



Consultation response

## **CP17/10 Credit Card Market Study: consultation on persistent debt and earlier intervention remedies**

Response from the Money Advice Service  
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## About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online, and by phone or webchat.
- 1.2. We are responding to this consultation in light of our statutory role working with the debt advice sector, and our role in improving the financial capability of the UK.
- 1.3. Our statutory objectives are set out in the Financial Services Act 2010. In 2012, we were also given responsibilities under statute to improve the availability, quality and consistency of debt advice across the UK. We are funded by a statutory levy on the financial services industry, raised by Financial Conduct Authority.
- 1.4. As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK<sup>1</sup>. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.5. The *Financial Guidance and Claims Bill 2017* to make provision establishing a new financial guidance body was introduced in the House of Lords on 22 June 2017.

## Response

### 2. MAS' views on the proposed remedies

- 2.1. MAS welcomes the FCA's proposals in relation to persistent debt and early intervention. It follows considerable efforts in regards to consumer credit including the voluntary industry-led package of remedies announced as part of the Credit Card Market Study final report; further scrutiny of offers of promotional rates for credit cards; and the FCA's forthcoming work on creditworthiness and affordability assessments. Overall, these will help keep consumers better informed about their credit card balances to prompt them to actively manage their balances.
- 2.2. We look forward to the results of the behavioural trials that the FCA is conducting with credit card firms to test the effect of different ways of presenting repayment options. Given the challenges that consumers face in making well-informed decisions when confronted with increasingly complex

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<sup>1</sup> MAS, [The Financial Capability Strategy for the UK](#), 2015.

financial choices, the results may provide a case for the FCA to act through the most appropriate remedy tools as set out in the FCA Mission document<sup>2</sup>. We are particularly interested in proposals aimed at nudging people to repay faster, including changes to minimum repayments and prompts that encourage people to repay before incurring any additional charges.

- 2.3. MAS is taking forward work to understand and apply behavioural insights to help consumers to improve their ability to engage with and manage their money. Through the Financial Capability Lab, MAS is working in partnership with the Behavioural Insights Team and Ipsos MORI, and will conduct testing on the topic of '*helping people to take control of their spending and credit use*'. The intended outcome of the Lab is to identify those ideas that are most promising and, following the Lab, take these forward to pilot stage with partners. We are in the Explore phase of this challenge, and look to build on work already being done by others, including relevant work by the FCA to inform this testing. We would welcome the opportunity to share and gather information from the FCA, particularly any relevant results from the behavioural trials.
- 2.4. Levels of financial capability in the UK remain very low<sup>3</sup>. This is important context for the introduction of the proposed remedies. The analysis presented in the consultation paper on the impact of the proposed package of remedies considers the current stock of credit card users who are at risk or already in persistent debt but does not consider the flow. To ensure the right balance of consumer protection within a market environment that best serves consumer needs, we recommend that greater consideration is given to the customer journey. Specifically, how consumers may be better informed to make optimal decisions when accessing forms of short-term credit, and in the usage of credit.
- 2.5. The proposed package of remedies will benefit from greater specificity of the responsibilities and actions required by firms. In particular, how required actions at the 18 and 27-month mark may be effectively taken up by consumers and which groups of consumers may be left out.
- 2.6. We believe that whilst the persistent debt definition is important, it may exclude consumers at risk of detriment, including those who meet the FCA definition for vulnerability<sup>4</sup> but do not necessarily trigger the intervention. Therefore, assessment of which consumers are in persistent debt should take into account their characteristics and circumstances in addition to the amount of interest and charges being repaid.
- 2.7. We think that it is a positive step for credit card firms to contact their consumers to inform them of their repayments and balances, however, informing customers does not always lead to meaningful consumer

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<sup>2</sup> FCA, *Our Mission 2017: How we regulate financial services*, 2017

<sup>3</sup> MAS, [Financial Capability Survey](#), 2015

<sup>4</sup> Coppack et al., 2015, *Consumer Vulnerability*, FCA Occasional Paper No.8

engagement on its own. We recommend the inclusion of a signpost to the MAS debt advice locator tool as part of the communications that credit card firms are required to provide to consumers when identified as at risk of persistent debt. MAS is shortly launching a new 'how-to' operational toolkit to help creditors support consumers who fall behind on payments. '*Working Collaboratively with Debt Advice Agencies*' encourages creditors to examine their debt collection strategies and collaborate with the debt advice sector to better support consumers in financial difficulty. We urge the FCA to encourage credit card firms to make use of this tool to inform their engagement with consumers in persistent debt.

- 2.8. Forbearance requirements under CONC. 7.3.4R should be more widely regarded and implemented. The principal that information about a customer which suggests they are in financial difficulty requires a firm to comply with earlier intervention should take precedence at any point that consumers are identified as being in persistent debt.
- 2.9. We have not responded to the questions in their entirety, but instead have put forward our views on the proposed package of remedies; our data and insights on the financial behaviours of credit card users; and recommendations for meaningful engagement of credit card users.

### 3. Proposed definition of persistent debt

- 3.1. We are concerned that the proposed definition of persistent debt risks excluding consumers in vulnerable circumstances<sup>5</sup>. Under the proposed definition, the calculation to trigger action by firms allows for consumers to repay more in interest and charges than principal for a considerable period prior to intervention. There is undue complexity in the proposed calculation of how firms identify if a consumer meets the persistent debt definition. This risks focussing on a singular tipping point into financial difficulty instead of behaviours and pattern of credit use that leads to financial stress or over-indebtedness.
- 3.2. We recommend that the FCA reconsiders the definition of '*systematic minimum repayment behaviour*' put forward in the final findings of the Credit Card Market Study as the most appropriate point to trigger action by firms. As part of ongoing work on credit cards, the FCA should consider early intervention and appropriate protections for consumers whose credit card usage meets this definition.
- 3.3. Using the results of the 2015 UK Financial Capability Survey<sup>6</sup>, we have built profiles of credit card users to understand behaviours that might cluster

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<sup>5</sup> Ibid.

<sup>6</sup> MAS, [Financial Capability Survey](#), 2015

around risky credit use. Of those who always pay the minimum balance or say that the amount they pay off varies:

- 63% have an outstanding balance of greater than £1000;
- About a half (56%) have savings of over £300;
- 61% are struggling or falling behind (compared to only 29% of those who say they pay their balance in full or usually pay in full every month).

3.4. This analysis suggests that those who continuously make payments at or around the minimum repayment are likely to be at risk of persistent debt and may benefit from action by firms.

## 4. Forbearance and repayment options

4.1. The proposed package of remedies specifies that firms must write to consumers in persistent debt for 36 months proposing options for repayment plans. Forbearance requirements under CONC. 7.3.4R should be more widely regarded and implemented.

4.2. Using evaluation data gathered for us by Optimisa Research<sup>7</sup>, we have analysed the behaviours of clients who sought debt advice and have a credit card to understand where they experience financial difficulty. These clients are divided into 'behind on credit card bills' and 'not behind on credit card bills'. Overall, for those seeking debt advice, affordability of priority debts and essential spending is a challenge. The data indicates that for those behind on their credit card bills, they are likely to be using credit to service priority spending. They are also worse off as they are more likely to be also behind on payments for other forms of credit (personal loan, catalogue credit, overdraft):

- Three-quarters (75%) of those behind on credit card bills are behind on 2 or more bills, compared to only 44% of those who are not behind on credit card bills.
- Nearly two-thirds (66%) of those behind on credit card bills are unable to afford basic expenses (food etc.).

4.3. The results also indicate that for those in financial difficulty and seeking debt advice, there may be a trade-off between servicing credit card debt and paying essential bills:

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<sup>7</sup> Optimisa Research: Money Advice Service - Debt Advice Quarterly Tracker, W2 – W5 (Feb 2016 – Oct 2016), 1822 MAS-funded debt advice clients interviewed

- Those who are not behind on credit card bills are significantly more likely to be behind on essential bills (including council tax, rent, water, electricity and gas bills); and
  - 60% of those who are not behind on credit card bills are behind on priority bills.
- 4.4. From these results, we conclude that there is a need for greater specificity on what forms of repayment options are provided to consumers by firms. For consumers in debt, servicing interest and charges on a credit card for a 36-month period has consequences greater than the risk of default. More prescriptive requirements will also ensure consistency of application across all firms. Encouraging consumers to prepare a budget will assist firms to understand the consumer's capacity to make repayments and assist consumers to take control of their finances. There are many tools to aid with budgeting, including MAS' online Budget Planner. At a minimum, we recommend that consumers in persistent debt be required to complete a budget using the Standard Financial Statement to establish an affordable repayment plan, and firms should be required to provide relief on interest and charges and/or an alternative lower-cost product.
- 4.5. Furthermore, MAS is launching a new 'how-to' operational toolkit, *Working Collaboratively with Debt Advice Agencies*, that sets out best practice for creditors and collaborative processes with the debt advice sector to better support consumers in financial difficulty. The toolkit has been designed to provide flexibility to suit different types of creditors and we urge the FCA encourage credit card lenders to avail themselves of this useful resource.
- 4.6. We welcome the work the FCA is undertaking on how firms across the credit sector conduct creditworthiness and affordability assessments. The variables that firms use to determine what credit offerings are provided to consumers and under which circumstances should be evaluated. We look forward to more detail on this piece of work and can provide more detailed consumer insight data to assist in the development of proposals in this area.

## **5. Meaningful communication with credit card customers**

- 5.1. We agree that firms should be required to give regard to wider data when considering if a customer is in financial difficulty which goes beyond repayment records. This should include account usage, other financial products held with the firm and CRA data.
- 5.2. We ask that the FCA is mindful of credit card firm messaging with regards to repayments. There is a need to balance the importance of repayment, without misleading customers into prioritising their non-priority debts over their priority debts because of communications on increasing credit card payments.

- 5.3. We recommend that customers who are identified for the interventions by credit card providers are referred to debt advice services which are free and high quality. Whilst we are pleased to see a reference to this within the paper, we believe it would be more impactful if it was mandatory in every case for all customers to be referred to debt advice by all credit card providers via the MAS debt advice locator tool. The debt advice locator tool allows clients to search for a free advice provider that is right for them by channel and location and enables firms to ensure compliance with CONC 7.3.7AG.
- 5.4. Using the debt advice locator tool to search for debt advice, affords several benefits to the consumer:
- The tool lists only those providers that meet our criteria including those which are free to the client and hold MAS recognised Quality standards;
  - The tool is developed based on user feedback and is designed to be compatible with various devices;
  - Allows people to search interactively (user feedback suggests static lists make it difficult to differentiate between providers);
  - The tool lists national and local organisations, both at devolved nation and postcode level, giving clients access to a wider range of providers than a static list could provide;
  - The tool is updated by MAS on a quarterly basis thus ensuring only up to date providers are listed; and
  - The tool has had positive feedback from users and the debt advice providers listed in the tool.
- 5.5. MAS will shortly be publishing a debt advice commissioning strategy for consultation. This will outline the plans MAS has for commissioning debt advice services over the next five years, incorporating the transition period to the Single Financial Guidance Body announced in the recent Queen's speech. The priority during any transition should be to ensure that over-indebted people continue to be able to easily access high-quality, free debt advice.
- 5.6. As detailed in this paper, MAS is able to provide further information to the FCA on consumer credit. We look forward to future opportunities for collaboration or information sharing, as work progresses by the FCA on ensuring that consumers benefit from protection against risks, while being able to access products that best meet their needs.

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