



A Better Deal for Consumers

Review of the Regulation of Credit  
and Store Cards: Government  
Response to Consultation

MARCH 2010

# Contents

A photograph of a desk with a calculator, a pencil, and a document titled 'Loan and Credit Planner'. The calculator is a silver and black handheld model with red function keys. The pencil is a standard yellow pencil with a pink eraser. The document is a white sheet of paper with the title 'Loan and Credit Planner' and some introductory text below it. The background is a light-colored surface, possibly a desk.

<b>Foreword</b>	<b>3</b>
<b>Executive Summary</b>	<b>5</b>
<b>Chapter 1: Introduction</b>	<b>12</b>
Application to Northern Ireland, Scotland and Wales	16
The Consultation Process	17
<b>Chapter 2: Right to Repay</b>	<b>20</b>
Allocation of payments	21
Minimum payments	23
<b>Chapter 3: Right to Control</b>	<b>26</b>
Unsolicited credit limit increases	27
Automated payments	29
Store card cooling off period	30
<b>Chapter 4: Right to Reject</b>	<b>32</b>
Re-pricing of existing debt	33
Unsolicited credit limit increases	35

<b>Chapter 5: Right to Information</b>	<b>37</b>
Minimum payments	38
Re-pricing of existing debt	39
Unsolicited credit limit increases	40
Education	41
<b>Chapter 6: Right to Compare</b>	<b>43</b>
Annual statement	44
Labelling	45
Basic credit card	46
<b>Chapter 7: Next Steps</b>	<b>47</b>
<b>Annex A: List of Consultation Questions</b>	<b>51</b>
<b>Annex B: List of Respondents</b>	<b>58</b>
<b>Annex C: List of Organisations BIS Met</b>	<b>60</b>
<b>Annex D: Glossary</b>	<b>62</b>
<b>Annex E: Contact Details</b>	<b>65</b>

# Foreword



Last year in our White Paper, *A Better Deal for Consumers*, we set out our vision for a new approach to consumer credit which works in today's difficult financial times but is also fit for tomorrow's brighter economic future. In our consultation on credit and store card reform, we set out some ideas as to how credit and store card regulation could change to secure a better deal for consumers. Given the scale of credit and store card lending in the UK, we were conscious that changes would have an impact across society and we asked for your views on what you felt we should do to improve the credit and store card market.

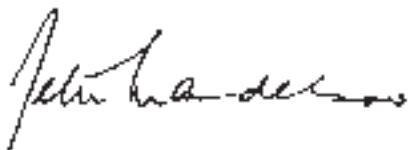
You responded in your thousands to our online poll and we received hundreds of responses to our consultation. Responses came not only from credit and store card lenders and consumer groups, but also from many, many individual consumers. The scale of the responses received has emphasised to us the importance that so many of you attach to this issue and the need for us to come up with the right solution, one which is fair to consumers, proportionate for lenders, targeted at the real problems and which avoids unintended consequences.

It was clear from the responses we received from individuals that many of you value the flexibility and security offered by credit and store cards, and particularly the ability they provide to borrow large sums of money on a flexible and unsecured basis. Many of you also take advantage of the benefits associated with credit and store cards such as rewards schemes, cashback and theft and fraud protection. However, the responses to our consultation confirmed that more can, and needs, to be done to tip the balance of responsibility and control away from lenders and towards individual consumers, whilst ensuring that we do all we can to protect the more vulnerable consumers who are most at risk of struggling with unsustainable debt.

We have given very careful consideration to all the consultation responses received and evidence from new research into this area. We are setting out five new consumer rights which we believe give consumers a fairer deal and more control over the way in which they can choose and use their credit and store cards. These new protections strike the right balance, protecting consumers from what they see as unfair and misleading practices and empowering them to take greater control of their borrowing, whilst at the

same time minimising the risk of higher rates and increased red tape for the responsible majority of consumers who manage their cards well. We have made tough demands of industry. The implementation of these new consumer rights will hit their bottom line and involve extensive changes to their IT systems. It is to their credit that they have agreed that the key benefits to consumers will come into effect by the end of the year without the need for legislation. We are particularly pleased that by next year, the counterintuitive practice of allocating payments to the cheapest debt first will be reversed. Interest will build up less rapidly on expensive debts like cash withdrawals and consumers will be able to pay off their debts more quickly.

These changes need to be seen alongside the extra protections we are introducing for consumers in the Consumer Credit Directive and through the Office of Fair Trading's Irresponsible Lending Guidance. We believe this framework will result in a new, more responsible culture of credit card lending and borrowing. We want credit and store card borrowing to be based on a fair and transparent relationship between borrower and lender; necessary if card lending is to remain an innovative, viable and profitable sector in the longer term. We welcome industry's willingness to work with us on this. We will hold them to the spirit as well as the letter of the agreement, and we will monitor the impact closely to ensure these changes are delivering positive results. We are convinced they will, and indeed that this agreement will prove to be a positive next step towards restoring consumers' and taxpayers' trust in financial services.



Rt Hon Lord Mandelson



Kevin Brennan MP



# Executive Summary

*“The measures we are announcing here set a new standard for the relationship between card companies and their customers”*

1. This document is the Government response to the consultation on the review of the regulation of credit and store cards.
2. The Government has set out five new rights for credit and store card users and we are pleased that credit and store card lenders have agreed to implement these voluntarily. The five new rights are:
  - **Right to repay:** consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.
  - **Right to control:** consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time; and consumers will have better automated payment options. Consumers will have access to these options online.
  - **Right to reject:** consumers will be given more time to reject increases in their interest rate or their credit limit.
  - **Right to information:** consumers at risk of financial difficulties will be given guidance on the consequences of paying back too little. Consumers will be given clear information about increases in their interest rate or their credit limit, including the right to reject.
  - **Right to compare:** consumers will have an annual statement that allows for easy cost comparison with other providers.
3. In addition, consumers who are at risk of financial difficulties will be protected through a **ban on increases in their credit limit as well as the ban on increases in their interest rate**, and card companies will work with debt advice agencies to agree new ways in which they will provide targeted support to consumers at risk to help improve their situation before they are in too deep.
4. These new rights, together with the existing **right to redress** via the Financial Ombudsman Service (FOS), mean a better deal for consumers, giving them improved control of their credit and store card borrowing.
5. The Government and the card companies have agreed that these measures will come into effect by the end of the year. This means that consumers do not have to wait for legislation to be passed to benefit from these measures. These measures are in response to the Government's recent public consultation on the regulation of credit and store cards. The full text of the agreement between the Government and the card companies can be found in the box on page 9.

6. These measures strike a new balance, protecting consumers against practices they feel to be unfair and misleading, and empowering them to take greater control of their borrowing, whilst ensuring that the majority of responsible consumers who manage their cards well are not penalised through higher rates or increased bureaucracy. They bring an end to the confusing practice which most card companies have employed up to now of putting consumers' repayments towards their cheapest debts first, obscuring the real cost of borrowing on their card and leading many to pay higher interest over a longer period. They ensure that consumers are given clear information about changes to their account, and meaningful options which they can exercise freely and easily if they do not like those changes.
7. The measures we are announcing here set a new standard for the relationship between card companies and their customers. We will be monitoring that relationship closely to ensure that these new rights for consumers are being honoured in the spirit as well as the letter of the agreement we have reached with card companies and further action will be taken if necessary. We expect, in particular, to see an improvement in lending practices leading to fewer cases of avoidable problem debt. The reversal of the allocation of payments and the new minimum level for the minimum payment at least will require changes to most lenders' terms and conditions, providing enforceable rights for consumers. The new rights we have secured for consumers will be incorporated into industry Lending Codes and the Office of Fair Trading (OFT) will take them into account for enforcement purposes. Likewise, consumers will be able to take complaints about a breach of these rights to the free and impartial Financial Ombudsman Service which can require firms to provide redress, including compensation, where complaints are upheld. Furthermore, following a review of the impact and effectiveness of these voluntary arrangements, we will legislate to place these new rights on a formal statutory footing as soon as practicable, ensuring that they have the full force of the law.



## NEW RIGHTS FOR CREDIT AND STORE CARD USERS

### JOINT COMMITMENT BY THE GOVERNMENT AND CARD COMPANIES

The Government and credit and store card companies have agreed to introduce five new rights for credit and store card users. These are:

- **Right to repay:** consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.
- **Right to control:** consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time; and consumers will have better automated payment options. Consumers will have access to these options online.
- **Right to reject:** consumers will be given more time to reject increases in their interest rate or their credit limit.
- **Right to information:** consumers at risk of financial difficulties will be given guidance on the consequences of paying back too little. Consumers will be given clear information about increases in their interest rate or their credit limit, including the right to reject.
- **Right to compare:** consumers will have an annual statement that allows for easy cost comparison with other providers.

In addition, consumers who are at risk of financial difficulties will be protected through a **ban on increases in their credit limit as well as the ban on increases in their interest rate**, and card companies will work with debt advice agencies to agree new ways in which they will provide targeted support to consumers at risk to help improve their situation before they get in too deep.

These new rights, together with the existing **right to redress**, mean a better deal for consumers, giving them improved control of their credit and store card borrowing.

The Government and the card companies have agreed that the key consumer benefits will come into effect by the end of the year. This means that consumers do not have to wait for legislation to be passed to benefit from these measures. These measures are in response to the Government's recent public consultation on the regulation of credit and store cards.

## Right to repay

*Consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.*

- Consumers' monthly payments will always **pay off their most expensive card debt first**. This fully reverses current widespread practice. Consumers are confused by the current system, and research commissioned by the UK Cards Association found that regardless of the way in which the current way of allocating payments is explained, consumers find it counterintuitive.
- **For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal**. This means that some minimum payments on new accounts will be higher in future to ensure that at least 1% of the loan itself is paid off as well as the interest and any fees and charges incurred. US based firms already have to do this in the UK, and this agreement will level the playing field. We want to encourage more responsible borrowing and lending in future, but have seen from the consultation evidence that it could be harmful to apply this increase to existing accounts.

## Right to control

*Consumers will have the right to control their borrowing limits and how they repay their card debts. And to protect people who are struggling with their debts, card companies will observe a ban on limit increases for people at risk of financial difficulties.*

- Consumers will have the right to tell their card company at any time that they want to **reduce their current limit**. This will be available online or through an automated telephone system so consumers can do so without having to speak to an adviser.
- Consumers will be able to tell their card company at any time that they **don't want to be given limit increases at all** in future.
- The Consumer Credit Directive will introduce a new legal requirement to undertake a creditworthiness assessment before offering a significantly higher limit, and the OFT's new Irresponsible Lending Guidance will expect firms to check that any new limit is affordable. In addition, **card companies will observe a ban on limit increases for consumers at risk of financial difficulties**. They will work with debt advice agencies to agree how they will identify consumers at risk.

- **Consumers will be able set up an automated payment to pay any amount they choose on a regular basis.** Previously, automated payment options for many consumers were limited to paying the full amount each month or the minimum payment. This will be available to all consumers online.

## Right to reject

*Consumers will be given more time to reject increases in their interest rate or their credit limit.*

- Consumers **will now have 60 days to tell their card company they want to reject an interest rate increase**, close the account, and pay down the outstanding balance at the existing rate. This doubles the time consumers have to consider an interest rate increase and take action. In addition, consumers will be notified at least twice during the 60 days that they have the right to reject and card companies will tell them how much their borrowing will cost at the higher rate so they are able to see the real impact of an interest rate increase when making their decision.
- Consumers will be able to **reject any increase in their credit limit** at any time. Card companies will make it as easy as possible for people to do so, in particular by automating this process.

## Right to information

*Consumers will have new rights to information about their card account, tailored to their own personal circumstances.*

- A **new minimum payments warning communication** will be sent to consumers who are using their card in ways which may be putting them at risk of financial difficulties or incurring high levels of interest on their debts, for example making repeated low payments. This will illustrate how their current behaviour is costing them more money and will explain what they can do to improve their situation, including providing details of independent sources of advice and support.
- A **new separate interest rate increase communication** will be sent to consumers facing an interest rate increase at least 30 days before the change. Previously, some lenders only notified consumers through their monthly statement. Consumers will also be reminded after this that they can reject the interest rate increase within 60 days, close the account and pay down the outstanding balance at the existing rate. These communications will explain in clear and simple language how their rate is changing, what it will cost them and that they have a right to reject the new interest rate.

- A **new credit limit increase communication** will be sent to consumers offered an increase in their credit limit at least 30 days before the change. This will explain in clear and simple language how their limit is changing and what they can do if they wish to reject the new limit. The communication will reassure consumers that their card company will not treat them any differently simply because they have exercised their right to reject a limit increase or reduce their limit.
- **Card companies will work with debt advice agencies to agree how they will identify consumers at risk** and to ensure that the communications they send out are clear and easy to understand.

### Right to compare

*Consumers will have a right to be given the tools they need to easily compare the costs of different credit cards and how they could save money by choosing the card best suited to their needs and the way they typically use their card.*

- Card companies will work with consumer groups and the Government to develop an **annual statement** which will give consumers clear information about how much it has cost them to use their card over the last year. This statement will be available electronically so that consumers can easily use this information to compare the cost of their current card with other offers online, in particular through the forthcoming impartial credit card comparison tool on the Moneymadeclear website ([www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)). The statement will be fully tested with consumers to ensure that it is easy to use and understand.

The Government is also making a longer term commitment to **place these principles on a statutory footing**, taking account of the effectiveness of these voluntary arrangements. This will lock in good practice, and give these new rights the full force of the law.

# Chapter 1: Introduction

1. Following our commitment in the Consumer White Paper to review the regulation of the credit and store card market, the Government published a consultation on this issue on 27 October 2009. This consultation was set in the context of rising levels of consumer indebtedness, increasing consumer complaints about credit and store cards, and concerns about the complexity and fairness of their key features. The purpose of the consultation was to secure a better deal for consumers, giving them improved control of their credit and store card borrowing, whilst also ensuring that any intervention is proportionate, transparent and targeted. The consultation document and this Government response (including plain English versions) in addition to the summary of responses and the final economic and equality impact assessments are all available at [www.bis.gov.uk/creditconsultation/response](http://www.bis.gov.uk/creditconsultation/response).
2. UK consumers currently owe around £1.4 trillion to banks and other financial institutions. £230 billion of this borrowing is unsecured borrowing, including personal loans, overdrafts, credit cards, store cards and some other forms of specialist lending. Overall, there were around 1.9 billion credit card transactions in 2009, with a value of over £100 billion (the comparable figure for store cards is approximately 52 million transactions). After the US, the UK has the highest number of credit cards per head of population (1.2 cards per adult) with 60 million credit cards in circulation at the beginning of 2010.
3. Credit card use continues to remain strong. Net lending for credit cards amounted to £2.3 billion in 2009, in contrast to –£3.3 billion for other types of consumer credit. This shows how valuable credit cards have been to consumers in the current economic conditions, as their use of alternative forms of borrowing has decreased and banks have become more cautious and constrained in their lending. In contrast, the store card market has shown a decline in popularity in recent years and retailers have increasingly migrated customers onto credit card products. Data on store cards is less readily available, but latest figures indicate that lending fell by 13% in the past 12 months.
4. There are many benefits associated with credit and store cards. These are important financial products that allow consumers to borrow reasonably large sums of money on a flexible, unsecured basis. The convenience, flexibility and security they offer are valued by large numbers of consumers who use them to make a wide range of purchases. They are accepted at more than 23 million retail outlets worldwide and are the predominant form of payment for purchases made on the internet. They can be helpful in giving consumers the ability to cover periods of particularly high expenditure or temporary shortfalls in income and many come with rewards such as cashback or points schemes and other benefits such as rental car insurance and theft and fraud protection.
5. Consumer research confirmed how much consumers value their credit cards. In focus groups conducted by TNS-BMRB, consumers identified a number of reasons why they felt credit cards are essential. These included coping with emergencies,

providing protection and security and the fact that credit cards are very widely accepted by retailers, including overseas. This was mirrored in a consumer survey carried out by GfK NOP which found that many expressed a high degree of satisfaction with their credit cards citing a number of benefits, including that they represent an easy, accessible and effective payment mechanism, and provide reassurance and flexibility for spending.<sup>1</sup>

- 6.** Furthermore it was clear from consumer research that many consumers take advantage of the numerous benefits associated with credit cards. Research by TNS-BMRB, for example, shows that the most popular feature of credit cards was the protection they offer against fraud or goods not arriving (selected by 34% of customers), the next most popular was having a low interest rate on purchases made with the card (25%). Grouping together the different rewards offered, around a third (31%) of customers felt cashback, travel insurance or airmiles were most valuable. For store card users, two-fifths (38%) said that reward schemes were valuable, followed by interest rates on purchases (16%), signing up offers (16%) and retailer special events (15%).
- 7.** The majority of credit and store card customers use their credit and store cards responsibly and indeed, many consumers use their cards astutely to take the greatest possible advantage of the benefits they offer. In our consultation, our concern was in providing a fair deal to all consumers. Consumer research showed that consumers recognise that lenders are businesses and that it is necessary for them to profit from the provision of credit. They also recognise that credit and store cards offer a facility to consumers and that there is a cost associated with accessing and using this facility.
- 8.** However, the research shows us that consumers also expect that the relationship between consumers and lenders should be fair and reasonable. In part, this means accessible and clear product information. Credit and store cards are complex products, and even the most financially astute may not be fully aware of the true cost of using their card or understand how they can make the best use of it. These consumers may all benefit from simpler and clearer information on their cards, and better opportunities to make decisions about their credit and store card use.
- 9.** Another issue to consider is where the responsibility lies for credit and store card debt. On forums and our website, a number of consumers argued that it should not be the responsibility of Government or even lenders to police consumer borrowing behaviour. Comments such as these were typical of those views: "The minority who do allow their debts to run out of control are behaving irresponsibly and need to be made to take responsibility for their own choices" and "consumers are free not to use any cards or if they do use such cards then they are free not to accumulate debts on them". Others, however, expressed concern that card companies are

<sup>1</sup> Available at <http://www.theukcardsassociation.org.uk>

not taking sufficient responsibility for protecting their customers, particularly the most vulnerable. This was backed up by research by TNS-BMRB which found that consumers felt that card providers had a duty to behave responsibly, particularly in relation to more financially vulnerable groups.

- 10.** Our consultation set out our concerns about these more vulnerable consumers, who, whilst a minority, are more likely to struggle with unsustainable credit or store card debt. We believe that more can be done by lenders to help these more vulnerable consumers, many of whom may find it more difficult to resist the temptation of spending on a credit or store card. We want to ensure that these consumers have the ability and opportunity to choose a card product that is right for them and that they are not, unwittingly or otherwise, put in a situation which causes them financial harm.
- 11.** We have looked carefully at the situation in the US following the recent introduction of measures relating to credit cards in the US Credit Card Accountability, Responsibility and Disclosure (CARD) Act. The impact of these measures is yet to be fully realised, but it is clear that certain practices adopted in the US would not be appropriate for the UK market. In other areas, for example the allocation of payments, the measures we are setting out here go further than the US authorities have chosen to go.
- 12.** We are also conscious that the credit and store card market is already a highly regulated market and where there are a number of forthcoming developments that have a direct read across to this consultation, not least of which are the implementation of the Consumer Credit Directive and the publication of the OFT's Irresponsible Lending Guidance. The consumer credit landscape is changing rapidly. It is important to ensure that there is certainty for both lenders and consumers about the regulation of this area and how it impacts them. It was precisely because of the need for the OFT to take account of our credit and store card review in its Irresponsible Lending Guidance that the OFT delayed the publication of its Guidance.
- 13.** We have set out in detail in the forthcoming chapters our views on the five new rights for credit and store card consumers which correspond to the five areas covered in our consultation document. You may make copies of this Government response without seeking permission. Printed copies of this Government response can be ordered from the Publications orderline. It may also be possible to make other versions of this document available on request in Braille, other languages, large fonts and other formats. Please contact the Publications orderline at Annex E for details.



## **APPLICATION TO NORTHERN IRELAND, SCOTLAND AND WALES**

- 14.** The consultation on the regulation of credit and store cards applies to the UK. Consumer credit issues are not devolved to Wales or Scotland. Consumer credit is a devolved matter in Northern Ireland, but the legislation (the Consumer Credit Acts 1974 and 2006 and associated regulations) applies to the whole of the UK. The Minister of Enterprise for Northern Ireland asked that Northern Ireland be included in this consultation with a view to ensuring that people in Northern Ireland would benefit from the proposed reforms.
- 15.** The Government has worked with the Northern Ireland Assembly to ensure that consumers in Northern Ireland have been able to participate fully in this consultation. The views of these consumers, and of industry in Northern Ireland, have been included in this consultation and have been considered by the Government in this response.
- 16.** Following initial discussions with the Minister for Enterprise for Northern Ireland, the intention is that the proposals set out in this Government response will apply across the UK. Our intention to place these new rights on a formal statutory footing will only apply to Northern Ireland following consent from the appropriate Northern Ireland authorities.

## THE CONSULTATION PROCESS

- 17.** The consultation was conducted between 27 October 2009 and 19 January 2010. The consultation asked 80 questions covering a range of issues. The consultation questions are attached at Annex A.
- 18.** The consultation launch was supported by a press notice, coverage in most national and regional newspapers and a publicity campaign which included GMTV, BBC Breakfast, Today programme, BBC News 24, ITN (National and Regional), Sky and a number of radio interviews. During the consultation period, the Minister for Consumer Affairs, Kevin Brennan MP, also did a podcast with FT.Online and a live webchat on the Number 10 website.
- 19.** Copies of the consultation document and the draft economic and equality impact assessments were sent to key stakeholders, placed onto the BIS website at [www.bis.gov.uk/creditconsultation](http://www.bis.gov.uk/creditconsultation) and hardcopies were made available via the BIS Publications Orderline. In addition, BIS worked with Simply Understand to create a plain English version and an audio summary of the consultation, both of which were also available on the BIS website. We also worked closely with a range of key interested stakeholders to publicise the consultation through internal company intranets, conferences and email newsletters.
- 20.** Over the period of the consultation, 3950 respondents voted in our online poll (see Figure 1 for results), 742 respondents left comments on our website and 204 commented directly via our dedicated email address [cscr@bis.gov.uk](mailto:cscr@bis.gov.uk). All these comments have been read and analysed by BIS officials and have been taken into account in our Government response.
- 21.** In addition, we are aware of many comments on other websites and forums, including the BBC Have your Say webpage, [www.moneysupermarket.com](http://www.moneysupermarket.com) and [www.moneysavingexpert.com](http://www.moneysavingexpert.com). The comments made on these external forums were similar in nature and tone to those that were made on our website and by email. Whilst the comments made on these external websites are not official responses to our consultation, they have also been considered by BIS officials, and have helped inform this Government response.
- 22.** A total of 35 formal responses to the consultation were received from institutions and organisations. Figure 2 shows a breakdown of responses by sector. A list of those respondents who did not request confidentiality can be found at Annex B.
- 23.** To supplement the consultation process, the Minister for Consumer Affairs held a series of meetings with a number of relevant organisations. BIS officials also attended a number of committee meetings and workshops, as well as holding a series of meetings on an individual basis with industry participants. A list of the

organisations we met with can be found at Annex C. The points raised in these meetings have been taken into account in this Government response.

**24.** To help inform the Government’s response, BIS also commissioned two research projects late last year and the findings of both have been taken into account. One of these conducted a consumer survey, and also involved a number of focus groups to explore consumer attitudes and behaviour in greater depth. The other research project looked at international experience of credit card regulation, including the recent US CARD Act. The results of both research projects are available at [www.bis.gov.uk/creditconsultation/response](http://www.bis.gov.uk/creditconsultation/response).

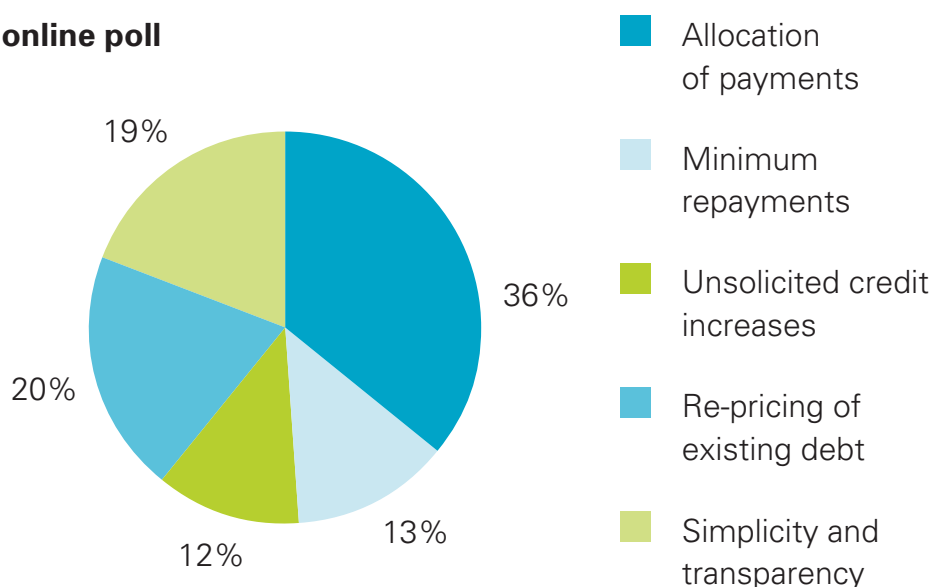
**25.** This Government is grateful for all the consultation responses received and all the comments made both directly to BIS and on forums.

**26. Figure 1 Results of online poll: most important issues for consumers**

The question asked read: “The Government wants to secure a better deal for consumers, giving you better control of your credit and store card borrowing, whilst ensuring that any regulation is proportionate, transparent and targeted. We are consulting on changes to credit card and store cards. Which of the following is the biggest issue for you?”

Allocation of payments	1423
Minimum repayments	519
Unsolicited credit increases	457
Re-pricing of existing debts	802
Simplicity and transparency	749
<b>Total voters</b>	<b>3950</b>

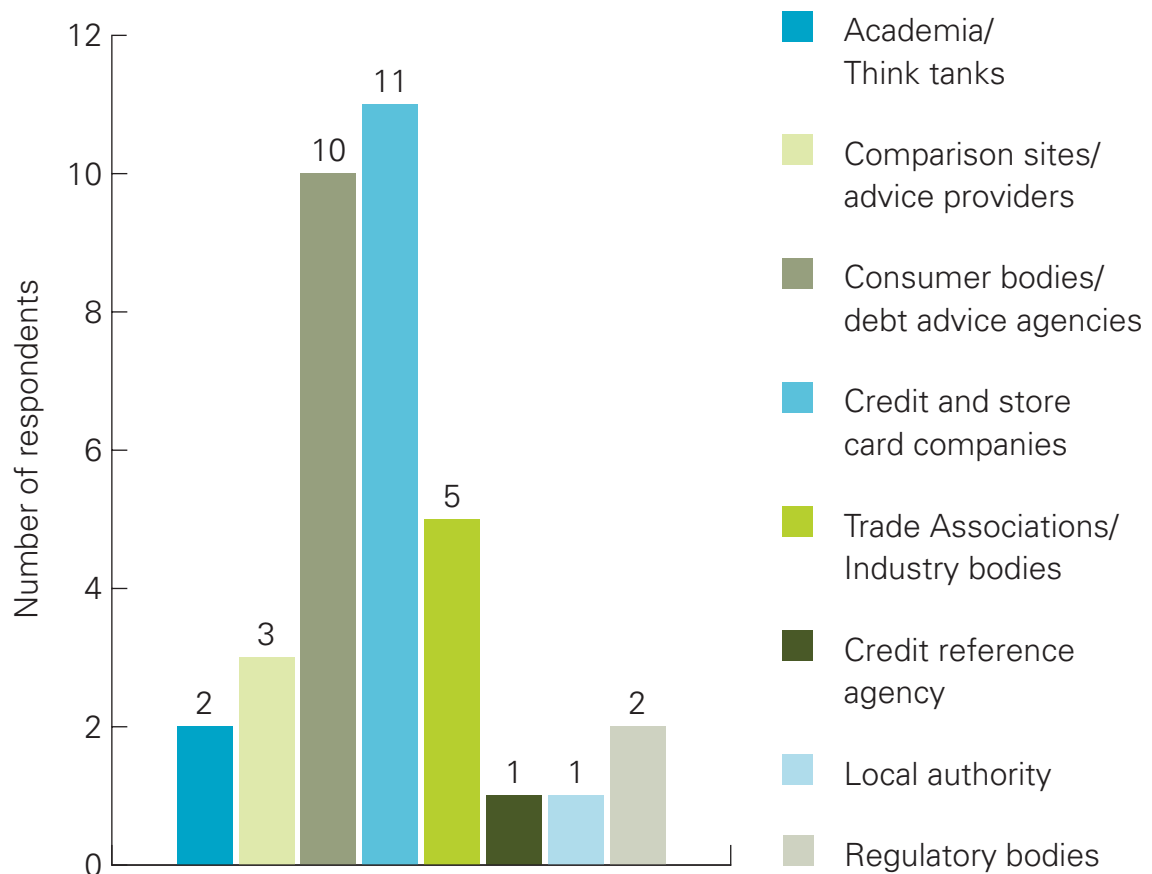
**Results of online poll**



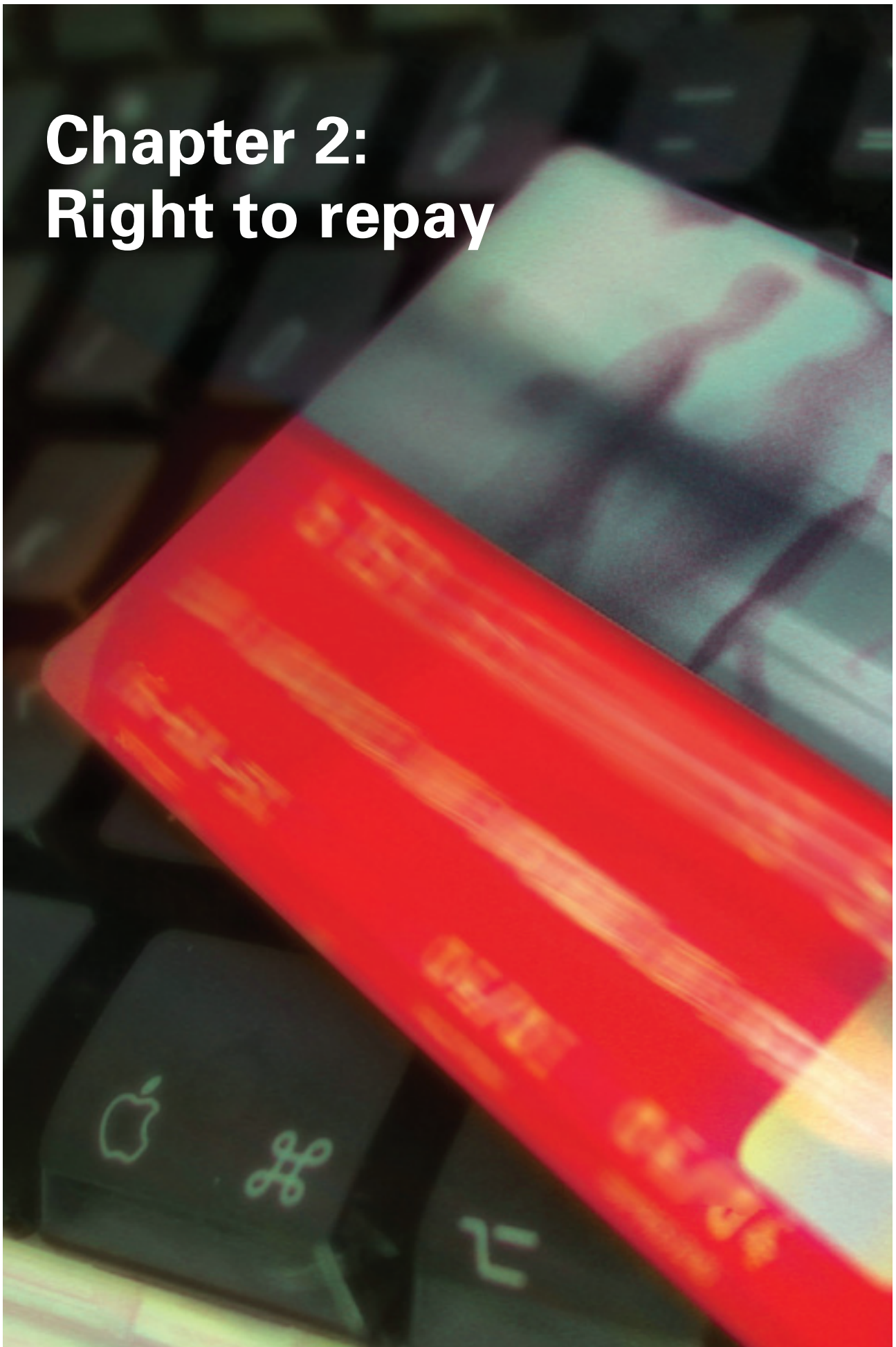
## 27. Figure 2 Responses from organisations by sector

Academia/Think tanks	2
Commercial comparison site/advice providers	3
Consumer bodies/debt advice agencies	10
Individual credit and store card companies	11
Trade Associations/Industry bodies	5
Credit reference agency	1
Local authority	1
Regulatory bodies	2
<b>Total</b>	<b>35</b>

### Responses from organisations by sector



# Chapter 2: Right to repay



**Right to repay:** Consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.

## ALLOCATION OF PAYMENTS

1. General industry practice is for the most expensive debts held on a credit or store card to be paid off last, with the cheapest paid off first. This means that the debts attracting the highest level of interest payments (usually cash advances) will not begin to be paid off until any balances attracting a lower rate of interest (for example, those arising from a 0% balance transfer deal) have been paid off in full.
2. In its consultation, the Government set out its concerns that consumers do not realise that this method of allocating payments is common practice, and we proposed the following options to address the issue:
  1. Do nothing beyond current legislative and regulatory activity;
  2. Improve information transparency;
  3. Allocate repayments proportionally to debts attracting different interest rates;
  4. Allocate repayments to the most expensive debt first;
  5. Allow consumers to pay off cash advances first.
3. In our consultation, we were concerned that two groups of consumers suffered particular detriment under the current system: those who withdraw cash on credit cards, and balance transfer users who might not be receiving all the benefits of 0% deals that they believed they signed up for.
4. In the first group, we were particularly concerned with the impact of the current method of allocating payments on consumers who withdrew cash and made minimum payments. According to TNS-BMRB research for BIS, 42% of consumers making minimum payments also withdrew cash on their credit cards. Full reversal of the current method of allocating payments (option 4), would help these consumers.
5. While we did consider whether there might be a case for treating cash advances separately (option 5), on the basis of the consultation evidence we believe that all consumers, including balance transfer users, should benefit from a reformed system.

6. We were also concerned with 0% balance transfer users who were not benefiting from the discount as they would have liked or expected. Money Advice Trust reported a number of clients who transferred balances to 0% or low interest cards, with the intention of reducing their indebtedness, only to find their plans go wrong because they did not understand how payments to the new cards were allocated. Around 15% of consumers said that they currently choose to make the minimum payment because they are on a promotional rate/offer. These consumers would also benefit from a full reversal of the current method.
7. It is clear from the responses to our consultation that the status quo is not acceptable. In our online poll, 37% considered the allocation of payments to be the most important issue in our consultation. The vast majority of respondents commented on the confusing and counter intuitive nature of the current practice of allocating payments to the cheapest debt first. There is a general feeling that further transparency measures (option 2) would not affect consumer behaviour because however it is explained, the allocation of payments is very difficult to understand. The vast majority of individual consumers and consumer groups, supported by Nationwide Building Society, called for a full reversal of the method of allocating payments (option 4). The UKCA, on behalf of the rest of the credit card industry, proposed a variation on this option, with payments above the minimum payment being allocated to the most expensive debt first. However, about 20% of consumers, including many at risk of financial difficulty, make only the minimum payment in any given month, and would not benefit from a partial re-allocation of payments.
8. **The Government agrees that the method for allocating payments must change.** We have seen extremely strong consultation evidence that consumers are confused by this issue, and this is supported by our own research. Consumer focus groups displayed a low awareness of the issue, and considered the current practice to be “sneaky” and counterintuitive. The Government shares the view of many consumer groups, supported by evidence from US-based research, that increased information and transparency alone would be unlikely to help the majority of consumers better understand the allocation of payments. **The fairest and simplest option that best addresses this consumer confusion is to reverse completely the current method of allocating payments, so that in future, the most expensive debt on a credit or store card would be repaid first (option 4).** Credit and store card companies will implement this change by the end of the year.<sup>2</sup> Some store cards are “hybrid” products where, as well

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<sup>2</sup> The requirement to allocate payments to the most expensive balances first applies to all revolving amounts on a credit or store card. Where such an agreement includes a fixed-sum credit plan agreement (for example an instalment loan on a store card under which the consumer undertakes to pay regular fixed instalments over a certain period) the requirement applies to payments beyond those required to satisfy the fixed instalments.

as using the card as a revolving credit product, consumers can take out fixed instalment plans under which they undertake to pay regular fixed instalments over a certain period. In these situations, the requirement to allocate payments to the most expensive debt first applies to payments beyond those required to satisfy the fixed instalments.

## MINIMUM PAYMENTS

- 9.** The minimum payment is the minimum amount that consumers must pay each month against their outstanding balance without incurring default charges from the credit or store card lender. In the consultation document, the Government set out its concerns that minimum payments are set at such a level that if consumers were only ever to make the minimum payment they would end up paying off debt very slowly, in some cases over decades, and paying significant amounts of interest. The Government proposed a number of options to address these concerns:
1. Do nothing beyond current legislative and regulatory activity;
  2. Improve information transparency;
  3. Set a recommended minimum payment;
  4. Increase the minimum payment.
- 10.** Individual consumers were nearly all against a sudden universal increase to minimum payments and were supported by many lenders who worried about the effect of an increase on the ability of consumers to meet higher repayments. In contrast, a number of consumer groups were keen to see a managed increase in minimum payment which was phased and/or applied to new debt only thereby minimising harm and distress to the most vulnerable consumers. Only one or two consumer groups called for a blanket increase in minimum payments.
- 11.** In our consultation, we were concerned about those consumers who make minimum payments over the long term. A study of UK credit card accounts carried out by Argus on the behalf of the UK Cards Association showed that of those consumers who make the minimum payment, almost 3 in 10 do so only once over the course of a year, with few making consecutive and regular minimum payments (just 3.1% of all consumers make the minimum payment every month for 12 months).<sup>3</sup> However, whilst consumer research carried out by TNS-BMRB for BIS confirmed that the majority of consumers who say they make minimum payments do so for less than a year, it also showed that a significant proportion

<sup>3</sup> Study cited in the UKCA's response to the Credit and Store Cards Review Consultation. Available at [http://www.theukcardsassociation.org.uk/view\\_point\\_and\\_publications/what\\_we\\_think/-/page/881](http://www.theukcardsassociation.org.uk/view_point_and_publications/what_we_think/-/page/881)



of minimum payers have been doing so for many years with over 1 in 10 doing so for over 5 years. There would seem to be, therefore, a significant minority of consumers who are long term habitual minimum payers and who may be more at risk of longer repayment periods and higher interest charges.

12. Whilst this research indicates that higher minimum payments would benefit habitual minimum payers in the longer term, we are also conscious of consumer research which shows that many consumers who make the minimum payment do so because that is all they can afford; over half of minimum payers according to GfK NOP and 37% according to TNS-BMRB. This high percentage of consumers who say they make minimum payments for affordability reasons was supported by concerns voiced by many individual respondents to the consultation that a significant and blanket increase in minimum payments would cause them considerable financial difficulty.
13. Analysis carried out by Argus for the UK Cards Association modelled clearly the impact of various increases in minimum payments on consumers. This showed that for an increase in the minimum payment to 5%, the average customer would have to find close to an extra £100 per month and that this increase would affect nearly 40% of accounts. Consumer research carried out by GfK NOP further showed that over 60% of those consumers who currently make the minimum payment might or would definitely find it difficult to meet increased minimum repayments.
14. We have considered carefully the merits of increasing the minimum payment (option 4). We are aware of the strong views of consumers that an increase in minimum payments might exacerbate financial difficulties and the evidence from commissioned research which confirms the financial impact of an increase in minimum payments on some consumers. We have also taken note of initial research by Professor Stewart and colleagues at the University of Warwick which shows that increasing the minimum payment level could decrease the percentage of consumers who make full or part repayments. Finally, we have been advised by lenders that an increase in minimum payments would have an impact on their profits, which they might seek to recoup from customers in other ways (e.g. increased interest rates, annual fees).
15. **We agree that a blanket, sudden increase in minimum payments would carry significant risks.** Whilst we want to encourage more responsible borrowing and lending in the future, we are conscious that any increase in minimum payments on existing accounts could have significant short term negative consequences for some consumers. **We are therefore of the view that there should be a small overall increase in minimum payments and that any increase in minimum payments should apply to new accounts only.** Applying this change only to

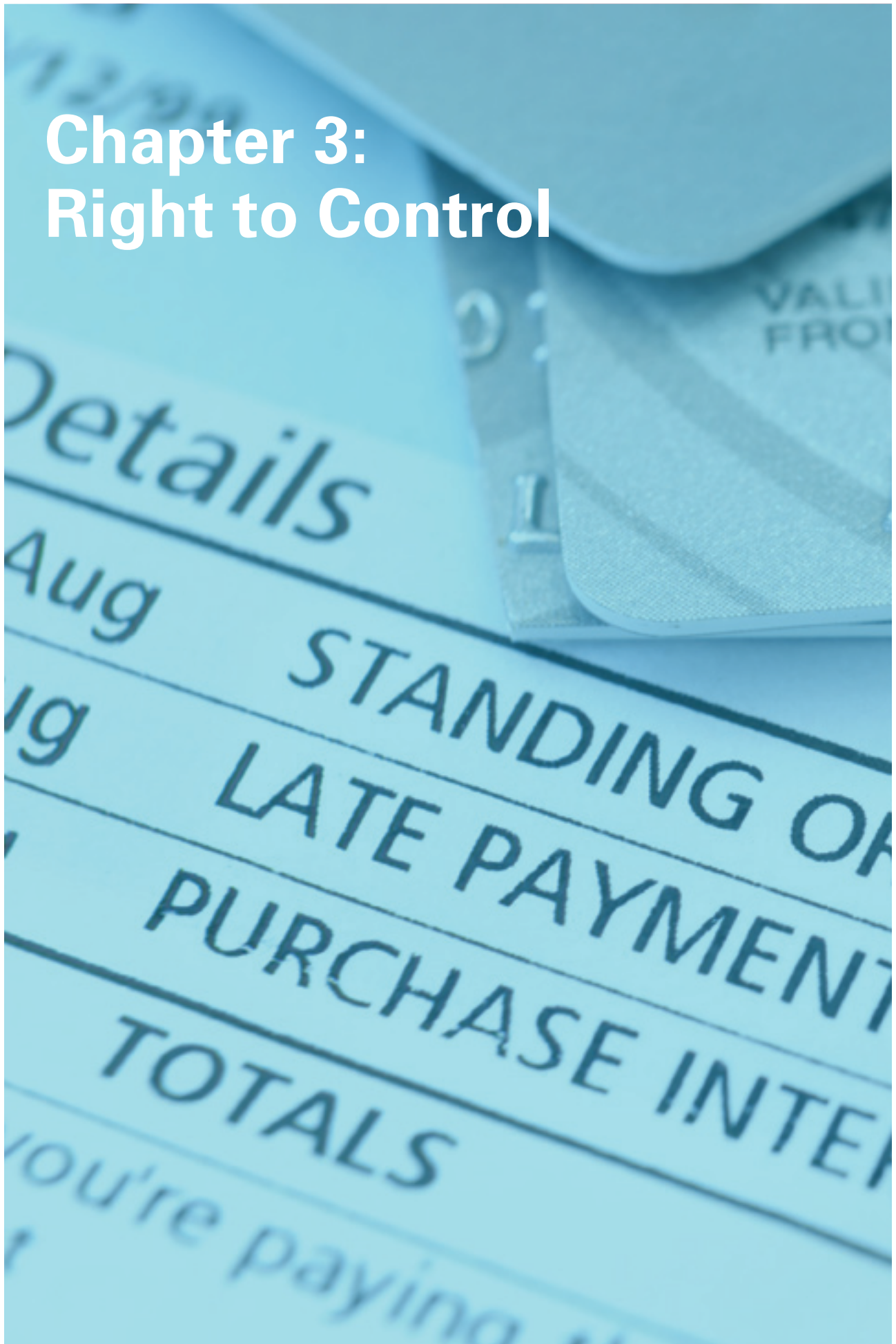
new accounts will protect those most at risk from higher minimum payments as these consumers will not be affected unless they open a new card account or transfer their existing balance onto a new card.

16. We have considered carefully at which level to set this increase in minimum payments for new accounts. A number of US providers with a base in the UK have been required since last year to set their minimum payments on new accounts so they cover fees and interest that have been applied to the account plus 1% of the principal. This is a departure from the current requirement for UK lenders which states that the minimum monthly repayment should cover more than that month's interest but sets no other requirements.
17. It seems sensible that all lenders operating in the UK should be able to operate on an equal playing field whilst at the same time allowing those lenders that want to set their minimum payments at levels higher than this new threshold to do so, as a number already do. We also believe that it is right that consumers paying the minimum should be able to decrease their outstanding balance each month assuming no further spend on their card. This is not currently the case in all circumstances. Increasing minimum payments by a modest amount will ensure that they are meaningful without giving rise to the risks highlighted in Professor Stewart's research. On this basis, we have decided that **by the end of the year, the minimum payment on new accounts will always cover at least interest, fees and charges plus 1% of the principal.**<sup>4</sup> Making this change is technically complex, and some card companies have indicated that it may be difficult to implement this particular element of the agreement by the end of the year. The Government will be monitoring implementation and is confident that card companies will make strenuous efforts to ensure that this measure is implemented as soon as possible.

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4 Where a lender applies interest for a period which covers more than one month (e.g. in the case of a buy now, pay later agreement or where interest is backdated on the expiry of a balance transfer deal), the level of the interest component within the minimum payment for any month shall be proportionate to the period over which the lender accrues the interest.

# Chapter 3: Right to Control



**Right to control:** Consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time; and consumers will have better automated payment options. Consumers will have access to these options online.

## UNSOLICITED CREDIT LIMIT INCREASES

- 18.** It is standard practice for credit and store card companies to grant their customers higher credit limits on an unsolicited basis, that is, without the customer having requested an increase. In our consultation document, we set out our concern that consumers do not have enough control over increases in their credit and store card limits. Consumers have a lack of consumer information and control over the timing and scale of limit increases, some will have low financial capability, and some may find it difficult to reject an increase. We believe that further action is necessary in this area, and propose a number of options:
1. Do nothing beyond current legislative and regulatory activity;
  2. Improve information transparency;
  3. Limit the size and/or frequency of individual limit increases;
  4. Ban all unsolicited limit increases;
  5. Allow consumers to opt in to receive unsolicited limit increases.
- 19.** Of all the issues covered by this consultation, unsolicited credit limit increases attracted very few comments from individual consumers. It is, interestingly, the only area where at least some consumers who responded felt strongly that lenders were doing enough and no further action was required (option 1). However, at the other end of the spectrum, a few consumers felt equally strongly that consumers should be able to request or opt in to a credit limit increase (option 5), or that there should be a complete ban on increases initiated by lenders (option 4). Many consumers commented that it was difficult for them to reduce their credit limit if they wanted to, and some explained that their card company had pressured them not to reduce their limit when they rang up. Which? reported that consumers they spoke to complained of similar experiences, for example, being told that they would not be able to request a higher limit for a year if they reduced it now. However, TNS-BMRB found in their research that a large majority of those consumers who did contact their lender after a credit limit change found it easy to do so. Most consumer organisations and debt advice agencies were in favour of a ban (option 4), or requiring lenders to seek consumer consent each time they wished to increase their limit (option 5). Card companies argued

strongly against a ban or a requirement for consumers to opt in to limit increases. Industry instead proposed a number of changes, including giving consumers more information about limit increases, and making it easier for them to reduce their limit.

- 20.** Debt advice agencies referred to cases they saw where consumers who were given unsolicited limit increases when they were already in, or at serious risk of, financial difficulties. Citizens Advice, for example, cited individual cases where clients on benefits or out of work had been given limit increases even where they were already heavily indebted and experiencing financial difficulties. Industry data, however, showed that such cases are the exception; in general, limit increases are not given to high risk customers who are already close to their limit. This evidence also suggested that receiving an unsolicited credit limit increase may not increase the likelihood that consumers will get into financial difficulties. In fact, consumers who receive a credit limit increase are less likely to default than similar consumers who are not given a limit increase. Research conducted by TNS-BMRB showed that 84% of consumers questioned who had had an unsolicited limit increase said that it had no effect and was not important to them. Only 3% said they increased their spending on the card. Research evidence about what consumers feel would be the best approach was mixed. TNS-BMRB research found that consumers favoured a full ban. This finding was mirrored by research conducted by GfK NOP which found 63% of consumers thought a ban would be a good idea. However, only 35% of consumers still favoured a ban if it would mean that some people would find it harder to get a card, and only 17% favoured a ban if it would mean that they themselves would find it hard to get a card.
- 21.** It seems likely that lenders would respond to a ban or an opt-in in two ways. First, they may offer higher credit limits at the outset. This could lead to higher levels of problem debt. At the moment, lenders can manage their and their customers' exposure by giving them a low initial limit, slowly increasing this over time if the consumers demonstrate they can use the card responsibly (a "low and grow" model of lending). If those consumers cannot manage their card properly then the amount they owe will be limited; with higher initial limits such consumers may end up owing considerably more. Second, card companies may not offer credit at all to low income consumers and consumers who have little or no credit record. Those consumers might then be forced to use more expensive types of borrowing such as payday lending or home credit.
- 22.** This is a finely balanced issue. The evidence shows that most consumers don't care strongly about limit increases. Whilst the Government is very sympathetic to the concerns of debt advice agencies and consumer groups about negative selling techniques in credit, the evidence does not show that unsolicited limit increases are linked with problem debt and that the costs of change in this area

could significantly harm the interests of many consumers. It is important to balance protections for vulnerable consumers with the interests of the majority of card users who manage their own spending and borrowing responsibly. In particular, it is important that consumers who rely on “low and grow” products and use them responsibly should not lose access to credit cards. However, it is clear that more can be done to give consumers better control of their credit limits. In particular, consumers should have the right to reduce their credit limit to a level they are comfortable with at any time, and without incurring any penalty or being pressured by their card company to change their minds. The Government has therefore proposed, and card companies have agreed, that **consumers will have the right to tell their card company at any time that they want to reduce their current limit without incurring any sort of penalty**. They will be able to do this online or through an automated telephone system if they want to so that it is easy to do and card companies cannot talk a consumer out of their decision or try to sell them another product. **Consumers will also be able to tell their card company at any time that they don’t want to be offered or given limit increases at all** in future, without incurring any sort of penalty.

- 23.** Although in general the evidence suggests that unsolicited credit limit increases are not leading to high levels of over-indebtedness, the Government remains concerned that there are still too many individual cases where consumers are finding themselves in over their heads on credit or store cards. The experience of debt advice agencies shows that there are still times when consumers already at risk of financial difficulties are being granted a higher limit. The Consumer Credit Directive will introduce a new legal requirement to undertake a creditworthiness assessment before offering a significantly higher limit and the OFT’s new Irresponsible Lending Guidance will expect firms to check that any new limit is affordable. In addition, we have secured agreement that **card companies will observe a ban on limit increases for consumers at risk of financial difficulties** and do more to ensure they have properly identified those consumers. Card companies have agreed with us that they will work with debt advice agencies to agree how they will identify those ‘at risk’ consumers to whom they are banned from offering a limit increase.

## AUTOMATED PAYMENTS

- 24.** In general, lenders provide customers with two options for automated payments: direct debits or standing orders. Direct debits tend to be for either full repayment or minimum payment each month. Of those customers who want to make a payment between the minimum and the full amount, the majority will have to top up their automated payment for the minimum every month by phone, online or by post.

25. Many respondents to the consultation were keen to see more flexibility on payment mechanisms, particularly when it came to direct debit and online payments. Research carried out during the consultation period confirmed that a significant proportion of customers choose to make the minimum payment by these methods. For example, TNS-BMRB research showed that 21% of consumers who did not make the full payment on their credit card paid their credit card bill by direct debit and a further 33% paid their bill online.
26. It may be that consumers are making a rational decision to pay the minimum. Some choose to make automated payments to avoid late payment charges and then top up their payments manually if they want to pay off more of their debt. However, this requires self-discipline; consumers may find their good intentions to pay more go by the wayside in the face of pressing expenses. In our view, however, and based on comments from many individual consumers on this issue, it is likely that some of the habitual minimum payers who make automated payments would like to use them to pay more than the minimum, but not the full amount, and are currently unable to do so.
27. Lenders agree that there should be better payment options for consumers wishing to pay using automated payment mechanisms. **We have therefore agreed with industry that by the end of the year, all customers will be able to set up automated payments to pay any amount they choose** (as long as this is equal to, or greater than, the lenders' minimum payment).
28. There were calls from a number of respondents that it should be made impossible for consumers to make a credit card payment using another credit card. We have spoken to the UK Cards Association about this issue and they have assured us that it is standard practice in the industry not to accept credit to pay for credit. Under exceptional circumstances a small number of consumers are able to do this (and indeed consumer research from TNS-BMRB puts the figure at 3% of customers), but lenders would always make consumers aware of the implications of their actions. At this point in time, therefore, we do not propose to take any action in this area although we will keep this matter under review.

## STORE CARD COOLING-OFF PERIOD

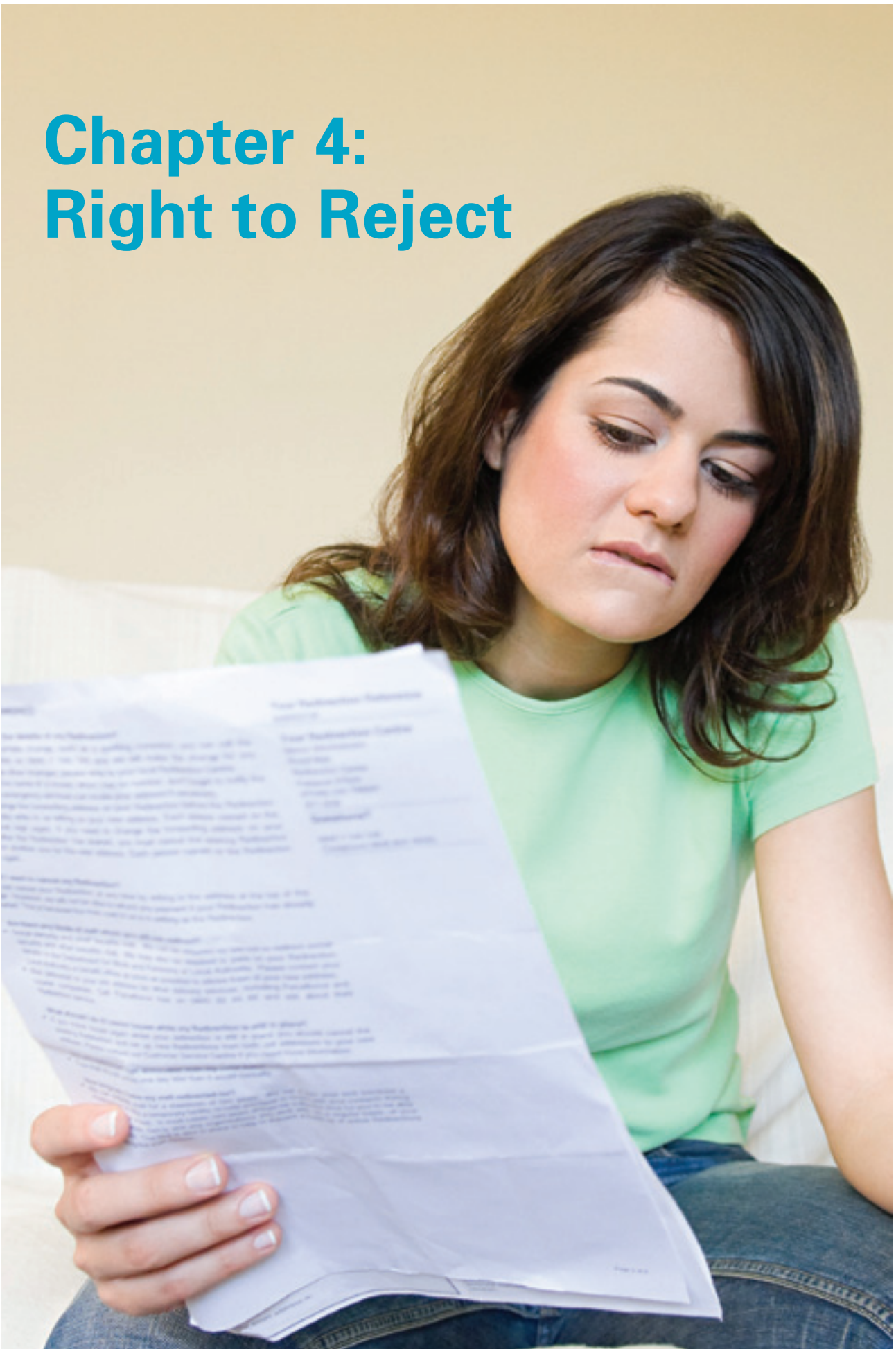
29. A number of respondents to the consultation, in particular a number of consumer groups, suggested that there should be cooling-off periods for store cards where consumers could reflect on whether they would like to keep a store card before making any purchases with it. This reflects concerns that consumers are drawn into expensive borrowing on store cards because of promotional offers or pressure selling at the check out, without giving proper consideration to the costs of using a store card to make their purchase. In research conducted by

TNS-BMRB, nearly half of store card borrowers reported that they had made their decision to apply for a store card whilst talking to a member of staff, yet many respondents felt that the members of staff they spoke to were fairly ill-informed about the store cards they were selling.

- 30.** An estimated 70-75% of store card customers pay off their debt in full during the interest free period and incur no charges at all. Furthermore evidence from industry suggests that over half of store card borrowers have either a credit or a zero balance on their account, and more than half of them use their card only once. It is therefore not clear that this is an issue for the vast majority of consumers using store cards. However, the Government recognises that responsible consumers ought to make a purchase on credit only after careful consideration, and with all the right information at their disposal.
- 31.** The implementation of the Consumer Credit Directive will introduce a right to withdraw from consumer credit agreements made in face-to-face situations. This will give consumers 14 days to withdraw from their agreement without giving a reason. This is not the same as a cooling-off period, as it will not prevent the customer from making a purchase with the store card, but it will allow the customer an opportunity to reconsider their borrowing once they have made the purchase. The Consumer Credit Directive will also introduce a requirement on firms to provide an adequate explanation of any new credit before a consumer signs the agreement. This means that retail staff encouraging consumers to take out a store card will have to explain all the key features of the product before a customer takes out a new card.
- 32.** We are aware of the strong feeling on this matter and we share concerns that store cards should be responsibly sold in circumstances where consumers can properly reflect on their decision with the right information before them. However, as we have indicated above, the scale of the problem is unclear, and there is a risk that introducing a cooling-off period straight away could be bad for both consumers and retailers, making it very inconvenient for responsible consumers who have properly thought through their decisions to buy the goods and services they want on credit, or take advantage of beneficial offers.
- 33.** We believe that the measures introduced by the Consumer Credit Directive represent a significant improvement in the protections for prospective store card users. For this reason, whilst we are not ruling out the possibility of further action in this area in future, it is our view the measures introduced by the Consumer Credit Directive should be given time to take effect before we consider any additional measures.



# Chapter 4: Right to Reject



**Right to reject:** Consumers will be given more time to reject increases in their interest rate or their credit limit.

## RE-PRICING OF EXISTING DEBT

- 34.** Interest rates on credit and store cards can change over time, reflecting the fact that they are open-end products. Lenders can change interest rates in two ways. Firstly, rates can alter as a result of changes in the cost to the lender of providing credit to all consumers and, generally, these rate changes would apply across a whole portfolio. Lenders can also alter interest rates in response to changes in the “risk cost” of serving a particular consumer, or group of consumers, because of changes in the perceived risk that those consumers will default (risk-based re-pricing).
- 35.** In our consultation document, we set out our concerns about the continuing practice amongst credit and store card lenders of increasing interest rates on existing debt (re-pricing) without properly explaining why they are doing so. Despite recent moves by the industry to make re-pricing fairer and more transparent (through a Statement of Fair Principles), we expressed concerns that some consumers might be subjected to unjustifiable interest rate rises on existing debt, and that risk-based re-pricing is still not sufficiently transparent.
- 36.** We want to ensure that consumers with limited choices are not subjected to unfair interest rate changes, that consumers are given clear information about how and when their interest rates might change, and that this is a genuine two way street: rates should go down as well as up. In our consultation we proposed a number of options in this area:
1. Maintain the Statement of Fair Principles;
  2. Further measures to provide consumers with better information about risk-based re-pricing decisions;
  3. Define the factors that it would be fair for lenders to take into account when changing an individual’s price on grounds of risk;
  4. Limit the size and/or frequency of existing debt re-pricing;
  5. Prohibit re-pricing of existing debt.
- 37.** There was a high level of concern from consumers on interest rate re-pricing. Many would like to see either an outright ban of interest rate re-pricing (option 5) or a cap on interest rate re-pricing (option 4). Consumer groups and debt advice agencies, with a couple of exceptions, generally favoured a ban on the re-pricing

of existing debt except where there has been a change in the base rate or LIBOR or where the consumer has missed a payment (option 5). Consumer groups also generally felt that the existing Statement of Fair Principles should be improved and placed on a statutory footing.

- 38.** Industry respondents pointed out that a credit or store card is an open-end loan where there is no requirement for the consumer to repay over a particular period of time; the lender does not know when the debt will be repaid and consumers can keep their card for 20 years or more. In their view that means that if the risk that consumers will not be able to repay changes over time, then lenders must be able to change the price to reflect this. Banning interest rate increases on existing debt could lead to annual fees, higher interest rates for new customers, and riskier consumers not being given a credit card at all. Card companies said that the current Statement of Fair Principles was working well and should be allowed to embed further, although they acknowledged that more could be done to promote the fact that people have the right to reject the interest rate increase and pay down their balance at the existing rate of interest over a reasonable period. Industry also acknowledged that consumers find it hard to understand how risk-based pricing for credit works, and therefore proposed that they would produce a leaflet for consumers which would explain how it works.
- 39.** Industry submitted evidence which showed that, in general, over the last two years, re-pricing decisions have been related to risk and do not appear to be pushing consumers into financial difficulties. Consumer research by TNS-BMRB found that although around 13% of card holders receive an APR increase on their main card per year, the majority of interest rate increases range between 1-5%, and around 4% of card holders receive an APR decrease each year. A ban on the re-pricing of existing debt has been introduced in the United States. The ban only came into force in February 2010, but initial evidence suggests it has had a significant impact on American credit card users, who are seeing higher interest rates and reduced credit limits. The UK Cards Association also quoted data on the impact of the reforms in the US, where there was a 180% increase in accounts facing an interest rate increase as firms rushed to put interest rates up before the ban came into force and the average increase was 6.1%.
- 40.** Evidence about consumer attitudes is mixed. Few consumers complain about interest rate increases, yet research conducted by TNS-BMRB found that consumers were generally in favour of a ban on the re-pricing of existing debt. GfK NOP research, on the other hand, suggested that consumers favoured solutions focused on good communications and alternative options for consumers who did not want to accept the interest rate increase. GfK NOP's quantitative research showed that a majority of consumers thought a ban on the re-pricing of existing debt was a good idea in principle. However, only 26% of consumers would

still support a ban if it led to higher interest rates in future and only 17% would support a ban if it led to annual fees.

41. Evidence about how well the current Statement of Fair Principles is working was mixed. Consumer research found that awareness of the right to reject was very low. Card companies themselves reported that take up of the right to reject varied from firm to firm, from 1% to 5%. The Lending Standards Board conducted a review of how the Statement of Fair Principles is working. This found that lenders could do more to ensure consumers are properly informed about interest rate increases and their right to reject them.
42. The Government understands the anger of consumers who feel that their rate has been increased without a reasonable explanation and who are concerned about rising interest rates on their existing debt. However, the initial evidence shows that a ban on the re-pricing of existing debt such as that adopted in America could lead to worse outcomes for consumers through higher interest rates for new customers, annual fees and some people finding it impossible to obtain a card at all. We do not, however, accept the industry's argument that the Statement of Fair Principles is working as it should. Clearly there is a lot more that can be done to ensure consumers are fully able to exercise their right to reject an interest rate increase. We have therefore agreed with credit and store card companies that **consumers will now have 60 days to tell their card company they want to reject an interest rate increase**, close the account, and pay down the outstanding balance at the existing rate over a reasonable period. This doubles the time consumers have to consider an interest rate increase and take action. In addition, consumers will be notified at least twice during the 60 days that they have the right to reject and card companies will tell them how much their borrowing will cost at the higher rate so they are able to see the real impact of an interest rate increase when making their decision. Lenders have also committed that they will not increase interest rates at all for consumers at risk of financial difficulties. They will work with debt advice agencies to agree how they will identify those 'at risk'. These rights will apply to any interest rate increase which is not directly linked to a change in an external reference rate such as the base rate or the inter-banking lending rate (LIBOR), and not just to individual risk-based re-pricing.

## UNSOLICITED CREDIT LIMIT INCREASES

43. Under the existing Lending Codes, when card companies increase borrowers' limits they must tell them that they have a right to reject the increase and keep their existing limit. Consumer groups generally felt that the right to reject should be more clearly explained and more easily implemented. Some cited cases of consumers being dissuaded from exercising their right to reject, finding it hard to

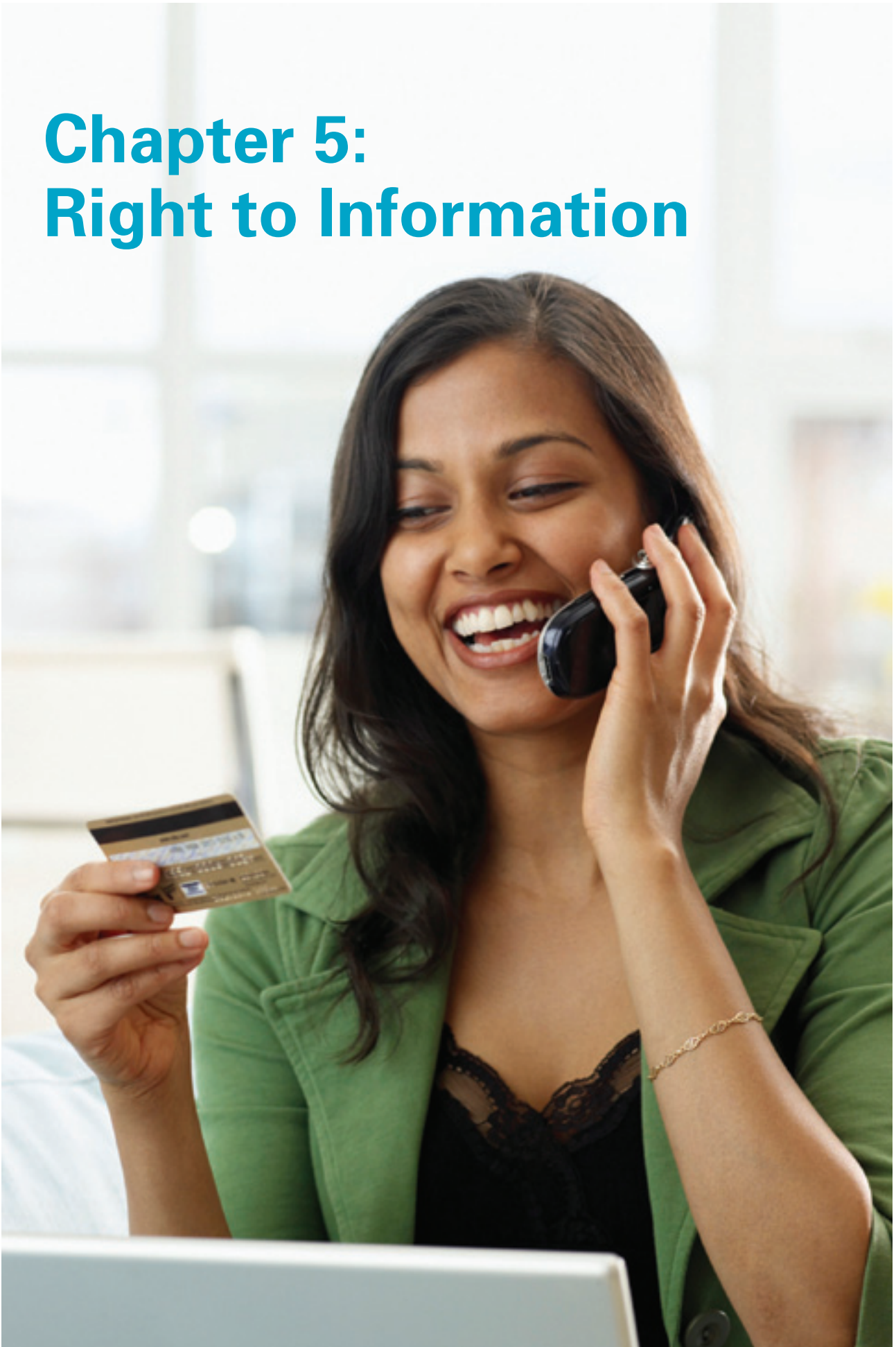
get through on the phone, or being forced to put a request in writing even if they had telephone banking services. Moneyfacts argued that it should be possible to reject a new limit by any channel: by post, telephone or online.

44. Industry data shows 0.6% of consumers given a limit increase exercised their right to reject.<sup>5</sup> TNS-BMRB research found a significantly greater proportion (6%) reported having contacted their bank to ask for the limit to remain unchanged, still a very low figure. Interestingly, a majority of consumers who did contact their lender after the credit limit increase found it easy to do so. Of those who didn't contact their lender, 81% were unconcerned about the limit increase. However, of the remaining 19%, over half didn't do so because it would be a hassle.
45. The evidence suggests that consumers understand the way the current system of increasing limits works, and are generally comfortable taking responsibility for how much they borrow. However, a majority of those consumers who might wish to reject a limit increase appear to perceive contacting their lender as a hassle, and there is evidence that, for a minority of consumers at least, exercising their right to reject a limit increase is made more difficult than it should be. The Government believes that the current right to reject is not made clear enough to consumers or easy enough to take up. We have therefore proposed, and card companies have agreed, that **consumers will now be given 30 days notice of an increase in their credit limit and will be given clear information setting out what they can do if they want to reject the increase, as well as a guarantee that they will not incur any penalty** if they choose to do so. Furthermore, **card companies will make it as easy as possible for consumers to reject an increase, in particular by ensuring that they can do this through an automated telephone system or online**, ensuring that consumers don't have to hold to speak to an adviser during peak periods and need not be concerned that an adviser might seek to dissuade them from their decision or sell them another product.

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<sup>5</sup> Data from 13 issuers representing 96% of the market

# Chapter 5: Right to Information



**Right to information:** Consumers at risk of financial difficulties will be given guidance on the consequences of paying back too little. Consumers will be given clear information about increases in their interest rate or their credit limit, including the right to reject.

## MINIMUM PAYMENTS

46. Currently, credit card lenders are required to ensure that all credit card statements include the following health warning about the risk of only making the minimum payment: “If you only make the minimum payment each month, it will take you longer and cost you more to clear your balance”. The Lending Code also requires the statement to include an indicative case figure for the amount of interest if only a minimum payment is made. Store card lenders need to include similar warnings and estimates of interest. In the consultation document, we set out our concerns that lenders have not done enough to explain to consumers the implications of making only the minimum payment. We proposed that consumers could be provided with better information about the consequences of making a minimum payment (option 2).
47. A significant minority of consumers who responded to our consultation said that they would be interested in better information. Pretty much all consumer groups thought that better information provision on minimum payment options would be a good thing. Many supported the idea of illustrative scenarios. Many industry players acknowledged that more could be done to improve information for those consumers who make minimum payments, or who are at risk of doing so, and proposed a specific targeted information measure to help these consumers.
48. Consumer research carried out by two independent organisations both showed that the majority of consumers paying the minimum have made a rational decision to do so. Many consumers pay the minimum because that is all they can afford, and a significant proportion do so because they have more expensive debts elsewhere (24% according to GfK NOP, 16% according to TNS-BMRB) or because they are on a promotional rate (15% according to GfK NOP, 13% according to TNS-BMRB). Analysis from Argus confirmed that some consumers do make a rational decision to pay the minimum; in the main (except for the highest risk band) consumers with balance transfer deals were more likely to make repeat minimum payments.
49. It is clear to us that additional information on minimum payments is of no real use to the vast majority of consumers making full or partial repayments. Such additional information would be unnecessary and cumbersome. Nor do we think that any additional information would be of any benefit to consumers making very

occasional minimum payments or who have clear and rational reasons for doing so. These consumers are unlikely to be at risk of unsustainable debt. However, we do agree that more can be done to educate habitual minimum payers.

- 50.** In the UKCA's response to the consultation, lenders undertook to contact those consumers who have made the minimum payment for 6 consecutive months. We agree with the UK Cards Association that it is a subset of minimum payers who need to be targeted for more information on minimum payments. We are not convinced that contact after 6 months of minimum payments is sufficient, nor are we convinced that the trigger for contact should be paying only the minimum over a period. Indeed, industry experts have suggested that those consumers who pay just more than the minimum are also likely to be at risk. Consumers who regularly repay very small amounts of their debt are using their card in ways which may be putting them at risk of financial difficulties or incurring high levels of interest on their debts. In addition, in order to influence consumer behaviour, it is also important to reach these consumers when they may still have choices available and to reach them with information that means something specific and real to each consumer.
- 51. We have therefore agreed with industry that lenders will send a separate communication to those customers who make repeated low payments on their credit or store card.** Lenders can choose whether to communicate with those consumers by post or electronic means but will need to do so in writing, and separately from the monthly statement. This communication will illustrate how the consumers' current behaviour is costing them more money and will explain what they can do to improve their situation, including providing details of independent sources of advice and support.
- 52.** Exact details of when this communication should be sent and the information that it should contain are still to be determined with industry following consultation with the OFT and consumer groups and testing with consumers.

## RE-PRICING

- 53.** As noted in the section on the right to reject, the evidence from the review suggests that consumers are often not given clear enough information about increases in their interest rate and their right to reject it. A number of respondents to consultation proposed improvements, for example, the Lending Standards Board recommended that a separate notification should be sent which makes clearer that the interest rate is increasing and precisely what the old and new rates are. Many respondents, including the UK Cards Association, felt there was scope for improving consumer understanding of risk-based re-pricing.



54. Consumer research by TNS-BMRB found that less than half of consumers who had had their interest rate increased felt that it was adequately explained. Perhaps more alarmingly, a third of respondents said they did not know whether their rate had changed in the last year. Qualitative research also revealed a low awareness of the practice of risk-based re-pricing, as compared to interest rate increases as a result of changes in the base rate, and a low awareness of the existing right to reject, even among those consumers who had had their interest rate increased. However, of those consumers that were re-priced and felt that they received an adequate explanation, a majority said that the change was reasonable, even where their interest rate had increased.
55. The Lending Standards Board review of compliance with the current Statement of Fair Principles found that around half of companies did not send a separate letter to notify the consumer, putting the information on their monthly statement instead. It found that the quality of communication with consumers about re-pricing decisions was unclear in some cases: some firms did not say clearly that the consumer's interest rate was increasing, and by how much, but simply told them that their terms and conditions were changing or what the new rate would be without making clear that it was going up.
56. It seems clear that consumers are not receiving good enough information about risk-based re-pricing decisions. The Government has therefore secured industry agreement always to send a **separate interest rate increase communication** to consumers facing an interest rate increase at least 30 days before the change. The communication will explain in clear and simple language how their rate is changing, that they have a right to reject the new interest rate within 60 days, and how they can exercise that right if they want to. The communication will be in the form of a letter, unless consumers have indicated that they would prefer their bank to keep in touch with them by electronic means. Card companies have agreed that they will work with consumer groups and debt advice agencies to ensure that the communications are clear and easy to understand. We also welcome industry's commitment to develop a leaflet, "*Risk-Based Pricing Explained*", to help consumers better understand how such pricing works.

## UNSOLICITED CREDIT LIMIT INCREASES

57. The Government believes more should be done to ensure that consumers are aware of increases in their credit limit and what they can do to reject them. Respondents to our consultation suggested a number of ways in which such communications could be improved. These included explaining why the credit limit has been increased and what the lender has done to check that the new limit was affordable, as well as providing information to help consumers decide whether to reject the new limit, such as illustrations of how much the minimum

payment would go up if the consumer used the higher limit, and how much their existing borrowing is already costing them.

- 58. The Government has therefore agreed with industry that new separate credit limit increase communications will be sent to consumers facing an increase in their credit limit at least 30 days before the change.** The communication will explain in clear and simple language how their limit is changing and what they can do if they wish to reject the new limit. The communication will be in the form of a letter, unless consumers have indicated that they would prefer their bank to keep in touch with them by electronic means. Card companies have agreed that they will work with consumer groups and debt advice agencies to ensure that the communication is clear and easy for consumers to understand.

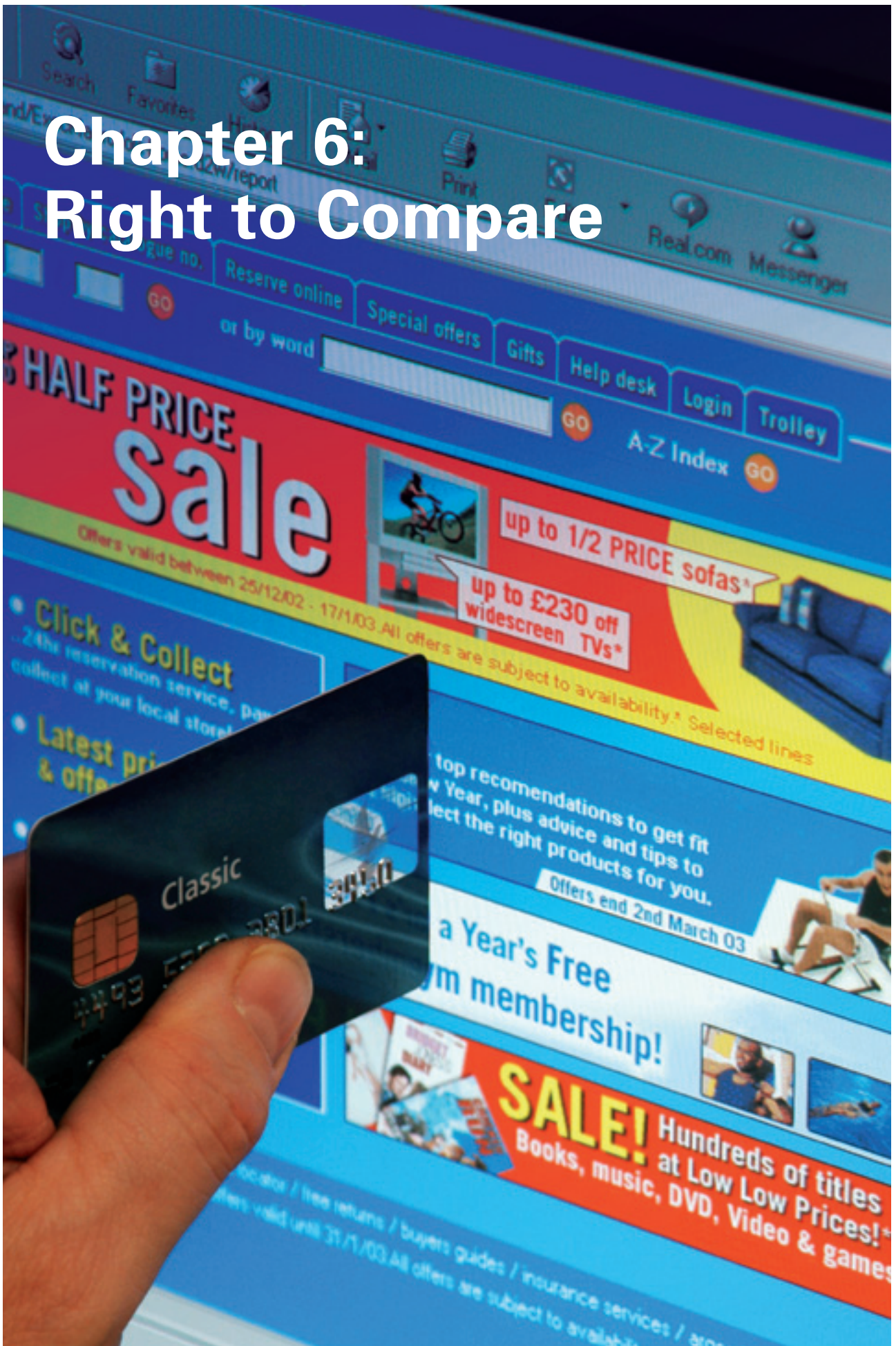
## EDUCATION

- 59.** A few individual consumers, supported by one or two consumer groups and industry organisations, argued that one of the most effective means of ensuring that consumers don't experience problem indebtedness would be to promote and encourage more education, at school and in adult life, about these issues.
- 60.** In January, Ed Balls, Secretary of State for Children, Schools and Families, announced that from September 2011 all pupils from the age of 5 to 16 will be taught about handling money, savings and the financial skills they need as adults. These lessons in "economic wellbeing and financial capability" will form part of the new compulsory personal, social, health and economic education. The specific programmes of study, which outline the broad topics that will be taught, will be consulted on later this year. The details of the consultation, including the timing, will be announced on [www.dcsf.gov.uk/consultations](http://www.dcsf.gov.uk/consultations). Expectations are that children aged 11-14 will be taught about borrowing products, including credit cards, mortgages and loans, with tips on how to pick the deals that suit them best.
- 61.** In addition, the Department for Children, Schools and Families has committed £10 million over three years (2008 – 2011) to support personal finance education in schools through the My Money programme. This programme provides local authorities with support and training to help them get personal finance education into every primary and secondary school under their care.
- 62.** The Government also believes that ensuring individuals have access to preventative financial education and impartial, easy to access help and guidance on money in their adult lives is equally important and complements the provision of financial education in schools. In April 2009 the Government and the Financial

Services Authority launched a large pilot Money Guidance service, called MoneyMadedclear, in the North West and North East of England. The service delivers free and impartial information and guidance on personal finance. It provides detailed information about credit cards, including a new impartial credit card comparison table to be launched shortly on its website. The service is available to all, but targeted at those most vulnerable to the consequences of poor financial decision making. The Government launched national roll-out of the service in March 2010 and the Government and FSA have made a joint commitment to put forward £20 million in 2010-11 to support national implementation of the Money Guidance service. This will allow the service to help 1 million people manage their finances better.

- 63.** The Government has brought forward provisions in the Financial Services Bill to establish a new independent consumer finance education body. This will take forward and expand the reach and profile of the FSA's financial capability work to date and will lead national implementation of the Money Guidance service.

# Chapter 6: Right to Compare



**Right to compare:** Consumers will have an annual statement that allows for easy cost comparison with other providers.

64. The consultation document examined whether, in addition to the options for increased transparency outlined in the four areas covered by the consultation, there should be additional measures to improve transparency. The Government suggested three specific ideas in the consultation, namely providing consumers with an annual statement about their credit and store card usage, developing a benchmarking or labelling system for credit and store cards and designing a basic, cheap and accessible credit card that consumers could use with confidence.
65. Overall, there was wide acceptance amongst the respondents to the consultation that there is merit in improving information to consumers, but many cautioned against the risks of information overload and the risk that too much information can actually harm consumers. Some respondents also had reservations about how these proposals could be implemented in practice, particularly given the complexity of credit and store cards, and many stressed the importance of testing any proposals directly with consumers before implementation.
66. In proposing three ideas for improving transparency and simplicity, the Government's aim was to deliver tangible and real benefits to consumers. We want to make it easier for consumers to compare credit and store cards, to understand better their purchase and borrowing behaviour and to be able to make a more informed decision on their use of credit and store cards.

## ANNUAL STATEMENT

67. **We believe that there is merit in the idea of an annual statement for credit and store cards** and we are pleased that industry has agreed to work with consumer groups to develop this and to consider its content and format. The annual statement will give consumers clear information about how much it has cost them to use their card over the year, including information on all interest and charges for the year.
68. In order to maximise consumer benefit from an annual statement, the annual statement should be available online where online facilities are available and where consumers have signed up to these. This will help facilitate the ability of consumers to compare the cost of their current card with other offers online, including through the FSA's impartial Moneymadeclear credit card comparison website when this is available. It is also important, and this was highlighted by a number of respondents to the consultation, that the annual statement should be available in hard copy for those consumers who do not have online accounts.

69. We will be guided by the results of the discussions between industry and consumer groups over the coming months. We also agree with the many respondents who emphasised the importance of consumer testing an annual statement. This is clearly a prerequisite for its development. However, unless there is convincing evidence that consumers would not materially benefit from an annual statement, **we would expect industry to confirm the development of an annual credit and store card statement and to announce the timetable for rollout by the end of the year.**

## LABELLING

70. **We also believe that there are some clear attractions to a labelling scheme** as a way of improving transparency for consumers. HM Treasury has commissioned consumer research, carried out by GfK NOP, which showed that there is a need for greater fairness, transparency and clarity to help consumers make more effective and confident decisions when selecting financial products.<sup>6</sup> Consumers were particularly positive about the suggestion for simpler labelling.
71. We are conscious that before any decision can be taken on whether to take forward a labelling scheme, there are important issues that need to be considered about the practicalities of doing so. We are mindful of the many ways in which consumers can currently make informed comparisons of credit and store card products. There are already best buy information and tables, and an impartial online credit card comparison tool is being developed for the FSA's Moneymadeclear service. The forthcoming Standard European Consumer Credit Information Form will also provide consistent and comparable information on cards. Concerns raised by some respondents to the consultation that the complexity of credit and store cards do not lend themselves well to a simple labelling scheme. We agree that there are challenges in simplifying a financial product that is used by consumers for different reasons and in different ways, and which individual consumers may use in different ways over time. However, these issues do not appear to be insurmountable and it would not be impossible to develop a labelling or benchmarking scheme that would be useful and beneficial.
72. **The Retail Financial Services Forum, established by HM Treasury, has been tasked with developing policy options to make products simpler and easier for consumers to understand; this is likely to include proposals around simpler labelling. We look forward to seeing the recommendations of the Forum in the autumn.**

<sup>6</sup> Unpublished research

## BASIC CREDIT CARD

- 73.** **We are of the view that there are many attractions to a basic credit card.** We believe that this could incorporate many of the issues that have been addressed in this consultation and be a means of providing a credit card product, the features of which are aimed at preventing problem debt. Such a basic credit card could be targeted at the most financially vulnerable who may otherwise struggle to gain access to credit cards. It would therefore not disproportionately affect the vast majority of customers who may not benefit from these kinds of features.
- 74.** We are conscious that there are a number of valid and important concerns about the practicalities of taking forward the idea of a basic credit card. These include the argument, made by both lenders and some consumer groups in responses to the consultation, that it may be difficult to make a basic credit card a competitive product and that other credit card products currently on the market may already deliver many of the benefits that we are keen to see in a basic credit card. We are also conscious of evidence which shows that, where lenders have developed such products in the past, there has been little take-up by consumers.
- 75.** We are attracted to developing a basic credit card, but we are not blind to the difficulties. That is why **we are pleased that the Retail Financial Services Forum is likely to also be considering basic products**, as part of their work to improve simplicity and transparency of financial products.

# Chapter 7: Next Steps





76. The table below sets out a summary of the rights that are being taken forward, the timing for when these will be available to consumers and how they are being implemented.

New Consumer Right	Measure	How Delivered	Date
<b>Right to repay</b> <i>Consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.</i>	Consumers' monthly payments will always pay off their most expensive card debt first. This fully reverses widespread practice of allocating payments to the cheapest debt first.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	Consumers opening new credit card accounts will pay minimum payments covering at least interest, fees and charges, plus 1% of the principal.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011. Some lenders may require longer because of technical difficulties
<b>Right to control</b> <i>Consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time; and consumers will have better automated payment options. Consumers will have access to these options online.</i>	Consumers will have the right to tell their card company at any time that they want to reduce their current credit limit.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	Consumers will be able to tell their card company at any time that they don't want to be given credit limit increases at all in future.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	The Consumer Credit Directive will introduce a new legal requirement to perform a creditworthiness assessment before offering a significantly higher credit limit.	Consumer Credit Directive (legislation)	January 2011
	Card companies will observe a ban on limit increases for consumers at risk of financial difficulties.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	Consumers will be able to set up an automated payment to pay any amount they choose on a regular basis.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011

New Consumer Right	Measure	How Delivered	Date
<b>Right to Reject</b> <i>Consumers will be given more time to reject increases in their interest rate or their credit limit.</i>	Consumers will now have 60 days to tell their card company they want to reject an interest rate increase, close the account and pay down the outstanding balance at the existing rate.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	Consumers will be able to reject any increase in their credit limit at any time. Card companies will make it as easy as possible for people to do this, in particular by automating this process.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
<b>Right to Information</b> <i>Consumers will have new rights to information about their card account, tailored to their own personal circumstances.</i>	A new separate minimum payments warning communication will be sent to consumers who are using their card in ways which may be putting them at risk of financial difficulties or incurring high levels of interest on their debts, for example making repeated low payments.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	A new interest rate increase communication will be sent to consumers facing an interest rate increase at least 30 days before the change.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	A new credit limit increase communication will be sent to consumers offered an increase in their credit limit at least 30 days before the change.	Lending Code and changes to lenders' terms and conditions where appropriate	January 2011
	Card companies will work with debt advice agencies to agree how they will identify consumers at risk.	Industry/Debt Advice Agencies working group	June 2010
	New responsible lending requirements through the Consumer Credit Directive will ensure new standards for the sale of credit products. These will particularly impact store card providers and others providing retail credit who will need to ensure that when they are promoting their products at point of sale, their staff are sufficiently well trained and the environment is properly conducive to meeting these new standards.	Consumer Credit Directive (legislation)	End January 2011

<b>New Consumer Right</b>	<b>Measure</b>	<b>How Delivered</b>	<b>Date</b>
<p><b>Right to Compare</b></p> <p><i>Consumers will have a right to be given the tools they need to easily compare the costs of different credit cards and how they could save money by choosing the card best suited to their needs and how they typically use their card.</i></p>	<p>Card companies will work with consumer groups and the Government to develop an annual statement which will give consumers clear information about how much it has cost them to use their card over the last year.</p>	<p>Industry/Consumer Group/Government working group</p>	<p>Timetable for roll-out to be announced by January 2011</p>
<p><b>All new rights</b></p>	<p>The Government is also making a longer term commitment to place these principles on a statutory footing.</p>	<p>Legislation</p>	<p>TBC subject to Parliamentary timetable</p>

# Annex A:

## List of Consultation Questions

### CHAPTER 1: INTRODUCTION

1. The Government calls on consultees to submit evidence about the current nature of the UK credit and store cards markets, including in particular:
  - The incidence of multiple credit card use, particularly among the most indebted consumers
  - The use of personal credit cards for business purposes by the owners of small firms
  - The consumer experience of using credit cards and dealing with their lenders
  - The profitability of credit card lending and the impact of the economic downturn on both consumers and lenders.

### CHAPTER 2: THE ALLOCATION OF PAYMENTS

#### Option 1: Do nothing beyond current legislative and regulatory activity

2. We would welcome evidence on the extent of consumer understanding of the order of payment allocation and its implications.
3. Will the implementation of the Consumer Credit Directive, combined with OFT guidance, provide sufficient consumer protection in this area?

#### Option 2: Greater information transparency on the allocation of payments

4. How could the allocation of payments be made more transparent for consumers?
5. What effect is improved transparency likely to have on consumer behaviour? Would it sufficiently address consumer detriment?
6. What might be the cost to lenders of implementing this change? What might be the longer term cost?

#### Option 3: Allocate repayments proportionally to debts incurring different interest rates

7. What effect might this option have on consumers?
8. How might lenders react to a requirement to allocate repayments on a proportional basis?

9. What might be the cost to lenders of implementing this change? What might be the longer term cost?
10. Are there alternative ways of structuring repayments which would be preferable?

#### **Option 4: Allocate repayments to the most expensive debt first**

11. What effect might this option have on consumers?
12. How might lenders react to a requirement to allocate repayments to the most expensive debt first?
13. What might be the cost to lenders of implementing this change? What might be the longer term cost?

#### **Option 5: Allow consumers to pay off cash advances first**

14. What effect might this option have on consumers?
15. How might lenders react to a requirement to allow consumers to pay off cash advances first?
16. What might be the cost to lenders of implementing this change? What might be the longer term cost?
17. Of the 5 options for reform of the allocation of payments, which do you prefer?

### **CHAPTER 3: MINIMUM PAYMENTS**

#### **Option 1: Do nothing beyond current legislative and regulatory activity**

18. Will the implementation of the Consumer Credit Directive, combined with OFT guidance, provide sufficient consumer protection in this area?

#### **Option 2: Greater information transparency on minimum payments**

19. What information on minimum payments would be the most useful to consumers and how often could it be provided?
20. What effect is improved transparency likely to have on consumer behaviour? Would it sufficiently address consumer detriment?
21. What might be the costs to lenders of implementing this change? What might be the longer term cost?

**Option 3: Set a recommended minimum payment**

- 22. Should there be a recommended minimum payment?
- 23. How could the recommended minimum payment be set?
- 24. What might be the unintended consequences of a recommended minimum payment? How might it impact on consumer repayment behaviour?
- 25. What might be the costs to lenders of implementing this change? What might be the longer term cost?

**Option 4: Increase the minimum payment**

- 26. Should the minimum payment increase?
- 27. How could this increase in minimum payment be set?
- 28. How many consumers would be affected by an increase in the minimum payment, for example, if it were raised to 5%? How many of these consumers would be unable to meet these higher repayment levels? How many consumers holding balances on more than one credit card are likely to be affected?
- 29. Should an increase in the minimum payment apply to all consumers or to a subset of consumers?
- 30. What might be the costs to lenders of implementing this change? What might be the longer term cost?
- 31. What evidence do you have about the impact of previous reductions or increases in the level of minimum payments on cardholders?
- 32. Of the 4 options for the reform of minimum payments, which do you prefer?

**CHAPTER 4: UNSOLICITED LIMIT INCREASES****Option 1: Do nothing beyond current legislative and regulatory activity**

- 33. What evidence do you have that unsolicited credit limit increases are not associated with financial difficulties?
- 34. Will the implementation of the Consumer Credit Directive, combined with OFT Guidance, provide sufficient consumer protection in this area?

### **Option 2: Greater information transparency on unsolicited credit limit increases**

- 35. How could information about credit limits be made clearer and more accessible to consumers?
- 36. What particular information do you think would be most effective in encouraging cardholders to be more proactive in managing their credit limit?
- 37. What might be the cost to lenders of implementing this change? What might be the longer term cost?

### **Option 3: Limits on the size and/ or frequency of individual limit increases**

- 38. Would limits on the frequency and/ or size of credit limit increases be sufficient to address the issues in this area?
- 39. What would be appropriate limits? Who should set them?
- 40. Under this approach, how could consumers' ability to request a new increase be preserved?
- 41. What might be the cost to lenders of implementing this change? What might be the longer term cost?

### **Option 4: A ban on all unsolicited limit increases**

- 42. Do you have evidence that consumers who apply for a credit limit increase are a significantly worse credit risk than consumers that do not?
- 43. Should lenders be banned from offering unsolicited limit increases? Should a ban apply to all consumers?
- 44. What do you believe would be the benefits and risks to consumers? How severe are any risks?
- 45. What might be the cost to lenders of implementing this change? What might be the longer term cost?
- 46. How could a ban be implemented in a way which minimises unintended impacts on both consumers and lenders?

### **Option 5: Allow consumers to opt in to receiving unsolicited limit increases**

- 47. To what extent do you think that an 'opt-in' model for credit limit increases would rectify the problems identified in relation to unsolicited credit limit increases?

48. What might be the unintended consequences of this option, including the implications for low and grow lending?
49. Should consumers be required to opt in to each individual increase or to all increases?
50. How could an opt in be implemented so that consumers would not harm their chances of getting the card they want?
51. Could a fully flexible approach be made to work?
52. What might be the cost to lenders of implementing this change? What might be the longer term cost?
53. Of the 5 options for the reform of unsolicited credit limit increases, which do you prefer?

## CHAPTER 5: RE-PRICING OF EXISTING DEBT

### Option 1: Maintain the Statement of Principles

54. The Government would welcome further evidence of whether or not the Statement of Principles has been effective. In particular, we would welcome evidence since November 2008 of:
  - Trends in re-pricing activity by lenders and the impact of the Statement of Principles on the scale and nature of re-pricing activity;
  - Whether consumers are aware of their choices under the Statement of Principles and able to exercise them effectively;
  - How consumers have chosen to exercise their choice following a re-price (e.g. take up of the option to pay down their balance at the existing price, take up of alternative products, switching);
  - The extent to which consumers understand risk-based re-pricing and the explanations provided to them by lenders;
  - Volume of complaints on re-pricing (received by lenders, consumer groups or FOS) and the nature of those complaints;
55. Should the Statement of Principles be placed on a statutory footing?



### **Option 2: Further measures to provide consumers with better information about risk-based re-pricing decisions**

56. How could transparency on risk-based re-pricing be improved? At what stage would it be most appropriate to provide additional information (e.g. pre-contract, monthly statements, when customer requests)?
57. How could measures to improve transparency be balanced against the risk of information overload?
58. What might be the cost to lenders of implementing this change? What might be the longer term cost?
59. Do you think that increased transparency around changes to interest rates would be sufficient to address problems reported by consumers?

### **Option 3: Define the factors which lenders can take into account when changing an individual's price on grounds of risk**

60. Should there be a list of the factors that lenders can take into account when changing an individual's price on grounds of risk?
61. Who should decide what those factors are?
62. How could such a definition be made flexible enough to adapt to future changes?
63. What are the possible unintended consequences of this approach?

### **Option 4: Limit the size and frequency of interest rate increases on existing debt**

64. Should there be limitations on the size of any interest rate increase on existing debt? What should these be?
65. Should there be further limitations on the frequency of interest rate increases? What should these be?
66. What effects might these limitations have on consumers?
67. How might lenders react to these limitations?
68. What might be the cost to lenders of implementing this change? What might be the longer term cost?

### **Option 5: Prohibit re-pricing of existing debt**

69. What effect might a ban on re-pricing of existing debt have on consumers?

70. How might lenders react to such a ban?
71. What might be the cost to lenders of implementing this change? What might be the longer term cost?
72. Of the 5 options for the re-pricing of debt, which do you prefer?

## **CHAPTER 6: SIMPLICITY AND TRANSPARENCY**

### **Annual e-Statement**

73. The Government invites views from stakeholders on ways to give consumers better information about credit and store cards.
74. Would an annual statement be beneficial to consumers? Should it be provided to all consumers or only to a subset of consumers? What information should be included in such a statement?
75. Could such a statement be provided in a consistent, portable electronic format? What would be the costs of providing such a statement? How could we ensure that consumers without internet access also benefited?
76. How would this approach fit with the other policy options discussed?

### **Simpler card lending products**

77. Would a “stakeholder” card lending product with basic and accessible features be beneficial to consumers? What might such a card look like?
78. What would be the costs to lenders of offering such a card?
79. Is there merit in considering a standardised labelling system for credit and store cards? Could this be taken forward on a voluntary basis pending revised EU legislation?
80. How would this approach fit with the other policy options discussed?

## Annex B: List of Respondents

In addition to over 900 comments received online and by email, there were 35 formal responses to the public consultation. These are listed below, with the exception of 1 respondent who wished to remain anonymous.

American Express  
Barclaycard  
British Retail Consortium (BRC)  
Callcredit Ltd  
Capital One  
Confederation of British Industry (CBI)  
Citizens Advice  
Citizens Advice Scotland  
Consumer Credit Counselling Service (CCCS)  
Consumer Focus  
Credit Action  
Finance and Leasing Association (FLA)  
Financial Services Authority  
Foundation for Information Policy Research  
Home Retail Group plc  
HSBC  
Islington Debt Coalition  
Knowsley Metropolitan Borough Council  
Local Authorities Coordinators of Regulatory Services (LACORS)  
Lending Standards Board  
Lloyds Banking Group  
MBNA – Bank of America  
Money Advice Trust  
Money Facts Group plc  
Money SavingExpert.com  
Money Supermarket.com Financial Group Ltd  
Nationwide Building Society  
R3

Royal Bank of Scotland (RBS)

The Consumer Council

UK Cards Association

University of Warwick

Vanquis Bank

Which?

In addition to the above named organisations 204 formal responses from individual consumers were also received. These have not been named in this list.

## Annex C: List of Organisations BIS met

- Dr Neil Stewart – 9 November 2009, 26 January 2010
- RBS – 10 November 2009
- OFT – 16 November 2009
- The FLA and a range of store card providers – 18 November 2009
- CBI Consumer Credit Working Group – 23 November 2009
- Consumer Focus – 3 December 2009
- PricewaterhouseCoopers – 9 December 2009
- UK Cards Association – 4, 16 December 2009, 23 February 2010
- Nationwide Building Society – 17 December 2009, 13 January 2010 and 17 February 2010
- Consumers Union of the United States – 5 January 2010
- US Public Interest Research Groups (PIRG) – 5 January 2010
- Consumer Federation of America – 5 January 2010
- Federal Trade Commission Bureau of Consumer Protection – 5 January 2010
- US Department of Treasury – 5 January 2010
- Barclaycard US – 5 January 2010
- Independent Community Bankers of America – 5 January 2010
- Office of the Controller of Currency, US Department of Treasury – 5 January 2010
- Capital One Financial Corporation – 6 January 2010
- American Bankers Association – 6 January 2010
- Subcommittee on Financial Institutions and Consumer Credit, US House of Representatives – 6 January 2010
- Bank of America – 6 January 2010
- US Senate Banking, Housing and Urban Affairs Committee, Majority and Minority Staff – 6 January 2010

- Federal Reserve Board of Governors – 6 January 2010
- Federal Reserve Bank of New York – 6 January 2010
- JP Morgan Chase Bank – 7 January 2010
- Citicards – 7 January 2010
- American Express – 7 January 2010
- Argus Information and Advisory Services– 10 February 2010
- MBNA – 10 and 17 February 2010
- Barclaycard – 10 February 2010
- Capital One – 10 and 19 February 2010
- Finance and Leasing Association – 10 and 19 February 2010
- Home Finance Group – 10 February 2010
- HSBC – 10 February 2010
- Laser UK – 10 February 2010
- Lloyds Banking Group – 10 and 19 February 2010
- Oxera – 10 February 2010
- Royal Bank of Scotland – 10 and 17 February 2010
- Santander – 10 February 2010
- UK Cards Association – 10 and 23 February 2010, 2 March 2010
- Vanquis Bank Ltd – 10 February 2010

## Annex D: Glossary

Allocation of Payments	A practice whereby any credit or store card payment from a consumer is allocated to the debt incurring the lowest interest rate first.
Balance transfer deals	A balance transfer deal allows consumers to transfer some of their debts and pay the sum off at a 0% interest rate for a set period of usually between six and 14 months. After this period ends, the balance begins to attract interest.
Base Rate	This is now officially called the bank rate. It is the main interest rate in the economy, set by the Bank Of England, upon which others' rates are based.
Credit Card	A card issued by banks, retailers and other financial institutions which allows the card holder to make purchases on credit. A credit limit is established on an individual basis and interest is charged on the outstanding balance.
Credit Card Summit	This took place in November 2008 and was chaired by the Consumer Minister and attended by all key players in the credit and store card market. They agreed a Statement of Fair Principles which governs how and when they will change a customer's interest rate when their individual risk profile alters.
Credit Limit	The maximum spend a consumer can make on a credit or store card.
Credit Reference Agency	Credit reference agencies provide lenders with information about potential borrowers, which they then use to make lending decisions. The information shared may include information about borrower's previous credit history. They hold certain information about most adults in the UK. This information is called your credit reference file or credit report.

Consumer Credit Directive	The Consumer Credit Directive is EU legislation which needs to be adopted by all EU countries by June 2010. It aims to create a common credit market across the EU and to maintain high levels of consumer protection.
Finance and Leasing Association	The Finance & Leasing Association is the leading trade association for the asset, consumer and motor finance sectors in the UK. Its members include banks, building societies, finance houses, credit and store card providers, motor finance companies and asset finance and leasing companies.
Financial Ombudsman Service	The Financial Ombudsman Service is a public body set up by Parliament. It is the official independent expert in settling complaints between consumers and businesses providing financial services.
Financial Services Authority	The Financial Services Authority is the main City regulator whose job is to protect investors' interests.
Irresponsible Lending Guidance	The draft Guidance was launched for public consultation by the OFT in July 2009. The consultation closed on 21 October 2009 and the OFT expects to issue its Guidance around the end of March 2010. The Guidance will identify lending behaviours and practices which the OFT considers may be irresponsible.
Lending Code	A voluntary code of practice which sets standards for financial institutions to follow when they are dealing with their personal and small business customers in the UK.
Lending Standards Board	The LSB is responsible for the Lending Code, and helps firms to interpret and meet its requirements. It also monitors and enforces compliance with the Code, and identifies any gaps or deficiencies in the Code that could lead to consumer detriment.
Minimum Payment	The minimum amount that a consumer must pay each pay period (usually monthly) on the outstanding debt on their credit or store card.



Office of Fair Trading	The OFT is the UK's consumer and competition authority. Its mission is to make markets work well for consumers. It is a non-ministerial Government department.
Risk-based re-pricing	This is the practice by which interest rates are altered in response to changes in the "risk cost" of serving a particular consumer or group of consumers because of changes in their credit score.
Store Card	A card issued by a retailer or group of retailers (sometimes financed by a third party lender) which only allows the card holder to make purchases on credit in certain stores. A credit limit is established on an individual basis and interest is charged on the outstanding balance.
UK Cards Association	The UK Cards Association is a trade body that gives credit, debit and charge card issuers, and merchant acquiring banks a forum where they can work together on non-competitive issues.
US CARD Act 2009	The Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 or is a federal law passed by the United States Congress and signed by President Barack Obama on May 22, 2009. It is comprehensive credit card reform legislation that aims to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan, and for other purpose

# Annex E: Contact Details

In case of enquiries please contact:

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