

Self-regulation—New Rights for Credit and Store Card Users

Quick Summary

To tackle increasing concern about debt affordability and potential irresponsible lending practices, Consumer and Competition Policy in Department for Business, Innovation and Skills

developed, with industry, new rights for credit and store card users to be implemented voluntarily by credit and store card lenders.

What was the context?

The Policy Challenge

Macro context: The financial crisis, with the resulting bankruptcies and rising unemployment, had elevated the issue of debt affordability and potentially irresponsible lending practices. There was strong concern that consumers were not getting a fair deal from their credit and store card lenders.

The challenge: To identify ways to help consumers avoid getting into excessive debt or paying too much for their debt, without imposing unreasonable costs on lenders, bearing in mind that the majority of credit and store card customers use their cards responsibly.

Why was taking no action not an option?

Research had established that the *risk posed by credit and store card debt was higher for the more vulnerable groups in society*. As the complexity of credit and store cards grew, some consumers had become unaware of the true cost of using their card or how they could make the best use of it.

Evidence of growing problems from credit & store cards (including rising complaints, debt advice demand relating to credit and store cards, and credit card arrears) led to renewed concerns about whether previous reforms had gone far enough and whether some card features (such as the way in which debt was repaid and increases in credit limits) were inherently balanced against the interests of consumers.

Evidence indicated the presence of market failure — incomplete information —in relation to credit and store card provision. This put consumers at a disadvantage as they were having difficulty processing large amounts of financial information and it was difficult to make easy comparisons of products.

Why was a regulation not chosen as an option?

Collaborative approaches can be suitable if the majority of industry players agree to change. In this instance this was made easier given that the lending market was dominated by a small number of lenders who were represented by the two key trade associations. In addition, the strong pressure on banks after the sub-prime crisis meant there was appetite in the industry to restore confidence in the sector and resist any overly prescriptive regulation. Finally, there was already a strong regulatory framework, so a totally new regulation was not automatically needed.



What was delivered (mechanism)?

What is the New Requirement?

The Government set out five new rights for credit and store card users that credit and store card lenders agreed to implement voluntarily:

- **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; and all consumers will be given clear information on 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.

How does the self-regulatory system operate

The new rights will be incorporated into industry Lending Codes and changes made to lender's terms and conditions where appropriate. The Office of Fair Trading will take them into account for enforcement purposes. Additionally, consumers will be able to take complaints about a breach of these rights to the Financial Ombudsman Service.

What actions or investments are required from Government, the Regulator and Business

There will be some initial costs to business from having to change their payments systems of £65-100million which will be funded by businesses. There will also be annual costs (in the form of interest income lost by lenders, which is transferred to consumers in the form of lower overall interest payments) of £276m-292m. These costs were set in detail in the Impact Assessment.

Government plan to review the impact and effectiveness of these voluntary arrangements. Following this, they will consider if any further action is required.

How did we make this happen?

The Development Process

(1) The General Process Steps and Timings

Step 1: Evidence Gathering (3 Months)

Evidence gathering, looked at complaints to help identify where there might be issues, commissioned additional work where there were gaps, asked industry to help measure the impact of options.

Step 2: Formal Consultation, including commissioning of additional research (3 Months).

Step 3: Review Evidence and Decide Policy (2 Months)

Held talks with industry and consumer trade associations at official and Ministerial level to agree solution.

(2) The Composition of the Team / Expertise required

- There was strong policy, legal, economic and communications input with dedicated resource in each case.
- There was also a seconded credit card industry expert in the team.

3) How Industry and Other Stakeholders Were Engaged

- Engaged directly with lenders to calculate the costs of different options to inform decisions
- Held weekly meetings with the credit and store card trade associations, and separately with consumer groups, to discuss, challenge views and arbitrate between them.
- Office of Fair Trading was engaged early on and contributed to early drafts and thinking around options. Also participated in all key meetings.

(4) The Role of Ministers

- Built up a trusted relationships between officials and Minister and regularly updated them on progress.
- Involved the Minister directly at key points including:
 - Early on to expose them to the different views of key stakeholder; and
 - In negotiations, eg the Consumer Minister hosted industry summits to endorse the Government commitment to find an industry led solution but readiness to act if no adequate solution was found.

Lessons learnt

- **Try to bring together the voice of stakeholders** so it is possible to negotiate sensibly and collaboratively with a few parties that do speak for the vast majority. In this case, the team could leverage the UK Cards Association & The Finance and Leasing Association.
- **Establish agreement through the use of strong research or evidence:** In this commitment to evidence gain the support of stakeholders to fill in data gaps and be in a position to challenge stakeholders to find the best solution, rather than allow them to advance purely subjective positions in defence of parochial interests.
- **Truly work together with industry to develop the solution:** In this case the team obtained an industry seconded on the project to help build trust and translate between industry and Government
- **Show Government is committed to finding a solution amenable to industry which meets Government objectives but will take independent action if such a solution is not found:** This line was taken with lenders and reinforced during negotiations at Ministerial level to show this was the position shared across Government

- **Mine existing regulatory frameworks and rules to keep the changes in line with current activity and so limit additional costs of change on both Government and business:** in this case the existing enforcer (OFT) and Financial Ombudsman already present to aid enforcement of compliance without need for regulation.

However, every case is different and so this advice should not be considered appropriate in all other circumstances.



The Team / Further information

The Team— Contact:

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Want to know more about alternatives?

- Contact the BRE: alternatives@bis.gsi.gov.uk