



FINANCIAL REGULATOR
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November 2007

Re: Credit Card Themed Inspection

Dear «Greeting»,

Earlier this year we carried out a themed inspection (involving both on and off-site work) of a number of credit card providers in relation to the following areas:

- (a) To assess whether the credit card providers were implementing non-Euro transaction charges in accordance with Section 149 of the Consumer Credit Act 1995 (the CCA);
- (b) To establish what progress providers had made towards implementing Provision 2 of the Loans Chapter in the new Consumer Protection Code (the Code), which requires “A regulated entity may only increase a consumer’s credit card limit following a request from the consumer.” Although this specific provision only came into effect on 1 July 2007, the inspections reviewed the progress being made by providers towards its full implementation; and
- (c) To ascertain how prepared the providers were to implement General Principle 6 and Common Rule 44(c) of the Code, which relate to disclosure of charges.

The purpose of this letter is to provide the industry with some general feedback in relation to the findings from this themed inspection and we would ask that you consider the issues raised. In addition, we are taking this opportunity to clarify the applicability of Common Rule 44(c) of the Code, which has been considered separately by this Department and is dealt with in section 5 of this letter.

We did not visit all credit card providers but we would ask all providers, including those providers not visited as part of this themed inspection, to consider whether any of the issues set out below are relevant to their institution and, if so, to consider the findings when reviewing and developing their systems and controls.

1. Currency Conversion Fees/Charges

In relation to our review of non-Euro credit card transactions, it concentrated on the two most popular non-Euro currencies i.e. Sterling and US Dollars, and we restricted our review to two specific, busy weeks namely 31 July to 4 August 2006 and 27 November to 1 December 2006. From the sample of customer transactions examined, the currency conversion fees applied by the providers were in accordance with the charges notified under Section 149 of the CCA.

2. Customer Requested Increases to their Credit Card Limit

Provision 2 of Chapter 4 of the Code states that “A regulated entity may only increase a consumer’s credit card limit following a request from the consumer”. Credit card providers must comply with this requirement from 1 July 2007. We note that providers inspected as part of the theme, had implemented this provision prior to implementation of the provision in the Code.

Some of the providers inspected were not in a position, during the course of the inspection, to evidence their compliance with this requirement in respect of some of the accounts reviewed. Documentation was however subsequently forwarded to the Financial Regulator. In addition, some of the providers inspected did not always maintain comprehensive information in cases where customers had

requested credit limit increases at a distance, i.e. via email, telephone, internet or post.

In order to demonstrate compliance with this requirement in the Code, providers should be able to show that the increase was requested by the consumer. Whilst acknowledging that a significant number of such requests are usually made at a distance, in such cases the provider should keep system notes of the request and any subsequent contact with the consumer on the matter. The same approach should be adopted where the consumer calls to a provider in person and discusses this matter with a representative of the provider. Where the consumer makes such a request by means of letter, email, completion of particular forms etc. the provider should retain soft/hard copies of such requests/completed forms etc.

3. Knowledge of the Operation of the Credit Card System

In a small number of the providers inspected, an in depth knowledge of the operation of the credit card system was not demonstrated during our dealings with the provider both prior to and during the inspection. Whilst noting that significant aspects of credit card operational activities may be outsourced to third parties, the provider itself is responsible for the provision of the financial service and compliance with both the Code and the CCA, regardless of whether aspects of it are outsourced, and it is therefore critical that the provider is familiar with all aspects of the outsourced functions.

Providers should ensure that there is an appropriate level of knowledge within its organisation of all elements of the credit card process including any aspects it has outsourced to a third party or which are carried out by a related group company.

4. Transparency of Credit Card Statements

We reviewed a sample of credit card statements to ascertain the transparency of charges and general information. These findings are feeding into a review of the transparency of credit card statements.

5. Clarification Regarding Code Requirement on the Disclosure of Charges in Statements

As indicated earlier, we are also taking this opportunity to clarify the applicability of Common Rule 44 (c) of the Code, which requires providers to “detail in each statement provided to the consumer, all charges¹ applied during the period covered by that statement”. During the themed inspection, we noted divergent industry practices regarding the disclosure of the currency conversion fee on credit card statements and we indicated that this issue would be considered further. Having done so, we now wish to clarify that the currency conversion fee should be disclosed separately on credit card statements in accordance with Common Rule 44(c) of the Code. Regulated entities may need to review their statements in light of this requirement in the Code to ensure that all charges are being disclosed in statements currently being issued to customers.

We appreciate that not all of the issues outlined in this letter may be applicable to your institution. Nonetheless, we hope that you find the information useful as you monitor and review your institution’s compliance with the Code and the CCA. Should you have any queries in relation to any of the above, please contact Mary McEvoy on 4104839 or Lara Lenehan on 4104665.

Yours sincerely

Brenda O’Neill
Deputy Head of Consumer Protection Codes

¹ Charges in the code is defined as “any cost or fee which a consumer must pay in connection with a product or service provided by a regulated entity”.