THE UK CARDS ASSOCIATION

Response to the Government Consultation on the Regulation of Credit Cards

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Improving Customer Control

Recent improvements include:

- Best practice – improvements in delivering the product e.g. Principles on Risk-Based Re-Pricing; ‘breathing space’
- Greater transparency – better information through the Summary Box; estimated interest amount on statements etc
- Improved data sharing – more information for lenders to enhance responsible lending e.g. Behavioural Data Sharing

Industry Evidence Gathering

UK Cards Association instructed three external consultancies:

- Argus – industry data
    - 44 million credit card accounts carefully assessed
- Oxera – economic impact
- GfK NOP – consumer research

Research available to others to use and review

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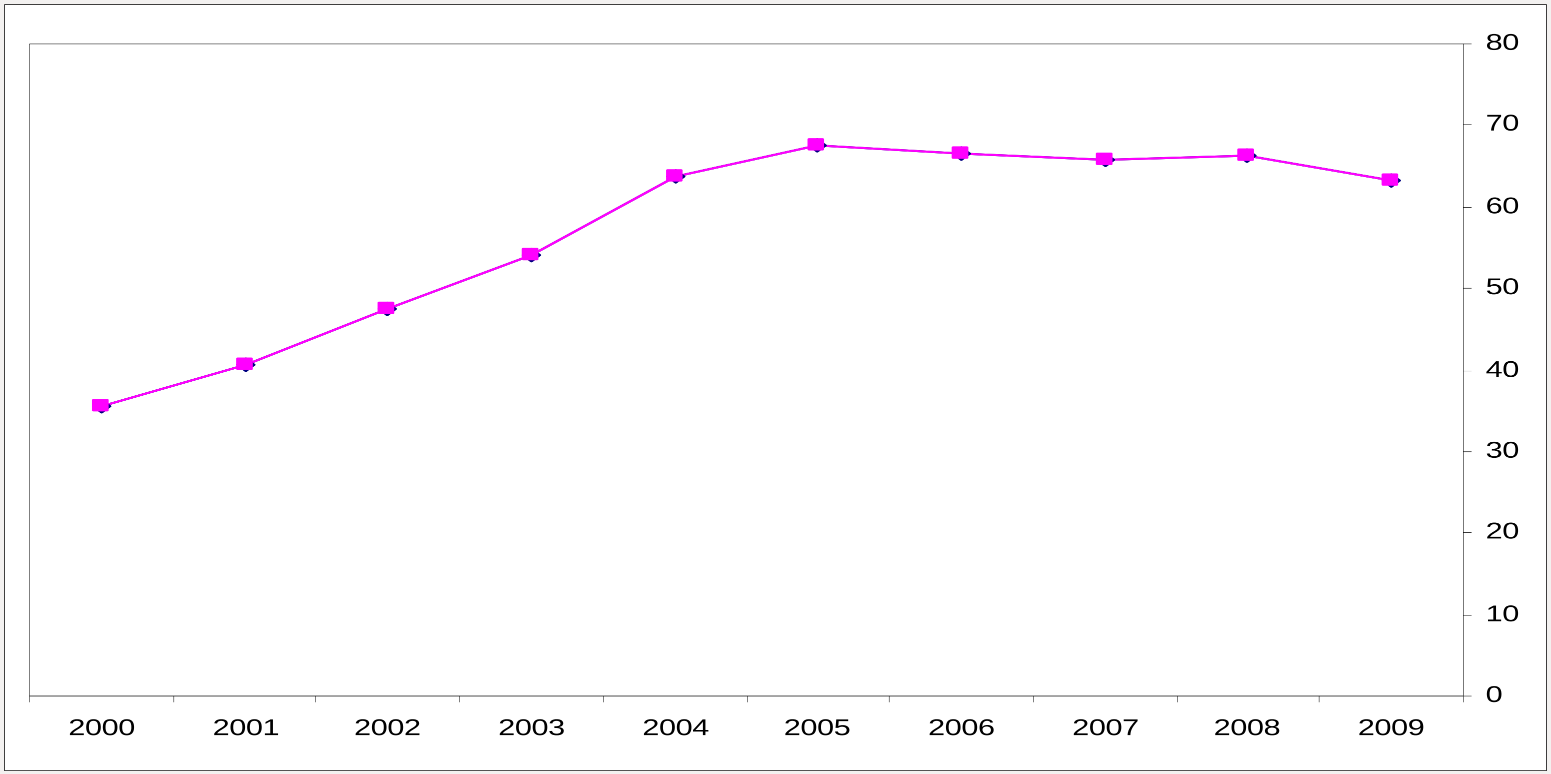
The Facts About the Industry Today

- The number of adults with credit cards is in decline
- More new applications for cards declined by lenders in 2009 (48%) than in 2008 (42%)
- 20 million adults use their cards regularly – 1.7 times a week
- Average number of cards per customer is 2.3
- 66% of customers have either 1 or 2 cards

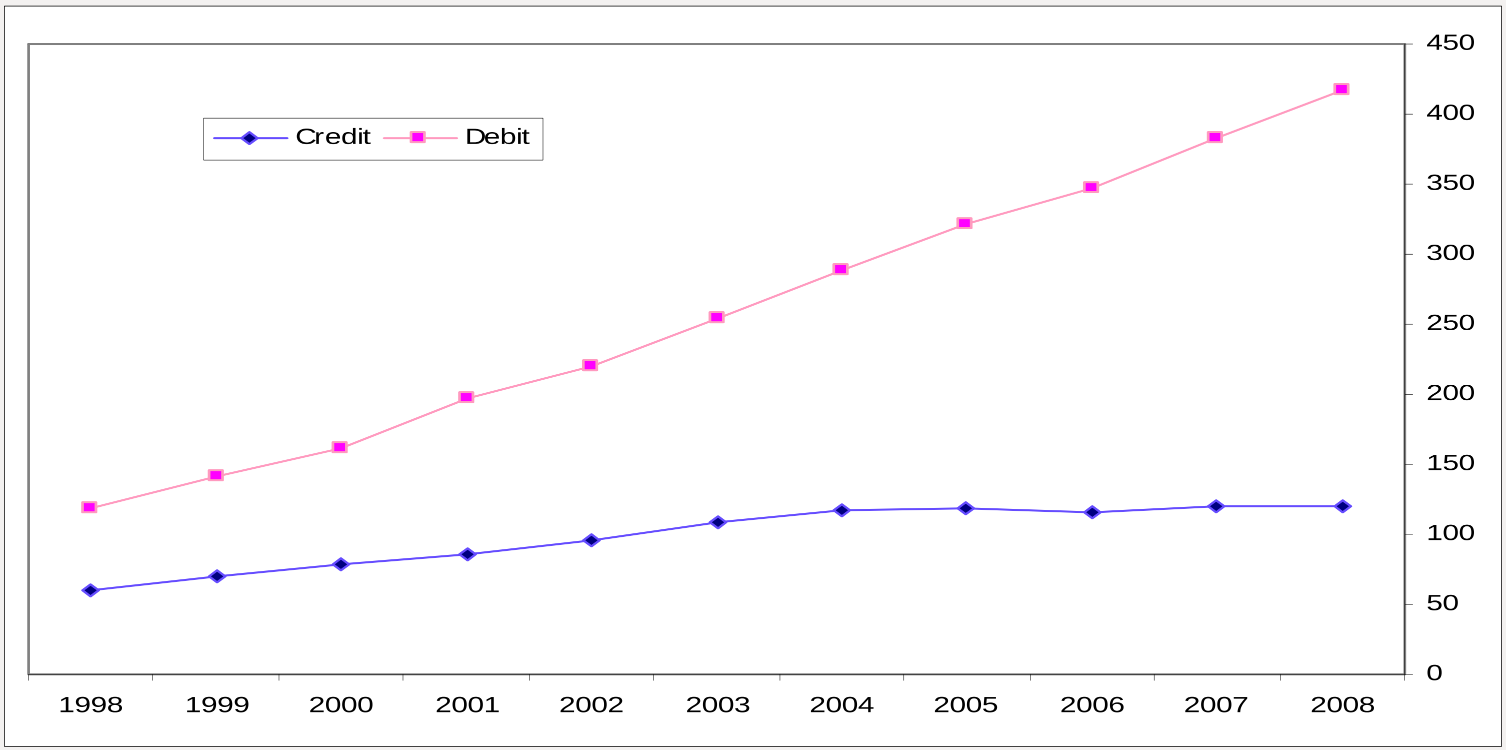
Borrowing Has Stabilised

(credit card outstandings 2000-2009 £ billion)



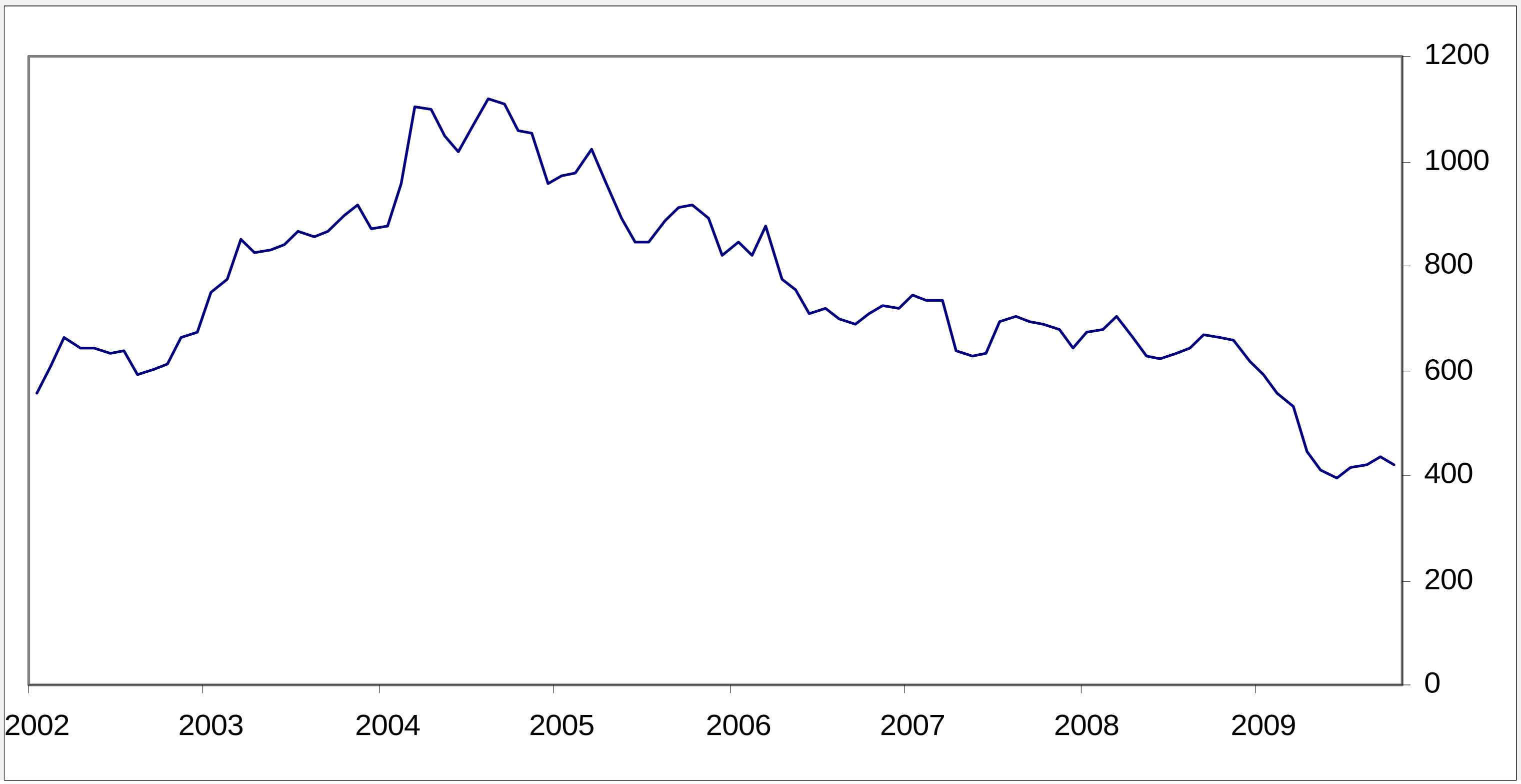
Credit & Debit Card Spending

(transaction values 1998-2008 £ billion)



Balance Transfers

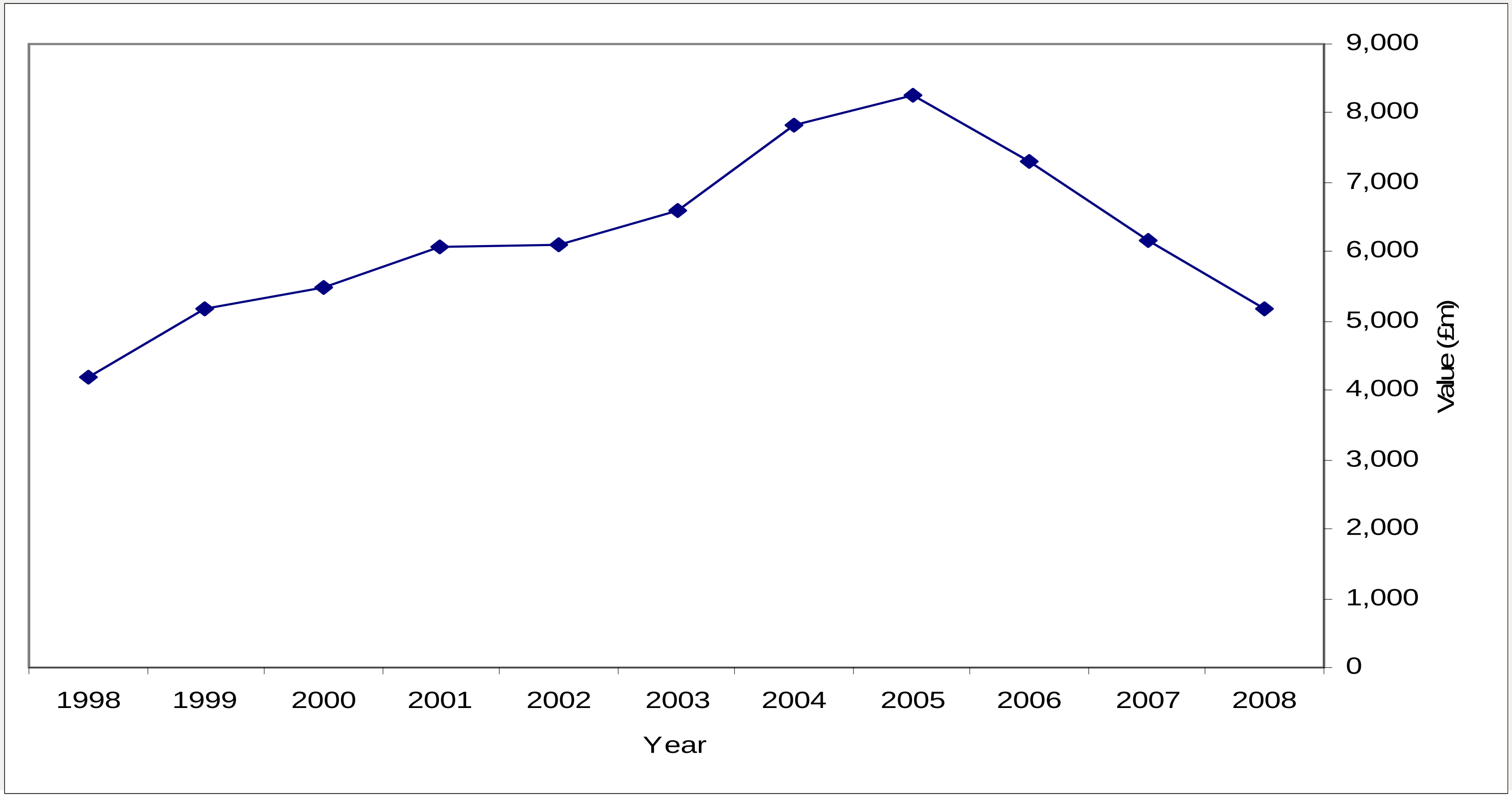
(monthly volumes in thousands 2002-2009)



Representing. Informing. Advancing.

Cash Advances

(1998-2008 £ million)



Our Customers' Views

Research shows that our customers:

- Are well satisfied with the services they get from lenders
- Accepting of 'the deal' – credit limits, minimum payments, changes to interest rates
- Are well served in economic terms by the competitiveness of the industry
- Make shrewd use of minimum payments, balance transfer offers, increases in credit limits
- Are prompted to take action by 're-pricing of debt'

What Use Do We Make Of Our Cards

92% of customers did not express any dissatisfaction with their cards (79% are satisfied or better)

- Does what it says on the tin
- Provides a widely accepted way of buying goods and services all around the world
- Online accessibility and security
- Section 75 protection
- Money there when you need it for more expensive items
- Financial safety net – for when crisis hits

The vast majority of customers use their cards responsibly and like the flexibility they give

Customer Attitudes

The relationship between customers and lenders is founded on what is ‘reasonable’

- 3 practices in the consultation largely meet this measure
- Allocation of payment is not seen to satisfy this test

Stronger Control for Customers

Allocation of payments

- Current regime offers good value to customers on balance transfers – widely exploited
- But does not satisfy consumer test of 'reasonableness'
- Moving to ensure greater control over which debt is paid off first
- Consequences for balance transfer offers and market competition

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Stronger Control for Customers

Unsolicited credit limit increases

- Current regime does not lead to increased debt
- Exclude habitual minimum payers from limit increases
- Customers requesting an increase are twice as likely to default compared to those offered an increase
- And ‘low and grow’ regime critical for responsible lending
- More clarity to ensure customers understand how to opt-out

Stronger Control for Customers

Minimum payments

- Very few ‘habitual’ minimum payers (3.1% for 12 consecutive months)
- A flexibility that customers understand and know how and when to use
- Higher minimum payments will lead to increased financial difficulty for customers
- But bespoke contact with ‘habitual’ minimum payers will ensure greater customer control

Stronger Control for Customers

Re-Pricing of Existing Debt

- Re-pricing is a key feature of responsible lending
- At heart of the industry's ability to offer flexible, open-ended tailored borrowing
- Debt re-priced for many reasons – from changes in lenders' costs to changes in customer risk profile
- Debt re-pricing leads to changed customer behaviour
- Customer control further enhanced through additional leaflet explaining further the right to opt-out

Stronger Control for Customers

Simplicity & Transparency

- Annual statement
- Vanilla credit card
- Standardised product labelling and benchmarking

Building on the achievements over the last 7 years

- Summary Box
- Minimum payment health warnings
- Changes to data sharing to ensure that wider picture of customer’s credit commitments is known
- Breathing space for those customers in financial difficulties
- New Lending Code which ensures that these commitments are independently enforced and monitored

Implementation

Package is a coherent whole, and needs to be implemented as a coherent whole

If BIS accepts this package we would normally expect to be able to complete implementation within 12 months

Conclusions

BIS want customers to be given more control: that is what this package delivers

Some of the BIS options could yield a very different world

- Higher levels of debt and default
- Credit card limits would be fixed higher at the outset
- Higher risk customers would not be offered credit cards
- Higher levels of customer default with higher minimum payments
- Reduction in competition based around special offers to customers on balance transfers
- Less responsible lending because risk-based re-pricing would not be available to influence riskier customer behaviour

Questions?