GfK

UK Card Users Attitude to Credit Cards and Four Industry Practices

Qualitative Research Management Report

A research report for:

THE UKCARDS ASSOCIATION

Provided by: GfK Financial

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1. Background

The Department for Business Innovation and Skills (BIS) is currently conducting a review of the credit card industry and has published a consultation document seeking input on the industry as a whole and on four areas in particular:

- Allocation of payments
- Minimum payments
- Unsolicited credit limit increases
- Re-pricing of existing debt

UK Cards will present the industry viewpoint to BIS and commissioned a programme of qualitative research to inform its submission.

2. Objectives

The research set out to address the following:

- To describe consumers' current understanding, behaviour and attitudes in relation to their credit cards, focusing particularly on the four areas in order to understand the levels of concern around them
- To explore reactions to suggested future scenarios/changes to practice and the effects they would have on the industry as a whole and on consumers themselves

Overall the research sought to provide UK Cards with insight regarding consumer behaviour and opinion in order to reach a balanced assessment of the four areas identified for consultation.

3. Methodology

This study comprised a combination of 22 individual interviews, conducted both face-to-face (12 interviews) and via telephone (10 interviews), together with 4 deliberative group discussions, lasting 2 hours and with 8-10 respondents in each.

The individual interviews allowed us to gather experience-based feedback on the reasons for using card-based credit, consumer understanding of credit cards and their perceived benefits and drawbacks. To complement this, the deliberative groups focused on getting beyond a 'knee-jerk' reaction to the issues, by inputting information and discussion points so that the advantages, drawbacks and consequences pertaining to the four practices could be debated at both a market and an individual level.

14 of the depths were conducted with people who had been affected by one or more of the 4 issues (with all 4 issues well-represented across this sample). The remaining 8 depths were with people whose usage was largely not affected by the issues, to ensure we obtained a balanced view of the industry and its practices. The interviewees represented a good spread of socio-demographic criteria, with the face-to-face interviews conducted in London/South East, and the telephone interviews represented a wider geographic sample.

2 of the deliberative groups were conducted with Revolvers (always or mostly carrying debt forward from month to month) and 2 with Transactors (always or mostly paying off their balance each month). Of our 4 groups, 2 were held with consumers 22-35 years and 2 with consumers over 36 years.

Fieldwork took place between 23rd November and 11th December 2009.

4. Main findings and recommendations

1. All consumers in this sample, regardless of whether they were affected or not by the issues, expressed a **high degree of satisfaction with their credit cards**, citing numerous benefits to their use, including most significantly:
   - credit cards represent an easy, accessible, effective payment mechanism
   - the reassurance and flexibility of having a 'financial safety net'
   - card security/insurance features (especially appreciated for online purchasing)
   - the perceived greater ability they offer to track spending, compared to current accounts
   - the benefit of having a payment mechanism in addition to their current account, allowing consumers to divide their spending by different needs/uses, or to better manage their current account balance.

2. That said, **credit cards undoubtedly prompted levels of anxiety** among some, but not all, of our sample. Many were conscious that credit cards present a temptation to overspend and that there is a risk of running up unaffordable, or at last undesirable, levels of debt. Although most felt able to control their spending, a few acknowledged that they struggle with limiting their credit card usage. Nevertheless, such consumers tended to reject any suggestion of greater control over, or limiting of, credit card provision if they felt that would have affected their own access to credit.

3. However, across the sample, there was a perception that the financially naïve or disorganised can be 'led' into debt by credit card companies. Although this perception frequently had some basis in personal experience, some seeing friends or family members run into problems, it was also strongly fuelled by a belief in vulnerable people. The people described by respondents often came forward as archetypes, (i.e. strongly mythical and representative of underlying worries), such as the young, or those leading already chaotic or impoverished lives. This did affect attitudes towards credit card providers as consumers felt that companies have a duty of care to protect these 'vulnerable' consumers; the current perception was that providers' overwhelming focus on making money

4. Emerging strongly from the research was a **clear recognition from consumers that their relationship with credit card providers brings mutual benefits to both parties, as well as respective responsibilities**, and that this relationship therefore, needs to be founded on what is 'reasonable'. This 'reasonable' relationship, as expressed by consumers, has a number of aspects:

   - Credit card providers are businesses and they will naturally, and reasonably, target making money in their operations (no one is expecting them to act as a charity), so long as this is not grossly out of line with consumer interests and practice
   - Credit cards offer a valued facility, and it is right that there should be a cost for this; consumers recognised that the credit offered by credit cards is highly convenient, accessible and flexible and expect this value to be reflected in the interest rates/charging structure
   - Ultimately the decision to use credit is down to the individual consumer and it is reasonable that they should be expected to take responsibility for their own actions (this was clearly and repeatedly expressed across the sample)
   - It is reasonable to expect product information to be clear and accessible, and to expect credit card providers to inform consumers about the consequences (in terms of charging, interest rate, ongoing balance etc.) of the way in which they are using their card
   - It is reasonable that credit card providers are prevented from making money by practices that amount to sleight of hand or deceit.

5. This criterion of 'reasonableness' underlay consumer responses to, and assessment of, the **four issues** being considered, with three practices largely meeting this measure, and one practice (allocation of payments) not seen to satisfy the measure of being 'reasonable'.

6. **Minimum payments** were regarded as a double-edged sword by our sample. There were good levels of understanding that minimum payments are an expensive way to repay the debt and the majority to either avoided them completely or used them only occasionally when it was necessary to prioritise other financial demands; a number of these consumers had been more frequent users of minimum payments in the past and had learnt the consequences of this behaviour. Many regarded the minimum payments system as a 'trap', but ultimately felt that it is up to the individual to be aware of the consequences and make their own decision.

7. There was a small proportion of our sample who, as habitual users of minimum payments, regarded them like a tariff – the price they have to pay to access a certain amount of money. Although, rationally, they generally understood the consequences of using minimum payments, it was clear that they didn't really believe that they would ever pay off the debt anyway, and so the consequences of minimum payments did not feel particularly 'real' to them.

8. For all those with a long-term credit card debt, regardless of whether they were paying at a minimum level or more each month, it was clear that the debt hung over them, and that having no sense of when the debt would be cleared, or whether what they were paying each month was a 'sensible' amount, was unsettling.

9. The research clearly pointed towards a desire for more information around, and greater understanding of, the implications of minimum payments and how an individual might best manage their level of debt. Communicating clearly 'if you do this, it will take this long to clear and cost you so much' would be strongly welcomed, even more so if it could be offered in graphical, easily accessible formats. Gearing minimum payments towards structured, time-limited clearance of the debt was also seen as eminently sensible by the vast majority, with many feeling that 'recommended payments' would strongly encourage them to aim to pay that amount or even a bit more.

10. It should also be noted that even those currently habitually using minimum payments were in favour of higher recommended payments, with some even favouring enforced higher minimums, feeling that, if they had to, they would find the money from somewhere and that they would welcome being ‘made’ to repay the debt sooner rather than being ‘allowed’ to put it off.

11. **Unsolicited credit limit increases** were widely known about, with many reporting that they had experienced them. Although the majority felt they were able to resist the temptation posed by a higher credit limit, a minority admitted that they struggled with this, and all expressed concern about other ‘vulnerable’ consumers being lured into unmanageable debt. It should also be said that many appreciated the benefit of higher credit limits, either making use of the money, or welcoming the reassurance of having further resources ‘just in case’.

12. However, the more contentious issue here was not the extension of credit per se, but rather the method in which it is done; that is, the fact that limits tend to be raised with little, or no communication with, or warning to, the customer.

13. This was concerning for a number of reasons:

    - At a theoretical/principled level, many felt that, reasonably, credit card companies shouldn’t be able to change the nature of the initial relationship/agreement without at least explicitly informing the customer
    - For a number of consumers it exacerbated concerns around credit card fraud and their potential liability for a large, and unlooked for, amount of money
    - There was a feeling that it takes control away from the customer, purely to the advantage of the credit card provider, unbalancing the otherwise ‘reasonable’ relationship

14. Consumer desires for change in this area therefore largely focused on communication, hand-in-hand with giving customers more choice/control; i.e. advance notification of a rise, together with the opportunity to opt-in or out of the increase. Information about what the minimum payments would be if you spent up to your new credit limit was expected to be useful in helping customers understand the implications of the increase.

15. During the course of the discussion groups, consumers were informed about Low and Grow strategies. The argument that this protects the sub-prime from financial exclusion and unscrupulous lenders did not carry much weight with this audience and on the whole consumers wanted to see credit card companies acting responsibly and even paternalistically to protect ‘vulnerable’ consumers from their own impulses to amass debt, rather than ‘encouraging’ them (as they saw it) to tap into unaffordable credit.

16. There was less awareness of the practice of **re-pricing of existing debt** than the previous two issues, in part due to the fact that many were unaware of the interest rate on their credit card and so were unsure whether this was something they had experienced or not. In general credit card interest rates were assumed to be inherently expensive (part and parcel of having access to such a convenient and flexible credit product) and were felt to have risen universally over the course of recent years.

17. Consumers felt that, as this is at the heart of what credit card providers do (i.e. charging for the money they lend) companies do have the right to set the interest rate level where they wish and to let the market decide whether that rate is ‘fair’; i.e. it’s up to the individual customer to look for a better deal elsewhere if they want to. However there was a strong desire for and expectation of contract stability here, as with credit limit increases, with the view that one party does not have the right to suddenly change the relationship to the detriment of the other party.

18. Given these conflicting notions (right of the card provider to decide what to charge vs. reasonable expectation of stability in a contract) consumers again felt that communication and the offer of reasonable alternatives should be at the heart of any solution. They wanted to see reasonable notice (at least 3 months) of re-pricing, allowing the user time to decide alternative courses of action. And they felt that clear and reasonable alternatives to re-pricing should be presented to, or discussed with, the customer; many were unaware of the ‘paying down’ option so this could be better presented, and an existing freeze was seen as a sensible route forward by many.

19. Consumer attitude and response to **allocation of payments** was very distinctive here. Differential interest rates, certainly in respect of balance transfers, were relatively well known and across the sample there was a strongly articulated view that cash withdrawals were 'a very bad thing' (although not everyone understood why/appreciated they were charged at a higher interest rate). Nevertheless, this awareness had not translated through to allocation of payments; of the four issues, this was where there was least awareness and understanding and it was clear that even some who must have experienced it were oblivious to, or unable to make sense of, what was happening and why. Only a small minority, and these were the most financially sophisticated/ empowered, were aware of the system and able to explain it.

20. Across the board this issue was not felt to meet the required threshold of 'reasonableness'; it was perceived as an obscure, counter-intuitive and technical arrangement, amounting to 'sleight of hand' and even deceit. Although consumers accepted that credit card providers are a business and have to make money, this was felt to be a rather 'dishonourable' way of doing so, reinforcing negative sector imagery of 'under the surface' practices; officially allocation of payments may be explained in the small-print, but as something that the vast majority are unaware of, and that you are only likely to comprehend once you have been 'caught out', it was felt to be unfair to the consumer and purely self-serving for the card providers.

21. Even once explained, consumers struggled to make sense of allocation of payments, as they tended to see their debt as a single entity and believed that when they make a payment it applies to the whole debt.

22. It was in this one area that consumers called for a definite change to the practice (rather than enhanced communication/consumer understanding etc.) with the most reasonable route forward felt to be payments allocated proportionally towards their different 'pots' of debt. This was felt to be comprehensible, fair and reasonable, reflecting consumer usage behaviour (i.e. consumer responsibilities), but balancing this with consumer rights.

Case Studies

[All names have been changed to protect respondent identities]

Case Study 1

Gary and Louise are 33 and live in London with their 3 children and another one on the way. Gary is a driver working nights. His free time is spent with his kids, supporting West Ham and watching tv. Gary admits that he's not great with money and that it's easy for things to get out of hand, especially with Christmas coming up.

Their current card with Vanquis has a limit of £500, which has increased from £200 over the 3 years they've had it. They try to pay off a bit more than the minimum each month, so that they can use the card again during the month, to buy things online, for tickets and for Ebay.

They previously had a Capital One card, also with a limit of £500. They ended up with a balance of £1300, in part because they kept going over the limit and so kept getting charged. They largely accept that they have to take responsibility for what happened, although they do complain about the high charges for exceeding their limit.

> *"I know I put myself in that position and it's my responsibility, but I just don't want to be there again"*

They feel that they have learnt from their experience with their Capital One card and can't let themselves get into the same boat again.

> *"With the Capital One card it just went on restaurants and going out. We'd spent all that money and had nothing to show for it. Now we know that if we want a computer, we have to save up for it"*

They are now using the Vanquis card to try to improve their credit rating, for example by paying bills with it and then immediately paying the money to cover the bill onto the card.

They acknowledge that if they were given a higher **credit limit** they would probably just go and spend it with very little thought for whether they could afford it or not. Given that, they prefer their limit to be kept low, even though that can be frustrating

> *"We would just go and spend it. We'd book a holiday. We've got a family, we live for today and I just want a holiday. "We know it's not right so we'd rather not have the opportunity"*

Although initially they don't like the idea of higher **minimum payments**, on further consideration, they recognise that this would make sense for them.

> *"I wouldn't like the fact that they were telling me I had to pay more but if I had to pay it I would pay it and it would probably help me in the long run"*

They also respond positively to the suggestion of more **structured payments**, and feel that knowing they could clear the debt in a fixed and reasonable amount of time would strongly encourage them to stick to the suggested monthly payments.

> *"It would seem clearer. You'd know where you were and it would give you more of an incentive as well. You'd try to put a bit more in each month"*

Overall, they do have a need for their credit card provider to act responsibly to help them from succumbing to their own weaknesses. But they nevertheless accept that ultimately they have to take responsibility for their own behaviour and that largely any blame for the problems they've experienced lies with them, not with their credit card providers

Case study 2

Martin is 32 and works as an IT consultant. He's confident with money and has had multiple credit cards in the past, especially in the era of 0% balance transfers, when he would often take the money and put it in a savings account to repay at the end of the 0% interest period.

Currently his main card is with Tesco (Platinum). He puts all his spending through this and does as little with cash as he can, as this allows him to maximise the balance in his current account. He also has three other cards, which he keeps for specific usage/roles. All his cards are set up to pay back the full amount each month by direct debit.

He thinks it's easier to keep track of his spending with his credit card statement, which gives clear information about the payment, compared to his current account, where there's too much going on to see it clearly.

> *"With my credit card it's easier to see how I've spent it, rather than just have the feeling that I'm losing money"*

For him there are no negatives to credit cards, but he recognises that's because he's on the ball and knows his way around them.

> *"It's their job to make money and as long as you're wily you're ok"*

He once got 'caught out' by the **allocation of payments system**, when he transferred a balance and then used the card to buy something. Luckily for him he'd simply 'borrowed' the 'transfer' amount to put in a savings account, so he paid it back immediately in order to clear the balance, and then cancelled his card. His feeling is that although this practice might be legally above board, it doesn't come across as a particularly 'honourable' way of making money.

> *"It doesn't seem terribly fair. I can understand why they do it, but it does seem skewed in their favour. It doesn't seem fair that you're really not going to know about it until you get caught by it"*

He feels that credit card companies could think about introducing tighter controls on who cards are given to, with more checking of applicants' background/employment status etc., as with mortgages, to ensure that cards are given to those who are financially in a position to manage them. That said, he feels it's important that credit cards are available to most people, because they're so useful and he can see that denying people access to credit cards could mean they run into problems elsewhere in their lives. He also accepts that ultimately credit card companies are businesses and need to be allowed to make money somewhere in the process.

> *"I don't pay anything so I'm quite happy with them, but I know they do catch other people out, but then they do have to make their money somehow"*

He's very confident and organised with regards to credit cards; for him they're an essential financial tool which he feels fully in control of. He recognises that people do get into trouble with cards, but largely feels that's down to people not taking responsibility or not knowing their way around credit cards and how to get the best out of them, rather than down to the practices of the credit card providers themselves, although he feels that providers could be doing more to increase people's awareness of the implications of how they use them.

Case Study 3

Brian is 55, married, with 3 children. He owns a delivery business, which he runs with his wife. In the last year they have had to liquidate some business assets and make other cuts as they had run up a total credit card debt of about £20,000 over the previous 2-3 years. They have now been able to pay off a big chunk of their debt but still have 3 credit cards with a total balance around £10,000.

> *"I'm much happier and more relaxed about it all than I was. If you'd come a year ago you'd have seen me a lot more stressed"*

They no longer use their credit cards for new purchases and try to only spend the money they have. Brain accepts that he is responsible for the situation they find themselves in and feels he has learnt through bitter experience how he 'ought' to use his card.

> *"It's purely our fault. We used to just stick everything on the card, even if we didn't have the money. Now our credit card is our last resort. Seeing the rates and what it costs you has really changed my mind. How it runs away with you"*

Brian is very angry about the 'unfair' interest rates charged by credit cards generally, particularly when the base rate is so low, and he sees this as indicative of card providers' single-minded focus on making money.

> *"It just shouldn't be allowed, it should be regulated. They're charging anything between 18 and 26%. How can they justify that when the base rate is 0.5%. It's the biggest rip off and I know it's to cover their bad debts but I don't see why we should have to pay for the bad lending they've made in the past"*

He is also aware that they've **increased the interest rates** charged to him, above and beyond the general increases. He thinks they may have done it because they see him as a risk, but it also makes him angry because he feels they know they can make money out of him.

> *"Because I only pay the minimum, they think they can target me and make a bit more money"*

He knows he ought to switch cards, but is less convinced he would secure a better deal now they have introduced the 3% balance transfer fee and so ultimately he feels he will stick with what he's got, particularly as he's not using his cards for new purchases these days.

He has some familiarity with **allocation of payments**, because of his past experiences of doing balance transfers (he also thinks his Nationwide card explains how the payment is allocated).

"That's right, they make you pay the 0% first so that you leave as much outstanding as possible"

From a business point of view, he can understand that they do this because it makes them more money, and he accepts that the allocation of payments system is probably explained in the small print, but he feels it's an unfair process purely designed to generate more profits, so although above board, it's not really justifiable. He would like to see any payment split proportionally between the different aspects of the balance

He feels as though he went on a steep learning curve with regards to credit cards, and although he's come through it, got control of the situation, and accepts it was his responsibility, he perceives that his card providers did nothing to 'help' him; in fact, if anything, they made it more difficult for him, for example by increasing the interest rate. He would like to see providers doing more to work with you and help you if you run into difficulties, rather than being so punitive. He believes that by taking this approach, in the long run they would actually be more likely to recover their money.

Case Study 4

Melanie is 43, and is a single mum with a 6 year old daughter. She gained some qualifications when her daughter started school and is now a part-time health worker. She finds money quite stressful and has no savings to fall back on because for a long time they've been living on benefits.

She got her first credit card about 7 years ago, because her friend told her that you could have £200, for which you only had to pay £5 or £6 a month. To her that sounded like a good deal although she admits she really didn't understand how her credit card worked when she first got it. She now has two credit cards with a combined balance of about £1,200 (it has been more in the past). She uses the cards for a variety of things: some luxuries for her, necessities for her daughter, sometimes groceries and other staples, just to help her get through to the end of the month. But these days she leaves her credit card with her mum.

> *"It's so the temptation isn't there. If I need it I get it, do what I've got to do with it and then give it back to my mum"*

She views her credit card as a blessing and a curse, almost within the same breath.

> *"It feels a bit like a noose around my neck. I probably wouldn't have it if I could choose my time again. But then again it can be a godsend so I probably wouldn't get rid of it. At times what would I have done for food without it?"*

She has come to realise that the credit card is very different to other forms of credit. For example, she's bought furniture from DFS on hire purchase but whereas she knew how long she would be paying that back for, her credit card debt stretches away endlessly. She also feels she has something to show for the money she's spent on the settee.

> *"The settee's there, we use it every day, whereas with the credit card there's just nothing at the end of it, it's just Sainsbury's shops and what else?"*

She usually **pays the minimum** and if she has more that month then she will try to put extra towards it; this happens perhaps 4 or 5 times a year. She knows that by paying the minimum:

> *"I'm going to be paying it off for the rest of my days"*

She would therefore welcome higher minimum repayments and/or more structured repayments over a fixed period of time:

> *"If you had to pay more money then you just find it from somewhere. You would juggle things because you had to. And if you knew there was an end to it that would be good"*

Her **credit limit** has increased over a long period of time. She's adamant that she doesn't want it to go any higher now because she doesn't want to get further into debt and she's aware that she would find it very difficult indeed to not make use of an increase.

> *"At the time you think it's nice, that's a bit more money to play with. And yes, it is your choice but you'd have to be a very strong person to say no. I would try my absolute best to keep my spending at the level it is now, but Christmas is 4 weeks away so it would be very difficult"*

She thinks it would be useful for them to tell you what your minimum repayment would be if you went up to your credit limit, because actually it's the minimum repayment that would act as a brake on her spending.

> *"I would have to stop it somewhere if they kept increasing the limit, simply because I just couldn't pay something like £200 a month"*

Melanie obviously finds it very difficult to stop herself using her card and so has developed a system (keeping it at her mum's) which means she's not tempted. She feels she does need some sort of extrinsic control/restraint otherwise she would spend up to her credit limit. Although she feels the burden of the debt, at the same time she probably wouldn't have gone without her card because it has been a vital back-up and allowed her to get through some months.