



Super-complaint: credit and debit surcharges

May 2011

Evidence from the Consumer Council for Northern Ireland

The role of the Consumer Council

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland's (NI) consumers. Our aim is to make the consumer voice heard and make it count. We represent consumers in the areas of transport, water and energy. We also have responsibility to educate consumers on their rights and responsibilities and to equip them with the skills they need to make good decisions about their money and manage it wisely.

Providing evidence to support the super-complaint

The Consumer Council raised concerns about the cost of paying at the beginning of the OFT's study into price advertising which followed our report into the cost of paying. The conclusion was that traders would be asked to review their advertising and promotions and enforcement action would be taken against firms suspected of most seriously breaching the law.

The Consumer Council welcomes the Super-complaint on debit and credit card surcharges submitted by Which? This is an opportunity to provide evidence about how surcharges affect consumers in Northern Ireland and ensure that the consumer voice is heard.

The Consumer Council believes that making a payment for goods or a service is an intrinsic part of the transaction. It follows that the cost of paying should be included in the overall price and be clear and upfront for consumers. There should not be an additional charge applied to consumers because of the method they use to pay.

As we have a statutory remit to protect consumers in the area of transport, we will focus on the surcharges that airlines apply.

The Cost of Paying report 2009 and consumer principles for payments

The Consumer Council carried out research in 2009 into the cost of paying and outlined a number of recommendations to the Office of Fair Trading (OFT).

We previously raised six areas that affect consumers when making purchases that lead to detriment. These form the key principles that we believe should be used by companies in relation to payments from consumers.

- Charges are not optional:

Making a payment is intrinsic to the transaction and therefore the price should be included in the upfront cost.

- **Charges are hidden:**
Charges for payment methods are often hidden until the end of the purchasing process which, in addition to being unfair, makes it difficult for consumers to assess the overall cost, to compare prices and choose the best deal. Charges should be displayed upfront.
- **Charges do not appear to reflect costs:**
The application of charges by different companies can be inconsistent and this adds weight to the concern that these charges are not cost-reflective. Charges should be cost-reflective.
- **Many consumers do not have access to charge-free methods:**
Airlines are required to advertise all unavoidable payment fees. Therefore if there is one charge-free option, charges for other payment methods are not advertised at the outset. Charge-free cards such as Visa Electron are extremely difficult to obtain in NI, therefore avoiding charges is very restrictive. More easily accessible free to use payments methods should be offered.
- **Charges are intrusive:**
For consumers who are unbanked and prefer to manage their budget in cash, there may be concern about the possibility of becoming over-indebted if they took on a current account to set up direct debits or a credit card to be able to pay for goods. The opportunity to avoid charges should be made accessible by offering more free to use payment methods.
- **Financially excluded consumers:**
Eight per cent of consumers in Northern Ireland do not have a current account or a savings account.¹ This is four times the average of the 'unbanked' adults in the United Kingdom (two per cent). Consumers who face financial exclusion should be given more payment options.

Airline credit and debit card charges

Air travel from NI

Air travel is important to consumers living in NI. It provides access to a range of holiday destinations and enables consumers to visit family and friends living abroad. Air travel also plays a vital role in supporting NI's economy by providing access to markets, encouraging inward investment and boosting tourism.

¹ Ipsos MORI (Quarter 2 2010) *Financial Tracking Study in Northern Ireland*

The number of passengers traveling to and from NI's airports has significantly increased over the past decade. Approximately 7.5 million passengers traveled through NI's airports in 2009 compared to 4.6 million in 2000.²

Consumer experiences of paying for air travel from NI

The Consumer Council carried out research in 2010 to find out what local passengers' experiences of air travel are actually like.³

Some of the key findings in relation to payment are as follows:

- Most passengers prioritise price over quality of service, especially when booking short domestic flights;
- Many passengers believe the final ticket price is not clear from the beginning of the online booking process;
- The vast majority of passengers pay for flights using a method which incurs a payment fee; and
- The majority of passengers believe taxes and charges, payment fees, check-in fees and baggage charges should be included in the advertised fare.

A significant proportion of passengers, 32 per cent, believe the final ticket price is not clear from the beginning of the booking process. This lack of clarity is a particular issue for passengers who book flights online with 39 per cent believing the final price is not clear from the beginning of the process.

A lack of clarity in airline fare pricing structures makes it much more difficult for passengers to compare prices between airlines. Only 49 per cent feel it is easy to compare the final price of different airlines or routes.

The result is passengers do not shop around as much as they would like to. For many passengers, once they find a fare they feel is reasonable they will purchase the ticket without further comparison. On the whole, passengers are dissatisfied with the practice of airlines advertising low fares and adding extra charges for services at various points during the booking process.

Focus group discussions that we held supported the findings of the questionnaire survey with passengers voicing the following concerns:

- Certain airlines are intentionally unclear regarding the final price of their fares;
- Many of the additional charges imposed by airlines are exploitative and unjustifiable;

² Data provided by the UK Civil Aviation Authority

³ Flights and Rights, May 2010

- Passengers no longer believe the low fares advertised will bear any resemblance to the final ticket price; and
- Passengers are irritated by additional charges and would prefer the airlines to advertise accurately the actual fare, not unrealistic “low fares”.

How NI consumers pay for flights

The Consumer Council estimates that during 2011 airline passengers traveling to and from Northern Ireland will pay approximately £22.4⁴ million in credit and debit card charges.

The most popular method for paying for flights is by credit card. 47 per cent of consumers use this option, while 34 percent purchase flights using a debit card. A tiny minority, just four per cent use a charge-free option, for example Visa Electron. It must be pointed out that that these cards are extremely difficult to access in NI.

Passengers aged 30 and above are the most likely to pay by credit card. Half of all passengers in this group pay this way. Younger passengers are the most likely to pay by debit card with 47 per cent of passengers aged 16 to 29 choosing this option.

Passengers in the ABC1⁵ socioeconomic groups are more likely than those in the C2DE categories to pay using credit card (50 per cent compared to 40 per cent). They are also more likely to pay using a charge free option (5 per cent compared to per cent).

Consumer Council research indicates approximately three quarters of passengers believe payment fees should be included in the advertised fare.⁶

Availability of payment cards

Consumers in Northern Ireland have lower levels of financial capability than consumers elsewhere in the UK.⁷ A third of people believe they are only one

⁴ In 2010 7.1 million passengers traveled through Northern Ireland’s airports. 6.6 million of these passengers traveled with scheduled airlines and 500,000 on charter flights (data obtained from Civil Aviation Authority) £22.4m is calculated using 2010 passenger figures and based on the premise that 47% of scheduled airline flights are booked using credit cards, 34% using debit cards and 4% using a payment free option e.g. Visa Electron. Figures taken from *Flights and Rights: A Consumer Council research report into passengers’ knowledge of their rights and attitudes to air travel*, May 2010.

⁵ National Readership Survey social grade categories.

⁶ *Flights and Rights: A Consumer Council research report into passengers’ knowledge of their rights and attitudes to air travel*, May 2010

⁷ *Managing Money: How does Northern Ireland add up?* 2007, The Consumer Council, (A research report based on the Financial Services Authority (FSA) UK Baseline Survey)

month away from financial hardship should they face an unexpected expense or drop in income.

In 2007 the Northern Ireland personal current account market was found to be anti-competitive by the Competition Commission inquiry, established in response to the Consumer Council Super-complaint. While we recognise the commitment made by the banks to make changes that will benefit consumers, there is still more work to be done to ensure that consumers are at the centre of policies and decisions that affect us all.

Consumers in NI have traditionally been extremely loyal to their banks and switching rates remain incredibly low. Our research⁸ has found that 25 per cent of consumers cite that the reason they do not switch bank account is that it is 'too much hassle'.

The majority of market share of the NI personal current account market is held by a small number of banks that do not have extensive networks in the rest of the UK.

We have contacted eight of the main banks operating in NI to ask if they offer products that provide consumers with a card that may be useful as a charge-free method to pay for goods/flights, for example Visa Electron or Solo. Only one of the banks is currently able to offer a Visa Electron card. This bank is relatively new to the NI market and has a limited number of branches in comparison to others. The remainder of the banks are only able to provide a Visa debit card or Maestro card, which the majority of airlines charge consumers for using.

Airlines say they offer a 'free' method of payment. Due to the structure of the NI banking market, these are extremely difficult to obtain cards. Prepaid cards are not offered by the main banks, only niche players, and their ownership and use attracts a range of significant charges. As a result, most people do not have the option of using a charge-free method of payment.

The Consumer Council conducted research in 2010 into the attitudes and behaviours of NI consumers. We found that due to the economic climate consumers appear to be borrowing on credit cards even more than before. Almost three in ten consumers (29 per cent) have a credit card and over half of credit card users (56 per cent) pay back the balance in full each month.⁹ The number of people who pay back over time increased from 29 per cent in 2008 to 37 per cent in 2010. This may reflect a greater tendency to borrow on the credit card as consumers find it more difficult to access credit directly from banks. This tendency to use credit cards may have an impact for consumers who are buying flights. Their only option is to pay by credit card which incurs hugely disproportionate fees.

⁸ Satisfaction with banks and building societies research, CCNI March 2010

⁹ Ipsos MORI (Quarter 2 2010) *Financial Tracking Study in Northern Ireland*

Correspondence with airlines

In January 2009 the Consumer Council wrote to BMI, Flybe, Aer Lingus, Jet2.com, Ryanair and Easyjet, enquiring how each airline calculated the level of payment charges levied, what costs each airline incurs in processing card payments and why the details of payment charges are not outlined to passengers until the final stages of the booking process. A similar letter was sent to Bmibaby in March 2009.

Responses were received from Ryanair Bmibaby, Flybe and Aer Lingus. The responses are summarised as follows:

Ryanair explained that charges are clearly set out on its website and brought to the attention of passengers prior to booking and agreed to by passengers before the booking is confirmed. Ryanair declined to specify the costs involved in making up the payment charges explaining this is a commercial matter.

Bmibaby explained the introduction of payment charges was a commercial decision and reflected the practices of many other low cost airlines. The airline also explained Bmibaby is charged processing fees by banks and card issuers.

Flybe explained it applies its charges in line with industry and legislative best practice. Customers are informed of the charges at many points during the booking process. Flybe explained card charges are levied to defray the substantial administration and financial service costs incurred when processing cards. According to the airline, the credit card processing industries levy, a processing charge per transaction and require airlines to maintain cash reserves to cover their losses in case of claims against them. The industry also operates a complicated administration system on card charge backs, which requires all companies to maintain an administration department. Flybe explained the only alternative to not imposing payment charges is to increase the base fare.

Aer Lingus explained it does not impose a direct surcharge on the use of payment cards but rather charges a handling fee to cover all activities associated with the support and servicing of aerlingus.com. The fees paid partially cover some of the cost of supporting the sale. Examples of cost categories include:

- Card authorisation costs
- Merchant fees / Bank commissions
- Aerlingus.com support helpdesk staff
- Web unit support business and I.T.
- Language support/email/domain name/measurement
- General sales agents supporting calls for aerlingus.com throughout Europe

- Software, hardware support, database, licence fees, host reservation system.

Aer Lingus also explained that the payment charge is displayed on the “price” page in advance of customers committing to a purchase.

Correspondence with European Commission

In October 2009 the Consumer Council wrote to Antonio Tajani (European Commissioner for Transport) and Meglena Kuneva (European Commissioner for Consumer Affairs) highlighting its concern regarding credit and debit card payment charges. We explained that as the vast majority of payments for airline bookings are made by credit and debit cards, charges for payments via these methods are foreseeable for most consumers. We contended that airlines that fail to indicate these charges at all times and include them only at the final stage of the booking process appear to contravene the terms of Article 23 of Regulation (EC) No 1008/2008 (the Air Services Regulation).

A joint response on behalf of both Commissioners was received offering the following explanation:

“The Regulation does not impose any definition of type of payment: it only states that the fees which are unavoidable and foreseeable must be integrated from the beginning in the final price. In its interpretation, the European Commission has considered that the most foreseeable and avoidable booking fee is the cheapest. For some airlines, it happens to be the payment fee equal to 0 €, usually for payments with the debit card electron. Thus, as far as they are clearly announced prior to the final payment, the other payment fees may not be indicated at all times. It may not be the most satisfactory answer in view to give the best protection to consumers, but it seems to be the most legally sounded.”

The European Commission requires airlines to include in the price ‘all applicable, unavoidable and foreseeable payment fees per person and segment or other administrative fees’. However, as charge-free methods are difficult to obtain in NI, the price that the majority of consumers will end up paying is not advertised at the outset.

Other examples of payment method surcharges

The Consumer Council has been monitoring a range of other service providers regarding debit and credit card surcharges as follows:

Company name	Debit card charge	Credit card charge
Ticketmaster	We negotiate our charges with venue operators, promoters and others based on costs involved in both their presentation of the event and our services with respect to the ticketing of their events. The actual amount is determined by agreement with the venue or promoter for each event.	We negotiate our charges with venue operators, promoters and others based on costs involved in both their presentation of the event and our services with respect to the ticketing of their events. The actual amount is determined by agreement with the venue or promoter for each event.
Belfast International Airport Parking	3% processing fee	3% processing fee
Home Fuels Ltd	N/A	There is a charge of 1.98% inc. VAT when paying by credit card for our heating fuels. This surcharge covers the cost incurred by the credit card issuer; we do not profit from it.
Nicholl Fuels	N/A	£4.95
Meekin Fuel	No charge	Charged a percentage of the transaction value as a fee.
SAFE Fuels	N/A	2%
Trolan Bros Fuels	N/A	£4.95
Thompson Fuels	N/A	2%

The Consumer Council's role in educating consumers

In order to make informed purchases, consumers need to know the true cost of the various options available. The Consumer Council believes there is a need for greater transparency in airline ticket selling processes. As long as airlines continue to advertise low fares which increase dramatically once charges for particular services are added, consumers will find it difficult to compare the costs of travelling with different airlines.

We will continue to publish our guide to airline charges "Airline charges at a glance' on a quarterly basis, This shows all the charges that you can expect to pay when you book a flight with a no frills airline.

Supporting documentation

Please find attached a copy of our latest edition of 'Airline charges at a glance' which shows all charges for single flights operating to or from Northern Ireland. This is updated on a regular basis and available on the Consumer Council Website within the Transport section.

Please find attached a copy of 'Flights and Rights', A Consumer Council research report into passengers' knowledge of their rights and attitudes to air travel.

Further discussion with the Consumer Council

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