Consumer Credit Qualitative Research: Credit Cards & Unauthorised Overdrafts

7 April 2014

Commissioned by the FCA

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Executive Summary

1.1. Background to the research

The FCA will take responsibility for the regulation of the consumer credit market from April 2014[1]. To help better understand the overall consumer journey in relation to credit products and to help identify the drivers of consumer detriment in this market, the FCA commissioned a multi-strand consumer research programme. Jigsaw Research, was one of the chosen agencies for this programme and focussed on overdrafts and credit and store cards.

1.2. Objectives

This research was commissioned by the FCA to:

- Assess consumer behaviour and attitudes to the purchasing or consideration of consumer credit products
- Assess how consumers move between credit products and the range of different credit products they hold to identify how consumers can become over-indebted
- Identify the key issues that determine the shape and nature of the market and whether consumer behaviours have the potential to lead to detriment

1.3. Methodology

Respondents were broadly recruited according to the criteria of the FCA Consumer Spotlight Segmentation (Section A.4), focussing a) on the six segments with the highest usage of overdrafts and revolving balances on store and credit cards and b) lower income households who are potentially more vulnerable to the suspected asymmetry.

The research was conducted in 12 focus groups in six cities across the UK and 6 face-to-face depth interviews in-home where possible, in November and December 2013.

1.4. The findings

When it came to their current situation, ***consumers shouldered the lion-share of the 'blame'*** taking personal responsibility for their debt burden with little fault apportioned anywhere else. Part of this was driven by the desire not appear foolish by admitting mistakes, but there was also a lack of awareness of where they may have been exploited by providers[2].

Overdrafts were rarely seen as debt among consumers. Providers often included overdrafts within the 'funds available', positioning the debt as part of the consumers' balance, which was then seen as 'my money'.

> My overdraft's £1,300 and I never get paid that. So my overdraft is my money now
>
> Starting Out, Birmingham, 21-34

When it came to credit card and store card debt however, these were seen as much more of a burden, and a long-term one at that.

Many resisted the lure of credit cards for a long time but eventually were ***worn down by continual marketing*** (in particular direct mail dropping through the door 'pre-approving' them) and pressure from banks or stores. Only the minority made a conscious decision to begin the search for a credit card.

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/236559/PU1528_Summary_of_responses_to_consumer_cerdit_consultation.pdf

[2] Providers of credit products to consumers, in this report predominantly banks, building societies and any other credit card issuers.

The speed at which good intentions with credit cards went out the window was notable. Many were ***approaching their initial credit card limit within a few short months*** if not weeks, particularly if they had taken out the card to fund a specific purchase. Any additional 'buffer' allowed in the limit initial was quickly eaten-up.

Many of the consumers researched were ***unsure to how the products worked and what they cost*** and so tended to be unaware of the financial ramifications of their borrowing behaviours and decisions. They were also poorly informed on how best to compare products across credit category (e.g. cards vs overdrafts) and within category (e.g. comparing credit card A to credit card B) meaning they may not have taken the decision that was in their best interests.

When it came to the on-going management of their debt, as long as consumers were making their credit card payments on time (usually the minimum required) or paying back their overdraft (even if it is by £1) each month they felt ***in control of their debt***. Little thought was given as to whether they were making in-roads into the debt.

> I'm in debt but I can afford to pay my debt. I can afford to pay, not the whole amount, but I can afford to pay my card every month
>
> Busy achievers, Glasgow, 21-34

1.5. Conclusions

It became apparent through the research that the promotion and/or distribution of credit cards was, in many cases, leading consumers and hampering some consumers' ability to effectively shop around and/or switch among card providers.

Whilst it cannot be said that the consumers would not hold credit cards if it were not for the promotion of them by providers, it was clear that multiple waves of promotion contributed to the decision to take on the card. Further, this constant promotion meant consumers often took what was offered to them, rather than shopping around for the best card for them.

When it came to overdrafts, it was very clear that while they were seen to be simple products to understand, the costs were not. Many consumers thought their overdraft was free, to the detriment of the user.

2. Background

2.1. Introduction

This report contains the findings of the Consumer Experience Research for credit cards and overdrafts. The findings are reported by product; six of the FCA Consumer Spotlight Segments were covered but not in sufficient enough number to report by life-stage segment.

In the conclusions (Section 6), respondent suggestions have been included to illustrate a consumer's view on how to make better borrowing decisions.

This market encompasses a number of products, two of which were the focus of the research conducted by Jigsaw Research; *credit cards* (including store cards) and *overdrafts* (both authorised and unauthorised).

NB An accompanying piece of research was conducted alongside the Jigsaw Research project; ESRO focussed on payday loans, logbook loans and debt management services and Optimisa on low income consumers.

2.1.1. Credit Cards

The UK Card Association's 2013[3] report noted that 58.9 million credit cards were in circulation at the end of 2012. This had fallen from a peak of 71.5 million in 2005, as consumer spending both fell and tended to be switched to debit cards during the recession. However, data released by the UK Card Association covering the first three Quarters of 2013 suggest that consumer spending on plastic cards is on the increase again, as economic recovery begins and consumer confidence increases.

In the third quarter of 2013 alone, there were 657 million credit card transactions, totalling £40.8 billion – up 3.4% from the second quarter and up 11.7% on the same quarter in 2012. Growth in credit card spending has also led to growth in credit card lending over the same period. Gross credit card lending has increased from £11.5 billion per month in Q3 of 2012 to £12.8 billion per month in Q3 of 2013 – an increase of 11.3%.

The proportion of credit card balances bearing interest has remained stable over the last 2 years at 60% of all balances. So, of the £57.2 billion credit cards outstanding balances at the end of Q3 2013, interest bearing balances accounted for £34.2 billion.

These figures demonstrate the widespread use of credit cards within the UK and the extent to which they are woven into the fabric of both the way consumers spend and carry debt.

This report is primarily concerned with the attitudes and behaviours of those consumers who are carrying interest bearing balances from month to month. It is this group of consumers who made up the research sample, and it is important to read the findings with that context in mind.

2.1.2. Unauthorised overdrafts

The latest figures released by the British Bankers Association[4] (*understated as this does not include Building Societies*) show that consumer usage of overdrafts peaked during the period 2006 – 2009, when the total level of overdraft debt stood at around £10bn. Since then, this figure has gradually reduced, with the total overdraft level falling by 7% in 2011, 2% in 2012 and a further 7% in 2013, so that in January 2014 it stood at £7.44bn, a fall of 24% since its 2009 high. This reduced usage of overdrafts at the overall level has been accompanied by increased levels of consumer lending via credit cards, suggesting that the more open ended access to greater credit limits have become more attractive during recessionary times.

[3] http://www.theukcardsassociation.org.uk/wm_documents/Quarterly%20Market%20Trends%20Q3%202013.pdf

[4] https://www.bba.org.uk/news/statistics/high-street-banking/january-2014-figures-for-the-high-street-banks/

Nevertheless, nearly £7.5bn of unsecured lending represents a huge amount across the population. Further, with an estimated 6.6 million people incurring more than £100 in overdraft and penalty fees in 2011, any financial benefits of banking are negated[5].

There is concern at the very high price of this type of lending and its easy accessibility. The Europe Economics report[6] on consumer detriment talks of consumers' 'present bias' affecting their decision making in this area. It is easy to see how unauthorised overdrafts can seem attractive to consumers looking for a way out of what they might see as a short term situation, but which in reality can quickly become much longer term for them. It may be that the issue here is not so much one of product promotion, but arguably a lack of timely advice bringing consumers face-to-face with their own short term views and asking them whether it is really in their best interests to be accessing such an expensive form of credit.

All of the above products can give rise to consumer detriment. The Europe Economics report talks of **observable** and **unobservable** detriment, with the former detriment being largely caused directly by a firm's actions, often leading to a consumer complaint. Unobservable detriment is harder to identify and tends to arise as a result of a lack of competition or consumer biases being taken advantage of by providers.

[5] http://www.centreforsocialjustice.org.uk/UserStorage/pdf/Pdf%20reports/CSJ_Serious_Debt_report_WEB_final.pdf
[6] http://www.europe-economics.com/publications/final_europe_economics_report_03-10-13.pdf

3. Research objectives

3.1. Objectives

The FCA will take responsibility for the regulation of the consumer credit market from April 2014. In order to help expand the FCA's knowledge of consumers, a multi-strand consumer research programme was commissioned to better understand and illustrate the overall consumer journey in relation to credit products, in order to identify the drivers of consumer detriment in this market.

To help the FCA achieve this overarching business objective, the research was required to:

- Assess consumer behaviour and attitudes to the purchasing or consideration of consumer credit products
- Assess how consumers move between credit products and the range of different credit products they hold to identify how consumers can become over-indebted
- Identify the key issues that determine the shape and nature of the market and whether consumer behaviours have the potential to lead to detriment

3.2. Key hypotheses / themes

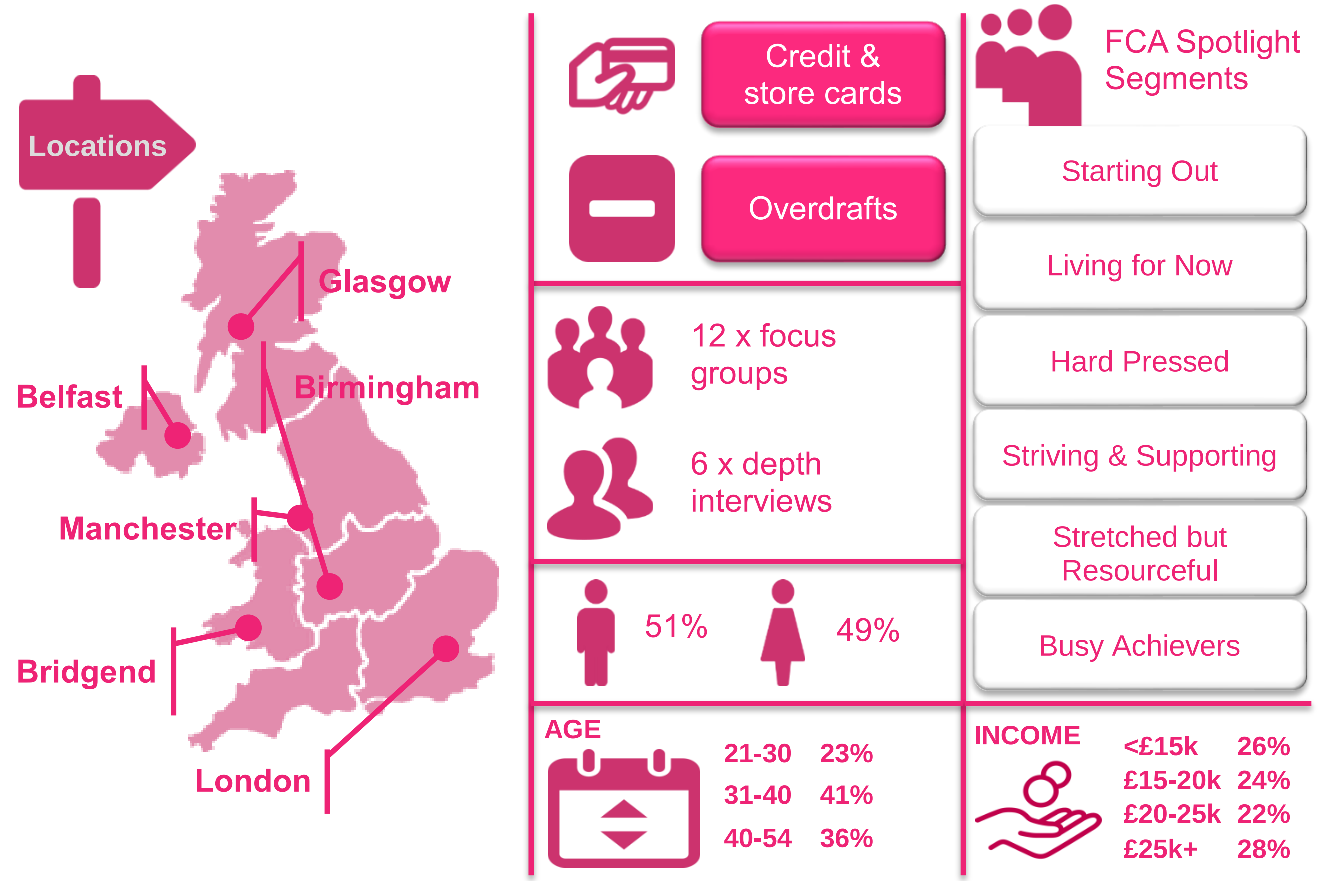
The research needed to review the following:

- That the promotion and/or distribution of **credit cards** may:
  - Lead consumers (particularly but not exclusively credit-impaired, lower-income consumers) into debt traps and spirals;
  - Hamper some consumers' ability to effectively shop around and/or switch among card providers, particularly in light of consumers' behavioural biases.
- Through the use of **unauthorised overdrafts** that:
  - Consumer detriment still remains in this sector due to the high price of this form of credit;
  - Overdrafts may influence over-indebtedness.

4. Methodology

This section looks at the approach Jigsaw Research deployed, along with a brief outline of the sample recruited.

Jigsaw Research Methodology



4.1. Sample and Recruitment criteria

4.1.1. Recruitment criteria

Respondents were broadly recruited according to the criteria of the FCA Consumer Spotlight Segmentation, (Section A.4) focussing on the six segments with the highest usage of overdrafts and revolving balances on store and credit cards.

4.1.2. Sample size and nature (by segment or other)

12 focus groups were conducted (one per segment per product) in a central location across the six cities outlined in the methodology graphic above and 6 face-to-face depth interviews (one per segment) conducted in-home where possible.

Each group lasted up to 1¾ hours in length, with depth interviews lasting up to an hour and were conducted from November 2013 until December 2013.

4.1.3. Sample breakdown

102 respondents were interviewed across the focus groups and depth interviews. All were aged 21-54. Approximately half of the respondents were male (51%) and half were female (49%). Most either rented privately (37%) or owned their home with a mortgage (42%). The majority (62%) had children living at home. In terms of income, the majority (72%) earned £25,000 or less per annum. Most (61%) worked full-time, with 17% of respondents unemployed.

A more detailed breakdown is included in Section A.1

5. Main Findings

This section focusses on the main findings of the research, including attitudes toward credit products before focussing on the credit products themselves; credit & stores cards first followed by overdrafts.

5.1. Attitudes to money and debt

The rising cost of living has disproportionately impacted low-income households. The average cost of living has risen by 25% in the past five years with the greatest increases in rent, gas and electricity[7].

A 17% increase in food bills since 2008 means that the proportion of a low-income household's total expenditure that is spent on food is 50 per cent higher than for higher income households[8]. In the meantime real wages have fallen to 2003 levels[9]

Therefore, many households are seeing their finances stretched ever more thinly. Not surprisingly, the thought of 'money' brought primarily negative words to consumers' minds, with a particular focus on the worry and stress finances can cause.

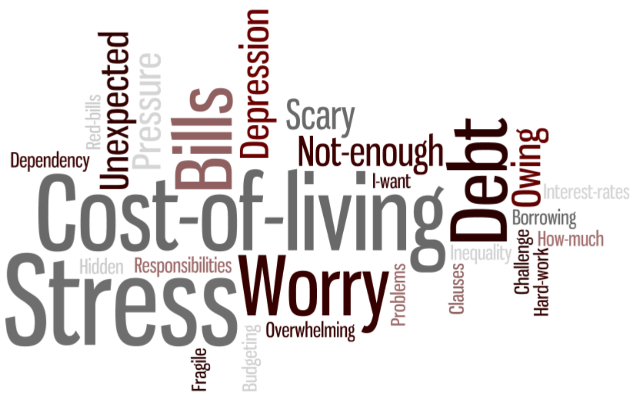
Most found it a challenge to make their money last until the end of the month, with many turning to credit to see them through and cover the 'unexpected' expenses that daily life can throw at them.

> It's a challenge to try to manage money, pay all your bills, meet all your obligations and have something left at the end of the month
>
> Stretched but resourceful, Belfast

> When your money comes in, you know it's all going to go out the next day
>
> Busy achievers, Glasgow

Whilst the majority of associations with money were negative, consumers did have some positive associations in terms of the choices and options that are open to them when they have money, such as holidays and 'treats' (clothes, home furnishings, games etc.) for themselves and their children. Being able to put money aside and building a 'buffer' against the unexpected generates a sense of achievement and a feeling of being in control.

Predominately negative words/emotions associated with money



Source: Jigsaw Research

Positive words/emotions associated with 'money' focus on the 'opportunities' having money brings

Source: Jigsaw Research

[7] uSwitch, *Household bills up 25% in five years,* 13 March 2013 [accessed via: http://www.uswitch.com/blog/2013/03/13/household-billsrise-25-in-five-years/ (24/10/13)]

[8] ONS, *Family spending 2012*, London: ONS, 2012 [accessed via: http://www.ons.gov.uk/ons/rel/family-spending/family-spending/familyspending-2012-edition/index.html (24/10/13)]

[9] ONS, Real wages down by 8.5% since 2009, ONS, 2013 [accessed via: http://www.ons.gov.uk/ons/rel/regional-trends/regional-economicanalysis/changes-in-real-earnings-in-the-uk-and-london--2002-to-2012/sum-real-wages-down-by-8-5--since-2009.html (21/10/13). ONS,

However, when money was tight and there was nothing spare for treats or the unexpected, debt was used to 'fund life'.

Not using credit could mean going without and after a few hard years, credit meant households could treat themselves every now and then.

The word 'debt' produced a more extreme emotional reaction, with a potential impact on mental well-being strongly associated with debt.

> If you don't have enough money, you make choices in your life. If you get into debt then you've got the backlash of that, but then if you don't get into debt, then you do without. There are consequences to both of them. Especially with children - this rat-race of constantly competing with everyone to get your kids things."
>
> Busy achievers, Glasgow

Predominately negative words/emotions come to mind when consumers think of debt

Source: Jigsaw Research

> I think it can lead to mental health issues.
>
> Stretched but Resourceful, Belfast

Emotive words such as 'dread', 'bailiffs', 'fear' and 'nerves' appeared often with many speaking from their own personal experience of dealing with overwhelming debt. So while it was seen by many as a way of funding the more fun things in life, debt can very quickly become a burden, remaining long after the holiday or treat has been enjoyed.

For some the word 'debt' itself has negative associations, rather than borrowing. Reflecting back to the more positive associations with finances and the fact that borrowing money can bring more options and choices, a 'loan' was seen as a way of purchasing items they otherwise could not have afforded.

> "I think 'debt' is a very negative word. If you changed that to 'loan' it's a more positive way of looking at it. I would see a plus side to a loan, where you managed to pay for something you needed"
>
> Stretched but resourceful, Belfast

5.2. Responsibility for debt

The consumers researched universally believed that the responsibility for taking out credit lies principally with themselves and that therefore their debt situation was primarily down to their own actions.

Providers were not considered by consumers to be blameless by any means but apportioned more of the blame on themselves, seeing their debt as a direct result of their discretionary spending.

> The things I buy on credit cards probably aren't things I actually need but I might think 'Oh I feel a bit crap that I've got no money' so obviously the answer is to go shopping and buy a new dress and a pair of shoes
>
> Starting Out, London

This was due in part to the lack of awareness of possible situations where they may have been exploited and also because of the strong human desire not to appear foolish in hindsight. Most say they would have made the same decision given the same circumstances, even if they find their current situation very worrying.

There was some sense they may have been taken advantage of by providers, such as when limits are increased without asking their permission. However, most were just cross at their inability to stay within the limits set rather than anything the provider had done.

> "I get annoyed with myself. It can't be the hardest thing in the world to earn a certain amount and then just not spend it"
>
> Busy achievers, London

Consumers' anger became more focussed on the provider when they thought about the situation of others; it was then they felt providers do not help the situation at best or take advantage of people at worst. They saw young people (especially their children) targeted with direct mail as soon as they turned 18; a particularly vulnerable age when it comes to money. They were also concerned over the lack of affordability checks being conducted; thereby allowing those who cannot afford to repay the debt to access credit. They were cynical that providers push consumers into more expensive forms of debt, such as offering a credit card with a higher APR instead of an overdraft. Finally, they criticised providers for not stepping in when debt was getting out of control other than to increase limits, which can just exacerbate the situation.

> "I suppose it's fair enough to market to me as I've already got credit cards. But it makes my blood boil when I see flyers drop through the door for my daughter. "
>
> Stretched but resourceful, Birmingham

5.3. Attitudes to consumer credit

The ways of borrowing money were viewed very differently by consumers both in terms of function and usage.

Credit Cards

Credit cards were seen very much as debt and a long-term one at that; most had no 'debt free day' in mind when they expected to have paid off their credit card.

Many had resisted taking out a credit card for a considerable length of time, shunning the idea of taking on debt for as long as they could. Eventually, however, many found themselves 'caving-in' to the bombardment of offers that came their way and so it was often a far from conscious or considered decision. However, once they had the card there was a sense of being an adult or 'grown-up'; a validation in a small way for many.

Credit cards tended to be used to fund 'treats' such as clothes, holidays and home improvements or furniture and for any larger unexpected expenses such as car or home maintenance (indeed for those who took a conscious decision to take out a credit card, it was the larger unexpected expenses that were often the trigger). The insurance that came with many cards gave consumers peace of mind when making larger purchases and many enjoyed the loyalty points/rewards earned through high usage of their card.

The card very quickly became a crutch, providing a cushion for emergencies and helping with cash flow problems. For many, a credit card allowed them to access a certain 'lifestyle' that would otherwise not be possible. However, this living beyond their means could trigger feelings of guilt over their use of the card and worry as to how they were going to make the payments long after the treat has been enjoyed. Further, with many consumers just making the minimum payment each month, they were making little progress in reducing the balance or ever paying it off totally. This carried balance inevitably meant that those not on 0% or low interest rates would be paying considerable interest on their balance, but most were unaware of the fiscal implications of their behaviour.

A common belief that revolving balances on credit cards improved credit ratings did assuage some of this guilt, with such considerable borrowing seen to have a small upside.

Store Cards

Store cards were often perceived as the most expensive form of debt. Therefore they tended to be prioritised over credit cards and overdrafts when it came to making payments.

Of the three credit products, store cards tended to be the least conscious decision to hold and were often 'pushed' onto consumers via discounts and offers, which could mean holders quickly built up a considerable balance on their cards as they sought to take advantage of these offers.

However, there was less stress surrounding store card debt. Many felt a closer relationship with the store/retailer than with their credit card companies. Being able to go into the store to talk to someone about their balance offered some reassurance. As did the perception (and, in some cases, the reality) that the retailers were less likely to hound them for payment than credit card providers. Consumers felt more in control of their store cards. Their restricted use and generally lower limits meant they felt less risky than credit cards, that could be used everywhere.

Overdrafts

> It's handy for small amounts in the last couple of days of the month
>
> Stretched but resourceful, Belfast

Unlike credit cards, overdrafts were rarely seen as debt; or if they were recognised as such it was seen as a 'good debt'. This was driven in part by the way providers often included the overdraft in 'funds available' so it felt like their money (rather than a debt) and also in part because most paid back their overdraft each month on payday so it was not seen as a 'permanent debt', even though many dipped into it every month. With no structured way to pay back the debt (aside from paying wages in each week/month), this was likely to remain the situation indefinitely.

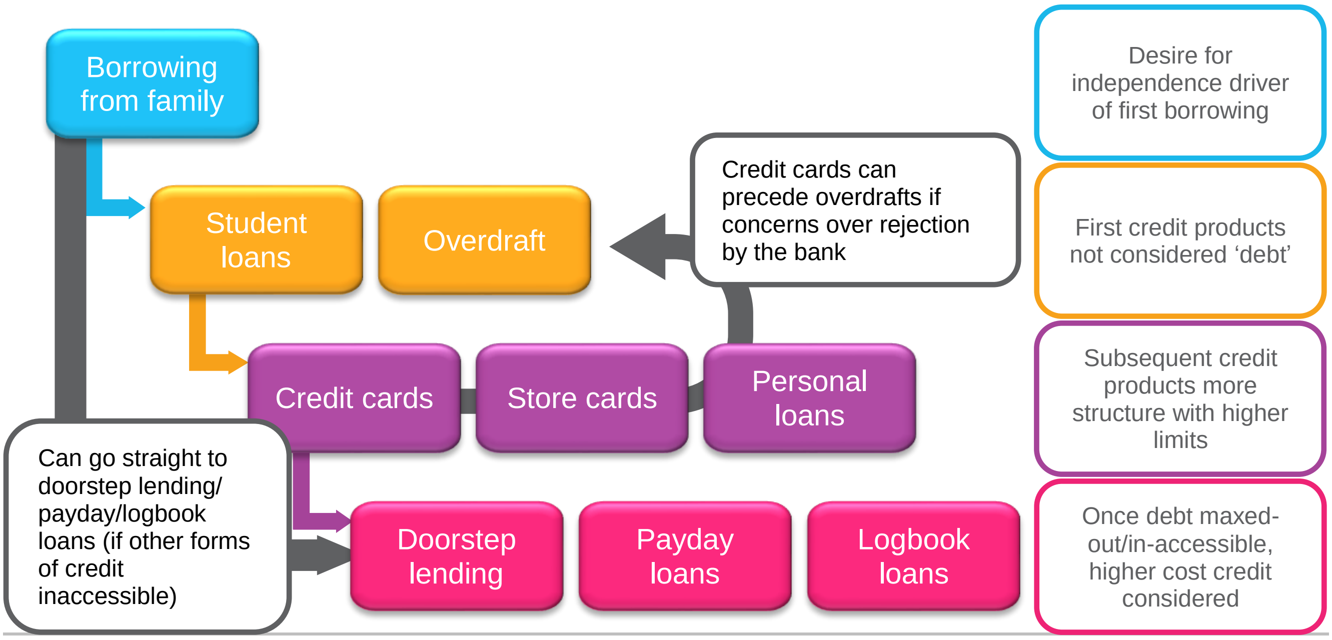
Overdrafts were felt to be a popular form of borrowing because of their simplicity; for many it just came with the account so they did not have to consciously arrange it. However, when it came to the costs, there was little or no awareness of what the implications were; indeed the majority assumed their overdraft was 'free money'. This created a fear that the facility could be withdrawn at any time and concern, as few would wish to live without their overdraft having come to rely upon it heavily. If they were aware that there was a cost, this was often wrapped up in the packaged account fee and too difficult to disentangle.

In general overdrafts were used to fund the smaller unexpected expenses each month and to plug the gap between bills that fell due towards the end of the month and the next payday.

5.4. The consumer borrowing journey

These forms of borrowing did not exist in isolation and while the interaction between credit products could be highly individual, there was evidence of a very general borrowing journey.

The Borrowing Journey



The consumers researched often began their journey by borrowing from family; a cheap and accessible form of credit (although repayments could be irregular and inadequate). However, this was rarely a long-term solution with either family patience (or funds) wearing thin or the borrower becoming embarrassed with the situation. So when borrowers either desired or needed to become financially independent, they made their first foray into credit products.

For most this was in the form of overdrafts, with students also taking on student loans at this stage. Although the amount of debt taken on via these vehicles could be considerable, they were rarely viewed as debt, which lead to a tolerance towards credit being built up relatively quickly.

Once these avenues were exhausted, i.e. students completed their education and/or the overdraft limit was reached or exceeded on a regular basis, borrowers moved towards more mainstream debt, such as credit cards, store cards and personal loans. These products brought higher limits and more structure in terms of the requirement for more regular repayments. When these 'standard' forms of debt were maxed-out or were thought to be inaccessible, consumers turned to higher cost credit such as doorstep lending, payday loans and/or logbook loans. For many this was the 'last resort'.

There were of course many possible variations in the journey. Some consumers went straight from borrowing from family to doorstep lending, payday loans and/or logbook loans if other forms of credit were thought to be, or had proved to be, inaccessible. Similarly, credit cards could precede overdrafts if consumers had concerns over being rejected or actually had been rejected by their bank.

5.5. Credit Cards

This section looks in more detail at consumer attitudes towards credit cards, before going on to uncover the triggers that lead to credit card purchase. It then looks at how credit cards are used followed by how well understood they are by consumers and the issues inherent in the market that can be traced to credit card company behaviour.

The section also includes a brief examination of store cards – in particular consumer usage and understanding of this related product.

5.5.1. Attitudes towards credit cards

Despite the widespread usage of credit cards, attitudes towards holding them and using them were, at best, ambivalent. There was little evidence to suggest that taking out a credit card was a desirable objective in itself, particularly among the mass-market, balance-carrying audience that this research focussed on. Indeed, many of the consumers spoken to were quite candid in recalling how negative they felt towards credit cards for some time before taking one out. These pre-existing and firmly held beliefs often took some time to shake, but ultimately they were turned on their head for many in the sample.

For many the desire to take out a credit card was in response to other circumstances in their lives – circumstances that had created problems to which the only available, or most easily available, solution was a credit card.

> I've just worked really hard this month and I have £20 for me at the end of it all. It's painful. I mean, what if I got us a treat at the end of all this, you're lucky if you had £20 at the end of it all, you know?
>
> Female, Stretched but Resourceful, Belfast

For this reason, the initial attitudes towards holding credit cards were perceived as primarily positive giving consumers the means to remove whatever problem or problems had built up over time. Many of the consumers spoken to had previously turned to family and friends to help them out of previous financial crises or simply to help them make ends meet each month.

By taking out a credit card, they achieved a feeling of financial independence that had previously been denied to them. This, on top of the increased spending power and relief from the immediate issue facing them, meant that for some the arrival of a credit card was strongly welcomed.

> I went to family but there's only so much you can ask for and then you've just got to get on with it – hence why I asked for the card. I needed a new van.
>
> Male, Living for Now, Birmingham

Consumers who were towards the lower end of the income scale (e.g. Hard Pressed), were more likely to make the leap from borrowing from family and friends, straight to credit cards than the more affluent consumers. The more affluent consumers were more likely to have accessed other forms of debt before moving onto credit cards – in particular overdrafts.

> That overdraft facility was taken away, and I thought, 'I'll just get a credit card of my own.
>
> Female, Busy Achievers, Glasgow

However, for those at the lower end of the affluence scale, overdrafts were often perceived as 'out of reach' or likely to be withdrawn without notice. This was primarily because overdrafts were strongly linked to current accounts (and therefore banks) and those in the less affluent group talked about banks in quite distant terms. Not all had current accounts, and even those who did tended to see banks as institutions who were not there to help them or have consumers' interests at heart – instead they were seen as more likely to look upon individuals with a judgemental eye and consequently this segment of the credit card holding sample tended to shy away from seeking an overdraft or even discussing their need for short term debt with their bank. Effectively, this behaviour amounted to self-selection by this group of less affluent consumers and explains the greater likelihood that they will jump from family and friends straight to credit card usage.

Most sections of the sample understood the advantages of personal loans over credit cards, at least in terms of the lower rates of interest and, crucially for some, the discipline built into the product which means you have to make regular payments to reduce the capital. Yet the sums involved for personal loans meant they were deemed inappropriate as an alternative to credit cards. Essentially, very few respondents needed several thousand pounds when they were looking at credit cards, even if some had amassed that amount of debt subsequently. In addition, the lower income segments were again working on the assumption that a bank simply would not lend money to them.

For the bulk of the sample, credit cards were seen as a "lesser evil" than payday loans, with the latter product seen as a sign that you were no longer in control of your financial situation. The research uncovered individuals who had applied for, or were in the process of applying for, payday loans. Many of those individuals admitted that their financial situation was, at that point, out of control. ESRO research, also commissioned by the FCA on Payday loan customers has found examples of individuals who have turned to those products ahead of credit cards, and who would consider their financial situation to be completely under control. This serves to underline the point that the "Borrowing Journey" depicted earlier is a generalisation which hides many exceptions and alternatives.

The research identified that the initial positive feelings associated with the credit card quickly dissipate. This happens largely because the stated good intentions which many consumers use to convince themselves to take out a credit card, are unrealistic and consumers fail to live up to them. Among the audience of balance carrying credit card holders, there was a widespread assumption that any balance built up upon taking out the card, would be quickly paid off - most likely within 2-3 months.

> Yeah, I honestly spent £1,000 in no less than a week and I hardly had anything to show for it. So it's easy to get up to it [the limit] and I think that's when it hits you – the realisation
>
> Female, Living for Now, Birmingham

It is clear from the research, which also covered in great depth the context surrounding the financial lives of the respondents, that this assumption was not based upon any logical analysis. Indeed, almost all admitted that, at no point had they sat down and worked out a plan to address how they were going to clear the credit card balance.

For some, this optimism could be put down to overconfidence in their ability to repay the balance, but for many they were simply in a situation where they believed they needed the card and the only way they could justify or post-rationalise this decision was by telling themselves that they would pay it back.

Once it became clear to the researched consumers that they were not able to pay off the balance in the short term, the card then switched from being an antidote to the financial worry in their lives. Most simply tolerated and/or ignored this as there appeared to be very little they could do about it, but for some it was a constant presence in their lives.

5.5.2. Credit card triggers

In general, the triggers for taking out a credit card fell into two categories:

- **Proactive** – the desire to take out the card came from the consumer and they initiated the application process themselves
- **Reactive** – while the latent desire to have a credit card may well have existed, the final trigger or tipping point into applying for the card was started by one or more card company

These will be looked at in turn.

Proactive Triggers

When the decision to take out a credit card was initiated by the individual consumer, it was often as a result of financial pressure that had built up in their lives, either over a long period, or unexpectedly over a very short period of time. This could be something as simple as the need to repair a boiler or to get the car back on the road, when that car is crucial to them retaining employment or customers (if they are self-employed). In these situations, the consumer was often asking themselves "how can I get access to a few hundred pounds as quickly as possible without having to fill out a huge number of forms?" The answer to the question for this sample of consumers tended to be "apply for a credit card".

For other consumers, it was the result of financial pressure building up over time. For example, some of the respondents talked about the intense pressure to make Christmas special for their families and the fact that they had resisted that pressure for a number of years, before finally deciding a credit card was the only answer. Others had simply lived with a gap each month between income and outgoings, which had made the final few days before payday extremely difficult for some time. Again, in the end, they had taken the decision to apply for a credit card to cover that gap and relieve the pressure that was becoming intolerable in their lives.

> because the pressure is to feed your children and buy the children stuff for Christmas, and I'll worry about paying it back in January
>
> Female, Stretched but Resourceful, Belfast

Common to all of the above reasons was a mind-state among consumers where all their focus was on the immediate problem facing them and all their energies were focussed on ways of removing that problem. In this case, a credit card appeared to offer that solution and so any prior concerns about credit cards and their own ability to manage them were temporarily suspended for long enough to allow them to apply and then own the card. The research did not uncover any evidence of consumers rationally weighing up long term costs of credit card ownership against the short term benefit of owning the card. Instead the pervasive assumption that they would pay off the card once the essential purchase had been made was used to justify the decision.

Reactive Triggers

While some consumers in tight financial situations did attribute the decision to take out a card to a desire to overcome a specific issue or event (e.g. money for Christmas), others did not pin it down to something so tangible, but instead spoke about the decision in terms which connected credit card company activity to their decision to take out the card. These triggers have been termed "Reactive" as it is possible that without this supplier intervention at that time, those particular individuals may have continued to resist applying for a card.

The most common reason for falling into this category identified by this research was the multiple, persistent, targeted direct mail sent by credit card companies aimed at consumers. These consumers spoke of receiving several credit card offers a week and admitted that, after months of this, they had finally 'cracked' and decided to apply. Very few were able to articulate what it had been about the particular offer that had meant they had applied for it, but that they had simply become worn down by the cumulative weight of the messaging within the direct mail.

A second example of reactive triggers included cards being offered as part of packaged accounts. Consumers did not feel able to pick and choose which elements of a packaged account they wanted and in any event tended to experience the short term positive feelings described earlier when first getting a card, so at first saw the card as a desirable addition to the account.

The third main reactive trigger encountered by consumers was pre-filled application forms. These arrived on the doorstep with the consumer's name and details already filled out, so that all that was required from the consumer was a signature. Apart from the obvious ease of application, this approach also implied (in the consumer's mind, if not actually explicitly stated on the form) that acceptance for the card was a formality. This was a revelation for consumers on low incomes/benefits who assumed that they were denied any kind of financial "product" outside a current account. Faced with this temptation (and for some, a small boost to their self-esteem), and given the financial circumstances they were living with, it was difficult for this group to resist the offer.

Although the examples above all fall into the 'Reactive' category, it is also true to say that all consumers taking out a card for one of these reasons saw themselves as responsible for the decision in exactly the same way as those who applied for a card more proactively.

5.5.3. Researching the credit card market

The research has highlighted the fact that, once the desire to apply for a credit card has been triggered, there was very little shopping around. The overriding objective from the consumer's point of view was to have the card in their hand, and ready to use, as quickly as possible. No examples were encountered of individuals methodically comparing different cards, and filtering the market down until they were left with their preferred option.

> "Because it showed me how easy it is, so that if the form can just come in a magazine, I can just fill it out, put it in the post and they get back to me within three or four days
>
> Female, Living for Now, Birmingham

While this 'funnel' approach to researching market may seem logical, it is time consuming and assumes the following conditions exist:

a) There is a desire on the consumer's part to conduct research on credit products;
b) That credit products and their value propositions were easily comparable; and
c) That acceptance on the researched products is assured

There was little attempt by the respondents to research the market; nor did they complain that it was difficult to do so.

Where consumers were shopping around, they tended to focus strongly on one feature – behaviour typically called 'anchoring' a decision on one feature. The three features that were mentioned most commonly were:

- **Interest rate** – where this was looked at, it was in terms of the headline APR only, and not in order to calculate likely repayment levels. It must be remembered that with most telling themselves they will be paying off the initial balance very quickly, their engagement with the APR is quite superficial and is only really a means to compare one card against another in the absence of any other way of doing this
- **Limit** – If consumers needed a specific amount, then the card limit offered to them may be important. However, consumers admitted that, even if they did need a specific amount, they found it very hard to resist applying for an extra amount 'just in case'. It is this extra, unplanned, unaccounted for amount that leads to overspend
- **0% Balance Transfer periods** – the more sophisticated consumers looked for the longest 0% periods they could find, with some holding multiple cards as a result of this behaviour, as they transferred their balance from one card to the next. Although the ideal way of using a 0% period is to pay down debt,

instead all researched consumers using this facility were using it to buy time – effectively a period of low/non-payment. Other consumers spoke about the 56 day interest free period which applies to any payment, as being a specific 'feature' unique to their card – though again this period was not used to repay the capital.

For some researched consumers, the knowledge that the card company was highly likely to accept them was the only criteria that mattered, and once they believed a card company would accept them there was no shopping around beyond that point.

Overall, instead of a logical "funnel" approach to researching the market, the research encountered a "tunnel" approach where the consumer was primarily concerned with moving from where they were to owning a card as quickly as possible, with as little distraction or opportunity for pause and reflection as possible. This 'hot state' is something seen in retail scenarios when consumers briefly convince themselves they can afford an item they strongly desire, but which they know they can't really afford. They remain in the state long enough to make the purchase and may then experience guilt and regret, but they do also have the item they desired in the first place.

5.5.4. Credit card usage and understanding

This section looks at how consumers use their credit cards once in their possession, before going on to investigate the degree to which they understand the cards they hold.

> It was a bit of a pleasure at first, until you realise what you're paying off and then you try and limit it to essentials that you need and stuff
>
> Male, Living for Now, Birmingham

Initially, credit card usage is driven by the spending limits placed on the card. The credit limit is immediately seen as the amount of 'new' money available to spend, rather than a notional limit which should not be breached.

Those consumers who asked for their limit to be higher than the amount they strictly needed, soon found themselves using the 'extra' amount to fuel more discretionary spend.

Many research respondents reported spending up to their limit within a remarkably short period of time – often as little as 2-3 months. For all the consumers (who were carrying balances) it was at the point of hitting their credit limit for the first time, that they realised, or admitted to themselves, that they were not, in fact, going to be able to pay off the balance as they had originally hoped. Many of the respondents had originally requested credit limits in the hundreds of pounds: £500 - £750 was a typical range, and at that level, once consumers realised they were not going to be able to make meaningful inroads into the capital lump sum, they quickly fell into the habit of making the minimum payment each month.

> All the payment's gone onto interest, and you're thinking – really? – I've just given you thirty odd pounds for nothing, and only five pounds come off my bill
>
> Female, Living for Now, Birmingham

By and large, credit card holders did stick to the *reason* for originally taking out the card (e.g. Christmas, repair car etc.) but on top of that original reason, discretionary spend crept in, particularly if the initial limit allowed for this. Once reached, the limit was then quickly increased, either by the consumer or the card company. This higher limit was almost always then fuelled by discretionary spend as, particularly those on lower incomes, sought to improve their quality of life by now being able to afford such items as holidays, clothes etc. that they had previously denied themselves. There was strong evidence of peer pressure here, with people admitting that they looked at friends or neighbours who they perceived as earning the same as they do, yet who were able to afford these luxuries. This peer pressure was felt particularly strongly by those with children who very much wanted their children to experience what their friends' experienced.

Once consumers realised that the debt was not repayable in the short term and that, by paying off the minimum payment each month, the card remained active, there seemed little reason to do anything other than pay the stated minimum.

It was at this point, that consumers' attitudes towards the card(s) they held shifted subtly again as they perceived the debt on the card to be an open-ended form of debt, with no time limit on when the capital has to be repaid. For many of the researched consumers this pushed the credit card bill into the "non-essential bill" category. For many households, utility bills, council tax, the mortgage and/or rent all have to be met without fail each month, whereas the credit card bill could be pushed to one side simply by paying off the minimum. For some in even tighter financial situations, they had missed one or two payments consecutively and, again, found there was no penalty other than their balance increasing. There was an understanding among some respondents that this could affect their credit score, but understanding of what this meant was limited for a few and non-existent for many.

Understanding of the different aspects of a credit card was limited. **The APR** was seen as an interest rate and a reasonable proportion of the respondents were able to quote the APR for their particular card – reflecting the 'anchoring' outlined earlier as consumers focussed on one aspect of the card before application. No one, however, was translating what the APR meant in terms of a monthly repayment and their potential to pay off the capital as well as the interest.

The minimum payment quickly became seen as a device to keep the card alive until the next month. There was no appreciation of whether this was paying off interest only, interest and capital or simply a proportion of the interest. A small number of consumers reported their overall balance increasing each month even when they were making the minimum payment, though it is unclear if they were genuinely making that payment each month. Others admitted simply not looking at the balance each month, instead remaining content to use the card as long as they were allowed to.

No one reported being chased by credit card companies for payment, or contacted by companies with offers of help or simply to ask if they were comfortable with the debt they were holding. In truth, few said they wanted this, citing the fact that the credit card company was not in touch as evidence that they must approve of the situation. Although most of the consumers professed to not wanting direct contact with the card company, around half the sample did admit to being very worried by the level of debt they were carrying. For this group, the research provided the first real opportunity to admit to this level of worry – it was something which was necessarily suppressed most of the time.

Respondents were asked what they would do if an offer was made to them to pay off their debt in full and also cut the card up at the same time. The half of the sample who admitted to deep worry about their credit card debt said they would accept this offer, but the other half had become so reliant on the credit card as a way of maintaining their lifestyle, that they would prefer to keep the card over removal of the debt.

5.5.5. Issues arising due to Credit Card company behaviour

This section brings together all issues identified in the research, which can be attributed either directly or indirectly to the actions or inaction of credit card companies.

When looking at issues within the research where card company behaviour was impacting upon consumer behaviour and consumer decision making, it must be remembered that these respondents accepted responsibility for the situation they found themselves in. Some consumers, when prompted, identified areas where they felt card companies could improve their practices, but did not see them as culpable for their debt situation.

There are a number of areas where provider behaviour was mentioned and appeared, either directly or indirectly, to impact consumer behaviour. These are summarised below:

- **Little or no contact at take out –** upon reflection, consumers did report little contact from card providers during the application process. While they admitted they were generally happy with this at the time, some felt more rigour could have been applied by providers at this stage, with affordability checks being carried out as well as a conversation to check that the consumer knew what kind of product they were taking out.
- **Perception of Banks as judgmental –** Some researched consumers, particularly those on lower incomes, felt considerable distance between themselves and their bank. Banks were not perceived as somewhere they would go to for advice on what to do in a financial situation. On top of that, some felt their

bank would judge them if they were to go to them with a financial problem they were seeking to solve. They presumed they would be denied a credit card, and that the bank may place other restrictions on them making their already precarious financial situations even worse. This meant these consumer segments were effectively cutting themselves off from an arguably more benevolent channel than some of the credit card companies they do end up choosing

- **Direct Mail strategies –** It is very difficult, from a recipient's point of view (i.e. the consumer) to identify any untoward provider behaviour in respect of their direct mail strategies. However, the impression left by the research is that the most vulnerable segments received the most direct mail, and this tended to be the offers including pre-filled application forms. The existence of these pre-filled forms almost amounts to asking individuals to opt out of having a credit card each time one lands on their doorstep. It is easy to understand how, after receiving these offers over a sustained period, eventually the individual relents and takes out the card.
- **Limit increases –** Again, consumers report initial relief when their first limit is quickly increased. However, on reflection they realise that this was the point at which they were on a slippery slope and some did question why there was not more dialogue between provider and customer at this stage
- **"Open ended debt" –** Finally, the perception of credit card debt as open ended debt is one which card providers do little to correct, even if only by their passivity in chasing late payments or lack of dialogue when someone has only been making the minimum payment over a sustained period.

5.6. Store cards

In comparison to credit cards, store cards were seen quite differently by those who held them. Those who held a store card did not perceive the same level of risk in holding that type of card, and it was clear that none of the stress and worry which could accompany high credit card balances was applicable to store cards. This is in spite of the fact that there was some awareness that store card balances were subject to a higher interest rate than credit card balances.

Ultimately, most consumers looked at the total repayment or minimum repayment amounts and, because the balances carried over on credit cards tended to be higher than those carried on their store cards, the absolute repayment amounts tended to also be higher on the credit card, when compared to store cards. It is this absolute amount that consumers focussed on and therefore created the stress among credit card holders where no immediate means of repayment was obvious to them.

The fact that lower balances were held on store cards meant that consumers were more likely to stay on top of them, and would attempt to pay them off, often successfully. Once they had proven to themselves that they could pay off a small balance then that card ceased to be a potential source of stress and worry. Instead, consumers focussed on the benefits the card gave them, such as discounts, access to exclusive evenings and an incentive to concentrate their spend within a small number of retailers.

> Because you've spoken to someone face to face in the shop, whereas over the phone they don't want to know you
>
> Female, Living for Now, Birmingham

Another key reason why store cards are not perceived to carry the same degree of stress, risk and worry is the fact that they are issued by recognisable, tangible, high street stores. Most believed that, even if they were to get into difficulty with their store card, the retailer in question would be friendly and approachable, and want to help them get out of the situation. This is in sharp contrast to the faceless, impersonal impression that many consumers have of credit card companies.

The ability to compare store cards is almost redundant as far as consumers are concerned. The decision to take out a store card is almost always in store, and not particularly considered. From a consumer point of view, there would be little point in comparing store cards, as they would be attempting to compare the total offer of two or more retailers, which is very hard to do.

There was some realisation that the methods used by retailers to sell store cards did take advantage of the fact that consumers were a captive audience when in store. By this, consumers meant that retailers will target them in the queue, or at the checkout, when there is very little time to make a rational, reasoned decision. However, most were happy with the outcome, and so did not see this sales method as particularly underhand, and the benefits they had been promised were delivered.

5.7. Overdrafts

This section of the report looks at both the usage and attitudes in relation to authorised and unauthorised overdrafts so as to provide a complete picture of how consumers view this category of unsecured debt, as well as how they use overdrafts. The section closes by examining lender behaviour in relation to overdrafts and how this impacts upon consumer behaviour and attitudes.

5.7.1. Attitudes towards overdrafts

When talking to consumers about their overdrafts, it was very clear that they did not consider them to be debt, in the same way as they do credit cards, personal loans or other forms of unsecured debt. Instead, overdrafts were considered to be an extension of an individual's bank account and therefore very much "their money". Consumers tended to view an overdraft that has been agreed with their bank, as money they are entitled to. This is very different to a line of credit, but instead is seen as theirs by right (or at least by agreement). Banks implicitly back up this belief by presenting the 'funds available' to customers as the amount in their account, plus the overdraft facility, so that someone with a balance of £100 and an overdraft facility of £500 will be told that their 'funds available' equals £600. It is therefore easy to see how consumers quickly come to view the whole amount as an entitlement.

Most consumers do then aim to live within the boundaries of the agreed overdraft limit, tending only to transgress those boundaries on rare, and largely unintentional, occasions. Unlike other forms of unsecured lending, consumers who manage to live within their overdraft do not appear to regard this way of managing their financial affairs, or making ends meet, as stressful or a burden. As long as the account moves into the 'black' on pay day, even if only for one day, then that is enough for most consumers to feel comfortable with their financial management.

5.7.2. Overdraft Decision Journey

> Being in my overdraft is not a problem as long as I replenish it every month
>
> Male, Living for Now, Manchester

Given the finding that an overdraft is seen as the current account holder's entitlement, once agreed with the provider, it is no surprise to learn that for many people there was no trigger as such for taking out an overdraft. For some, it was simply a facility that came with the current account, and that account is one they've held for so long, it was not realistic to pinpoint a trigger for its usage. For others, they had become aware, either through conversations with their bank or through talking to friends and family, that an overdraft was something they were entitled to ask for. Where it is the latter reason for taking out an overdraft, it was still difficult for individuals to pinpoint a trigger that led to them asking their bank for the facility – instead it was far more likely to be the gradual build-up of pressure in their personal financial lives that had led to them seeking a means of release. The overdraft provides that means.

> I was just spending too much on a regular basis that it would have been silly not to have taken it
>
> Female, Starting Out, Birmingham

With the original reason for gaining access to an overdraft so tied in to the current account, there was virtually no evidence of shopping around or making comparisons between overdraft facilities. Some consumers can recall why they took out their current account, although for many it was a decision they took so long ago that the precise reasons are a blur. For those who could remember, it could be as spurious as wanting to go with the same bank as their parents or the nearest bank to them when they were growing up. For those who had taken out the account rather more recently, there was evidence of comparison of packaged accounts. Here, consumers tended to focus on one or two key features, such as the fee plus a key benefit, often travel insurance or mobile phone insurance. There was little evidence that the overdraft facility within such accounts was used to compare across accounts, although some consumers did point out that the overdraft simply came as part of the packaged account. This is important, as it highlights the difficulty consumers would have in determining the value to them of the overdraft facility and whether any charges imposed are 'fair' when there is an account fee already in place. That said, virtually no consumers actually complained about this inability to determine whether overdraft charges were fair or not in the context of packaged accounts.

Competition within the overdraft market is linked to the current account market (whether packaged or not), so consumers rarely compare overdrafts against others. For consumers this is just one feature of their bank accounts, and the only reason to compare overdrafts would be to switch accounts. While current account switching does take place, it is not particularly common, and when it occurs, it does not appear to be in order to improve or change the overdraft facility. Allied to this is a feeling that once you are using your overdraft, you are effectively tied in to that bank anyway, with consumers assuming no other provider would want to take on the debt.

5.7.3. Overdraft Usage and Understanding

Once individuals begin to use their overdrafts, then usage quickly became habitual. There is evidence that account providers were raising limits as their customers hit the (often relatively low) initial limit set for them. That said, there was just as much evidence for customers actively asking for their limits to be raised, with the research suggesting that it is a relatively even split between providers and consumers asking for the limits to be raised.

Whether the overdraft limit was raised by the bank or at the customer's request, there was almost universal appreciation that the bank agreed to/suggested the raised limit. It was seen as both good customer service on the part of the bank and also a sign that the bank has confidence in the individual's ability to manage their financial affairs. While this attitude was also displayed among some of the credit card customers in the sample, it was not as marked as among the overdraft customers.

Usage of unauthorised overdrafts tended to be by exception, rather than a common occurrence. Among affluent customers in particular, usage of unauthorised overdrafts tended to happen due to administrative errors, or unforeseen circumstances. Examples of this included direct debits being taken early or simply the individual making an error in transferring funds into their account later than planned. Where this had occurred, consumers felt that providers could sometimes do more to forewarn them. This could include a text that they are at their overdraft limit, or notice to transfer in funds in order to cover any shortfall. While admitting personal responsibility for the error, these consumers still felt providers were not always doing enough to help them out of these situations.

Those customers from less affluent segments were more likely to admit that they would intentionally use an unauthorised overdraft, albeit for a very short period of time. Typically, this would occur towards the end of the month, just prior to the next payday. For individuals in those situations, this solution was still seen as preferable to alternatives, such as a payday loan or a credit card, although they were less comfortable about this situation than they were about using the authorised overdraft.

> I prefer not to think about it because there isn't much I can do about it
>
> Female, Stretched but Resourceful, Bridgend

Although consumers were aware when they are inside and outside their authorised overdraft, there was widespread confusion as to what actually happens when you are outside your limit. This appears to be, in part, because there is no consistency across the industry as to how charges are applied. Some customers reported flat fees being applied; while others said charges were applied on a metered basis, increasing over time. There is a widespread perception that, as long as you remain within the agreed limit, then the overdraft is free, with little or no appreciation of interest being charged on any balance.

> I thought I knew about overdrafts but it's become apparent tonight that I don't know how they actually work

Male, Living for Now, Manchester

There was also confusion, and frustration, at the apparent inconsistency in sometimes being able to "talk your way out of" charges, whereas at other times providers are not prepared to exercise discretion. It was felt that this was inherently unfair, and would tend to favour the more confident and articulate individuals.

5.7.4. Issues arising due to bank behaviour

No respondents in the sample saw the current account provider as responsible for the consumers' overuse of an overdraft. The fact that they saw the overdraft as an entitlement, and integral to the current account, did mean that they saw issues arising in connection with the overdraft as customer service issues. Not all issues were service related – the key bank driven issues arising out of the research can be seen below:

- **Available funds –** there is no doubt that the presentation of available funds by the banks, as the balance in credit plus the overdraft facility, serves to reinforce the view in the consumer's mind that this is their money and that they are entitled to use it whenever and however they wish.
- **Packaged accounts** – although consumers are not directly complaining about this, there are comments that it would be very difficult to assess the value and fairness of overdraft charges within a packaged account, as it is so tied up with the account fee (which is in turn linked to all the features of that account).
- **The raising of overdraft limits –** not an issue that worried consumers unduly, but they reported that overdraft limits were quickly raised by banks so that a £200 overdraft facility could quickly become a £1,000 overdraft facility. The assumption among consumers was that as the banks knew about their financial situation to a far greater extent than a credit card company, then they would not raise the limit to a level that the bank thought unsustainable. This trust placed by the consumers in their bank was a striking feature of the overdraft sample
- **Alerts and warnings** – One of the key service related issues which consumers felt providers could be better at was to provide warnings when funds were close to running out, and/or to provide a text alert service giving the account holder time to pay funds into their account to cover any unexpected shortfall
- **Inconsistent application/waiving of charges –** A further area where customers felt customer service could be improved was to make charges for unauthorised overdraft usage consistent across all firms, and for all firms to adopt a consistent policy towards waiving those charges (first offence only), rather than the current subjective approach

5.8. Segment case studies and pen portraits

The following illustrates pen portraits of the different FCA Spotlight Segments and case studies of the 6 respondents that participated in the in-depth interview (one for each segment).

5.8.1. Starting Out

<table>
<tr><th colspan="2">STARTING OUT – SEGMENT PEN PORTRAIT</th></tr>
<tr><td>Their lives
Individuals, relatively young (20s – early 30s), some with kids and some without
All employed in a variety of roles, tending to be in jobs with good prospects, even if currently their salaries are low relative to outgoings
Some graduates – all tend to be at least skilled workers, with training post 16</td><td>Their money
Some see themselves as quite organised with money, though others recognise a reckless streak in themselves which they would like to curb
All say finances have become much more squeezed in the last 3-4 years
Recognition that some of their spend is discretionary, though at their life-stage it feels very difficult to give up</td></tr>
<tr><td>Their debt
Already quite comfortable with the idea of debt
Some evidence of student loans alongside other forms of debt such as credit cards and overdrafts
Is part and parcel of how they run their lives – without debt they would not be able to make ends meet
Some worry regarding debt level, but no engagement with how it will be paid back</td><td>Their outlook
Worried about debt, but young enough that assume it will be addressed at some stage
Tend to brush current debt situation under the carpet, preferring to deal with the here and now
Those with kids take a more responsible attitude, peering into the future to a certain extent</td></tr>
<tr><th colspan="2">STARTING OUT – CASE STUDY ‘KATHERINE’</th></tr>
<tr><td>Her life
25 and lives in Glasgow
Works as a nursing assistant
Lives with her partner in rented accommodation
Constantly juggling money to enable her to have the holidays/car/nights out she enjoys</td><td>Her money
Lives in the moment relying, until recently at least, on her parents to cover unexpected expenditure and holidays
Recently crashed her car twice so needed another £400 for the excess (Mum paid first excess)
Couldn't ask her mother (knew she had no money) and her father had paid for her summer holiday</td></tr>
<tr><td>Her debt
She got the overdraft to pay for the insurance excess
Likes the fact it gives her a bit of independence from asking her parents for money
Clears it each month on payday, but when temptations such as nights out/holidays come up she uses the overdraft to fund these</td><td>Her outlook
In trying to be independent from her parents Katherine has taken on debt
She is still ‘living the life’ which before was primarily funded by her parents, but is now funded by the overdraft
If she continues to spend as she does she will either have to pay back the overdraft in between major expenditure or keep extending it as she funds her life</td></tr>
</table>

5.8.2. Living for now

<table>
<tr><th colspan="2">LIVING FOR NOW – SEGMENT PEN PORTRAIT</th></tr>
<tr><td>Their lives
• Pre family who have a range of income levels but are all largely spending what they earn on socialising, holidays and having fun
• Contain a number of recently graduates with significant accumulated student debts to pay off</td><td>Their money
• Learning to budget and trying to make their money last the month
• Have a few simple products e.g.
– 1 current account – they will occasionally slip into their unauthorised limit mainly by mistake
– 1 credit card – likely to be with their main banking provider</td></tr>
<tr><td>Their debt
• Admit to feeling tempted by debt (and getting further into it) and appreciate that it is easy to extend limits / overdrafts
• High usage and dependency on their overdrafts
– Less usage of credit cards and some weariness about high fees and APRs
– Some minor usage of store cards
• There is a fear and stigma attached to payday loans and other forms of ‘bad debt’, which they feel are to be avoided if possible</td><td>Their outlook
• Have a short-term outlook and mentality
– E.g. Find the prospect of saving for a house a long term target that can feel unobtainable
• However, most remain optimistic that their salaries will increase and they will have more disposable income in the future</td></tr>
<tr><th colspan="2">LIVING FOR NOW - CASE STUDY ‘SIMON’</th></tr>
<tr><td>His life
• 22 and lives in Belfast
• Works in engineering with overtime available if he wants/needs extra money
• Recently separated from his girlfriend he is living back with his parents
• Enjoying his increased disposable income (not paying rent/bills, only a bit of house-keeping to his Mum)</td><td>His money
• Lives very much in the moment – admits he can spend money like water (on clothes, holidays/trips, going out etc.)
• Usually runs out of money in the last week of the month so uses his £400 overdraft to fund life during this time - doesn’t see this as debt (very much ‘my money’)</td></tr>
<tr><td>His debt
• When the overdraft runs out, he can tip into an unauthorised overdraft by mistake. Tries to avoid this by using Wonga instead (likes the anonymity/lack of judgement)
• Pays off the overdraft and Wonga debt as soon as he is paid so feels in control of his money/debt and can always pick up overtime if he feels his borrowing is getting out of control</td><td>His outlook
• Has resisted getting a credit card up until now – he doesn’t trust himself with it (and sees his friends running up large bills)
• He is constantly bombarded with mail for cards (often pre-filled forms) so it could be only a matter of time before he has a credit card(s), overdraft and Wonga loans
– Which could put his aspiration of buying his own place even further away</td></tr>
</table>

5.8.3. Hard Pressed

<table>
<tr><th colspan="2">HARD PRESSED – A PEN PORTRAIT</th></tr>
<tr><td>Their lives
Struggling on low income and benefits (disability, unemployment and/or sickness)
Often one-parent families putting greater strain on finances</td><td>Their money
Very much on top of their money – ‘every penny counts’
Very few/simple products
– Current account, overdraft & credit cards at most</td></tr>
<tr><td>Their debt
Many use debt to get from one month to the next
– Bills, ‘emergencies’ (boiler)
▪ And for financial support during life event (such as separation/divorce)
– Although can quickly become a way of funding small treats (often for children)
The most financially unsophisticated so they can be unaware of charges incurred and how to avoid them</td><td>Their outlook
Life on benefits can be more chaotic as the money does not always arrive on the same day each week/month
– But direct debits leave on the same day so they can find themselves in unauthorised overdraft territory
At risk of being permanently in debt
– No safety net, so no alternative but to turn to debt to cover such times</td></tr>
<tr><th colspan="2">HARD PRESSED – CASE STUDY ‘ALAN’</th></tr>
<tr><td>His life
25 living with partner and their new-born baby girl
Unemployed, having lost his job working as a lab technician in the summer
His partner is employed, though on maternity leave at the moment
An obsessive computer gamer, he finds it hard to imagine giving up that side of his life
Whenever a new game comes out, he has to have it, despite new responsibilities</td><td>His money
His partner (who is older than him) is very careful with the household finances, but Alan can’t resist spending money whenever he has it
As well as buying games, he is determined to spend on his new daughter
Has no savings at all – what he had built up when employed has gone in the rental bond on their current property</td></tr>
<tr><td>His debt
He has a £500 overdraft which his bank let him have following an mistake on his phone bill
The incorrect bill caused him to go £500 overdrawn, and the bank suggested an overdraft to cover this
Since then – he received a refund from Vodafone, but has spent almost all of it on himself/new daughter</td><td>His outlook
Alan is quite a laid back character who clearly recognises his own faults
He has become very attached to his overdraft – seeing it as giving him independence which he would be loathed to give up
His key objective is to get back into work and he hopes that once this is achieved the debt will come down</td></tr>
</table>

5.8.4. Striving and Supporting

STRIVING AND SUPPORTING – A PEN PORTRAIT	
Their lives • Individuals with young families whose finances have become more stretched with the increased responsibilities of children and mortgages • High proportion of single parents / divorced families who are struggling to adjust to their changed financial circumstances • Feel time poor and are juggling lots of commitments at both work and home	***Their money*** • Feel that they should have learned how to manage their money by this lifestage – Some admit to having *'learnt from previous mistakes'* and being more reckless with money in the past • Others have always been prudent money managers through necessity • Use a range of credit products (e.g. multiple cards, overdrafts, store cards and loans)
Their debt • Debt is rationalised as something that can't be avoided in the current climate • Widespread feeling that as long as it is used for justifiable reasons (i.e. not for frivolous purposes) then it is something to dip into for unexpected / unforeseen purchases • Credit card debt is almost considered a way of life and just requires savvy management (e.g. transferring balances, paying off what you can and avoiding minimum payments – if at all possible)	***Their outlook*** • Feel relatively organised and in-control enough not to be overly worried about the debt e.g. • Had greater debts in the past – Hoping that as their children get older they will regain some more disposable income – However, conscious that they are not saving or planning enough for their long term futures
STRIVING AND SUPPORTING – CASE STUDY 'LORRAINE'	
Her life • 44 living with partner and 17 year old son • She is a TA at a primary school, while her partner works full time at a bakery • Rents property from a housing association • Lives in a very close knit community, where everyone is always looking out for each other • Has no spare/free time – needs to work all the hours she can just to make ends meet	***Her money*** • Situation is incredibly tight and so paying bills has to be her absolute priority • Energy bills are the greatest source of concern – during winter months does have to cut back on food items in order to pay energy bills • Uses prepaid card for energy • Occasionally saves money in the summer, but this is used up during winter
Her debt • Has a credit card after resisting direct mail for a few years. Is now on her third card after using each one to pay off the last – Tries to make inroads into debt. Current card balance is £1,200 – has been as high as £2k • Alongside the credit card, also has a Debenhams store card – Uses this for necessities and discounts	***Her outlook*** • Tends to feel she is always on the border of being/feeling out of control • Can't see any end to this – feels like a constant struggle to keep her head above water • Would not want to lose access to credit as it provides her with the flexibility she needs to run her life

5.8.5. Stretched But Resourceful

STRETCHED BUT RESOURCEFUL – A PEN PORTRAIT	
Their lives • All with children, and tending to be in their 30s or 40s • Could also be characterised as the classic 'sandwich generation' as responsibility for parents can be a factor • Employed, in mid-level jobs with reasonable levels of job security • High outgoings relative to income	***Their money*** • Tend to be organised with money, as have developed coping strategies over the years • Responsibility weighs heavily upon them and so need to be organised to make sure nothing falls in between the cracks • Money is quite a concern, with no one really able to put it to the back of their minds
Their debt • Tend to be a relatively highly geared segment, with above average incomes outweighed by high levels of debt • Combined with the responsibility for family, the debt is a source of worry for many, despite reasonable income levels • Overdrafts and credit cards are widely used, often in tandem, though some will only turn to credit cards once overdrafts are exhausted	***Their outlook*** • Very concerned about the here and now • Essentially waiting until family (children and parents) are less of a cost so they can reduce outgoings in order to chip away at the debt – Have been hit particularly hard by static incomes of last few years
STRIVING AND SUPPORTING – CASE STUDY 'ELLIE'	
Her life • 44 married mother of two daughters (16 & 13 year olds) • Works part time as a school secretary • Has a hectic lifestyle – e.g. with children's after school activities & clubs and her own social life • Self-professed 'shopaholic' who enjoys treating herself and buying 'nice things'	***Her money*** • Admits to having a 'frivolous' attitude towards money, which can cause tension compared to her 'responsible' husband • *"We are fortunate that we have two incomes and I see my salary as my spending money and my husbands is for the bills."* • Has an overdraft but does not go into the unauthorised zone and puts debt on her credit card
Her debt • Has two credit cards that she uses heavily (her own and a joint card) – She makes some sort of payment each month – but this can often be the minimum payment if money is tight • Has a couple of store cards (one that she admits her husband does not know about) that she will use for clothes shopping	***Her outlook*** • Ellie states that she feels in-control of her debt and that she could *'rein in her spending if necessary'* • She worries she should set a better financial example to her daughters but admits that she lacks the impetus to completely clear off her debts

5.8.6. Busy Achievers

BUSY ACHIEVERS – A PEN PORTRAIT

Their lives

- Busy families, often with two incomes (one tends to be part-time)
- Children still at home which means they tend to look longer-term and plan ahead
- Are time-poor and don't spend as much time as they would like on planning and finances – juggling their lives with many claims on their time
- Are home-owners (with a mortgage)

Their money

- Higher than average incomes
- Some savings, but modest at best and in deposit accounts cf anything more sophisticated
- Tend to be on top of their money, although it can be chaotic with many outgoings
- Broader portfolio of products to manage
  - Current account, overdraft, mortgages, credit & store cards, savings and loans

Their debt

- Heavy use of debt including overdrafts, credit & stores cards and loans to fund:
  - Bills, 'emergencies' (boiler)
    - And for financial support during life event (such as maternity leave, children separation/ divorce)
  - Their lifestyle (holidays/clothes/treats/ children etc.)
- They feel in control of their debt because they are making payment on time but often this is little more than the minimum

Their outlook

- Optimistic in nature they do not tend to worry about money
  - Feeling if needed they could make cut backs to save money
- They have high outgoings because of the children which will continue for some time
- They are at risk of long-term debt, able to pay it back by making cutbacks but unwilling to do so
  - And little/no savings safety net, so anything unexpected uses more debt

BUSY ACHIEVERS – CASE STUDY 'ELAINE'

Her life

- Mother of young children forced back to work earlier than desired to service outgoings and debts
- Young children at private primary school due to lack of quality state alternatives – worrying about costs of secondary school education in future
- Prefer not to think about 'vast' debts – just trying to survive
- Parents help out on regular basis

Her money

- Both her and husband "hopeless" with money
- Husband is CFO in London and on good wage – but not enough to meet outgoings and lifestyle
- She has been forced to work PT – even though planned to be a 'stay at home mother'
- Working 2 days a week – still not enough and considering full time work out of necessity
- High mortgage and school fees

Her debt

- Does not know extent of debt – but about £20K on her credit cards alone
- Also got large and permanent overdraft that they regularly exceed
- Mortgaged "to the hilt" – and have plans for further home improvements

Her outlook

- Interview forced consideration of the scale of the problem
  - She admitted a 'head in sand' approach
- No plans other than to shift credit around – and rely on help from parents - hand-outs now and eventual inheritance
  - If only they can 'keep head above water' until then

6. Conclusions

6.1. Key conclusions

There was a general journey evident starting with borrowing from family and ending with payday loans, doorstep lending and logbook loans.

The route through the credit market may vary to some extent, but consumers quickly move through it, taking on further debt without taking an overall view of their indebtedness at any point. Any decision to take on more credit was rarely based on affordability from either a consumer or provider point of view. Similarly card/overdraft limits tend to be increased based on 'need' (especially in cases where the existing limit was exceeded regularly) rather than on any ability to repay.

Once they have outstanding balances, consumers were making limited in-roads into this debt, with few having any sense of their 'debt-free day' in the future. For most it was enough to be making the minimum payment on credit cards and 'repaying' their overdraft each month to feel in control; the focus was very much on the here and now.

Irrespective of their situation, consumers shouldered the lion-share of the 'blame' for their actions predominantly unaware that the behaviour of the providers was often exacerbating the situation. Many consumers resisted the lure of credit cards for a long time but eventually were worn down by continual marketing/ pressure. Further, because of the lack of a considered decision to take on credit, consumers were also less informed as to how the products work and what they cost. Therefore greater clarity is required to enable consumers to make better decisions about the best products and the most appropriate limits for them along with the cost impact of their borrowing behaviours and decisions.

The promotion and/or distribution of credit cards was, in many cases, leading and hampering the consumers' ability to effectively shop around or switch among card providers. Whilst inconclusive that consumers would not hold credit cards if it were not for the promotion of them by providers, it was clear that constant waves of promotion contributed to the decision to take the card. Further, this constant promotion meant consumers often took what was offered to them, rather than shopping around for the best card for them.

When it comes to overdrafts, it was very clear that while this was seen to be a simple product to understand, the costs were not. Many consumers thought their overdraft was free, to their own detriment.

6.2. Consumer regulatory suggestions

6.2.1. Awareness of advice or help currently available

Very few consumers were aware of the Regulator or the Money Advice Service (MAS). Many of those that were aware of MAS considered it to be for 'strugglers' and so less relevant to them; providing help at the point of crisis and not before. Likewise, despite higher awareness, the Citizen's Advice Bureau was also felt only to be for those in crisis.

So there appears to be a gap for preventative advice when it comes to managing debt, before consumers get to the point of crisis. Debt is likely to be a permanent fixture in the lives of these consumers, but they are unaware as to how to best use debt and how to make the best decision for themselves.

6.2.2. Suggestions and questions on the role of credit and credit providers in informing consumers' decisions

After the in-depth discussion on borrowing behaviour (in the focus groups and in-depth interviews), respondents were asked to consider what they would do if they were the regulator. This discussion focussed on how they might encourage better practice among providers of credit products to make it easier to compare products and to encourage consumers to use credit products that are in their own best interests, not the providers.

It is important to bear in mind that these are not common concerns; for many consumers the research sessions were the first time they had held up the mirror and confronted their own behaviour

CONSUMER SUGGESTIONS ON CREDIT APPLICATION:

Be transparent about the implications of credit

Consumers felt this could be as simple as saying *'This is a loan - you will have to pay this back'* to help position it less as open-ended debt, and more as a structured one that is reduced over time as it is paid-back. Worked examples could also help here to illustrate the implications of only making the minimum repayment and of missing a repayment.

Clarifying the APR

Consumers wanted to know what this means. They are aware of the term without knowing its implications - is this the same as the interest rate and if not, how do they differ? More importantly, what does this mean for consumers in terms of their monthly repayments?

Clarifying the 0% period

There is confusion around what the difference is between a 0% Balance Transfer offer and the interest free 0% period that comes with any purchase before the bill arrives (usually thought to be 56-days). There is also uncertainty over how long their 0% period lasts, how they go about finding out and what happens at the end of the period.

Greater transparency over unauthorised charges

There is a lack of knowledge around charges for most, so a simpler structure was felt to be clearer and fairer, with a maximum or cap on the charges. All felt that the 'usual' £25+ is too much/ too financially onerous.

Affordability assessments

Consumers wanted to see a more rigorous application processes with the focus on whether the applicant can afford to repay back what they are borrowing, although few recognise that a stricter process would have ruled many of them out of their own application process.

Suggestions included an online self-assessment process to establish affordability, illustrations of what happens when they miss repayments, the implications of only making minimum repayments and an appropriate limit for their situation. Cards would then be issued based either on salary or on an affordability assessment (income vs. outgoings).

More formal application process

Online application processes meant many ended up with cards without understanding the product they have and how best to use it for their own benefit. So some suggested making the application process more 'formal'; a face-to-face process so that would ensure customers do not take the product lightly and understand the ramifications of use. This was felt to be especially relevant for the younger age groups who could easily find themselves in trouble with little awareness of the consequences of getting and using credit.

Tougher limits

Consumers felt providers should start-off with more conservative limits and then only increase the limit when the customer has proved they can make repayments and/or make in-roads into their balance. The initial limit should be set following the affordability assessment.

CONSUMER SUGGESTIONS FOR THE ON-GOING CREDIT RELATIONSHIP

Help customers make in-roads into their debt

If the minimum repayments covered the interest plus some of the balance, at some point in the future the balance would be repaid. If this were coupled with advice and suggestions from the provider for how to work towards clearing overdraft or credit/store card debt, consumers might be able to see a debt-free day in the future.

Practical applications of this included imposing time limits on repaying the debt (as with a loan) or having decreasing limits on cards and overdrafts so that the debt does not become a permanent fixture and consumers work towards reducing, rather than maintaining, their liabilities.

Tougher limits

Providers would only be able to increase limits at the request of the customer, following the affordability assessment before deciding on the new limit. Once agreed, if customers had to sign for any increases in limit it might make them think more about what they are doing. Further, allowing a ‘cooling off’ period following the application would mean they are not stuck with the new limit if they change their mind.

Renew the relationship

Although many consumers like the anonymity of the internet when it comes to finances, if providers were to establish a closer relationship with their customers they could open dialogue and discuss their levels of, and plans for repaying, their debt.

Take a preventative approach

If customers look as if they might be beginning to struggle with their repayments (e.g. skipping payments, increasing limits etc.) then providers could refer them to services such as MAS/CAB to help before the customer reaches crisis point

Don’t let consumers go over card/overdraft limit & incur charges

To avoid incurring charges, many would like the payments that would take them over their limit to be rejected; whether this is a card payment, a direct debit or a cash withdrawal.

For some this was too punitive an approach and in these cases they would rather receive text alert when they are approaching limit. They would like the providers to be doing what they can to help them avoid incurring charges.

A. Technical Appendix

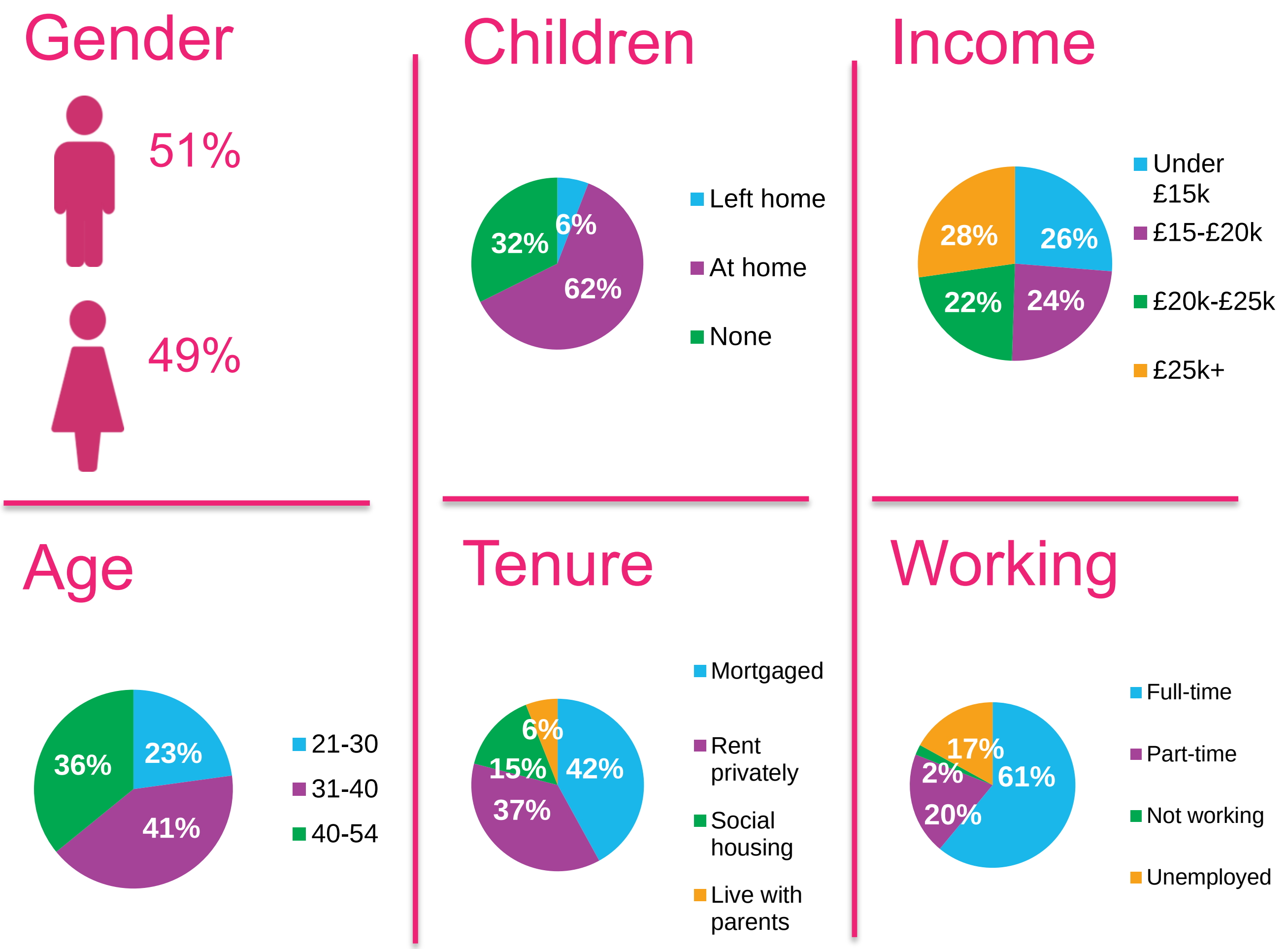
A.1. Sample

Fieldwork started on 21 November and was completed on 3 December 2013.

A.1.1. Sample Breakdown

In terms of socio-demographic makeup, the sample looked as below:

Sample Breakdown



A.1.2. Sample specifics

Sample Structure

Location	Focus Groups	Consumers	Depth Interviews
Belfast	**Credit cards -** 1x Stretched but Resourceful group **Overdraft -** 1x Striving & Supporting group	**8** **8**	**Overdraft** 1x Living for Now
Manchester	**Credit cards -** 1x Striving & Supporting group **Overdraft -** 1x Living for Now group	**8** **8**	**Credit card** 1x Stretched but Resourceful
Bridgend	**Credit cards -** 1x Hard pressed group **Overdraft -** 1x Stretched but Resourceful group	**8** **8**	**Overdraft** 1x Hard Pressed
Glasgow	**Credit cards -** 1x Busy Achievers group **Overdraft -** 1x Hard Pressed group	**8** **8**	**Overdraft** 1x Starting out
Birmingham	**Credit cards -** 1x Living for Now group **Overdraft -** 1x Starting Out group	**8** **8**	**Credit card** 1x Striving & Supporting
London	**Credit cards -** 1x Starting Out group **Overdraft -** 1x Busy achievers group	**8** **8**	**Credit card** 1x Busy Achievers
Total	**102 in total**	**96**	**6**

A.1.3. Recruitment criteria

Recruitment was based around the FCA Consumer Spotlight Segments with the table below illustrating the attributes. The questions used to identify which segment the respondent most closely aligned with included:

- Age
- Presence of children
- Working status & income
- Tenure
- Value of savings
- Use of/reliance on credit
- Confidence in making financial decisions

Organisation/knowledge of financesLIVING FOR NOW	STRIVING AND SUPPORTING	STARTING OUT	HARD PRESSED	STRETCHED BUT RESOURCEFUL	BUSY ACHIEVERS
SOCIO-DEMOGRAPHIC PROFILE					
21-34	35-54	21-34	21-34	35-54	35-54
Rent privately or live with parents	Rent from local authority & mortgage	Rent privately or from local authority	Rent from local authority	Own home with mortgage (some outright)	Own home with mortgage
Work PT or FT	Working FT/PT or looking after home	Work FT	Unemployed/ sick/disabled (32% full time or part time)	Work FT or PT	Work FT or PT
HH income of £20k or less	HH income of £25k or less	HH income of £20k or less	HH income of £10k or less	HH income of £20k+	HH income of £35k+
No savings (60%)	No savings (60%)	Less than £500 (64%)	No savings (70% have)	Some savings (45% have none)	Some savings (45% have none)
	Children living at home				

LIVING FOR NOW	STRIVING AND SUPPORTING	STARTING OUT	HARD PRESSED	STRETCHED BUT RESOURCEFUL	BUSY ACHIEVERS
KNOWLEDGE					
Do not know what their balance is	Do not know what their balance is	Do not know what their balance is	Do not know what their balance is	Know at least roughly what balance is	Know at least roughly what balance is
ATTITUDES (GENERALLY THIS SEGMENT)					
Less organised when managing money Not confident in making financial decisions Often go over arranged overdraft limit	Use credit for unexpected expenses Experience financial difficulties	Not confident in making financial decisions Use credit as often run out of money Rely on partner/ family for advice	Live for today Have little money left over after bills/expenses Don't see improvement in financial situation	Good understanding of product (if little resulting action) High outgoings and little spare cash Busy lives	Good understanding of product (if little resulting action) Optimistic for the future financially Busy lives Plan for tomorrow and think about the future
PRODUCT HOLDING – CREDIT CARD RESPONDENTS					
Hold one or more credit cards, plus a minimum of two respondents per group to also hold a store card. All to carry over their balance on their credit card (i.e. only make the minimum or partial payment) more than six months of the year					
PRODUCT HOLDING – OVERDRAFT RESPONDENTS					
Either do not have an arranged overdraft but do find themselves overdrawn at least six months of the year Or have an arranged overdraft but find themselves exceeding the overdraft limit at least six months of the year					

The following attitude statements were used, with respondents required to agree with at least half of the attitude statements for their segment.

STATEMENT	SEGMENT
I feel I am less organised than others at managing my money	Living for now
I am often overdrawn on my account, and sometimes go over my arranged limit	Living for now
I am not very confident at making financial decisions on my own	Living for now Starting out
I find that I often run out of money towards the end of the week/month and find that I have to use my credit cards or overdraft to see me through	Starting out
I tend to rely on my partner and/or parents for financial advice	Starting out
When I have any additional or unexpected expenses I tend to have to rely on my credit/store card or overdraft facility	Striving & supporting
In the last year we have experienced financial difficulties in my household	Striving & supporting
I very much 'live for today' when it comes to money	Hard pressed
I find I have very little money left after I have paid household bills and other living expenses	Hard pressed
I don't really see any improvement in the future with regard to my money matters	Hard pressed

STATEMENT	SEGMENT
I feel I have a good understanding of my financial products and situation, but it doesn't make it any easier to manage it!	Stretched but resourceful Busy achievers
My life is pretty hectic and there isn't enough time in the day	Stretched but resourceful Busy achievers
My outgoings are quite high and I find I have very little spare cash left at the end of the week/month	Stretched but resourceful
I am optimistic that things will improve financially for me in the future	Busy achievers

A.2. Approach

A.2.1. Objectives

The research objectives for this project were to:

- Assess consumer behaviour and attitudes to the purchasing or consideration of consumer credit products
  - Understand consumers overall attitudes towards debt, borrowing and credit solutions
  - Explore how consumers decide which credit options are most appropriate for their
  - Identify how comfortable and in-control consumers feel using different credit products
  - Understand the research and consideration criteria that are used when selecting a credit solution
- Assess how consumers move between credit products and the range of different credit products they hold to identify how consumers can become over-indebted
  - Explore how individuals migrate between different credit products (and/or accumulate a range of credit products) and the triggers and events that prompt this migration
  - Identify consumers that are using multiple credit products and the interrelation between these different credit options
  - Identify specific events or situations that make consumers feel they have become over-indebted
- Identify the key issues that determine the shape and nature of the market and whether consumer behaviours have the potential to lead to detriment
  - Explore whether consumers feel they are being treated 'fairly and appropriately' by credit providers
  - Explore whether 'market failures' are perceived to exist amongst consumers e.g.
    - Identify where information asymmetry exists and consumers feel they have not been sufficiently informed by providers about their credit products
    - Gauge whether incentives have played a significant role in the selection of a credit product
    - Measure consumer confidence (and over confidence) in their ability to repay borrowing
    - Determine whether consumers feel knowledgeable enough about the different credit alternatives that are available to them
    - Explore awareness of the consequences of any late payments
  - Explore whether consumer detriment exists e.g.
    - Determine whether consumers feel they are being offered unaffordable borrowing
    - Determine whether poor value credit or services exists
    - Explore whether consumers feel they have experienced 'unsuitable advice' from their credit providers
    - Determine whether consumers feel they have a lack of access to credit options

- Identify where consumers feel it is difficult to effectively compare all credit options in the marketplace

A.2.2. Pre-work

The respondents were asked to complete a 'homework' task ahead of the groups/depths to focus on how and why they came to use the forms of credit they have come to rely on.

The task required them to think back to when they first took out the credit product they were recruited for (i.e. credit cards or overdrafts) and tell the story of their product holding. This allowed us to:

- Identify important 'moments of truth'
- Encourage identification of overall themes
- Focus on the detail of different stages
- Understand how credit products are perceived in the broader context and how decisions between options are conceptualised
- Feelings /lesson learned at each point

Homework Task

Question	Answer
How/when/why did you realise you needed to borrow money?	
What alternatives did you consider from where to borrow this money?	
How did you decide to apply for a credit card /overdraft?	
What advice or information did you look for, if any?	
Who helped you decide how to borrow the money, if anyone?	
How did you choose who to borrow from?	
How did you apply for the credit card/overdraft and what this experience was like?	
What it's been like since you have been using your credit card/overdraft? What else have you used it for? How has your borrowing changed since you've had your credit card/overdraft?	
And what is the moral of this story?	

A.2.3. Discussion guide

OBJECTIVES (NOT TO BE SHARED WITH THE RESPONDENTS)

The overarching aim of this research is to provide the FCA with a detailed understanding of consumer behaviours and attitudes around three credit products: credit cards, store cards and overdrafts. More specifically:

- *To assess consumer behaviour and attitudes to the purchasing consideration and usage of consumer credit products*
- *Assess how consumers move between credit products and the range of credit products they hold to identify how consumers can become over-indebted*
- *Identify the key issues and benefits that determine the shape and nature of the market in operation and whether consumer behaviours have the potential to lead to detrimental or positive outcomes*
- *To assess consumer behaviour and attitudes around the purchasing and/or use of these credit products – and in particular the route to market*
    - *Pre and post application*

- *Needs of the consumers*
  - *The consumers perception of the firm*
  - *How much they shop around*
  - *Can consumers decide whether the product they hold is value for money?*
- *To understand trends and patterns in the way companies communicate and behave with customers*
  - *Information given to consumers*
- *To understand those details of provider behaviour that lead to consumer detriment or a positive consumer experience.*
  - *The ultimate outcomes*
  - *What the consumers value most*
- *DURATION: 1 hr 45 mins*

Rules of engagement

- Create a non-judgemental atmosphere where people feel comfortable opening up and disclosing within a group environment
- Give respondents 'permission'. For example, simply saying that 'other people' have felt a certain way or the researcher should 'admit' to themselves that they make fallible financial decisions and so forth
- Take a flexible approach using the guide – topics are likely to be raised and covered at different points to the guide
- Avoid 'forcing' people to adopt rational or defensive stances about their behaviour choices
- Challenge when appropriate

10 mins

Introductions – getting to know people and a little context if their lives

- Name, family situation (children, whether their partner works), what they are up to at the moment and what would they say is 'on their mind' in their lives right now?
- Financial products held and with whom?
- What's it like in their household? How would they describe their money management? How do they manage their money? What tricks or tips do they use if any?

20 mins

Introduce the topic of money and debt and explore reactions

We now want to talk about finances and unsecured debt, so excluding mortgages…

- Play a quick word game – when thinking about money and finances what words/images come to mind – they can be anything – let them be spontaneous and speedy, then ensure get both positive and negative thoughts
  - Do you have any positive feelings about money, what sorts of things make you 'feel good' about your finances, describe them?
  - Do you have any negative feelings about money, what sorts of things make you 'feel bad' about your finances, describe them?
- Elicit words and flip chart them – finish group exercise then reflect words back to the individual and probe why they chose them, what they mean by them, what do others think about them (can they relate to them)?
- Any surprising/unexpected words/images – probe appropriately
- And what about debt? What words spring to mind when you think about that kind of debt?
  - Ensure both positive and negative feelings/words are elicited and explore reasons for both
  - What products do you think of immediately, why did you think of those?
  - WHERE MORE THAN ONE USED ASK: How do these products work together when it comes to managing money? Why are some products more suited to one purpose as opposed to others?

	– How do you decide what to use each type of product for? – Probe around 'credit' vs 'debt' – is this the same think as debt? Why/why not? How does this differ? • ASK THE FOLLOWING FOR THE PRODUCT AREAS BELOW. START WITH THE PRODUCT THAT EACH GROUP HAS BEEN RECRUITED TO FOCUS ON AND MOVE ON TO THE OTHERS IF THERE IS TIME, AS RELEVANT (DEPENDING ON USAGE): MODERATOR NOTE: FROM HERE ON IN, CLARIFY WHICH FORM OF BORROWING/DEBT RESPONDENT IS TALKING ABOUT IF IT IS NOT CLEAR. – Credit Cards – Unauthorised Overdrafts – Store Cards – Debt management – Payday loans – Home credit – Logbook lending (might know as borrowing against their card) – Mortgage **FOR EACH ASK:** – Have they heard of these? What do they know about them? – Have they considered them? Have they rejected them? Why so? Under what circumstances might they consider each type of borrowing/debt? **FOR DEBT MGT, PAYDAY LOANS, HOME CREDIT & LOGBOOK LENDING ASK:** – Have they used them? Why/when? What for? Views on each? • What are the key benefits of using (INSERT PRODUCT AS APPROPRIATE)? FLIPCHART BENEFITS – What does it enable you to do, that you wouldn't otherwise be able to do? – Can you separate these benefits into essential and nice to have? • And what are the key drawbacks of using (INSERT PRODUCT AS APPROPRIATE)? FLIPCHART DRAWBACKS – Compare Benefits to Drawbacks – where does it net out and why? • What credit cards/store cards do you own? • Who is your current account with? Do you have an overdraft with the account?
45 mins	**Telling your stories** • Please now refer to your pre-task… Could we hear the story each one of you has put together? – Talk about your journey here INVITE EACH RESPONDENT TO TELL THEIR STORY. USE FOLLOWING PROMPTS TO HELP RESPONDENTS TELL THEIR STORY. IF RELUCTANT TO SHARE INITIALLY, USE PROMPTS BELOW/FROM PRE-TASK TO GUIDE THE DISCUSSION ▪ Reasons for accessing credit in the way(s) that they did ▪ Circumstances leading up to taking out the credit card/store card/first accessing unarranged overdraft ▪ How they came to decide on a particular provider ○ Did you shop around? Yes/No Why? ○ How important was the reputation of the firm to you, explain?

	- Was price a consideration in selecting the provider - How important is the quality of the service to you? Did this influence your decision? ▪ Whether they considered other providers and how they made comparisons? ▪ What they thought of the application process? ▪ What were the primary sources/main information to choose the lender? ▪ Have they considered changing providers/switching? ▪ Did the lender approach you? Or you approach the lender - If so how did this approach work? - Did you feel comfortable with that approach? - Would your decision have been different if the approach was different? ▪ Were you given information about fees and charges upfront? What did they think of this? ▪ What were their experiences in paying/repaying? - First time/subsequent times - What problems occurred at any of these stages? (selection/application/repayment) - What provider interaction did they have along the journey? - Were there any unexpected additional fees for using or pulling out of a product prior to its expiry? - What went well in this experience? Why did you feel positive? • Now that we've all shared our own individual stories, what common themes have emerged? FLIPCHART RESPONSES – What common reasons have emerged as to why unsecured debt is used? ▪ Why are unarranged or arranged overdrafts used? ▪ Why are credit cards used? ▪ Why are store cards used? ▪ And other forms of unsecured debt? – What challenges or hurdles in our lives were faced that caused these types of products to be used? What solutions do/did they appear to offer? – Can you see points in the different stories where different decisions could have been taken? (USE THE THEMES, RATHER THAN SPECIFIC INDIVIDUALS HERE) ▪ What were the alternative choices available and why were those not taken? ▪ What would have needed to be different at those points in the stories to enable different decisions to be taken? What would be the result now? • What would be an ideal 'happy ending' to these stories? What is preventing that from happening at the moment? • Were there any surprises along the journey? • How well do you feel you understand the (Unauthorised overdraft/credit card/store cards – INSERT AS APPROPRIATE) you have just talked about using? – Repeat question for other debt products that were mentioned – What are the key things you don't understand about these products? – How could an increased understanding affect your usage of these products?

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- How does debt affect our ability to manage money?
  - Is debt part of a good money management strategy or does it get in the way of good money management? Explain…
  - Do you consider yourself to be in control of your debts? How do you compare the population as a while do you think? More in debt? Less in debt? What are you basing this on?
  - What do you think your debt mainly consists of? How has it built up over time – spending on what? What has contributed to your debt?
- What would you do if you did not have access to (INSERT PRODUCT AS APPROPRIATE)? How would you cope?
  - Do you have a safety net in place if things don't go as planned?
  - Would you consider any of the products we have talked about as a safety net?
    - Savings safety net (do they have savings?)
    - Overdraft facility? Credit cards? What else is a safety net for you?
- When is the use of debt irresponsible? Why does this occur?
  - Can you think of examples where the use of debt by consumers is encouraged by financial companies?
  - To what extent is the use of debt down to individuals as opposed to financial companies? Explain your answers – how/why are you making that judgement?

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Credit Cards/Store Cards – THIS SECTION FOR THE CARD GROUPS ONLY

- When taking out a new credit card/store card what prompts the decision to do this?

  LISTEN FOR EXPRESSIONS OF CONSCIOUS vs. SUBCONSCIOUS PROMPTS FOR THE DECISION IF NOT ALREADY COVERED IN PREVIOUS DISCUSSION
  - How considered is the decision in your view? Why is that?
- Do you shop around when thinking of taking out /switching credit cards/store cards? Why/why not?
- How easy is it to compare different cards when you're thinking of taking out a new one?
  - How do you compare different cards? What features do you specifically look for?
    - How easy is it to find that feature?
    - How easy is it to compare interest rates for different cards? Why do you say that?
    - How easy is it to compare credit limits for different cards? How useful would that be?
    - How useful is the APR rate? E.g. 30%
    - How useful is the total cost of credit?
    - What else do you look for? LISTEN OUT FOR USE OF BALANCE TRANSFERS – LENGTH OF 0% PERIOD
- What do you think of the way information about credit cards is presented to people? Why do you say that?
  - What do you think should change to make it easier to compare credit cards and store cards to each other?
- Do you have multiple cards and how do you choose which one you use? Why?
  - How did you come to hold multiple cards? What drove this decision?
- Does anyone have experience of credit card/store card providers suggesting that they take out new products?

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	○ What do you think of this? ○ What has been your reaction to this in the past? ▪ Are the products that have been sent to you been suitable for you? Why/why not? How have you been able to decide? ▪ What about experience of card providers increasing limits? When does this happen and what action does this prompt in you? ○ Why do you think credit card/store card providers do this? • What behaviour could each encourage/prevent? • Which of these are happening/do consumers have experience of in relation to credit cards/store cards? – And which are not happening/do you not have experience of? • Can you always pay the amount off your card that you would like to? When can you not do this? – Where does that leave you in terms of credit card debt? How does this situation compare to a year ago/2 years ago? – What would you expect to be the situation in 12 months' time? Why? – How much do you tend to want to pay off your card bill? What happens if the suggested amount is not the amount you want to pay? • When things go wrong and they had to go back to their provider or complain what happened?
15 mins	**Unauthorised& Authorised Overdrafts – THIS SECTION FOR THE OVERDRAFT GROUPS ONLY** • Authorised overdraft = current account with an agreed overdraft facility that the customer may use but doesn't exceed. • Unauthorised = current account either – With an agreed overdraft and they exceed it – Without an agreed overdraft and they spend into it • Was it accidental or not? Was it agreed with the bank or not? When did they first discover this was the case? Was this a positive or negative experience? • What prompts you to use your overdraft? How conscious is the decision to use an unarranged overdraft? – What occasions prompts you to use this? To what extent is it a habit or a necessary way of managing your finances? What was going on at the time? What was the context? What actually happened? Did they know what they were going into? What happened next? • What part did access to an overdraft play in the decision to take out your current account? How important was it in the overall decision? – How do you compare different overdraft facilities when comparing current accounts? – If this wasn't a feature when comparing accounts, why wasn't it? – How would you compare different overdraft facilities if you needed to? • Do you know the current interest rate on your overdraft? How do you find this out? – If not, how would you find it if you wanted to know? – How would you find out if there were better current accounts with better overdraft facilities out there? How would you compare them? • How, if at all, do you think about the interest rate on your overdraft? Daily; weekly; monthly? Not at all? – Why is this?

	• Does going overdrawn prompt you to look at other current accounts and their overdraft facilities? Why is this?
	  – Is anyone aware of the current account switching service? What have they heard?
	  – Have you moved bank accounts with an overdraft? Why/why not? How was this?
	• Where do you/would you search for information on current accounts and their overdraft facilities if at all?
	• When things go wrong and they had to go back to their provider or complain what happened?

5 mins	**Consumer and Provider Typologies**
	• How would you characterise the typical user of each product?
	  – Age; job; what sort of house/car would they own? Why do you say this?
	  – Are they responsible / irresponsible? Why is this?
	  – Are they in control of their lives/destiny? Again, why do think this is?
	• Is this person you/any of you? Why? Why not?
	• And how would you characterise the typical provider of each product?
	  – If you think of these companies as having a personality, how would you describe them as if they were people?
	  – How do they relate to their customers?
	    ▪ Do they have their best interests at heart?
	    ▪ If you think of them in terms of having a relationship with their customers, how would you describe that relationship?
	      o In family terms? In wider terms?
	• How would you describe a **responsible provider** of these products?
	  – What behaviours would mark them out as responsible?
	  – What makes for a 'responsible provider'?
	• And what about an irresponsible provider? What behaviours would mark them out as irresponsible?
	• Where would you go for debt advice?
	  – Have you heard of the Money Advice Service? What do you know about them? Would you consider MAS ("Ma"), why, why not?
	• What other types of advice would you consider?

10 mins	**Wrap up – What should the FCA do?**
	RELATE BACK TO THEIR PERSONAL EXPERIENCE
	• Please now imagine that you've been set the task of improving borrowing behaviour in the UK. What it'd like you to do is think about three areas (WRITE ON FLIPCHART)
	  1. Personal responsibility
	  2. Good lender practice
	  3. Creating regulations to encourage the lenders to do two things:
	    a) Make it easier for consumers to compare products from different providers

	b) Ensure that consumers only use debt-related products that are in their best interests, not the interests of the provider • Split into two teams and please work as a team to come up with three initiatives under each heading – PRESENT BACK TO WIDER GROUP, EXPLAINING RATIONALE – What other regulations are missing? How could these ones be improved? • Anything else to add?
COLLECT IN PRE-TASK. THANK AND CLOSE	

A.2.4. Interview approach

The research comprised in-depth interviews and focus groups among those who routinely carry large balances on their credit cards and among those who use unauthorised overdrafts. Across the sample, half fell into the credit card category and half into the unauthorised overdraft category.

Some respondents carried both large credit card debt, *and* used an unauthorised overdraft. The discussion guide addressed both product areas in these cases.

Groups were held across England, Scotland, Wales and Northern Ireland. One depth interview and two focus groups were conducted each night in each location.

The in-home depth interviews were critical in giving us the context of the audience's lives, allowing the moderator to become immersed in the background of the audience's lives as well as hearing the product journey/decisions they experienced.

Eight respondents were recruited for each group, with each depth interview lasting up an hour and each focus group up to an hour and three quarters

A.3. Products assessed

Jigsaw covered credit and store cards and overdrafts (unauthorised and authorised) in the Research.

Some of the respondents also had exposure to PayDay and Doorstep loans, and while these did not form the main focus of the interviews/groups, they were discussed as they are part and parcel of the respondents' debt portfolio.

A.4. Consumer Spotlight Segmentation

Retired with resources

Retired people, living comfortably on income from pensions and savings, very rarely going overdrawn or needing to take on debt. The majority have the resources to deal with an income or expenses shock. Some use expert financial advice but they are also well informed. An optimistic and confident group.

Retired on a budget

Retired elderly people, living on low incomes, often alone. Organised and careful with money, they avoid debt and tend to be very loyal to a small number of financial service providers. Many with access challenges due to poor health or disabilities, they are likely to rely on cash and cheques to make payments.

Affluent and ambitious

An affluent working age segment more likely to be men, many are married with children living at home. Financially secure, confident and optimistic, they are likely to own a large number of financial products, including savings and mainstream credit. They enjoy shopping around for the best deals, often online.

Mature and Savvy

An affluent, middle aged segment, more likely to be male. Working and usually home owners, most have some form of savings and investments. They are very confident money managers and generally find it easy to keep up with their financial commitments. A secure and optimistic group.

Living for now

A relatively low income group, more often younger and male. The majority work and keep on top of bills but they tend to be less organised with money than others and can be prone to risk taking. Although internet savvy, they lack confidence in financial decision making, often relying on friends or family for advice.

Striving and supporting

A low income segment, mostly female and the majority with dependent children. Most work but although risk averse, money management is a struggle. They may fall behind on payments, find it difficult to meet an unexpected expense, and rarely switch providers. A busy and pressured group.

Starting out

A young segment of men and women, with more than half from minority ethnic groups. Despite many having higher level qualifications with some still studying, incomes are relatively low. They may struggle to make ends meet, often relying on credit to get by, but they have a strong support network and are confident and optimistic about the future.

Hard pressed

A low income segment of men and women, most are single but many live with dependent children. The majority are out of work and keeping up with bills is a struggle. With low financial confidence and limited access to mainstream credit, this segment finds it hard to make ends meet.

Stretched but resourceful

A family segment of men and women with children, almost all in work. Incomes are relatively high and more than half own their home with a mortgage. Although generally able to keep up with bills, credit use is high. Confident but time poor, many would struggle to cope with an income or expense shock.

Busy achievers

Mainly female and married, most have children living at home. The majority work and household incomes tend to be high. Most have savings as well as loans and credit cards and although often overdrawn, they are able to keep up with household bills. Very time poor, but optimistic and confident about the future.

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