

Market Study

MS14/6.3

Credit card market study

Final findings report



July 2016

In this final report we set out our final findings of the credit card market study.

Please send any queries to:

Patricia Bascunana-Ambros
Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Email: creditcardmarketstudy@fca.org.uk

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 706 60790 or email publications_graphics@fca.org.uk or write to Editorial and Digital Department, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS

Contents

Abbreviations used in this paper	2
1 Executive summary	3
2 Introduction	12
3 Recent relevant developments	16
Part 1: Final findings	
4 Feedback on interim findings and our response	22
5 Further analysis	28
6 Final findings	46
Part 2: Our thinking on remedies	
7 Feedback on our early thinking on remedies	51
8 Summary of our current thinking on a package of remedies	58
Glossary of terms used in this document	65
Annexes	
1 Further feedback on the interim findings	
2 Further analysis	
3 Industry statement from the UK Cards Association	
4 Behavioural trials	

Abbreviations used in this paper

APR	Annual Percentage Rate
CCA	Consumer Credit Act
CRA	Credit Reference Agencies
CMA	Competition and Markets Authority
CONC	Consumer Credit Sourcebook
CP	Consultation Paper
EU	European Union
FCA	Financial Conduct Authority
HCSTC	High-cost short-term credit
OBWG	Open Banking Working Group
PCW	Price comparison websites
PS	Policy statement
PSR	Payment Systems Regulator
SME	Small and medium-sized enterprises
UCLI	Unsolicited credit limit increase
UKCA	UK Cards Association

1.

Executive summary

In November 2015 we published the interim report of the credit card market study, a market which has over 30 million cardholders in the UK. Our interim findings were that competition was working fairly well for most consumers, with many consumers actively engaged and a wide range of products on offer to serve different needs; however, some consumers struggled to find the best deal for them, and higher credit risk consumers faced more limited choice.

We were also concerned about the scale of potentially problematic credit card debt. We found 6.9% of cardholders (about two million people) in arrears or default, a further two million carrying persistent debt on their credit card, and another 1.6 million repeatedly making minimum repayments. We found 8.9% of credit cards active in January 2015 (5.1 million accounts) will – on current repayment patterns and assuming no further borrowing – take more than ten years to pay off their balance.

We outlined early thinking on a package of remedies designed to help consumers find the best deal, to enable higher risk consumers to search the market effectively without damaging their credit score, and to prompt consumers when they are nearing the end of a promotional period. We also sought views on the potential for measures to give consumers more control over credit limits and utilisation, and to encourage consumers to pay off debt more quickly when they can afford to. We proposed firms do more to identify earlier those consumers who may be struggling and take action to help them manage their repayments.

We invited feedback on the interim findings and proposed remedies. Stakeholders broadly accepted the findings but suggested more work was needed to understand how problem credit card debt persists over time, and the role of multiple cards. We have now completed that work.

This analysis has increased our concern about credit card debt, highlighting two particular issues. First, there is a significant group of consumers who carry potentially problematic debt for a number of years – we found 650,000 people had been in persistent debt for three years or more, and a further 750,000 people had been making systematic minimum repayments for that time. Second, there is a separate group who move rapidly from acquiring a credit card into potentially problematic debt – this pattern is particularly pronounced in the higher risk segment where we found over a quarter of cards opened in 2013 were in serious or severe arrears a year later.

Our analysis paints a mixed picture of multiple card use. Most consumers with multiple credit cards are not struggling with problematic debt, although 11% (around 1.6 million consumers) are in potentially problematic debt on more than one credit card. There is not widespread high credit limit utilisation across multiple cards. However, our analysis shows that consumers with multiple cards tend to have higher overall credit limits, and that those in potentially problematic debt who hold multiple cards typically have higher outstanding balances.

On the proposed remedies, we have had constructive engagement with stakeholders from both industry and consumer groups. Some of these measures will be delivered through FCA rules where appropriate, others will be through industry voluntary agreements; or taken forward through supervisory work. Some measures will require behavioural testing.

The package of measures builds on that outlined in our interim report and is designed to enable consumers to shop around more effectively, to encourage them to take better control of their spending and – where appropriate – to repay faster. It is also designed to incentivise firms to address persistent debt and reach out sooner to consumers who may be getting into financial difficulties to address problem debt.

In addition, we will take forward a number of other issues through FCA work that goes wider than the credit card market - on open access to data, price comparison websites, assessing creditworthiness, and facilitating credit searches.

In the interim report, we identified firms either withdrawing promotional offers more frequently than we would expect, or were charging more than one fee in relation to a single month's missed payment. Our Supervision teams have engaged with a number of firms on these issues.

Overview

- 1.1** In November 2014, we launched a market study into credit cards¹, having taken over regulation of consumer credit in April 2014. We wanted to build a sound understanding of the market and assess whether it was working well in the interests of consumers.
- 1.2** We published our interim report in November 2015.² This set out our interim findings and outlined some potential remedies that might address our concerns.
- 1.3** We invited views from interested parties on our interim findings and initial thinking on potential remedies and received 35 formal responses. We have also held stakeholder events following our interim report's publication. We have had constructive engagement with both industry and consumer representatives.
- 1.4** In the interim report, we identified a couple of firm-specific concerns, where firms were either withdrawing promotional offers more frequently than we would expect, or were charging more than one fee in relation to a single month's missed payment. Our Supervision teams have engaged with a number of firms on these issues.
- 1.5** In this final report, we:
 - summarise the feedback on the interim findings
 - set out our further analysis
 - confirm our final findings
 - summarise the feedback on our early thinking on remedies
 - set out the way forward on the package of remedies

1 FCA, MS14/6.1 Credit Card Market Study: Terms of Reference (2014): www.fca.org.uk/your-fca/documents/market-studies/ms14-6-1-credit-card-market-study-terms-of-reference

2 FCA, MS14/6.2: Credit Card Market Study: Interim Report (2015): www.fca.org.uk/your-fca/documents/market-studies/ms14-6-2-ccms-interim-report

Summary of feedback and results of our further analysis

Key messages from responses to interim findings

- 1.6** Most responses to the interim report focussed on remedies. Of respondents who commented on the interim findings, most were broadly supportive. In the interim report we set out our concern that there were a significant number of consumers who were struggling under a debt burden that had become problematic or were paying more in debt service cost and taking longer to pay off debt than they needed to. There was widespread agreement among respondents that problem credit card debt was an important issue and that we were right to focus on over-borrowing and under repayment in the interim findings and proposed remedies.
- 1.7** Some respondents challenged aspects of our findings while others highlighted issues they felt we should have looked at in more depth. In particular, respondents highlighted features of the market that may be inhibiting effective shopping around and switching, and expressed concern about competition in the higher risk segment. Respondents suggested further analysis of problem credit card debt to understand the impact of consumers holding multiple credit cards, and how consumers move in and out of debt problems over time.
- 1.8** A summary of views from stakeholders on the interim findings can be found in Chapter 4.

Findings from further analysis

- 1.9** Following the publication of the interim report, and having considered the feedback we received, we have undertaken further analysis to enhance our understanding of those consumers who are in potentially problem credit card debt.
- 1.10** As set out in the interim report, there is no standard definition of problem debt in the credit card market. We have continued to use the indicators we developed for the interim report to assess the scale and nature of debt that is potentially problematic:
- **Severe arrears** – consumers charged-off or at least six months in arrears over 12 months
 - **Serious arrears** – consumers who have missed three or more repayments, and are either in or have been in arrears over 12 months
 - **Persistent debt** – consumers who have an average credit limit utilisation of 90% or more while also incurring interest charges over 12 months
 - **Systematic minimum repayment behaviour** – consumers who have made nine or more minimum repayments, while also incurring interest charges over 12 months
- 1.11** There are two main potential causes of unaffordable borrowing – life-events (such as divorce or redundancy) and borrowing and repayment patterns. Not all consumers in the last two indicator categories are presently in financial difficulties – our indicators are likely to capture those whose pattern of credit card use may be storing up problems for the future, who may be exposed to significant problems in case of a life event such as illness or unemployment, or who may be spending significant amounts on servicing their debt over a long period of time. For example, the average balance of those making systematic minimum repayments is over £5,000, but 15% of this group carry average balances of over £10,000.
- 1.12** Following the feedback, we have undertaken further sensitivity analysis on our indicators. This did not suggest that our findings were particularly sensitive to the specification of our indicators (for example our overall conclusions would not have changed had we adjusted the persistent

debt threshold to 75% or 95% credit limit utilisation). The sensitivity analysis is covered in detail in Annex 2.

- 1.13** We have also undertaken further analysis to enhance our understanding of consumers' debt position over time, and across multiple cards. This analysis has increased our concern about potentially problematic credit card debt.

Problem credit card debt over time

- 1.14** This analysis highlighted that there is a significant group of consumers who carry potentially problematic debt for a number of years. We found that a significant proportion of those captured by our indicators in 2014 were experiencing long-running debt issues rather than temporary difficulties - almost a third of those categorised as being in persistent debt in 2014, and almost a half of those categorised as making systematic minimum repayments, were also in those states in 2012 and 2013. This means around 650,000 cardholders have been in persistent debt for at least three consecutive years and a further 750,000 cardholders have been making systematic minimum repayments for at least three consecutive years.

- 1.15** The analysis also highlighted the rapid descent into debt difficulties for some new consumers, particularly higher credit risk consumers. We found over a fifth of those in severe arrears in 2014 did not have an active card in 2012; furthermore a quarter of credit cards in the higher risk segment opened in 2013 were in severe or serious arrears in 2014.

Multiple cards

- 1.16** We found consumers holding multiple cards right across the credit risk spectrum. Three-quarters of people with multiple credit cards are not in potentially problem credit card debt and may be benefitting from holding multiple cards, for example using different features of different cards. However, consumer groups that offer debt advice cited multiple cards as a common factor in problem debt cases (see Chapter 4). While the evidence does not point to widespread high credit limit utilisation across multiple cards (consumers 'maxed out'), it does show that those consumers with multiple cards have higher total credit limits and outstanding balances.
- 1.17** Overall we found that, of those consumers holding multiple cards, 13% (approximately 1.9 million consumers) are in potentially problematic debt on one of their credit cards, and a further 11% (around 1.6 million consumers) are in potentially problematic debt on more than one card.

Final findings

- 1.18** We have considered the feedback we have received, and undertaken further analysis on potentially problem credit card debt.
- 1.19** Our overall conclusion is that the feedback received and the further analysis undertaken provides further insight, and will help us in designing suitable remedies, but does not materially change our conclusions. We have refined, but not fundamentally altered, our thinking in confirming our final findings.

Competition is working fairly well for most consumers

- 1.20** Consumers value the flexibility offered by credit cards and use them in different ways. They may, for example, use them to make secure payments and collect rewards, as an emergency credit facility, for debt consolidation, or for building credit history. There are a number of firms offering a range of products to meet these varied consumer preferences and competing strongly for their custom.

- 1.21** We find that competition is focused primarily on certain product features such as introductory promotional offers and rewards. There is less competitive pressure on interest rates outside promotional offers and on other fees and charges.
- 1.22** As set out in the interim report, consumers are relatively engaged and willing to switch, with around six million new accounts opened in 2014. Evidence suggests half those taking out a credit card shopped around first; that around 14% of existing credit card consumers took out a new card in 2014; and that a further 8% compared at least two credit cards but did not take one out. Most consumers do not perceive material barriers to switching, and firms do not consider a lack of switching to be a significant barrier to entry or expansion.
- 1.23** Price comparison websites (PCWs) play an important role in this market. They can help consumers navigate complex products and reduce search costs by comparing products in one place - 66% used one or more PCW and found them useful. And they can help firms attract consumers. However, we also found a number of limitations to PCWs' effectiveness in helping consumers navigate product complexity. For example, ranking criteria may not reflect the individual's credit card usage pattern. We also found that PCWs on the whole did not make clear how they were funded and whether they compared the whole market (these issues are not unique to credit card PCWs).
- 1.24** While consumer engagement is relatively high, we found that consumers do not always choose the best credit card for their circumstances. This may be because:
- they could not effectively compare the different cards available – for example, consumers may not know the actual terms they will be offered when they apply for a credit card
 - they have given insufficient weight to certain product features – for example, our consumer survey found that, of consumers looking for a balance transfer card, only 20% of respondents stated that they considered both the introductory offer on balance transfers and the balance transfer fee
 - their actual card usage differed from what they expected – for example, 19% of consumers we surveyed who paid interest on their main credit card in the previous 12 months did not expect to do so when they took it out
- 1.25** It had been put to us that consumers who use their card to borrow ('revolvers') were subsidising those who primarily use their card for payment ('transactors'). We therefore assessed whether the way firms recovered their costs across different consumer groups had an anticompetitive effect on the market (e.g. by creating barriers to entry or expansion), or resulted in certain groups being unduly disadvantaged.
- 1.26** We did not find that cross-subsidisation materially affected competition in the credit card market. We found firms typically designed products to at least break even over a five-year period for all behavioural types targeted – in other words we did not find firms targeting particular groups or behavioural types with a view to cross-subsidising others. While we found revolvers were typically more profitable, transactors were typically profitable on a standalone basis. Furthermore, we did not find evidence that cross-subsidies materially restricted entry or expansion in the market – firms' responses to our market questionnaire did not cite the lack of a captive 'back book' of consumers as a prohibitive barrier to entry, given consumers' willingness to switch.

Competition is working less well for higher risk consumers

- 1.27** Consumers in the higher risk segment have a more limited choice of products and providers, with four firms accounting for virtually all balances in this segment. The main barriers to serving this segment, other than commercial viability, appear to be the perceived reputational and regulatory risks associated with higher risk and higher cost lending. We also found higher credit risk consumers have concerns whether other firms would offer them a credit card and the impact of multiple applications on their credit score, which discourages some from shopping around.
- 1.28** We also looked at the relative rates of return between products from both higher and lower risk segments and found, while being cautious about placing too much weight on the result³, that between 2010 and 2014, returns were on average higher for higher risk products. These returns were typically higher by around six percentage points.
- 1.29** Our further analysis also raised concerns about how appropriate these products are for some of the target consumers. We found a quarter of credit cards in the higher risk segment opened in 2013 were in severe or serious arrears in 2014. This raises questions around the effectiveness of the affordability assessments carried out in this segment. We come back to this below.

We are concerned about the scale, extent and nature of problem credit card debt, and firms' incentives to manage this

- 1.30** We found that in 2014 around 6.9% of cardholders (about two million people) were in arrears or had defaulted. We estimate a further two million people had persistent levels of debt that some may have been struggling to repay, and that a further 1.6 million people were repeatedly making minimum payments on their credit card debt, while also incurring interest charges (i.e. excluding those on 0% interest deals). 8.9% of credit cards active in January 2015 (5.1 million accounts) will – on current repayment patterns and assuming no further borrowing – take more than ten years to pay off their balance.
- 1.31** Consumers in default are extremely unprofitable and firms are active in contacting consumers who miss payments and triggering forbearance at this point.
- 1.32** Firms have fewer incentives to address consumers with persistent levels of debt or who repeatedly make minimum payments as these consumers are profitable, and we found that most firms do not routinely intervene to address this behaviour. We consider that firms could do more to help those with persistently high credit card debt to reduce debt burdens before they become problematic, and to prompt those repeatedly making minimum payments to repay quicker when they can – we return to this below.
- 1.33** Many consumers remain in persistent debt or continue making systematic minimum repayments for several years. Around 650,000 cardholders have been in persistent debt for at least three consecutive years and a further 750,000 cardholders have been making systematic minimum repayments for at least three consecutive years. As credit card firms note, credit cards are suited to short term borrowing and can be an expensive way to borrow large amounts over a long period. We are concerned about the volume of borrowing behaviour that does not fit this pattern.
- 1.34** Using credit cards to service long-term debt (as opposed to benefitting from the flexibility that rolling credit offers in the short term) tends to be expensive and these consumers may be paying more than they need to in debt service costs; struggling under a debt burden; or storing risk that, in case of a life event (e.g. sickness or unemployment) may become problematic.

³ For more detail of our approach to analysing profitability, including its limitations, see Annex 6 of the Interim Report

- 1.35** We found that consumers who were in serious or severe arrears in 2014 were from several groups, of whom we are particularly concerned about two: those who had been in some form of potential problem credit card debt for many years, and those who had only recently got a credit card. In particular we note that over 20% of those who were in severe arrears in 2014 did not have an active credit card in 2012, suggesting a rapid descent into arrears. This raises questions about how firms assess creditworthiness for new borrowers. We have identified a number of specific concerns and will follow up with individual firms as appropriate through supervisory or if necessary enforcement action.
- 1.36** Our analysis paints a mixed picture of multiple card use. Most consumers with multiple credit cards are not struggling with problematic debt and there is not widespread high credit limit utilisation across multiple cards. However, our analysis shows that consumers with multiple cards tend to have higher aggregate credit limits, and that those in potentially problematic debt who hold more than one card typically have higher outstanding balances.
- 1.37** Around a quarter of consumers with multiple cards are caught by one of the potential problem credit card debt indicators – this is only slightly higher than the average across all consumers (19%). Most of these consumers are in potentially problematic credit card debt on only one of their cards. However we found 7% (around one million consumers) in potential problem credit card debt on all their credit cards.
- 1.38** Our proposed package of remedies outlined below is intended to address the concerns we have identified about potential problem credit card debt for both consumers with one credit card and those with multiple credit cards. We do not consider that industry-wide interventions are required in relation to multiple credit cards.

Proposed remedies

Key messages from responses to our early thinking on remedies

- 1.39** Overall the credit card industry broadly support the objectives underlying our interim proposals on remedies. However, industry respondents made the following points:
- many called for remedies to be targeted at the right consumers, those for whom the market is not working well
 - most recommended that some proposed remedies are behaviourally trialled to ensure they are effective
 - most objected to the proposal to require an opt-in for credit limit increases on credit cards because it is likely to have unintended consequences
 - a number reported that they are already implementing ‘pre-arrears’ strategies that attempt to identify and address potential financial difficulty before it arises
 - a few expressed concern that the market has already been subject to significant regulation and the effects of these changes need time to develop and mature
- 1.40** While consumer organisations either broadly supported our general approach and individual remedies, there was concern that:
- The remedies over-relied on behavioural remedies and ‘nudges’ as opposed to placing

stronger requirements on credit card providers.

- Further consideration should be given to raising the level of minimum repayment to reduce debt burdens.
- The proposals did not go far enough in tackling problem debt. For example, it was suggested that the FCA should limit the number of minimum repayments that could be made in 12 months, create a minimum average level of repayment and convert long-term unpaid balances into a loan with a fixed repayment term.
- Some consumer organisations advocated introducing a cap on the cost of credit cards.

Way forward on remedies

1.41 Taking this feedback into account, we are proceeding with a package of remedies designed to address each of our concerns. The package of remedies will include a combination of, where appropriate, FCA rules and guidance, subject to consultation and cost-benefit analysis, and some industry agreements. We will monitor the success of industry agreements over time, and if they are not effective, we will consider further action. We welcome the continued dialogue with industry and consumer groups in the design of the remedy package.

1.42 In relation to shopping around and switching:

- Wider work is being taken forward by the industry and government on open access to data and use of APIs which will further open up access to account-level data from January 2018. Opening up access to data should – in time – enable consumers to search with greater accuracy for products and deals that match their individual usage patterns and needs.
- FCA is also taking forward wider work on price comparison websites with the UK Regulators Network, and we plan to feed into the CMA's market investigation into PCWs, which it is intending to begin later in 2016/17.⁴
- The industry, represented by the UK Cards Association (UKCA), has agreed to inform consumers that their promotional offer (typically 0% interest) is due to end. This is explained in more detail in Chapter 8.

1.43 In relation to the higher risk segment:

- FCA has previously committed to looking at promoting and facilitating the use of quotation searches, to ensure that customers are able to shop around without damaging their credit score. The BBA, FLA and UKCA have announced cross-sector work on this area to take place over the next year.
- Where we have specific concerns around affordability assessments for individual firms, we are taking these forward through supervisory activity.

1.44 The industry, represented by UKCA, has agreed to a number of remedies. The industry will help consumers mitigate the risk of inadvertently incurring penalty charges by:

- alerting consumers at a set point of credit limit utilisation
- allowing consumers to request a 'later than' payment date to fit with their own pay day

⁴ CMA, Competition and Market Authority Annual Plan 2016 to 2017 (2016): www.gov.uk/government/publications/competition-and-markets-authority-annual-plan-2016-to-2017

1.45 In relation to borrowing and repayment:

- As noted above, firms will alert consumers at a set point of credit limit utilisation.
- We are exploring a novel approach to repayments, designed to remove the “anchor” of a stated minimum repayment and encourage customers to choose their repayment amount on the basis of how quickly they want to pay down their debt. This behavioural approach is explained in more detail in Annex 4.
- In parallel we will do further work to understand the likely impact of making a small increase to the minimum repayment rate. We will consider the relative merits of increasing the minimum alongside behavioural remedies once we have the results of any trials and have considered other evidence, and will consult on any proposed rules thereafter.
- We intend to consult later in 2016 on measures to give consumers more control over their credit limits.
- FCA is doing wider work to clarify expectations around assessments of creditworthiness. This work will cover our expectations of assessing creditworthiness where consumers have existing borrowing commitments.

1.46 In relation to potentially problematic debt:

- we intend to consult on proposals for a rule requiring firms to identify early signs of debt problems and to intervene accordingly
- we intend to consult on proposals requiring firms on an escalating basis to take certain actions to intervene when a consumer has been persistently indebted for a period, for example to offer them a more structured repayment plan

1.47 Some parts of our overall package would be implemented through FCA rules and guidance, subject to cost benefit analysis and consultation. Others would be overseen by industry bodies or an independent third party. Some issues will be addressed through other FCA work including supervisory (and if necessary enforcement) work. We will continue discussions with stakeholders to inform the design of the remedies. If during further discussions a credible proposal for an industry agreement is offered in relation to the areas, where we intend to make rules, we will take that into consideration when deciding the most appropriate way to achieve our objectives. Chapter 8 of this report sets out the way forward for each element of the remedy package.

1.48 We have developed the proposed remedies in this report in the context of the existing UK and EU regulatory framework. We will keep the proposals under review to assess whether any amendments will be required due to changes in the UK regulatory framework, including as a result of any negotiations following the UK’s vote to leave the EU.

2. Introduction

In this final report we:

- summarise the feedback on the interim findings of our credit card market study
- set out our further analysis
- confirm our final findings
- summarise the feedback on our early thinking on remedies
- set out the way forward on the package of remedies

Context

Why did we decide to look into the credit card market?

2.1 This study aims to build our knowledge of the credit card market and assess whether the market is working well in the interests of consumers and, if not, to understand why and to identify appropriate ways to improve the situation. The study was launched in November 2014 and we published our interim report in November 2015.

2.2 In carrying out the market study, we focused on three main areas:

- the extent to which consumers drive effective competition through shopping around and switching
- how firms recover their costs across different consumer groups and what impact this has on the market
- unaffordable credit card debt, in particular whether some consumers are over-borrowing/under-repaying on their balances, and whether firms have incentives to provide unaffordable lending that results in consumer detriment

Scope of the study

2.3 This study focuses on credit card services offered to retail consumers by credit card providers (including banks, monolines and their affinity and co-brand partners) through a range of distribution channels. As set out in our terms of reference, although we have looked at both the borrowing and payment functions of credit cards, we have focused on the use of credit cards as a form of revolving credit, given that this was where most of our initial concerns lay.

- 2.4** We did not consider as part of the study business credit card services provided to small and medium-sized enterprises (SMEs) or corporates. Our analysis has captured smaller SMEs that use their personal credit card for business financing. The study has not specifically covered charge cards and store cards.⁵
- 2.5** The regulation of interchange fees and card payment systems more generally falls within the purview of the Payment Systems Regulator (PSR). So we do not focus on these issues, although the implications of the Interchange Fee Regulation on credit card services offered to retail consumers has been reflected in our analysis (see Chapter 3).
- 2.6** This report is not intended as a compliance report. In some findings or factual scenarios we observed, we refer to our rules or to other legal provisions to assist readers. However, that we do not do so in other cases should not be taken as a suggestion or as an implied statement that FCA would view a particular factual scenario or matter as compliant with our rules or other legal provisions.

Interim report

- 2.7** In November 2015, we published our interim report.⁶ This set out our initial observations on how competition functions in the interests of consumers in the credit card market and highlighted areas of potential concern. We also set out initial thinking on potential remedies in light of our findings.

Approach

- 2.8** In developing our interim findings, we analysed a wide range of data and information. We also met with firms, trade associations and consumer groups, and received input from interested parties in response to our terms of reference.

Consumer research

- 2.9** To provide information on how consumers shop around and switch credit cards, as well as to understand the challenges they face when shopping around and switching, we commissioned an online survey completed by 39,837 consumers.

Request for firm data and information

- 2.10** To understand the supply side of the market, we requested quantitative and qualitative data from credit card firms. Smaller credit card firms received a shortened version of the information request.
- 2.11** We also undertook a focused review of a sample of PCWs, financial promotions and products' terms and conditions.

⁵ As set out in the terms of reference (FCA, Credit Card Market Study: Terms of Reference, para. 4.5), this study has not covered charge card and store cards:

- The number of credit cards far exceeds charge cards. Charge cards tend to have higher (or no) credit limits, annual fees, and are often used for corporate purposes. Many charge cards can be used for payments like credit cards, but balances have to be repaid in full at the end of the month, so they cannot be used to borrow for longer periods. Our concerns about revolving credit therefore do not apply.
- Store cards are provided by a retailer (the card issuer can be another institution) and can only be used for purchases with that retailer (so are not part of a card scheme). Store cards typically provide discounts and/or rewards, but tend to have lower credit limits. Retailers are increasingly moving from traditional store cards to offering store-branded credit cards, which have similar features to store cards. Given the trend of these cards becoming store-branded credit cards, we have not included store cards as a focus of the market study.

⁶ FCA, *Credit Card Market Study: Interim Report*

Account-level data

- 2.12** We requested monthly account-level data from a sample of 11 credit card firms, representing around 80% of the market over a five-year period (2010-2014). The data contained information on monthly balances and repayments, as well as product information such as interest rates and fees.

Meetings with firms, trade associations and consumer groups

- 2.13** During the market study, we also held meetings and engagement events with consumer groups, firms and trade associations.

Literature reviews

- 2.14** We commissioned two academic literature reviews for the market study: one on consumer behaviour and behavioural biases; and one on affordability. Both reviews were published separately alongside the interim report.

International comparison

- 2.15** We conducted an international comparison exercise involving ten other nations⁷, principally to understand how other jurisdictions have sought to address issues causing concern in the credit card market.

Interim findings

- 2.16** As set out in the interim report, our interim findings were:
- We found that in most of the market, competition is working fairly well for consumers. Consumers value the flexibility offered by credit cards and use them in different ways, for example making secure payments and collecting rewards, spreading purchase costs or as an emergency credit facility, for paying other debt, or for building credit history.
 - Firms compete strongly for custom on some features – not only for new consumers but also for ‘back book’ consumers (existing borrowers with balances). However, competition is focused primarily on introductory promotional offers and rewards, with less competitive pressure on interest rates outside promotional offers and other fees and charges. We want to make sure industry is clear about fees and charges, so consumers can focus on the overall cost of using credit cards.
 - The market is moderately concentrated but there has been new entry in recent years. However, higher credit risk consumers have a more limited choice of products and providers than lower risk consumers. The main barriers to serving this segment, other than commercial viability, appear to be the perceived reputational and regulatory risks associated with higher risk and higher cost lending.
 - Our evidence suggests many consumers are open to switching – each year, around 14% of consumers with a credit card take out a new one – and firms do not consider a lack of switching to be a significant barrier to entry or expansion. However, some consumers with higher risk profiles are less willing to shop around for fear of affecting their credit record, and we are proposing remedies to address this.
 - All lending activity carries default risk. Even so, we are concerned about potentially problematic debt’s scale in this market, including for consumers just above the default level. We found that around 6.9% of cardholders (about two million people) are in arrears or have defaulted. We estimate a further two million people have persistent levels of debt

⁷ Australia, Canada, China, France, Mexico, Singapore, South Korea, Spain, Taiwan and USA.

that some may be struggling to repay, and that a further 1.6 million people are repeatedly making minimum payments on their credit card debt. 8.9% of credit cards active in January 2015 (5.1 million accounts) will – on current repayment patterns and assuming no further borrowing – take more than ten years to pay off their balance.

- Consumers in default are extremely unprofitable and firms are active in contacting consumers who miss payments and triggering forbearance at this point. However, consumers with persistent levels of debt or who make minimum payments are profitable. Firms therefore have fewer incentives to address this and we found that, most firms do not routinely intervene to address this behaviour. We consider that firms could do more to help those with persistently high credit card debt to reduce debt burdens before they become problematic, and to prompt those repeatedly making minimum payments to repay quicker when they can. We believe the incentives for firms in this market can be realigned in this area.
- 0% balance transfer offers are a significant feature of this market, accounting for a quarter of outstanding balances. They are popular with consumers and provide an important focus for competition between providers. Nonetheless, the increase in the number and length of offers has raised some concern: first, whether consumers understand the product and the fees they will incur; and second, whether current interest-free balances are storing up future debt problems.
- We expect firms to be clear about the fees associated with such deals, and are keen to find ways to help consumers assess and compare the total cost of credit on such deals. Regarding future debt problems, we found that these deals are generally not available to those with higher credit risk, and that in current economic conditions, the stock of lending appears affordable. As with any credit product, however, concerns would increase should economic conditions change.

Consultation process

- 2.17** We sought views on our interim findings following their publication. This was intended to give all interested parties an opportunity to comment on our emerging thinking and analysis. This helped assure the robustness of our findings and promote continued constructive engagement between the FCA, firms, trade associations, consumer bodies and other interested parties.
- 2.18** As part of our consultation process, we held various stakeholder events including roundtable discussions with industry, consumer groups and Parliamentarians. These well attended events were considered as part of our consultation.
- 2.19** We received 35 formal written responses to the interim report from a cross-section of stakeholders including firms, consumer bodies, trade associations, individuals and academics.
- 2.20** A summary of views from stakeholders on the interim findings can be found in Chapter 4 (with greater detail provided in Annex 1). A summary of views from stakeholders on our early thinking on remedies can be found in Chapter 7.

3. Recent relevant developments

In this chapter, we set out the recent relevant developments in the credit card market since publishing the interim report last November.

These developments are grouped into:

- market developments
- regulatory developments

Market developments

- 3.1** Since publishing the interim report, we have continued to monitor developments in the credit card market.
- 3.2** Recently published data show the credit card market has continued to grow, with the number of cardholders estimated to have risen slightly to 31.8 million cardholders in 2015. Total outstanding balances are estimated to have increased from around £61 billion in December 2014 to around £63 billion in December 2015⁸ - the proportion of this incurring interest has dropped from 43% to 42%.⁹
- 3.3** Product offerings have changed a little for both new and existing customers over the past year. These changes may be due, in part, to the impact of the Interchange Fee Regulation (discussed below). Following the reduction in interchange revenue, firms may be seeking to compete to attract consumers who will revolve a balance, and adjusting their commercial proposition to make consumers who transact more profitable. We have noted:
- the duration of balance transfer offers has continued to increase steadily, as have the length of balance transfer offers that have no balance transfer fee
 - some removal and dilution of reward schemes (for example, fewer points awarded per pound spent), and some limited increases in annual fees (typically on credit cards already charging annual fees)
 - the average retail Annual Percentage Rate (APR), for new accounts has increased slightly,

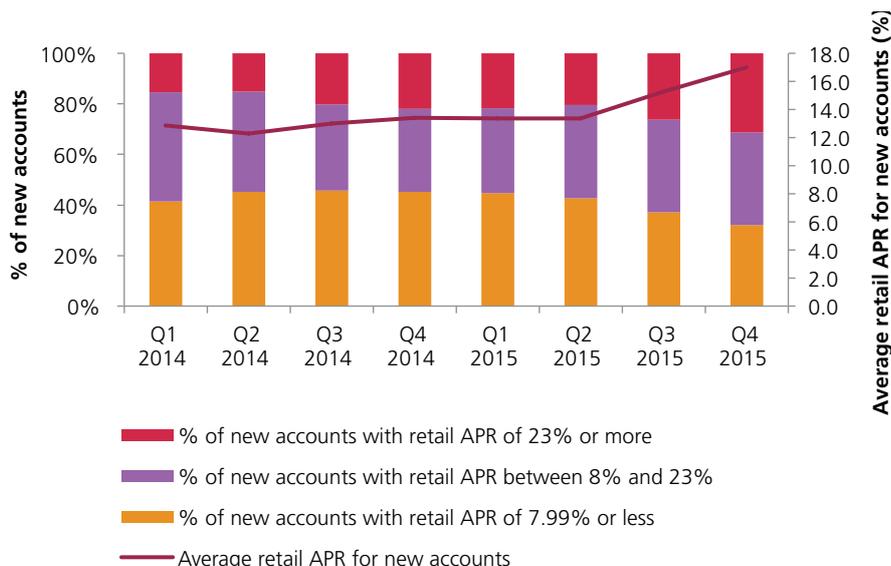
⁸ UK Cards, UK Card Payments 2016: www.theukcardsassociation.org.uk/wm_documents/UK%20Card%20Payments%202016%20FINAL%20website.pdf

⁹ This is attributed to balances being paid off or transferred before the end of the interest free period, as well as balances on 0% promotional rate products.

with a significant fall in new accounts with a retail APR of 7.99% or less, and a significant rise in new accounts with a retail APR of 23% or more (see Figure 1 below)

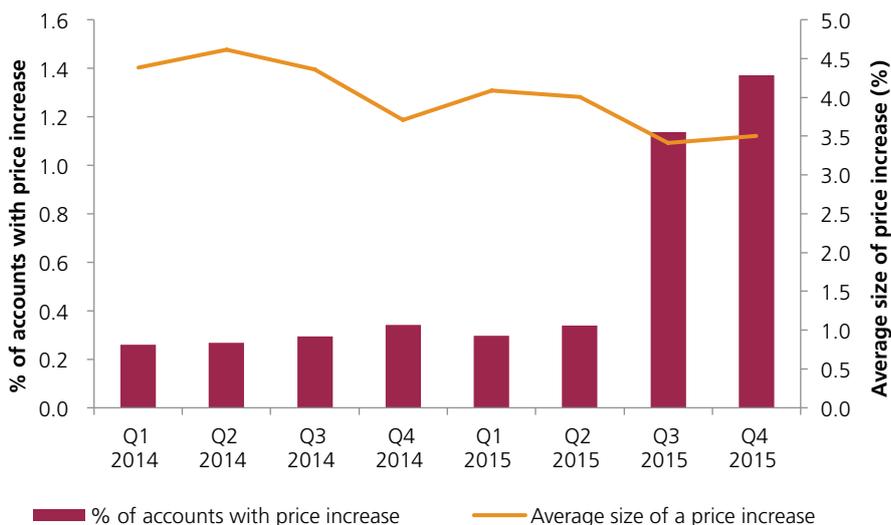
- the number of accounts being re-priced upwards trebled in the second half of 2015 (see Figure 2 below)

Figure 1: Retail Annual Percentage Rate (APR) for new accounts



Source: Data supplied to the FCA by UK Cards

Figure 2: Upward re-pricing of credit card accounts



Source: Data supplied to the FCA by UK Cards

3.4 One of the concerns identified in the interim report was firms charging more than one fee in relation to a single month’s missed payment. In March 2016, one credit card firm, NewDay, announced that it will refund over £4 million to over 180,000 customers following disclosures

made to the FCA.¹⁰ In 2015, NewDay reported that it had undertaken a review of its business in preparation for the FCA's new regulatory regime for credit, which commenced in April 2014. This included looking at the fairness of its charging model. NewDay had identified that, in a small number of circumstances, default fees and other charges triggered additional charges in a way they considered unfair. In addition, delays in posting transactions also meant some customers incurred additional charges NewDay felt were unfair. NewDay determines that approximately 3% of its customers will be due redress under its scheme.

- 3.5** We expect all firms to consider the fairness and impact of their default fees and charges. It is important that firms, where they identify concerns in relation to their fees, disclose those concerns to the regulator, proactively act on those concerns and keep the regulator informed.

Regulatory developments

Interchange Fee Regulation

- 3.6** The Interchange Fee Regulation¹¹ capped consumer credit card interchange fees at 30bps (0.3%) of transaction value from 9 December 2015. The PSR is the lead UK regulator for the Interchange Fee Regulation.^{12 13}
- 3.7** In the interim report, we discussed the likely impact of the interchange fee cap on the market.¹⁴ We noted that it would mean credit card firms' revenue from interchange would fall from around 80bps¹⁵ to 30bps. This is a gross reduction of around 60% in interchange revenue across the industry, with estimates from firms suggesting that this would lead to around a 5% to 10% reduction in overall revenue. We noted that firms with proportionally higher levels of transacting type consumers¹⁶ will face proportionally bigger losses in income. At that time, firms said they would respond by offering more products with a small or increased annual fee or diluting rewards schemes. Our view was that such developments did not give us direct cause for concern where appropriately communicated to consumers (whereas we would be concerned, for example, if the loss of interchange revenue led to increases in conditional charges less susceptible to competitive pressures).
- 3.8** In the market developments section of this chapter (see above), we look at changes to product offerings over recent months. Some changes may in part be due to the impact of the Interchange Fee Regulation.
- 3.9** It was widely anticipated that the reduction in interchange fee revenue for credit card firms would lead to some reduction in rewards or increase in the price paid by consumers, and the market appears to be adjusting along those lines. It is too early to say what the long-

¹⁰ www.fca.org.uk/news/credit-card-provider-newday-to-provide-redress-to-customers

¹¹ FCA, *Credit Card Market Study: Interim Report*, para. 3.58

¹² PSR, *Guidance on the PSR's approach as a competent authority for the EU Interchange Fee Regulation (2016)*: www.psr.org.uk/psr-publications/policy-statements/final-guidance-PSR-approach-as-competent-authority-for-IFR

¹³ In March 2016, the PSR published its final guidance on their approach to monitoring and enforcing the Interchange Fee Regulation in the UK, alongside their determination of the card schemes subject to domestic interchange fee caps in the UK. See: www.psr.org.uk/psr-publications/news-announcements/final-determination-card-schemes-subject-to-cap-March-2016

¹⁴ One respondent to the interim report was of the opinion that the effects of the Interchange Fee Regulation go much wider than is referred to in the interim report and that it underplayed their importance to competition.

¹⁵ As noted in the Payment Systems Regulator's CP14/1 (November 2014), interchange fees for consumer credit card transactions have ranged from 0.65% to 1.85% of transaction value, depending on the card payment system (MasterCard or Visa), the card type (e.g. standard or premium) and the transaction type (e.g. Chip & PIN, card not present, etc.). The average interchange fee on such cards has been around 0.8% of transaction value (80bps)

¹⁶ Those consumers who use credit cards mainly as a payment mechanism usually paying their balance in full at the end of the month thus incurring little or no interest.

term impact of the Interchange Fee Regulation will be. At present these developments do not give us direct cause for concern where appropriately communicated to consumers. We would however be concerned if we saw significant increases in either small print fees and charges or the burden of cost recovery falling disproportionately on particular segments (for example, the less competitive higher risk segment or back-book customers).

Wider FCA work on consumer credit

- 3.10** A number of other pieces of recent and ongoing FCA work are relevant to the credit card market.

Supervision & Authorisation work

- 3.11** In the credit card market study interim report, we identified firms either withdrawing promotional offers more frequently than we would expect, or were charging more than one fee in relation to a single month's missed payment. Our Supervision teams have engaged with a number of firms on these issues.

- 3.12** We are undertaking a thematic review of early arrears management in unsecured lending.¹⁷ The review examines how customers are treated by lenders when they first experience arrears and payment difficulties and includes various unsecured lending products including credit cards, personal loans and retail finance. We intend to report the findings in Q4 2016.

- 3.13** We are also undertaking a further thematic review of staff remuneration and incentives in the consumer credit market. This review includes several credit card firms.

- 3.14** Following the transfer of consumer credit regulation from the Office of Fair Trading to the FCA in April 2014, all UK-based credit card firms have been required to apply for full FCA consumer credit permissions. Our Authorisations division has been assessing each application – many credit card firms are now fully authorised, with others still under assessment.

Policy work

- 3.15** This section outlines a number of policy initiatives that are relevant to the credit card market. Where appropriate, the findings from the credit card market study have fed into these pieces of work.

- 3.16** We are conducting research to better understand how consumer credit lenders assess creditworthiness (including affordability). Our review will consider how different potential regulatory approaches might impact consumer outcomes, competition and the cost and availability of credit.

- 3.17** In February 2016, we published draft guidance setting out our revised view of whether a default notice is needed under the Consumer Credit Act (CCA) before taking payment from a guarantor.¹⁸ We are considering the responses to this consultation.

- 3.18** In February 2016, we also published a call for input on the planning phase of the review of retained provisions of the CCA.¹⁹ We must report to the Treasury by 1 April 2019 on whether the repeal of CCA provisions would adversely affect the appropriate degree of protection for

¹⁷ FCA, *TR: Early arrears management in unsecured lending (2016)*:

www.fca.org.uk/news/tr-early-arrears-management-in-unsecured-lending

¹⁸ FCA, *GC16/2: Proposal to issue guidance on the FCA's view of enforcing security under the Consumer Credit Act 1974 (2016)*:

www.fca.org.uk/your-fca/documents/guidance-consultations/gc16-02

¹⁹ FCA, *Call for Input: Review of retained provisions of the Consumer Credit Act (2016)*:

www.fca.org.uk/your-fca/documents/call-for-input-review-retained-provisions-consumer-credit-act

consumers, and which provisions could be replaced by FCA rules or guidance. Prior to that we will need to publish and consult on our interim report to the Treasury.

- 3.19** We consulted in our Quarterly Consultation Paper²⁰ on proposed amendments to the Consumer Credit Sourcebook (CONC). These were mostly minor corrections of anomalies or gaps in existing provisions, or clarifying their operation. They included a proposal to disapply the requirement for a representative example, or representative APR, in financial promotions where the APR is 0%.
- 3.20** We announced our intention to deliver further work on credit broking, together with an impact assessment of the previously introduced credit broking rules.²¹ We also started work to consider whether to ban or restrict cold calling or other forms of direct marketing, particularly concerning HCSTC and debt management services.
- 3.21** We are exploring issues related to PCWs more widely in a piece of work we are leading for the UK Regulators Network, and we plan to feed into the CMA's market investigation of PCWs, which it intends to begin later in 2016/17.²²

Other regulatory developments

- 3.22** Various other pieces of work by government and other regulators are relevant to the credit card market study:
- In May 2016, the Competition and Markets Authority (CMA) published its provisional remedies from its investigation of personal current accounts and banking services to SMEs.²³ One of the proposed measures proposed aims to increase customer awareness of the potential benefit of switching and prompting customers to think about their banking arrangements.²⁴
 - The CMA's 2016/2017 business plan states it will undertake an analysis on PCW's to understand whether there are problems in the sector. The analysis will also suggest what changes might make sure the sector operates competitively and in the best interests of consumers.
 - In October 2015, the Department for Business Innovation & Skills (BIS) launched a call for evidence on switching principles, pinpoint key problems for consumers across sectors and identify specific actions that to make it easier for consumers to switch.²⁵ BIS is now considering legislative options for switching in the communications sector as well as how to make switching even easier and are working with the relevant regulators.²⁶

20 FCA, *CP15/42: Quarterly Consultation Paper No. 11 (2015)*: www.fca.org.uk/static/documents/consultation-papers/cp15-42.pdf

21 FCA, *PS14/18: Credit broking and fees (2015)*: www.fca.org.uk/news/ps14-18-credit-broking-and-fees

22 CMA, *Competition and Market Authority Annual Plan 2016 to 2017 (2016)*: www.gov.uk/government/publications/competition-and-markets-authority-annual-plan-2016-to-2017

23 CMA, *Retail Banking Market Investigation: Provisional Decision on Remedies (2016)*: https://assets.digital.cabinet-office.gov.uk/media/573a377240f0b6155900000c/retail_banking_market_pdr.pdf

24 The CMA proposes three remedy packages (CMA, *Retail Banking Market Investigation*), referred to as 'foundation measures'. These are customer prompts, service quality information and open application programming interfaces (APIs) for banks.

25 BIS, *Switching Principles: Call for Evidence (2015)*: https://bisgovuk.citizenspace.com/ccp/switching-suppliers-making-it-easy-for-consumers/supporting_documents/BIS15533callforevidenceswitching.pdf

26 BIS, *Switching Suppliers: making it easy for consumers to switch (2015)*: <https://bisgovuk.citizenspace.com/ccp/switching-suppliers-making-it-easy-for-consumers>

Part 1: Final findings

4.

Feedback on interim findings and our response

In this chapter, we summarise the feedback on the interim findings and our response.

We received 35 formal written responses to the interim report from a cross-section of stakeholders including firms, consumer bodies, trade associations, individuals and academics.

Most responses to the interim report focused on our early thinking on remedies rather than our interim findings. Responses on the proposed remedies are summarised in Chapter 7.

Most feedback on the interim findings was broadly supportive with agreement among respondents that problem credit card debt was an important issue and that we were right to focus on over-borrowing and under-repayment in the interim findings and proposed remedies. Some respondents challenged aspects of our findings, while others highlighted issues they felt should have been looked at in more depth.

The feedback can be grouped under the three areas of investigation:

- consumer shopping around and switching
- firms' business models and cost recovery
- problem credit card debt

A detailed summary of responses and our view on the comments received can be found in Annex 1. Further detail on how we plan to take forward our findings can be found in Chapter 8.

Shopping around and switching

Feedback received

- 4.1** Respondents were broadly supportive of our interim findings on shopping around and switching. However, one consumer body queried how effective switching is within the credit card market. They argue switching is not proof alone of a well-functioning market and does not incentivise firms to reward loyalty. They note that switching only helps drive effective competition if consumers switch away from high prices and poor service to better value products. The respondent argued that the interim report did not produce any evidence that this happens in this market.

4.2 Various respondents (both from industry and consumer bodies) highlighted market features they consider to be inhibiting effective shopping around and switching. These included how PCWs present headline rate offers, firms' use of differential pricing at acquisition²⁷ and practices around the re-pricing of existing consumers. Regarding balance transfers, they raised as concerns the early removal of promotional offers, charging interest on fully-paid purchases during a balance transfer offer period, and how balance transfer fees are presented. They also raised the feedback provided to consumers on rejected applications. Two trade bodies suggested further work to understand the extent to which credit searches or multiple applications actually damage consumer credit scores.

Our response

4.3 We agree that switching is not proof of a well-functioning market. As we note in the interim report, 'when looking at estimated switching rates, the rates by themselves do not tell us whether the market is working well or not. For example, it could be that although we observe high switching rates, consumers are making bad choices and switch to worse products. Conversely, low switching rates are not necessarily a cause for concern if there is evidence of low switching costs (in this case low switching rates may only indicate that consumers are content with their current products).'²⁸ It could also reflect that firms are competing harder to retain existing consumers.

4.4 As set out in the interim report, we found that consumers are engaged and willing to switch but also found that consumers may not always choose the best card for them. They may not have been able to effectively compare the different cards available to them (for example, consumers may not know the actual terms they will be offered when they apply for a credit card); they have given insufficient weight to certain product features when deciding (for example, our consumer survey found that, of consumers looking for a balance transfer card, only 20% of respondents stated that they considered both the introductory offer on balance transfers and the balance transfer fee); or their actual card usage may differ from what they expected when they took out the card (for example, 19% of consumers we surveyed who paid interest on their main credit card in the previous 12 months did not expect to do so when they took it out. Our survey found that 64% of those who used their main credit card for cash withdrawals had not expected to when they took it out, and 70% that used a money transfer had not expected to do so when they took out their main card²⁹).

4.5 We recognise that many of the features highlighted in responses have the potential to make shopping around and switching more difficult. These include how PCWs present headline rate offers; firms' use of differential pricing at acquisition; practices around the re-pricing of existing consumers; the early removal of promotional offers for balance transfers, charging interest on fully-paid purchases during a balance transfer offer period, and how balance transfer fees are presented; and the feedback provided to consumers on rejected applications.

4.6 However, the feedback received does not give us cause to revise our overall findings on shopping around and switching. We remain of the view that, while credit cards can be complex, often for good reason given the flexibility of the product and because usage patterns may vary, this makes it difficult for consumers to compare offers and identify the best offer for them. We continue to believe transparency could be improved around credit card products and their

²⁷ This practice is referred to by different terms, including differential pricing, risk-based pricing and range pricing. It refers to the practice whereby a consumer applying for a card with a given headline rate (either APR or promotional offer) is offered less favourable terms (usually due to risk).

²⁸ FCA, *Credit Card Market Study: Interim Report*, para. 4.34

²⁹ The results are restricted to those consumers that took out their credit card in the last five years.

features. This would enable consumers to more easily choose the best deals. We also plan to feed into the CMA's market investigation of PCWs, which it intends to begin later in 2016/17.³⁰

- 4.7** We also continue to consider that the market could be improved by providing timely information to prompt consumers to repay their credit card debt or shop around once promotional offers have expired.
- 4.8** Further, it could be improved by promoting and facilitating the use of quotation searches, in particular for higher risk consumers more likely to be dissuaded from shopping around due to worries about the impact of multiple applications on their credit score. We welcome a piece of cross-sector work over the next year by the British Bankers' Association, the Finance & Leasing Association and the UK Cards Association which will:
- Assess the extent to which recent innovative market developments facilitate the ability for consumers to shop around.
 - Identify areas where further enhancements may be helpful for customers. For example, opportunities to develop some industry standards for using quotation search tools, which address the issues identified above and to raise awareness of these tools among consumers.
- 4.9** We also continue to welcome innovation that benefits consumers in these areas and would encourage all firms to consider how their practices align with treating their customers fairly.

Firms' business models and cost recovery

Feedback received

- 4.10** Respondents to the interim findings did not challenge the main findings in this area on cross-subsidisation.
- 4.11** A number of respondents raised concerns about firms' business models and cost recovery in the higher risk segment, as outlined below.
- 4.12** Three consumer groups raised higher returns in the higher risk segment as a concern and suggested the FCA should look at this area further.
- 4.13** One group noted that in a properly functioning market, the higher returns should be competed away. That they continue suggests problems in this sector need to be explored further. Another group suggested we do further work in this area to assess if a few firms are taking advantage of a group of consumers restricted to accessing subprime credit. The third group argued we should increase the focus on this part of the market in the final report as the credit card market is not working well for consumers vulnerable to financial difficulties.
- 4.14** Two consumer groups highlighted concerns around default fees and charges in the higher risk segment and whether these cards were helping consumers build a good credit record.

Our response

- 4.15** In the interim report, we observed that there might be less competitive pressure on firms in the higher risk segment than in the lower risk segment due to: fewer firms operating in this segment; and a limited selection of products and consumers focusing on the likelihood

³⁰ CMA, *Competition and Market Authority Annual Plan 2016 to 2017 (2016)*: www.gov.uk/government/publications/competition-and-markets-authority-annual-plan-2016-to-2017

of acceptance. We believe consumers benefit from being able to get an indication of their eligibility for specific products and the price that they are likely to be offered if they apply (as well as an indication of other important terms where these may vary). Sole reliance on eligibility or price can risk consumers being misled or applying for inappropriate products.

- 4.16** We also looked at the relative rates of return between products from both higher and lower risk segments and found, while being cautious about placing too much weight on the result³¹, that between 2010 and 2014, returns were on average higher for higher risk products typically by around six percentage points.³²
- 4.17** We consider that competition is working less well in the higher risk segment. The main barriers to serving this segment, other than commercial viability, appear to be the perceived reputational and regulatory risks associated with higher risk and higher cost lending.
- 4.18** Following the responses received, we carried out further analysis looking at the extent to which consumers in the higher risk segment ended up in potentially problematic debt (as measured by our indicators of potential problem credit card debt) having taken out a credit card. This analysis is set out in Chapter 5, and in greater detail in Annex 2.
- 4.19** This analysis raised concerns about how appropriate these products are for some of the target consumers. We found that a quarter of credit cards in the higher risk segment opened in 2013 were in severe or serious arrears in 2014. While we would expect the rate of debt problems to be higher among higher risk customers, this analysis raises questions around the effectiveness of the affordability assessments carried out in this segment. Where necessary, if these issues are identified we will undertake supervisory action.

Problem credit card debt

Feedback received

- 4.20** Respondents largely agreed that problem credit card debt was an important issue and that we were right to focus on over-borrowing and under-repayment in the interim findings and proposed remedies. One consumer body, however, was critical that the interim report took too sanguine an attitude to those in persistent debt and who exhibit systematic minimum repayment behaviour.
- 4.21** Consumer bodies also expressed concern on our early thinking on remedies and whether they would be sufficient to address the issues we identified. A summary of these responses can be found in Chapter 7. In this section, we summarise the responses on our interim findings about potentially problem credit card debt.

31 As set out in the interim report (FCA, *Credit Card Market Study: Interim Report*), we are cautious about placing too much weight on this particular results since:

- Despite an attempt to standardise the account-level data between firms, we are conscious that differences in firm data, driven by differences in firms' structure, accounting systems and data submissions, make these results illustrative rather than declarative.
- Methodologically, our approach is similar to one performance metric used by the industry although we acknowledge several performance measures are more typically used to give a complete view of profitability. Our analysis focuses primarily on marginal return from products and makes no attempt to factor in economic or regulatory capital costs, which could alter relative profitability.
- We analysed profitability over five years, in line with standard practice in the industry, however our analysis does not estimate terminal values on accounts and so may be omitting the effect that account longevity can have on firms' incentives.

32 In estimating the relative rates of return on lending we took into account bad debt costs over the five year period in an attempt to reflect the greater default risk associated with higher risk lending.

- 4.22** There were three main areas of focus in feedback responses on potentially problem credit card debt:
- **Problem credit card debt indicators** – Several industry respondents raised questions about the potential problem credit card debt indicators we used in the interim report. These included general methodological comments as well as comments about specific indicators, including highlighting potential limitations.
 - **Multiple cards** – Several consumer bodies raised the issue of consumers holding multiple cards as an area for further investigation. They noted that many consumers, particularly those with problematic debt, have more than one credit card and that those with multiple credit cards tend to have much larger credit card debt.
 - **Problem credit card debt over time** – Consumer bodies suggested that we look at problem debt over time to understand the consumer journey into financial difficulty. Industry respondents noted that consumers change behaviour over time, and that we should avoid inferring too much about consumer behaviour based on snapshots or over small time horizons.

Our response

Problem credit card debt indicators

- 4.23** As set out in the interim report, we set out indicators to assess the scale and nature of potentially problematic credit card debt. We remain of the view that these indicators are fit for this purpose. Alongside the final report we are publishing further sensitivity analysis of the problem credit card debt indicators. This analysis can be found in Annex 2.
- 4.24** We acknowledged in the interim report that the choice of thresholds necessarily involved subjective judgement, particularly for the persistent debt and systematic minimum repayment indicators. We also noted that each indicator has limitations – in some cases they will capture some consumers that do not have problem credit card debt issues (for example, some consumers making minimum repayments will be doing so for only a temporary period before resuming higher payments) and in other cases, individual indicators will neglect aspects of unaffordable credit card debt (for example, some consumers making above minimum repayments are doing so with difficulty).
- 4.25** We continue to regard the indicators of potential problem credit card debt used in the interim report as appropriate for the further analysis we are undertaking for this final report. In developing any remedies, we will give full consideration to the thresholds for applying any remedy to assess its appropriateness, taking into account consumers who would be covered by the remedy.

Multiple cards

- 4.26** We agree it is important to understand potential problem credit card debt at the consumer rather than account level. This is why the potential problem credit card debt indicators used in the interim report look across the various accounts held by a consumer, and the consumer is then assigned to the ‘worst’ potential problem credit card debt state across all their accounts.
- 4.27** Following the feedback received, we have undertaken significant additional analysis to explore multiple cards. The findings of this analysis are set out in Chapter 5 with greater detail on the underlying analysis in Annex 2.

4.28 We are concerned about those consumers in potential problem credit card debt who hold multiple credit cards. Our proposed package of remedies is intended to address the concerns we have identified about potential problem credit card debt for both consumers with one credit card and those with multiple credit cards. We do not consider, therefore, that industry-wide interventions are required for multiple credit cards.

Problem credit card debt over time

4.29 We agree that it is important both to understand how consumers end up in problem credit card debt, and to understand how consumer behaviour changes over time. For this final report, additional analysis looked at the problem credit card debt indicators over time. This enables us to gain insight into:

- how those consumers categorised as being in potential problem credit card debt got there
- what happened to consumers categorised as being in potential problem credit card debt in subsequent years
- the extent to which persistent debt and systematic minimum repayment behaviour persists over several years

4.30 The findings of this analysis are set out in Chapter 5 with greater detail on the underlying analysis in Annex 2. This analysis has increased our concern about potentially problematic credit card debt.

5. Further analysis

In this chapter, we set out the further analysis we have undertaken on potential problem credit card debt since publishing the interim report last November.

Having considered the feedback, we have undertaken further analysis on problem credit card debt to improve our understanding of those consumers in potentially problem credit card debt.

We have looked at:

- the indicators of potential problem credit card debt over time
- multiple cards
- sensitivity analysis of the indicators of potential problem credit card debt.

This analysis is set out in greater detail in Annex 2.

Introduction

5.1 There is no standard definition of problem debt in the credit card market. In the interim report, we set out quantitative indicators to indicate the likely scale and nature of problem credit card debt. They were each based on data over 12 months to December 2014:

- **severe arrears** – consumers charged-off³³ or at least six months in arrears³⁴
- **serious arrears** – consumers who have missed three or more repayments, and are either in or have been in arrears³⁵

³³ Charged-off refers to debt that issuers have deemed unlikely to be collected and that they have written off on their balance sheet. Consumers whose accounts have been charged-off have not been relieved of their repayment requirement, and charged-off accounts are often pursued via collection processes.

³⁴ We noted that the distinction between this category and the serious arrears category is partially driven by firm practices and their decision about when to charge-off a consumer. Some firms will do this sooner than others. This will mean a degree of overlap between these two categories that the data does not reflect.

³⁵ We chose three repayments as the threshold rather than one or two repayments as we considered the latter two thresholds may capture a number of consumers that simply missed repayments due to inattention.

- **Persistent debt** – consumers who have an average credit limit utilisation of 90% or more while also incurring interest charges³⁶
- **Systematic minimum repayments** – consumers who have made nine or more minimum repayments, while also incurring interest charges

5.2 We chose these indicators based on a review of the academic literature, existing research and consumer surveys, and our own analysis and understanding of the market.

5.3 Based on these indicators, we estimated that in 2014, 81.3% of credit cardholders (about 25 million people) were not in problem credit card debt, 1.9% (about 600,000 people) were in severe arrears, 4.9% (about 1.5 million people) were in serious arrears, 6.6% (about 2.1 million people) were in persistent debt and 5.2% (about 1.6 million people) were making systematic minimum repayments. These figures suggest that a significant minority (and a large number in absolute terms) of consumers are in potentially problematic credit card debt. When looking solely at those consumers who are revolving a balance on their credit card, the proportion that are in potentially problem credit card debt will be higher than the above percentages.

5.4 Not all consumers in the last two categories are presently in financial difficulties – our indicators are likely to capture those whose pattern of credit card use may be storing up problems for the future, who may be exposed to significant problems in case of a life event such as illness or unemployment, or who may be spending significant amounts on debt service over a long period of time.

5.5 Since publishing the interim report, and in light of the feedback, we have undertaken further analysis on problem credit card debt to improve our understanding of consumers in potentially problem credit card debt. We have continued to use the account-level data collected for the market study as the basis of this analysis which is why the analysis only covers up to 2014.

5.6 This analysis covers three areas:

- indicators of potential problem credit card debt over time
- multiple cards
- sensitivity analysis of the potential problem credit card debt indicators

5.7 In this chapter, we summarise some key findings of this further analysis. Annex 2 sets this out in greater detail.

³⁶ This was calculated by finding the credit limit utilisation each month and then taking a simple average across months. We also considered an alternative measure of persistent debt, based on the actual value of debt over time rather than credit limit utilisation. In particular, we were interested to see how sustained levels of credit card debt are, and whether there was an issue with consumers being unable to pay down their outstanding balance once it had reached a particular level.

Indicators of potential problem credit card debt over time

Summary

Following the feedback on the interim findings, we have undertaken further analysis into the potential problem credit card debt indicators over time. This afforded us insight into:

- how consumers categorised as being in potential problem credit card debt got into problem debt
- what happened to consumers categorised as being in potential problem credit card debt in subsequent years
- the extent to which persistent debt and systematic minimum repayment behaviour persists over several years

Our analysis suggests two concerns around patterns of credit card debt over time: firstly, that there is a significant group of consumers who carry potentially problematic debt for a number of years; and secondly, that there is a separate group who move rapidly from acquiring a credit card into potentially problematic debt.

We find that:

- Two-thirds of consumers who ended up in severe arrears in 2014 were categorised as in some form of potential problem credit card debt in 2013. A quarter of those who ended up in severe arrears in 2014 were categorised as not in potential problem credit card debt in 2013 – this could reflect life-event shocks as well as those struggling but not captured by our indicators.
- 7% of consumers in severe arrears in 2014 did not have an active credit card in 2013, while over 20% did not have an active credit card in 2012. These numbers suggest a rapid descent into arrears following the opening of a credit card for significant minority.
- For many consumers, persistent debt or systematic minimum repayment behaviour persists over several years. Almost a third of those categorised as in persistent debt and almost half those categorised as making systematic minimum repayments in 2014 were also in those states in 2012 and 2013. This means around 650,000 cardholders have been in persistent debt for at least three consecutive years and a further 750,000 cardholders have been making systematic minimum repayments for at least three consecutive years.
- We find that approximately 1.4 million consumers were in some form of potential problem credit card debt in 2013 but had shifted to being not in potential problem credit card debt in 2014.

5.8 In light of the feedback, we have now further analysed the potential problem credit card debt indicators over time:

- **backward-looking analysis** – this analysis provides insight into how those consumers categorised by the indicators as being in potentially problem credit card debt in 2014 got there, by looking at their categorisation in previous years.
- **forward-looking analysis** – this analysis provides insight into what happened to consumers categorised by the indicators as in potentially problem credit card debt in 2010, by looking at their categorisation in subsequent years.

Severe and serious arrears

5.9 As set out in the interim report, there is a clear concern that, when consumers default or miss payments, the financial and non-financial implications in these cases are likely to be significant.

5.10 We recognise that some bad debt is a feature of all credit activity – borrowing is never risk-free, as the ability to repay is affected by major negative life events (such as divorce, redundancy or long-term illness). However, known patterns of consumer behaviour ('behavioural biases') will tend to lead to over-borrowing and under-repayment. These include optimism bias (consumers typically over-estimate their ability to repay), framing effects (consumers perceive costs expressed in % terms as being smaller than the same costs expressed in £), and the anchoring effect of minimum repayment amounts (a particular piece of information heavily influences consumer choices of payment amounts).

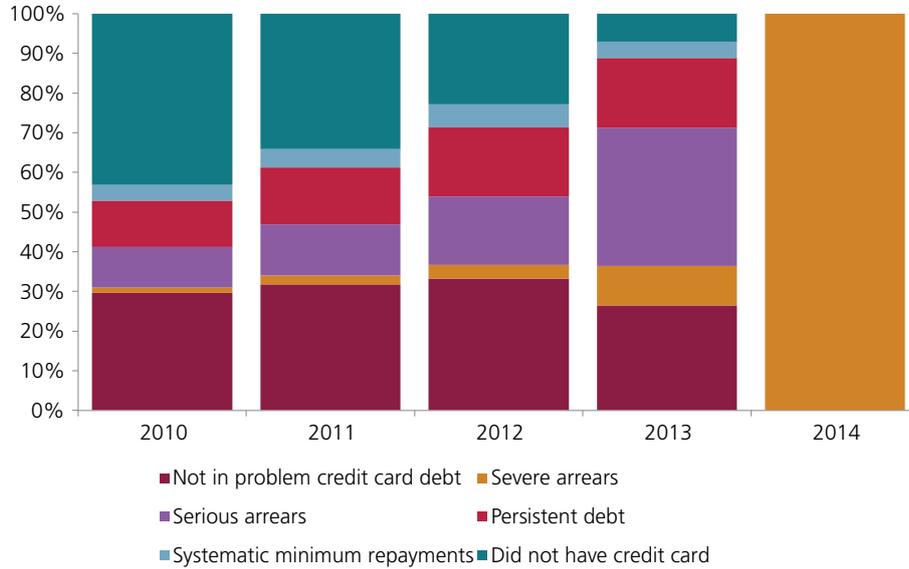
5.11 By looking at those consumers in severe or serious arrears in 2014, and seeing what proportion were in each category of problem credit card debt in the preceding years, we can understand a bit more about those consumers' journey into arrears.

5.12 We find (as shown in Figures 3 and 4) that:

- Of the approximately 600,000 consumers who ended up in severe arrears in 2014, most had been in some form of potentially problem credit card debt for some time - two-thirds were categorised as in some form of potentially problem credit card debt in 2013 (with almost 35% being in serious arrears), and around 40% had been in potentially problem credit card debt in both 2012 and 2013.
- Over 20% of consumers who were in severe arrears in 2014 did not have an active credit card in 2012, while 7% did not have an active credit card in 2013. These figures suggest a rapid descent into arrears following the opening of the credit card. This raises concerns about the suitability of these credit cards for these consumers.³⁷
- Over 25% of consumers who were in severe arrears and over 30% of those in serious arrears in 2014 were categorised as not in potential problem credit card debt in 2013 – this could reflect negative life-event shocks as well as those who were struggling but not captured by our indicators.

³⁷ In some cases the rapid descent into arrears following the opening of the credit card could be due to fraud on the part of the consumer.

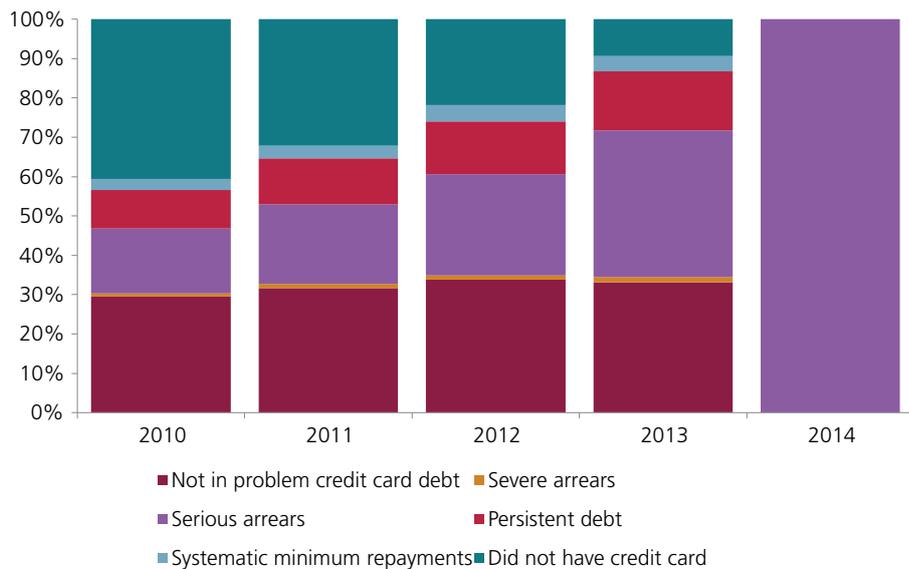
Figure 3: Indicators of potential problem credit card debt over time for consumers categorised as in severe arrears in 2014



Source: FCA analysis of a sample of account-level data

Note: This analysis is based on consumers categorised by our indicators of potentially problematic credit card debt as in severe arrears in 2014 (hence the column for 2014 being 100% severe arrears). The columns for 2010 to 2013 show what proportion of those consumers were categorised by our indicators of potentially problematic credit card debt as being in each state in each of those years.

Figure 4: Indicators of potential problem credit card debt over time for consumers categorised as in serious arrears in 2014



Source: FCA analysis of a sample of account-level data

Note: This analysis is based on consumers categorised by our indicators of potentially problematic credit card debt as in serious arrears in 2014 (hence the column for 2014 being 100% serious arrears). The columns for 2010 to 2013 show what proportion of those consumers were categorised by our indicators of potentially problematic credit card debt as being in each state in each of those years.

5.13 We have also looked at what happens to consumers once they end up in serious arrears. We find that of those consumers in serious arrears in 2010:³⁸

- some recovered from being in arrears – over a quarter were categorised as not in potentially problem credit card debt in 2011, increasing to just over a half by 2014
- others continued to struggle with potentially problem credit card debt for a number of years – a third were also in potential problem credit card debt in 2014
- some ended up in severe arrears - 22% of those in serious arrears in 2010 ended up falling into severe arrears in 2011

Persistent debt and systematic minimum repayment

5.14 In the interim report, we set out at a conceptual level our concerns regarding the long-term nature of persistent debt and systematic minimum repayment behaviour:

- consumers in persistent debt may be able to meet repayments but have reached a level of debt that they are unlikely to pay down, even over a sustained period³⁹
- for consumers making minimum repayments while incurring interest charges, the low minimum repayment requirement of credit cards means that they may not be struggling to meet the repayments but, over time, may be incurring high interest costs because of their repayment profile

5.15 The potentially problem credit card debt indicators presented in the interim report provided an indication of the number of consumers who were exhibiting persistent debt or systematic minimum repayment behaviour in 2014. As discussed in the interim report, some of these consumers do not have problem credit card debt issues. For example, some consumers might be using the flexibility of their credit card to make minimum repayments for a period before resuming higher repayments.

5.16 To gain additional insight into how long these consumers were in potentially problematic credit card debt, we looked at the proportion of consumers classified as being in persistent debt or making systematic minimum repayment in 2014, who were classified as being in some form of potentially problem credit card debt in previous years as well.

5.17 We find that for a significant proportion of consumers classified as in persistent debt or making systematic minimum repayments, this behaviour persists over several years.

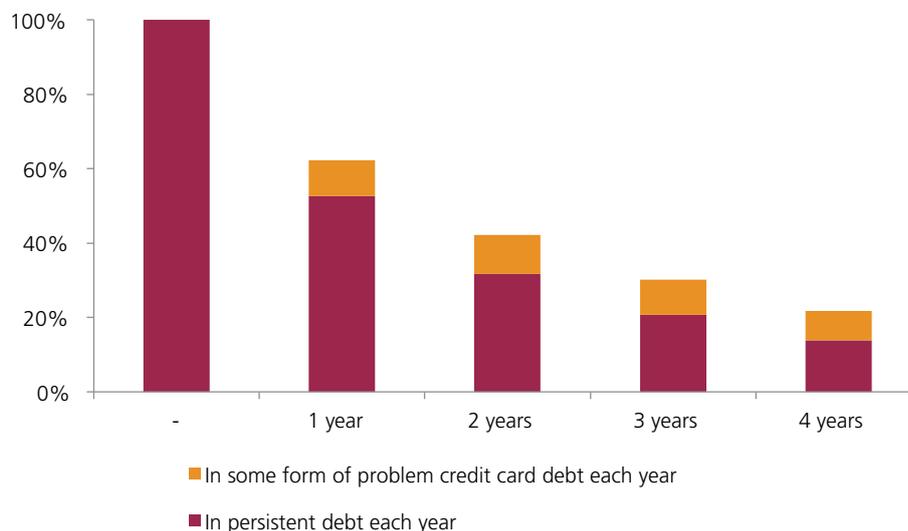
5.18 Figure 5 illustrates the long-term nature of some credit card debt. It shows, for the approximately 2.1 million consumers in persistent debt in 2014, how long they had been in persistent debt (or another potential problem credit card debt state) for.⁴⁰

³⁸ See Annex 2 for the graph corresponding to these figures.

³⁹ The FCA expects to shortly publish an Occasional Paper on consumers and debt which analyses the Office of National Statistics' Wealth and Assets Survey dataset and examines the effect of struggling to meet financial commitments on self-reported levels of anxiety and quality of life.

⁴⁰ We carried out similar analysis on a forward-looking basis, looking at the proportion of those that were in persistent debt in 2010 who continued being classified as in persistent debt or in other forms of problem credit card debt in the following years. The proportion of these consumers who remained in some form of problem credit card debt in subsequent years was higher than the proportions for the backward-looking analysis. For example, of those in persistent debt in 2010, 47% were also in persistent debt in 2011 while a further 30% were in some other form of problem credit card debt in 2011. This analysis is presented in Annex 2.

Figure 5: Proportion of those consumers categorised as in persistent debt in 2014 who were categorised as in potential problem credit card debt in the preceding years



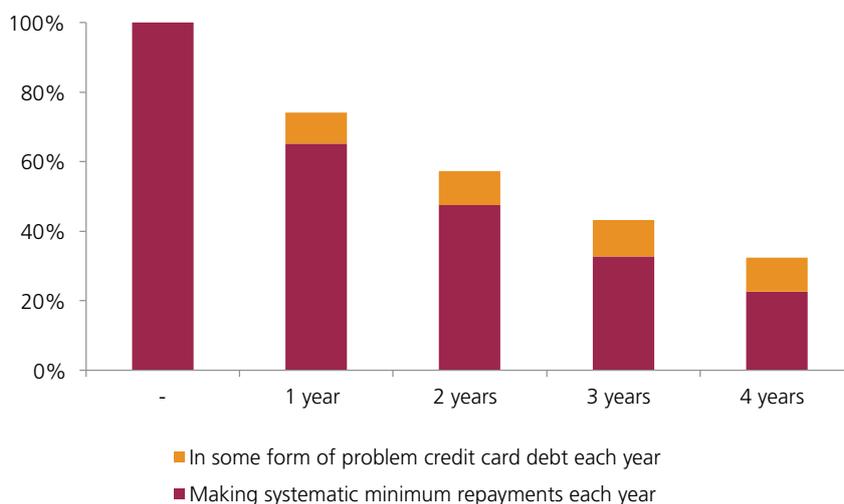
Source: FCA analysis of a sample of account-level data

Note: This analysis is based on those consumers categorised as in persistent debt in 2014 (hence the 100% in the first column). The subsequent years look at the proportion of those consumers who were also in persistent debt or other potentially problem credit card debt in each of the preceding years. So for those in the four years column, this means that the 13.8% represented by the maroon column had been in persistent debt in 2014 and each of the four preceding years. The further 7.8% represented by the orange column were in persistent debt in 2014 and some form of potentially problem credit card debt in each of the four preceding years.

5.19 Figure 6 shows that minimum repayment behaviour is even more likely to persist for several years, with almost half of the 1.6 million consumers making systematic minimum payments in 2014 also doing so in 2012 and 2013.⁴¹

⁴¹ We carried out similar analysis on a forward-looking basis, looking at the proportion of those that made systematic minimum repayments in 2010 who continued making systematic minimum repayments or were in other forms of problem credit card debt in the following years. The proportion of these consumers who remained in some form of problem credit card debt was very similar to the proportions seen in this backward-looking analysis, although the split between those making systematic minimum repayments and those in other forms of problem credit card debt differed with a higher proportion being in other (more serious) forms of problem credit card debt in the forward-looking analysis. This analysis is presented in Annex 2.

Figure 6: Proportion of those consumers categorised as making systematic minimum repayments in 2014 who were categorised as in potential problem credit card debt in the preceding years



Source: FCA analysis of a sample of the account-level data

Note: This analysis is based on those consumers categorised as making systematic minimum repayments in 2014 (hence the 100% in the first column). The subsequent years look at the proportion of those consumers who were also making systematic minimum repayments or other potentially problem credit card debt in each of the preceding years. So for those in the four years column, this means that the 22.6% represented by the maroon column had been making systematic minimum repayments in 2014 and each of the four preceding years. The further 9.8% represented by the orange column were making systematic minimum repayments in 2014 and some form of potentially problem credit card debt in each of the four preceding years.

5.20 This suggests that around 650,000 cardholders have been in persistent debt for at least three consecutive years and a further 750,000 cardholders have been making systematic minimum repayments for at least three consecutive years. As credit card firms note⁴², credit cards are suited to short term borrowing and can be an expensive way to borrow large amounts over a long period. We are concerned about the volume of borrowing behaviour that does not fit this pattern.

5.21 Besides those who remain in persistent debt or making systematic minimum repayments for a number of years, we also find that some consumers in persistent debt or making systematic minimum will end up in arrears:

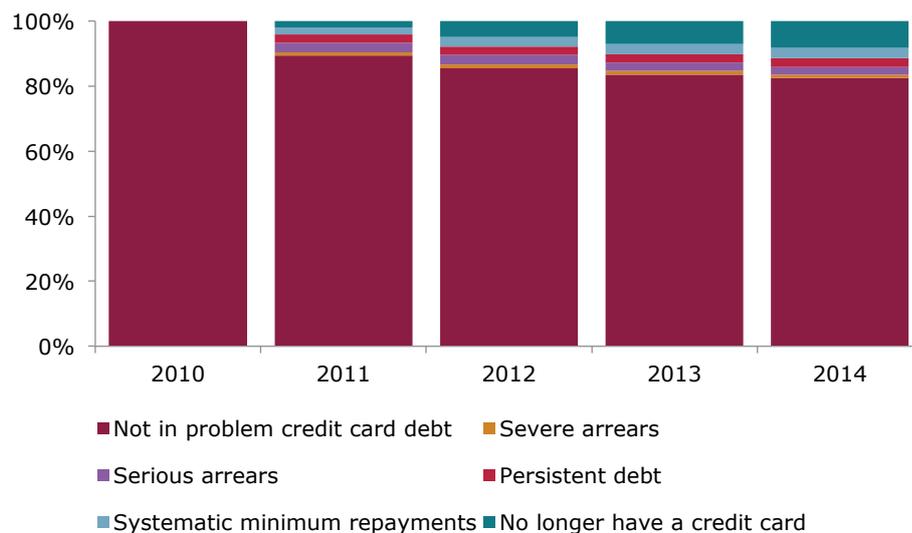
- of those consumers classified as in persistent debt in 2010, 23% ended up in serious or severe arrears in 2011
- of those consumers classified as making systematic minimum repayments in 2010, 8% ended up in serious or severe arrears in 2011

⁴² Firms are required in CONC 4.2.5R to provide an adequate explanation for their product, in particular, they must explain the features of the agreement which may make the credit to be provided under the agreement unsuitable for particular types of use. In these, firms typically note that credit cards are suited to short term borrowing but could be an expensive way to borrow large amounts over a long period.

Not in potentially problem credit card debt

- 5.22** To help understand the extent to which consumers move out of potential problem credit card debt, we looked at those consumers who were not in problem credit card debt in 2014. We find that approximately 1.4 million consumers were in some form of potential problem credit card debt in 2013 but had shifted to being not in potential problem credit card debt in 2014. This shows that some consumers do successfully move from being in some form of problem credit card debt to no longer being in a problem credit card debt state.
- 5.23** We also considered what happened to those consumers classified as not being in potentially problem credit card debt in 2010 in the subsequent years.
- 5.24** As Figure 7 shows, the vast majority of consumers classified as not in potential problem credit card debt in 2010 remained out of potential problem credit card debt over the following four years.

Figure 7: Indicators of potential problem credit card debt over time for consumers categorised as not in potential problem credit card debt in 2010



Source: FCA analysis of a sample of account-level data

Note: This analysis is based on consumers categorised by our indicators of potentially problematic credit card debt as not being in problem credit card debt in 2010 (hence the column for 2010 being 100% not in problem credit card debt). The columns for 2011 to 2014 show what proportion of those consumers were categorised by our indicators of potentially problematic credit card debt as being in each state in each of those years.

Higher risk segment

- 5.25** Following the responses to the interim report, we carried out further analysis looking at the extent to which consumers in the higher risk segment ended in potentially problematic credit card debt.
- 5.26** We looked at credit cards with an interest rate on purchases of over 30% taken out in 2010.⁴³ We then analysed for the consumers who had taken out those cards, the indicators of potentially problem credit card debt over the following years for both that credit card and more widely across all the credit cards they hold. This enabled us to better understand these consumers' journey over the five years after taking out their credit card.
- 5.27** We find that for some consumers, having the product does not lead to potential problem credit card debt. Around 45% of higher risk consumers who opened a credit card in 2010 were not in problem credit card debt on any of their credit cards in 2014. These consumers may have benefited from building or rebuilding credit history and having access to credit.
- 5.28** However, for other consumers, the product does not work well – 38% of credit cards in the higher risk segment⁴⁴ opened in 2010 were in severe or serious arrears in 2011, and 25% were in some form of potential problem credit card debt in 2014. A quarter of cards in the higher risk segment opened in 2013 were in severe or serious arrears in 2014.⁴⁵ While we would expect the rate of debt problems to be higher among higher risk customers, this analysis raises questions around the effectiveness of the affordability assessments carried out in this segment.

Conclusions

- 5.29** Having looked at the indicators of potential problem credit card debt over time, we find that, for many consumers, persistent debt or systematic minimum repayment behaviour persists over several years. Around 650,000 cardholders have been in persistent debt for at least three consecutive years and a further 750,000 cardholders have been making systematic minimum repayments for at least three consecutive years.
- 5.30** We also found a mix of consumers among those in serious or severe arrears in 2014. Some had been in some form of potential problem credit card debt for many years, some had only recently got a credit card, and some had not been in potential problem credit card debt until very recently.
- 5.31** The analysis of the higher risk segment in particular raises concerns about how appropriate these products are for some of the target consumers, which links to responsible lending and the effectiveness of affordability assessments.
- 5.32** These findings have increased our concern about potentially problematic credit card debt.

⁴³ There is no clear threshold for what constitutes a credit card in the higher risk segment, and therefore threshold choice for this analysis involves some subjective judgement. We selected an interest rate on purchases of over 30% as the threshold, after considering the distribution of purchase interest rates on new and existing credit cards in 2010. 11% of new credit cards opened in 2010 had an interest rate on purchases of over 30%.

⁴⁴ That is, those with an interest rate on purchases of over 30%.

⁴⁵ Again, by credit card in the higher risk segment in this context we are referring to those with an interest rate on purchases of over 30%. By contrast approximately 8% of all credit cards opened in 2013 were in severe or serious arrears in 2014.

Multiple cards

Summary

We have undertaken further analysis on consumers holding multiple credit cards.

Our analysis paints a mixed picture of multiple card use. Most consumers with multiple credit cards are not struggling with problematic debt and there is not widespread high credit limit utilisation across multiple cards. However, our analysis shows that consumers with multiple cards tend to have higher overall credit limits, and that those in potentially problematic debt who hold multiple cards typically have higher outstanding balances.

We find that:

- Overall, 54% of consumers have just one credit card, with 23% having three or more credit cards. Lower risk consumers tend to hold more cards on average than higher risk groups.
- Most consumers with multiple cards are not caught by any of our indicators of potentially problematic credit card debt. The proportion that are caught is slightly higher than the proportion of all consumers (25% compared to 19%). Most of these people are only in potential problem credit card debt on one of their cards. However, we did find 7% (around one million people) in potential problem credit card debt on all their credit cards.
- We found that the more cards held, the higher the total credit limit and the higher the levels of outstanding balance, although the average credit limit utilisation remains fairly constant and low across multiple cards at around 25%. In other words the evidence does not point to widespread high credit limit utilisation ('maxing out') across multiple credit cards. It does however suggest that those with multiple credit cards have a greater potential to rapidly amass greater credit card debt if they experience a negative life-event.

5.33 As discussed in Chapter 4, a number of consumer bodies raised the issue of consumers holding multiple cards as an area for further investigation. They noted that many consumers, particularly those with problematic debt, will have more than one credit card and that those with multiple credit cards tend to have much larger credit card debt.

5.34 The indicators of potential problem credit card debt used in the interim report look across the various accounts held by a consumer, and the consumer is then assigned to the 'worst' potential problem credit card debt status across all their accounts, enabling us to have a consumer level view of potential problem credit card debt. However, for the interim report we did not explicitly look at consumers holding multiple credit cards.

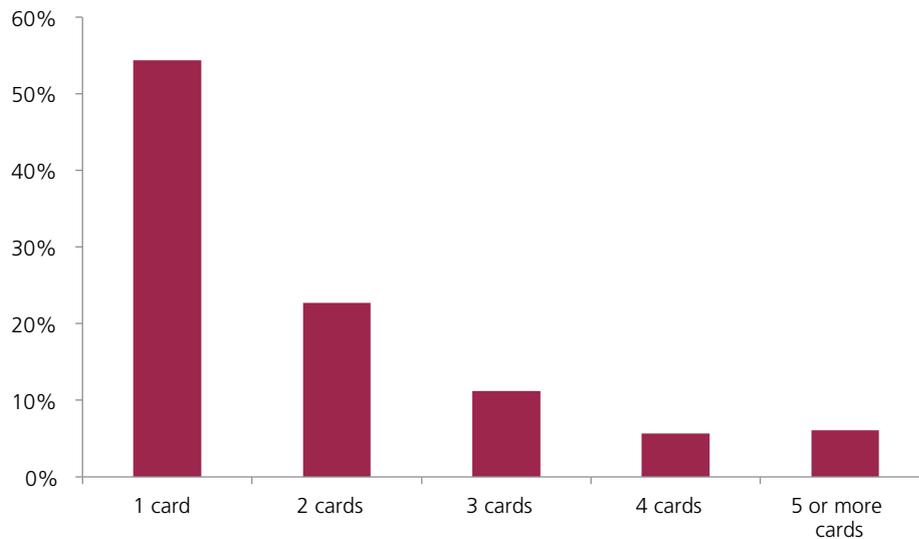
5.35 We have now undertaken further analysis looking specifically at consumers' multiple card holdings, the relationship with problem credit card debt and credit limits and outstanding balances. Further detail on this analysis can be found in Annex 2.

5.36 We have also considered the potential benefits of consumers holding multiple credit cards.

Consumers holding multiple credit cards

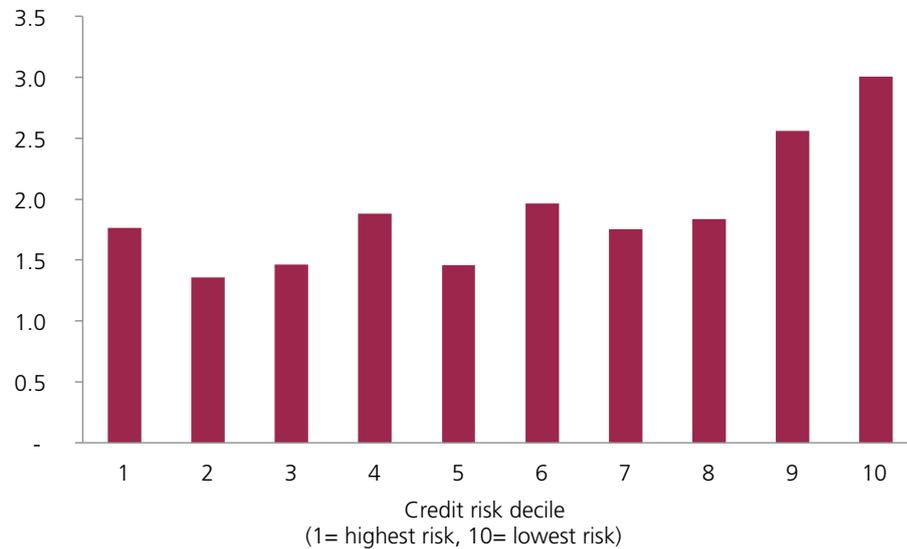
5.37 As set out in the interim report, we estimate that in January 2015, around 46% of credit cardholders held two or more cards, that is approximately 14 million cardholders. Figure 8 breaks these data down by number of cards held.

Figure 8: Distribution of number of cards per cardholder, January 2015



Source: FCA estimates based on data from a credit reference agency

5.38 When we further break this down based into deciles based on the consumers' credit risk, we find that the lowest risk 20% of consumers (deciles 9 and 10) have significantly more cards on average than other cardholders, with an average of 2.7, as shown in Figure 9.

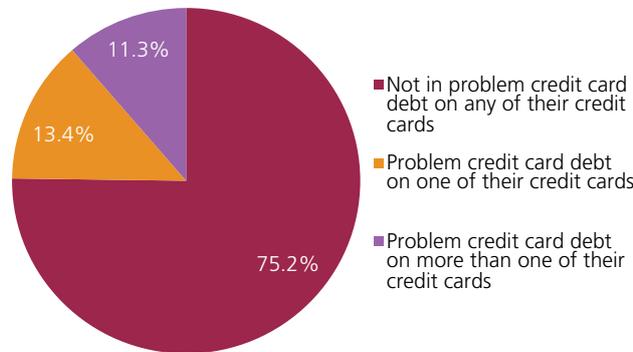
Figure 9: Average number of cards per cardholder, by credit risk, January 2015

Source: FCA estimates based on data from a credit reference agency

Multiple credit cards and potentially problem credit card debt

- 5.39** To understand the extent to which consumers with multiple credit cards were struggling with potentially problem credit card debt, we looked at the potentially problem credit card debt indicators for each of their credit cards.
- 5.40** This analysis suggests that only a small proportion of consumers with multiple credit cards are struggling across their credit cards.
- 5.41** As shown in Figure 10, we estimate that for consumers with two or more credit cards, three-quarters (approximately 11 million consumers) are not in potentially problem credit card debt on any of their credit cards. Of those that are, most are in potentially problem credit card debt on only one of their credit cards.

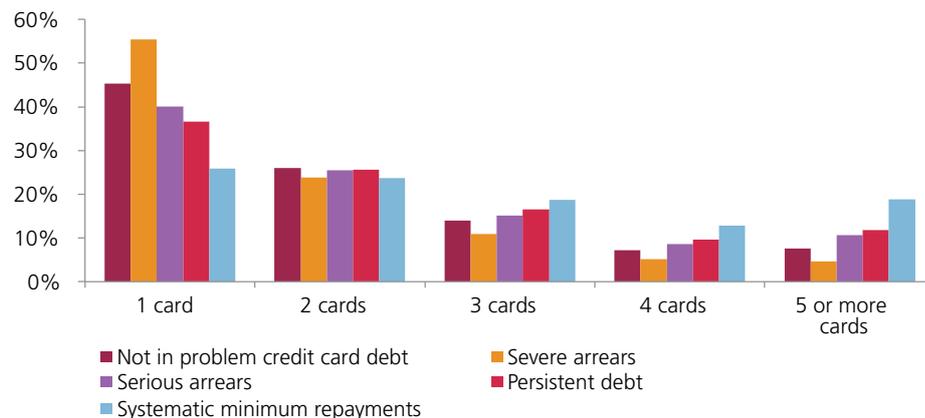
Figure 10: Extent to which consumers with multiple credit cards are categorised as in potentially problem credit card debt, 2014



Source: FCA estimates based on a sample of account-level data

- 5.42** We estimate that approximately 7% of consumers with multiple credit cards are in potentially problem credit card debt on all their credit cards.⁴⁶ This comprises around 700,000 consumers with two credit cards and around 300,000 consumers with three or more credit cards.
- 5.43** This analysis shows that most consumers with multiple cards are not caught by any of our indicators of potentially problematic credit card debt. The proportion that are caught is only slightly higher than the proportion of all consumers (25% compared to 19%).
- 5.44** Another way of looking at this is to consider the number of cards held by those identified by our indicators as in potentially problem credit card debt. Figure 11 shows for each potential problem credit card debt state the proportion of consumers with different number of credit cards.

Figure 11: Distribution of number of credit cards, by potential problem credit card debt indicator, January 2015



Source: FCA estimates based on a sample of account-level data

Note: This figure does not mean that 55% of consumers with one card are in severe arrears, but rather that 55% of consumers in severe arrears have one card.

⁴⁶ This is a sub-set of the 11.3% of consumers shown in Figure 10 to be in potentially problem credit card debt on more than one of their credit cards.

5.45 Combining this analysis with a breakdown of consumers' potential problem credit card debt states across their credit cards, we find that most of those in severe arrears have only one credit card. However, of those in severe arrears that do have more than one credit card, over 40% are in arrears on more than one of their cards.

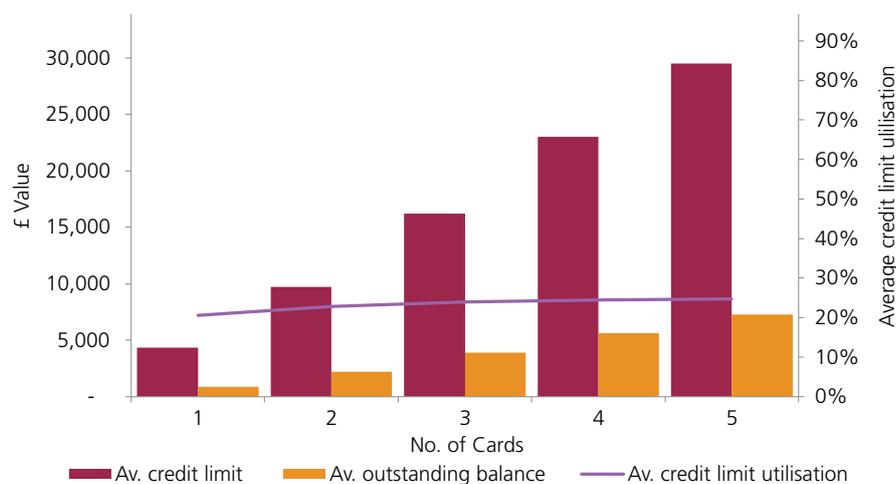
5.46 In contrast, consumers that our indicators of potential problem credit card debt classify as in persistent debt or making systematic minimum payments have more cards on average than those not in potential problem credit card debt. However these consumers tend to be in potential problem credit card debt on only one of their credit cards - over 70% of consumers with multiple credit cards classified as making systematic minimum payments are only making systematic minimum repayments on one of their cards. For those multiple cardholders classified as in persistent debt, 46% are only in potentially problem credit card debt on one of their cards.

Multiple credit cards, credit limits and outstanding balances

5.47 We also considered whether those with more credit cards have higher total credit limits and higher outstanding balances.

5.48 We find that the more cards held, the higher the total credit limit and the higher the levels of outstanding balance. The average credit limit utilisation remains fairly constant and low at around 25% (see Figure 12 below).

Figure 12: Average credit limit and outstanding balance, by number of cards, 2014



Source: FCA analysis based on a sample of account-level data

5.49 When we analyse this by the potentially problem credit card debt indicators we find that:

- consumers classified as in persistent debt or systematic minimum repayment have higher average outstanding balances across their cards than other consumers
- across the potentially problem credit card debt indicators, generally the more credit cards held, the higher total credit limit and higher outstanding balance
- credit limit utilisation is higher for those captured by the potentially problem credit card debt indicators although it decreases as the number of cards held increases

5.50 We also find that there is significant variation within these groups. For example:

- while the average outstanding balance for systematic minimum payers (regardless of the number of cards held) is £5,400, 15% have an average outstanding balance over £10,500
- consumers with one credit card have on average an outstanding balance of £890, but 10% of them have an outstanding balance of more than £2,500 which is greater than the average outstanding balance of those with two cards

5.51 Overall, while the evidence does not point to widespread high credit limit utilisation across multiple credit cards it does show that:

- Consumers with multiple credit cards tend to have larger total credit limits compared with other consumers with a similar credit risk, although some consumers have large credit limits on a single card. These consumers therefore have a greater potential to amass large credit card debt in the event of a negative life-event.
- Consumers classified as in potential problem credit card debt who hold multiple credit cards have on average higher outstanding balances than those consumers likewise classified but who hold only one credit card.

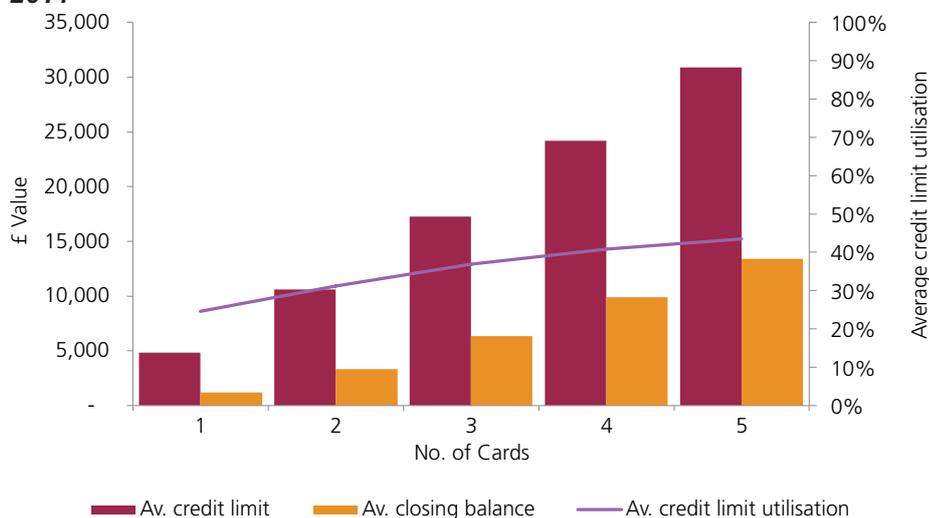
5.52 The analysis presented above looks at all credit cards held by consumers, including inactive accounts. These inactive accounts had no payment required in 2014. We consider that is appropriate, because a consumer can use an inactive card at any time and that credit limit remains available to them, even if they have not used it recently.

5.53 However, the inclusion of inactive accounts reduces the average outstanding balance figures for each number of credit cards held. We therefore also re-ran the analysis excluding inactive accounts.⁴⁷

5.54 We find that the more cards used by a consumer, not only is the total credit limit and the average levels of outstanding balance higher, but the average credit limit utilisation also increases (see Figure 13). However, when we break this down by the indicators of potential problem credit card debt we find that most of this increase is driven by consumers classified as not in problem credit card debt.

⁴⁷ In practice, this means that if a consumer has three credit cards but one of them is inactive, then we would classify them for the purposes of this 'active card' analysis as having only two credit cards. This results in there being fewer consumers being classified as having multiple credit cards.

Figure 13: Average credit limit and outstanding balance, by number of active cards, 2014



Source: FCA analysis based on a sample of account-level data

Potential benefits of consumers having multiple credit cards

5.55 We recognise a number of potential benefits to consumers holding multiple credit cards. These include:

- Consumers may hold more than one credit card to use different features on different cards. For example, they may use one credit card with rewards for domestic spend and another credit card that has no foreign transaction fees for overseas purchases, or one credit card with a 0% purchase offer for new purchases and a card with a 0% balance transfer offer for existing credit card debt.
- Consumers may hold multiple credit cards with different card schemes for resilience reasons, for example to guard against a failure in one network, or to increase the range of retailers that they can use a credit card in. For example, some consumers may choose to hold an American Express credit card because of the rewards offered but also hold a MasterCard or Visa credit card as they are typically accepted by more retailers than American Express credit cards.
- Consumers holding multiple credit cards can also drive competition between firms as firms seek to compete to be 'front of wallet', that is to gain as large a share as possible of the consumers' card spend.

Conclusions

5.56 We found consumers holding multiple cards right across the credit risk spectrum. Three-quarters of people with multiple credit cards are not in potentially problem credit card debt and may be benefitting from holding multiple cards, for example using different features of different cards. However, consumer groups that offer debt advice cited multiple cards as a common factor in problem debt cases. While the evidence does not point to widespread high credit limit utilisation across multiple cards (consumers 'maxed out'), it does show that those consumers with multiple cards have higher total credit limits and outstanding balances.

- 5.57** Overall we found that, of those consumers holding multiple cards, 13% (approximately 1.9 million consumers) are in potentially problematic debt on one of their credit cards, and a further 11% (around 1.6 million consumers) are in potentially problematic debt on more than one card. Of these 1.6 million consumers, around one million are in potentially problematic debt on all their cards.
- 5.58** Our proposed package of remedies outlined below is intended to address the concerns we have identified about potential problem credit card debt for both consumers with one credit card and those with multiple credit cards. We do not consider that industry-wide interventions are required in relation to multiple credit cards.

Sensitivity analysis of the problem credit card debt indicators

- 5.59** In the interim report, we set out indicators to assess the scale and nature of potentially problematic credit card debt. As we acknowledged there, the choice of thresholds necessarily involved subjective judgement, in particular the persistent debt and systematic minimum repayment indicators. We also noted that each indicator has limitations – in some cases they will capture consumers that do not have potential problem credit card debt issues and in other cases, individual indicators will neglect aspects of unaffordable credit card debt.
- 5.60** Following responses to the interim report, we are publishing alongside this final report an Annex containing further sensitivity analysis of these indicators.⁴⁸
- 5.61** The sensitivity analysis shows that the scale of potentially problematic credit card debt does not substantively change when the indicator thresholds are adjusted.
- 5.62** We therefore remain of the view that these indicators are fit for assessing the scale and nature of potentially problematic credit card debt. We have, therefore, continued to use them as the basis for the analysis in this final report.
- 5.63** In developing any remedies, we will give full consideration to the thresholds for applying any remedy to assess its appropriateness, taking into account consumers who would be covered by the remedy.

⁴⁸ See Annex 2.

6. Final findings

In this chapter, we confirm our final findings on how well competition is working in the interests of consumers in the credit card market.

- 6.1** As set out in Chapters 4 and 5, we have carefully considered the feedback we have received on our interim findings and have undertaken further analysis on potential problem credit card debt.
- 6.2** Our overall conclusion is that the feedback received and the further analysis undertaken provides additional insight but does not materially change our conclusions. We have refined but not fundamentally altered our thinking in confirming our final findings.

Final findings

Competition is working fairly well for most consumers

- 6.3** Consumers value the flexibility offered by credit cards and use them in different ways. They may, for example, use them to make secure payments and collect rewards, as an emergency credit facility, for debt consolidation, or for building credit history. There are a number of firms offering a range of products to meet these varied consumer preferences and competing strongly for their custom.
- 6.4** We find that competition is focused primarily on certain product features such as introductory promotional offers and rewards. There is less competitive pressure on interest rates outside promotional offers and on other fees and charges.
- 6.5** As set out in the interim report, consumers are relatively engaged and willing to switch, with around six million new accounts opened in 2014. Evidence suggests half those taking out a credit card shopped around first; that around 14% of existing credit card consumers took out a new card in 2014⁴⁹; and that a further 8% compared at least two credit cards but did not take one out. Most consumers do not perceive material barriers to switching, and firms do not consider a lack of switching to be a significant barrier to entry or expansion.
- 6.6** Price comparison websites (PCWs) play an important role in this market. They can help consumers navigate complex products and reduce search costs by comparing products in one place - 66% used one or more PCW and found them useful. And they can help firms attract consumers. However, we also found a number of limitations to PCWs' effectiveness in helping

⁴⁹ This includes both consumers who kept an existing card open and those who closed their old credit card. We estimate that 3% of existing consumers opened at least one new credit card and closed a previous credit card in 2014.

consumers navigate product complexity. For example, ranking criteria may not reflect the individual's credit card usage pattern. We also found that PCWs on the whole did not make clear how they were funded and whether they compared the whole market (though these issues are not unique to credit card PCWs).

6.7 While consumer engagement is relatively high, we found that consumers do not always choose the best credit card for their circumstances. This may be because:

- they could not effectively compare the different cards available – for example, consumers may not know the actual terms they will be offered when they apply for a credit card
- they have given insufficient weight to certain product features – for example, our consumer survey found that, of consumers looking for a balance transfer card, only 20% of respondents stated that they considered both the introductory offer on balance transfers and the balance transfer fee
- their actual card usage differed from what they expected – for example, 19% of consumers we surveyed who paid interest on their main credit card in the previous 12 months did not expect to do so when they took it out

6.8 It had been put to us that consumers who use their card to borrow ('revolvers') were subsidising those who primarily use their card for payment ('transactors'). We therefore assessed whether the way firms recovered their costs across different consumer groups had an anticompetitive effect on the market (e.g. by creating barriers to entry or expansion), or resulted in certain groups being unduly disadvantaged.

6.9 We did not find that cross-subsidisation materially affected competition in the credit card market. We found firms typically designed products to at least break even over a five-year period for all behavioural types targeted – in other words we did not find firms targeting particular groups or behavioural types with a view to cross-subsidising others. While we found revolvers were typically more profitable, transactors were typically profitable on a standalone basis. Furthermore, we did not find evidence that cross-subsidies materially restricted entry or expansion in the market – firms' responses to our market questionnaire did not cite the lack of a captive 'back book' of consumers as a prohibitive barrier to entry, given consumers' willingness to switch.

Competition is working less well for higher risk consumers

6.10 Consumers in the higher risk segment have a more limited choice of products and providers, with four firms accounting for virtually all balances in this segment. The main barriers to serving this segment, other than commercial viability, appear to be the perceived reputational and regulatory risks associated with higher risk and higher cost lending. We also found higher credit risk consumers have concerns whether other firms would offer them a credit card and the impact of multiple applications on their credit score, which discourages some from shopping around.

6.11 We also looked at the relative rates of return between products from both higher and lower risk segments and found, while being cautious about placing too much weight on the result⁵⁰, that between 2010 and 2014, returns were on average higher for higher risk products. These returns were typically higher by around six percentage points.

⁵⁰ For more detail of our approach to analysing profitability, including its limitations, see Annex 6 of the Interim Report

6.12 Our further analysis also raised concerns about how appropriate these products are for some of the target consumers. We found a quarter of credit cards in the higher risk segment opened in 2013 were in severe or serious arrears in 2014. This raises questions around the effectiveness of the affordability assessments carried out in this segment. We come back to this below.

We are concerned about the scale, extent and nature of problem credit card debt, and firms' incentives to manage this

6.13 We found that in 2014 around 6.9% of cardholders (about two million people) were in arrears or had defaulted. We estimate a further two million people had persistent levels of debt that some may have been struggling to repay, and that a further 1.6 million people were repeatedly making minimum payments on their credit card debt, while also incurring interest charges (i.e. excluding those on 0% interest deals). 8.9% of credit cards active in January 2015 (5.1 million accounts) will – on current repayment patterns and assuming no further borrowing – take more than ten years to pay off their balance.

6.14 Consumers in default are extremely unprofitable and firms are active in contacting consumers who miss payments and triggering forbearance at this point.

6.15 Firms have fewer incentives to address consumers with persistent levels of debt or who repeatedly make minimum payments as these consumers are profitable, and we found that most firms do not routinely intervene to address this behaviour. We consider that firms could do more to help those with persistently high credit card debt to reduce debt burdens before they become problematic, and to prompt those repeatedly making minimum payments to repay quicker when they can – we return to this below.

6.16 Many consumers remain in persistent debt or continue making systematic minimum repayments for several years. Around 650,000 cardholders have been in persistent debt for at least three consecutive years and a further 750,000 cardholders have been making systematic minimum repayments for at least three consecutive years. As credit card firms note, credit cards are suited to short term borrowing and can be an expensive way to borrow large amounts over a long period. We are concerned about the volume of borrowing behaviour that does not fit this pattern.

6.17 Using credit cards to service long-term debt (as opposed to benefitting from the flexibility that rolling credit offers in the short term) tends to be expensive and these consumers may be paying more than they need to in debt service costs; struggling under a debt burden; or storing risk that, in case of a life event (e.g. sickness or unemployment) may become problematic.

6.18 We found that consumers who were in serious or severe arrears in 2014 were from several groups, of whom we are particularly concerned about two: those who had been in some form of potential problem credit card debt for many years, and those who had only recently got a credit card. In particular we note that over 20% of those who were in severe arrears in 2014 did not have an active credit card in 2012, suggesting a rapid descent into arrears. This raises questions about how firms assess creditworthiness for new borrowers. We have identified a number of specific concerns and will follow up with individual firms as appropriate through supervisory or if necessary enforcement action.

6.19 Our analysis paints a mixed picture of multiple card use. Most consumers with multiple credit cards are not struggling with problematic debt and there is not widespread high credit limit utilisation across multiple cards. However, our analysis shows that consumers with multiple cards tend to have higher aggregate credit limits, and that those in potentially problematic debt who hold more than one card typically have higher outstanding balances.

- 6.20** Around a quarter of consumers with multiple cards are caught by one of the potential problem credit card debt indicators – this is only slightly higher than the average across all consumers of just under a fifth. Most of these consumers are in potentially problematic credit card debt on only one of their cards. However we found 7% (around one million consumers) in potential problem credit card debt on all their credit cards.
- 6.21** Our proposed package of remedies outlined below is intended to address the concerns we have identified about potential problem credit card debt for both consumers with one credit card and those with multiple credit cards. We do not consider that industry-wide interventions are required in relation to multiple credit cards.

Part 2: Our thinking on remedies

7. Feedback on our early thinking on remedies

In this chapter, we summarise the responses to our early thinking on potential remedies, as published in Chapter 8 of the interim report. We also respond to those submissions.

This chapter is divided into:

- our approach to remedies
- shopping around and switching
- over-borrowing
- under-repayment
- potentially problematic debt

Our approach to remedies

- 7.1** We want to identify proportionate and effective measures addressing our concerns without having a negative impact on a market that, overall, provides benefits for the majority of consumers.
- 7.2** As set out in our guidance on market studies⁵¹, we have various options to explore when developing remedies. These include using rule-making powers and publishing guidance, supervision and enforcement action as well as proposals for enhanced industry self-regulation. Any proposed rule-making remedies would require formal consultation and cost benefit analysis.
- 7.3** When we set out our early thinking on proposed remedies in the interim report, we considered:
- the tools we can use, including our powers and our ability to make further rules, as well as constraints from relevant legislation
 - how each remedy would address the interim findings and resulting consumer detriment
 - how effective and proportionate the remedy (or package of remedies) would be

⁵¹ FCA, *FG15/9: Market Studies and Market Investigation References*: www.fca.org.uk/static/documents/finalised-guidance/fg15-09.pdf

- how the different remedies would interact and work as a package to make the market work better for those consumers for whom it is not working well
- how the remedy (or package of remedies) fits in with the FCA's other policies and actions relevant to credit cards

7.4 Having presented our early thinking on remedies for discussion in Chapter 8 of the interim report, we set out below a summary of the key feedback we received.

Shopping around and switching

Allow consumers to give access to their credit card usage data to other market participants

7.5 In the interim report, we suggested we would consider how to build on the government MiData initiative for personal current accounts and the development of Application Programming Interfaces (API), which will make the process of sharing account usage data simpler.

7.6 Most respondents supported the idea of allowing consumers to give access to their credit card usage data but many raised concerns about the complexities and practicalities of doing so. A significant minority was doubtful of the benefits. Many respondents referred to other initiatives in this area, including the work of the Open Banking Working Group (OBWG) established by government. Several respondents stressed the need for coordinating initiatives in this area.

Our response

7.7 We believe the existing initiatives being taken forward offer the most effective and practical means of enabling consumers to open access to their credit card usage data to other market participants. We do not propose additional work in this area. In particular, the OBWG has published a framework for developing an open banking API standard on data sharing between banks and third parties. Other industry and government initiatives will further open up access to account-level data on payment accounts to providers of account information services. We will monitor developments in this area and may reconsider our approach if there is limited progress.

Clearer standards for Price Comparison Websites (PCWs)

7.8 In the interim report, we noted that consumers value the service provided by PCWs. However, we identified issues that may limit their effectiveness in helping consumers navigate product complexity.

7.9 The consultation responses showed widespread agreement regarding these concerns about how PCWs operate. While respondents were generally in support of the FCA considering applying the rules made in PS16/15⁵² (clearer standards for PCWs comparing high-cost short-term credit (HCSTC)) to the credit card sector, respondents' concerns were mostly relevant for the credit card PCW sector. These concerns go beyond the new rules for HCSTC PCWs. Their concerns were associated with how PCWs' ranking of credit cards can condition both consumer choice and firms' product design.

Our response

⁵² FCA, *PS16/15 Feedback on CP15/33 – Consumer credit: proposals in response to the CMA recommendations on high-cost short-term credit (2016)*: www.fca.org.uk/static/fca/documents/policy-statements/ps16-15.pdf

7.10 We remain of the view that there is some scope to improve credit PCWs to help consumers make more informed choices when shopping around. We are not proposing at this time to consult on similar rules as in PS 16/15 for PCWs comparing credit cards. We found that PCWs comparing HCSTC were markedly different from those comparing credit cards. We also agree with respondents that the issues of concern are specific to the comparison of credit cards. We are however exploring issues related to PCWs more widely in a piece of work we are leading on for the UK Regulators Network, and we plan to feed into the CMA's market investigation of PCWs, which it intends to begin later in 2016/17.⁵³

Prompts before the end of promotional periods

7.11 In the interim report, we found that promotional offers were common in the credit card market and often prompted customers to consider switching. However, we found that consumers were not always aware of when their promotional period will end or the benefits of repaying their outstanding debt or shopping around. We therefore said that we saw benefit in firms providing a proactive warning to consumers reminding them when their promotional offer was due to expire and the rates they would then pay on any outstanding balances.

7.12 Industry and consumer organisations broadly supported the proposal, subject to the concern from consumer organisations on using behavioural 'nudges' rather than imposing requirements on firms. Several respondents argued that the remedy should be trialled to make sure it was proportionate and effective.

7.13 Some industry respondents emphasised that existing codes of practice, such as the Lending Code⁵⁴, already require them to give notification four to eight weeks before the end of the promotional offer, which they considered sufficient. They therefore questioned the value in providing consumers with additional notifications.

Our response

7.14 We remain of the view that there is value in reminding consumers before the expiry of their promotional offer to encourage them to (a) be aware of the interest they may incur and (b) to consider if the card still meets their needs and, if not, shop around and switch. We set out how we will take this remedy forward in Chapter 8.

Promoting and facilitating the use of quotation searches

7.15 In the interim report, we found that some consumers with higher credit risk are dissuaded from shopping around due to worries about how multiple application searches impact their credit score. As we are already considering measures to promote and facilitate the use of quotation searches across all credit sectors, we said that the evidence from our market study would feed into this work.

7.16 Most respondents welcomed our commitment to promote and facilitate using quotation searches across all credit markets, with some respondents supporting the development of quotation searches that allow consumers to find out the exact terms of a product.

7.17 Several firms expressed concerns about differential or risk-based pricing (where firms either offer different prices or terms, such as length of promotional period for the same product based on risk, or different products, such as a higher risk customer being offered a different product at a higher interest rate). This may lead consumers to apply for a product without knowing they might not receive the headline rate or promotional period offered. This may

⁵³ CMA, *Competition and Market Authority Annual Plan 2016 to 2017 (2016)*: www.gov.uk/government/publications/competition-and-markets-authority-annual-plan-2016-to-2017

⁵⁴ The Lending Standards Board, *The Lending Code (2015)*: www.lendingstandardsboard.org.uk/docs/lendingcoderevised0915.pdf

also inhibit consumers' ability to choose the best deal and could have an adverse impact on competition.

Our response

- 7.18** We have considered these responses alongside those received in response to CP15/33⁵⁵, which invited views on the value of quotation searches as well as the issues or risks associated with the increasing use of quotation searches across consumer credit markets. We addressed these in PS16/15.⁵⁶
- 7.19** We believe there is a real benefit in consumers being able to get an indication of their eligibility for specific products and the price that they are likely to be offered if they apply (as well as other terms where these may vary). Sole reliance on eligibility or price can risk consumers being misled or applying for inappropriate products.
- 7.20** Many respondents to CP15/33 and the interim report suggested an industry-led approach to developing improved quotation search tools. We agree that the industry (including lenders, PCWs and CRAs) are well placed to make improvements.
- 7.21** We welcome a piece of cross-sector work over the next year by the British Bankers' Association, the Finance & Leasing Association and the UK Cards Association. It will:
- Assess the extent to which recent innovative market developments facilitate the ability for consumers to shop around.
 - Identify areas where further enhancements may be helpful for customers. For example, opportunities to develop some industry standards for using quotation search tools, which address the issues identified above and to raise awareness of these tools among consumers.
- 7.22** When this cross-sector work is complete, we will consider whether there is a case for us to take forward any interventions.

Over-borrowing

Information to encourage consumers to take account of how much they are borrowing

- 7.23** There was broad support for the proposal in the interim report to provide consumers with timely information about their borrowing to help avoid over-borrowing and mitigate the risk of over-limit fees. Such information would include notices when they are close to their credit limit. This support was, nevertheless, subject to the overarching concern from consumer organisations on the use of behavioural 'nudges' rather than introducing requirements on firms. Several industry respondents, however, noted that the remedy may have unintended consequences, such as message fatigue or that it may bring information to consumers' attention that was not always relevant to that individual. This could potentially lead to a lack of engagement with the information.

⁵⁵ FCA, *CP 15/33 Consumer Credit: Proposals in Response to the CMA's Recommendations on High-cost Short-term Credit (2015)*: www.fca.org.uk/static/fca/documents/consultation-papers/cp-15-33-cma-remedies.pdf

⁵⁶ FCA, *PS16/15: Feedback on CP15/33, Consumer Credit: Proposals in Response to the CMA's Recommendations on High-cost Short-term Credit (2016)*: www.fca.org.uk/static/fca/documents/policy-statements/ps16-15.pdf

Our response

7.24 We remain of the view that there is benefit in encouraging consumers to regularly take account of how much they are borrowing. However, we agree that informational prompts should be thought through carefully to avoid unintended consequences. We set out how we will take this remedy forward in Chapter 8.

Giving consumers more control during the lifetime of the credit card on variations, such as an opt-in for credit limit increases

7.25 Respondents generally supported the principle of consumer control, although there was a clear split between industry and consumer group responses on whether moving to an 'opt-in' system for credit limit increases was necessary to achieve this.

7.26 A number of firms suggested that the industry does not offer unsolicited credit limit increases (UCLIs) where there is problematic behaviour, such as high utilisation or systematic minimum repayments. They questioned what detriment a general opt-in requirement would address. Firms also noted that the interim report demonstrated no clear causal link between UCLIs and arrears or problem debt.

7.27 They also suggested that moving to 'opt-in' might cause unintended consequences, primarily by reducing access to 'credit builder' or 'low-and-grow' cards. Some firms suggested the market might respond to such an intervention by increasing limits at the start. However, as this would be likely to increase exposure to risk, providers may change their lending criteria to exclude some customers who would presently be offered a credit card.

7.28 Finally, some firms suggested an opt-in for credit limit increases would have direct costs, which would be passed on to customers. Some also argued that an opt-in would be inconvenient to most customers who, in their view, are in favour of the status quo.

7.29 Consumer groups were very supportive of moving to an opt-in system, arguing it would ensure consumer control and help prevent unaffordable borrowing. One consumer organisation suggested excluding 'low-and-grow' cards from such a requirement.

Our response

7.30 We believe control is an important factor for consumers of financial services in general. This is particularly so for credit cards where behavioural biases in combination with credit limit increases can lead to greater borrowing than may be sustainable for everyone and greater borrowing than a person intended at the outset. We remain of the view that there is room for intervention in this area. We set out our approach in greater detail in Chapter 8.

Under-repayment**Disclosures to encourage faster repayment, and a wider range of pre-set repayment options**

7.31 In the interim report, we found there was scope for the market to work better for consumers paying significant debt service costs by encouraging them to repay their outstanding balances faster. We suggested that firms could disclose in each monthly statement: (i) how long it will take the consumer to repay the current balance at current rates of repayment; (ii) the total saving from repaying more than the minimum; (iii) the repayment amount needed to pay off the balance within, for instance, one year.

- 7.32** Most industry and consumer organisations either supported the proposal or supported developing it further. However, most argued that further behavioural trialling would be needed to ensure the remedy was effective and did not have unintended consequences. Both consumer and industry respondents noted that the information presented to consumers may become confusing if they use their credit card regularly, as the amount they would need to repay to clear the balance and how much they could save would fluctuate. Respondents encouraged the FCA to take these factors into consideration when conducting trials.
- 7.33** In the interim report, we also suggested introducing a wider range of pre-set repayment options to encourage consumers to pay more if they could do so affordably. There was some support for this, but several industry respondents noted that they already give consumers the option to repay an amount of their own choosing so therefore questioned the effectiveness of providing consumers with additional repayment options.
- 7.34** If such a proposal were to be adopted, many industry respondents argued that the minimum contractual repayment amount should be retained and the FCA should consider how any proposals would affect the product's overall flexibility.

Our response

- 7.35** We intend to carry out behavioural trials to investigate how to encourage consumers to make a more informed repayment choice, as detailed in the next section. Once any behavioural trials are complete, likely to be in 2017, we will take their findings into account when designing any remedies and deciding how to take them forward.

Increasing minimum repayments

- 7.36** In the interim report, we also mentioned that some stakeholders have suggested simply increasing the minimum repayment across the board, and invited feedback from stakeholders. We received several responses. Consumer groups were mostly in favour, citing the limits to behavioural change through disclosures.
- 7.37** Many were concerned about how it would be implemented. Some suggested it should be introduced incrementally to avoid payment shocks, or only starting with new contracts, or excluding those already struggling to meet the existing minimum repayments.
- 7.38** Industry respondents broadly did not support increasing minimum repayments across the board, citing the flexibility the current level⁵⁷ provides. They argued that many people making frequent minimum repayments choose to do so rationally, for example, to minimise debt servicing costs in the short-term. They raised the issue of those on balance transfer deals currently paying no interest, and suggested detriment could result for customers who cannot afford to repay at a higher level than the existing minimum as they could fall into arrears.

Our response

- 7.39** Before considering whether to bring forward proposals to increase minimum repayments, we want to understand how effective nudging can be in encouraging consumers to repay at a faster rate where they can afford to do so. We are exploring the feasibility of conducting trials and other ways to test the efficacy of different approaches. Once we have fully analysed results from any such trials, and other evidence, we will consider the most effective way to encourage faster repayments. This may include implementing more widely the treatments we have trialled or proposing an increase in minimum repayments, or a combination of both. This is likely to be in 2017.

⁵⁷ Interest and charges plus 1% of the outstanding balance.

Potentially problematic debt

Earlier forbearance and persistent debt

- 7.40** In the interim report, we suggested that firms could do more to identify and address potentially problematic debt sooner, before consumers miss repayments and accumulate interest and avoidable charges. We also said we wanted to explore how to rebalance the incentives for firms to make sure that lower cost alternative credit is offered to those who appear to be building up problem debt over a sustained period.
- 7.41** Respondents were generally in support of the principle of early intervention to support customers showing signs of financial difficulty. Several firms pointed out that they are making efforts in this area but there are challenges in getting customers to engage before they have missed repayments. Some were committed to enhancing their efforts, while others felt that lack of customer engagement prevents successful outcomes. Some respondents argued that firms should do more at the outset to ensure products are affordable.
- 7.42** Several firms commented that they already monitor data to identify customers at risk. Two respondents commented that access to reliable income data would make this more effective.
- 7.43** Several firms said they would be open to building on their approach to contacting customers identified as at risk. They support timely alerts to customers to prompt contact. One firm noted it had stopped its efforts to proactively contact customers due to low levels of take up. Others noted that contact needed to be handled sympathetically to be effective. A number supported trials to test the most effective means of getting customers to engage.
- 7.44** Some issues were raised with the idea of offering an alternative, lower cost product to consumers building up problem debt. Respondents raised concerns about the impact on consumers' credit ratings and ability to access credit, and made the practical point that not all firms offer, or can offer, alternative products. Some respondents felt there should be various options on offer as an alternative product may not be right for many consumers.
- 7.45** Forbearance was an area where a number of consumer groups felt there should be more consistent standards across the industry and that a clearer and stronger obligation on forbearance would encourage more consumers to come forward at an earlier stage.

Our response

- 7.46** The responses suggest that identifying customers at risk of repayment difficulties is feasible and some firms make extensive efforts to do so, using a wide range of data. We would like to see more consistent standards across the industry.
- 7.47** Getting customers to engage earlier is clearly a significant challenge. However, some firms have made progress in early engagement and responses to the interim report, and our subsequent conversations with firms, suggest a willingness to explore and develop best practice across the industry. We have considered how new rules and guidance could provide the incentives and framework on which industry, with the support of debt advice organisations, can build successful earlier intervention programmes.
- 7.48** With regard to offering lower cost alternative products, we appreciate that this might be practically difficult for some firms (for example, monoline credit card providers) and that it might not be the right option for all borrowers who have built up problem debt. Our objective is to encourage faster repayment to avoid customers getting into persistent debt, and ensure firms treat customers appropriately if they do. We are considering measures including repayment plans.
- 7.49** We set out our thinking in greater detail in Chapter 8.

8. Summary of our current thinking on a package of remedies

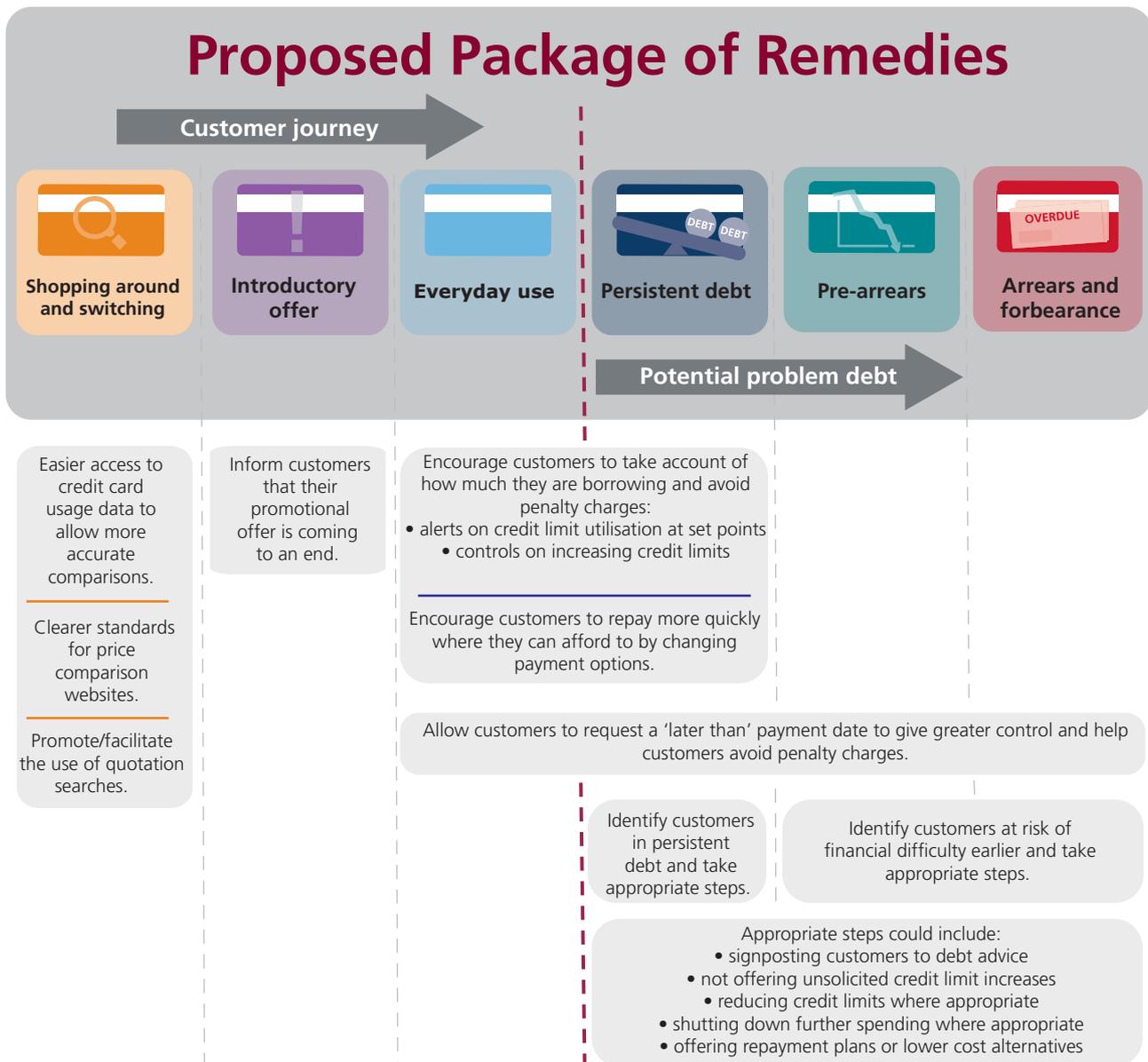
In this chapter, we set out our current thinking on a package of remedies and how we are taking these forward.

This chapter is divided into:

- our overall package of remedies
- voluntary agreement with industry
- behavioural remedies to address under-repayment
- areas we are continuing dialogue with the industry and consumer groups

Our overall package of proposed remedies

- 8.1** Our proposed package of remedies is intended to address the concerns we have identified at various points in the journey that consumers take during the lifetime of their credit card agreements, including those in problem debt. The infographic below illustrates the objectives we are seeking to meet for each identified issue.



8.2 The overall objective of our package of remedies is to reduce the number of customers in potentially problematic debt and putting consumers in control of their borrowing. Below we set out how each component contributes to achieving that objective.

8.3 We want to enable consumers to shop around more effectively, to encourage them to take better control of their spending and – where appropriate – to repay faster. Where consumers are in potentially problematic debt, firms would be incentivised to address persistent debt and reach out sooner to consumers who may be getting into financial difficulties. The diagram demonstrates how the package works together.

8.4 The package of remedies will include a combination of, where appropriate, FCA rules and guidance, subject to consultation and cost-benefit analysis, and some industry agreements. We will monitor the success of industry agreements over time, and if they are not effective, we will take further action. We welcome the continued dialogue with industry and consumer groups in the design of the remedy package.

8.5 In relation to shopping around and switching:

- Wider work is being taken forward by the industry and government on open access to data

and use of APIs which will further open up access to account-level data from January 2018. Opening up access to data should – in time – enable consumers to search with greater accuracy for products and deals that match their individual usage patterns and needs.

- FCA is also taking forward wider work on price comparison websites with the UK Regulators Network, and we plan to feed into the CMA's market investigation into PCWs, which it is intending to begin later in 2016/17.⁵⁸
- The industry, represented by UKCA, has agreed to inform consumers before their promotions offer (typically 0% interest) expires. There is more detail following paragraph 8.15.

8.6 In relation to the higher risk segment:

- FCA has previously committed to looking at promoting and facilitating the use of quotation searches, to ensure that customers are able to shop around without damaging their credit score. The BBA, FLA and UKCA have announced cross-sector work on this area to take place over the next year.
- Where we have specific concerns around affordability assessments for individual firms, we are taking these forward through supervisory activity.

8.7 The industry has agreed to a number of remedies. The industry will help consumers mitigate the risk of inadvertently incurring penalty charges by:

- alerting consumers at a set point of credit limit utilisation
- allowing consumers to request a 'later than' payment date to fit with their own pay day

8.8 In relation to borrowing and repayment:

- As noted above, firms will alert consumers at a set point of credit limit utilisation.
- We are exploring a novel approach to repayments, designed to remove the "anchor" of a stated minimum repayment and encourage customers to choose their repayment amount on the basis of how quickly they want to pay down their debt. This behavioural approach is explained in more detail in this chapter.
- In parallel we will do further analysis to understand the likely impact of making a small increase to the minimum repayment rate. We will consider the relative merits of increasing the minimum alongside behavioural remedies, and will consult on any proposed rules thereafter.
- We intend to consult on a proposed rule later in 2016 to give consumers more control over their credit limits.
- FCA is doing wider work to clarify expectations around assessments of creditworthiness. This work will cover our expectations of assessing creditworthiness where consumers have existing borrowing commitments.

8.9 In relation to potentially problematic debt we intend to consult later in 2016 on rules:

⁵⁸ CMA, *Competition and Market Authority Annual Plan 2016 to 2017 (2016)*:
www.gov.uk/government/publications/competition-and-markets-authority-annual-plan-2016-to-2017

- requiring firms to identify early signs of debt problems and to intervene accordingly
- requiring firms on an escalating basis to take certain actions to intervene when a consumer has been persistently indebted for a period, for example to offer them a more structured repayment plan

8.10 As detailed above, some of these measures would be implemented through FCA rules and guidance, subject to cost-benefit analysis and consultation. Others through industry voluntary agreements overseen by industry bodies or an independent third party. Some issues will be addressed through other FCA work including supervisory (and if necessary enforcement) work. This chapter sets out the different approaches we expect to take for component parts of the package. We will continue discussions with stakeholders to inform the design of the measures. If during further discussions a credible proposal for an industry agreement is offered, where we intend to consult on rules, we will take that into consideration when deciding the most appropriate way to achieve our objectives.

8.11 Where voluntary agreements are proposed we will look at the effectiveness of these on an ongoing basis and be prepared to table our own rules should they prove ineffective.

8.12 We consider that the package as a whole strikes the right balance between making sure that the market continues to work well for most consumers and making sure firms assist consumers in problem debt, particularly persistent debt and systematic minimum repayment.

8.13 We have developed the proposed remedies in this report in the context of the existing UK and EU regulatory framework. We will keep the proposals under review to assess whether any amendments will be required due to changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

Voluntary agreement with industry

8.14 In the interim report we outlined a range of potential ways to address the issues we identified, from new rules to enhanced industry self-regulation overseen by industry bodies or an independent third party. We would consider the full range of tools available when deciding how best to address the issues we identified in the credit card market.

8.15 Following the feedback received from stakeholders to our early thinking on remedies, we held further discussions with UKCA to explore the potential for enhanced industry self-regulation to be part of the solution. We have agreed an industry-led proposal to implement a series of measures under the oversight of UKCA. UKCA membership accounts for most of the credit card market and discussions are ongoing with other industry bodies to ensure comprehensive coverage. We will monitor the success of industry agreements over time, and if they are not effective, we will take further action. Annex 3 contains a statement from UKCA setting this out. The measures are:

Prompts before promotional periods end

- credit card providers, represented by UKCA, have committed to send a notification by text or email to all consumers two to three weeks before the expiry of their promotional offer, or one month before expiry for customers contacted by letter only. This notification is intended to ensure that consumers are aware of the imminent expiry and to prompt them to consider shopping around to either find a further promotional offer or assess whether another card

with a lower interest rate is available to them

Providing timely information to prompt consumers to take into account how much they are borrowing

- credit card providers, represented by UKCA, have committed to sending a digital communication to all consumers that cross a threshold between 80% and 95% of their available credit limit, informing them that they are close to their credit limit. This will also include a reminder that they could be charged for exceeding their credit limit. We have seen the effect that text notifications in particular can have on consumers in research the FCA published on text alerts in the personal current account market and expect that similar effects are possible in the credit card market⁵⁹

The ability for consumers to choose the same payment due date each month

- credit card providers, represented by the UKCA have committed to allowing all customers, with the exception of those in arrears, to request a 'later than' payment date for their future payment. For example, consumers would be able to state that their credit card payment should come later than the 25th day in the month to ensure the payment comes out after a salary payment. A maximum number would be set for consumer changes to their repayment date within 12 months. Customers who miss a repayment would also be sign-posted to the ability to request a 'later than' payment date.

Behavioural remedies to address under-repayment

- 8.16** In the credit card market, we are concerned that groups of consumers may not be making active choices of repayment amounts and instead defaulting to choose the minimum repayment option, particularly when making repayments via direct debit. This is resulting in high borrowing costs and limited paydown of credit card debts.
- 8.17** We considered what measures could make the market work better for consumers and encourage them to make more active repayment choices, including to repay more. We suggested:
- disclosures to encourage faster repayment
 - provision of a wider range of pre-set repayment options, including the removal of the minimum repayment amount as a pre-set option
- 8.18** Respondents were broadly in agreement that further work could be done to encourage consumers to take more control of how much they repay and get them to reduce their credit card debt. Several industry respondents noted that they already had additional tools such as 'cost calculators' to help consumers make more informed decisions.
- 8.19** There was, however, a broad consensus among respondents that further research should be undertaken to determine: (i) whether information disclosures would have a meaningful effect on consumer behaviour; (ii) a consistent style and agreed wording that is understood by consumers; (iii) whether the disclosures may have unintended consequences. We believe there is already considerable academic evidence to suggest that changes to disclosures and repayment options, in particular removing references to the minimum repayment amount, could have a significant impact on consumers' decisions when repaying their credit cards.

⁵⁹ FCA, *Occasional Paper No.10: Message Received? The Impact of Annual Summaries, Text Alerts and Mobile Apps on Consumer Banking Behavior (2015)*: www.fca.org.uk/static/documents/occasional-papers/occasional-paper-10.pdf

However, we agree that further consideration on how this is best achieved is necessary so we are therefore conducting lab tests and exploring the feasibility of conducting field trials to test different treatments.

- 8.20** We will consider whether an increase in minimum repayments is appropriate alongside our analysis of lab tests and any behavioural trials we may conduct. We discuss the behavioural trials in more detail in Annex 4.

Areas in which we intend to consult on introducing rules

- 8.21** We have identified three areas where we intend to consult on proposals for rules. Any new rules or guidance that we decide to propose will be subject to cost benefit analysis and consultation later this year. We will continue the constructive discussions with industry and consumer groups to inform the design of these measures. If a credible proposal for an industry agreement is offered we will take that into consideration when deciding the most appropriate way to achieve our objectives.

Unsolicited credit limit increases

- 8.22** In principle we believe consumers should have greater control over increases to their credit limit to help counter behavioural biases that lead to greater spending when it might not be affordable.
- 8.23** We are considering a range of options, including a general rule on opt-ins or rules aimed at addressing risk to customers in particular circumstances, for example customers in arrears or in other forms of financial difficulty.

Earlier intervention

- 8.24** We are continuing discussions with industry and consumer groups on measures to achieve consistently higher standards across firms for intervening to help customers identified as at risk of repayment difficulties.
- 8.25** Our current rules require firms to monitor a customer's repayment record (CONC 6.7.2R) and take appropriate action where there are signs of actual or possible repayment difficulties. This is adequate for many lending products, because the repayment record is the most appropriate data to monitor for signs of difficulty. For credit cards, however, the ability to reduce payments towards the minimum payment may mask financial difficulties for some time. For this reason we propose to ask firms to monitor other sources of information available to them with a view to detecting financial difficulties at an earlier stage.
- 8.26** Firms have advised us that monitoring drawdown behaviour, credit reference agency data and, where available, data from other credit products held with the same firm can provide early indicators of potential difficulties and many firms do this already.
- 8.27** There appears to be appetite in the industry to collaborate on developing the most effective ways to engage with and support consumers at risk (for example, the Debt Advice Steering Group is looking at this area).

Persistent debt

- 8.28** We consider that a set of escalating interventions by firms may be appropriate. This would take into account that some consumers may be able to affordably increase their repayments and will do so when prompted, but customers who remain in persistent debt for a sustained

period even after earlier interventions may be unable to afford to significantly reduce their debt burden.

Next steps

- 8.29** Following the completion of the market study phase of the project, we will continue to discuss with industry and consumer groups the remaining elements of our proposed package of remedies.
- 8.30** New rules and guidance will be subject to cost benefit analysis and formal consultation. If we decide this is the most appropriate way to implement our proposed remedies, we would expect to do so later this year.
- 8.31** Behavioural trials are aiming to test if we can get consumers to actively engage when choosing the amount to repay on their credit card, and by doing so achieve two observable shifts in credit card repayments:
- a significant and sustainable reduction in the proportion of repayments at the contractual minimum
 - a significant and sustainable increase in the nominal value of credit card repayments across credit card users (excluding credit card transactors and those in persistent arrears)
- 8.32** Having considered the results of these trials we will consider further whether these are an effective means of increasing repayments or whether an alternative approach would be more effective, potentially including an increase in minimum repayments.
- 8.33** If you would like to email feedback on our current thinking on a package of remedies, please contact us at creditcardmarketstudy@fca.org.uk.

Glossary of terms used in this document

0% balance transfer offer	A promotional offer that allows consumers to transfer an outstanding balance from one credit card to another and not incur interest on the transferred balance for a specific period, usually in return for a fee that is added to their balance.
0% purchase offer	A promotional offer that allows consumers to spend on their card without incurring interest for a specific period.
Account-level data	Account-level data, unless otherwise specified, refers to the data we collected from 11 credit card issuers. Here we collected information over 1 January 2010 to 31 January 2015 covering consumer details at the point of origination, monthly account activity and product features.
Acquisition or distribution channel	The medium used by a credit card provider to get their customers. For example, customers may make applications online, such as PCWs, online marketing, internet search and credit card provider websites, or offline through direct mail, telephone, branches or face-to-face marketing.
Affinity or co-brand partners	Typically charities, membership groups or commercial businesses not directly involved in issuing credit cards or processing transactions but lend their brands and give access to their customers or members to card issuers in return for a share of revenues or profits.
Affordability	Borrower-focused elements of creditworthiness, and in particular the customer's ability to make repayments as they fall due (or in the case of open-end credit such as a credit card, within a reasonable period) without an adverse impact on their financial situation.
Annual or monthly fee	A flat fee charged to customers for holding a credit card account, unrelated to their product use.
Application Programming Interfaces (APIs)	Rules that allow pieces of software to interact with each other and exchange data.
Arrears	A consumer is considered in arrears if they have failed to make the required minimum payment on their account in one or more statement cycles and have yet to rectify this.
Balance	The amount of borrowing attributed to an account, at a point in time, which is owed to a credit card provider. It includes any fees, charges and interest incurred as well as the principal borrowed.
Balance transfer	A balance transfer is when a customer transfers all or part of the balance outstanding on one credit card product to another credit card product. A fee is typically charged and added to the transferred balance.
Charged-off	Charged-off refers to debt that issuers have deemed unlikely to be collected and that they have written off on their balance sheet. Consumers whose accounts have been charged-off have not been relieved of their repayment requirement, and charged-off accounts are often pursued via collection processes.
Credit builder products	Credit builder products are offered to higher risk consumers looking to build or improve their credit history.
Credit limit	The maximum amount of credit that the customer can draw down.

Credit limit increase	Where a credit card firm raises the credit limit associated with a credit card account.
Credit limit utilisation rate	The amount a consumer borrows on account as a percentage of the maximum amount of credit the card provider has agreed to lend (i.e. the credit limit).
Credit reference agencies	Collects information about consumers' financial standing to inform the decisions of consumer credit firms.
Credit (or default) risk	The likelihood of a consumer defaulting on their credit card account.
Creditworthiness	The assessment required by CONC 5.2 (before entry into a credit agreement) and CONC 6.2 (before any significant increase in the amount of credit).
Cross-subsidisation	For the purposes of the credit card market study, we define cross-subsidisation as the sale of one set of goods or services at a loss, which can then enable or increase the sale of another good or service, or where profits from one group of consumers are used to cover the losses from another.
Decile	A part representing one tenth of the sample or population in statistics.
Default	When the customer is past the contractual due date by more than 90 days and the lender reasonably considers they are unlikely to pay.
Default fees	Typically, fees charged for late payment, over limit or default.
Differential pricing	Where some firms offer consumers applying for the same card different prices or promotional terms based on their risk profile.
Framing effects	As people have limited attention, framing can determine what and how information is processed. Even when the economic benefits of particular choices are identical in two situations, consumers may make different choices depending on how the decision problem is framed.
Interchange fee	These fees are paid from the merchant acquirer (the merchant's bank) to the card issuer (the cardholder's bank), as a percentage of each transaction made by the cardholder and form part of the package of fees that merchant acquirers charge to merchants.
MiData	A government initiative under which customers can upload their usage data for analysis and get an instant answer to whether or not they would be able to save money by moving to a different account.
Minimum payment	The minimum amount a consumer is required to repay on their account for a statement cycle.
Monolines	Firms which only provide credit cards.
Open-end credit accounts	Accounts which enable the consumer to draw down money from time to time, up to a credit limit, with subsequent repayments refreshing the amount available, and with no fixed or maximum duration.
Optimism bias	Refers to an overly positive general outlook towards future matters for individual economic decision-making that a person has, particularly for credit card use in this context.
Paydown	Payment contributing to repaying an outstanding credit card balance.
Quotation searches	Where borrowers are able, before submitting a full application and when shopping around, to get an indication of the price and terms which they will be offered (but not necessarily an indication of eligibility) without a footprint being left on their credit files which could impair their credit rating.

Repayment cycle	The monthly period regarding which the minimum payment amount of a credit card is to be paid.
Re-pricing	This refers to the changing of an interest rate on the account after it has been opened. This may be to reflect changes in the consumer's behaviour (risk-based re-pricing) or in the economic, regulatory or competitive environment (portfolio-based re-pricing) or to induce the consumer not to switch away from the product (retention-based re-pricing).
Rewards products	Reward products offer consumers benefits, discounts or other rewards based on their credit card usage.
Statement cycle	The period regarding which a monthly or other periodic statement is provided.
Total cost of credit	The total paid by a consumer, including fees, interest and charges accruing to an account, over a specified period.
Unsolicited Credit Limit Increase (UCLI)	The increase of a customer's credit card limit without the customer's explicit request.

Financial Conduct Authority



PUB REF: 005270

© Financial Conduct Authority 2016
25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk
All rights reserved