

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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25 The North Colonnade
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Dear Nisha,

CP17/43 Credit card market study: Persistent debt and earlier intervention remedies - feedback on CP17/10 and further consultation

This is the Financial Services Consumer Panel's response to CP17/43 Credit card market study: persistent debt and earlier intervention remedies.

The Panel responded to the previous FCA consultation on this subject (CP 17/10 - Credit card market study: persistent debt and earlier intervention remedies¹). We are disappointed that the FCA has failed to take on board the main points made by the Panel, many of which were also echoed by other consumer representative organisations. If the FCA is to adopt the preventative approach signalled in the Mission it needs to:

- Mandate an increase in minimum repayment levels to ensure credit card debt is repaid faster. As firms acknowledge, credit cards are not intended as a longer-term borrowing vehicle;
- Require lenders to develop systems to identify their financially fragile clients;
- Enforce robust assessments of affordability, which take into account all forms of debt;
- Mandate that all firms report new lending commitments to credit reference agencies (CRAs) serving the UK market, and share real-time data;
- Ban all unsolicited credit limit increases; and

The FCA should also consult on whether there should be a ceiling for overall levels of unsecured borrowing by an individual, based on affordability, and drawing on evidence from other countries.

We have commented below on points which we have not made previously, as well as providing views on the draft Handbook text.

Earlier intervention would help FCA meet its consumer protection objective

In keeping with its consumer protection objective, the Panel believes that the FCA should mandate consumer credit firms to intervene sooner, requiring them to contact customers in persistent debt at 12 rather than 18 months. This would deliver assistance sooner to those who require it. Firms would have to contact more customers, some of whom might get out of debt without any intervention. There would be no harm caused to those customers who would have been able to repay anyway, but large benefits for those who

¹ https://www.fs-cp.org.uk/sites/default/files/fscp_response_credit_card_market_study_remedies_-_final_030717.pdf

would otherwise continue in persistent debt for another six months before their lender took any action.

Forbearance

The FCA proposes to allow card holders who receive forbearance from lenders to retain the use of their card if suspension or cancellation would have a significant adverse impact on their financial situation, for example where the customer depends on the card to meet essential living costs². We are not clear how firms will identify these customers and apply this proposal in practice. A customer relying on credit to meet essential living costs needs rapid referral to independent debt advice. The FCA should require firms to identify their financially fragile customers and refer them to debt advice as necessary.

Monitoring and evaluation

It will be crucial for the FCA to monitor and evaluate the proposals to assess their effectiveness, as well as any unintended consequences. The consultation paper contains no information about monitoring or evaluation. The Panel encourages the FCA to provide this as soon as possible, since it will be important that any issues or problems with the new rules and guidance are picked up in a timely way.

As part of its efforts to analyse the impact of its interventions, the FCA could also track and publish trends in problem debt over time.

Customers with multiple cards

We do not understand how the proposals will help multiple card holders who are in persistent debt on more than one of their cards, and who may receive different treatment from different lenders.

We note that the FCA suggests at Paragraph 2.22 (page 19) that "*..a phased approach could be adopted to prioritise, for example, communications to those with the highest levels of persistent debt. This could also help multiple card holders, who are in persistent debt on more than 1 of their cards, to address their most expensive debts first*". We do not understand how this proposal would work in practice where the customer has multiple cards with different firms and would welcome further clarification on this.

Interaction with minimum repayment trials

The FCA is undertaking a number of behavioural trials to test how consumers with credit cards respond to the way repayment options are presented and the information they are provided about the benefits of repaying more quickly³. The Panel would welcome information about how the FCA plans to take account of the findings, and whether they will necessitate further changes to the Rules and Guidance proposed in this consultation.

Yours sincerely

Sue Lewis
Chair, Financial Services Consumer Panel

² CP 17/43, p28, 3rd bullet

³ <https://www.fca.org.uk/publication/market-studies/ms14-6-3-credit-card-market-study-final-findings-report-annex-4.pdf>