Figures will be published throughout the year. For up-to-date figures please see our website: www.theukcardsassociation.org.uk
The UK Cards Association is the leading trade association for the card payments industry in the UK. With a membership that includes all major credit, debit and charge card issuers, and merchant acquirers, the Association contributes to the development of legislative and regulatory frameworks; develops industry best practice; safeguards the integrity of the card payments industry by tackling card fraud; develops industry standards; and co-ordinates other industry-wide initiatives across matters relating to the card payments industry, including an innovation agenda. This report covers the Association’s primary activities during 2012 and into the future.

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The recent range of improvements demonstrate a continuing commitment to giving customers more control over the management of their finances.
Statement from the Chair, Melanie Johnson

The last year has seen major steps forward in the delivery of high standards of transparency and consumer choice across the industry. This has been part of a lasting commitment on the part of the card payments industry to improving the customer experience – backing the powerful role that cards can play in stimulating growth with strong consumer protections.

When I became Chair in 2009, the card industry was under considerable scrutiny, with policy-makers and regulators seeking reassurance on transparency and consumer protection. The economic downturn created a sharp focus on both national and personal debt, with credit businesses coming under pressure to demonstrate responsible lending and appropriate levels of consumer control when it came to borrowing and repayments.

The industry responded with a raft of measures to strengthen consumer protection, built on powerful evidence and now enshrined into the Lending Code. While most of the improvements came into force in 2011, annual credit card statements were rolled out during 2012, providing even greater transparency for cardholders on their spending and repayments, as well as other useful information such as interest charges and any fees. The year also saw further discussion about identifying cardholders who may be showing the early signs of financial difficulties, and the need to provide proactive help before this becomes a more serious debt problem. The industry has voluntarily progressed a number of additional initiatives, such as a new website tool to provide a consumer-friendly complement to the APR, which will allow cardholders to better understand the cost of their credit card. The recent range of improvements demonstrate a continuing commitment to giving customers more control over the management of their finances.

Some of the key metrics which The UK Cards Association has used in its discussions with stakeholders in order to set an appropriate context include:

- 85% of credit card holders are already able to download data on their card electronically, in a variety of formats.
- The majority of cardholders (60%) say they pay their credit card bills in full each month, meaning that they are paying no interest.
- Only an estimated 3.1% of cardholders pay the minimum payment for 12 consecutive months.
- Credit card outstandings represent less than 4% of the UK’s total personal borrowing.

Our engagement with the debt advice sector allows the industry to have an open and balanced dialogue in areas of mutual interest, facilitated through a regular forum. Despite the fact that much of the recent government and other external stakeholder scrutiny has been on the payday lending sector, there is no room for complacency and the Association must continue to deliver value for the industry and its cardholders, particularly through innovation, consumer protection and economic growth.

Innovation

The Association is taking forward work, directed by the Board, which has the potential to change the face of the card payments industry whilst offering more flexibility and convenience for our members’ cardholders. This reflects the pace of emerging technology and innovation. Near Field Communication-enabled (NFC) mobile payments will form an increasingly important part of the digital future for cardholders in the UK.

The growth of contactless cards has enhanced the cardholder experience for low-value payment transactions. Increasingly we are seeing mobile and e-commerce activity embraced by greater numbers of consumers, with increasing use of mobiles as payment devices. Our work towards facilitating a roll-out of NFC mobile payments brings together mobile and contactless technology with the effect that it can be used across a range of both payment and non-payment interactions to buy goods or services, for ticketing, to redeem loyalty or to gain coupon points, for car parking and other self-service applications, to demonstrate proof of age and entitlement as well as other identity applications, and even potentially in the delivery of public services.

All of this can emerge from bring these technologies together in a seamless way which cuts through the barriers presented by traditional transaction methods.

Missing up to now has been a consistent “customer journey” for NFC which applies across sectors and which delivers the necessary momentum for a national
Cardholders have become familiar with the convenience of NFC transactions in different sectors, operating independently of each other. However, to optimise the success of a national NFC roll-out in a way that maximises real benefits to cardholders – as well as to industry – requires bigger thinking. Smart phones will provide the access point, but a range of partners – including Mobile Network Operators (MNOs), the banks, retailers, loyalty and coupon providers, new payment services providers and others – need to come together to agree the etiquette to underpin a national infrastructure so that the customer experience of using NFC can be simple and straightforward.

In order to bring together the range of interested parties to maximise the potential of a national NFC roll-out, the Association has convened the multi-industry NFC Steering Group (NFC-SG), which has met throughout 2012. A major priority for 2013 will be to advance the Steering Group’s work in developing that infrastructure for NFC mobile payments, with a view to delivering the technology for cardholders as the new face of the card payments industry. These are exciting developments which promise much in terms of choice, as well as providing a wider pay-off for ‘UK Plc’ in the areas of e-commerce, innovation and business growth.

**Protecting consumers and supporting SMEs**

Strategic moves forward such as NFC have been backed by enhancements to the existing payments system, which demonstrate the effectiveness of self-regulation in ensuring consumer protection. We have worked with our merchant acquirer (providers of card acceptance services for merchants) members to create a programme for the extension of Faster Payments in settlement with retailers. Meanwhile, we have been working closely with HM Treasury to explore what self-regulatory measures might be appropriate in the merchant acquiring sector of the payments system commands consumer confidence at all times. With a view to this, the Association’s technical unit continues to work as a source of industry expertise on fraud prevention technology, with a particular focus on building on the success of recent measures as we continue to develop contactless and new NFC mobile payments technology.

**Supporting growth**

The card payments industry has a great story to tell when it comes to its contribution to economic growth, with the key role played by credit and the emergence of new and more flexible ways to make payments providing a great deal of value for both individual cardholders and SMEs. The most prominent contribution made by the industry to GDP is through the role played by e-commerce, which holds its pole position as the real ‘growth engine’ of the sector. Online shopping accounted for 43% of the UK internet economy as a whole during 2011, bringing in £76 billion, with the card payments industry acting as the great enabler of e-commerce. We are proud that, as a result, the UK is currently a world-leader in this area – with the value felt by start-ups, SMEs, and through consumer spending as a driver for wider growth in the economy. We continue to ensure that transactions in this arena are underpinned, at all times, by appropriate consumer protections and that cardholders are protected from fraud.

**Supporting policy-makers to deliver growth**

The combination of these developments reflects a changed dynamic between the industry and policymakers. We are on the front-foot, acting transparently and voluntarily to protect consumers and make burdensome regulatory interventions unnecessary.
Message from the Managing Director, Graham Peacop

I was honoured to be appointed as the new Managing Director of The UK Cards Association in September 2012. The four months since have brought to a close a dynamic year for the Association, as well as an eventful time for the sector.

Despite the economic downturn, the card payments industry has a record of which it can be increasingly proud when it comes to standards of transparency and consumer protection. While all parts of the financial services sector have been under unprecedented scrutiny, we have worked hard to reassure regulators and policy-makers of our effectiveness at identifying cardholders who are at risk of problem debt, as well as providing support where this is required. Building on this, the Association’s role has been to bring members together to continue to develop standards of consumer protection, to share good practice, and to provide a conduit between the industry, and government and other key stakeholders.

As the payments landscape continues to evolve, particularly as the Payments Council stands likely to take on an enhanced public interest role, it is essential that there is a strong and independent body representing the collective voice of the industry – able to articulate industry-wide positions and engage at the highest levels on behalf of its members. In this way, the Association aims to project powerful advocacy to government and regulators on behalf of industry. Often, we act as an important enabler within the sector, encouraging change in anticipation of external pressure. An illustration of how far we have come as an industry can be seen in our stakeholder relationships. Since I took up this post, I have found the quality of our interactions with consumer groups and the debt advice sector to be strikingly positive – and this reflects well on the work members have done to promote responsible lending. The Association works closely with the full range of debt advice agencies, shares evidence on the picture concerning consumer protection, and builds the advice of these bodies into our policy-making at the earliest stages. In autumn 2012, we were delighted to hold a series of fringe events on the party conference circuit alongside the Money Advice Trust. This joint-programme of events addressed a range of shared concerns, including transparency, consumer choice and early intervention to support vulnerable cardholders.

Our project work has advanced the Board’s common agenda for the industry. Over the past year, we have:

- Created an online compliment to the APR, giving cardholders more transparency on their borrowing and repayments.
- Worked closely with HM Treasury officials to explore how to ensure good standards of industry practice in the merchant acquiring market.
- Seen contactless cards reach a tipping-point: 30.3m cards now have contactless functionality, with 135,000 terminals. Major retailers like the Post Office have come on board and Transport for London have rolled out the card-readers on buses.
- Run a surgery in Parliament on responsible lending which attracted 55 MPs and researchers.
- Continued our long-running sponsorship of the Internet Watch Foundation, the leading charity charged with eliminating child sexual abuse content online.
We celebrated 10 years of the DCPCU, with an estimated £400 million of fraud savings to date – with 135 arrests in 2012 alone (up from 80 in 2011) and a conviction rate of 94%.
Industry-wide fraud management

We remain incredibly proud of the Association’s close links with the fraud prevention community, particularly through our sponsorship of FFA UK and the Dedicated Cheque and Plastic Crime Unit (DCPCU). The integrated approach of FFA UK – which combines education and awareness, intelligence-sharing and law enforcement – continues to have a major impact in tackling organised fraud and in bringing both individual fraudsters and criminal gangs to justice.

On consumer education, FFA UK’s work has had a major impact, delivered through national campaigns that spoke directly to segments of the public who have been identified as being at greater risk of fraudsters, underpinned by data marshalled through the Industry Strategic Threat Management Process. Particularly, important work has been done to ensure that cardholders protect their personal information, especially their PIN, and resist the emerging forms of ‘social engineering’ deceptions which have become the new front in the fight against fraud, as better security has deterred fraudsters from traditional attacks. Alongside this, the team has been a key partner for government, particularly in respect of the National Fraud Authority within the Home Office by devising and delivering impactful campaigns such as ‘Devil’s in your Details’, and most recently working closely with Ministers and officials to inform and shape the government’s own intelligence-sharing architecture.

While the most recent industry-wide figures have shown an unwelcome rise in card fraud, this provides a clear cue for 2013’s prevention campaigns and operational priorities. Total fraud losses on UK cards were £185.0 million between January and June 2012. This is a 9% increase on losses in the first half of 2011 (£169.8 million), but represents a fall of 39% from the total of £304.2 million in the first half of 2008, when fraud was at its peak. Additionally, card fraud losses as a proportion of the amount we spent on our cards has actually decreased – from 0.066% during January to June 2011 to 0.063% during the first half of 2012. With technology such as chip & PIN helping to deter fraud, criminals have turned their attention to more straightforward ways of getting hold of people’s cards and PINs. This puts an even greater premium on informing cardholders of the dangers, on ensuring key messages on self-protection get through to those who are most vulnerable, and that, where fraud is committed, we respond robustly. This will be led by our high-performing intelligence and enforcement units during 2013, building on their successes in 2012, where:

- We celebrated 10 years of the DCPCU, with an estimated £400 million of fraud savings to date – with 135 arrests in 2012 alone (up from 80 in 2011) and a conviction rate of 94%.
- We secured Fraud Intelligence Sharing System (FISS) savings over 2012 of £5 million. The system works as a key gateway for banks and payment organisations to submit their fraud intelligence data into the government’s National Fraud Intelligence Bureau.
- There were over 380 alerts issued by the payment/banking industries’ fraud intelligence unit – the Financial Fraud Bureau (FFB), with over 865,000 card details disseminated.

I have joined the Association at a great time for the industry. We have exciting developments underway on payments innovation, which have the potential to change the face of card payments. We have reassured government and policy-makers of our responsible lending credentials, and have made huge advances in preventing fraud. Notwithstanding this progress, 2013 promises to be another testing year: we need to persuade government to create a proportionate regulatory framework around the FCA; we need to continue to lead cross-sector efforts to deliver the NFC infrastructure, ensuring that regulatory burdens from Europe support, rather than hinder, growth; and we need to prepare ourselves for continued political scrutiny on transparency and responsible lending as the parties begin to write their manifestos for the 2015 election. The advances made by members in these areas will not provide the intended reassurance unless we continue to engage right across public policy, particularly during continued times of economic pressures for businesses and families.

In all of these things, we will approach the task with the traditional ethics of The UK Cards Association: thoughtfulness, evidence-based engagement and openness. I look forward to working with members, partners and all stakeholders as the industry moves forward to change the face of card payments in both the physical and virtual worlds and play a pivotal role in the future of consumer and commercial payments.
To this end we publish facts on industry experience, such as credit card lending and fraud; as such, we are the authoritative source for definitive key management information.
ANNUAL REPORT 2013

The Role of

The UK Cards Association

The UK Cards Association is the representative body for UK card issuers and merchant acquirers. Our primary function is to facilitate cooperation between industry participants on matters of mutual interest (within the constraints of Competition Law) and to provide a clear and cohesive industry voice to external stakeholders.

We seek to influence the development of the card payments industry in the UK by providing a strategy in areas where our members can cooperate on key issues. The Association represents the industry’s views to the Government, the European Commission, regulators, the media, law enforcement, consumer bodies and other influential external stakeholders.

Our work involves ensuring that major legislative changes and regulatory interventions are balanced and meet the interests of both the industry and cardholders without resulting in inadvertent, unintended or undesirable consequences. We seek to ensure that any decisions that affect the 92% of UK adults who hold plastic cards are based on well-grounded evidence. To this end we publish facts on industry experience, such as credit card lending and fraud; as such we are the authoritative source for definitive key management information.

We respond to criticism and seek to amend industry practices where it is appropriate to do so, delivering and promoting real advances in areas such as transparency, responsible lending and data sharing.

The UK Cards Association has a unique vantage point in the industry. There are specialist groups of member representatives focusing on key issues such as: fraud prevention; legal and regulatory matters; data sharing; credit policy; the rollout of contactless card payments; the development of payments using mobile technology; acquiring; and external communications, reporting to the Board, comprising the heads of the UK card issuing and acquiring businesses.
Key Industry
Metrics and Trends

As we move into 2013, the UK card market is still constantly evolving. Debit cards are showing strong growth in terms of the number of cards and the volume and value of transactions as cardholders continue to move away from cash. Conversely, the picture for credit cards is quite different, showing a gradual fall as cardholders move to debit cards for payments and other forms of lending such as overdrafts.

- At 89.6 million (as at end of October 2012), there were more debit cards in circulation than ever before. Conversely the number of credit cards has fallen from a peak of 71.5 million in 2005 to 58.9 million at end of September 2012.
- Debit card spending now accounts for 50% (as at end of October 2012) of total spending in the UK.
- Outstanding borrowing on credit cards has fallen from a peak of £67.4 billion in 2005 to £56.1 billion at the end of November 2012, accounting for just 3.9% of the UK’s total personal borrowing of £1.42 trillion.
- With around 40% of credit card outstanding balances paid off in full each month or at 0% interest, the amount outstanding on student loans has now overtaken credit cards.
- Cash advances on credit cards continue to be at historically low levels and at the end of 2011 were at £4.2 billion.
The rise and rise of e-commerce

Over the past decade, the move towards digital has reached the card payments industry. Nearly all internet connections are now broadband, and 57% of the population now have the opportunity to use superfast connections of 50 or more megabytes per second. These developments have fuelled the continued growth of online shopping, which has been facilitated by the card payments industry.

Nearly three in four adults, or 38 million people, go online to buy products and services, spending an average of £2,008 (as at end of 2011)*.

The e-commerce market looks set to continue with strong growth, accompanied by a continued migration to smart phones and other mobile devices. There is also likely to be a continued blurring of the boundaries between the online and face-to-face cardholder experience, with cardholders interacting with merchants in-store through their mobiles.

Developments consolidated in 2012 have led to the following:

- Credit cards account for a much higher proportion of card spending online, 51%, than they do at the point-of-sale, 26%.
- Debit card use online has been growing more rapidly than credit cards, and they accounted for 49% of online card spending last year compared with 36% in 2006.
- Online spending represents 24% of all spending on credit cards, compared with only 9% of all spending on debit cards.

Observations of e-commerce in the card payments industry showed that:

- There were more than 1 billion purchases made online, with 1,075 million last year compared with 903 million in 2010.
- In the UK, 24 million adults used debit cards for some or all of their internet purchases in 2011, and 19 million used credit cards.
- There is a gender bias with those making card payments online. Men split 69%:61% into users of debit cards and users of credit cards, whereas women split 76%:52%.

*Figures from Payments Council UK Payments Markets 2012, as of end of 2011
HM Treasury welcomes the NFC Steering Board initiative:

"Identifying and removing the barriers to the widespread deployment of an NFC acceptance infrastructure throughout the UK can widen consumer choice on payments and provide a stimulus to the high street. The success of this initiative is dependent on the market participants and their representative bodies working together and delivering an open, innovative NFC acceptance infrastructure."

Sajid Javid
Economic Secretary to the Treasury, January 2013
The Future of Card Payments

During 2012, innovation in payments, whether card or non-card, leapt to the top of the Association’s agenda. Developments are exciting and fast moving, though, as yet, it remains unclear which products or services will resonate most strongly with cardholders and therefore prove most successful.

Initiatives such as Barclay’s Pingit and PayTag, Elavon’s Mobile Merchant and the delivery of a new payment service through the Payments Council provide real-life examples of what is possible, while the London Olympics provided a taste of the future for card payments with all Olympic venues enabled to accept contactless card payments, with Visa also showcasing mobile payments technology.

NFC-enabled Mobile Payments and beyond – From concept to execution

2012 saw a significant step forward in multi-industry collaboration aimed at realising the future of a mobile payments world. At the initiation of The UK Cards Association, the NFC Delivery Steering Board (NFC-SB) was created, bringing together retailers, transit operators, mobile network operators, Government, other interested parties (for example, Google) with card issuers, merchant acquirers and card schemes. However, it is important to be clear that this is not a payments-led project, like chip & PIN, but a fully-inclusive programme intended to benefit all participants with the optimum objective of delivery to be a multi-platform payment solution.

The NFC-SB is setting out with the primary objective of accelerating the deployment of an NFC-acceptance ecosystem in the UK, able to accept true multiple-application transactions that may or may not result in a payment. NFC is the technology that underpins contactless card payments as we already know them. It has been in the market for a number of years and has proved highly successful in single applications, closed and open-loop deployments, such as Transport for London’s Oyster programme.

Mobile phones with NFC capability provide the opportunity to transform the cardholder experience, if the challenge of coherently supporting multiple interacting cardholder-selected applications at the point-of-interaction (POI) can be overcome in a way that engenders cardholder’s and merchant’s confidence. The NFC-SB is therefore aiming to define and clarify the ecosystem for the benefit of all, promoting the deployment of a widespread, mutually inter-operable and efficient infrastructure at POI that supports the mass usage of mobile phone and card-based NFC transactions, building upon the infrastructure that already exists. In this context transactions include any combination of the following applications:

- Loyalty, couponing and other retailer-led marketing/promotional applications;
- Transport ticketing (trains, buses, airplanes);
- Event ticketing;
- Car parking and other self-service applications (such as vending or bicycle hire);
- Proof of age and other identity applications;
- Payments of any value (not just £20 or less as at present with contactless enabled cards), whether they involve a card or not.

Consistency of cardholder experience is critical, as is the need for uniformity from the merchant.

A world where an acceptance device is able to accept whatever form factor is placed against it and whatever applications are acting in tandem with each other, will deliver the greatest prize where cardholders and staff know what to expect and confusion at the POI is avoided.

Contactless Card Payments

As the work of the NFC-SB starts to make an impact, the card payment industry continues its deployment of contactless card payment technology. As at end of September 2012 there were some 30.3 million contactless payment cards in issue in the UK (about 20.5% of the UK card base), with 7 card issuers actively issuing, and 135,000 contactless card accepting terminals.

In June 2012, the maximum value for contactless payment was increased from £15 to £20, bringing an additional 1,011 million card payments into scope, with a value of £17 billion.

Also during 2012, a number of high profile merchants began accepting contactless card payments including Post Office, Marks & Spencer’s, WH Smith, Greggs, Wilkinsons, Superdrug, M6 Toll, Coop stores and ASDA (in pilot). In particular, December 2012 saw the acceptance of contactless card payments on the London bus network, with the promise of the tube accepting contactless card payment by the end of 2013, potentially providing the killer application that will embed contactless card payments in the cardholder payment behaviour.
With around 40% of credit card outstanding balances paid off in full each month or at 0% interest, the amount outstanding on student loans has now overtaken credit cards.
The Industry Agenda, 2013 and Beyond

Legal, regulatory and industry policy matters remain a cornerstone of the Association’s work. In general, the political agenda has expanded from having a primary focus on credit and debt issues to now encompassing complex payment issues, with an emphasis on payment innovation, as well as a significant shift from an interest in card issuing to now include the merchant acquiring environment. This has also been accompanied by a growing regulatory agenda in Brussels, as well as in Westminster, with proposals and initiatives increasingly overlapping one another.

In the UK...

Domestically, 2012 saw the implementation of the remaining changes arising from the 2010 BIS Credit & Store Card review, as card issuers rolled out annual credit card statements. These statements give cardholders a broader overview of their expenditure and repayments as well as other useful information such as how much they had been charged in interest and any fees, delivering further enhanced transparency.

This work is aligned to the Government’s midata project aimed at providing cardholders with the information that will help them to make better informed decisions across credit and other sectors, such as utilities and mobile phones. The credit card industry is particularly well positioned with over 85% of cardholders already having the ability to download data electronically, in a variety of formats.

The UK Cards Association is actively engaged with the initiative and will continue to engage with Ministers and senior government officials to promote the progress which has already been made by our industry and to ensure that any future enhancements are proportionate and evidence based.

The summer of 2012 also saw cardholders benefitting from changes aimed at improving the transparency of foreign currency transactions arising from the previous year’s work with the OFT following a Consumer Focus super-complaint.

Recurring Transactions

During 2012, there was increased regulatory concern about the shortcomings of recurring transactions and continuous payment authorities (CPA), which can only be resolved by improving transparency and providing cardholders with greater control over this type of transaction. It was agreed that the industry needs to make progress against these objectives, ensuring that cardholders understand what they are signing up to and how they can cancel any payment arrangement.

This concern has been exacerbated by the way in which many payday lenders have been using debit cards for the repayment of loans, often without fully informing the borrower as to when payments will be taken and for how much.

Over the course of the year, a significant amount of work has taken place to properly identify and address these concerns. This included holding a summit in which the Government, OFT, FSA, consumer groups, various payday lenders, card schemes, merchant acquirers, retailers and other industry representatives participated. The Association has supported the OFT in developing new guidelines on the appropriate use of recurring transactions and CPA in payday lending and other retail sectors. These were published towards the end of 2012 and we will be working with the card schemes, merchant acquirers and specific merchants in 2013 to ensure that retailers are aware of and compliant with these requirements, focusing particularly on the relatively small number of merchants, or sectors, that are generating a disproportionate number of complaints.

Improvements to purchasing foreign currency and using cards overseas

Following a super-complaint by Consumer Focus, the OFT found that charges for purchasing foreign currency and using cards overseas can be confusing for cardholders. Working with the OFT, The UK Cards Association and its members agreed a number of changes aimed at significantly improving the information on options available for cardholders purchasing foreign currency in the UK or using credit and debit cards abroad, including:

- Agreement from five banks to dispose of charges for cardholders using their debit cards to purchase foreign currency in the UK (typically between 1.5 and 2 per cent of the amount being purchased);
- Providing clearer, more accessible information about charges for using cards abroad, including on websites, statements and through call centres;
- Agreements from a number of card providers to display the actual charges incurred by cardholders for using cards abroad far more clearly on monthly and annual statements;
- Many foreign currency businesses agreed to review their marketing to make the various costs and conditions that apply clearer, particularly those applicable to ‘0% commission’ deals.
UK versus overseas transactions – Purchases within and outside the UK

- Purchases within the UK:
  - 2001: 156
  - 2002: 169
  - 2003: 179
  - 2004: 205
  - 2005: 217
  - 2006: 220
  - 2007: 244
  - 2008: 236
  - 2009: 325
  - 2010: 415
  - 2011: 8,425

- Purchases outside the UK:
  - 2001: 4,258
  - 2002: 4,681
  - 2003: 5,186
  - 2004: 5,639
  - 2005: 5,179
  - 2006: 6,008
  - 2007: 6,438
  - 2008: 7,352
  - 2009: 7,902
  - 2010: 8,425
  - 2011: 9,434
Work has also been undertaken to:

- Provide an analytical assessment of the changes which followed the Credit and Store Card review, including the impact of the communications sent to cardholders who frequently pay the minimum payment, or close to it.
- Development of an online tool for cardholders that will help in understanding the cost of using a credit card through the provision of a cardholder friendly complement to the APR.

Regulatory Regime

At a higher level, the UK Government has set about the creation of a single regulator, the FCA, to replace the current regime. The new regime will see the transfer of responsibility for consumer credit from the OFT to the FCA. Along with other credit sector bodies, The UK Cards Association has been fully engaged in the process, with 2013 expected to see a number of consultations that will shape the future model. The Government’s timetable looks ambitious, especially given the lack of detail over the nature of the transition, creating a significant risk of inadvertent consequences, a point that The UK Cards Association will continue to make.

A growing interest in merchant acquiring resulting from the review of the PSD has identified concerns over the transparency of card acquiring services, and the speed of settlement between merchant acquirers and merchants, especially SMEs. This has led to the initiation of work to look at the exploration of how voluntary regulation might assist in setting out and ensuring standards of good industry practice.

…and in Europe

At a European level, the European Commission published a significant and wide-ranging Green Paper outlining its thoughts on the future of card payments with specific reference to the internet and mobile payments, highlighting its concerns over issues such as MiFIs, cross-border acquiring, and the regulation of merchant services acquiring under the PSD. In addition, the Commission is concerned whether banks should allow third party providers to access information on payment accounts, even in those cases where access would be allowed by the account owner, and also on the extent of the diversity of surcharging practices across Member States, which often leads to confusion or complaints. The Commission is currently developing legislative proposals that will be subject to an impact assessment prior to being finalised during the first quarter of 2013.

This was quickly followed by a paper from the European Central Bank proposing new measures on the security of internet payments which, whilst ensuring security, could deter cardholders from transacting.

Elsewhere, the Commission has been developing revised data protection recommendations where proposals around consent; the ‘right to be forgotten’; the ‘right to object’; and privacy by default could impact both the card industry’s credit referencing and fraud prevention activities.

Data Sharing and Responsible Lending

The UK Cards Association, through its representation at the Steering Committee on Reciprocity (SCOR), continues to be at the forefront of industry data sharing initiatives and the promotion of responsible lending. As well as maintaining a productive dialogue with the debt advice sector, The UK Cards Association has:

- Continued its long-standing lobbying of Government to promote the case for gaining access to other important data for risk assessment such as student loans, council tax and income (HMRC).
- Responded to outcomes from the BIS Select Committee’s inquiry into debt management, including the facilitation of better data sharing for payday loans.
- Lobbied Government for the retention of a robust edited electoral register and proposals under the new Individual Electoral Registration (IER).
- Worked with the Ministry of Defence to help service personnel to be better equipped to apply for and maintain credit facilities.
- Facilitated discussions on the scope for the potential sharing of data across the merchant acquiring industry.
- Shared a platform at all three party conferences with the Money Advice Trust to emphasise the importance of early intervention to prevent minor debt problems escalating into something more serious.

### 2013 and beyond

Looking forward, the industry continues to face legal and regulatory challenges as a number of those issues mentioned above take shape – the likely regulation of interchange by the European Commission; the creation of, and migration to, the FCA; changes to data protection legislation; and the likelihood that concerns over debt and credit resurface as the 2015 General Election approaches, will all be closely monitored by The UK Cards Association into 2013.
### The Industry Position

Responding to consultations is part of the ‘bread and butter’ of a trade association’s work. Throughout 2012, continuing the pattern of recent years, the Government and other bodies have remained prolific in issuing consultations across a broad range of subjects. Consultations responded to by The UK Cards Association during 2012 included subjects as diverse as:

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<th>Department for Business, Innovation &amp; Skills (BIS)</th>
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<td>• on the creation of the Financial Conduct Authority and migration of the cardholder credit regime</td>
<td>• on “Recommendations for the Security of Internet Payments”</td>
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<td>• on the Government’s midata project</td>
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<td><strong>HM Treasury</strong></td>
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<td>• on the review of the Payment Services Directive</td>
<td>• on the Debt Collection Guidance</td>
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<td>• on the Money Advice Service and the co-ordination and provision of debt advice</td>
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<td>• on surcharging for card payments</td>
<td><strong>Ministry of Justice and the Information Commissioner’s Office</strong></td>
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<td>• on simple financial products and the Sergeant Review</td>
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<td><strong>European Commission</strong></td>
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<tr>
<td>• Green Paper “Towards an integrated European market for card, internet and mobile payments”</td>
<td><strong>Financial Services Authority</strong></td>
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<td>• on the FSA’s Approach to implementation of the Payment Services Directive</td>
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<td><strong>Financial Ombudsman Service</strong></td>
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<td>• on modernising the case fee structure for 2013 onwards</td>
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Managing and Informing Stakeholders

Managing and informing stakeholders with legitimate concerns about the card payments industry is central to the work of The UK Cards Association, to ensure that the debate is fully informed and based on facts. During 2012 The UK Cards Association:

- Met regularly with Ministers in BIS, HM Treasury, the Home Office and other Government departments, along with an ongoing dialogue with civil servants across Government on a wide range of topics.
- Attended all three party political conferences, sharing a platform with the Money Advice Trust, along with key politicians including Norman Lamb MP, former consumer affairs minister; Ian Murray MP, shadow consumer affairs; and Justin Tomlinson MP, Chair of the All Party Parliamentary Group on Financial Education for Young People. These well attended events discussed key messages about the importance of early intervention where cardholders start to show signs of financial distress; transparency; and support for vulnerable cardholders.
- Delivered a surgery event in Portcullis House which attracted 55 MPs and researchers, giving Parliamentarians access to new figures on their constituents’ borrowing patterns and providing considerable reassurance on the national picture on debt and responsible lending.
- Undertook a series of one-to-one meetings with key stakeholders and opinion formers across the industry aimed at disseminating facts and providing an opportunity for concerns to be voiced in a constructive way for the Association to raise with its members.
- Provided a strong industry-wide voice on local, national and specialist media stories concerning debt and transparency of card products, as well as pro-actively briefing commentators at all levels on the industry’s commitment and record on consumer protection.

Looking forward to 2013, the Association has built capacity internally on communications and stakeholder engagement in order to ensure we have the resources to shape the political and media environment in a way that is most favourable for the card payments industry. Press office work has traditionally been led by UK Payments on behalf of the industry, but as the Payments Council develops its public interest role, an internal press office for the Association will deliver the confidence needed in the independence of the external-facing voice for industry and its trade association. Early priorities for the new press office function in 2013 include consumer-facing work to educate cardholders on security of contactless cards, a series of Parliamentary surgeries on credit and responsible lending across the devolved bodies in Scotland and Wales, and a suite of media activity to educate at-risk consumer segments on protecting themselves against deception frauds.
The UK Cards Association are proud to be supporting the IWF in its successful removal of

**100,000 web pages**

hosting criminally obscene images and videos.
Charitable Giving

Charity remains a keen area of interest for The UK Cards Association, whether as a sponsor of specific charities, through the waiving of card fees for qualifying appeals, or the development of new ways of donating riding on the back of the card payments infrastructure.

The Internet Watch Foundation

Since 2006, The UK Cards Association has been proud to be a main sponsor of the Internet Watch Foundation (IWF) the charity involved with the removal of online child sexual abuse images. The financial support given by the Association enables the IWF to acquire and use the best technology to support its staff in viewing and assessing potentially criminal content and to continually build upon its expertise to effectively remove such material.

Alongside this, the Association is able to support the IWF in its important work by providing expertise in other key areas of relevance.

Round Pound Initiatives

The UK Cards Association continues to monitor the development of ‘round pound’ initiatives, such as Pennies, where cardholders are able to round up their transaction to the nearest pound at merchants offering the facility; the difference goes to charitable causes. The Association is supportive of this initiative and is keen to be helpful wherever possible.

Waiving of Fees

As in previous years, The UK Cards Association has facilitated occasions where charitable appeals that fall within the qualifying criteria (detailed on www.theukcardsassociation.org.uk) benefit from a waiver of card payment fees. During 2012 qualifying appeals included Sports Relief and Children in Need.

Over the past decade the instances on which the industry have waived fees have included:

- 2002 Goma Crisis; Sports Relief; Children in Need; Queen Elizabeth’s Charitable Trust.
- 2003 Comic Relief; Liberia Crisis; Children in Need.
- 2004 Sports Relief; Sudan Emergency; Children in Need; Asian Tsunami.
- 2005 Comic Relief; Pakistan Earthquake.
- 2006 Sports Relief.
- 2007 Children in Need.
- 2008 Burma Cyclone; Children in Need; Congo Crisis.
- 2009 Gaza Appeal; Comic Relief; Children in Need.
- 2010 Haiti Earthquake; Sports Relief; Children in Need; Pakistan Floods.
- 2011 Comic Relief; East Africa Crisis; Children in Need.
- 2012 Sports Relief; and Children in Need.

“The UK Cards Association is fully supportive of rounding-up initiatives for card payments at the point-of-sale – such as Pennies – where the model is complementary to the existing payments process and independent of charitable cause. Pennies itself is simple and effective, giving card-holders the opportunity to make an electronic donation without disrupting the system which facilitates cardholders’ card payments. This is a win-win-win-win for cardholders, merchants, charities and the card industry alike.”

Graham Peacop
Managing Director, The UK Cards Association
Preventing Fraud

The UK Cards Association is the biggest sponsor for both FFA UK, the name under which the financial services industry coordinates its activity on fraud prevention, and also the DCPCU.

FFA UK works as a key partner under the umbrella of Fighting Fraud Together, the strategic partnership of fraud prevention bodies working with the National Fraud Authority.

FFA UK has been leading the industry work in support of the development of an Intelligence Sharing Architecture, an important initiative driven by the Cabinet Office’s ‘Fraud Error and Debt’ Taskforce, and closely linked with the development of the intelligence capability of the National Crime Agency. The initiative aims to build an infrastructure to facilitate public and private sectors in sharing financial crime intelligence.

The end of the last decade saw sustained falls in levels of card fraud in the UK, with figures released earlier in 2012 continuing a substantial fall from its peak in 2008. By the end of 2011 card fraud was at the lowest levels since 2000. This step-change in fraud prevention owes much to the coordination of industry’s fraud prevention efforts through FFA UK, which the Association enjoys a long-standing partnership with.

The steep decline in card fraud losses owes much to the roll-out of new security features on cards, which have built on the success of chip & PIN in preventing fraud. As these security features become more complex, their deterrence value has predicated a move towards more basic frauds, such as distraction theft and social engineering where cardholders are tricked into giving their cards, PINs and financial passwords to criminals. Figures released for the first half of 2012 show that this change in modus operandi has contributed to a small overall increase in card fraud losses:

- Total fraud losses on UK cards totalled £185.0 million between January and June 2012. This is a 9 percent increase on losses in the first half of 2011 (£169.8 million), but represents a fall of 39% from the total of £304.2 million in the first half of 2008 when fraud was at its peak.
- Notwithstanding this, card fraud losses as a proportion of the amount we spent on our cards has decreased – from 0.066% during January to June 2011 to 0.063% during the first half of 2012.

These new figures highlight the emerging front in the fight against fraud, with FFA UK’s three strategic strands focusing on how to reverse this small rise.

These strands include:

**Intelligence Sharing**

Established in 2010, the Financial Fraud Bureau (FFB) is part of the Fraud Control Unit of FFA UK and is responsible for managing the payment industry’s co-ordinated initiatives regarding data-sharing to reduce fraud, covering all types including card, payments, lending and cheque fraud.

The banking industry also shares information on all confirmed, attempted and suspected fraud in a central, shared database through the Fraud Intelligence Sharing System (FISS). Established in 2008 specifically to combat all types of banking-related fraud in the UK, the system provides the industry with a secure and robust reporting mechanism, supporting the industry’s long-term fraud prevention strategy. In 2012, the savings to the industry were in the region of £5 million.

In 2012, the FFB:

- Held investigator intelligence calls which resulted in 21 case referrals, nine with police referral – concluding in 16 arrests;
- Issued 380,000 alerts and disseminated over 865,000 card details;
- Funded forensic investigations to obtain card and cardholder data, delivering potential savings of over £7.3 million.
Consumer education and awareness

A major priority has been to give cardholders and retailers the awareness and skills they need to identify fraud attempts and to protect themselves. This has been achieved through impactful national campaigns aimed at key at-risk groups highlighted by the Industry Strategic Threat Management Process. Campaign work in 2012 has included:

• The Devil’s in Your Details, in partnership with the National Fraud Authority and the telecommunication industry, which used a viral campaign to raise awareness of the importance of protecting personal information.

• Three campaigns to warn cardholders of the rise of ‘courier fraud’, where cardholders are tricked into revealing their PIN over the telephone by a fraudster posing as a representative of their bank or payment organisation.

• A campaign aimed at those at risk of becoming money-mules, focusing on students, new entrants to the UK and the unemployed. The campaign was concentrated in high-risk Newham, but will be extended to cover the rest of the UK during January 2013.

• The Devil’s in Their Details, a joint-campaign with the National Fraud Authority, focusing on the 36-55 age-group most likely to become victims of investment scams.

• Work with businesses to prepare for the Olympics including training with retailers to minimise the risk of fraud, especially with so many cardholders coming into the UK with non-chip & PIN enabled cards.

www.financialfraudaction.org.uk
The UK Cards Association continued its financial sponsorship of the Dedicated Cheque and Plastic Crime Unit (DCPCU), which in 2012 celebrated its tenth year of operation. This was marked with a celebratory event at the Houses of Parliament, where the Minister for Crime and Security, James Brokenshire, made the following remarks: “The DCPCU continues to be a valuable asset in the fight against fraud. It serves as an excellent example of how a public and private sector partnership can work together effectively. I was impressed by the sheer scale of the work it undertakes, as well as the dedication and professionalism of all those involved. The Unit’s exemplary record over the past ten years is testament to that.”

The DCPCU is a proactive operational police unit, fully sponsored by the banking industry, and formed as a partnership with the City of London Police, Metropolitan Police and the Home Office. The Unit comprises a specialist team of officers from both Forces together with a number of banking industry investigators and support staff.

The overall performance figures for the Unit in 2012 are some of the highest seen since its inception. There were 159 arrests, with 67 suspects charged and others waiting charging decisions. Of note is that the Unit has generated estimated savings to industry during 2012 of £37.6 million and these now stand at a total of nearly £440 million since it was formed in 2002.

A number of major organised crime groups involved in large-scale frauds have been disrupted and large quantities of card numbers, cards and cheques seized from those involved. The Unit also generated an increased number of case referrals through extensive engagement with law enforcement and other agencies to obtain good quality intelligence. This enabled the DCPCU to mount proactive covert operations into the organised criminal groups committing payment fraud in the UK and building strong evidence of their criminality through surveillance and investigation. These groups often target the payments industry as a whole, so their disruption benefits multiple financial institutions.

Some examples of investigations that have been undertaken by the DCPCU during 2012 include:

**Operation Calvino:** The DCPCU disrupted a potentially large scale fraud, involving a previously unidentified staff insider attempting to sell credit card details, along with security information enabling account takeover. The accounts targeted were all high net-worth customers, making the potential exposure to the industry very significant. The DCPCU liaised directly with the organisation to effect arrests of those involved. This was a major disruption of an extremely harmful criminal enterprise, both in view of the finances involved and in the sense of the industry’s reputation. Two suspects have now been charged.

**Operation Orzo:** This was an intelligence led case involving a group which procured large quantities of card data from the internet, going on to purchase goods fraudulently. Four have been arrested of which three have been charged and are currently awaiting trial. During the searches, computers were seized and card numbers recovered which were alerted to industry to avoid further losses.

**Operation Barkham:** Three were arrested in connection with counterfeit card production. An examination of seized equipment revealed a large quantity of card numbers for use in fraud.

As well as enforcement, DCPCU has also focussed on crime prevention, having created a post specifically for this function. The newly appointed Crime Prevention Officer has presented to a wide variety of audiences, including the banking industry, retailers, local communities and law enforcement. He, together with the DCPCU Head of Unit, has also appeared on radio and national television – for example, BBC News, This Morning, Sky News and London Tonight – to provide advice and information on a variety of fraud types. The DCPCU was also the main feature in ‘Fraud Squad’ – a prime time ITV television documentary about ATM crime, which received very positive feedback on its role in educating the public on the sophisticated tactics used by criminals perpetrating fraud.

The fraud losses on UK-issued cards 2001-2012 (£ millions) chart shows the following:

- 2001: £411.5
- 2002: £426.6
- 2003: £404.4
- 2004: £504.8
- 2005: £493.4
- 2006: £427.0
- 2007: £557.2
- 2008: £693.9
- 2009: £890.0
- 2010: £366.4
- 2011: £131.1
- 2012: £185.0

*The 2012 figure for fraud losses are from January to June 2012.*
Business as Usual

At the core of the work of The UK Cards Association is to provide a strong, independent voice for the card payments industry. As with any trade association there are a number of core activities that often go unnoticed or unheralded but are vital to the industry's future.

During 2012 The Association represented the interests of the industry:

- at the Lending Standards Board, as one of the three sponsors of the Lending Code;
- at the European Payments Council relating to SEPA and continued support for the UK chair of the ISO SC17 Cards & Personal Identification technical committee;
- at other technical bodies such as EMVCo and its Board of advisors; and the PCI-SSC;
- at the Association of Chief Police Officers (ACPO) Economic Crime Portfolio and the National Fraud Authority (NFA);
- at SCOR, the Steering Committee on Reciprocity, governing UK credit data sharing;
- at the Ministry of Justice’s Claims Management Regulatory Consulting Group;
- at the BFS midata working groups;
- through its sponsorship relationship with the Internet Watch Foundation (IWF); and
- Through joint work, where appropriate, with the UK’s Payments Council, including its Strategic Fraud & Security Group;
- at the Telecommunications UK Fraud Forum (TUFF) Communications Crime Strategy Group.
- to be the definitive industry source, to publish its regular annual, quarterly and monthly management information reports to its members, along with a raft of publicly available documents such as UK Plastic Cards 2012, available to purchase and/or download via The UK Cards Association website; and
- to oversee its two accreditation programmes for Card Protection Agencies and Industry Hot Cards File (IHCF) Data Recipients.
The Board of
The UK Cards Association

Membership of The UK Cards Association is open to any organisation that issues credit, debit, charge and ATM cards in the UK under the American Express, LINK, Maestro, MasterCard and Visa schemes, or that acts as a merchant acquirer in the UK for any of these schemes.

The UK Cards Association Board is the industry’s most senior decision-making body and is chaired from outside the industry by an independent non-practitioner (Melanie Johnson). The Board is responsible for setting the strategic priorities for the industry, typically meeting on a quarterly basis and overseeing the work of a number of specialist sub-committees.

Melanie Johnson became the first non-member Chair of the Board in September 2009 following a successful career in politics as a Government minister between 1999 and 2005. During her time at the then Department of Trade & Industry she undertook the first review of consumer credit legislation for more than 30 years.

Members who issue a million or more cards under the named schemes (of which half must be debit, credit or charge cards) and/or acquire at least 2.5% of total UK card purchase are entitled to a seat on the Board.

Organisations that fall beneath these volume criteria are still eligible to join the Association. Non-Board members are represented collectively on the Board by a Nominee Director. During 2012 the Association welcomed one new member to its ranks – SAV Credit, and Europe Arab Bank withdrew membership.

The UK Merchant Acquiring Market

An important feature of the UK card payments industry is the growing number of acquirer-only members as the traditional retail banks divest themselves of their merchant acquiring businesses. In recent years The UK Cards Association has already seen WorldPay join Elavon on the Board as merchant acquirer-only members, with others likely to join them in the near future.

Prepaid Cards

The UK Cards Association does not represent the interests of the whole of the prepaid card payments industry, though speaks on behalf of its members that do issue such cards. Whilst still a largely embryonic market comprising many different market segments, prepaid cards would appear to have established a niche in the UK, typically being provided by non-traditional card issuers who sit outside of The UK Cards Association community. The UK Cards Association will act on prepaid cards, for example in improving transparency, if it is in its members’ interest to do so.

The UK Cards Association Members as 1st January 2013

<table>
<thead>
<tr>
<th>Full Board Members</th>
<th>Other Members</th>
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<tr>
<td>Chair – Melanie Johnson</td>
<td>Allied Irish Bank</td>
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<td>Board Directors</td>
<td>Chelsea Building Society</td>
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<td>American Express – Colin Walsh</td>
<td>C Hoare &amp; Co</td>
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<td>Bank of Ireland – Marco Hughes</td>
<td>Citibank</td>
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<td>Barclays – Nick Clements</td>
<td>Coventry Building Society</td>
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<td>Capital One – Vicky Mitchell</td>
<td>Northern Bank**</td>
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<td>Clydesdale Bank* – Anthony Lupton</td>
<td>Virgin Money Plc</td>
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<td>Co-operative Bank – David Fawell</td>
<td>SAV Credit</td>
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<td>Elavon Financial Services – Simon Haslam</td>
<td>Standard Chartered</td>
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<td>HSBC* – Andrew Slough</td>
<td>Vanquis Bank</td>
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<td>Lloyds TSB* – TBC</td>
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<td>MBNA Europe – Ian O’Doherty</td>
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<td>Nationwide – Anne Dalgleish</td>
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<td>Royal Bank of Scotland* – Steve Rubenstein</td>
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<td>Santander – Alan Mathewson</td>
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<td>Tesco Personal Finance – Will Curley</td>
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<td>WorldPay – Ron Kalifa</td>
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<td>Nominee Director – Michael Lenora (Vanquis Bank)</td>
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* Banks whose membership covers other banks within their group
** Danske Bank is a trading name of Northern Bank Limited
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