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# Improving disclosure in the consumer credit market

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*This report was paid for by Klarna. Fairer Finance agreed the research outline with Klarna, but retained full editorial control over the output. The views in this report are the views of Fairer Finance and do not necessarily reflect Klarna's views.*



# FOREWORD

by **James Daley, Managing Director,**  
**Fairer Finance**

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When I set up Fairer Finance nine years ago, one of my main aims for the organisation was to help level the playing field between financial providers and consumers. The internet changed the way consumers bought financial services products – and more often than not, people now buy financial products without any advice or support. Given the complexity of many of today’s products, it seemed to me that firms needed to be doing much more to help customers understand what they were buying – and to warn them about any limitations.

That’s why when we created our first set of ratings, we included what we call our Transparency analysis. Every six months, our researchers mystery shop the online purchase journeys of hundreds of different financial services brands – to see whether they’re arming customers with the information they need to make an informed purchase.

The credit market has always been one of the worst – particularly credit

cards, which are laden with traps for consumers who don’t use them in exactly the right way.

What’s frustrated me most about this market is that there are quite strict rules around what lenders must tell customers before they complete an application. More so than just about any other financial services market. Unfortunately, some of these rules date back almost 50 years – and are not fit for today’s market which comprises many different types of credit product.

When the Treasury carried out a review of the Consumer Credit Act in 2019, I was hopeful that things might be about to change. Alas, the exercise merely embedded the credit regulations that we had adopted as members of the EU – and the opportunity to reform the sector was missed.

I feared that this may have been the last opportunity for a generation to get the rules changed and updated. But the emergence of Buy Now Pay Later (BNPL) products over the last few years has ended up being the catalyst for another review.

As an unregulated credit product, BNPL was free to build a customer experience that was unburdened by the clunky disclosure regime that sits around most other credit products. And while BNPL is rightly being brought into regulation, the process of doing that once again raised the question of whether the information rules that sit within the Consumer Credit Act would work in the context of this new sector.

At Fairer Finance, we only publish sponsored research reports when our goals are clearly aligned with the sponsor. We don't give them the chance to buy the conclusions and we retain full editorial control over the output. That is the main reason we haven't published many - as most firms don't like paying for something they can't control.

We have been wanting to write a report around the disclosure rules in the credit market for some years. And when we saw that BNPL may prove to be the catalyst for reform of this market, we reached out to Klarna to suggest partnering on a piece of research which demonstrated why the current rules don't work – followed by some suggestions around what good disclosure might look like.

As things stand, BNPL companies don't give their customers enough key information in the application journey. However, we also don't believe that being forced to publish summary boxes, pre-contract credit agreements and follow all the other requirements that sit around traditional credit products would produce better outcomes for customers. As our research in this report shows, consumers have a limited appetite for consuming information when they apply for financial products – and overloading them with information can often leave them reading and digesting less.

The Treasury published its latest consultation into the Consumer Credit Act at the start of December 2022 – and it now looks likely that the FCA will finally be given full control over what information credit companies must disclose to their customers. We want to ensure that process ends in a complete redrawing of the rules – seizing the opportunity to ensure consumers are presented with the right information at the right time when they apply for credit. This report makes the case for that change.

# Executive summary

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Giving customers the right information when they're taking out a credit product is essential. Used responsibly, unsecured credit is a useful tool that helps households manage their day-to-day cashflow – and spread the cost of large purchases and unexpected bills.

However, for some, credit can be the top of a slippery slope that makes their financial situation worse – and can lead to devastating consequences.

Unfortunately, the information given to customers when applying for credit is often inconsistent and ineffective. The guiding piece of legislation – the Consumer Credit Act – which underpins what credit companies must disclose, was laid almost 50 years ago, long before many of today's array of credit products existed.



Over the years, this has been supplemented in a piecemeal way by a combination of voluntary regulation from the lending industry and compulsory regulation from within the UK and from Europe. Although the aim of each of these additions has been to improve disclosure, the absence of coordination has culminated in a mix of prescriptive documents and statements that often confuse rather than inform customers.

The credit industry has seen enormous changes over the past 48 years since the Consumer Credit Act was introduced – and consumer attitudes and behaviours towards credit have also evolved.

The first credit card was launched in the UK in 1966. By the middle of the last decade, there were more than 30 million cards in issue,<sup>1</sup> and by 2020 UK households collectively had over £240bn in unsecured credit.<sup>2</sup>

In the credit card market alone, there is an enormous diversity of products – from those offering promotional interest free periods, through to reward cards and those designed for low cost overseas use. Beyond that, there is the growing world of car finance, current account overdrafts, payday loans, hire purchase – and more recently the emergence of the fast-growing Buy Now Pay Later sector.

As a mostly unregulated form of lending, BNPL's growth has been in part facilitated by its ability to create a much slicker customer experience – free from the disclosure rules that bind other credit products.

While disclosure in this new sector is not always adequate, the smoother customer experience compared to other credit products has served to highlight how clumsy and onerous the disclosure regime is within the regulated credit market.

This report unpicks the history of the credit industry's disclosure rules, and includes new primary research which reveals how these rules are failing to help customers understand the products they are buying.

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<sup>1</sup> Source: FCA credit card market study 2015

<sup>2</sup> Source: Bank of England

In November 2022, we recruited a nationally-representative sample of 30 people, who either own, or are considering taking out, a credit card. We mocked up an application journey – based closely on existing provider journeys – and asked them to apply for a card and then answer a set of questions about the card they had applied for, without referring to the supporting literature. After completing the questionnaire, we asked them the same questions again, this time allowing them to refer back to the product terms and conditions, summary box and pre-contract disclosure document.

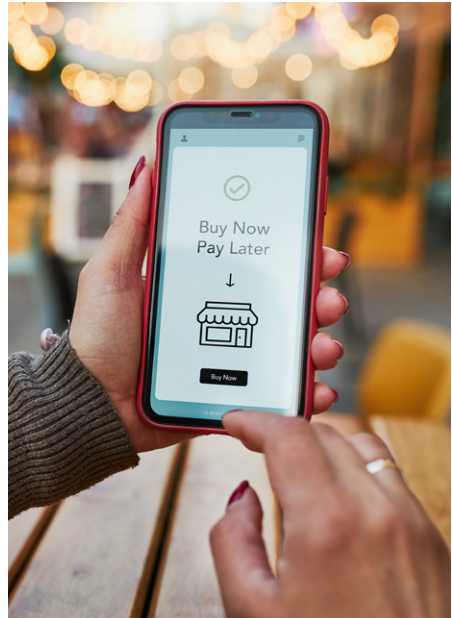
Our research found that even when given access to all the product documents:

- Only 43% understood they would lose their promotional 0% period if they missed a payment
- Only 50% understood that there is no interest-free period on cash withdrawals
- Only 40% correctly identified the fee for making a balance transfer
- 50% did not understand that missing a repayment would result in a mark on their credit file, which could lower their credit score.

After our tests, we carried out focus groups with the participants, to better understand how they engaged with the information that they were presented with during the application and how they thought that information could be better conveyed.

Most people read the information on the initial product page, and the majority skim-read the mandatory pre-contract credit disclosure document. Their feedback on the pre-contract credit agreement was that they generally found it dull, overly-long and difficult to understand. They suggested videos, worked examples, and better signposting of key information as potential ways to improve customer understanding.

While the participants had a varying propensity to consume information before starting on the application process, most said that once they had made the decision to apply, they were unlikely to read in detail any additional lengthy information documents provided in the journey. Many did research on price comparison websites, credit report sites, or advice websites such as Money Saving Expert before making an application, meaning that they spent less time looking at the



information on a provider's website during the application itself, treating it as a formality.

HM Treasury has committed to bring the Buy Now Pay Later sector into regulation – with the necessary legislation set to be laid in 2023 and with FCA rules unlikely to come into place before 2024. It's vital that as we move towards bringing this new sector into regulation, we take the opportunity to review the disclosure rules across all unsecured credit markets – to ensure customers are helped to make more informed decisions.



The Treasury has also commenced a review of the Consumer Credit Act – and this is an important starting point.

The Act contains a number of prescriptive rules around what firms must tell their customers – but these are often inhibitors to customer understanding, rather than enablers.

The rules around disclosure should be entirely governed by the FCA – but as the FCA takes on that responsibility, it should take a fresh approach in developing a new, effective and proportionate disclosure regime – which empowers consumers to make the best decisions.

Specifically, this report contains six recommendations:

- 1. All disclosure rules should be removed from the Consumer Credit Act – with powers delegated to the FCA to set and amend regulations going forward.** In the last review of the Consumer Credit Act in 2019, the FCA indicated a preference for taking over most of the provisions in the Consumer Credit Act. There are a handful of provisions - specifically those that relate to unenforceability of credit agreements and Section 75 protection - which will need to be retained in law. But rules around information requirements can and should be transferred entirely into FCA hands.
- 2. The FCA should remove the requirement for lenders to publish a pre-contract credit disclosure document.** Summary boxes are now established in credit markets as well as other markets such as savings. An additional pre-contract credit document provides duplication and the requirement to provide one should be removed.

- 3. All lending products should have to produce a summary box, which must be made available before the start of the application process, and throughout the journey.** Our research showed that many consumers do want a short summary of the product which is more accessible and digestible than the full Ts&Cs. The FCA should prescribe what information should be disclosed in these - and the requirements should be adapted to each sector. The language and format of the summaries should not be prescribed, though, allowing firms to innovate in the way they communicate and improve customer understanding.
- 4. The FCA should introduce a new prominence requirement across all financial services communications, requiring firms to prominently draw any onerous or misunderstood product features to the customer's attention during the application process.** In the credit market, guidance should make it clear that this needs to include details around the consequences of missing payments, early repayment charges – and how interest, fees and charges are applied.
- 5. The FCA should issue new guidance on acceptable font sizes for web journeys and printed literature.** This should include a recommendation that firms use a minimum of 12px for online text and 10pt for printed text. Firms should be reminded that they will be in breach of the Consumer Duty if key information is printed in a size that is hard for customers to read.
- 6. The calculation of APR should be standardised and greater flexibility should be provided to short-term lenders in terms of how they show the cost of credit.** APR is not always a useful way to compare the cost of credit. By adding annual fees, it can distort the number, while displaying an annual cost can be misleading in the context of shorter term forms of credit.

## Chapter 1

# Disclosure in the UK credit sector

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### Beginnings of regulation

The Consumer Credit Act (CCA) is the piece of primary legislation that underpins much of the regulatory regime for the UK Consumer Credit Sector. It was introduced following a review of consumer credit by the Crowther Committee in 1971. The Committee found existing regulation to be insufficient and proposed replacing it with a legal framework to protect consumers.

Specific recommendations addressed how credit should be advertised and disclosed, how contract terms should be drawn up, as well as protections for post-contract requirements and legal proceedings. The report also suggested appointing a Credit Commissioner to oversee new regulations. The CCA was passed in July 1974.

Although various tweaks have been made to the Act over the years, it was the 1983 Consumer Credit (Agreements) Regulations which laid out the prescriptive disclosure requirements that apply to most credit agreements today.

This includes a detailed list of what needs to be included in every credit agreement including the requirement to print the phrase “Credit Agreement regulated by the Consumer Credit Act 1974” at the top of almost all credit agreements. While this was invariably prescribed to give the customer reassurance, the phrase is often the first thing that customers are presented with in modern day credit agreements – setting a tone that can be intimidating, and leave the customer fearing that the rest of the document will follow in the same legalistic vein.



Disclosure rules remained relatively unchanged for the next 20 years – but in 2003, they came under the spotlight again, when the Treasury Select Committee launched an inquiry into the credit card market. The hearings hit the headlines when Barclays CEO Matt Barrett admitted to the committee that he would never borrow on a credit card as it was too expensive.

The final committee report concluded customers had difficulty shopping around for the best deal because cards couldn't be easily compared on price. It also found APR to be an unreliable metric when used by consumers to compare cards because APR could be calculated in different ways by different lenders.

The report recommended that the market could be made more competitive if APR calculations were more standardised, and customers were given clearer information to help them compare cards. A key recommendation was the mandatory introduction of Summary Boxes.

The industry's then trade body – the Association of Payment and Clearing Services (Apacs) – pre-empted mandatory regulation by agreeing to devise its own summary box, which all members would be bound to use.

Unfortunately, the Apacs template – which is now managed by UK Finance – is not as clear as it might be, and has set a low bar that most providers continue to stick to.

### The APR problem

Whilst summary boxes did go some way to increasing transparency in consumer credit, they didn't address concerns around APR and comparison. In 2007, Which? launched a super-complaint on interest calculation methods.<sup>3</sup> An earlier Office of Fair Trading (OFT) survey had found that customers were using APR to compare credit cards, but firms didn't explain how APR was calculated. Which? demonstrated that the largest 20 providers calculate interest in 13 different ways, resulting in consumer confusion and price variation across the sector. According to the study, the majority of customers weren't aware there were multiple ways to calculate APR.

Which? suggested differing APR calculations could have a significant financial impact on consumers, citing an example of two cards charging

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<sup>3</sup> [interest-calculation-methods-which-super-complaint-177531.pdf \(adobe.com\)](#)

the same APR of 15.9%. Consumers using the two cards in the same way may end up paying up to £25 more a year in interest on one of the cards.

The Which? super-complaint showed that in practice, providers can lower APR while keeping the cost of credit to consumers the same, simply by using a more expensive interest calculation method. Which? said if providers used the cheapest way to calculate interest, £400 million would be saved.

The paper concluded by recommending a more standardised approach to calculating APR, allowing for more accurate price representation for consumers and therefore easier product comparison.

However, the OFT ended up rejecting this recommendation in its responses to the report in 2008 and 2011. It reasoned standardisation

would stifle innovation and competition in the market. It also called into question whether consumers actually use APR to compare cards. Based on the OFT's research, a higher percentage of consumers focus on the interest-free period for purchases when comparing. The OFT claimed the wider issue was that a high percentage (70%) of consumers don't shop around at all before they choose a card<sup>4</sup>.

The APR issue remains unresolved. And in the period since the OFT review, the growth of the short-term credit market has raised further questions about the suitability of APR as the go to comparison rate for credit products.

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<sup>4</sup> OFT response to Which.pdf (adobe.com)

## Advertising and examples

The European Parliament brought the Consumer Credit Directive into effect in 2011. Its aims were to homogenise consumer credit regulation across the EU to promote better protection for customers and more clear comparison tools. The directive included recommendations for advertising, as well as suggesting some pre-contract information be provided to prospective customers, which was to include the APR. It also put forward the idea of a standard representative example – a few lines explaining in real terms how interest rates might look for a particular product. This example, as well as the APR figure were to be more prominent than any other advertising.

## Recent developments

In 2021 the FCA produced the Woolard Report into unsecured credit. It was published following huge changes in the market during the Covid pandemic, notably the sharp growth in the BNPL market, which trebled in size in 2020<sup>5</sup>.



Increased levels of vulnerability in borrowers due to financial disruption during lockdowns led to the FCA encouraging firms to allow deferred payments for a three-month period. These deferrals were masked on credit files so there was no impact on consumers' credit scores.

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<sup>5</sup> *Woolard Review (FCA report).pdf*  
(adobe.com)

The Woolard Report called for regulation of the BNPL market, citing the dangers of representing BNPL as an easy and consequence-free way to borrow. Consumers who were surveyed for the review reported that it was often difficult to keep track of payments. The report also recognised marketing around unsecured loans generally used suggestive phrases like ‘zero cost’ and ‘new way to pay’. Sometimes BNPL options are even presented as the default payment method, meaning there was a possibility some customers were unwittingly checking out using a deferred payment method and then missing instalments later down the line.

There’s certainly a lack of appropriate friction in the customer journey when it comes to this new form of unsecured credit, and no clear disclosure regime. The Woolard Report suggested the Treasury work with the FCA to set out regulations

in the sector in the near future. The board should be looking at how credit is being used in the real world and use that to inform new disclosure rules.

Following this report, plans were announced for regulation of the BNPL market in June 2022, but these are unlikely to come into force until late 2023 at the earliest. New laws would force lenders to carry out tougher affordability checks, and use ‘hard’ credit checks going forward instead of ‘soft’ ones (which are not visible to lenders).

The Treasury is now carrying out a fresh review of the Consumer Credit Act - with a consultation paper published at the end of 2022. It proposes moving many of the provisions of the Act over to the FCA.

## Chapter 2

# Testing consumer understanding of credit products

To test how much information people typically understand when applying for a credit card, we recruited a nationally-representative sample of 30 people who either owned, or were considering taking out, a credit card. We asked these participants to go through a mock online credit card application that we had created, instructing them to read as much or as little as they normally would when applying for a credit card. We then asked them a series of comprehension questions to test what they had understood.

The participants answered these questions twice. The first time, they were not allowed to look back at the product webpage or any of the supporting documents (the summary box, terms and conditions, and pre-contract credit agreement).<sup>6</sup> The second time, they could refer back to these supporting documents.

We asked these questions twice to determine:

- First, how much information about the card applicants recalled and understood after reading the required documentation in a typical way
- Second, how much information applicants understood and could extract when able to use the documentation to support them.

<sup>6</sup> Some of the questions had a 'yes/no' format, while others were multiple choice. For questions about some specific fees, answers were open text.





Afterwards, the participants gathered in three focus groups to discuss what they had found positive and negative about the way that key information was conveyed during the application.

### Mock application design

The mock application began with a webpage that followed the standard format of a credit card provider’s website. The page displayed the key features that are generally shown on such websites, such as the representative APR, the balance transfer fee, the annual fee, and the length of the 0% purchase and 0% balance transfer periods. It also had links to a summary box and terms and conditions document, which were both formatted in the standard style.

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## The All in One Credit Card

Want to check whether you'll be accepted? Use our eligibility checker to find out and get an indication of your credit limit before applying. It won't affect your credit rating.

**CHECK YOUR ELIGIBILITY**

**Get the flexibility you want with our All in One Credit Card**  
Our All in One Credit Card is packed with benefits, so you don't need to have lots of other cards to keep up.

**You can transfer existing balances and make new purchases with our 0% interest. Offers a 2.9% balance transfer fee applies.**  
You can apply if you're 18 and over and live in the UK. Permanently, you have an income of £3000+ per year and you don't already have an All in One Credit Card. All credit is subject to status and credit checks.

**18.9%** Representative APR  
**26 months** Interest free on balance transfers  
**23 months** Interest free on purchases

**How it works**

- Minimum repayment**
  - You must make at least the minimum repayment each month to keep the 0% rates for after you...
- 0% interest on balance transfers**
  - Get 26 months interest-free on balance transfers from account opening with a 2.9% balance transfer fee. You can transfer balances from £500 up to 95% of your credit limit.
  - You can't transfer balances from other fair credit cards or from any type of loan or current account.
  - At the end of the 0% period, a 2% balance transfer fee will apply to any loan balance transfer.
  - Interest will be charged on any outstanding balances and new balance transfers at the standard rate of 18.9% (variable).
  - Will carry out a credit check as part of your application. It will determine the credit limit we can offer, which won't conform to you once your application is accepted. If you'd like to get an indication of your credit limit before you apply, try our eligibility checker.
  - If you request a balance transfer as part of your application it happens automatically if you activate your card within 45 days of receiving it.
- 0% interest on purchases**
  - Get 23 months interest-free on purchases from account opening.
  - At the end of the 0% period, interest will be charged on any outstanding balances and new purchases at the standard rate of 18.9% (variable).
- What you also get**
  - Up to 3 additional cardholders. You will be responsible for the cost of and payments on the additional cards.
  - Up to 56 days interest-free period on purchases meaning that if you pay off your balance in full and on time every month, you won't be charged interest.
  - £0 annual fee.

**Giving you more - our card also comes with**

- In-app card controls**  
View your PIN, freeze your card if you lose it and block certain transactions in our mobile banking app.
- Account alerts**  
View your PIN, freeze your card if you lose it and block certain transactions in our mobile banking app.

**Feeling ready to apply?** **CHECK ELIGIBILITY**

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### Fair credit card eligibility checker

We need to ask some questions to check if you are eligible for this product. Note that doing this does not affect your credit score.

#### About you

Title  
 Mr  
 Miss  
 Ms  
 Mx  
 Other

First name

Middle name / Initial (if applicable)

Last name

Nice to meet you! We need a few more details about you:

Date of birth  dd/mm/yyyy

Gender

Female

Marital status

Single

Number of dependents

#### Your current address

UK Postcode

Address

Address Line 1

Address Line 2

City/Town

Country

Residential status: Homeowner (with mortgages)

When did you move to this address?  
 dd/mm/yyyy

#### Your income

Occupation status: Employed (full time)

Gross annual income:

AE

Monthly mortgage / rent payments:

AE

Monthly car expenses for children / other dependents:

AE

#### Contacting you

We will email your decision to you, but we won't use this to contact you about anything else.

Email address

#### Don't forget:

- the eligibility check is completely free
- it has no impact on your credit score
- you get an instant decision

I understand and accept the above and happy to proceed with the eligibility check.

Like many credit card pages, our mocked-up page had an eligibility checker where applicants could check their likelihood of being accepted by filling in some personal details (we did not conduct an actual credit check or store these details).

After the eligibility check, applicants were taken to a screen where they were told that they were eligible. They were then presented with the pre-contract credit agreement, which they had to tick to confirm they had read and understood before clicking 'apply'.

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### Congratulations!

It looks like you're eligible for the fair.r All in One Credit Card!

Please carefully read the pre-contract credit agreement before applying.

I have read and understood the pre-contract credit agreement and am ready to apply.

We found that participants on average spent just over three minutes reading the initial webpage and various documents during the application. They read the initial webpage for a little over a minute on average, and spent around a minute and a half scanning the pre-contract credit agreement. Both the summary box and the terms and conditions - which only a few people opened - were read for under a minute.

After pressing ‘apply’, the mock application journey ended, and participants began the questionnaire, the results of which can be seen on the following page.

<b>Average time spent (seconds)<sup>7</sup></b>	
Initial webpage	68
Summary box	41
Pre-contract credit agreement	94
Terms and conditions	50
<b>Total</b>	<b>182</b>

<sup>7</sup> *Sample size: 21. Some participants could not share their screens while answering the questionnaire, so we could not record how long they spent reading each part of the application.*



Questionnaire results:

Question	Correct after initial application	Correct after referring back to documents
Does this credit card charge an annual fee?	63%	87%
What is the standard interest rate (APR) that applies after the end of the interest-free period?	43%	80%
How long is the interest-free (0%) period for balance transfers on this card?	17%	77%
How long is the interest-free (0%) period for purchases on this card?	27%	73%
Is there a fee for transferring a balance from another credit card?	63%	60%
What is the fee for making balance transfers during the promotional period for this card?	17%	40%
Is there a fee for using your card overseas?	37%	87%
What is the fee charged for making a purchase overseas using this card?	46%	89%
Is there a fee for withdrawing cash using this card?	40%	73%
What is the fee for withdrawing cash?	7%	50%
If I withdraw cash on my credit card, will I start being charged interest from the moment the cash is dispensed?	33%	47%
If I withdraw cash on my credit card, will I be charged a higher interest rate?	17%	40%
If I withdraw cash on my credit card, will it be included in my 0% offer?	73%	53%
Is there a fee for withdrawing cash overseas?	57%	87%
What is the fee for withdrawing cash overseas on this credit card?	0%	3%
If you miss a repayment, will you be charged a fee?	77%	90%
If you miss a repayment, will a mark be placed on your credit file which could lower your credit score?	50%	50%
If you miss a repayment, will your interest free offer be withdrawn?	43%	43%
<b>Average</b>	<b>39%</b>	<b>63%</b>

Sample size: 30



Worryingly, participants got only 39% of the comprehension questions correct on average after their initial run through the mock application.

They did particularly poorly at remembering specific fees, such as cash transaction fees, balance transfer fees, the specific length of 0% periods, and even the APR. Although these figures were available on either the initial product page and/or the summary box and pre-contract credit agreement, most participants failed to identify them, likely because there are multiple fees and 0% periods which are similar to one another, and customers don't remember or even see them all when making an application.

More concerning was the fact that most participants failed to understand

in what circumstances several fees applied. While 77% correctly answered that there were fees for late repayment, and 63% that there were fees for balance transfers, only 37% understood that there was a fee for using your card overseas and just 40% knew that there was a fee for withdrawing cash.

A majority of the participants also didn't fully understand how cash transactions work on credit cards. Just 17% knew that withdrawing cash on a credit card carried a higher interest rate, while only 33% understood that cash transactions started accruing interest immediately. No participants initially knew that withdrawing cash overseas entails both a foreign transaction charge and a cash withdrawal fee.

The full consequences of late repayment were another blindspot for participants. Only half of participants answered correctly that failing to make a repayment would result in a mark on someone's credit file, and just 43% understood that missing repayments would result in the interest-free offer being withdrawn.<sup>8</sup>

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<sup>8</sup> *Not all credit cards withdraw promotional 0% periods if payments are missed, but many do. The mock application journey specified this on the initial webpage.*

When participants were given a chance to review the supporting documents and answer the questions again, their scores improved dramatically, from 39% to 63% on average.

The greatest improvements were in identifying specific fees and interest rates, and the precise duration of interest-free periods. This is unsurprising, since these are lots of these numbers and they can be difficult to remember:

- How long is the interest-free (0%) period for balance transfers on this card? (17% correct first time, 77% correct after reading documents in detail)
- How long is the interest-free (0%) period for purchases on this card? (27% correct to 73%)
- What is the fee charged for making a purchase overseas using this card? (46% correct to 89%)
- What is the standard interest rate (APR) that applies after the end of the interest-free period? (43% correct to 80%).

There were also improvements on questions relating to whether there were fees for certain transactions, such as withdrawing cash (33% improvement) or spending overseas (50% improvement).

However, up to half of the participants still got several comprehension questions wrong even after reading the supporting documents in detail:

- If you miss a repayment, will a mark be placed on your credit file which could lower your credit score? (50% correct after reading documents in detail)
- If I withdraw cash on my credit card, will I start being charged interest from the moment the cash is dispensed? (47% correct)
- If you miss a repayment, will your interest free offer be withdrawn? (43%)
- If I withdraw cash on my credit card, will I be charged a higher interest rate? (40%).

This suggests that there are some aspects of the workings of credit cards, such as the consequences of missing repayments or what happens when you make a cash transaction, that need to be better explained and signposted in application journey, since customers' understanding of these areas is poor - even after re-reading explanatory documents.

### Focus group discussion

We ran three focus groups with participants who had just completed the mock application and questionnaire. The first focus group had seven participants, while the second and third both had nine. Each group discussion lasted for 30 minutes.

During the focus groups, we asked open-ended questions about the application process. These questions focused on:

- How much participants thought they understood about the card's key features
- What they thought of the design of the pre-contract credit agreement
- What they thought of the language used in the pre-contract credit agreement
- How they generally went about doing research on credit cards
- How they thought information could be better conveyed during applications.



These were the key themes of the discussions, each of which is explained in greater depth below:

- People generally don't read lengthy documents, such as the pre-contract credit agreement
- People are not confident that they understand the contents of the pre-contract credit agreement
- Some people overestimate how much they have understood
- The summary box can be useful
- People often get key information on credit cards from other sources, such as comparison sites and Money Saving Expert, rather than from providers' websites
- Videos, infographics, better signposting of key information, and more examples would improve comprehension
- Some charges, such as default fees and cash transaction fees, need to be better explained and signposted, as does how interest-free periods work.



*People don't read lengthy documents, such as the pre-contract credit agreement*

When asked whether they had read the pre-contract credit agreement, most participants replied that they had only skim-read it.

*'I skim through pretty much the whole of the contract'*

*'I've skim read it and haven't taken it all in'*

*'I would keep skimming through, this is all the rubbish they have to tell me'*

*'I don't tend to read through anything like that'*

*'The longer the form is, the less likely you are to read.'*



The fact that they were asked to tick a button confirming that they had read the pre-contract credit agreement did not mean that people read it in detail.

*‘You get to the bottom as quick as you can then say “Yep, I’ve read it”’*

One of the reasons people gave for not reading the pre-contract credit agreement in any detail was its daunting length.

*‘It’s a lot to assimilate at once, so it takes a lot of time, which is something you probably don’t have’*

*‘Most people don’t sit down and read a 12-page document. People don’t have time for that.’*

A second difficulty participants had with the pre-contract credit agreement was that they found it to be written in a dull, repetitive style, with difficult-to-understand language.

*‘the jargon .. I’ll be honest I don’t really read it’*

*‘Sometimes they word it like they’re speaking to someone that works in the industry. Everyday people that are just applying, they don’t understand some of the terminology ... for someone like me, who manufactures and installs blinds, it doesn’t mean much.’*

*‘I skim read stuff and just assume it’s probably fine, it’s just legal jargon they have to tell me that I won’t understand anyway’*

*‘It can get repetitive, then you start to skim even more.’*

*‘It’s quite a boring read .. you go word blind. It’s not very interesting to read either, which is part of the problem.’*

*‘I don’t like it when they beat around the bush with big long words and it just baffles my head. I’d rather have summaries all laid down.’*

*'I can probably understand a certain amount of it, but some of it goes over my head'*

*'If there was more jargon after the initial jargon it would be a closed book for me ... thanks, but I'm out.'*

One participant pointed out that the length and language of the document was a particular issue for people with dyslexia.

*'My husband, he's dyslexic, there's absolutely no chance he would be able to sit and read that, but he could listen to it.'*

Several participants also found the design of the document - which was black and white, with fairly dense and small text - to be off-putting.

*'I had brain surgery last year and my eyes don't work the way they used to work. Fluctuating from big text to little text helps me focus more, because my eyes just cross over where it's all just small and I'm looking at the same thing all the way down.'*

*'It's so small, there's so much information there, it'll give me a headache'*

These observations confirm the FCA's warning that 'information overload or complexity ... can undermine the potential benefits of disclosure.'<sup>9</sup> Documents need to be concise as well as full of information to get their message across successfully to customers.

*People are not confident that they understand the pre-contract credit agreement*

When it came to understanding the contents of the pre-contract credit agreement, some participants felt that there were too many figures to keep track of.

*'I'm not great with numbers .. there were a few numbers I didn't register - I didn't remember'*

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<sup>9</sup> A new Consumer Duty: Feedback to CP21/36 and final rules, Policy Statement, PS22/9, July 2022, p. 44. <https://www.fca.org.uk/publication/policy/ps22-9.pdf>

Others felt that while the numbers were reasonably well presented and explained, the sheer amount of text meant that it was easy to miss important details.

*'The numbers stood out, but the other things that were not in numbers that were written, because of the time limit you could miss something there'*

*'I call it the "gumpf", the standard "gumpf" they have on it, so I just tend to look for late fees, look for percentages, then scan that kind of information'*

*'The numbers were bold enough for you to see, but every other thing ... you could get caught out without knowing'*

Several participants felt that the complexity of the pre-contract credit agreement meant it was possible that they were agreeing to something they didn't properly understand, which could lead to them getting caught out.

*'There's a good chance Apple could turn up and just say that my house is their house because of the terms and conditions that I've agreed to and not read'*

*'[key features] might be eight pages down ... people can get word blind. You get all these numbers and figures. Just simplify. Just tell it straight. If you borrow this, this is what you pay back. It needs to be simple.'*

*'I'm a painter and decorator, I need it on the tin what I need to do... I need it summarised... I haven't got the brain space to decipher a code.'*

*'It's for the company's benefit ... we've not read it page for page so we're ticking something that we've not really done.'*

*'I'd be thinking "I'm going to get caught by something because I don't understand it"'*

*'I would feel much more at ease making a decision by properly ingesting that information rather than getting information overload'*

These concerns over understandability, combined with the results of the questionnaire, confirm that providers need to do more to make key information comprehensible for the average customer.

***Some people overestimate how much they have understood***

While some participants voiced doubts over whether they understood the pre-contract credit agreement, others said that they thought they had understood the key features, but found that they didn't when they answered the questionnaire.



*'I find [the information] really straightforward to be honest. I've realised I need to pay more attention to the fees and stuff because I do skim through the whole of the contract.'*

*'You get to the questions, "what is the fee" and you're like, I never got that.'*

This indicates that providers need to do more to make sure customers have understood important information about the product, since there is a tendency for some to be overconfident on how well they've understood a credit card's details, especially in relation to fees and charges.

*The summary box can be useful*

While participants were mainly negative about the layout and language of the pre-contract credit agreement, they were more positive about the summary box.

*‘a grid with the figures ... that was great’*

*‘I quite like the summary box because it was very to-the-point and had what I would class as the key things I want to compare’*

One person, however, felt that they were unlikely to read anything after the summary box, since they thought that they had all the key information.

*‘I clicked on the summary, found the bits that were relevant and didn’t bother with the rest’*



Another felt there were too many figures in the summary box, so it was difficult to tell them apart.

*‘It was hard to differentiate which [fee] was which’*

These observations suggest that while summary boxes are useful, they could be better designed to clarify what the various figures are referring to. This fits with the results of the questionnaire which showed that when participants consulted the summary box in detail, they were better able to understand the card’s key features, but they generally failed to remember specific figures after their initial scan of the summary box in the pre-contract credit agreement.



*People get key information on credit cards from other sources*

While many participants felt that they didn't fully understand the features of a credit card from reading a provider's pre-contract credit agreement, several of them nonetheless felt confident that they could understand a card's key features when applying for one because they did additional research on other websites.

*'Quite often, I've done a lot of research before I apply ... so I am more lopsy daisy when it comes to reading all the terms'*

*'I would have done my research before I look at the credit card... I would have got all my information before I went to apply for the credit card'*

Money Saving Expert and Martin Lewis came up several times as reliable sources of information on credit cards.

*'I often take a lot of advice from him [Martin Lewis]'*

*'I'd always do research before getting anywhere near a credit card application... Money Saving Expert would be my first port of call'*

Others used comparison sites or credit report sites to understand which cards were best for them, and to understand what the key features of cards were.

*'It's more key features .. the fees, the interest-free terms and things, they do it in a column so it's easier to compare than to read a whole application form ... they key features I'm looking for .. it's all there'*

*'On the comparison sites you can prioritise what you're looking for whether that's 0%, balance transfer, using abroad, whatever ... narrowing it down to what you want can be really helpful'*

Some participants who used comparison sites to evaluate credit cards explained that they generally just treat the application as a formality, trying to get to the end as quickly as possible.

*‘If I go through a comparison site .. I don’t double check anything ... I just go through the application process.’*

There is a danger that people are too reliant on comparison sites and review sites, which in turn allows providers to get away with failing to adequately signpost key information in their purchase journeys.

Credit card providers shouldn’t rely on people getting information from other sources. Their application journeys should be self-sufficient, so that customers have enough information to make an informed decision about the benefits and costs of the product, and to understand certain fees which they may not see on comparison sites, such as late payment fees, cash transaction fees, and foreign purchase fees.

*Videos, infographics, better signposting of key information, and more examples would improve comprehension*

One popular suggestion for improving customer understanding was to have a video summarising a credit card’s key features, explaining how to use it appropriately (and warning customers about inappropriate ways of using it), and highlighting the potential fees and charges.

*‘[a video] would be useful ... [to] highlight the key points’*

*‘[a video] might also be beneficial for people who find reading a bit tricky’*

*‘Sometimes visual things for me work a lot better, or audio, especially if it’s a lot of information or numbers ... infographics or things like that sometimes that can actually make a lot of information clear’*

*‘I’d likely watch [a video] over reading.’*

Multiple participants said they would trust a provider more if they watched a video explaining the potential benefits and pitfalls of the card, rather than being presented with legalistic text.

*'[a video] wouldn't give the impression of being tricked, which a lot of the small print makes it feel like it's on you if you miss something.'*

*'[a long text document is] biased against people who are dyslexic or have an issue reading or understanding, whereas a video isn't'*

*'If they did have the video before you can check out .. you might have a bit more confidence in the purchase and a bit more trust in the lender'*

*'It's personable... You're more likely to connect with a person if you're watching it on a video. They're more human, rather than looking at a black and white document ... like they're trying to trick you.'*

*'I definitely think there's value in a video that talks through an example of how a consumer would best use that credit card based on the USP of the credit card. Is it a balance transfer card? Is it a spending card? Is it for those that want to build credit scores? You could tailor the product and quite easily come up with a video that walked a person through the real-life application of it. And I think that would be really attractive to go hand in hand with the legal documentation.'*

*'[a video should have] an example of a good and a bad way to use a credit card... To show people... it's your responsibility'*





Another common idea for improving documents was to highlight key information, whether through bullet points or bold text.

*'[if I see 'important information' by some text] that makes me want to read it'*

*'making the really important bits that you do need to know bold'*

*'More bullet points... if it's done in a bullet point rather than in sentences that would be more user-friendly... if you put it in bullet-points it's more effective, you retain it more'*

*'Making things more visual is definitely a good tactic. I sometimes design posters or flyers for work. It might not feel like a big thing but adding an icon or a visual next to a bullet point... brings it together, rather than reading a lengthy text.'*

*'Less jargon and highlighting key words, like making them bold so they stand out... it'll catch people who are not interested in reading such documents.'*

Several participants said that they wanted credit card websites to explain and clearly signpost what the most appropriate use for a card was. For example, if cards weren't suitable for large purchases but were suitable for balance transfers, or if cards were suitable for spending or withdrawing cash overseas.

*'Providers will have multiple cards and you might not be applying for the right one for you. They should be responsible lenders, so they should be pointing you to the one that is the most suitable for you, not necessarily the most lucrative for them.'*

*'It could be a bit more illustrative... some people might not work out from [the website] whether it's good for their use... a regulatory document could tell you that.'*

*'[It should say] this will benefit you if it's for everyday use, or occasional purchases'*



One participant made the point that larger font size would make documents easier to read and understand.

*'It's so small it puts me off straight away. You automatically know it's something you don't want to read... condense it and make it larger.'*

Infographics were another popular suggestion for making complicated information easier to digest.

*'My brain picks [infographics] up a bit better.'*

*'A lot of people can't read or can't read black and white or such small writing so infographics and videos are really helpful for a lot of people.'*

For more complex aspects of the product, such as how interest rates are applied, several people felt that more worked examples in plain language would help.

*'Like they do with APR - they give you an example with a set figure - they should do the same [when explaining how interest-free periods work]'*

*'You've got a paragraph like that, where a few words can explain it, and an example. It's not rocket science.'*

*'If you haven't paid this amount off by a certain point, this is what you'll end up paying back. It's as clear as that.'*

*'I think a lot of people don't understand compound interest... [they need] a more user-friendly way of explaining it.'*

Another participant suggested breaking up larger documents into smaller chunks.

*'Six single pages instead of one six page document seems like less work'*

Finally, some participants said that at the end of a purchase journey, applicants should be reminded of the key features of the card, as well as warned of the potential downsides, to make sure they understood the pros and cons of the product.

*'Before you click apply there should be a box with a summary'*

*'When you've applied for a car or a mortgage you get a warning: failure to pay off your monthly things will result in your house being repossessed or your house being repossessed. Having those stark warning messages makes people pay more attention.'*

*'I think they try to hide the negatives too much.. You've really got to go and search for the negatives... [There should be] a box with the pluses and the negatives .. so you can make an informed decision.'*



Phrasing the key points as questions, which applicants had to confirm they understood, was one suggestion for improving understanding of the potential downsides of the product.

*'a question for each [feature] to say have you read this point [would be better]'*

Some charges need to be better explained and signposted

Several participants were concerned that there were some product features which were not sufficiently well explained in any of the required documents that could catch applicants out.

Over-limit fees and late repayment fees were two examples cited.

*'They need to know if they go over the limit, they will be charged this extra'*

*'They'll have all the good features in bold, but then there's not a box underneath with all the negatives .. that's hidden in the terms and conditions... If you miss a payment, this is what will happen. But that's not anywhere to be seen.'*

Another was the fact that after the 0% period, a higher rate of interest applies.

*'0%, that's great, but that ends. It doesn't last forever. People need to know what happens at the end of that.'*

*'For me the APR doesn't matter because I only ever use things for the 0% period .. I'm very organised but it could definitely catch you out if you haven't paid attention because some of them are extortionate.'*



A third fee that people felt could catch customers out was the fee for cash transitions.

*'Some people will just get a credit card ... then they'll go out and get money from the bank [as cash] and don't realise there's a hidden fee.'*

Finally, the distinction between a promotional 0% period and the standard interest-free period for purchases was highlighted as another detail that applicants could easily misunderstand.

*'Purchases 0% for 26 months .. but then it also says the interest-free period is for a maximum of 56 days for purchases .. which doesn't make sense ... it's like they're trying to catch you out.'*

## Chapter 3

# Conclusions and recommendations

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The disclosure rules that sit around the consumer credit industry are not fit for purpose in today's multi-dimensional market.

The backbone of these rules is a piece of legislation that is almost 50 years old, and a set of additional regulations that dates back almost 40 years. At the time these were written, far fewer households used credit, and the variety and complexity of products was much narrower.

The rapid growth of Buy Now Pay Later (BNPL), which is unregulated and has not been encumbered by the old disclosure regime, has provided a glimpse into how customer experience could be improved.

Quite rightly, BNPL is now in the process of being brought into full regulation. However, the process of considering how to regulate BNPL in a way that does not materially damage the sector has once again highlighted some of the imperfections with the existing regulatory framework – leading to the second review of the Consumer Credit Act in three years.



As the research in Chapter Two of this report illustrates, the existing disclosure rules do not adequately support consumers to understand the complexity of modern day credit cards – and is not unreasonable to assume that this problem extends to other credit products as well. While most consumers have a propensity to read a limited amount of information as they prepare to apply for a credit card, that appetite reduces once they have made a decision to apply.



Although participants spent longer looking at the pre-contract credit agreement than other information provided in the journey, the research shows that this did not mean that they understood many of the

product features after their initial run through the application. Participants probably spent longer looking at the pre-contract credit information because it was presented as part of the application journey, with only a handful of them clicking on the summary box or terms and conditions, which opened in separate tabs and weren't an inescapable part of the application.

The pre-contract credit agreement is not especially useful because it contains too much information, some of which is not of relevance to prospective customers - and as a result, they come away without carrying the most important pieces of information.

We believe comprehension and understanding of products can be improved by asking customers to engage with shorter statements throughout the application journey. For example, the terms of any introductory offer - and the consequences of missing payments - should be drawn prominently to customers' attention while they're making the application. The application of interest and fees and charges should also be made much clearer on the screen.

Engagement with these important statements could be increased by requiring firms to ask customers to tick a box saying they understand the statement before continuing through the journey.

Consideration should also be given to using mandatory videos to help inform customers of the benefits and limitations of a product. Some consumers struggle to engage with written text - and use of audio and video is under exploited.

### Our recommendations

We have six recommendations for the Treasury and FCA, as they think about redrawing the rules around disclosure in the credit market over the next 12 months.

- 1. All disclosure rules should be removed from the Consumer Credit Act – with powers delegated to the FCA to set and amend regulations going forward.** In the last review of the Consumer Credit Act in 2019, the FCA indicated a preference for taking over most of the provisions in the Consumer Credit Act. There are a handful of provisions - specifically those that relate to unenforceability of credit agreements and Section 75 protection - which will need to be retained in law. But rules around information requirements can and should be transferred entirely into FCA hands.
- 2. The FCA should remove the requirement for lenders to publish a pre-contract credit disclosure document.** Summary boxes are now established in credit markets as well as other markets such as savings. An additional pre-contract credit document provides duplication and the requirement to provide one should be removed.

- 3. All lending products should have to produce a summary box, which must be made available before the start of the application process, and throughout the journey.** Our research showed that many consumers do want a short summary of the product which is more accessible and digestible than the full Ts&Cs. The FCA should prescribe at a high level what information should be disclosed in these - and the requirements should be adapted to each sector. The language and format of the summaries should not be prescribed, allowing firms to innovate in the way they communicate and improve customer understanding.
- 4. The FCA should introduce a new prominence requirement across all financial services communications, requiring firms to prominently draw any onerous or misunderstood product features to the customer's attention during the application process.** In the credit market, guidance should make it clear that this needs to include details around the consequences of missing payments, early repayment charges – and how interest, fees and charges are applied.
- 5. The FCA should issue new guidance on acceptable font sizes for web journeys and printed literature.** This should include a recommendation that firms use a minimum of 12px for online text and 10pt for printed text. Firms should be reminded that they will be in breach of the Consumer Duty if key information is printed in a size that is hard for customers to read.



- 6. The calculation of APR should be standardised and greater flexibility should be provided to short term lenders in terms of how they show the cost of credit.** APR is not always a useful way to compare the cost of credit. By adding annual fees, it can distort the number in a way that is unhelpful for comparison with other products. Displaying an annual cost can also be misleading in the context of shorter-term forms of credit. In addition, we believe the FCA should look at reinstating the 66% rule, which ensures the advertised rate is offered to 66% of customers (rather than 51%), and that this should apply to length of offer periods and fees, as well as headline interest rates.

The review of the Consumer Credit Act provides an opportunity to greatly improve disclosure in the credit market - and to use the learnings to also improve disclosure across financial services. If our recommendations are enacted, we believe the market will be understood by a great many more people - whilst improving the customer experience for everyone.





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