Lending Standards Board

Credit Card Market Study – Voluntary Remedies

Effectiveness Review

Summary Report

March 2021

Contents

1. Introduction

In July 2016, the Financial Conduct Authority (FCA) published its final report into its study of the credit card market (CCMS), and set out a package of measures, which included a series of industry led proposals, to help consumers take better control of their spending. Responsibility for the oversight and monitoring of four of these remedies (the remedies), as detailed below, sits with the Lending Standards Board (LSB):

- Expiry of a promotional rate: a notification to customers as a promotional deal is about to end, so they better understand what the change means to them and they can consider their options
- Prompting customers who are nearing their limit: a digital notification to inform customers that their balance is getting close to their credit limit, allowing them to consider their spending and avoid over-limit charges
- Allowing customers to request a 'later than' payment date: informing customers that they can change the date that their payment is due in the event that the current date might be causing them problems, helping them to manage their personal finances
- Unsolicited Credit Limit Increases: Enabling customers to exercise greater control over unsolicited increases in their credit limit. In addition, stopping some customers at risk of potential unaffordable borrowing from receiving an Unsolicited Credit Limit Increase (UCLI)

Each of these remedies were implemented over a period of between 15-18 months with an effective date of September 2018. Appendix A provides fuller details for each of the remedies.

As part of the oversight framework agreed between the LSB and FCA, a post implementation effectiveness review has been undertaken by the LSB to assess how this package of remedies has impacted upon customers' use of their credit card.

Covid-19

This review paid due consideration to the CCMS activity that has been impacted by Covid-19. The testing included the period affected by Covid-19 to ensure a full analysis of the effectiveness of the remedies was completed within an appropriate context.

As a result of Covid-19 credit card activity had reduced across the industry during and immediately following the first lockdown. UCLIs were paused by most firms with some restarting with adjusted criteria that reflected the financial pressures caused by the pandemic. At the same time a number of promotional periods were extended and fees, such as for late payment, were not charged although customer messaging was still issued. These circumstances will have impacted the application of the remedies and the communications issued. It is also worth noting that the effects of the pandemic may have impacted customer behaviour and therefore some of the data provided may adjust in the future as the economy begins to recover over time.

2. Executive Summary

The remedies are focused around a series of escalating interventions designed to improve customers' awareness of their borrowing, repayment patterns and associated costs which allows greater control over their borrowing.

We can conclude from our review that with the exception of one organisation, firms have implemented the remedies as directed and in doing so, have enhanced the ability to prompt changes in customers' repayment behaviour and to intervene earlier to help those showing signs of actual or possible financial difficulties. This has resulted in the remedies having a positive impact. We did, however, identify some breaches of the remedies within individual firms, the breaches are not systemic across the industry, and we will be working with firms to ensure where these have been identified, they are resolved as a matter of priority. In some cases, firms had implemented customer interactions similar to those detailed in the remedies ahead of the September 2018 deadline.

We recognise that each firm we assessed has a different credit card business model and a different customer profile. The strategic direction for each firm reflects their model and we have taken this into consideration when assessing the effectiveness of the remedies.

Across the firms assessed, it is clear the cultures are focussed on meeting regulatory obligations and delivering fair customer outcomes, with the responsibility and accountability for credit card related matters clearly defined. For implementation of the remedies, firms typically involved a programme team with input from key stakeholders. This was followed, in most cases, by post implementation reviews undertaken across the three lines of defence.

Whilst there were no specific requirements set out in the original remedy templates, we would have expected firms to have high level objectives regarding the customer behaviour they expect to experience from the introduction of the remedies, with metrics in place to measure the success of these objectives. This approach was not always apparent. The effectiveness of the remedies tends to be inferred from credit card key risk indicators (KRIs) that focus on responsible lending, affordability, the provision of appropriate information, persistent debt and ongoing financial support. Very few firms use customer behaviour resulting from the remedies and associated communications to directly assess their effectiveness. Our view is reinforced by the inability of some firms to provide the LSB with elements of the behavioural information and data requested. Where this inability has been identified we have reported the weaknesses to the firms and expect action to be taken to address the gaps in assessing the effectiveness of the remedies.

Communication of the remedies to customers is achieved through a combination of e-mails, SMS alerts and letters. The content and timeliness meet or exceed the levels expected from the remedies in all but one firm of those we assessed. However, our review indicates that customers could benefit from further strengthening of messages to increase the impact, such as by including financial information that relates directly to the customer and removing some jargon associated with the UCLI remedy. This would have the potential to increase customers' understanding and re-inforce their ability to avoid incurring unnecessary costs or to change preferences to help manage their credit card.

Since the remedies were introduced a small number of related incidents have been identified and reported to the LSB. These were commonly due to system weaknesses such as the ineffective triggering of timely borrowing alerts or the need to strengthen communications. Appropriate reporting, root cause analysis, corrective action, implementation of additional controls and remediation have been undertaken on these incidents.

Activity undertaken by first line controls, second line assurance and third line internal audit teams has generally been focused on whether the remedies have been implemented in accordance with regulatory direction. The second and third line work would benefit from a focus that is adjusted to assess the effectiveness of the remedies and the resulting changes in customer behaviour.

Identifying complaints that are directly associated with the effectiveness of remedies is not easy because customers usually complain about being charged and not the quality of the communication they received or a lack of awareness of their ability to control their account. The remedies are generally not explicitly included in the categorisation of complaints and therefore opportunities to link back to the remedies, improve their effectiveness and to help customers manage their accounts are not maximised during any root cause analysis process. We did find that in some cases where a complaint is made, an assessment of the customer journey and the communication received is undertaken with the objective of improving the interactions.

The promotional rate expiry remedy appears to have had a positive impact when prompting customers to increase their payments before a promotional period ends. However, the remedy only appears to have had a minimal impact on the relatively small proportion of customers carrying over a greater than 80% credit balance to the standard product at the end of the promotional period. We recommend that the communications are reviewed to ensure they are as strong as possible and include the financial impact of carrying a high line of credit into a standard product, acknowledging that customers will be aware of a return to the standard rate following the end of the promotional period.

The number of monthly borrowing prompts issued to help customers avoid incurring unnecessary costs by exceeding credit limits reduced over the three periods we reviewed. The data provided by firms also evidenced a good proportion of credit card customers making a payment that significantly reduced their utilisation immediately following receipt of a prompt. This indicates that the remedy is having a positive effect and customers are increasing their awareness of the importance of sound account management. However, this does not always correlate with the trend of customers incurring over limit charges which varied significantly between firms for the periods we tested. Firms that have not seen a reduction in customers being charged need to understand the reasons for the inertia and enhance the approach so that customers are clear about avoidable costs.

The communication strategy for the payment date remedy is in line with expectations and, across the first two periods assessed, we observed an increase in requests to change payment dates. However, only a very small number of customers charged for a late payment subsequently change their payment date. Further activity is required to understand why customers do not change their behaviour after being charged, including analysis of any related complaints and to reinforce the options available.

Customers are being presented with a choice regarding how they manage unsolicited credit limit increases and, when a UCLI is offered, the customer can reconsider their preferred approach and has control over whether the new limit takes effect. We noted that there is generally an upward trend of customers selecting to 'Opt-out' of unsolicited credit limit increases, meaning that the customer has to proactively reject a credit limit increase that is offered. This increased from just over half of new and existing customers in the first period assessed to approximately two thirds of customers by the third period. Combined with remedies requiring a 'self-serve' option, the risk of customers not being clear about the implications of increased borrowing is heightened. It is important that communications are reinforced to ensure that jargon such as 'Opt-out' and 'Opt-in' is refined or positioned in a manner that makes it understandable for the customer, and customers are aware of the implications of their choice.

The number of accounts excluded from receiving UCLI offers due to forbearance or because they have been identified as being in persistent debt had reduced over the periods we assessed. This indicates that firms are aware of the risk of over indebtedness, are using the remedies in conjunction with other customer contact strategies and are following the requirement of the remedies in not continuing to offer UCLIs when financial stress is identified.

2.1 Key Findings

Overall, we found that where the remedies had been implemented, this was completed as directed. It is our opinion that firms should consider strengthening communications and to increase their understanding of how customer behaviours are being influenced by the remedies. This will enable firms to identify any further action that needs to be taken to provide the best opportunity for customers to manage their accounts effectively.

Subject to discussion between the LSB and credit card providers, both within and outside the sample of firms for this review, we believe that the development of guidelines may also help in managing expectations relating to the remedies. As part of our ongoing review of the Standards of Lending Practice we will look to incorporate the remedies therein. This will allow us to engage further with the industry to develop any guidance, as necessary, for inclusion within the LSB's Information for Practitioners document. We would expect these to cover governance, the strength of communication required and the measurement of, and reaction to, customer behaviour resulting from the operation of the remedies.

The key areas for improvement are:

- **Governance and oversight** – firms must be clear about how the introduction of the remedies will result in positive customer behaviours. The effectiveness of the CCMS remedies could be inferred from the suite of KRIs in place, however, there is limited direct measurement to assess how customers behaviour is changing as a result of the remedies. We noted that there has been very little second and third line activity focused on the effectiveness of the remedies.

- **Promotional rate expiry** – there are still elements of the customer base who appear to not be responding to the communications and are exposed to increased costs due to carrying a high line of credit into a standard product. We acknowledge that some customers will be comfortable with this position and doing nothing as a result of the communication does not necessarily constitute inaction. Firms need to consider the depth of information and guidance provided to customers to assist with management of their credit.

- **Borrowing prompt** – the impact on the number of customers receiving an over limit charge following the issue of threshold prompts varied significantly between firms assessed. This indicates that further action is required to strengthen communications and customer understanding of the costs that could be incurred if appropriate payments are not made.

- **Payment date** – recognising that late payment charges can be applied for many reasons, not just because the payment date is not well aligned to the customer's needs. Further activity and education should be considered for customers that do not change their payment date despite receiving a late payment charge.

- **Unsolicited credit limit increases –** the trend is for customers to 'Opt-out' of credit limit increases meaning that unless they proactively reject a credit limit increase that is offered this will be automatically applied to their account. Jargon needs to be eliminated to ensure that customers are absolutely clear about the impact of the options they are selecting, and how increased credit can lead to escalating costs and financial detriment.

It should be noted that this review was undertaken over a relatively short time period and was limited in scope. This summary report does not include all possible improvements to systems and procedures that a more extensive special examination might include.

2.2 Objectives and Scope

The objective of this review was to understand how each of the remedies has been implemented and their effectiveness in providing more information to credit card customers to help them manage their accounts. In particular whether the remedies are:

- Prompting customers at key points to help them avoid incurring unnecessary costs by not switching providers at the end of a promotional offer or exceeding credit limits.
- Enabling customers to be able to request to change their payment date.
- Giving customers choice about how they receive offers of credit limit increases and making it easier to express their preferences.
- Preventing some customers who are at risk of potential unaffordable borrowing from receiving offers of credit limit increases.

We recognise that customers will not always act on the information provided and inaction is not in itself an indicator that the remedies are not working as intended.

As part of the review, we aimed to identify any areas of good practice which can be shared with the wider industry.

The review process was focussed on obtaining key data and management information (MI) from firms for each remedy. This was assessed to determine what, if any, trends are apparent and the impact on customers' management of their credit card.

The assessment included an evaluation of:

- The governance, controls and oversight in place at each firm to ensure adherence to the remedies.
- Breaches data – number of breaches recorded in relation to CCMS.
- Complaints MI – details of all complaints related to implementation and/or impact of CCMS remedies.
- MI data sets for each remedy (promotional rate expiry, borrowing prompt, payment date changes and unsolicited credit limit increases).

Comparison data was requested for three time periods:

- From the six months prior to the introduction of the remedies (where relevant).
- From post implementation - 01 September 2019 until 31 March 2020.
- From post implementation - 01 April 2020 until 31 July 2020.

2.3 Methodology and Approach

The review was conducted in stages which included an initial discussion with each firm to establish the data that is available and in what format. This included:

- An initial meeting with individual firms to discuss the terms of reference and explain the areas we wished to explore further; the availability of documentation and MI; whether any firms have conducted their own effectiveness research and the results; and details of any second and third line reviews conducted in this area. This enabled us to plan the review in an efficient and proportionate manner.
- Issue of an information request which enabled a desk-based review of documentation, detailed MI sets and the results of any internal firm reviews.
- A meeting with the relevant senior managers, subject matter experts and operational staff, as necessary, to raise any questions and provide further insight into information supplied for the desktop review.
- Post-review collation of documentation, MI and findings, followed by a final close out meeting to clarify any outstanding points from the review and to present a summary of the findings.

This review was conducted across a sample of seven firms and included a mix of small, medium and large organisations. An individual report, setting out the LSB's findings from the assessment, has been issued to each firm, including any required actions which will be tracked through to completion

3. Detailed Report

This section of the report breaks down each area assessed within the scope of this review. We have focussed on the overall governance and oversight in place for the remedies together with application and data driven impacts of each. Areas for improvement and examples of good practice have been included where they were identified.

3.1 Governance and Oversight

The responsibility and accountability for credit card related matters, including the impact of the remedies, is positioned in a clear manner with well-defined escalation through governance across all firms reviewed. This results in a strong understanding of the profile of each firm’s credit card customer base.

The preferred approach to introduction of the remedies was to establish a programme team, or similar, to ensure the remedies had been introduced effectively. This was supported by key stakeholders throughout the programme lifecycle and was typically followed by a second or third line review to provide assurance that the remedies were operating in accordance with the regulatory direction.

Although assurance can be gained that system controls are operating effectively, measures that explicitly assess how the remedies are operating to change customer behaviour and prevent financial detriment are not clear. For some firms the effectiveness of the remedies is inferred from key risk indicators and outcome measures. However these tend to relate to responsible lending, affordability, persistent debt and ongoing financial support. This approach needs to be strengthened to ensure strategic expectations are defined and clear measures of success linked to customer behaviour are established and monitored. The focus of the remedies is to help customers avoid being in persistent debt and therefore KRIs based solely on this factor in relation to these remedies is felt to be too late in the customer journey. This view is supported by the fact that some firms were unable to provide elements of the data and behavioural information we requested.

First line controls include risk-based testing of the customer journey to ensure ongoing control effectiveness and compliance with regulatory requirements. There has been limited second or third line activity undertaken to assess the effectiveness of the remedies and the changes in customer behaviours that have been achieved.

Since the remedies were introduced a number of incidents relating to the integrity of system controls have been reported internally and externally to the LSB. Appropriate root cause analysis, corrective action, control strengthening, and remediation has been undertaken.

Identifying complaints that are directly associated with the effectiveness of remedies is difficult. Customers tend to complain about the fact they have been charged and not the quality of the communication they received or being unaware of how they can operate their account. Across the firms we assessed the remedies are generally not explicitly included in the categorisation of complaints and therefore opportunities to link back to the remedies, improve their effectiveness and to help customers manage their accounts are not maximised. In cases where a complaint is made, an assessment of the customer journey and the communication received is undertaken with the objective of improving the interactions. A clear reference to the remedies particularly within any root cause analysis, would strengthen the need to assess their operation and should result in the effectiveness being improved.

Communication of the remedies to customers is through a combination of e-mails, SMS alerts and letters, with content and timeliness that meet or exceed the level expected from the remedies. Any bounce-back from e-mail or SMS alerts will generally trigger a letter, or other contact, that encourages customers to update their details to enable digital communication as well as repeating the remedy message.

Although communications are subject to reviews such as tone of voice and compliance with regulatory expectation, an ongoing assessment of whether they provoke an effective response from the customer is not always in place. Where firms had reviewed the communications there were instances of interactions being strengthened.

Areas for improvement:

- We would expect firms to have high level objectives regarding the customer behaviour they would be anticipating from the introduction of the remedies. Specific metrics should then be developed, or incorporated in current reporting, to measure how effective the remedies have been in meeting these objectives. This approach was not apparent across many of the firms we assessed with the effectiveness of the CCMS remedies having to be inferred from the suite of KRIs already in place.
- A common approach is to link the effectiveness of the remedies to instances of persistent debt. Whilst this is a valid consideration, the intention of the remedies is to raise customer financial awareness earlier in the customer journey to avoid financial difficulty. Measures that link the remedies to the day to day management of accounts need to be introduced.
- An assessment of whether communications provoke an effective response from the customer is not always in place.
- The scope of second and third line reviews needs to be extended to ensure that the impact of the remedies on customer behaviour throughout the customer journey is included. This should incorporate the approach to complaints, the strength of communications and the focus of first line controls.

Examples of Good Practice:

- Two firms used information gained directly from the remedies to inform their key risk indicators and aid their understanding of customer behaviours, allowing adjustments to be made to communications or support measures offered. This should be developed further, and a similar approach adopted by all firms.

3.2 Promotional Rate Expiry

Customer outcome*: credit card customers on a promotional rate are better prepared to make timely and informed decisions about the options open to them when this rate comes to an end.*

We can conclude that customers are receiving standalone written reminders of the expiry date of their offer in the timescales prescribed. The primary communication method is digital with SMS and written channels also employed where appropriate or necessary. Firms are generally attempting to get all customers on to a digital platform.

Across the firms and the time periods included in our review, the percentage of customers increasing their payments following receipt of the notice had risen. In addition, a higher proportion of those customers had also paid off the full balance than had done so prior to the remedy being introduced. This indicates a positive customer reaction to the remedy and to reducing their costs. However, whilst accepting the absolute numbers are small, very little impact had been seen on the percentage of customers carrying more than 80% utilisation of their credit limit into a standard product. We recommend that alternative activity is undertaken to alert these customers to the risk of continuing with a high credit balance. We recognise that they will receive ongoing borrowing prompts as a reminder to reduce their balance.

The quality of the promotional rate expiry communications varied between firms with some of the strongest correspondence providing a bespoke illustration to the customer of the financial impact of the promotion ending. In all cases clear action that needs to be taken to make an informed decision and avoid unnecessary costs was provided to customers.

We note that the proportion of customers who request to close their account in the final month of promotion is very low across all firms.

Areas for improvement:

- There are still elements of the customer base who appear to not be responding to the communications and are exposed to increased costs due to carrying a high line of credit into a standard product. Having identified these customers, alternative methods to encourage customer action should be considered and introduced.

- The quality and impact of the promotional rate expiry communications is improved when a bespoke illustration of the financial impact is provided to the customer.

Examples of Good Practice:

- One firm included the financial impact to customers in their communications resulting in a higher impact interaction and positive customer response to reduce their balance before the promotional period ended.

3.3 Borrowing Prompt

Customer outcome: *borrowing prompts help customers to take account of their spending, to make timely and informed decisions about how they use their credit card and avoid incurring over limit charges.*

The threshold levels that result in a customer alert, as prescribed in the remedy, are being met or exceeded with firms offering a good amount of flexibility for customers to set borrowing prompt levels. Firms preference is to contact customers through digital channels and very few customers choose to opt out of the alerts.

Firms employed clear, succinct messaging with easy to access links to make payments or take other appropriate action, indicating strong adherence to the remedy. For some firms the prompt works alongside a suite of alerts including balance update, payment received, payment due date and spend tracking.

The number of borrowing prompts issued by firms to help customers avoid incurring unnecessary costs by not exceeding credit limits is reducing. Where firms were able to provide the information, it showed that a high proportion of customers are making a payment to significantly reduce their utilisation having received a prompt. These factors indicate that the remedy has started to have a positive effect. However, very few firms use customer behaviour immediately following the receipt of a prompt to directly assess the effectiveness. The impact on the number of customers receiving an over limit charge following the issue of threshold prompts varied significantly between firms assessed. This suggests that further action is required to strengthen communications and customer understanding of the costs that could be incurred if action is not taken.

It should be noted that the impact of reduced customer spending as a result of Covid-19, which has resulted in fewer prompts being issued, may be giving a false position relating to customers' financial resilience and ability to manage their finances.

Areas for improvement:

- Over-limit charging for some of the firms had not reduced over the periods assessed. This indicates that further action is required to strengthen communications and customer understanding of the costs that could be incurred if action is not taken.
- The inability of some firms to provide information to the LSB on customer behaviour immediately following receipt of a prompt indicates that whilst the remedy has been introduced as intended, the effectiveness of the remedy is not completely understood. It would be beneficial for firms to begin to implement measures to understand how customers are, or are not, responding to the remedy.

Good Practice:

- Firms that tracked customer behaviour immediately following the issue of borrowing prompts were in a stronger position to understand the effectiveness of the remedy.

3.4 Payment Date

Customer outcome: *allowing customers to set a more convenient payment date for future statements enables them to exercise greater control over their credit card account.*

Payment dates are set by customers at the point of application and this has been the case for some time, with subsequent customer requests to move their payment date allowed. Where limits are set on the number of payment date changes allowed, most firms have exception processes in place to make further adjustments.

Data provided by firms showed that communications raised awareness of the option to change payment date with a number of firms experiencing an increase of activity in the period following implementation. Following this initial response customers have generally retained the payment date originally advised at point of acquisition.

We noted that very few customers changed their payment date following receipt of a late payment charge. The communication strategy is linked to both statementing and late payment notices and the lack of customer reaction to receiving a charge may indicate that further strengthening is required.

Areas for improvement:

- Very few customers change their payment date on receipt of a late payment charge which could indicate that the communication is not being provided in a manner to provoke a customer response. Firms need to be more proactive in ensuring that customers being charged for late payment understand and are reacting to the options that are available to enable them to reduce their costs.

3.5 Unsolicited Credit Limit Increases (UCLI)

Customer outcome: *Customers are able to exercise greater control over how their credit limit is managed through the provision of clear information and easier ways to express their preferences regarding unsolicited increases in their limit. Stopping some customers at risk of potential unaffordable borrowing from receiving UCLI.*

New and existing customers of the firms reviewed are generally provided with an active choice which is positioned and communicated in line with the remedy’s requirements. UCLI options are equally prominent and if a customer does not make a choice they default to 'Opt-in' in accordance with the remedy.

Customers are able to update their preferences, including opting out of receiving UCLIs completely and are reminded of this option when any UCLI offer is made. Some firms had made further improvements to their communications to include additional clarity on the reasons for the contact, the impact of increasing credit limits and the ability to change preference easily.

Communications explain the ‘Opt-out’ and ‘Opt-in’ preference together with the ‘health warning’, as required by the remedy. However, the terminology used in the remedy, and reflected in communications by the majority of firms in our review, is unclear and confusing. ‘Opt-in’ and ‘Opt-out’ together with the accompanying definitions need to be reconsidered to ensure customers are in no doubt as to their meaning and the impact of the choices they can make.

Since the introduction of the remedy there has generally been a steady increase in the proportion of customers electing to ‘Opt-out’, resulting in automatic application of the limit increase if no contact is made by the customer. Firms do not typically monitor customers that change their preference through the lifecycle of their account and firms are therefore unable to gain a view as to which option provides a customer with greater financial control.

There would be merit in firms actively monitoring the percentages of customers choosing the various options, with a view to reducing the potential for persistent debt. The terminology would benefit from simplification, especially as a large majority of customers interact with firms through the online self-serve channel with no direct interaction with a skilled employee. We also noted that education for customers as to the appropriateness of their chosen option could be enhanced to help to ensure customers understand the implications of their decision.

Customers in persistent debt, in arrears, having received forbearance in the preceding six months or seen to be consistently above their credit limit, are excluded from receiving UCLI communications or having UCLIs applied. The number of accounts excluded from receiving UCLI offers due to forbearance or because they have been identified as being in persistent debt had reduced over the periods we assessed. This is likely attributable to a combination of customer awareness and improved account management but also the impact of Covid-19 on spending patterns and the introduction of support measures such as payment deferrals.

Areas for improvement:

- The 'Opt-in' and 'Opt-out' terminology can be confusing and, without reading the supporting text in enough detail, customers could think 'opt-out' was to not receive unsolicited credit limit increases. To 'Opt-out' actually means the customer needs to contact the firm to decline the increased credit limit. Jargon needs to be removed and alternative wording introduced to ensure customers are clear about the options and the implications of the choices they are making.
- For some firms there is an increasing trend of customers selecting to 'Opt-out' of credit limit increases. In these cases the communications need to be reviewed to ensure new and existing customers are provided with clear messaging at all points in the journey.

4. Conclusions and next steps

This review was undertaken to understand how effectively the Credit Card Market Study voluntary remedies have been implemented by firms.

Our purpose was to ensure there was a consistency of approach across the industry whilst delivering fair outcomes for customers. The review was impacted by Covid-19 and during the period of the pandemic we have seen firms alter their approach to the remedies. For example, promotional periods have been extended, charging has been paused or removed, and unsolicited credit limit increases have been suspended and, in some cases, re-introduced with stricter criteria to reflect the challenging financial environment. We intend to monitor the consequences of these changes through individual firm action tracking to ensure fair customer outcomes are achieved and customers continue to be provided with adequate information to improve the management of their accounts.

Our view overall is that the remedies are having a positive impact. Where breaches have been identified this was in isolated cases and we did not find any industry-wide systemic non-compliance with the remedies. It is, however, our opinion that further work is required to draw out the effectiveness of the remedies in impacting customer behaviour. This would be achieved through the introduction of more data and MI analysis by firms to enable a view of the overall effectiveness, how they are impacting customer behaviour and whether any enhancements are required to help customers understand the implications of their actions. This would provide the basis for further improvements to communications, or other interventions, by firms, to help customers understand the most effective way to manage their credit cards and avoid being in persistent debt.

We believe that to aid ongoing oversight of the remedies they would benefit from inclusion within the Standards of Lending Practice for personal customers (the Standards), which we have proposed as part of our current Standards review. However for those firms that are not a signatory to the Standards the remedies will still apply in their current form and context. It is worth drawing out that whilst the remedies were voluntarily agreed to by the industry all firms are bound by the requirements.

In addition we propose that there would be benefit in having additional guidance to draw out the expectations regarding the effective operation of the remedies. This guidance could be incorporated into the Information for Practitioners which sits alongside the Standards of Lending Practice. The LSB will continue to engage with the industry as these measures develop.

We have issued individual reports to each firm which contain recommendations and required actions to resolve any concerns or areas for improvement as a matter of priority. We will be working with firms to ensure these are implemented, including tracking through to completion.

Appendix A

Credit Card Market Study Remedies

Promotional rate expiry
Customer outcome: credit card customers on a promotional rate are better prepared to make timely and informed decisions about the options open to them when this rate comes to an end

1. If a firm offers a credit card product with a promotional rate, the customer should receive a standalone written reminder of the expiry date of their offer.
   a. In addition to the expiry date, the reminder should inform the customer that the cost of borrowing will increase and include the interest rate that will apply to the affected balance after that date. Firms may also choose to signpost customers to information on their statements regarding estimated interest.
   b. A customer receiving a digital communication should be contacted 2-3 weeks before the expiry date of the offer. This should, where practical, also apply to a customer contacted by letter. However, a longer timeframe is permitted for these customers, but firms should ensure that the reminder is sent not more than one month before the offer expires. Marginal flexibility will be acceptable to allow for weekends and bank holidays.
   c. The expectation is that, where the appropriate contact details are held, firms will send the information digitally.
   d. There is not a requirement to notify where (i) the promotional rate is withdrawn, for example due to non-payment; (ii) where the customer has already repaid their promotional balance in full; or (iii) where a customer has an unused promotional offer.

Borrowing prompt
Customer outcome: borrowing prompts help customers to take account of their spending, to make timely and informed decisions about how they use their credit card and avoid incurring over limit charges

2. Where a credit card customer crosses a threshold between 80% and 95% of their available credit card limit, they should be contacted to alert them to this and to remind them if charges will be made for exceeding it.
   a. The notification should be provided to customers who cross the threshold. The level within this range will be determined by the individual firm, enabling firms to take into consideration the differing ways in which customers may operate their account.
   b. The notification should be made when the threshold is crossed for the first time in any one statement cycle. There is not a requirement to send additional messages where the balance remains over the agreed threshold in subsequent cycles.
   c. Contact with the customer should be made via a digital channel. Eligible customers should be automatically opted-in to the alert, but provided with the ability to opt-out, should they wish to do so, at the firm's discretion.
   d. Firms may wish to include messages which encourage the customer to consider increasing their payments.
   e. The requirement to notify does not extend to (i) customers who have selected different credit limit utilisation 'trigger points'; (ii) those who have paid in full in the preceding month; or (iii) accounts for which no digital contact details are held. However, this does not preclude firms from contacting these customers if they wish to do so.

Payment date changes
Customer outcome: allowing customers[1] to set a more convenient payment date for future statements enables them to exercise greater control over their credit card account

3. Firms should ensure that systems and processes allow for a credit card customer to set a 'later than' payment date of their choosing.
   a. The ability for the customer to move payment dates to align with their needs, such as a salary payment date, will vary from firm to firm; some systems allow for an exact date to be set and others a 'later than date'.
   b. The opportunity to change a payment date should be included, as a minimum, within the written communication to the customer that their monthly payment was late. Customers should be advised that the request would be actioned once the account is back up-to-date, unless otherwise agreed by the firm.
   c. Firms may set a maximum number of payment date changes per year. The number of changes allowed is at a firm's discretion.

[1] Where existing legislation does not prohibit a payment date change

Unsolicited credit limit increase (UCLI)
Customer outcome: Customers are able to exercise greater control over how their credit limit is managed through the provision of clear information and easier ways to express their preferences regarding unsolicited increases in their limit.

If a firm provides UCLI, it must meet the following requirements:

1. New applicants[2]

a. As part of the application process, or during account set-up, a new customer must be provided with an 'active choice' around how they would like their credit card provider to help them to manage any future increase(s) in their credit limit.
b. This choice must be positioned as a preference to:
   (i) 'Opt-out' – a customer can be contacted about a UCLI, which will be applied unless the customer takes action to reject it; or
   (ii) 'Opt-in' – a customer can be contacted about a UCLI, but this will not be applied without them activating it.
c. The options must be equally prominent, with no option pre-selected.
d. If a customer does not (for whatever reason) make a choice, the opened account must default to 'Opt-in'.

- **Communication with new applicants regarding their 'active choice'**

Clear and consistent information should be provided to the customer (at the point they are asked to exercise their 'active choice') as part of the application, or the account set-up process. This must include why the customer is being asked[3] to exercise such a choice, what it means in practice and that they can change their mind in future.

2. Existing customers

Firms may continue to operate an 'Opt-out' process for existing customers.

- **Communication with existing customers regarding a UCLI must:**

  - Clearly explain the process being followed, including how customers can:
    - ***Opt-out model:*** (a) reject the new limit; (b) Opt-out of all future UCLI; or (c) change their (Opt-in/out) preference for any future UCLI.
    - ***Opt-in model:*** (a) activate the new limit; (b) Opt-out of all future UCLI; or (c) change[4] their (Opt-in/out) preference for any future UCLI.
  - Include a 'health warning' to explain the balance of potential benefits and risks –

[2] Except where a 'universal' Opt-in model is operated, i.e. the firm has a policy where all UCLI are on an Opt-in basis.
[3] It is acceptable for a firm to require a choice in order for the application to proceed.
[4] Except where a 'universal' Opt-in model is operated, i.e. the firm has a policy where all UCLI are on an Opt-in basis.

see below.

- Ensure that, where choices are set out, these are prominent, neutral and avoid framing effects.
- Provide at least one frictionless 'self-serve' option for customers to exercise their preferences.[5]

Health Warning

The following model clause is proposed:

"A higher credit limit may offer greater flexibility and convenience to meet your financial needs. However, it may also increase the risk of taking on too much debt, which may be costly, or take a long time to pay off. You should carefully consider whether you need a higher limit"

(Firms will have some discretion around the precise language used, but the above must form the basis of the clause).

3. Selecting accounts for a UCLI

Firms must exclude accounts from their selection process where:

- The account meets the FCA's formula for the calculation of 'persistent debt' for a period of 12 months.
- A customer is identified, via data currently available to the firm, as being two or more payments in arrears on a lending product, as identified through a credit reference agency.[6]
- A customer's account has been subject to any form of forbearance by the firm in the last 6 months.

[5] Examples are direct links from email, SMS, mobile app servicing, online banking, automated free-phone number – frictionless describes the need for it to be easy for customers to reject a UCLI, or to express their future choices

[6] Firms will have some discretion around the materiality of certain information, such as their policy relating to very small balances