

MS14/6.2: Annex 1

Market Study

Credit Card Market Study

Interim Report: Annex 1 – Feedback on Terms of Reference

November 2015

1. We received twenty-two written responses to the Credit Card Market Study (CCMS) Terms of Reference (ToR). This included responses from six firms, seven consumer research groups, eight consumers and one academic.
2. This annex outlines the key themes in the responses.

The scope of our market study

3. Some firms suggested that the scope is too broad and may prove difficult to manage, whilst consumer groups welcomed that the study was analysing the credit card market in such detail. One firm objected to the exclusion of store cards from the study, noting that store cards have a very similar functionality to mainstream credit cards and that the two are close substitutes. It was also noted that any findings in this study should apply to store cards.

Shopping around and switching

4. A number of respondents stated that the credit card market is one which works well for many consumers and that switching levels have increased since the OFT's 2008 survey (referred to in our ToR), notably due to the increase in other distribution channels such as PCWs. Some firms noted that switching rates may be low because consumers are happy with their product.

Cost recovery, including the impact of the Interchange Fee Regulation

5. Responses from both firms and consumer research groups suggested that the forthcoming changes to interchange fee regulation were likely to have a far-reaching impact on the credit card market through reducing firm revenue and altering business models. One firm noted that profitable incumbent firms had an incentive to cross-subsidise to exclude new entrants and considered the interchange fee regulation was likely to make this problem more acute as customers become less profitable. One respondent suggested the market would become less competitive after the interchange fee cap.

Unaffordable credit card debt

6. A small number of responses noted that credit card providers used pricing techniques such as range pricing and teasers which they considered to be misleading and resulting in poor consumer outcomes. Responses also noted that interest rates were confusing, particularly when they differed for types of transactions which meant consumers were unclear as to the cost of credit. Several firms noted that APR was a poor measure for comparisons, particularly because credit limits for some customers were below the £1200 used to calculate APR.
7. One firm noted that unaffordable debt was not always a result of unaffordable lending but partly due to firms' lack of information at the time of making lending decisions.
8. One firm noted that consumers may make minimum repayments for rational reasons, whilst consumer organisations and consumers noted that the level of

minimum repayment may be too low and is lower than other countries and this may exacerbate overall consumer indebtedness. They also questioned whether consumers had sufficient information on repayments to make informed decisions and stated that greater clarity and information needed to be provided to consumers. One firm suggested that all firms should be signatories to the Lending Code.

Barriers to entry and expansion

9. Two firms noted that it was in the interests of consumers and for competition more broadly that there was greater sharing of data amongst firms. One noted that the provision of information on current account usage to other lenders would be sensible, whilst the other emphasised the need for real-time data-sharing so firms were fully aware of a consumer's debts and income at the point of making a lending decision. They noted it could take up to 60 days for a credit agency report to be updated. They therefore requested we introduce an upstream remedy to make this data available.

Data requests

10. Firms have expressed concerns regarding the potential timing of the information requests in light of the Competition and Markets Authority (CMA)'s retail banking market investigation, which will be particularly intensive throughout the early part of 2015. Respondents stressed the importance of effective liaison between the FCA and CMA.

Our response

11. Following consideration of the feedback received we did not consider it necessary to revise our terms of reference.
12. As we set out in the terms of reference, we decided not to include store cards because retailers are increasingly moving away from traditional store cards to offering store-branded credit cards (co-brand cards). These store-branded credit cards are within the scope of the market study and are discussed in Annex 5.
13. The market study has looked at shopping around and switching, the impact of the Interchange Fee Regulation, unaffordable credit card debt and barriers to entry and expansion. The issues raised by respondents have been considered in the context of this analysis.
14. We took the concerns regarding data requests into account in the designing and timing of our information requests to firms. We liaised with the CMA over the course of the study to minimise duplication and burden on firms.

Financial Conduct Authority

