



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to BIS consultation on the 'Review of the Regulation of Credit and Store Cards'

January 2010

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About Consumer Focus

Consumer Focus is the statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland, and, for postal services, in Northern Ireland. We are the voice of the consumer, and work to secure a fair deal on their behalf. We were created through the merger of three consumer organisations – Energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). The new approach allows for more joined-up consumer advocacy, with a single organisation speaking with a powerful voice and able to more readily bring cross-sector expertise to issues of concern.

Executive summary

Consumer Focus welcomes the consultation and the five areas under investigation. We feel the credit card market needs a radical overhaul to simplify the array of charges. This will ensure consumers can engage in a meaningful way allowing competition to play a more active role in driving standards.

On the **allocation of payments** we support re-aligning payments for the most expensive charges to be paid off first (Option 4).

On the **increase in minimum payments** we agree with the proposal to increase the amount consumers need to repay each month to five per cent of the total cost (Option 4). We also suggest a range of ways to lessen the impact on those who will struggle to increase payments including placing obligations on credit card providers to advise heavily indebted consumers to look at cheaper ways to manage debt than on a credit card.

In response to the proposal on **banning unsolicited credit increases** we offer our full support. We also suggest a more rigorous process credit card companies should undertake when credit limits are increased in order to put the power back into the hands of consumers to determine their borrowing based on their informed judgement.

We believe **re-pricing of debt** should continue to be allowed but only if the Statement of Principles on re-pricing becomes a statutory process; effectively monitored and rigorously enforced. We accept the logic that at times it is fair to re-price debt but the principle must be that any re-pricing must be substantiated by evidence. It must be undertaken in a way that places power in the hands of consumers to query or challenge a re-pricing with means of redress if the rationale is unfair or if the procedure is abused.

Finally, we offer our support to attempts to **simplify the information** consumers are faced with. We offer proactive advice for how to achieve the goal of consumer empowerment. However, we note that to succeed will also require some fundamental changes in the nature and variability of credit card charges. The goal should be one APR across all types of borrowing, with set charges for everything else.

Introduction

We warmly welcome this consultation into store and credit cards. In light of the financial crisis two profound changes have taken place that will shape the credit card market for years to come.

Firstly, we have become aware that the banks have not operated in the best interest of their customers. We lived through an era where credit was seemingly endless. However, behind the easy money we now realise trouble was brewing. Many consumers took on more credit than they could afford. They were aided in their excess by banks imposing a range of complicated contract terms that confused consumers and often led to unexpected charges being applied. There is near unanimity that these charges do not operate in a way which is clear to consumers and many were burdened with excessive debts and charges that they simply did not understand.

The second change is our move from a time of boom to deep economic recession. Suddenly, many people and households are scraping by as never before. Unemployment has risen sharply, the cost of credit has increased despite low base rates and the need for debt advice has reached unforeseen levels. Consequently, there is a pressing need for the most vulnerable and indebted to have greater control over their finances and to reduce their repayment rates. It is right that Government through this consultation and other measures acts to restore trust and transparency to the credit card market.

We offer some concrete steps Government and industry could adopt to further consumer understanding, promote fairness and create a sustainable framework for consumer credit moving forward. Consumer Focus wishes to be at the heart of the debate ensuring value, good service, effective redress and protection for the weakest is embedded within the industry from now on.

1. Allocation of payments

Consumers often do not understand the complexity of fees and charges surrounding their credit repayments and are not always in the position to manage their payments in a way that is most beneficial and rational. The consultation addresses the common industry practice of the most expensive debts on a credit card being paid off last. The approach does not benefit the consumer and is likely to have the effect of compounding rather than clearing debt, which is not in the individual consumer's interest or the broader public interest. The expertise and knowledge in this area lies with the financial institutions and on this basis we believe that greater responsibility for allocation of payments in the consumer's interest should lie with the industry.

While improved transparency may assist consumers in making better decisions the volume and complexity of information often inhibits consumers making a rational choice, and in relation to the allocation of payments is not the simplest and most effective way of dealing with the problem. In general, Consumer Focus supports the goal of greater information and transparency. However providing more information, or an explanation, will not prove an effective remedy in this case and it would be equally, if not more, costly and time consuming for the finance provider to reverse the current practice. Any information requirements would need to be monitored for accuracy and consistency, placing greater burdens on the regulatory framework.

There is a danger that the proposal may lead to an overall increase in borrowing rates as credit card companies seek to recoup lost revenue by other means. Even given this potential risk we still support the change in the allocation of revenue where consumer payments repay the most expensive debt first and not the inverse as is currently the case. We are concerned that substantive profits are made from credit cards¹ and it is the most financially vulnerable users of credit cards who are likely to utilise a range of credit which becomes difficult to manage. Consequently, it is these indebted and potentially confused consumers who are cross subsidising the lending of other users.

We fully support Option 4 which proposes that the most expensive debt should be paid off first unless a consumer indicates otherwise. It should be the presumption that the consumer would want the most expensive debts paid off first, all credit card payment systems should be altered accordingly.

As part of the Government's deliberations we would also like a review of the reasons for differing priced debt as this can often lead to consumer confusion about how to prioritise and allocate payments. We are unconvinced that there are such substantial cost differences to the credit card company for money lent either through balance transfers, cash transactions or purchases to justify the pricing variations. Without any differences in the cost of the transaction to the credit card provider there is no viable reason why there should be such sharp contrasts in the charges levied. Where there are cost differences we would like to see a thorough break down of these costs.

¹ Barclaycard for example makes £789 million off an income of £3,219 and Virgin Money reported pre-tax profits of £27.5 million turnover of £98.4 million.

A cash advance is one such service that is priced differently. We do not accept that consumers inherently pose a significantly higher credit risk based on the use of credit cards for cash advances. Credit worthiness assessments should be based upon a history of repayment, not how consumers wish to use the card and we would expect the credit referencing agencies and card companies to adjust their practices accordingly.

Therefore, we ask the Department for Business, Innovation and Skills (BIS) or the Office of Fair Trading (OFT) to go further and undertake further work to assess:

- The costs to the credit card company of differing debts
- The fairness of the credit card company's pricing and its impact on different groups of consumers
- Consumers' comprehension that differing uses of the credit card will face differing costs

2. Upping minimum payments

The consultation shows that last year 14 per cent of cardholders made only the minimum payment on credit cards². That means large numbers of consumers will be repaying their debts over decades and paying significant interest over the life of the debt. There is no easy solution to indebtedness or a reliance on credit cards to facilitate living costs. Any efforts to reduce indebtedness by increasing minimum payments, clearly increases the risks of consumers failing to pay the minimum amount. Those who are currently struggling to make ends meet would then face a mandatory penalty charge (usually of £12) and a likely deterioration of their credit rating.

On the other hand, for those who do as a matter of course pay the minimum amount or who anchor their payments based on that amount³, an increased mandatory minimum payment would reduce the overall cost and impact of high cost lending on credit cards. These consumers could end up saving large sums in the long term.

There is no easy answer to this issue, especially at a time of financial crisis where many people are struggling like never before. We note the comments left on the BIS consultation website page from consumers indicating any increase in minimum payments could push them over the edge. We also note the unprecedented rise in demand for debt advice from Citizens Advice and other advice agencies.

With this in mind, Consumer Focus would cautiously agree with Option 4 that increasing the minimum charge outweighs the benefits. We would recommend rigorous testing of the likely impact, especially on those most vulnerable, of increases at different rates but a minimum payment of five per cent reduction in the balance would appear a good start. At the moment the Lending Code suggests repayment should be sufficient to cover the interest and cover some of the balance and the rate must be sufficient to prevent negative amortisation over the 12 months⁴. Clearly, this is no longer an adequate principle on which to proceed since, as the consultation demonstrates⁵, the balance would simply take far too long to pay off and represents an unfair total cost of borrowing.

Looking further forward we would hope that the minimum rate could increase to 10 per cent or 15 per cent once the economic climate is brighter and the testing has not shown any negative consequences in relation to the most vulnerable consumers.

² BIS, *A Better Deal for Consumers: Review of the Regulation of Credit and StoreCards: A Consultation*, p7

³ This is in reference to the Warwick research cited in the consultation, page 29

⁴ *The Lending Code*, November 2009, paragraph 100-103, p15

⁵ BIS, *A Better Deal for Consumers*, p35

If the Government does decide to increase minimum payments we would suggest there are ways that the impact could be mitigated on heavily indebted consumers:

1. We would recommend that consumers are well informed of the changes and have the option, if they so desire, to inform the credit card company that they want to reduce the minimum payment to what it was prior to the reforms. We suggest Government could trial this process for 12 months to assess impact.
2. The credit card provider should also be under a duty to inform the consumer of the likely impact on their bills of a lower minimum repayment, direct them to independent debt advice and recommend to them that there are cheaper ways to manage debt than simply paying the minimum on their credit card each month⁶. Indeed, the Consumer Credit Directive suggests consumers should be informed of the dangers as part of the duty on responsible lending. Following that duty we suggest that credit card companies must inform and educate consumers about their options when altering the terms of the credit card in ways that may leave the consumer vulnerable to increases in charges including a) upping of the credit limit b) reducing minimum payments.
3. A useful international comparison comes from France. French banks are under an obligation to monitor overdrafts and if customers are overdrawn for three months, and accruing charges, banks have a duty to contact them offering a cheaper longer term loan to meet their needs. If the banks fail to act then any debts are frozen with banks unable to charge any more interest⁷. Credit card companies could be under the same obligation so those customers who continually only make minimum payments or those who fail even to do that are contacted and alerted to their potential options regarding loans, advice and breathing space.

If all the above reforms are accepted we would hope that those consumers who do wish to keep minimum payments as low as possible are informed of the consequences of their actions and offered alternative means to manage their debts while others who can manage to pay more will end up paying less interest overall.

⁶ This is in fact the essence of debt consolidation from private companies or from charities.

⁷ Information provided by a colleague at a French consumer body, law details can be found (in French)

<http://www.legifrance.gouv.fr/affichCode.do?idArticle=LEGIARTI000006292377&idSectionT A=LEGISCTA000006161854&cidTexte=LEGITEXT000006069565&dateTexte=20091228>

3. Unsolicited credit limit increases

Research by USwitch suggests 5.7 million consumers may have seen their credit limits upped without consent⁸. The lack of control or timing over these changes, alongside low financial capability, undermines consumers' control over their borrowing. Unsolicited credit limit increases therefore seems at odds with the responsible lending practices that the Government is trying to foster to make credit sustainable and manageable.

Credit card companies frame unsolicited credit increase limits as an earned reward which the customer should feel proud to have earned. Research suggests that the framing of these offers imply trust and suggest loss by non-acceptance⁹. Any lending should be based on the idea of '*informed consent*' and engaging the consumer in the decision. Consequently, we fully support the proposals to ban unsolicited credit limit increases (Option 4).

We would go further and suggest that for any credit limit increase to occur, there should be rigorous processes put in place to determine both informed consent and financial capability to manage increased flows of credit. Customers should initiate any raise to their credit limit, should fill in an application form or make an approach to the bank over the phone and also nominate the size of the increase according to the customer's own assessment of their need up to the maximum assessed according to their credit profile.

We would further suggest that the credit company must itself undertake a number of processes prior to consent. Firstly, they should assess the suitability of the increase based on the customer's credit and payment history, current debts and expenditure and their ability to meet this from income. Next the card company should advise the customer of the potential impact of such a change on their finances, including:

- the customer's current outstanding repayment amount
- the minimum monthly payment for the current outstanding amount
- the length of time it will take to repay the current debt based on the minimum monthly repayment amount
- the increase in monthly minimum payments required by any increase

This contact should advise the customer if a loan is likely to be a cheaper option to manage debt and direct them to where they can obtain independent financial advice from debt advice agencies¹⁰.

⁸ <https://www.uswitch.com/press-room/?downloadfile=CREDIT-CARD-PROVIDERS-THROW-8.8-BILLION%5B1%5D-OF-UNREQUESTED-CREDIT-AT-CONSUMERS>

⁹ Report by Dr. Paul Harrison, for Consumer Action Law Centre, *Congratulations you're approved – An Analysis of credit limit upselling letters*. August 2008.

¹⁰ These recommendations are also made by Iain Ramsay, *From Truth in Lending to Responsible Lending*, Osgoode Hall School, York University, Toronto, Canada On line: http://www.iaclaw.org/Research_papers/Truthinlendingtoresponsiblelending.pdf , p. 11

4. Re-pricing of existing debt

It is abundantly clear from the evidence within the consultation that the Statement of Principles, which sets out the grounds under which re-pricing can occur, is not leading to consumer empowerment when banks seek to re-price existing debt at a higher APR¹¹. We share the view that consumers do not understand why re-pricing has occurred or what to do about it and this means there needs to be reform to ensure consumers are not unfairly paying more for their credit.

We also appreciate the risk of a total ban on re-pricing. To properly address these problems we think that submit re-pricing should be allowed but that the following principles should be adopted in relation to any re-pricing:

- Lenders have to explain to consumers what is happening to their account, the implications of the changes, how they can prevent any increases and their options to not enter a re-pricing arrangement¹²
- Consumers can have clear, easy and flexible means to seek redress on the credit card changes if they feel they have been mis-led, treated poorly, or have had their interest rates upped unfairly or on prohibited criteria
- Any claims made by the credit card companies around re-pricing individual risk are based on independent evidence and consumers should have easy access to any assessment of their ability to pay and increased risk and should be able to challenge this
- Independent auditors should sample a certain percentage of re-pricing changes made by each company to verify their processes
- Re-pricing is not used as part of a marketing tool (so called promotional pricing) where an APR is offered at one cheap introductory rate only to be increased soon after
- If a re-pricing takes place due to wholesale price fluctuations the credit card company should have to submit a re-pricing to independent audit. The OFT should have the right to challenge any re-pricing claim if it does not accept a company's rationale. If the claim is based on objective justification such as changes to the BoE base rate the banks should also have to lower rates based on the same logic if BoE base rates reduce or justify switching from this position¹³

In terms of the options laid out in the consultation, our favoured option is number 4 which does allow for credit re-pricing but with strict limits on both the size and/or frequency of re-assessment. We would add the above principles as the basis to govern any re-pricing.

There are times when re-pricing could be legitimate and removing this option completely would have cost implications for all consumers as credit card companies manage risk by increasing rates for all.

¹¹ BIS, *A Better Deal for Consumers*, p52-53

¹² Iain Ramsay, in *From Truth in Lending to Responsible Lending*, p.15

¹³ This point is currently pertinent. Following the collapse in the BoE base rate to 0.5 per cent, credit cards rates have actually increased. If the credit card companies wish to increase interest rates when the BoE rate increases they must explain why when the borrowing rate has collapsed their rates have increased.

We agree that it would be for the Financial Ombudsman Service (FOS) or courts to determine fairness in terms of seeking to re-price (or possibly the OFT in terms of wholesale cost increases). Customers should also be entitled to compensation from the companies for non-compliance with the process¹⁴.

We concur with the suggestion in the consultation that a maximum increase of five percentage points in APR above its previous level per re-assessment¹⁵ seems reasonable. We would also recommend no more than one change every year. Any increase up to that maximum would still have to stand up to empirical analysis.

¹⁴ NEF, *Response to OFT Financial Services Strategy Consultation*, June 2009

¹⁵ BIS, *A Better Deal for Consumers*, p58.

5. Simplicity and transparency

We support efforts to inform consumers but we do share the concern outlined in the consultation paper that there is a limit to how much information consumers can be given. Too much information leads to overload and is simply ignored by consumers¹⁶. Therefore, we welcome efforts to provide annual summaries of relevant information¹⁷.

In terms of the structure of the statement, BIS could look at the sectors where summaries have already been introduced, identifying best practice and picking those elements that best fit the needs of a statement for credit cards. Prior to dissemination it is vital to test the end product on consumers to assess comprehension, clarity and precision.

It is worth reflecting on international comparisons on the question of repayment rates and the processes undertaken when altering these to ensure consumers are well informed. Recent reforms in Canada mean each credit card bill must show what the interest will be based on a minimal repayment¹⁸. Their research suggested a specific figure related to a consumer's specific borrowing costs would be more powerful to alert consumers to the dangers of borrowing longer term on a credit card than just the standard warning about time taken and costs. The consultation refers to this having been implemented under the Banking Code¹⁹. We are unsure when these changes were implemented since they have yet to take effect. We believe this duty should be introduced immediately and should form part of the statutory framework governing information provision and should not be left to the Banking Code or the updated Lending Code.

We note BIS wishes the summary to be sent electronically but this might be too restrictive with 35 per cent of households not having internet access at home²⁰. It should be for consumers to choose if an electronic or paper version best suits their needs.

Simplicity

The consultation has recognised that transparency is not enough and that simplicity aids comparison and choice. We therefore hope Government would agree that simplifying the nature and diversity of charges will aid cognition, comparison and choice and ultimately drive competition. We believe the Government should address the fact that there are too many ways in which consumers can accrue charges.

The complexity surrounding allocation of payments with differing APRs is only one of many costs consumers face. As well as having varied APRs on different types of debt there are also differing classes of charges – APR, handling fee on transfers, and a percentage charge for taking out cash (with a high minimum charge) and various charges for foreign currency exchange.

The marketing material for many credit cards advertises '0% APR' on balance transfers over a certain time period. Yet, in the small print there is often a 'handling fee' upward of 2.5 per cent.

¹⁶ See National Consumer Council paper, November 2007 *Warning too much information can hurt* <http://www.berr.gov.uk/files/file44588.pdf>

¹⁷ Annual summaries are being rolled out on current accounts and on energy bills following the Ofgem Probe. They already exist in the car and home insurance markets.

¹⁸ www.financialpost.com/story.html?id=1615992

¹⁹ BIS, *A Better deal for consumers*, p29

²⁰ Ofcom, *Digital Britain 2009*

This can have the effect of misleading consumers about the real costs of transferring balances from other credit cards since it is the headline '0% APR' they see in marketing material and on price comparison sites. We believe these offers are inherently misleading. Where there is a handling fee it should be included in the APR percentage advertised in order that consumers can better comprehend the cost of the transaction. We are aware the result could be an end to the now famous '0% APR balance transfer' introductory offers but this would be for greater consumer comprehension.

Due to 'innovation' in the sector even further complication has now arisen:

- a) Differing costs depending on the type of expenditure – eg petrol on the BMA visa card is charged at zero per cent for five years, or a Barclaycard Breathe MasterCard charges a lower APR for expenditure on certain public transport²¹
- b) Reward vouchers or cash-back schemes given based on a percentage of expenditure returned to the card user (usually around one per cent) or additional 'free' products tied onto the card. The aim is to offer an additional value to a credit card to entice customers

While some reward schemes may be good value other reward schemes offer luxury prizes that are extremely unlikely to be affordable for most card users. With high levels of purchasing required to gain these items one wonders if these rewards scheme are meant to be realistic purchasing options or for mis-leading marketing purposes. It would appear such prizes are meant to capture people's emotions and desire thus diverting them from the dry maths required to assess whether the card is actually good value

- c) Larger reward points on expenditure at certain firms, usually associated with the credit card²². For example, on the Marks and Spencer credit card one per cent is returned in M&S gift vouchers on any purchases, but two per cent of expenditure given in points for purchases within M&S stores
- d) Differing interest free periods on purchases (as well as on balance transfers), including misleading statements about how long that period is. The norm is to advertise an interest free period of for example 'up to 59 days'. That means if you buy a product the day your statement is produced it will not appear until the next monthly statement at which point you have 30 days to pay. The interest free period for most purchases would be below 59 days in this example. Consumers could easily fail to understand from this narrow description. A better way to express it would be 'interest free period until 30 days after your next statement – 31 days to 59 days'

This cumulative confusion over costs muddies any effort to compare value or predict costs. As it stands the credit card market is simply too complex for informed assessment. Evidence shows four in 10 'find it hard to know what's best for me when it comes to loan and credit agreements' rising to 55 per cent among lower income groups²³. There need to be at best two or three variables for consumers to compare, any more just confuses. Research in behavioural economics shows that decisions people make on financial products do not correspond to such a rational construction as the current market structure would presume. With such a complicated market structure consumers inevitably use shortcuts and assumptions in decision making particularly when facing large amounts of

²¹ <http://www.barclaycardbreathe.co.uk/card-benefits/>

²² <http://www.uswitch.com/credit-cards/reward-credit-cards/>

²³ OFT, A Factual Report prepared for OFT by Ipsos MORI, December 2009 *A Survey of consumers of unsecured and high cost credit*, Annexe, p55

unfamiliar information,²⁴ which ‘may lead consumers away from making sound decisions and ... lead to distorted patterns of competition’²⁵.

In turn, research shows ‘in consumer contracts, highly sophisticated corporations will often exploit consumers’ behavioural biases. Competition cannot cure such exploitation. On the contrary, competitive forces compel sellers to take advantage of consumers’ weaknesses’²⁶.

Indeed, there is evidence that confusion is the central strategy for suppliers of both credit and store cards, in order to sell their product and it is vulnerable consumers who suffer from the complexity most. A Consumer Association in Canada, having investigated the marketing and sales activities of major credit card companies concluded:

‘Such practices are symptomatic of an industry which, in its search for profits, has ended up totally disconnected from the needs of its clients. Indeed, the consumers most likely to be attracted by such bait are often those in the greatest financial difficulty. Since the credit card products are aimed primarily at clients who already have difficulty paying or who pay monthly interest on their credit cards, it appears obvious to us that the stringent rules accompanying these offers penalize the consumer.’²⁷

Consumer Focus is of the opinion that unless simplification takes place consumers will not receive the maximum benefits possible from the provision of annual summaries, on-line comparisons and consumer empowerment initiatives. To have real value, choice must operate in a market that is not unduly complicated in order for consumers to be assured that their choice is effective at determining value.

Headline figures such as APR, AER inform judgements with ‘demand less responsive to longer term product cost, which in many cases is quite difficult to calculate’²⁸.

Consequently, Consumer Focus recommends the following actions to the credit and store card market:

- Requiring all credit card companies to have only one APR rate for each form of lending (unless a good cost based rationale can be given for not doing so)
- Where other charges are levied these must be clearly stipulated in a standardised format across advertising, marketing and personnel statements to negate as far as possible the misleading consequences of ‘framing’²⁹
- An investigation into the possibility of standardising or controlling charges on the other costs (particularly fees and charges) consumers face from their credit cards in order to promote competition and value. Recent conclusions the OFT has drawn from the current account market showed ‘banks can raise the level of the less visible fees without reducing their overall competitive position... We are not persuaded that profits earned from less visible fees are fully competed away in other areas’³⁰. These conclusions are equally as prescient in the credit card market. Further investigation into mis-alignment of costs and prices within the

²⁴ Fine, C. (2007), *A Mind of its Own: How your Brain Distorts and Deceives*,

²⁵ OECD, Directorate for Science, technology and industry, Committee on Consumer Policy, *Roundtable on economics for consumer policy Summary Report*, p5.

²⁶ Oren Bar-Gill, Faculty of Law, New York University. Quoted in *ibid.* p2.

²⁷ [http://www.option-](http://www.option-consommateurs.org/documents/principal/en/File/rapports/commercial_practices/oc_ic_credit_cards_co_pract_200909_eng_sum.pdf)

[consommateurs.org/documents/principal/en/File/rapports/commercial_practices/oc_ic_credit_cards_co_pract_200909_eng_sum.pdf](http://www.option-consommateurs.org/documents/principal/en/File/rapports/commercial_practices/oc_ic_credit_cards_co_pract_200909_eng_sum.pdf) , p8.

²⁸ Paul Johnson, Frontier Economics, for Consumer Focus, Focus on Finance lectures 2009 *Free or Fee: Are ‘free’ products good for consumers?*, p.2

²⁹ For a fuller discussion of the importance of framing, both in marketing and as part of designing information remedies, see: Iain Ramsay, *From Truth in Lending to Responsible Lending*, p8

³⁰ OFT, *Personal current accounts in the UK: An OFT Study*, p.110

credit card market could identify and challenge those practices that inhibit effective competition and efficiency

- An end to separate 'handling fees' for balance transfers. These should form part of the APR
- A simplified framework in which rewards schemes can operate

If the above reforms are implemented consumers will be able to trust that the headline figure is the only cost they need consider.

Store Cards

We now wish to address specific issues around store cards. Evidence suggests most store cards have an APR above the average credit card and are primarily sold through incentivised sales staff selling other products³¹. There appears to be an inherent potential for mis-selling³², with untrained staff who do not work in (or even necessarily understand) financial services selling products that may be available elsewhere for less cost³³, and a commission based remuneration structure that lies at the heart of repeated mis-selling in financial services in recent years³⁴.

Most sales approaches for store cards start with an offer of a discount on a product a customer wishes to buy (either a percentage off or an amount). We fear customers who sign up maybe blinded by the instantaneous offer of a discount and do not assess the long term implications to their finances³⁵.

We therefore recommend a cooling off period of 14 days where consumers can reflect on whether the store card is in fact good value. This would replicate the protections available for consumers in the energy cold-calling sector that emanate from the Distant Selling Directive and which have recently been strengthened as part of the Ofgem's retail remedies following their probe into the energy market. There are strong reasons for correlating the regulatory protections between the two sales experiences. Both involve unexpected and potentially unwanted sales approaches with staff incentivised to 'clinch a deal'. Consequently, consumers of store cards should also have the added protection of a 14 day cooling off period to investigate the value of the card without the pressure of a sales representative in front of them.

Recent evidence suggests the number of store cards may be falling from a peak in 2007. Nevertheless the most recent data suggests there are over 14 million cards on the market³⁶. Many stores are now moving into the provision of broader credit cards. Yet, the problem of incentivised sales staff selling uncompetitive products remains. These new entrants to the credit card market, far from increasing quality and value, may in fact be worsening the value for consumers since anecdotal evidence suggests the typical APR remains above those of the high street lenders. Consequently, we would suggest all store cards or credit cards that are sold from stores as a discount as part of another purchase should be subject to a 14 day cooling off period.

³¹ OFT, A Factual Report prepared for OFT by Ipsos MORI, *A Survey of consumers of unsecured and high cost credit*, Annexe, p34

³² NCC, *Switched on to Switching, a survey of consumer behaviour and attitudes, 2000-2005*, p9

³³ According to Ipsos MORI, only 5 per cent purchase these cards due to low interest rates. In OFT, A Factual Report prepared for OFT by Ipsos MORI, *A Survey of consumers of unsecured and high cost credit*, Annexe, p.34

³⁴ John Kay, paper given to Consumer Focus, Focus on Finance lecture series. 2009. *The new financial services leivathans: has competition been a casualty of the financial crisis?*, p.7

³⁵ Paul Johnson, Frontier Economics, in Consumer Focus, Focus on Finance lectures 2009, *Free or Fee: Are free products good for consumers*.

³⁶ Mintel research, *Credit and Debit cards* July 2009 p28

Benchmarking

In the consultation the Government rightly identifies that consumers find it hard to compare financial products and some means is needed to aid them. One proposal suggested to remedy the lack of comparability proposal is to benchmark, whereby all card products could be assessed against an agreed set of standards. Any further innovative features would be attached with health warnings indicating the dangers of that feature so consumers would know the implications in relation to the cost.

We support the objectives here in providing a simplified framework for assessment but we do not feel it goes sufficiently far. We believe a better framework could be achieved by reducing the variability of charges in their totality as we have suggested above.

Standardised labelling system

The consultation mentions the potential introduction of standardised labelling such as has been developed for food products. We support the goal of alerting consumers to the value of the financial product but we suggest some further work on its application.

The traffic light system developed to express health externalities where the price mechanism could not be used to inform consumers. Further research should be undertaken on the potential of 'health warnings' to ascertain their effectiveness in what is a different market.

We would re-iterate however that to reach the laudable goal of clear signals to consumers the first step should be simpler charging frameworks, more reliable APRs and fewer types of charges or fees on credit cards. The goal would be to integrate all charges within one headline figure. Consumers can then choose based on clear numbers. Traffic lights may not be needed to inform consumers what is good value if the APR headline figure was sufficient for comparison, (if it contains all the relevant cost information consumers need).

**Consumer Focus response to BIS Paper ‘A Better Deal for Consumers:
Review of Credit and Store Cards: A Consultation’**

If you have any questions or would like further information about our response please contact Oliver Morgans, Senior Policy Advocate, by telephone on 020 7799 7965 or via email: oliver.morgans@consumerfocus.org.uk

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