
Financial Inclusion Committee

Response from The UK Cards Association

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The UK Cards Association (UK Cards) is the leading trade association for the cards industry in the UK. Its members account for the vast majority of debit and credit cards in the UK, issuing in excess of 55 million credit cards and 86 million debit cards, and cover the whole of the payment card acquiring market. UK Cards promotes co-operation between industry participants in order to progress non-competitive matters and seeks to inform and engage with stakeholders to advance the industry for the ultimate benefit of its members' consumer and retail customers.

All of our members are fully committed to providing UK citizens with appropriate access to mainstream credit and payment services.

Executive Summary

- Card payments are essential in a modern economy and an important part of daily life. 91% of the adult population has a debit card and 60% have a credit card. Cards give safe and convenient access to transacting and the ability to access e-commerce products and services, which can often be cheaper than alternatives available on the high street. Access to credit is an integral part to financial inclusion, and this is often done through the means of a credit card. Credit cards can provide an important 'bridging effect' for people as they go through changes in their lives.
- The card payment industry has a long standing commitment to responsible lending. This includes aiming for wider financial inclusion, through long term and sustainable customer relationships. Card payments now provide an essential component of people's lives and with that comes a certain level of responsibility, not only in the decisions around the provision of credit, but also to ensure that the products and services it offers are adapted to meet the diverse needs of different customer groups, including accessibility for those with visual, audio, mobility or other impairments.
- Key to this is that there are a diverse range of card products available in the market, including those developed for so called 'near-prime' customers and 'credit builder' type credit cards, aimed at those with little or no previous track record of repaying credit, or those who might have been subject to problems repaying in the past. These types of products can help to provide a pathway for the customer to access more mainstream credit in due course. At the heart of this is the industry's 'low and grow' model, a strategy which allows a credit limit to be initially set at a low level and then increased incrementally over time as the customer is able to demonstrate that they can manage a credit card responsibly and without difficulties. Products of this type can become an increasingly important source of new credit as the impact of new regulation, including price capping, on payday loans reduces the supply of

credit to low-income groups.

- The impact of this responsible lending is borne out by borrowing data. While, according to the *Breakthrough Britain* report, overall personal debt has almost doubled in the past decade, UK credit card debt has fallen by 13 % since 2008 (£65.8 billion to £56.9 billion), despite an increase in spending over the same period of £26 billion (20%). Cardholders are becoming more prudent, with more bills being paid in full each month and consumers paying off their outstanding balances faster. There is also increased use of 0% interest promotional deals. In addition, the proportion of credit card balances bearing interest has declined steadily, down from 81% in 2002 to 60% in 2013.

General

1. What policy change would most support increased financial inclusion for the client group you represent?

- Financial exclusion results from a complex set of overlapping barriers, so policymakers need to consider a number of approaches to increasing financial inclusion.
- **Data sharing:** The credit industry has delivered a series of important enhancements to its data sharing arrangements, stretching back over the course of the last couple of decades. There is also now a need for a focussed dialogue across Government on a framework for industry to access ‘invisible’ data such as HMRC records, student loans and council tax arrears. Access to data helps the lender get closer to having a full picture of a customer’s commitments and can also help consumers to build a track record in making payments.
- **Flexibility and proportionality** in the FCA’s regulatory framework for assessing affordability and validating income, such as for those in non-traditional employment, or where the individual may for example be subject to uncertain working hours. Firms need to have confidence that regulators and policymakers recognise that different circumstances, customer groups and product types require different approaches.
- **Financial education:** the range of financial products is getting ever more complex so financial capability is now more important than ever, and education needs to be provided continuously throughout people’s lives as the market and their own circumstances change. Financial education should also take into account differing literacy levels. Prescribed levels of transparency are not the

answer if people are unable to read material. Help could include, for example, information through social media/ videos.

2. What do you see as the role of the regulator, government, and financial services in promoting inclusion?

- **Moderation.** Outcomes from the recent regulation of the payday loan market may be viewed by some stakeholders as being too onerous. This can have the impact of dis-incentivising mainstream firms from providing credit to certain demographics, and leading people to source credit from disreputable/ illegal outfits.

3. Do you have any practical examples of financial inclusion initiatives that have been successful?

- There are a **diverse range of card products** available in the market, including those developed for so called 'near-prime' customers and 'credit builder' type credit cards, aimed at those with little or no previous track record of repaying credit, or those who might have been subject to problems repaying in the past. These types of products can provide a pathway for the customer to access more mainstream credit in due course.
- **'Low and grow'**: this is a unique feature of the credit card model. It allows a credit limit to be initially set at a low level and then increased incrementally over time, as the customer is able to demonstrate that they can manage a credit card responsibly and without difficulties initially. Customers can also build up their credit record over time and helping them to enter into mainstream credit lending in due course. In the absence of this model, it may not be commercially viable for lenders to provide credit cards with a small limit and the risk of providing a higher limit at application is too high – as such, many customers would simply be declined. The decision to increase a credit limit for any customer across the industry is subject to rigorous risk assessments, using a powerful combination of internal behavioural data and information from credit reference agencies.
- **MOD:** We have worked extensively with the Ministry of Defence to give Armed Forces personnel help and guidance when applying for and managing credit products. We have also facilitated engagement across various industry experts to consider the technical issues around the difficulties in matching data for British Forces Post Office (BFPO) addresses.

Digitisation, squeezed budgets and welfare reform

4. What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

- There is a diverse delivery infrastructure for differing banking needs. Some firms continue to offer a branch based service, whilst others may operate purely online. This differentiation is part of firms' competitive offer to the diverse range of customer segments.
- The development of digital services can bring more people into mainstream financial provision, as increasing numbers of consumers gain access to PCs, tablets and smartphones.
- The European Personal Account Directive now requires provision of basic bank accounts, but the provision of banking facilities comes at a cost and basic bank accounts may not have access to all facilities. Processing transactions within bank branches is hugely costly and those on basic bank accounts may have their main access through ATMs, etc.
- Prepaid cards are an alternative to a basic bank account, offering similar types of payment services. It is for consumers to decide which of the available products and services best suits their unique needs and circumstances.
- Interoperability is key to successful use of digital delivery channels. Only if parties can connect seamlessly with each other to conduct financial services will we be able to reach the critical mass users need for systems to function well.

5. What opportunities are there to use technology to facilitate financial inclusion?

- The Government's Identity Assurance programme (IDA) could allow people to use information such as their bank card number to act as an identifier, helping them to access services such as benefits, registering vehicles etc.
- Technology is already being used by a wide range of financial services consumers. Benefits derived from using this technology include the potential to extend the reach of the technology and services to further consumers in the following ways:
 - Wider access to services through digital channels in all locations makes services more convenient to consumers and may extend their

reach to those who are not well served by traditional means, or have no access to physical branches;

- More efficient use of technology can allow services to become more affordable to a wider range of consumers;
- Good use of technology can make services safer and more transparent for individuals;
- Intelligent use of technology to meet specific consumer requirements might allow a broader, more flexible range of products and services to be offered to consumers through a wider range of channels.

6. How has the financial downturn changed the nature of financial exclusion?

- The financial downturn has significantly impacted on certain population groups and financial institutions have had to develop more flexible practices to accommodate this.
- This has been made more difficult by other Government priorities, which have pulled financial institutions in other directions. For example, concern over money laundering practices, and illegal immigrants, has led to strict assessment based on address, while many people impacted by the downturn and struggling to access financial products find it difficult to provide a permanent address.

7. What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?

- As we understand it, the DWP is aiming to transfer Universal Credit payments to an online rather than branch-based system, and to link this with the provision of basic bank accounts where possible. This should help promote financial inclusion.
- The credit card industry has a very collaborative relationship with the debt advice sector and has worked together to discuss topical issues where there is a common concern, including welfare reform. UK Cards hosts a regular forum with Citizens Advice, Money Advice Trust, StepChange Debt Charity, Money Advice Scotland, Citizens Advice Scotland, AdviceUK, PayPlan, Christians Against Poverty and the Money Advice Service.

Transactional banking services

8. What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want?

- Credit cards can provide a bridging effect, allowing people access to credit to smooth the impact of an unpredictable income or a life shock. They may decide that paying the minimum payment for a period of time suits their short-term circumstances.
- Our research (with GfK) shows lower income consumers are more organised in developing strict regimes for how much they spend and repay, and the mechanics of making payments.

9. What improvements are needed to make basic banking fit for purpose?

- Whilst it is not the direct remit of UK Cards to comment on provision of basic bank accounts, we would say that a debit card is a free feature of basic bank accounts, which allows a consumer to access the best deals available, such as online offers.

10. Can technology help deliver better transactional banking services for people on low or unpredictable incomes?

- Banks and card companies have developed tools to help consumers access their data quickly, including online banking facilities; annual credit card statements; the ability to download account information; and mobile phone apps. Various tools are available, e.g. charts showing key metrics such as incomings/outgoings and balance trends over time.
- Customers can also set up their own communication notifications from their provider to help them manage their spending, usually through text message alerts. This includes a range of notifications such as: when payments are due; when an assigned monthly spend has been reached; when a charge (such as overdraft) is likely to be made; and when a sufficient balance has been reached to allow money to be transferred to savings.
- Banks and card companies are also collaborating with third party providers who offer a consolidated view of all of consumers' accounts across different providers. These 'account servicing providers' allow customers to see all their bank, credit card, mortgage, loan and investment information in one place, without being required to input or sync data themselves.

Affordable and fair credit

11. Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

- As mentioned previously, this is where the credit card industry's unique '**low and grow**' model is very effective. It allows a lender to approve an application from a customer and to assign a modest credit limit, where this can be increased incrementally over time as the customer demonstrates that they can manage the credit card facility responsibly and without problems.
- There are a number of specific '**credit builder**' type products available in the market. These are specifically designed to allow customers the opportunity to demonstrate that they can manage a credit card responsibly and to start to 'repair' a previously damaged credit rating; or to start to develop a track record in paying where they otherwise have a 'thin' credit file.
- **Minimum payments:** It is a key part of the unique flexibility of the credit card product that customers can repay any amount between the minimum requested by their card provider and the full balance. Some customers choose to pay the minimum for a variety of reasons. Following the 2009-10 review with the department for Business, Innovation & Skills (BIS), UK Cards has worked with members to introduce letters to customers, notifying them that they are repaying the minimum on their card bills, that this is the most expensive way to repay and for some customers providing contact details for free debt advice. This has had a tangible impact on customer behaviour, with evidence that some customers paid more as a result of receiving the communication. We would be happy to meet with members of the Commission to discuss this further.
- **Credit limits:** there will always be circumstances in which people take out, and are given, higher credit limits in good faith, but find themselves falling into financial difficulties due to a significant change in circumstances, for example where someone loses their job, or their marriage breaks up. This could rapidly move a customer from being considered a 'good' to a 'bad' credit risk. Such changes in circumstances are neither necessarily their own fault, nor the fault of the company who gave them the line of credit in the first place. Approaches to credit limits therefore need to be balanced. Both the initial setting of a credit limit and any subsequent increases are subject to rigorous risk assessments, using a powerful combination of internal behavioural data and information provided by credit reference agencies. Evidence shows that someone is less likely to default on repayments if they have been offered a higher credit limit, than if they have asked for one. New rules, agreed with BIS in 2010, provide

customers with much more control over their credit limit. We would be happy to meet with members of the Commission to discuss this further.

12. For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?

- Firms will always look to identify where there is consumer demand for other types of facility. These need to be commercially viable and the lender needs to at all times meet its obligations to lend responsibly.
- Policymakers and consumer groups must play a role in ensuring that new product developments for such sectors do not suffer from narrow reputational criticism. The higher level of risk, combined with the way that APRs are calculated, can lead to what appears to be high cost lending, but this must be set in the context of the product potentially providing a gateway to 'cheaper' credit in due course.

13. How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?

- Lenders will use a wide range of data when assessing applications for credit. This includes (a) information provided by the customer on the application form; (b) any previous repayment history they may have with the customer; and (c) information from credit reference agencies. Decisions will generally be based on a combination of credit scoring and policy rules.
- Credit scoring has become well established across the credit industry and allows lenders to take account of all relevant data, as well as looking at historical trends around repayments. Each lender will look at the risk of lending from their unique perspective and it is possible that a customer may be accepted by one provider, but not by another.
- There is a wide range of useful material available to consumers, which explains how credit scoring works and for example how customers can take steps to improve their chances of being accepted.

14. What reforms could be considered to ensure consumers getting into financial difficulty are protected including those who become insolvent?

- **Level Playing Field** – Against a backdrop where debt charities are reporting that customers are now much more commonly seeing problems in meeting commitments in areas such as utilities and council tax, there is a need to ensure that the credit industry 'forbearance' framework, designed to support

consumers in financial difficulties, is operated to similar standards across other non-financial sectors, such as HMRC, local authorities and utility companies.

- This includes the provision of 'breathing space' for customers who are in discussion with a debt adviser, which was introduced by the credit card industry in 2009, where collections activity is suspended to allow a customer a pressure free period to discuss their options.
- **Early intervention** – lenders will use sophisticated systems and data to seek to identify customers who are showing the early signs of financial difficulties, so that help can be provided.
- UK Cards works with **debt charities** to explore what more can be done to encourage more customers to recognise debt problems at an early stage, inform their creditors in order to discuss repayment options, and prevent a problem escalating into serious problem debt. Part of this agenda is to work with the sector to explore how to seek to remove the 'stigma' associated with having problems repaying credit and household debts.

OTHER ISSUES

Contactless

- Contactless cards are now offered as the norm on most current accounts and it is not always economical for banks to provide a non-contactless card. For example, on unfounded security concerns – contactless has the same secure technology as chip & PIN and fraud on contactless cards is roughly a tenth of that on all cards. However, issuers recognise that for those in financial difficulties, contactless cards may be easier to use without thinking through the consequences, and therefore contactless cards are often not issued with basic bank accounts. This is also often the case with under-18 bank accounts.

Interchange

- European Commission proposals to regulate interchange fees will benefit Europe's largest retailers but penalise consumers through potential annual fees for cards or increases in interest rates. These developments will have the biggest effect on the most vulnerable consumers who can ill afford the additional burden, working against moves to enhance financial inclusion and pushing consumers towards the payday lending sector.

Disabilities

- The card payment industry provides services across diverse customer segments.. This includes making existing products more accessible to people who may find them difficult to use, for example those with visual or audio impairments, or those with mobility restrictions who may need to rely on others to help them make payments.
- UK Cards works with the British Bankers' Association (BBA) and The Payments Council on projects to help improve accessibility across all banking products. Some recent examples include:
 - Talking ATMs – the Royal National Institute for the Blind (RNIB) has been running a campaign to encourage banks to provide a facility on ATM machines which will allow a visually impaired person to receive spoken instructions
 - Adapting cards – the RNIB has also been working with UK Cards members to test whether credit and debit cards can be adapted to allow visually impaired people to distinguish them more easily
 - UK Cards and Financial Fraud Action UK (FFA UK) have been working with The Payments Council to develop a framework for delegated authority. This would allow a person to set up specific parameters for someone else to make payments on their behalf e.g. how often and for how much the delegate can make payments, as well as details on which channel (online, card, in branch) must be used.