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Dear Firm

Credit card fees and charges – results of our review

We have carried out a review of credit card fees and charges and we are now writing to you to bring the findings to your attention and to ask you to take action (under Next steps). Please forward to the appropriate person in your firm.

Why we reviewed this sector

In recent years, we have highlighted a risk of potential harm to customers from poor culture and practice when assessing affordability in consumer credit. We have also set out our concerns over the scale and persistent nature of customers' credit card debt.

We remind you that under CONC 6.7.3AR, firms must monitor a credit card customer's repayment record and any other information held by the firm and take appropriate action where there are signs of actual or possible financial difficulties. Appropriate action includes, amongst other things, considering suspending, reducing, waiving or cancelling any further interest, fees or charges (CONC 6.7.3BG(2)(a)).

In early 2017 we undertook a piece of work looking at fees and charges across a number of consumer credit sectors. The data raised several questions in the credit card sector in relation to the application of multiple fees and the types of customers who were incurring those fees. It highlighted that in some cases a credit card customer who incurred a single late payment, that initially resulted in a £12 fee, could end up paying £24 or £36 in fees.

During 2017 and 2018 we undertook a follow-up piece of work to gain a more detailed understanding of credit card fees and charges, and the impact on outcomes for consumers.

About the review

This multi-firm work covered both prime and subprime credit card products and firms. Our primary area of interest was returned payment fees, over-limit fees, and late fees. We also looked at the distribution of fee types amongst customers with different credit limits. Our goal was to understand the causes and application of the fees and the cohorts of customers paying them. Firms were compared against their peer group.

We asked firms to provide data on the total number of accounts in which fees were triggered[1] by particular events on 1 occasion, 2 occasions, etc, up to 5 or more times during a 12-month period. Events included, for example, a missed payment causing a late fee or an authorised transaction leading the customer to go over their credit limit triggering an over-limit fee.[2] Firms also gave us data on the distribution of fees for each event across cohorts of customers split by credit limit eg <£250; £250>£500.

Findings

We found that some customers were being charged fees on multiple occasions and sometimes multiple fees in a single billing cycle. This could suggest that firms are not adequately identifying or dealing appropriately with signs of actual or possible financial difficulties. The events set out below apply to both prime and subprime customers.

Missed payment causes a late fee

The data indicated a significant number of customers who missed payments and, as a result, triggered late fees, many triggering these fees more than 4 times in a 12-month period. Where a firm did not operate fee caps, some customers could incur between 8 and 12 fees within a 12-month period, either consecutively or non-consecutively, depending on whether (intermittent) repayments were being made.

Consecutive over-limit fees

The customer will have originally gone over their credit limit due to another event, for example an authorised transaction, but failure to bring their account back within their credit limit triggers subsequent over-limit fees. A significant number of customers' accounts across most firms were identified as triggering over-limit fees in consecutive cycles, with many accounts triggering fees as a result of this event 3, 4 or 5 or more times within a 12-month period.

Payment returned which causes a returned payment, late <u>and</u> over-limit fee

Charging multiple fees in a single billing cycle was not as prevalent across firms as for the other events. However, the number of customers triggering this event, including on multiple occasions, was not insignificant. Most firms in the project have taken steps to prevent this event from happening in future.

Authorised transactions triggering over-limit fees

A large number of customers triggered over-limit fees as a result of an authorised transaction, pushing the customer over their agreed credit limit. The decision to authorise a transaction is made by the firm. Many customers were charged this fee on multiple occasions across a 12-month period, which could be an indicator of possible financial difficulties.

Summary

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[1] Fees reported were those triggered rather than those paid, so includes fees that were triggered but not paid, or were triggered but later cancelled. Whilst we are aware of firms refunding some fees, this may rely on customers complaining and this can disadvantage those customers who don't feel able to do that.

[2] The relevant events can be found in the annex to this letter. Note, we appreciate that it is not always possible to show causation for a particular fee particularly where more than one event occurred in an account, but without the event in question the fee would not have been triggered – it was a contributory factor. It may not be the only factor.

Incurring multiple fees could indicate that a customer is in financial difficulty and that appropriate action should be taken by the firm. For those with lower credit limits, the fees and charges represent a higher proportion of the outstanding debt.

Firms in our sample reviewed their fee-charging strategies and the impact it was having on their customers. As a result, numerous changes have been made to how customers are charged fees, including removing fees, capping fees, and renewing communication strategies to prevent fees being triggered.

Next steps – what you need to do

There are opportunities for firms to improve outcomes for their customers and take appropriate action where there are signs of actual or possible financial difficulties.

Firms should consider whether their policies and procedures in relation to fees and charges result in fair consumer outcomes and are compliant with the rules and guidance provided in CONC 7.

For example:

- What does your firm regard as signs of actual or possible financial difficulties? Are (multiple) fees and charges considered as one of those signs?
- Does your firm flag on its systems those customers who are repeatedly incurring fees on their account?
- What are the range of actions your firm takes when identifying a sign of actual or potential financial difficulty and are you satisfied they meet the requirements of CONC 7.3.4R?

We expect senior managers to ensure the message within this letter reaches the relevant people in their organisation. We will publish the outcomes already achieved by our sample group tomorrow on our website.

Yours faithfully

Philip Salter

Philip Salter
Director of Retail Lending
Supervision – Retail & Authorisations

Annex

List of events considered in this review.

a) Missed payment causes late fee
b) Payment returned but customer still meets minimum payment
c) Payment returned which causes a returned payment fee and over-limit fee
d) Payment returned which causes returned payment fee and late fee
e) Payment returned which causes a returned payment, late and over-limit fee
f) Late fee causes over-limit fee
g) Fee component of transaction causes over-limit fee
h) Authorised transaction causes over-limit fee
I) Interest or insurance (ie PPI) causes over-limit fee
J) Lagged fees & transactions cause over-limit fee
K) Over-limit fee charged in consecutive cycles

Full list of credit limit cohorts:

<£250

£250>£500

£500>£1000

£1000>£1500

£1500>£2500

>£2500