

A complement to the APR

“CardCosts”: a consumer web tool

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 - for help at crucial stages of the project
- To UK Cards Association members
 - For valuable support, feedback and suggestions at several roundtable events and by email
- To debt and money advice stakeholders
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 - For fieldwork recruitment

Credits

- Research
 - Andrea Finney, Sharon Collard, Elaine Kempson and Sara Davies, Personal Finance Research Centre, University of Bristol
- Web design
 - Ben Hayes, Independent web and user-experience designer, and University of Bristol associate
- Web development and build
 - Paul Smith and Mike Gulliver, IT Services R&D, University of Bristol
- Project concept and funding
 - The UK Cards Association

Background to the project



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The rationale: shortcomings of the APR

- APR intended as an indicator of the total cost of credit
 - Works better for larger sum, fixed-term loans
 - Works less well for other types of credit
- Particular concerns relating to credit cards
 - Does not apply to card users who repay in full
 - Unrealistic assumptions underpinning calculations
 - Wide variability in the use of revolving credit cards
 - Potential vulnerability of some minimum payers
- By and large, consumers do not understand the APR

Our objectives

To understand

- What consumers think, do and understand
- What consumers want to know
- How consumers want information presented

And, based on this

- Develop a complement to the APR
 - To communicate clearly the cost to the consumer based on their credit card use

The phases of the project

- Phase I: Conceptualisation of the problem
 - Evidence review
 - Development of principles
- Phase II: Testing concepts and consumer needs
 - Six focus groups with credit card borrowers
 - Exploring online tools and calculators
- Phase III: Development of a web tool as a complement to the APR
 - User-centred prototype design and testing
 - Development of the final design

Phase I: Conceptualisation of the problem



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Phase I: Evidence review

- Information from experts in UK and overseas
- Systematic searches of
 - PFRC paper/electronic libraries
 - Websites of relevant UK organisations
 - Google Scholar¹
- More than 58 pieces of evidence reviewed in full, plus 8 websites²
 - 13 items provided by UK Cards
 - 23 other items related to the UK
 - 22 items from other countries

¹ Appendix 1 ² Appendix 2

Phase I: Choosing and using credit cards

- Only four in ten people shop around
 - Limited shopping around; quick intuitive decisions¹
- Interest/APR important factor in choosing a card (24%)
 - Other factors: 0% interest on balance transfers (25%); came with current account (11%); brand/reputation (9%); used provider before (9%); rewards (9%) credit limit (6%)¹
- Credit cards used eight times a month on average²
- 6 in 10 repay in full; 1 in 10 only repay minimum²

¹ Atkinson et al (2006) ² Blunt (2011). See Appendix 1

Phase I: How consumers think and behave

Strong evidence that consumers tend to:

- Weigh proximal outcomes (e.g. repayment amount) more heavily than distal ones (e.g. total cost)
- Be motivated more strongly by (smaller) short-term goals than (larger) long-term ones
- Over-borrow due to over-confidence in ability to repay, over-optimistic about future planning
- Under-estimate credit use and how often will incur fees or charges

Phase I: What consumers understand about the costs of using credit cards

- Low understanding of how credit cards work
 - Resulting in a reliance on minimum payments
- Paying minimum viewed as a ‘trap’
 - But repaying in full seems impossible
- Some unaware that different rates apply to different types of balance
- Size of minimum repayment used to gauge cost
- Some evidence of difficulty locating cost information on documentation

Phase I: What consumers understand about interest rates and the APR

- APR seen as most useful indicator of comparability
 - Where comparisons are made at all
- Lack of detailed understanding of the APR
 - What it is and how it is calculated
 - How it is used/applied
 - Compounding
 - Self-reported understanding far higher than reality
 - Most struggle to calculate costs
- Unsure of difference between interest rate and APR
- Confusion about whether the interest rate shown on statements is an expression of cost

Phase I: What consumers want to know

Pre-purchase

- For credit generally, total cost (interest & other charges), then APR, then total amount repayable
- Explanations of interest rate/APR calculations
- Information tailored to own needs

Post-purchase

- Clear information about impact of minimum payments
- Little interest in interest rates or APRs
- Impact of changes to T&Cs in light of own card use
- Mixed views in relation to 'sensible' repayment amounts

Phase I: Development of principles

- To direct the remainder of the project
- Grounded in the evidence base
- In consultation with UKCA members

Identifying:

- An ongoing need for a complement to the APR
 - That is simple, but representative
 - That is expressed in tangible terms, in £ and p
 - That is interactive, to reflect individual needs
 - That is provided centrally, but promoted widely
 - That focuses on the post-purchase environment

Phase II: Testing concepts and consumer needs



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Phase II: Focus group composition

- 6 groups, 7-8 people per group recruited to quota
 - Ages 25 to 58
 - Stratified by income (low-mid and mid-high)
 - No self-reported financial difficulties
- 4 ‘post-purchase’ focus groups
 - Minimum payers (sometimes/usually)
 - More-than-minimum (not full) payers (usually)
- 2 ‘pre-purchase’ focus groups
 - New and prospective credit card users

Phase II: Focus group discussion topics

Part 1: General discussion, exploring:

- Understanding of cost and drivers of cost
- Importance of cost in choosing and using a card
- Cost information used and sources of these

Part 2: Use of existing online credit card tools,¹ exploring:

- Usefulness of information provided
- Comprehension and ease of use
- Stylistic and design feature preferences
- Gaps in information provision

Phase II: What people know and understand about credit card costs

- Confirms Phase I findings research:
 - General awareness that APR is an indicator of cost (high APR = more costly)
 - Little awareness of APR on cards held
 - Poor understanding of what the APR comprises
- Own use of card (i.e. spending) seen as main determinant of cost
 - Interest / fees seen as minor element and sometimes irrelevant

Phase II How important is cost in choosing and using a credit card?

- APR largely disregarded
 - Except for seeking / switching to 0% deals
- Other factors far more important:

Choosing	Using
Reliance on friends/ family/ and bank	Pressing need to borrow - no alternative
Rewards	Convenience
Credit limit	Security (online/ abroad)

Phase II: What information do people use to inform them about cost?

- Paper and online statements
- Most important cost indicators are:
 - Total balance outstanding (£/p)
 - Interest accrued this month (£/p)
- Other indicators used are:
 - Minimum repayment amount (£/p)
 - Estimated interest for next month (£/p)

Phase II: Do people act on cost information?

- Generally not, except at key trigger points:
 - Larger-than-manageable balances
 - Unexpected fees or charges
 - Following a change in circumstances
- General awareness of what they *should* be doing
 - Monitoring
 - Switching

Phase II: Will people act on new cost information?

- A cautious 'yes'

Within the research setting, consumers had:

- Express appetite for better cost information
- Desire to explore cost of own credit card borrowing
- Emotional reactions to 'real' cost information
 - Enlightenment
 - Surprise
 - Shock
- Plus unprecedented positive feedback via recruiter
 - Of enjoyment and learning in the group

Phase II: What people want from a new card costs tool

Clear appetite for better cost information that is

- Simple
- Expressed in tangible terms (£/p)
- 'Tailored to me'
- Rough and ready (no need for pinpoint accuracy)
- Interactive
- Convenient and timely

Phase II: Prerequisites for the successful delivery of a cost indicator

- Simple, attractive interface
- Limited information to input
- Limited key information to take away
- Ease of access
 - Embedded widely, linked to/from other websites
 - Range of formats
- Flexibility to tailor to individual needs
- Legitimacy and independence of provider
 - No heavy branding, but endorsed widely

Phase II: What expressions of cost would people like to see?

Cost based, in £/p:

- Monthly / annual charge in interest
- A total charge in interest based on repayment pattern or life of borrowing
- Total amount payable (interest and capital)

Goal based:

- Time taken to repay based on repayment level
- Repayment amount needed to repay in set period

Phase III: Development of a web tool to complement the APR



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Phase III: The brief

Provision of a 'suite' of measures:

- Online, with scope to expand to other formats
- Simple, attractive interface
- Limited information to input
- Limited key information to take away

Guiding principles

- Provide information consumers value most
- Display only objective information and messages
- Cost information is representative and not misleading

Phase III: Making the webtool different

- Relevant to a wide range of users
- Comprehensive, allowing for:
 - Different types of balance
 - Provision for additional spending
 - Provision for an annual fee
- A design to inform and aid consumer decision-making
 - All messages objective and informative
 - Use of sliders to maximise interactivity

Phase III: Operational assumptions

Ensuring all results produced are conservative:

- Transactions (and any fees) are charged on first day of the month
- All 'new' spending will occur on first day of the month
- Repayments will occur on last day of the month

Phase III: Prototype design and development

- Design
 - User-centred approach
 - Paper sketching
 - Construction of a website ‘wireframe’ (screen blueprint)
- Add basic functionality to the wireframe
 - Calculations
 - Navigation
- Test the basic, interactive prototype
 - Informally and through field testing with consumers

Phase III: Consumer feedback on the prototype

Field testing with 15 consumers evidenced that:

- The user interface was clear and intuitive
 - Simple design; not too much information
 - Easy to navigate between pages
- Input fields were readily completed
 - Little (unprompted) use of help text
 - Fields with minority interest made 'optional'
- Results were relevant, helpful and informative
 - Clear, and simple to interpret
 - Triggering re-use and self-reflection

Phase III: Final design and build

Traditional design process assumes:

- Relatively simple content
- User-centred design is primary
- 'Back-end' build fits easily into 'front end' functionality

The CardCosts project emerged as a different prospect:

- Very complex content
- User-centred design masking functional complexity
- 'Back-end' build ultimately driving 'front-end' function

Phase III: Complexities in the final build

- Streamlining calculations for five different repayment routes into two types of results page
- Developing a 'goal seek' simulation to calculate a regular repayment over a fixed period
- Reconciling rounding of figures on different calculation routes to avoid confusion
- Setting parameters to avoid 'infinite' or 'impossible' repayment scenarios, e.g. ever-escalating balances
- Tailoring information to users based on route selected

Phase III: Stakeholder feedback

Support for the tool's principles and execution from:

- UK Card Association members
- Debt and money advice organisations
- Department for Business, Innovation and Skills

Final touches following feedback:

- Small changes to web tool drafting and language
- Directing consumers to sources of debt/money advice
- 'Optional' minimum payment rules shown by default

Introducing the CardCosts web tool: www.cardcosts.org.uk Launched 26 June 2013



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Appendices



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Appendix 1: Bibliography (1)

Research literature

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Selected other literature

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- Also: Examination of legislation and consultations and personal correspondence with researchers, legislators and consumer group representatives in the UK, Ireland, Europe Union, Australia, Canada and the USA and additional material provided by The UK Cards Association

Appendix 1: Bibliography (6)

Websites reviewed

- choice.com.au
- fcac-acfc.gc.ca/eng/
- federalreserve.gov/creditcard
- moneyadvice.service.org.uk
- moneysavingexpert.com
- moneysmart.gov.au
- moneysupermarket.com
- Which.co.uk

Appendix 2: Google scholar search results

Search terms (and criteria)	Items returned	Items scanned	Useful?	Papers identified
credit card true cost (all words)	18,600	First 60	No	
consumer behaviour credit card cost (all words)	16,200	First 60	Yes	Stango & Zinman, 2009; Scholnick et al, 2008
credit card cost meaningful (all words)	16,100	First 60	Yes	Kroszner, 2007; Stewart 2009
credit card disclosure (all words)	13,400	First 60	No	
presenting credit card costs (all words)	15,100	First 60	No	
credit card cost complexity (all words)	15,900	First 60	Yes	Centre for Responsible Lending, 2008

Appendix 3: Websites explored in focus groups

Each group considered three from the following:

- MoneySupermarket.com – credit card comparison site
 - <http://www.moneysupermarket.com/credit-cards/>
- Financial Consumer Agency of Canada – credit card decision tool
 - <http://www.fcac-acfc.gc.ca/iTools-iOutils/creditcardselector/CreditCard-eng.aspx>
- Money Advice Service – credit card calculator
 - <http://htmltools.moneymadeclear.org.uk/creditcard-calculator/>
- MoneySavingExpert.com – minimum repayments calculator
 - <http://www.moneysavingexpert.com/credit-cards/minimum-repayments-credit-card#calc>
- A new UKCA/PFRC template for the expression of monthly credit card costs