



MS14/6.2: Annex 11

Market Study

Credit Card Market Study

Interim Report: Annex 11 – International Comparisons

November 2015

Introduction

- 1.1 During the credit card market study, we have looked to other countries principally to draw some lessons as to how other jurisdictions have sought to address issues giving rise to concern and what measures (pre-emptive or otherwise) have proven successful.
- 1.2 Different countries have taken a range of approaches to promoting competition in the credit card market, addressing over-borrowing concerns and regulating interchange fees. We have set out our analysis of other countries' experiences and what lessons they offer below.
- 1.3 We must inevitably be cautious when drawing conclusions from international comparison work as in general, it can be difficult to make effective comparisons across different countries. The structure of the market, cultural and social norms and the legal and regulatory framework vary considerably from one country to another. Any interventions whether legislative or industry measures must of course primarily be addressed in the context of that particular jurisdiction and the dynamics of competition at play there.

Approach and criteria

- 1.4 The following countries were selected for our review: Australia, Canada, China, France, Mexico, Singapore, South Korea, Spain, Taiwan and United States.
- 1.5 In carrying out the international comparison work, we contacted the relevant regulator(s) in the jurisdiction concerned and conducted desk-based research of publicly available data and information. There are some exceptions to this – for example in the case of China we dealt with our contacts at the British Embassy in China who liaised directly with the China Banking Regulatory Commission (CBRC).
- 1.6 We are enormously grateful for the assistance provided by the following organisations:
 - Australia - Australian Securities and Investments Commission, Reserve Bank of Australia
 - Canada - Department of Finance Canada
 - China - China Banking Regulatory Commission
 - France - Autorité de contrôle prudentiel et de resolution
 - Mexico - Comisión Nacional Bancaria y de Valores, Banco de Mexico
 - Singapore - Monetary Authority of Singapore
 - South Korea - Financial Supervisory Service
 - Spain - Banco de Espana
 - Taiwan - British Trade and Culture Office
 - US - Consumer Financial Protection Bureau
- 1.7 In selecting countries to be included in our study, we were particularly interested in the following:

- The market structure, credit card usage and consumer behaviour in that particular country.
- Any recent regulation or measures introduced to address concerns in the credit card market– we were interested in finding out the impact (if any) of regulatory changes or consumer protection measures aimed at addressing certain concerns in the credit card market.
- Interchange fee regulation – some jurisdictions (such as Spain and Australia) were early implementers of interchange fee controls. We were interested in learning from the impact of any such cap on credit card business models, revenue streams and consumers.

1.8 Below we set out the credit card usage, market structures, credit card features and legislative measures adopted in some of the countries included in our review along with some concluding comments concerning what we can potentially learn from these countries and their experiences.

Usage of credit cards

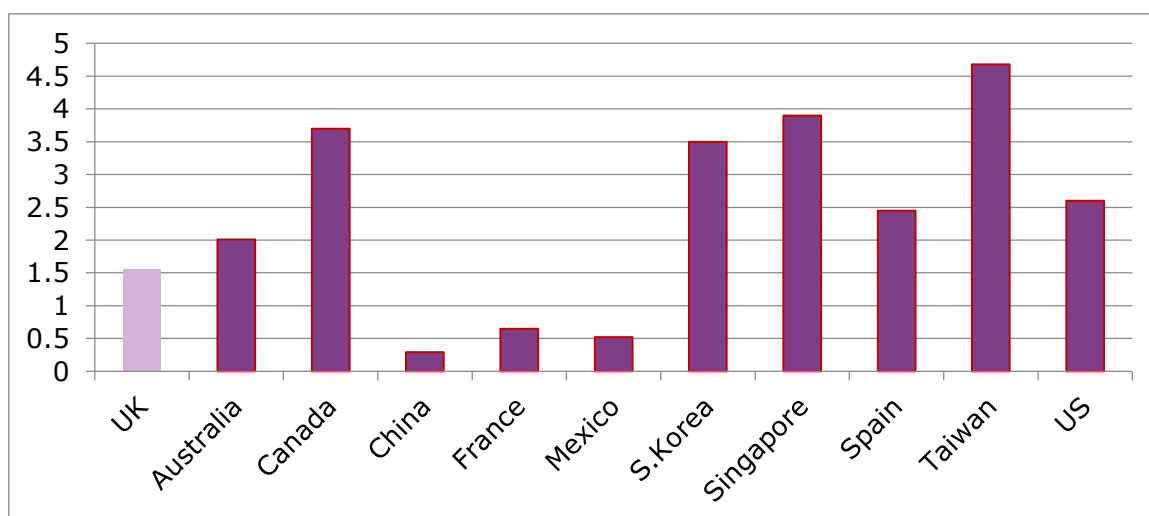
1.9 The number of credit cards in circulation varies significantly from country to country. Below is a breakdown of the most recent figures concerning the number of cards in issue in each of the countries in our study, coupled with how many cards this equates to per employed person.¹

Table 1: Total number of credit cards in circulation

	UK	Australia	Canada	China ²	France	Mexico	S.Korea	Singapore	Spain	Taiwan	US
Number of credit cards in issue	56.9m	23.4m	76.3m	391m	19.6m	28.5m	92.3m	8.2m*	43.2m	37.4 m	334m
Number of credit cards per person	1.5	2.01	3.7	0.29	0.65	0.52	3.5	3.9	2.45	4.68	2.6

¹ Statistics marked with * represent statistics that include credit and charge card figures – these countries did not have data concerning solely credit cards.

² The latest figures available for China are from 2013. Credit card usage has increased significantly in the last two years and it is likely that today, the number of cards in circulation has increased.

Figure 1: Number of credit cards per person

Market structure

- 1.10 In most of the countries included in our study, we found that the supply-side structure of the credit card market was broadly similar to that of the UK, with the biggest market shares belonging to the largest retail banks and certain mono-line credit card issuers. For example in the US, 6 credit card issuers (Citi, Chase, BoA, Capital One, American Express, and Discover) hold 90% of the market. Similar market structures exist in Canada, Mexico, South Korea, Singapore, France and Taiwan, with the supply-side in these countries predominantly made up of between 6 and 20 credit card issuers.
- 1.11 Some of the countries that we have explored however are structurally very different when it comes to the credit card market.
- 1.12 A prime example of this is China. As at the end of 2014, 289 banking institutions operated credit card business in China. Despite this large number of credit card issuers, 5 large state-owned banks and 9 joint-stock commercial banks accounted for 95% of the total credit cards issued and 93% of annual transaction volume.³
- 1.13 In Australia the largest market share of credit card issuing is held by the large retail banks.⁴ Prior to 2004, card scheme rules restricted the issuing and acquiring of credit card transactions to authorised deposit-taking institutions (ADIs). The Reserve Bank established Access Regimes for the credit card systems in 2004 and 2005, in response to concerns that the schemes had not struck a balance between competition and the control of risks that was in the public interest. The Bank also worked with the Australian Prudential Regulation Authority (APRA) to create a new class of ADI, specialist credit card institutions (SCCIs). This allowed non-deposit-taking entities to apply to APRA for authorisation to undertake issuing or acquiring activities and become eligible to apply to join the MasterCard and Visa systems.

³ A joint stock commercial bank is owned by several different investors. These investors may be private companies located in foreign countries, governments, or individuals. Ownership is typically obtained through the purchase of bank stock or equity.

⁴ The four major retail banks in Australia collectively account for around 80 per cent of the card issuing market by total balances outstanding. For more information, see Australian Government – The Treasury, *Submission to the Senate Economics References Committee Inquiry into Matters Relating to Credit Card Interest Rates* (2015): <http://www.apr.gov.au/DocumentStore.ashx?id=38bdb223-a54d-4c79-85c7-36df567896f5&subId=400560>

- 1.14 However, the Reserve Bank subsequently noted that prospective participants may have been discouraged from entry to the credit card systems because the Access Regimes imposed a regulatory burden – of prudential supervision by APRA – that may have been more onerous than necessary for entities wishing to engage in specialist credit card issuing or acquiring business.
- 1.15 In 2014, the Reserve Bank determined that access could be further broadened with variations to the Access Regimes for the MasterCard and Visa credit card systems. The variations came into effect from January 2015, and coincided with the removal of the SCCI framework and amendments to the Banking Regulations 1966 (meaning that credit card issuing and acquiring are no longer considered banking business). The Reserve Bank was aware of at least 11 non-ADI institutions that had expressed interest in becoming issuers or acquirers in Australia when the reforms were announced in March 2014.⁵

Credit card features

- 1.16 For most countries included in our sample, there are a wide range of credit card offerings in the market, and firms compete for customers in a number of ways. For example, cash-back and loyalty points are typical offers in many of the countries that we surveyed along with balance transfer offerings, often with a purchase rate of 0%. There are also a number of unique credit card features in some jurisdictions. These are explored further below.

Fixed interest rates

- 1.17 In China, interest rates are fixed by the government, thus meaning that credit card issuers are unable to compete by lowering rates. In turn, compared to the UK, issuers must go to greater lengths in order to differentiate themselves in the market and attract customers.
- 1.18 Typically, merchant discounts and a wide range of gifts and rewards are offered to customers ranging from free beauty treatments to health insurance and fitness club memberships.⁶
- 1.19 In part because of the expensive marketing efforts issuers go to in order to attract customers, only a few of China's more than 30 major credit-card issuers, including China Merchants Bank and Bank of Communications, have reported that their credit-card businesses are profitable.⁷

Annual fees

- 1.20 The credit card market in Australia is also characterised by product differentiation with issuers competing on a wide range of credit card features.
- 1.21 Annual fees are also particularly more prominent in the Australian market than in the UK. A report by CRA International found that cardholder fees in Australia increased around the time of the 2003 interchange fee regulation.⁸

⁵ Reserve Bank of Australia, *Variation to the MasterCard and Visa Access Regimes: Details-stage Regulation Impact Statement* (2014): <http://www.rba.gov.au/payments-system/reforms/cc-schemes/201403-impact-stmt/index.html>

⁶ Bloomberg Business, *Credit Card Companies Battle in China* (2013): <http://www.bloomberg.com/bw/articles/2013-05-02/credit-card-companies-battle-in-china>

⁷ Ibid

⁸ Reserve Bank of Australia, Stillman, R., Bishop, W., Malcolm, K., & Hildebrandt, N., *Regulatory intervention in the payment card industry by the Reserve Bank of Australia – Analysis of the evidence* (2008):

- 1.22 Since 2003, advertised annual fees for standard rewards-based cards in Australia increased by 24%. However, in recent years annual fees have been reasonably stable in nominal terms. Today, at the broadest level, cardholders can choose between holding credit cards that offer no rewards (now including 'low rate' and 'low/no fee' cards) and cards with rewards programs of varying levels of generosity (cards offering more substantial rewards generally command higher annual fees of up to around \$425).⁹

Check cards

- 1.23 Check cards are not offered in the UK, however following the consumer credit crisis in 2003, these cards have become popular in South Korea.
- 1.24 Check cards were developed in 2000 as a hybrid of debit cards and credit cards to encourage customers to spend more on their cards without undue risk to the card provider. Check cards differ from credit cards in that payment is drawn directly from the cardholder's checking account, but are similar in that they offer alliance services and that payment is approved by the cardholder's signature.¹⁰
- 1.25 By using check cards, consumers can enjoy the benefits of both credit and debit cards. The popularity of check cards comes from the diverse services they offer. These include the traditional benefits of credit cards, such as discounts, air miles, cash back and monthly bill payment. They also offer banking services linked to the cardholder's bank account and allow cardholders to save money through benefits such as free ATM withdrawals, no fee for overseas spending and bonus deposits.¹¹

Multifunctional hybrid cards

- 1.26 A number of multifunctional cards have been launched recently to broaden cardholders' payment options in certain countries.
- 1.27 In the case of France, Credit Agricole introduced 'La Carte Bancaire Double Action' MasterCard in June 2008 which allows cardholders to choose between debit and credit at the time of purchase.¹²
- 1.28 Prior to this, in 2007, Woori Card in South Korea launched 'Woori V Card', which allows cardholders to pay an initial amount with debit and the remainder with credit.
- 1.29 A product offering this type of flexibility is not offered to credit card customers in the UK; internationally however, convergence is taking place between different types of cards, increasingly giving customers a greater range of options with regards to credit payments.

Consumer behaviour

- 1.30 The number of credit cards in circulation across most of the countries included in our sample has increased significantly over the last few years.

<http://www.rba.gov.au/payments-system/reforms/review-card-reforms/pdf/review-0708-pre-conclusions/cra-28042008-2.pdf>

⁹ Reserve Bank of Australia, *Review of Card Payments Regulation – Issues Paper* (2015): <http://www.rba.gov.au/payments-system/reforms/review-of-card-payments-regulation/pdf/review-of-card-payments-regulation-issues-paper.pdf>.

¹⁰ Arthur D. Little, *Tapping Potential in Europe's Card Market* (2008): http://www.adlittle.com/downloads/tx_adlireports/ADL_Tapping_potential.pdf

¹¹ Ibid

¹² Ibid

- 1.31 In some countries, this is a reflection of the fact that consumers increasingly enjoy the convenience of credit cards and the security of using them as a mechanism for making online payments. Nonetheless, consumer behaviour and the way credit cards are used vary significantly between the countries included in our study.

Shopping around on rewards & cashback offers

- 1.32 In Canada, 60% of consumers typically pay off their credit card balance in full at the end of the month, and incur no interest. Of the 40% of consumers who do not pay their balance in full each month, 15% pay it off most months and 48% pay a lot more than the minimum payment requirement.¹³
- 1.33 As a result of this, compared to the UK, issuers do not compete as fiercely to offer the longest duration balance transfer deal, because many Canadian consumers can be classified as “transactors” and are more attracted to rewards based products. It is therefore predominantly in this space where competition amongst firms to acquire customers is strongest.
- 1.34 A study conducted by Abacus Data found that about 9 in 10 Canadian adults use loyalty programs to collect points or miles, and they use an average of 3 different loyalty programs to collect these rewards.¹⁴ Consumers in Canada therefore predominantly shop around on this basis.
- 1.35 The Reserve Bank estimates that around 30-40% of credit card holders revolve a credit card balance in Australia. These cardholders tend to be attracted to lower-rate credit cards. Consumers that use their credit card frequently may be more attracted to cards offering rewards points and other benefits such as travel insurance and enhanced warranties for goods purchased on the card (which tend to be associated with higher annual fees).¹⁵ On the other hand, cardholders that use their credit card infrequently and typically pay their balance in full within the interest-free period will typically be users of low-fee credit cards.

Preference for cash

- 1.36 In the case of Spain, despite the fact that in 2011 49.3% of households had some type of debt outstanding¹⁶, there is generally low demand for the use of credit cards as a borrowing mechanism. This is demonstrated by the fact that 80% of transactions in Spain are made in cash.¹⁷
- 1.37 This is considered by the Bank of Spain to be largely a result of the Spanish population’s traditional preference for cash as a payment vehicle rather than credit cards and other banking cards.

¹³ Canadian Bankers Association, *Credit Cards: Statistics and Facts* (2015): <http://www.cba.ca/en/media-room/50-backgrounders-on-banking-issues/123-credit-cards>

¹⁴ Canadian Bankers Association, *Credit Cards: Statistics and Facts* (2015): <http://www.cba.ca/en/media-room/50-backgrounders-on-banking-issues/123-credit-cards>

¹⁵ Reserve Bank of Australia, *Review of Card Payments Regulation – Issues Paper* (2015): <http://www.rba.gov.au/payments-system/reforms/review-of-card-payments-regulation/pdf/review-of-card-payments-regulation-issues-paper.pdf> and Reserve Bank of Australia, *Submission to the Senate Inquiry into Matters Relating to Credit Card Interest Rates* (2015): <http://www.rba.gov.au/publications/submissions/inquiry-matters-relating-to-credit-card-interest-rates-2015-08.pdf>

¹⁶ Banco de España, *Survey of Household Finances* (2011): <http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/14/Ene/Files/art1e.pdf>

¹⁷ Cinco Días, *¿Tarjeta de crédito o efectivo? España, país en metálico* (2015): http://cincodias.com/cincodias/2015/07/28/mercados/1438104403_994865.html

Booming usage of credit cards

- 1.38 Credit card usage has dramatically increased within the Asian countries included in our study. In South Korea, 60% of consumer spending today is attributable to credit cards largely as a result of various tax breaks that have been granted to consumers that spend their income via credit cards, subsequently pushing up consumer demand for credit cards.
- 1.39 In the case of China, Euromonitor predicts that credit card usage will grow faster than that of other banking cards over the next five years and in Singapore, on average, there are 3.9 credit cards per employed person.¹⁸
- 1.40 The credit card market has grown at such a speed in these countries that regulatory authorities have attempted to protect groups of consumers at risk of over-borrowing. Some of these measures are forward looking, aiming to prevent long term risks from materialising. These measures are outlined below.

Legislative intervention and industry measures

- 1.41 In all of the jurisdictions we have examined, a number of measures have been implemented to address or pre-empt concerns in the credit card market. Moreover European countries such as Spain and France (like the UK) have implemented the EU Consumer Credit Directives.
- 1.42 Many of the initiatives we have identified are still recent, having not had much time to bed in. Therefore we have yet to see the full impact on consumer behaviour or lending practices.
- 1.43 While some effects and impact analysis can be carried out, we are therefore unable to make any assessment of the long-run efficacy of these measures given how recently they have been implemented.
- 1.44 Nonetheless, it is useful to assess how other jurisdictions have dealt with issues in the credit card market, in an effort to promote switching, prevent over borrowing and encourage responsible lending. It is particularly helpful to assess these measures in order to inform our thinking regarding the potential remedies we may decide to implement in the UK.

Switching and shopping around

- 1.45 **Credit card selector tools (Canada and Mexico)** – In Canada and Mexico¹⁹, consumer protection agencies operate credit card selector/comparison websites. These websites include a number of credit card simulator tools offering comparisons across products including information on interest rates, minimum payments and annual fees. These websites are designed to encourage consumers to shop around and more easily compare different product offerings.
- 1.46 **Credit card comparison (South Korea and Mexico)** – In South Korea, on a quarterly basis, credit card companies are required to submit data to the Credit Finance Association South Korea (CreFiA), concerning interest rate payments made

¹⁸ The Financial Times, Waldmeir, P., & Rabinovitch, S., *China falls out of love with cash* (2014): <http://www.ft.com/cms/s/0/e1469cf0-9cf5-11e3-9360-00144feab7de.html?siteedition=uk#slide0> and Monetary Authority of Singapore, *Financial Stability Review* (2014): <http://www.mas.gov.sg/regulations-and-financial-stability/financial-stability/2014/financial-stability-review-2014.aspx>

¹⁹ National Commission for the Protection and Defence of Users of Financial Services (CONDUSEF-: <http://e-portalif.condusef.gob.mx/micrositio/index.php>) manages this tool but there are also many private providers

by their respective customers. The CreFiA then publishes this information in a comparison table giving consumers a firm-by-firm overview of the actual (rather than advertised) interest rates that credit card issuers charge their customers that revolve a credit card balance. Moreover in Mexico, the Central Bank publishes the Credit Card Basic Indicator Report.²⁰ This bimonthly report contains various charts that compare key features of the products issued by the main card issuers and a summary of the latest developments in the credit card market. This has helped to improve competition between different card issuers by giving consumers better comparison tools and by helping financial entities to acknowledge their current status (fees, rates and market shares) in the markets so they can design new and better products.

- 1.47 **Credit card comparison on monthly statements (Mexico)** – In Mexico, credit card holders receive a comparison chart in their monthly statements. This policy is jointly provided by the Bank of Mexico and the National Commission for the Protection and Defence of Users of Financial Services (CONDUSEF).²¹ The chart is taken from the Credit Card Basic Indicator Report (see 1.47), and contains a comparison between products that are similar to the holder’s card (e.g. gold, platinum, or classic with differing credit limits). This chart includes information concerning APR and annual fees and provides consumers with an overview of offerings from other credit card providers. This is thought to promote competition through encouraging consumers to switch to more attractive cards on offer.

Creditworthiness & affordability

- 1.48 **Credit bureau checks and minimum income requirements (Singapore)** – Singapore has recently taken measures to improve the lending practices of financial institutions and discourage consumers from spending beyond their means. Financial institutions must conduct checks with one or more credit bureau(s), taking into account the total credit limits and total outstanding balances of a consumer before issuing credit cards or increasing the credit limit of existing cards.²² Financial institutions may also only extend credit cards to consumers who earn more than \$30,000 annually.
- 1.49 **Credit Suspension (Singapore)** – To help consumers with credit problems avoid getting deeper into unmanageable debt, financial institutions in Singapore must suspend credit to (a) any consumer who has not made his minimum payment in the past 60 days, or (b) any consumer who has an outstanding interest-bearing unsecured debt of more than the borrowing limit for three consecutive months.
- 1.50 **Young cardholders (South Korea and US)** – Various countries have introduced new age requirements for credit cards. The US CARD Act 2009²³ imposes new restrictions to on-campus or near-campus marketing of credit cards. Moreover any credit card applicant under 21 years of age must demonstrate their independent ability to make payments on the account or have a co-signer that is over 21 with the ability to make payments. Card issuers are also prohibited from sending pre-

²⁰ Article 4 Bis 2 of the Transparency and Financial Services’ Arrangement Law mandates Bank of Mexico to publish reports comparing interest rates and costs of different products offered by banks and regulated financial institutions in order to promote competition.

²¹ CONDUSEF has the mandate to regulate the contents of the statements of account issued by the credit card providers.

²² Monetary Authority of Singapore, *Credit Card and Unsecured Credit Rules Strengthened to Help Individuals Avoid Getting Into Debt Problems*, Media Release (2013): <http://www.mas.gov.sg/News-and-Publications/Media-Releases/2013/Credit-Card-and-Unsecured-Credit-Rules.aspx>

²³ The Credit Card Accountability Responsibility and Disclosure Act of 2009.

approved offers of credit to those under 21, unless the individual consents to receiving such offers.

- 1.51 Similarly in South Korea, unemployed individuals under the age of 19 years old are prohibited from applying for credit cards.

Over-borrowing

- 1.52 **Suspension of dormant cards (South Korea)** - Multiple card carrying and extensive credit card usage in South Korea has led to a number of recent government initiatives aimed at curbing the use of credit cards. Along with the cutting of tax breaks for consumers that spend their income via credit cards, The Financial Supervisory Service of South Korea has made it mandatory for South Korean credit card firms to automatically rescind accounts after they are dormant for three months.²⁴ This has reduced credit card issuers' ability to induce card holders to maintain their dormant accounts .
- 1.53 **Increased minimum payment requirement (Taiwan and Mexico)** – The minimum payment requirement for credit cards in Taiwan has been increased to 5% for cash-borrowing and 10% for general transactions (from previous levels of 2-3%) as a way of ensuring consumers make more significant inroads in to paying off their credit card balances to reduce and prevent long run accumulation of debt. Moreover, in Mexico the minimum payment amount for credit cards must be the greater among: a) 1.5% of the outstanding balance plus interest and taxes or b) 1.25% of the authorised credit line. These minimum payment rules have been introduced in order to prevent negative amortization.
- 1.54 **Financial education curriculum (Spain)** – One of the pillars of the Spanish financial education plan is the introduction of the financial education curriculum. This initiative aims to increase the younger population's understanding of financial products by educating them on issues relating to financial services alongside core subjects such as Maths and Economics. This is seen as a way of enabling consumers, in the long run, to understand the essential aspects of financial products and services such as credit cards.

Transparency & fee restrictions

- 1.55 **Monthly Statements (US, Canada and Singapore)** – Monthly credit card statements in the US, Canada and Singapore must describe how long it would take the consumer—and how much it would cost—to pay the full balance on the card by paying only the required minimum monthly payment. In the US, for comparison, the statement must also show the monthly payment required to repay the full balance in three years if no further transactions are made, and the total cost to the consumer if the balance is paid in three years. Monthly statements must also contain a conspicuous warning of the amount of the late fee and any penalty rate that may be imposed if the minimum payment is not received by the due date
- 1.56 **Penalty fee restrictions (US)** – Penalty fees (such as late fees or over-limit fees) must, under the CARD Act, be “reasonable and proportional” to the relevant violation of account terms. The implementing rules allow issuers to charge a penalty of up to \$25 for a first late payment or other violation or up to \$35 for any additional occurrence within the next six months. In the wake of the changes introduced by the CARD Act, most credit card issuers have simply stopped charging overlimit fees

²⁴ The term 'dormant credit cards' refers to accounts without transaction records for 12 months or more.

altogether. Moreover average late fees and the number of accounts paying late fees have also dropped since 2009.²⁵

- 1.57 **Interest rate restrictions (US and South Korea)** – following the CARD Act 2009, credit card issuers in the US are prohibited from increasing interest rates during the first year after the opening of a credit card account. Card issuers are also generally prohibited from increasing the interest rate on an existing balance unless the cardholder has missed two consecutive payments. South Korea has gone one step further in prohibiting credit card issuers from varying credit card terms during the first five years after the opening of an account. After 5 years has passed, the credit card issuer must then notify the customer 6 months prior to making any change to credit card terms

Interchange fees

- 1.58 **Interchange fee cap (Australia and Spain)** – Some countries have early experiences of regulating interchange fees. In the cases of Australia and Spain, interchange fee caps led to a reduction in interchange revenue for credit card issuers. In Australia, credit card issuing banks responded to this by increasing annual fees and reducing/capping the benefits of rewards programs for certain cards. This has led to an increase in the effective price of using credit cards.
- 1.59 In more recent years, card issuers in Australia have also responded by changing the structure of their card pricing and product offerings, through greater issuance of 'low-rate' and 'low-fee' cards and credit cards targeted towards the more premium segment of the market. American Express has also modified its product arrangements by entering into 'companion card' arrangements with the larger retail banks.²⁶
- 1.60 Merchants in Australia on the other hand have generally seen a reduction in their card acceptance costs ('merchant service fees') following the interchange fee reforms. One issue that has attracted considerable attention since the reforms were introduced is whether the cost savings that merchants have received from lower merchant service fees have been passed on to consumers in the form of lower prices for goods and services than would have otherwise been the case. Some argue that there has been no, or little, pass-through, while the merchants argue that the cost savings have been passed through.²⁷
- 1.61 The Reserve Bank of Australia is of the view that the bulk of these savings have indeed been passed through into savings to consumers.²⁸ Nonetheless there are notable difficulties with regards to measuring this precisely against a background where other costs are changing by much larger amounts.²⁹

²⁵ Consumer Financial Protection Bureau, *CARD Act Report, A Review of the Impact of the CARD Act on the Consumer Credit Card Market* (2013): http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf

²⁶ A companion card is a credit card account that is linked to two different credit card networks, thus allowing the customer to earn the benefits of whichever one they choose to use at the purchase point.

²⁷ Reserve Bank of Australia, *Reform of Australia's Payment System: Preliminary Conclusions of the 2007/08 Review – April 2008* (2008): <http://www.rba.gov.au/payments-system/reforms/review-card-reforms/review-0708-pre-conclusions/board-assessmt.html>

²⁸ A similar conclusion was reached by the House of Representatives Standing Committee on Economics, Finance and Public Administration when it considered the Bank's payments system reforms in 2006 see: House of Representatives Standing Committee on Economics, Finance and Public Administration (2006), *Review of the Reserve Bank of Australia and Payments System Board Annual Reports 2005*, Canberra, June. http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_committees?url=efpa/rba2005/report/front.pdf.

²⁹ Reserve Bank of Australia, *Reform of Australia's Payment System: Preliminary Conclusions of the 2007/08 Review – April 2008* (2008): <http://www.rba.gov.au/payments-system/reforms/review-card-reforms/review-0708-pre-conclusions/board-assessmt.html>

- 1.62 Canada's experience relating to interchange fees differs slightly. In November 2014, Visa and MasterCard submitted separate voluntary proposals to reduce their interchange rates by close to 10%.³⁰ It is thought this is unlikely to have a significant effect on rewards offerings in the credit card market, partly because the new level of interchange is still relatively high compared to European levels, but also because the offering of generous rewards to consumers is how issuers predominantly compete in the Canadian market.

Conclusions

Over-borrowing/affordability

- 1.63 It is useful to observe how South Korea has attempted to curb credit card usage, and limit the risk of over borrowing through tackling this issue. The FSS found that many credit card firms were enticing customers with dormant accounts through the practice of 'wake up marketing.' This is where the credit card issuer contacts a customer with an inactive account and encourages them to re-use their credit card, often offering attractive short-term deals in order to achieve this. The concern with such a practice is that a customer can begin to re-use a credit card which has been dormant for several years, with no further assessment carried out to assess the customer's affordability or creditworthiness. The regulatory intervention in 2014 stipulating that dormant credit card accounts must be closed after 12 months prevents this practice, thus lessening the potential for over-borrowing and default.³¹
- 1.64 The minimum payment requirement in Taiwan has also been increased in an effort to ensure consumers pay off credit card debts faster, incurring less cumulative debt in the long run. It is plausible that such a measure could increase default rates in the short run, as consumers are forced to pay off bigger proportions of their balance up front. Nonetheless, this measure may be beneficial to consumers that pay down only the minimum requirement, even when they can afford to pay more. Such a measure could potentially save these consumers a great deal in interest repayments in the long term.
- 1.65 In Spain, despite transparency regulation stipulating that terms and conditions must be clear, fair and not misleading, the Banco de Espana and the Comisión Nacional del Mercado de Valores (the Spanish Stock Market Authority) found that it is essential for consumers to understand credit cards, among other financial products, before the point of application to help them make sound decisions. Spain has implemented the financial education programme with the aim of achieving this through increasing the younger population's understanding of financial products such as credit cards. In enhancing consumers' understanding of how minimum payments, interest rates and promotional offers work from an earlier stage, it is thought that this could help consumers in the long run to select credit cards more tailored to their needs, and avoid courses of action which may lead to financial difficulty.

Extent to which consumers drive effective competition

- 1.66 A number of countries have implemented measures with the aim of driving up competition through increased switching and shopping around. In the cases of

³⁰ Canadian Bankers Association, *Credit Cards: Statistics and Facts (2015)*: <http://www.cba.ca/en/media-room/60-backgrounders-on-banking-issues/123-credit-cards>

³¹ The suspension of dormant accounts had significant success in lowering the number of total credit cards in issue in South Korea. As of September 2014, there were 92.9 million credit cards in circulation, equating to 3.5 cards per person in the labor force. This represents a 22.44 million decrease from the 115.34 million cards in issue in 2013.

Canada and Mexico, simulator tools operated by consumer protection agencies offer further comparisons and credit card selector tools as a way of helping consumers select credit cards tailored to their needs.

- 1.67 Furthermore, in South Korea and Mexico, comparison charts are produced to provide customers with a summary of offerings from all credit card providers. This is thought to allow consumers a clear overview of competing product offerings, encouraging them to switch if other credit card issuers are offering more competitive terms. It is also feasible that such measures could put a downward pressure on interest rates across the market, as firms are incentivised to provide more competitive rates to keep existing customers and attract others.

Interchange fees

- 1.68 We can draw on examples from other countries in assessing the potential impact of interchange fee regulation in the UK.
- 1.69 The Spanish and Australian markets differ substantially to the UK market and we therefore need to be cautious when assessing the impact of an interchange fee cap in these respective countries. For example, in Australia, interchange fee regulation played a role in the wider introduction of annual fees and a dilution in the value of reward offerings.
- 1.70 It is so far unclear if we are likely to see this exact sequence of events materialising in the UK market, especially as research has shown that UK consumers are typically reluctant to accept annual fees for retail banking products.

Financial Conduct Authority



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