FCA subscribes to, websites, social media and promotions provided by the firms themselves. The credit cards offered were broadly split into 4 categories:

- Standard Interest rate
- Balance transfer
- Low and Grow (poor or building credit)

- Rewards

- 1.5 The focus of the review concentrated on the consumer's journey rather than a compliance review.

General findings

Product choice

- 1.6 We found that there was a significant degree of choice for credit cards, with many providers offering multiple credit card products. Several firms out of the 21 reviewed offered a comparison tool for their own various cards. Most comparison tools simply set out the key features of the card rather than putting these into any context, which may be less meaningful to a consumer. Some providers did, however, present a 'best for' summary to help consumers.

Representative APRs and examples

- 1.7 Of the sample we considered, all financial promotions included a representative APR or a representative example when required.
- 1.8 The APR is based solely on the purchase element of the credit, which does not include fees for balance transfers, cash advances and introductory rates.
- 1.9 The APR is based on a set of assumptions¹, such as that the credit limit will be drawn down in full at the outset and repaid in equal instalments over 12 months without further draw down, which may not reflect the way in which consumers actually use their credit card. When making a comparison, a consumer may find themselves having to choose between a range of providers with the same representative APR which would not necessarily reflect that those cards had different fees or introductory offers.

Eligibility

- 1.10 We found that approximately 50% of the promotions we reviewed did not include information on a consumer's eligibility for the credit card. Promotions limited in space and time, such as posters and some websites, relied on separate documents to outline eligibility information.
- 1.11 Some providers' websites contained an eligibility checker, which allowed the consumer to check to see whether they were eligible to receive the card before actually applying. However, others linked to eligibility criteria contained in a separate document or just the information contained in the summary box.

Conditions

- 1.12 Of the sample we considered, most promotions used small print to explain key conditions or important information. Most promotions focused on headline rates and promotional offers but did not give a fair and prominent emphasis to the potential risks or drawbacks, such as introductory rates only being applicable so long as the minimum repayment amount was paid each month on time.

¹ CONC App 1.2.5R

Websites

- 1.13 Some firms' websites sought to aid a consumer's decision making process by including decision tools (which were provided in addition to, or instead of, the comparison tools referred to in paragraph 1.6 above), such as a section on card suitability and setting out certain criteria or scenarios which a consumer could assess themselves against. In addition, some promotions for balance transfer cards explained, for example, that these would be suited to a consumer who was looking to consolidate existing credit or store card balances. Most of the websites we reviewed contained an "Apply now" option directly beneath the promotional/headline rate. In many instances, other key information was included some way below an "Apply now" option and could therefore have been missed.

0% balance transfer cards

Cards with multiple features

- 1.14 The majority of firms we reviewed offered a number of 0% balance transfer cards but with variation in the length of the offer and fee chargeable. We considered this could be potentially confusing to consumers when determining which card is most suitable for them. For example, some credit card providers offered cards with different combinations of features, such as 0% on balance transfers for 18 months with a 3% fee, or a card with 0% on balance transfers for 12 months with no fee. However, as both cards may have the same APR on purchases, it may be difficult for a consumer to decide which card would be best for them.
- 1.15 We found that credit card providers focused their promotions on the length of the 0% balance transfer period, if that was the main promotional aspect of the card. However, some cards offered a 0% balance transfer period in addition to other offers, which often were more prominently displayed in promotional material. For example, some 0% balance transfer offers gave greater prominence to being able to receive rewards such as cashback.

Clarity on interest rates

- 1.16 Overall we found that financial promotions for 0% balance transfer cards contained relevant information for consumers; however, there were some notable exceptions. A number of promotions did not make sufficiently clear what the "go to" interest rate applicable to the balance was once the 0% had ended. We expect it to be made clear in material where the 0% balance transfer rate is promoted what the assumed interest rate applied will be after the introductory offer ends. New Guidance coming into force in November underlines this point. This is of particular importance if a consumer fails to meet the conditions of ownership of the card, as this is the rate they will be charged in future.

Low and Grow cards

- 1.17 As part of our review we examined "low and grow" cards which are designed for consumers with low or no credit rating that, over time, seek to help improve the consumers' credit score and increase the credit limit available to them.

Focus of promotional messages

- 1.18 These types of cards did not offer features such as rewards, introductory offers or promotional rates. Instead, in line with the overall purpose of these products, most promotions for these cards emphasised the benefit of being able to improve credit scores and build credit limits. These types of cards were predominantly promoted on websites rather than other media types.

Presentation of key information

- 1.19 The cards were largely clear about the conditions of use of the card, such as the necessity to make minimum repayments. We identified one example where the promotion failed to state the consequence of not making minimum repayments or making them late, which we would expect when promoting credit building. We did see some examples where credit card providers provided educational information on which card might be most suited to consumers and on appropriate use of the card, such as the fact that not repaying on time could harm a consumer's credit rating.

Reward cards

- 1.20 Rewards cards vary from those for airline miles to those for shopping vouchers and cashback.

Ability to make comparisons between rewards features

- 1.21 Rewards may benefit consumers, particularly if they are looking to make purchases from the given retailers. However, we found that there is no universal way of indicating a monetary value of a reward, which may make it difficult for consumers to compare the benefits of the different cards. We found some examples of credit card providers attempting to demonstrate the value of their rewards, but this was not common across all rewards offers.

Presentation of key information

- 1.22 A number of promotions did not make it clear when the cashback would be paid to the consumer. For example, some providers paid cashback on an annual basis, whilst others paid it to consumers monthly, but this was not always presented clearly to consumers.

