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The Rt Rev the Lord Bishop of St Albans
House of Lords
London
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29 September 2017

Our Ref: 170907Z

Hansard Ref: HL1404

Dear Lord Bishop,

Re: Parliamentary Question – HL1404

I am writing to respond to your question below which HM Treasury has transferred to us as the regulator responsible for consumer credit.

> *To ask Her Majesty's Government whether they intend to introduce measures to prevent the automatic increase of credit card limits.*

An important objective of our regulation of the credit card market is to ensure that consumers, especially those at risk of debt problems and those in financial difficulty, are not given unaffordable credit limit increases and have proper control over their credit limits. This is so they can avoid borrowing more than they intend to and avoid a worsening of their circumstances.

Our existing rules state that, before significantly increasing a credit limit, a firm must undertake an assessment of the customer's creditworthiness and must consider the potential for the increase to adversely impact the customer's financial situation. Also, firms must not increase, or offer to increase, the customer's credit limit where they are at risk of financial difficulties.

Not all credit limit increases are significant and, as you note, some may be given automatically. To address this, we set out in Chapter 4 of our Credit Card Market Study Consultation Paper, published in April (CP17/10), our analysis and proposals on unsolicited credit limit increases. The Paper is available on our website: https://www.fca.org.uk/publication/consultation/cp17-10.pdf

The analysis of the data in the Credit Card Market Study (CCMS) offers some insight into how credit limit increases operate across the credit card market and the impact on customers who receive them. In particular, we found that:

- The number of credit limit increases has grown in recent years. In 2014, 18% of all accounts received one, whereas the figure was just over 10% in 2010.
- 'Low and grow' cards account for a significant proportion of credit limit increases. This is what we would expect to see given that this business model involves giving customers an initially low credit limit (often £150 to £500) which can then be increased over time as customers demonstrate their ability to manage the card and firms are better able to judge the customer's creditworthiness.
- Our analysis of 2014 data shows that receiving a credit limit increase is associated with an increase in spending, with accounts that received a credit limit increase having an average balance £458 higher at the end of the year. The average credit limit increase was £1,321.
- It does not however show a link between credit limit increases and problem debt, even within the 'low and grow' segment. This is likely to be because firms try to target credit limit increases to their more creditworthy customers.

In the light of our findings, we have engaged with the credit card industry about our concerns relating to consumer control and the risk of detriment for customers in financial difficulties.

As a result, the industry has agreed that customers meeting our proposed definition of persistent debt (those paying more in interest and charges than principal) for 12 months will not receive offers of credit limit increases. We expect this to result in approximately 1.4 million accounts per year not being eligible for offers of credit limit increases.

Additionally, the industry has agreed that:

- Existing customers will have the ability to tell their credit card firm that they wish not to receive offers of credit limit increases unless they explicitly opt-in, rather than firms automatically increasing it if they do not reject the offer (opt-out).
- New customers will be given the choice of how increases will be offered, while existing customers will be given a more straightforward means of declining an increase and more choice as to how increases will be offered in future.
- All customers will be made aware of their existing right to choose not to receive offers of credit limit increases.
- Unsolicited offers of a credit limit increase will be presented neutrally, rather than as a reward.

We expect these changes to be implemented by the credit card industry for 85-90% of accounts within 12 months, with implementation complete for 100% of accounts at 15 months.

Progress with implementation and monitoring of compliance will be overseen by the Lending Standards Board and the Finance and Leasing Association. We will monitor outcomes with a view to considering whether this approach is working well, in due course.

Yours Sincerely

Andrew Bailey

Andrew Bailey
Chief Executive