

Credit card survey

March 2004

Prepared for the Office of Fair Trading by
FDS International Ltd

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CONTENTS

<i>Chapter</i>		<i>Page</i>
1	Management summary	1
2	Introduction	3
3	Methodology	4
4	Main findings	7
	Ownership of credit cards	7
	Usage of credit cards	12
	Factors influencing choice	19
	Understanding of credit cards	27
	The APACS summary box	39
 <i>Annexe</i>		
A	Text of credit card offers shown to respondents	47
	Offer A	47
	Offer B	51
	Offer C	55
B	Text of credit card agreement shown to respondents	58
C	Questionnaires	59
D	Discussion guide	87
E	Detailed summary box	91
F	Simple summary box	92

1. MANAGEMENT SUMMARY

- 1.1 The OFT commissioned FDS International to undertake research amongst adults to determine credit card penetration and usage and explore understanding of credit card offers.
- 1.2 The APACS summary box, a standardised information panel designed to make it easier for cross comparisons to be made, was tested to see if it met with consumers' requirements.
- 1.3 One thousand eight hundred and ninety face-to-face interviews were conducted between 15th-31st December 2003 with a representative sample of GB adults. Four focus groups were carried out on the 15th and 19th January 2004 with extended credit takers and card switchers.
- 1.4 Results show widespread use of credit cards across the country – 71% have at least one card. Although most people have just one in active use, a large minority have more than one, to maximise the amount they are able to borrow. They are usually used for different purposes, such as everyday vs special use or personal vs 'with partner'.
- 1.5 Those without a card claim they prefer to use cash/debit card or worry about getting into debt.
- 1.6 Over a third of the adult population use their credit card to borrow money, and leave a balance to roll over to another month, rather than pay it off in full. For these people, they prefer the flexibility of credit cards, although they realise a loan may be a cheaper option.
- 1.7 At the time of this survey, extended credit takers are holding an average outstanding balance of £718 in a typical month, although this average is considerably higher amongst ABs and the 45-54 year age group.
- 1.8 Cards are used quite frequently – the majority at least once a month – although to some extent, this may be a direct result of the conditions of having a particular card.
- 1.9 Key factors influencing choice of card are interest rates, brand name/reputation, length of promotional offer and the fact their bank offered it to them.
- 1.10 When presented with three alternative offers, the top choice was based on low APR combined with 0% interest for six months on products and balance transfers.

- 1.11 APR is certainly the key item they look at when making comparisons. Even though they may not fully understand what this means, they know to look for a low figure.
- 1.12 When asked to find three key facts in the text of a credit card agreement, few cardholders were able to give the correct answers. The print size was criticised for being too small.
- 1.13 Awareness of charges other than interest was variable – the main ones identified were late payment penalty fees and cash withdrawal fees.
- 1.14 Three in ten cardholders admit to having a limited understanding of credit cards.
- 1.15 Reactions to APACS' proposed summary box are positive. Virtually all feel that a summary box would be useful giving clarity and making comparisons between card offers easier.
- 1.16 The ideal summary box would closely resemble to proposed APACS box with some minor refinements as presented on the final page of this report.

2 INTRODUCTION

- 2.1 The Office of Fair Trading (OFT) has commissioned research about the credit card market amongst a general sample of the population. Key objectives were to:-
- obtain a clear picture of the public's level of cardholding and the way they use cards
 - reveal the key motivating factors when choosing a credit card
 - understand how consumers cope with interest rates
 - observe how consumers use marketing literature to make choices between cards and so assess the 'user-friendliness' of literature
 - establish consumers' understanding of key financial information
 - obtain feedback on a proposed 'summary box' of key information on marketing literature, to be introduced by APACS in March 2004.
- 2.2 Findings will be used to inform OFT's input into a review of the Consumer Credit Act and Regulations made under that Act.
- 2.3 This document discusses the results from a two-stage research programme, using quantitative and qualitative methods. A presentation of the major findings has been issued under separate cover.

Technical note on bar charts

- 2.4 Throughout this report we specify whether an answer allowed for multiple or single responses only by annotating each chart. Questions allowing for multiple responses may show data adding to more than 100%. Single response questions (e.g. what was the most important factor...) will add to 100%.

3 METHODOLOGY

- 3.1 A two – stage project was designed to include a main quantitative stage and supporting qualitative element.

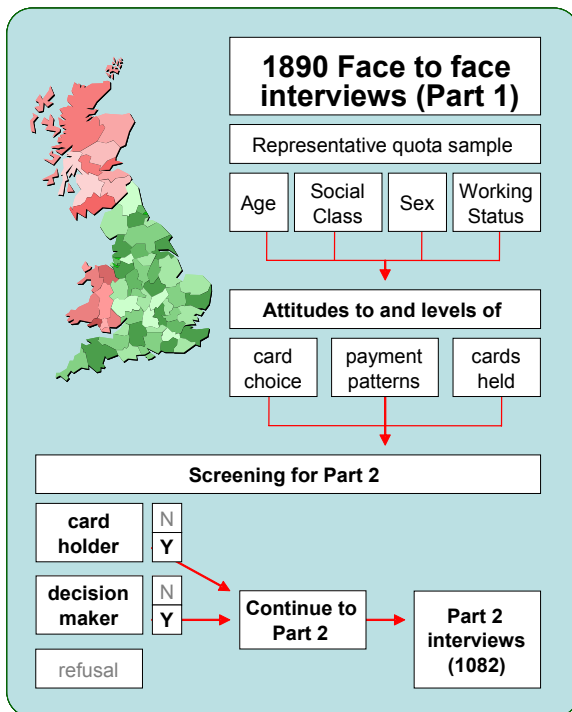
Quantitative

- 3.2 208 sample points were drawn systematically across Great Britain using Local Authority statistics, to represent the country in correct proportions.
- 3.3 Rather than specifying that interviewing **must** be conducted in-home, interviewers were instructed to contact respondents in any appropriate place, including in-home, golf clubs, and social centres.
- 3.4 Quotas were set for sex, age, social class and working status to ensure that a representative sample of the population was interviewed.
- 3.5 The questionnaire was structured in two parts:-
- 3.6 **Part 1** covers ownership of credit cards, reasons for not holding cards, number and types of card held, how pay off balances, usage frequency, factors influencing choice of card, reasons for loyalty, whether know APR, importance of APR and confidence in dealing with numerical information.
- 3.7 Decision makers were asked whether they would be willing to continue with the rest of the questionnaire and were incentivised with £3 for doing so.
- 3.8 **Part 2** of the survey covered understanding of three live examples of credit card offers, information used in deciding between the three, factors important when applying for a credit card (prompted), understanding of an example credit card agreement, how used information in example credit card agreement to assess offer, ease of understanding information, preference for simple or more detailed summary boxes of credit card offers and self assessment for understanding of credit cards and extent to which would read up on credit card offers.

3.9 One thousand eight hundred and ninety interviews were conducted between 15th-31st December 2003, with a demographically representative sample of GB adults. These completed Part 1 of the questionnaire:-

- 1328 of them had at least one credit card.
- 1284 were decision makers.
- 1082 agreed to take part in the longer interview (parts 1 and 2).

3.10 The quantitative phase is summed up:-



Qualitative

3.11 Four focus groups were carried out on 15th and 19th January 2004 with extended credit takers who are considering obtaining a new card or had done so recently.

Group 1 – Midlands	18-30	ABC1
Group 2 – Midlands	31-55	C2DE
Group 3 – South	18-30	C2DE
Group 4 – South	31-55	ABC1

- 3.12 Each group comprised a mix of men and women (8 adults in total).
- 3.13 Groups focused on providing more depth and discussion regarding the summary box to be introduced in Spring 2004.
- 3.14 The discussion guide used is included as an Annexe.

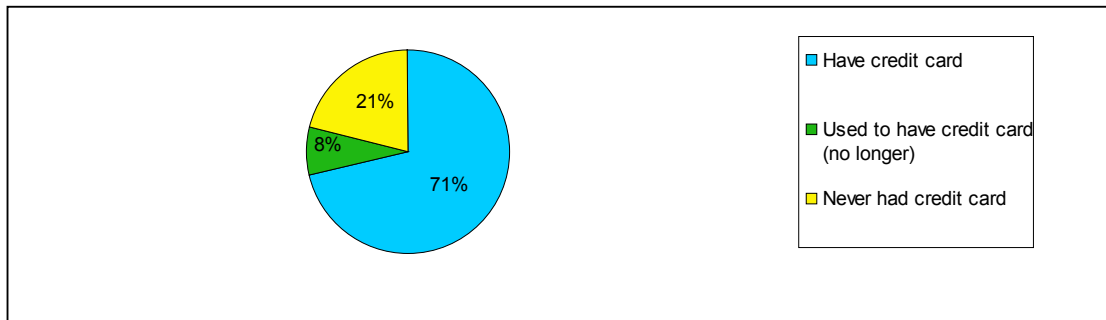
4 MAIN FINDINGS

Ownership of credit cards

- 4.1 A majority (71%) of people across the country have at least one credit card. 8% have had a credit card previously, but not at present. One in five (21%) have never had a credit card, mostly (19%) through personal choice; the remainder (2%) have not been able to one.

Chart 4.1: Ownership of credit cards

(Base: All-1890)

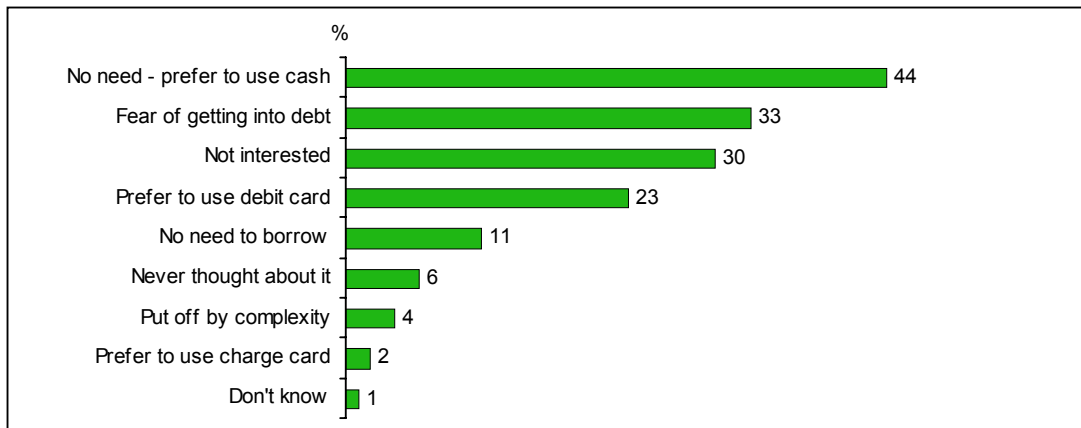


Resistances to credit cards

- 4.2 Main reasons for not having a credit card, through choice, are a claimed preference for using cash (44%) or a debit card (23%), fear of getting into debt (33%) and not being interested (30%). In practice, it is possible these reasons may all be related to a fear of debt, expressed in differing ways. Using cash may also include cheques and debit cards, which are widely considered as 'cash'.

Chart 4.2: Never had Credit Card through choice

(Base: All who have never held a Credit Card through their own choice – 358)
multiple response



- 4.3 Clearly, some people regard having a credit card solely as a means of borrowing money (11%). These tend to be older (55+) respondents.
- 4.4 Those who work are much more likely to mention a preference for using cash (53%) than those who do not work (33%). Incidences of preferring cash and using debit cards are highest amongst Abs (52% and 44% respectively) and lowest for DEs (27% and 16%).
- 4.5 Some focus group attendees are in the process of considering a card, but do not yet have one. Their comments on perceptions of credit and their general reservations include:-

'I think it does tempt you to spend more than you probably would do if you had the cash.'

'That's the main reason why I haven't got one yet. Don't get one unless you can really handle it, that's how I see it.'

'My friend gets his wages and two weeks later he hasn't got any for the rest of the month. If he had a credit card what would he do?'

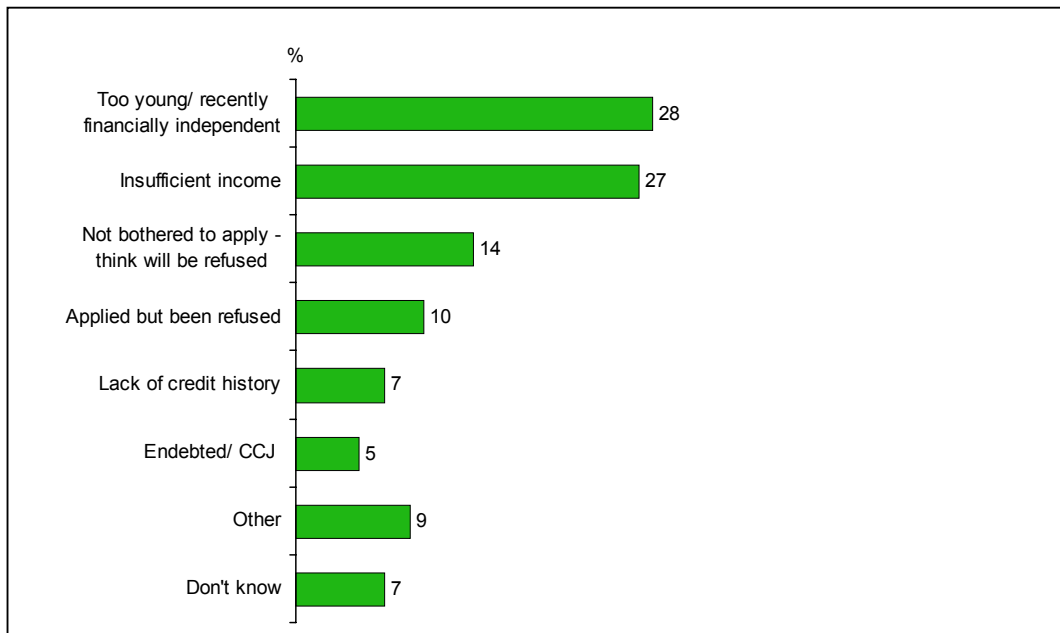
'Well I do want to get one so then at the end of the month if I haven't got any money then I can use that, then I think if I haven't got any money maybe I shouldn't get one ...'

Barriers to obtaining a credit card

4.6 One key reason why the minority who would like a credit card do not have one is that they are too young and only just finding their feet financially. Another important reason is lack of income. Although a small number in total (51), about half are aged 16 – 24 and from DE social classes.

Chart 4.3: Never had Credit Card – not by choice

(Base: All who have never had Credit Card but not through own choice – 51)
multiple response

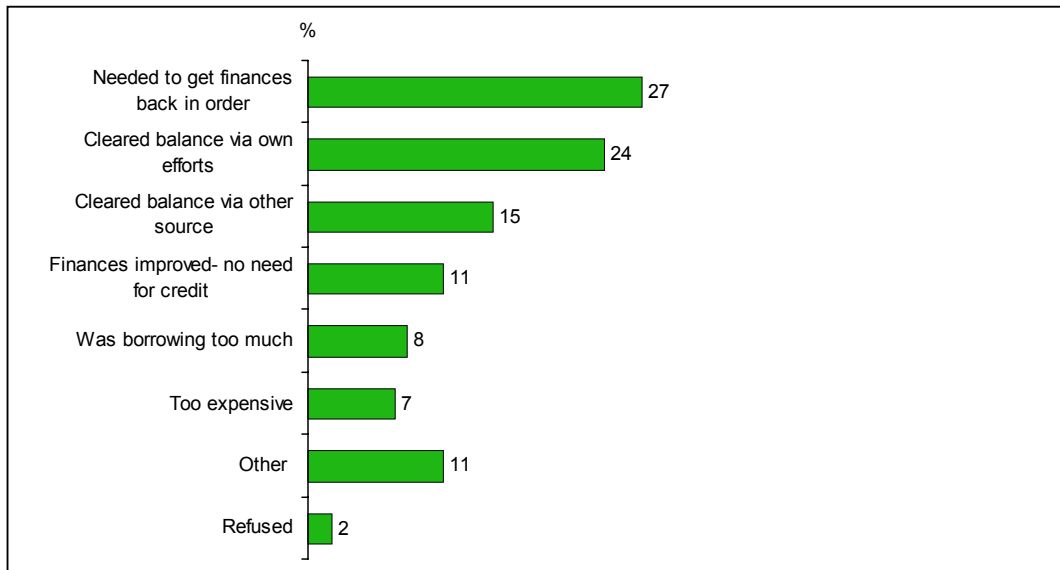


Reasons for giving card up

- 4.7 Where they used to have a credit card, but no longer do so, financial difficulties have clearly led to them being given up, so they can get back on their feet.

Chart 4.4: Previously had Credit Card – not now

(Base: All lapsed Credit Card holders – 141) multiple response



- 4.8 This was also referred to in the groups:-

'I got caught, I think I was about 22-23 just married, you know we got caught on the late payments and interest and then you get to the stage where you're sticking your head in the sand and you just don't want to even open the envelope.'

'Basically I did have a credit card when I was 18 but you know how stupid you are at that age – I spanked it!'

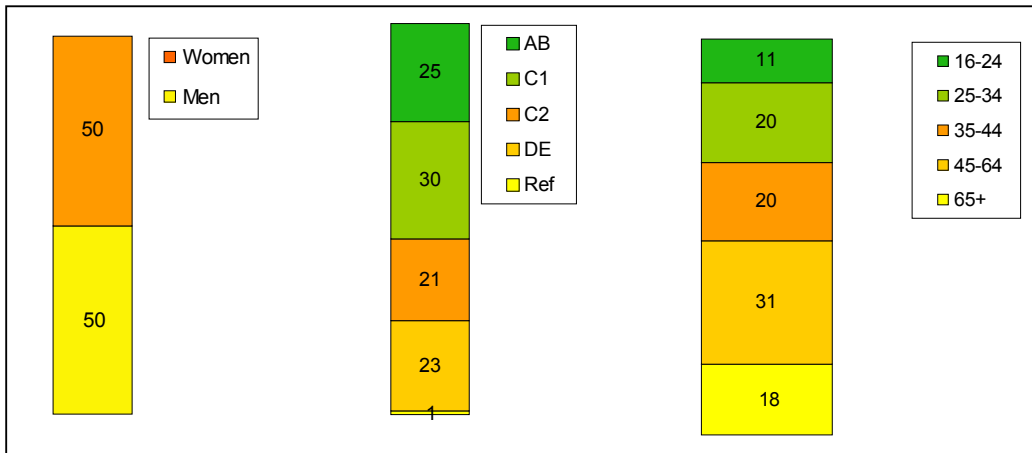
'I've been in debt and I'm only 19 years old.'

Profile of credit card holders

- 4.9 Men and women are equally likely to have a credit card. In terms of age, credit card holders are much more likely to be aged between 35 and 64 than non-cardholders (51% vs 36%).

Chart 4.5: Profile of Credit Card holders

(Base: All with Credit Card – 1328)



- 4.10 Over half (55%) of credit cardholders are from ABC1 social classes – only 19% of ABC1s do not have a card. This compares with 45% of DEs not having one.
- 4.11 Not surprisingly, cardholders tend to be working (67%), and over half (53%) work full time. One in five (21%) are retired.
- 4.12 About half of non-cardholders are working (49%) – a third (35%) full time.
- 4.13 As far as marital status and region are concerned, profiles of cardholders follow the sample profile as a whole.
- 4.14 The majority taking part in the survey were long-term credit cardholders – 45% have had their card(s) for many years, 38% for a few years and just 17% are recent cardholders – within the last year.

Usage of credit cards

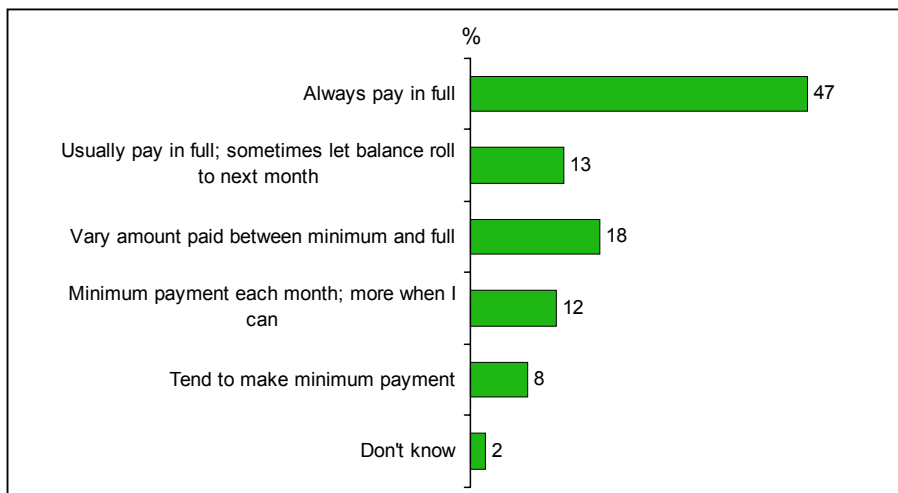
Payment behaviour

4.15 A little under half of credit cardholders (47%) pay off the full amount owing on their card at the end of every month. Those who do not do so (51%), demonstrate four differing behaviour patterns. One in eight try to pay off the full amount, but sometimes let the balance roll over to the next month. Rather more common (18%) is to regularly vary the amount between full and minimum payment.

4.16 The other two groups tend to pay the minimum amount, however, one in eight will pay off more when they can; one in twelve only pay the minimum.

Chart 4.6: Payment behaviour

(Base: All with Credit Card – 1328) single response



36% of the adult population use credit cards to borrow money, all or some of the time

4.17 A majority with more than one credit card claim they treat each one the same when it comes to paying off the balance each month.

4.18 Those who vary the amount, are more likely to be aged 25-44 and C2DE social classes. Their main reasons for varying the amount are as would be expected:-

- depends what I can afford (27%)
- pay the card with the highest interest rate (25%)
- pay more off the larger bill (12%).

- 4.19 In the charts below, we show profiles for full payers and extended credit takers.
- 4.20 Men are a little more inclined to pay off their debt in full. Full payers are evenly spread across the age groups from 25 years and over and much more likely to be AB social class.
- 4.21 Extended credit takers (ECTs), on the other hand, are more likely to be C2DE (51%) and concentrated in the 25-44 age group, which coincides with bringing up a family. ECTs are more likely to have children: whereas 63% of ECTs have no children, amongst full payers the figure is 82%.

Chart 4.7: Profile by payment behaviour – always pay in full

(Base: Credit Card holders paying in full – 609)

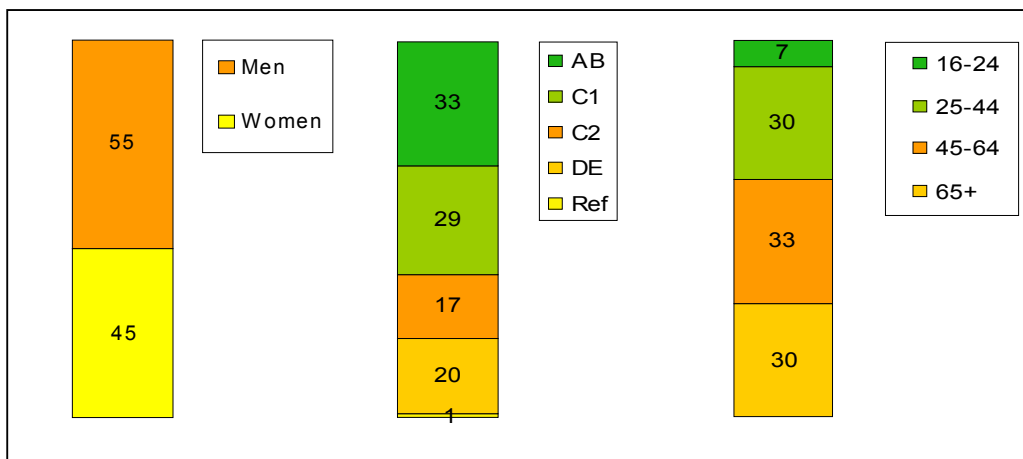


Chart 4.8: Profile by payment behaviour – don't always pay in full

(Base: Credit Card holders not always paying in full – 684)



- 4.22 There is also a difference in profile between full payers and ECTs in terms of working status. More ECTs are working (76% either full or part time) than full payers (58%), suggesting those who work are less worried about owing money.
- 4.23 The affluent South East shows the lowest level of ECTs amongst all credit card holders (39%). The West Midlands (70%) and the East Midlands (60%) have the highest share of ECTs by region.

Balance – typical month

- 4.24 Amongst those whose behaviour tends towards not paying off the full amount every month, we asked them to state what their typical balance would be. About one in ten (9%) claimed the amount varies, just 5% refused to say and a further 7% did not know.
- 4.25 The table below is based on only those who stated an amount, with the average calculated using mid-points for each ‘debt’ band (e.g. £75 in the category £50 - £100) and using £25 and £3,000 for the highest and lowest categories.
- 4.26 Clearly, the largest group (29%) owe between £201 and £500 in a typical month. Nevertheless, one in five owe more than £1,000 and one in ten claim to owe over £2,000. This represents 6.3% of all credit cardholders owing over £1,000 and 2.7% owing over £2,000. Since this excludes those where the amount varies or they refused or were unable to state an amount, figures may be a little higher.

Chart 4.9: Balance outstanding

Base: All not paying in full/ stating amount:	405 %
Up to £50	5
£50 - £100	11
£101 - £200	16
£201 - £500	29
£501 - £1,000	18
£1,001 - £2,000	12
Over £2,000	9
Average	£718

- 4.27 Comparing average amounts by demographic groups, there is no difference between men and women in amount owed (£719 for men; £716 for women).
- 4.28 However, comparisons by age and social class show the amount increases with age, peaking at 45-54 year olds, with the highest average - £927 – after which the amount drops down again.

Chart 4.10: Typical Credit Card use

Base: All not paying in full/ stating amount	Average (£)
16-24	640
25-34	625
35-44	709
45-54	927
55 +	722
AB	1,147
C1	694
C2	579
DE	679

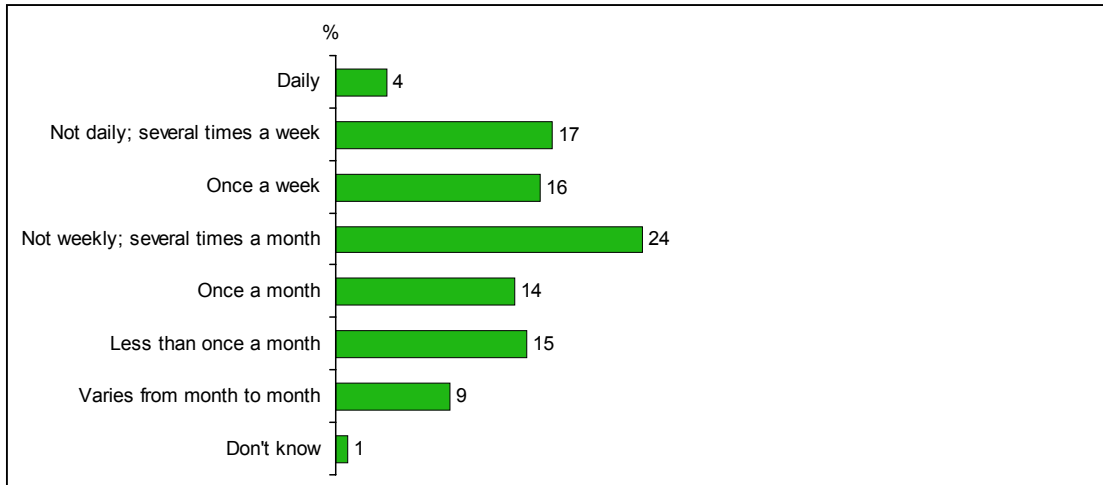
- 4.28 It is clearly the AB social class with the highest average - £1,147. Other social classes tend to have an average of under £700.
- 4.29 Although base size is quite small (26 people), a similar average calculation indicates that those with a larger number of cards - 3+ - have a higher average monthly bill (£1,387) compared with those who have one card (£633 average) or two cards (£775).

Typical frequency of using credit card

- 4.30 Credit cardholders were asked how often they used their credit card (or most frequently used card if they have more than one).
- 4.31 Although on average, credit cards are used a little over once a week, there is wide variation in actual frequency. Of particular note is that well over a third (38%) use it at least once a week and three in four (76%) use it at least once a month.

Chart 4.11: Typical Credit Card use

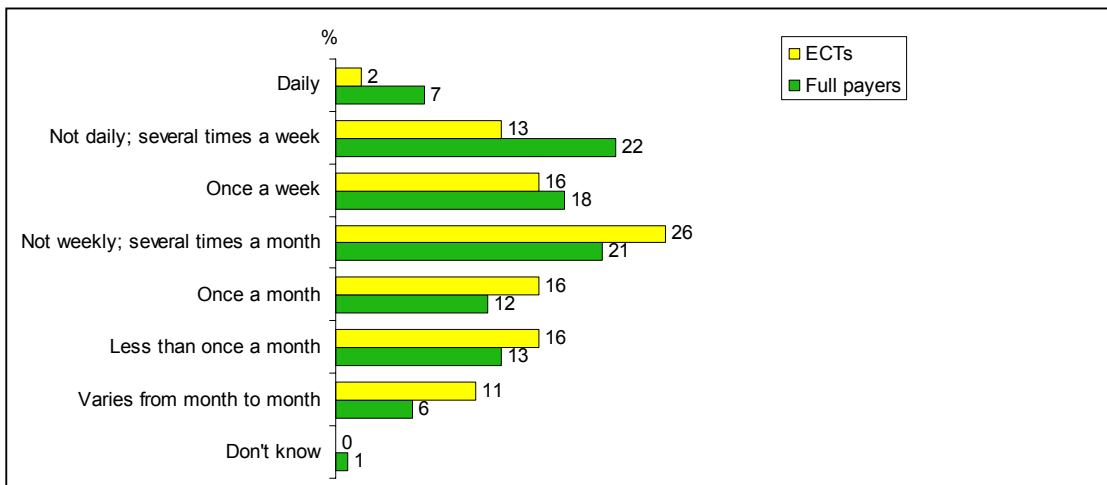
(Base: All with Credit Card – 1328) single response



- 4.32 Comparing extended credit takers with full payers, it is clear the latter are more frequent users of credit cards, with nearly half (47%) using a credit card at least once a week against under a third (31%) of ECTs.

Chart 4.12: Typical Credit Card use

(Base: All with credit card – 1328) single response



4.33 Other notable differences are:-

- ABs are more frequent users than DEs – 47% vs 26% at least once a week
- usage increases with the number of cards used – at least once a week is 35% amongst those with one card; 44% with two cards and 56% with three or more cards
- those claiming to have a good understanding of credit cards and what is on offer are also more frequent users (42% use at least once a week vs 30% of those with limited knowledge or no interest).

4.34 Examining brands of cards, where there is a base of at least 50 users, it appears that usage at least once a week is between 27% and 49% of customers owning those cards. The lowest is Lloyds TSB (27%); highest are HSBC (49%); Tesco (48%), Barclaycard and Abbey National (both at 46%).

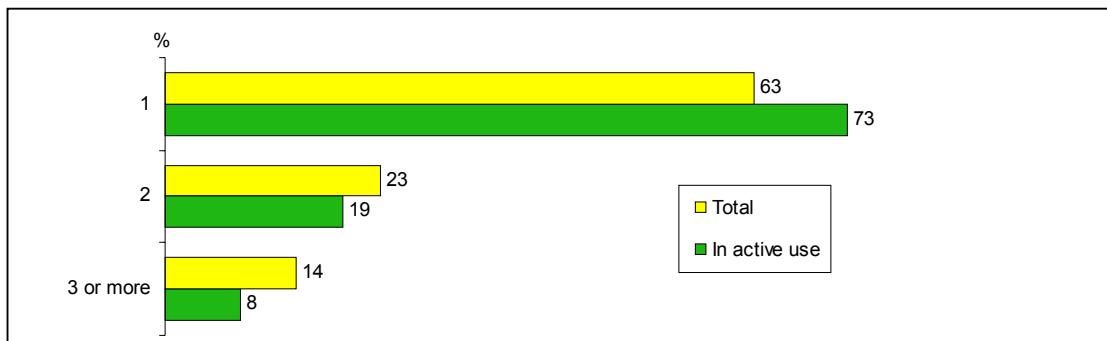
Number of credit cards owned

4.35 Although a majority of people have one credit card (63%), a significant minority have two or more. When asked how many are in active use, the number with one increases to three in four (73%) - ie in addition to those who only have one card, over a quarter of those with two or more only have one in active use.

4.36 It is therefore the case that at least one in ten credit cardholders have one or more credit cards that have fallen into disuse but not been destroyed.

Chart 4.13: Number of Credit Cards Owned

(Base: All with Credit Card – 1328) single response



4.37 Overall, the majority of cardholders have Visa credit cards (76%) rather than Mastercards (39%).

4.38 There are five key stated reasons for having more than one credit card:-

- to maximise the amount I want to borrow (20%)
- one came automatically with my bank account (19%)
- they offer different things - e.g. one gives free extended warranty; the other gives loyalty points (19%)
- one is for everyday spending; one is for exceptional items – e.g. a holiday (17%)
- one is for personal spending and one is for joint use with partner (17%).

4.39 These findings were supported in the focus groups, with comments such as:-

'Well one I use for major purchases if I want to buy leather settees, the other one's just for shopping and if I see something.'

'I've got one card I use for business, I get all my materials for work on one card and I pay that off every month if I can. I usually can.'

4.40 However, an additional card is sometimes more of an impulse acquisition:-

'I didn't need a card. I've got about £12,000 limit on my Egg card and so I didn't need it. But I thought well why not.'

'I was induced by £60 worth of Marks & Spencer's vouchers. Hard cash if you like.'

4.41 Others clearly appear to be maximising the amount they can borrow, and robbing Peter to pay Paul:-

'If it's 0% for 6 months. You can't lose then really can you. Because you can just transfer it. But you do get yourself in a state, if you're that type of person who keeps spending on your card.'

- 4.42 Some may not have an additional card yet, but are seriously thinking about acquiring one, or switching to a competitor. The key reasons for doing so seem to be to get a better interest rate:-

'I kept my Barclaycard going and now I think I should change because it's just force of habit really. I've never bothered to do anything about it. I think I should get a new one with 0% finance.'

'But now the adverts are showing more and more on the telly I keep thinking I could get a better rate.'

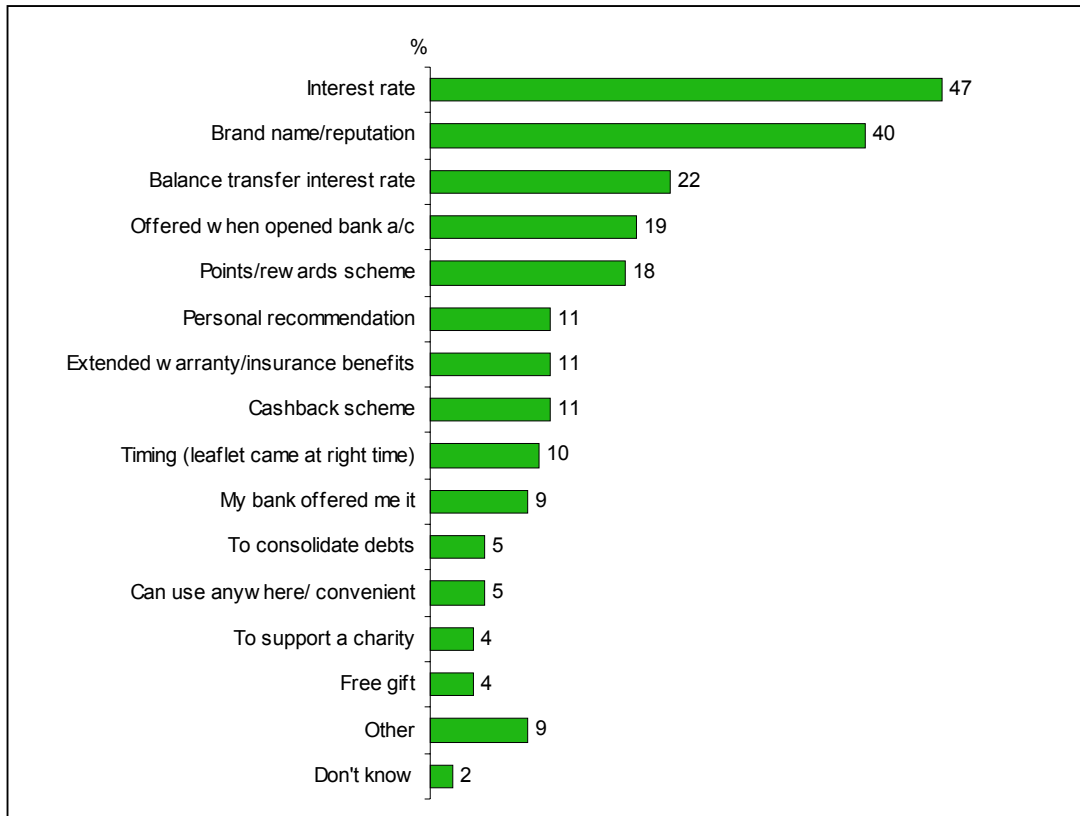
Factors influencing choice

Spontaneous

- 4.43 Credit Card holders were asked what factors persuaded them to choose their credit card (or the one obtained most recently if they had more than one). Their answers were unprompted and we recorded up to three responses, logging which was mentioned first, second and third.
- 4.44 Taking all answers into account, the interest rate, not surprisingly, is the choice factor mentioned by the largest proportion of card holders (almost half- 47%). The brand name/ reputation of the company issuing the card was also a key factor in choice of card, mentioned by four in ten. The balance transfer interest rate (typically 0% for the first 6 months) is a consideration with one in five (22%). Another one in five (19%) did not so much choose their card as have it issued to them when they opened their bank account. Similarly, another 9% say their bank offered it to them as an existing customer.
- 4.45 Points/reward schemes are a motivating factor with 18%. Other factors influencing choice of card, each mentioned by one in ten are personal recommendation, extended warranty benefits, cashback scheme and timing (promotional leaflet arrived just at the right time).

4.46 At a lower level, other factors were the ability to consolidate debts, the convenience of being able to use it anywhere, supporting a charity and free gift.

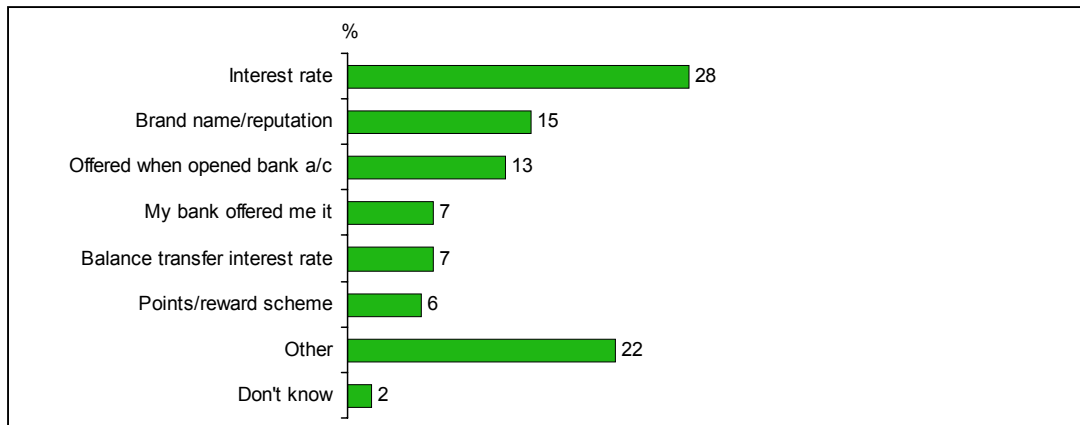
Chart 4.14: Factors influencing choice of card (spontaneous)
(Base: All with Credit Card -1328) multiple response



4.47 If we isolate the first 'top of mind' factor mentioned spontaneously, interest rate again emerges as the most important consideration mentioned by twice as many as mentioned the second most important choice factor, brand/reputation - 28% and 15% respectively. One in five had their card offered to them by their bank either at the time of opening the account (13%) or at a later date (7%). 7% mentioned the balance transfer introductory rate and 6% points/ reward schemes first among reasons for choosing their credit card.

Chart 4.15: Most important factor influencing choice (spontaneous)

(Base: All with Credit Card – 1328) single response



4.48 There are differences in response by different sub groups. Those with the largest amounts owing (£2000+), who don't always pay their cards off in full and/ or have 3 or more cards are significantly more likely to mention interest rate as their 'top of mind' motivating factor.

4.49 The young (16-24) and the old (55+) are more influenced by brand/reputation perhaps for different reasons. The young may be thinking more in terms of trendy brand image while the old are thinking about reputability, trustworthy name. Barclaycard's long standing presence in this market is reflected by the much larger proportion of Barclaycard holders mentioning brand/ reputation as their top-of-mind factor.

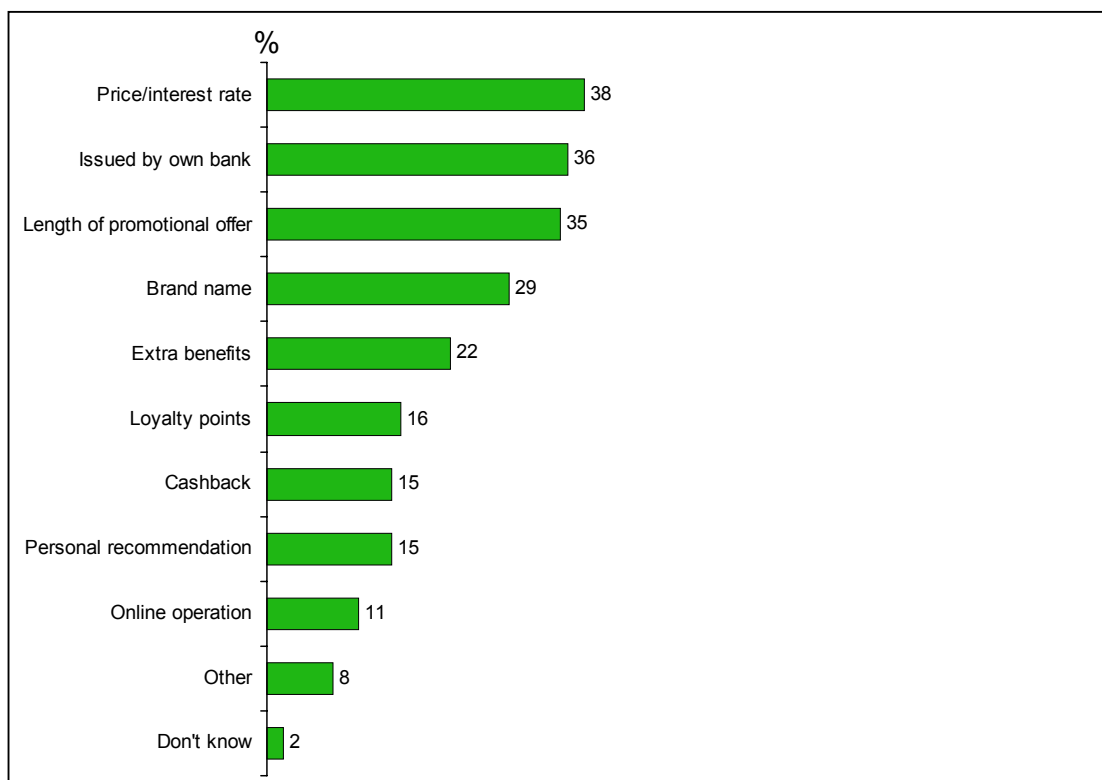
4.50 A higher proportion of Lloyds/TSB cardholders claimed the bank's offering them a card was the key motivating factor and this reflects recent activity by the bank to sell its cards to its own current account holders. Those with larger debts, two or more cards and recent card acquirers (switchers) are more likely to mention balance transfer introductory rate as the key motivating factor.

Prompted

- 4.51 When prompted with a list of factors which might have been important when applying for a credit card, price of credit/ interest emerges once again as the most important factor (38%). The fact that their own bank issued it to them was the second most important prompted consideration (36%). The length of any promotional offer (ie duration of the 0% introductory rate) was the third most important prompted consideration (35%) and the fourth was brand name (29%). These results are closely in line with the spontaneous factors just covered.
- 4.52 Extra benefits (eg extended warranties/ free insurance), loyalty points, cashback, personal recommendation and the fact that you can manage the account online were less important considerations (after prompting).

Chart 4.16: Important factors influencing choice (prompted)

(Base: All with Credit Card – 1082) multiple response



- 4.53 Again, there are differences in response amongst different subgroups. Extended credit takers are even more influenced by interest rates and the length of any 0% transfer rate. The young too are more influenced (after prompting) by interest rates and the length of the interest free period and also by extra benefits.

- 4.54 Those from social classes AB are more influenced by personal recommendation and the ability to manage the account online. New cardholders are particularly swayed by the brand name (39%). Lloyds/TSB cardholders are more likely to say the card was issued to them and HSBC cardholders and acquirers of cards in the last year are more motivated by the online capability of their account.

Qualitative findings

- 4.55 Quantitative data showing the importance of interest rates in the decision-making process is backed up by comments from our focus groups. Here too, rates are seen to be key criteria for many:-

'Well it's just the lower it is the better isn't it.'

'I've got 3 envelopes at home sitting there in case I need them saying 0% finance. I haven't thrown them away. 3 different companies and they're just sitting there just in case.'

'All that really matters is to get an interest rate that's as low as possible for as long as possible, it's as simple as that.'

'They cost money. All these rewards things, the air miles, the points, for my self I want to see something that's got a realistic interest, bang then you're away.'

- 4.56 As with main stage results, trusted brand name also features strongly:-

'I have credit cards like HSBC. I can walk in and see these people about the cards. The same with Nationwide and Barclays. I don't think I would go for a card where I couldn't see a person. Personal contact.'

'Maybe if it's a known brand. I'd rather go for a known brand than I would something that you'd never heard of before.'

'I'll use my bank probably - you have got to go with someone you know haven't you.'

'Capital One or Egg, I don't know who runs those companies. So how do I know that they're going to be reliable and at the end of the six months they're not going to whack the rate up.'

4.58 However some are clued up enough to know that even a new brand is likely to be backed by a trusted company behind the scenes:-

'Most credit cards are now marketed by one of the big banks so for me it really doesn't matter because there is only a small core of banks or finance companies controlling all the markets.'

'You should read the financial pages, I mean I haven't got a card but I know that Mint is the Royal Bank of Scotland.'

4.59 Respondents were asked to set aside the issue of pricing for a moment. Assuming rates are all on a par, there are a host of other criteria, which might tip the balance in favour of one card vs another, such as:-

'The perks. i.e. air miles or whatever, one that gives you money off vouchers off certain shops if you spend money in there on your credit card, just basically things like that.'

'I mean my daughter is at university and she's got a Barclaycard so I might get that.'

'I would probably look for the freebies that you get when you first take it out.'

'How easy it is to pay back, not how much you pay but can you pay it on line, set up direct debit facility. I mean I work full time so I don't want the hassle of going and paying a bill in the bank or post office or whatever, I tend to do mine you know 9 or 10 o'clock at night on line.'

'Credit limit as high as possible, well obviously if you are going to get a card you want to have a decent credit like these Gold cards and that, you want something like £25,000 limit.'

4.60 While people claim that rates are extremely important, very few appear to actually sit down and compare like for like offers side by side. It is more a case of building up their general knowledge over a period of time, so that when the timing is right and they see an offer, they feel confident about applying:-

'I think it's building up your knowledge on a regular basis. So when that moment happens, you subconsciously know.'

'You get a rough idea what's good and what's not.'

'You're more aware when you get closer to it. It's not like one day you wake up and go "oh I'll get a credit card today." You build up mentally to it and you become more aware of deals.'

- 4.62 Only a minority actually seem to look at comparison tables and select on this basis:-

'If you actually go on line you can actually get you know a lot of cheaper interest rates – you can go through that and basically just punch in what you are looking for and how much you want.'

Awareness of their own interest rate

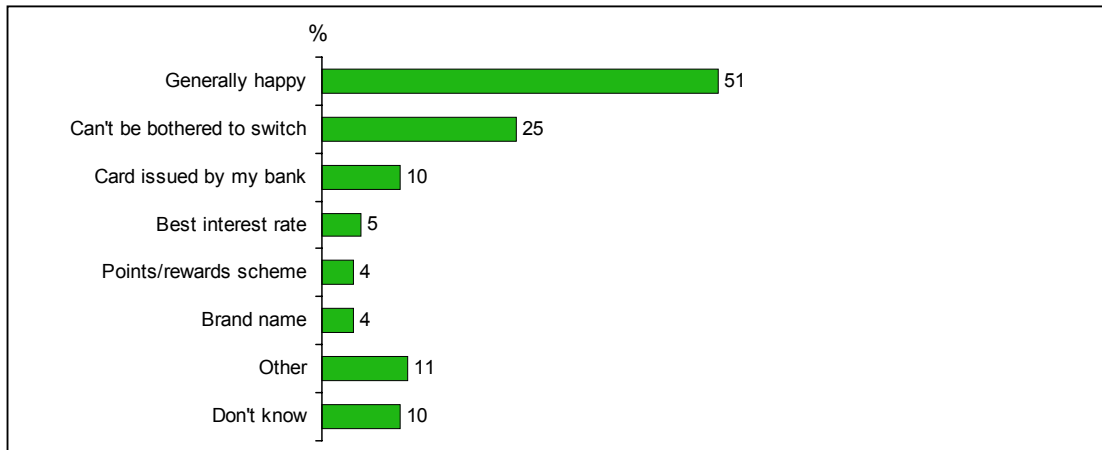
- 4.63 Interest rates are clearly the most important factor influencing choice of card. However, when asked whether they know the APR on their current (or most frequently used) credit card only a quarter (24%) knew the rate. This is higher amongst those who obtained their card in the last year (31%).
- 4.64 Whilst awareness of APR is higher amongst those who don't always pay off their card in full every month (30%) than amongst those clearing their account each month (18%), it is still rather low.
- 4.65 So while being important at the time of choosing a card, many do not go on to hold the current rate in their mind. Card holders who enjoyed an introductory interest free period may be unsure as to whether they are still 'in' or now 'out' of the period.
- 4.66 The mean level of interest for those who could recall the APR on their card is 13.9%.

Loyalty

4.67 Eight in ten have not obtained any cards in the last year. Asked why they have remained loyal to their card, half are generally happy and a quarter just cannot be bothered to switch. With one in ten, the fact that the card is issued by their bank makes them more inclined to keep going with it.

Chart 4.17: Reasons for loyalty to a card

(Base: All not changing Credit Card in last year – 1033) multiple response



Understanding of credit cards

Claimed level of understanding

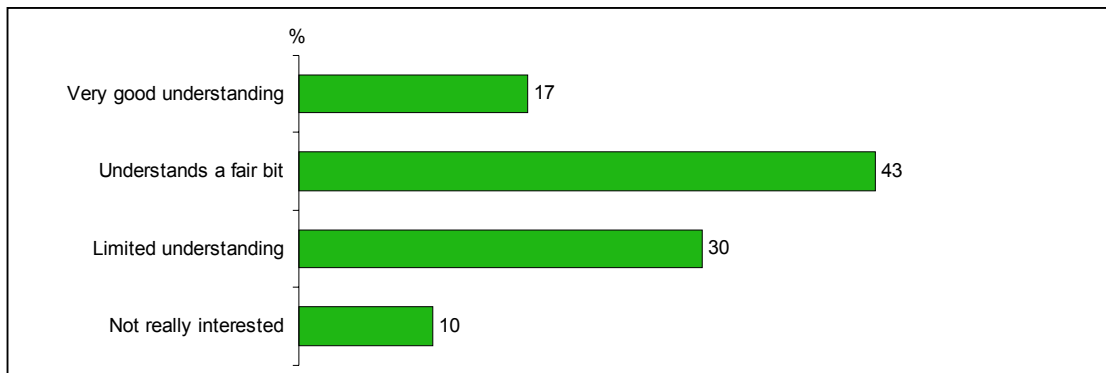
4.68 Card holders were asked whether they:-

- a) Have a very good understanding of credit cards and what's on offer
- b) Understand a fair bit about how things work and what's available
- c) Have a limited understanding, or
- d) Are not really interested in how credit cards work

4.69 Only one in six claim to have a very good understanding. The largest proportion claim to understand them a fair bit (43%). However as high a proportion as three in ten admit to having only a limited understanding. 10% are just not interested in how credit cards work (in spite of having one).

Chart 4.18: Claimed level of understanding of Credit Cards

(Base: All with Credit Card – 1082) single response



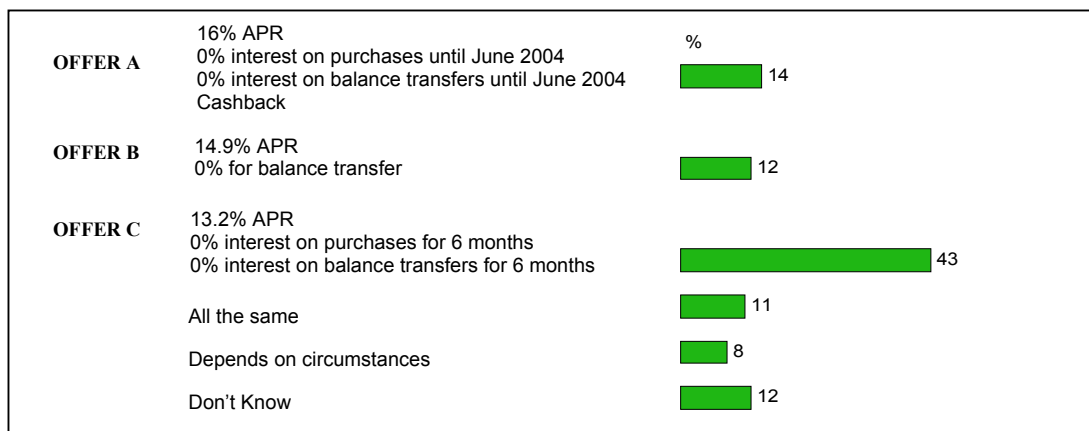
4.70 ABs, those with three or more credit cards and those on a low rate of interest are more likely to say they have a very good understanding of credit cards. DEs are more inclined to say they have only a limited understanding.

The three offers

- 4.71 Credit cardholders were shown three credit card offers. They were asked to look only for information which helped them to determine the overall cost of the offer. Interviewers allowed them time to look at all three. The three offers follow on the next nine pages of this report (each offer takes up three pages).
- 4.72 There was a lot of information for respondents to assimilate. Typically, they gave each a cursory glance and most picked out the highlights printed in the top left corner of the first page of each (these were added by the OFT).
- 4.73 Offer A was based on a bank's own credit card and would typically accompany a monthly statement. Offer B was based on a mail shot from any credit company to a potential customer and offer C was based on an online offer.
- 4.74 The name of the credit card issuer had been removed from all three.
- 4.75 Asked which offer, in their opinion, was the better deal, offer C emerged, quite correctly, as the clear winner, chosen by 43%. Not only does C give 0% introductory rates on balance transfers and purchases, it also has the lowest ongoing APR- 13.2%. However, given that this is the best of the three offers, the fact that it was chosen by well under half indicates a lack of understanding by the majority of what to look for.
- 4.76 14% chose offer A and 12%, offer B. 11% could not choose between them and 8% said that it depended on the circumstances. 12% could not pick a best offer.

Chart 4.19: Offer perceived as best deal

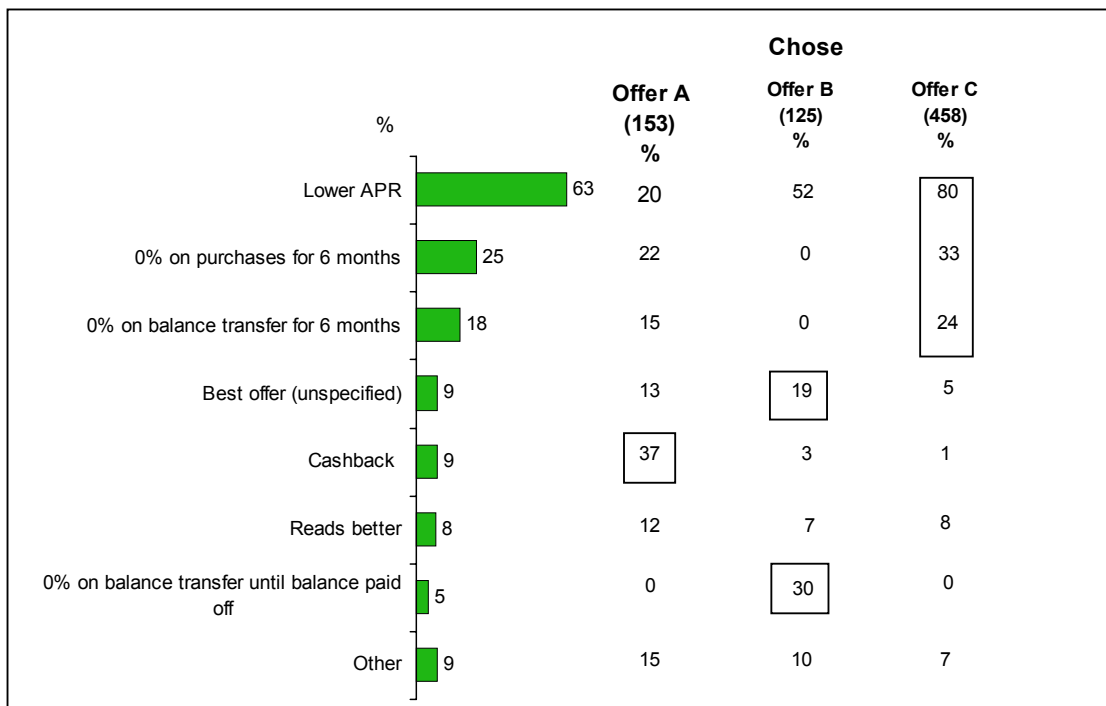
(Base: All with Credit Card – 1082) single response



- 4.77 Larger proportions of the over 55s , those from social class groups DE and those not working were unable to give an answer.
- 4.78 Lower APR and 0% deals are the most important determinants of what is the better offer. The favourite (offer C) was picked for its lower APR (stated as 13.2%) and for the 0% deals on purchases and balance transfers for 6 months.
- 4.79 The most attractive aspect of offer A (second favourite) was its cashback scheme. It was also chosen on the strength of its lower APR (stated as 16%) and 0% interest on purchases and balance transfers for six months (from the interview period).
- 4.80 Offer B appealed because of its lower APR (stated as 14.9%) and 0% on balance transfers until the balance is paid off. Although the offer did not say explicitly 'for the life of the balance', this seems to have been taken as read.
- 4.81 Those able to choose between the three offers largely picked out the correct key strengths of their favourite which were summarised in the highlighted section in the top left hand corner.

Chart 4.20: Why best deal

(Base: All with Credit Card able to make a choice between offers – 736) multiple response



4.82 Group discussions echo quantitative findings. In addition, it is interesting to observe that when comparing offers, people tend to give the paperwork a cursory glance and make their decision based almost exclusively on the first few lines, ie interest rate and balance transfer offer. They also come to the same conclusion that the online offer is likely to be the best, based largely on this initial information:-

'Without going into in-depth analysis, it seems the best offer.'

'Well the online one is cheaper straight away anyway.'

4.83 Unlike in the main stage study, during groups, respondents were told the source of each offer (ie online offer, own bank or mail shot). Some are drawn towards or away from particular offers once this is known, based on their own perceptions, eg:-

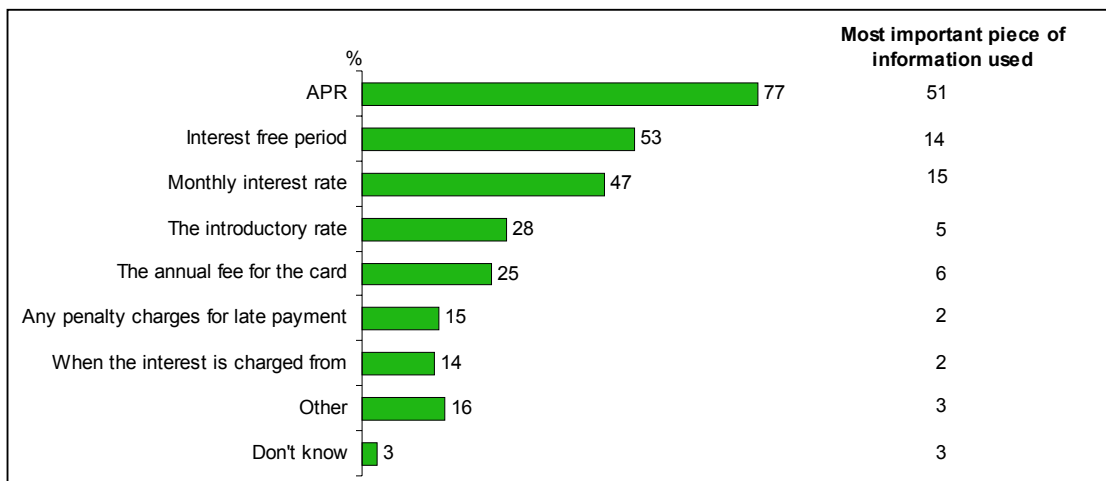
'(Mail shot) Would normally go straight in the bin, it's a little bit tacky if you know what I mean.'

4.84 Cardholders were given a list of items of information and asked which were the most important in helping them make comparisons between the three offers. Combining the first, second and third answers given, APR is clearly the most important piece of information used, mentioned by over three quarters, followed by the interest free period (53%), monthly interest rate (47%) and the introductory rate (28%).

4.85 When looking at the first answer only, APR is far and away the most important first piece of information used to choose between offers (mentioned by over a half).

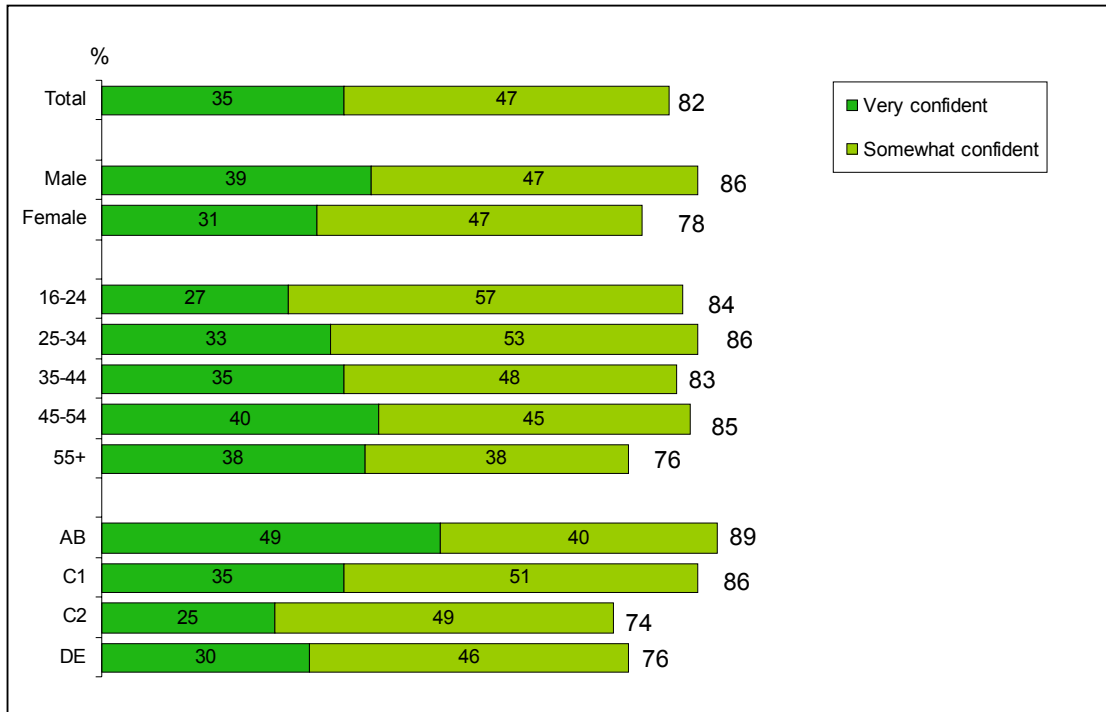
Chart 4.21: Information used when making comparisons (prompted)

(Base: All with Credit Card – 1082) multiple response



4.86 Asked how confident they were in their opinion regarding which was the better offer, over eight in ten say they were very or somewhat confident. Men are more confident than women. The 55+ age group and those from social classes C2DE are less confident than other groups.

Chart 4.22: Confidence in opinion
(Base: All with Credit Card – 1082)



4.87 In order to test their understanding of offers A,B and C a little more thoroughly we told cardholders to imagine they had £100 owing on a card and asked them how much they would have to pay next month if they did not pay anything off this month. This exercise was repeated for all three offers.

4.88 As can be seen in the chart below, there were a wide variety of answers with a majority unable to respond (60-62%). If we are to interpret the amount payable next month as the minimum payment, then £5 is the correct answer for all three cards since the monthly payment is stipulated as 2 to 3% of the outstanding balance or £5 (whichever is the greater). Only a small minority managed to answer this correctly.

Chart 4.23: Test question on offers A, B, and C

(Base: All with Credit Card – 1082) single response

	Offer A %	Offer B %	Offer C %
Minimum payment £5	3	2	3
Non payment fine £20	2	2	2
£100	6	2	6
£100 + monthly interest	2	1	1
£100 + non payment fee	4	3	4
£100 + monthly interest + non payment fee	1	0	0
Other answers	22	28	23
Don't know	60	62	61

4.89 Again, a similar focus group exercise shows that people struggle to understand how interest rate amounts are arrived at, or how to make a stab at working it out for themselves. When posed a question about how long it may take to pay interest off, a few are able to make a sensible stab at it, but typically confusion reigns, as shown by the following conversation:-

'So, you've borrowed a thousand pounds and you can afford to pay back a hundred every month and it's 12% interest rate. How long would it take?'

'Would it take 12 months then?'

'Fifteen months'

'It would be 10 payments of £100 a month and £120 interest, you've got to pay.'

'The interest is compound isn't it?'

4.90 Admittedly, there are in fact several different ways in which companies calculate interest. Comments below sum up the general confusion with how rates and terms are presented:-

'I think that's the problem with a hell of a lot of credit cards. You get bamboozled by looking at so many different things, and they all say virtually the same thing but in different ways.'

'Because that's the thing, if you get these mail shots through the door, you read it and you can understand it as you are reading it, but you don't understand it, if you see what I mean because they just throw in all these percentages, the bank will pay this, this percent if you do that, 0% and you just think "Oh right".'

4.91 Cardholders were asked what the payment each month would be on any unpaid balance on purchases after six months. 45% gave the correct answer which is 1.04%. 10% gave an incorrect answer, 22% did not know and 23% could not read the agreement because the print was too small.

4.92 Asked what the minimum monthly payment on purchases would be, just over half gave the correct answer, which is 3% or £5.

4.93 57% responded correctly when asked for the APR for purchases, which is 10.9%.

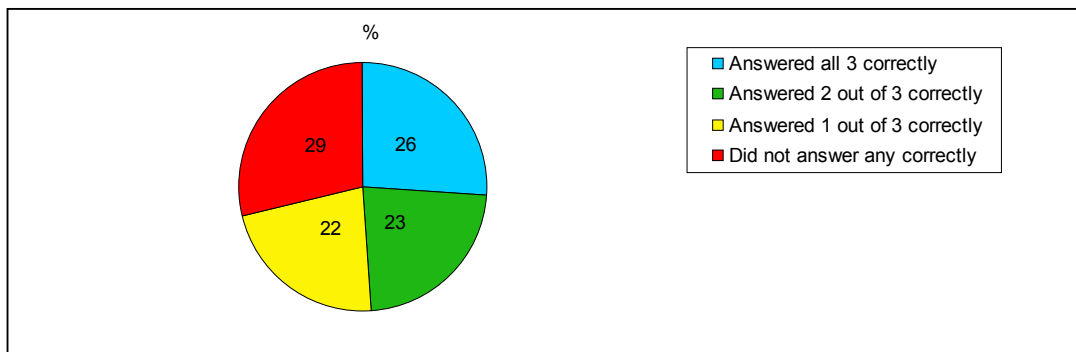
Chart 4.23: Ability to answer questions on example credit card agreement

Base: All with credit card - 1082	Correct answer	% answering correctly
What is payment each month on unpaid balance on purchases after six months	1.04%	45
What is minimum monthly payment on purchases	3% or £5	54
What is the APR for purchases	10.9%	57

4.94 Credit card holders were evenly split according to their ability to answer these questions. While a quarter answered all three correctly, three in ten did not answer any correctly.

Chart 4.24: Number of questions answered correctly

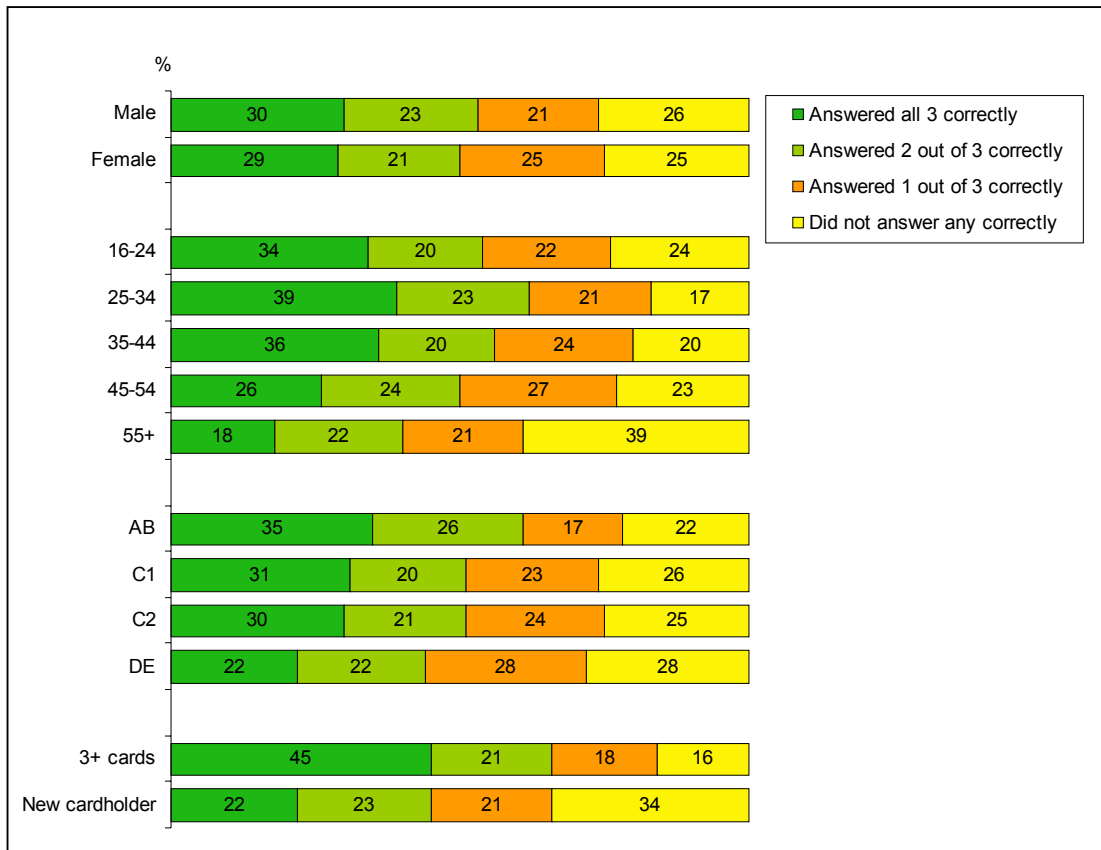
(Base: All with Credit Card – 1082)



4.95 Certain demographic groups were better at answering questions about the credit card agreement than others. Ability is highest amongst the 24-34 age group and lowest amongst the 55+. More ABs than DEs were able to answer at least 2 out of 3 questions correctly.

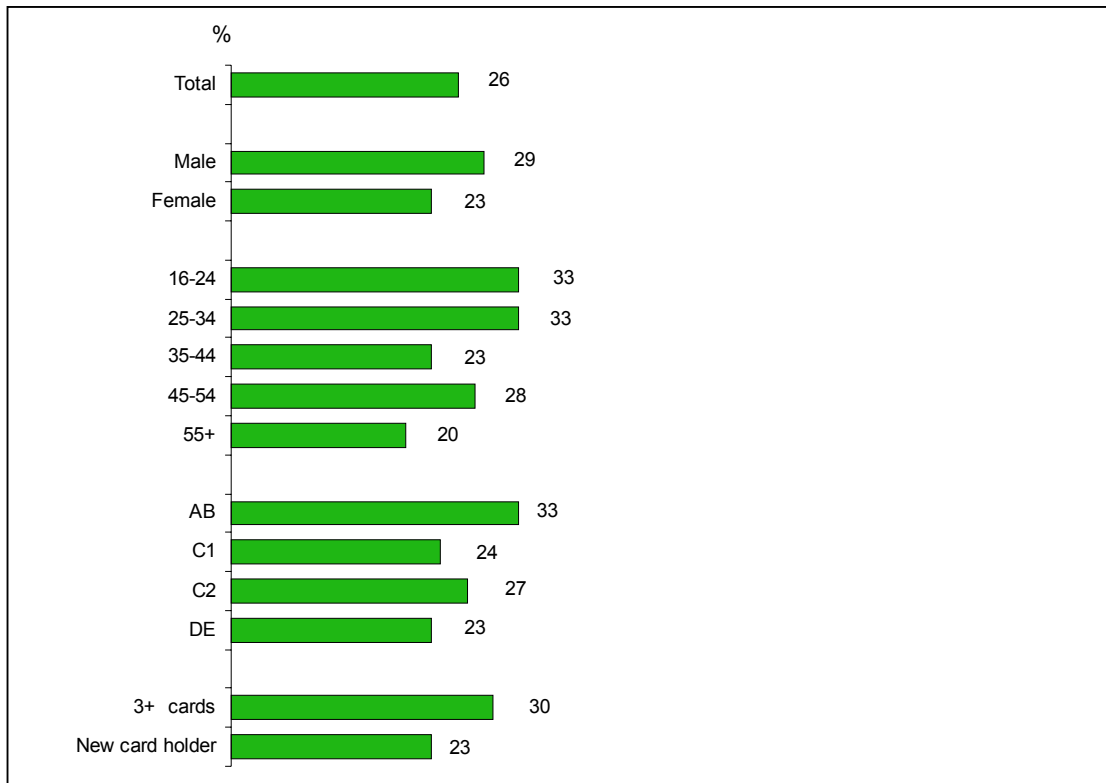
4.96 There is no difference between the sexes. Not surprisingly, those with three or more cards found their way around the credit card agreement much more easily than new cardholders.

Chart 4.25 Ability to answer questions by subgroup
 (Base: All with Credit Card holder – 1082)



4.97 Cardholders were asked whether they found the information in the credit card agreement easy to understand. Only a quarter found it easy. This varies by demographics with the 55+ and DE groups less likely to find it easy. Only a minority within each group find the credit card agreement easy to understand.

Chart 4.26: Credit Card agreement – easy to understand information
 (Base: All with Credit Card – 1082)



4.98 The main reasons for finding the agreement difficult to understand are as follows. Multiple responses were accepted for this question:-

- Print too small (46%)
- Too much information (23%)
- Jargon (17%)
- Difficult to understand (11%)
- Looks complicated (11%)
- Confusing (9%)
- Figures need explaining (7%)
- Not laid out well (7%)
- Other (6%)
- Don't know (2%)

4.99 During group discussion, attendees were **not** shown terms and conditions for their perusal. Even so, the topic of 'small print' and unclear wording generally arose spontaneously, sparking comments such as:-

'I believe there's a few banks out there that go buy the Crystal language or something where everything's plain English. A few banks do that. I always tend to look at their stuff first. I still find it hard sometimes, some of the small print.'

'I think very few people will sit and read every word on a leaflet.'

'(About small print) I don't think they mean to do that, I think they are just trying to save space but the way they do it, it looks like they are going to trick you.'

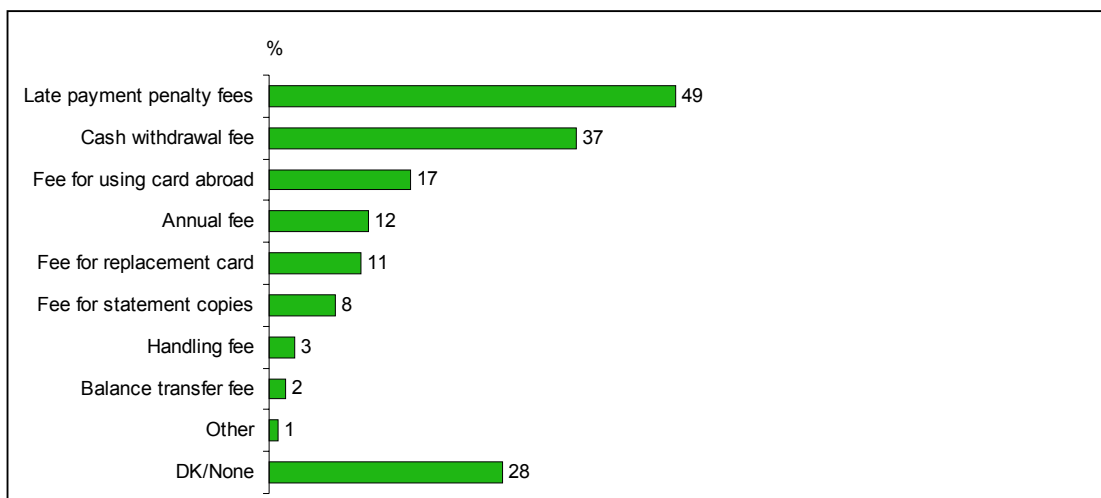
'I was that bamboozled that I didn't carry on with the application.'

Other charges

4.100 Asked about charges other than interest they might be liable to pay, half mentioned the late payment fee, almost four in ten, the cash withdrawal fee and one in six, the fee for using the card abroad.

4.101 12% mentioned an annual fee and 11%, a fee for replacement cards.

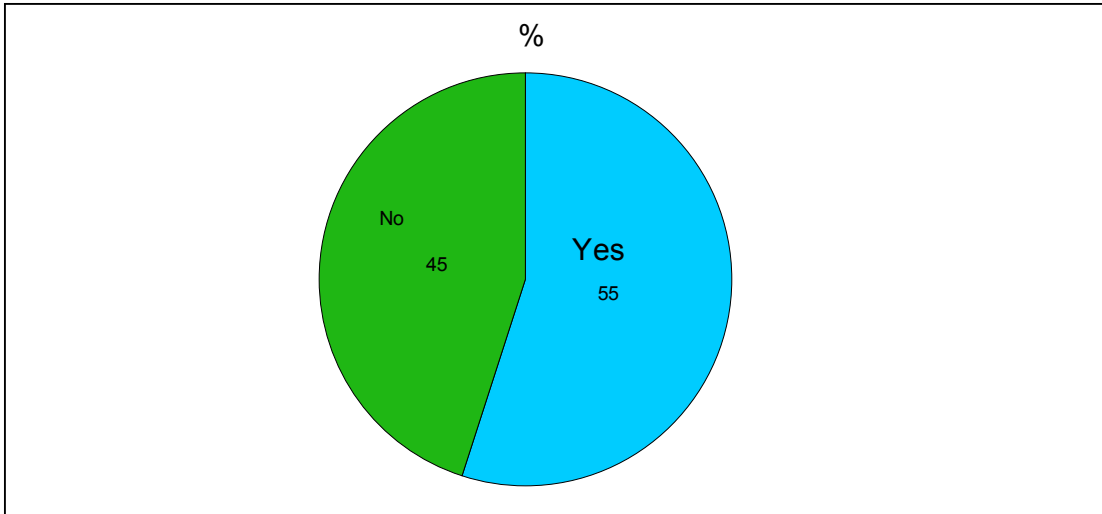
Chart 4.27: Awareness of other charges other than interest
(Base: All with Credit Card – 1082) multiple response



More than one APR

4.102 Just over half are aware that there is often more than one APR quoted on promotional literature.

Chart 4.27: Whether aware that there is often more than one APR quoted
(Base: All with Credit Card – 1082)



4.103 Asked why more than one APR is quoted, the vast majority made the distinction between the promotional/introductory rate and the normal rate.

4.104 However, only 5% mentioned that there is a different rate for cash advances.

4.105 A quarter were unable to say why there is more than one APR quoted.

The APACS summary box

- 4.106 Basic reactions to APACS' proposed new summary box were obtained during the quantitative study. Further insight and feedback was gained during our four group discussions among extended credit takers. It should be remembered, though, that we did not go through the summary box line by line with a large number of individuals – we simply gathered anecdotal comments which may not have occurred to the OFT and may be useful.
- 4.107 It is safe to say though that those discussions did reflect main stage results, and help illustrate the findings.

Overall reactions

- 4.108 When asked about the initiative to introduce a new summary box to make credit card offers clearer to customers, awareness appears to be extremely low. Only one or two comment that there has been something in the press or on the radio.
- 4.109 General reactions are positive – 89% in the quantitative stage state that such a summary box 'would be useful'. Those who are less bothered are, unsurprisingly, those who claim to have little interest in small print and how credit cards work. Also the over 55s, for whom one may argue this is less of an issue as they are less likely to switch credit cards or require credit, are less interested.
- 4.110 Groups endorse the idea in principle. Before looking at the detail, people comment that anything designed to create greater clarity for consumers has to be a good thing. It is more helpful than tiny small print that usually accompanies credit card offers:-

'It explains to you what each bit means, which is what I definitely prefer rather than that rubbish. Rather than all the little small print.'

- 4.111 Younger respondents and the less financially aware seem to find it provides reassurance and clarity, whereas for the older, more clued up 'rate surfers', it could provide greater ease of comparison between offers.
- 4.112 73% claim they would bother to read it (again less so those who are uninterested in how credit cards work).

4.113 We suspect that in reality this information is more likely to act as a comfort blanket, there if required but not actively read. Some focus group comments allude to this:-

'Whether I want to read it or not the information should be there. If you don't have it there I wouldn't trust it.'

'I think if the vast majority of people were asked what the APR is on their card, they wouldn't know.'

'But I don't think many people do (care), to be honest. They're just happy to get the card and use it for what they wanted at the time, it was easy and all the rest of it.'

'I think you think in your mind that if it's not working out I can change.'

'It's not a long term thing. It's not like a loan where you know it's 10 years or whatever, so you'd make a better decision.'

4.114 Other general observations from group discussions include:-

- This kind of information is seen as useful on monthly statements, as well as promotional literature

'You probably don't need to know this on a day to day basis. But it would be interesting to know, oh yes I'm creeping up now to my six months and that would be how much I owe.'

'It would keep it fresh in your head I suppose.'

- It should take some prominence and not be buried at the back

'If they had the summary box first you could decide whether or not you wanted to read it.'

'I'd stick it in the first sheet instead of well done Mr Blah...'

'If it was folded up like you said in the envelope I'd just throw it away.'

- The format should be consistent – across companies, and between promotional literature and monthly statements, although in practice people are unlikely to compare offers side by side. As we said earlier, they are more likely to work from a mental template, gathered through background research.
- There are general calls for greater clarity. While people like the idea in principle, there is a tendency to use financial jargon, and people do not like asterisks and small print

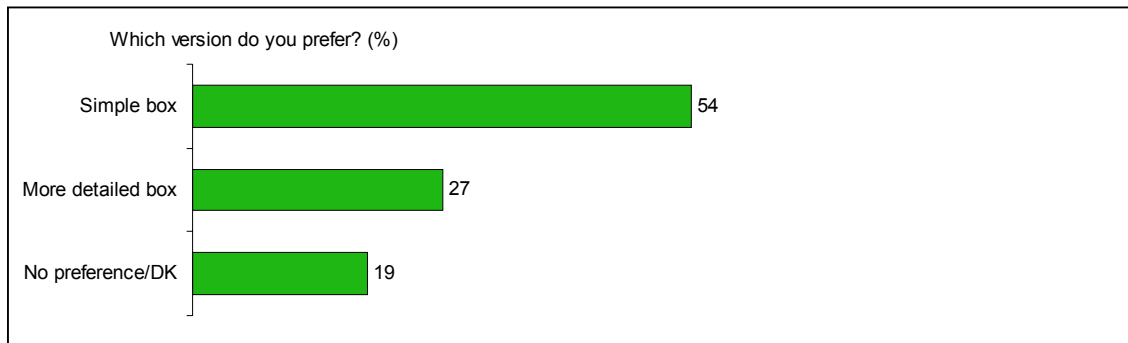
'Although this would be better, I'd still be a bit, probably still wouldn't understand everything anyway. There's still the small print.'

Simple vs detailed box

4.115 When shown a simple box and a more detailed version, the simpler box is preferred on balance. (NB only the detailed version was shown to group respondents). Both summary boxes are to be found in the Appendix.

Chart 4.29: Simple vs detailed box

(Base: All with Credit Card – 1082) single response



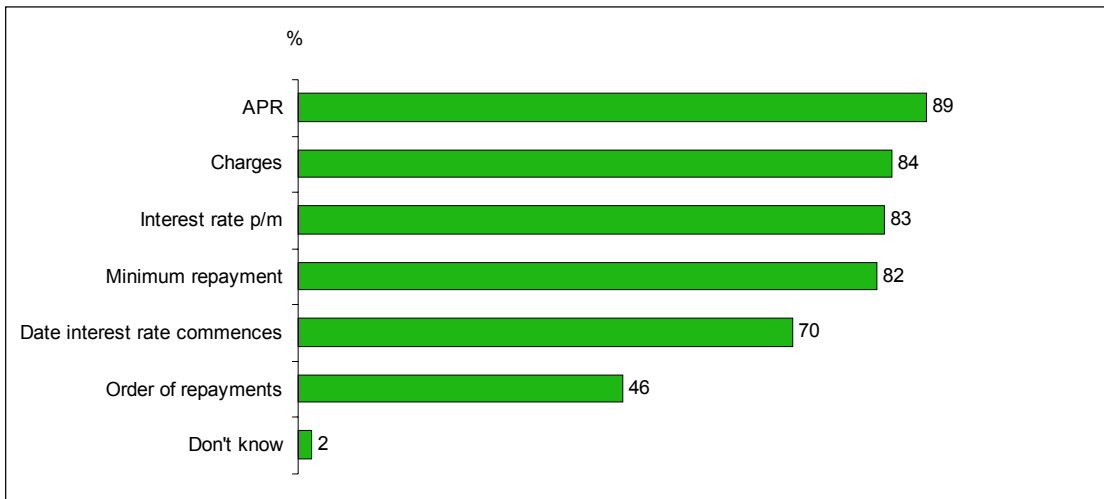
4.116 Those requiring more detail are slightly more inclined to be better educated, higher social class and male. Also those who do not yet have a card – they may feel they require greater reassurance.

What should go in the box?

4.117 When asked to choose which headings, from a prompted list, should go in the box, APR is seen as the most important, cited by 89%. This is backed up by comments from groups – it is clearly the item most commonly referred to, and the basis upon which decisions about choice of card are made. (Although one comments that APR information would be plastered all over the rest of the offer anyway).

Chart 4.30: What should go in box

(Base: All with credit card – 1082) multiple response



4.118 However, here again, there is a call for simplicity and further clarity. There are so many different rates shown in the box and, on the detailed version, these are spread across the page and would be better if all put together:-

'Why do you need both?'

'I think all these percentages always confuse people. I don't think many people understand.'

4.119 **Charges** are also cited as important. In group discussions they are also high on the agenda – some appear to be unaware of the various penalties that can apply, while others simply want to have all the information to hand, regardless of whether they would actually read it all:-

'(Let me know about ...) Anything and everything, where I might possibly get myself into the position where I can't pay, it does scare the hell out of me I have to say.'

'As long as it covers all of the charges that you could possibly be charged I think that's what they have to cover. You need to know what's going to happen.'

4.120 There is also very low awareness of the practice of charging an admin fee when account is moved to a different company. There is the general assumption that '0% interest on balance transfers' means effectively that it will be completely free to switch credit card provider, though some companies have now introduced this practice (our group recruiter was quoted a £30 admin fee to switch, but still felt it would save her money to do so.)

4.121 **Interest rate per month is also popular** (main stage only). This was not discussed in any detail in the groups as it was not an option shown in the detailed summary box, but did receive occasional spontaneous mention. Clearly though, people appear to be much more at home with citing and understanding APR rates than monthly rates. Most know what the term means when asked, even if they would not know how to calculate their interest payment in practice!

4.122 **Date interest rate commences** appears to be of slightly less importance, and the term appears to be fairly clear.

4.123 **Order of repayments** receives a lower ranking at quantitative stage, possibly because there is some confusion about what it actually means. When discussed in groups, some remain confused even when this is explained, particularly by the term 'allocation of payments and effects' which, like the term 'accrue' is not everyday English:-

'It's not worded very nicely is it?'

4.124 Only a minority grasp the fact that the company is likely to want to pay off the cheapest debt first, and several do not appear to be aware that there are different rates for different kinds of transactions.

'Can't you choose then?'

4.125 **Focus groups** (where the more detailed box was shown) allowed us to gather further feedback on other headings and ask participants to prioritise items in order of importance:-

Annual fee	Felt by some to be irrelevant as so few companies charge this, but where it is appropriate receives a high ranking.
Interest grace period/period interest charged over	Important but not essential. Wording appears to be fairly self explanatory, although a few suggest it would be useful if these periods could be made standard across companies.
Credit limit	Appears important to include if it is accurate but some are confused, questioning how the company can know what your credit limit is before you even have the card. Thus this might be useful on statements, not promotional literature. It is only really useful if it can be personalised.
Minimum payment	Again useful to include but needs to be clear. If stating simply '3%', it should say something like '3% of what you owe.'
Foreign transactions/cash advances/cheques	All score lower in the ranking because many feel they are less likely to use these services.
Scenarios	<p>Somewhat unclear. For example 'It will cost you £4000' could mean interest, capital, or in total. Similarly, words like draw down and incur are not common terms. One comments that these examples are sobering – they at least make people aware of the seriousness of what they are doing when applying:-</p> <p>'It's more likely to encourage you to pay it back sooner rather than hang about.'</p> <p>Though in the main people almost want to brush it all under the carpet and not be faced with the stark reality of what it is all costing.</p>
Example credit cost	Not that clear, and got the lowest ranking. Many do not really understand what it means nor feel it is necessary. They also do not like asterisks.

Ideal summary box

4.126 Taking account of both quantitative and qualitative data, the following summary box might best accommodate the feedback we received. This is actually quite close to the original APACS suggestion.

SUMMARY BOX	
The information contained in this table summarises key product features and is not intended to replace any terms and conditions	
APRs and other rates	Purchases 1 st 6 months 0% Purchases 15% APR Balance transfers 1 st 6 months 0% Balance transfers 15% APR Cash advances 20.9% APR
Monthly rates (As few as possible!)	Purchases 1 st 6 months 0% Purchases long term 1.171% Balance transfers 1 st 6 months 0% Balance transfers long term 1.171% Cash advances 1.594%
Additional charges	£25 for going over limit, making late payments and for returned payments
Minimum repayment	3% of your balance or £5, whichever is greater
Annual fee	None
Interest free period	25 days after statement date, on purchases only
Period interest is charged over	From when the purchase is made until the statement date
Credit limit	£xxx – personalised, on monthly statements only

4.127 Other considerations to bear in mind are:-

- font as large as possible
- prominent position, not relegated to small print at the back
- consistent format across companies
- consistent format across promotional material and monthly statements
- all wording to be in plain English – avoid financial jargon
- avoid asterisks where possible