

The UK Payments Association

Sharing best practice

The annual review of policy initiatives
by the UK credit card industry

October 2006



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Introduction

The card industry has always understood that it has a clear duty to make responsible lending decisions, and to help our customers make informed product choices and borrow responsibly.

A key aspect of our work to strengthen and deepen this understanding of all the dimensions of responsibility and transparency has been the industry's continued engagement in recent years with a full range of external stakeholders. Our conversations have ranged from detailed policy discussions with government ministers and civil servants, as well as front and backbench MPs from all parties; sharing platforms and listening closely to their advice. We also had frequent conversations with regulators, policy specialists, consumer bodies and media commentators.

The industry believes that it is vitally important to play a continuing role in the work of the Government's Over-Indebtedness Taskforce and supports the strong progress made against the government's 7 key strategic objectives set out in 2004. In particular the significant commitment made by the government to increase capacity in the financial advice sector and key provisions in the Consumer Credit Act 2006 which improve the rights of individuals to fair credit deals and clearer information are all welcome. We are also engaging with Government on how our members can improve their lending decisions, and welcome the recently launched consultation into sharing of historic data.

The card industry also recognises that consumers use a range of financial products i.e. current accounts, credit and debits cards and loans and expect the highest standards of transparency and responsible lending. It has been important therefore for the range of bodies representing the key sectors within the financial services industry to work closely together for the benefit of the consumer. The trade associations have demonstrated the benefits of a joined up approach in their work to turn a strong Consumer Credit Bill into an even better Act. The BBA and APACS also collaborated to produce the booklet "Financial Inclusion - Access to Advice, Banking and Credit" in December 2005.

Working with partners has helped to shape the continuing pattern of change to industry practice for the benefit of consumers. This includes greater clarity on the way interest is charged, using increased data sharing to drive more responsible lending decisions and providing significantly clearer information to customers about credit card cheques. This work will continue through 2007 and beyond, as the industry works to improve its offer to its customers and maintain its journey towards more responsible lending practices.

Delivering transparency: action by the credit card industry

Paul Smee, chief executive of APACS, which represents the credit card industry, outlines how the focus on increased transparency and responsible lending is changing the credit card industry.

Plastic is our preferred way to pay. As a nation, we have 74.6 million credit and charge cards, and 67 million debit cards providing us with convenience and flexibility.

At the moment, a typical credit card account has no opening fee, no annual fee, is free to use at the point of payment and can cost you nothing to run if you pay the balance off in full at the end of each month. For the majority of cardholders who use their cards like this, it is a good deal. The UK card market is one of the most competitive in the world. But it does not stand still. APACS members are constantly innovating to meet consumer needs.

Over the last year, changes in consumer behaviour have become apparent: in 2005 we spent roughly the same on credit cards as in 2004, but we repaid 95.3 per cent of spending – the highest proportion since 1998. Similarly, the number of people who paid their credit card in full at the end of each month rose from 56 to 59 per cent. In fact, in August 2006, the Bank of England reported that net credit card lending to individuals had fallen for the first time since May 1994. Nervousness about economic growth could well have contributed to this change in behaviour, alongside media questioning about whether consumers are borrowing responsibly.

We expect to see further changes in 2007 – for example we may see higher interest rates or more credit cards with an annual fee. In 2005 some card issuers scaled back their reward schemes or introduced fees on balance transfers. There has been a tightening up on the availability of credit with some lenders increasing the proportion of applications that they reject. There are continuing improvements to data sharing and more information can be used to check the credit worthiness of new borrowers.

Consumers' needs are not the only pressure on the sector. APACS and its members – representing nearly all the UK credit card issuers – have been fully involved in debate with regulators, consumer groups and parliamentarians on subjects including fairer charging, the structure of credit card products, and transparency and responsible lending.

Where proposed changes have been for the benefit of consumers we have been strongly supportive. Where the industry has disagreed with proposed changes we have explained why. And we have put in place a range of changes – from the Summary Box and health warnings on credit card statements, through to improvements to data sharing and the Summary Box on credit card cheques.

Some things will stay the same. Consumers can rest assured that the credit card market in the UK is and will remain one of the most competitive in the world. There will continue to be good deals out there for consumers, whatever shape the credit card market takes in the future.

[Paul Smees, chief executive, APACS](#)

Credit card cheques and the Summary Box

The latest version of the Summary Box specifically for credit card cheques was launched in August 2006 as a way to improve transparency. It is designed to help customers understand and compare the cost of credit card cheques and is part of the industry's ongoing commitment to achieve the highest level of transparency.

Card issuers recognise the importance of providing customers with clear information about credit card cheques, and the Summary Box highlights the key product features such as the Annual Percentage Rate (APR), interest rates, the length of the interest-free period and any charges that might be incurred.

This latest introduction extends the Summary Box concept which was first introduced two years ago on credit card marketing materials and on cardholders' monthly credit card statements, allowing consumers to compare and contrast terms and conditions. This proved to be a key step in the right direction for credit cards. However, since then there have been further moves – both from the industry and regulators – to make cards easier to understand and offer increased protection for consumers.

The new credit card cheque Summary Box will accompany all credit card cheques sent out in the UK by the end of 2006. As with all industry improvements the next step will be to propose the new credit card cheque Summary Box for inclusion in the next edition of the Banking Code when the content of the Code is reviewed in 2007.

Best Practice Guidelines

Last year, the credit card industry set about bringing together – in one report – all the various industry initiatives that have been developed to improve responsible lending decisions and transparency for the benefit of credit card customers. This year, that work has come to fruition in the form of the industry Best Practice Guidelines.

The 2006 Best Practice Guidelines bring together a consolidated collection of initiatives that enhance transparency across the industry.

It includes both the detail on existing guidelines referred to in The Banking Code and those more recent ones that will be put forward for adoption during the next review of the Code in 2007.

Since 1992, the Banking Code has provided rules and best practice for the industry that go beyond the already tight regulation of the financial services sector.

The Code is independently monitored and enforced by the Banking Code Standards Board, ensuring that the Code is followed as it should be.

Regular reviews of the Banking Code ensure new best practice initiatives by the banking industry can be enshrined in the Code and for key stakeholders to put forward new proposals for inclusion, to reflect the current priorities of consumer groups and parliamentarians.

The Best Practice Guidelines show an industry that is innovative and committed to improving transparency and encouraging consistency.

Improved data sharing

Towards the end of 2005 a number of banks committed to once again increase the amount of data shared about cardholders' behaviour in respect of credit card accounts. Following this, APACS has led the detailed work to progress this initiative at an industry level, and a wider number of credit card issuers are now involved.

Extending the range of data to be shared is a significant step forward for the card industry in preventing over-indebtedness. Work has focused on:

- defining the new data to be shared;
- identifying the technical developments required;
- defining the rules by which this new data will be shared;
- identifying how the data might be used to flag up accounts that may show clearly signs of over commitment; and
- determining how the changes will be explained to cardholders.

The new data to be shared will include information such as:

- whether a cardholder is only making the minimum repayment on their cards;
- the extent to which a cardholder is taking cash advances; and
- the amount of the last payment made.

This new data includes behavioural information that can be indicators that a customer is struggling financially or heading into difficulty and it is therefore not in their best interests to take on more credit.

It is planned that most participating credit card companies will start to share this data during the course of 2007, giving lenders a greater pool of information on which to base their lending decisions.

Historic data

We are pleased that the Government has recently published its consultation on allowing lenders to share so-called historic or 'non-consensual' data - data that currently cannot be shared due to Data Protection Act constraints. This constraint currently prevents the sharing of data on an estimated 40 million credit agreements across the industry, including around 9 million credit card accounts. Lenders believe that removal of this constraint is one of the most significant actions that could be taken to improve lending decisions.

Government held data

The card industry is keen to see government consultation on the provision of debt data held by the government, such as on student loans, to the private sector. To put this in perspective, Bank of England figures show that outstanding debt on student loans amounts to around £20 billion (as at April 2006) compared to around £58 billion on credit cards.

APACS advice series

Earlier this year we re-launched www.choosingandusing.com - designed to help consumers make sensible decisions when choosing and using a credit card.

Choosingandusing.com offers unbiased information to help people decide which credit card best suits their needs and, if they want to use it as a borrowing tool, whether or not it is the most appropriate choice. The site also provides advice on managing money and reminds anyone who gets themselves into financial difficulties, or is struggling with repayments, of the help and support that is available.

As well as new downloadable guides on choosing and using credit cards, the site has been updated to provide the latest information on a number of key credit card features.

With approximately 4,000 visitors a month since its launch and more than 400 links from other websites including the FSA and BBC, www.choosingandusing.com helps people get to grips with the choices, benefits, potential risks and terminology around choosing and using credit cards both as a flexible payment tool but also to borrow money.

The new advice on the site and additional information for consumers includes:

- how interest is calculated,
- a credit card comparison tool,
- understanding the Summary Box,
- understanding your statement,
- useful links & other resources,
- advice on regular, or recurring, transactions,
- information on card protection agencies,
- a glossary of credit card terms,
- advice on how to avoid identity fraud; and
- an overview of chip and PIN.

New downloadable guides include:

- Choosing a credit card
- Using a credit card
- Using your card abroad
- Students and cards
- The card transaction process; and
- Your credit record.

Over the past year www.choosingandusing.com has not only made valuable impartial advice available to many thousands of consumers, but also to third parties offering consumers advice. In fact, visitor feedback has really helped us with much of the advice posted on the website, and we hope this additional and updated information will ensure it is useful to many more people.

Standard interest rate terminology

As a way of improving transparency around how interest is calculated, the industry has agreed to the standardisation of wording and terminology in order to facilitate a better understanding among consumers.

Work has been done to find the best way of expressing specific terms and concepts to be used in the Summary Box by all issuers. The Summary Box information is supplemented by further information on how interest is calculated, available at choosingandusing.com. The change is a further demonstration of the industry's ongoing commitment to improving consumers' understanding of credit cards.

Set out below is the Glossary of Terms and definitions agreed by the industry which will assist consumers to understand the terminology used in relation to their cards.

INTEREST RATES - GLOSSARY OF TERMS	
Interest	Money charged for money borrowed
Interest Rate	Money charged for money borrowed, expressed as a percentage of the amount borrowed, usually over one year but could be over one month
DEFINITIONS RELATED TO YOUR CREDIT CARD	
Annual Percentage expressed Rate (APR)	The interest rate you would pay for purchases, as a percentage of the amount borrowed over one year, including the effect of debiting interest at monthly intervals and other compulsory non-interest costs (for example annual fees). This is a useful way of comparing different types of credit card borrowing. It does not include any ancillary charges such as late payment fees.
Simple Interest Rate	The interest rate you will pay, expressed as a percentage of the amount borrowed over a set period usually one year, but could be one month. An annual Simple Rate does not include the effect of debiting interest at monthly intervals
Effective Interest Rate (Compound Interest Rate)	The interest rate you will pay, expressed as a percentage of the amount borrowed over a set period usually one year, including the effect of debiting interest at monthly intervals (sometimes known as compound interest). An Effective Rate does not include any fees or non-interest costs.

Monthly Rate	The interest rate you will pay expressed as a percentage of the amount borrowed, over one month
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OTHER DEFINITIONS YOU MAY SEE ON YOUR SUMMARY BOX

Variable Rate	An interest rate which may change from time to time
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Transaction Date	The date you made your purchase, cash advance or balance transfer
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Posting Date	The date a purchase, cash advance or balance transfer is put on to your account
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Payment Due Date	The date, as shown on your statement, by which at least the minimum payment must be received and cleared. This will usually be 25 days (Bank Holidays excepted) from the statement date.
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Statement Date	The date your statement is produced (as opposed to the date you receive it)
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Introductory Rate	A special lower interest rate which we may offer for a specific period from the date your account is opened
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Outstanding Balance	The balance which remains on your account at any time unless you have paid in full
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Interest-Free Period	The period of time we may give you to pay the outstanding balance on your latest statement in full before we charge any interest
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Residual Interest	The interest you pay on the amount you borrowed until you pay off your balance in full. This includes any balances brought forward from the start of the previous month. This is similar in principle to the way interest is paid on savings accounts.
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The definitions used in the Summary Box may not be exactly the same as those that are used in your Terms & Conditions. Please refer to your Terms & Conditions for more detail on specific charging information.

Cash and cash machines

Cash machines have become an integral part of British society. The cash machine now plays an important role in providing banking services to the community and is more than just a place to access cash. People can now use cash machines for a range of facilities such as bill payments and mobile phone top-ups.

Our research, as part of The Way We Pay: UK Cash and Cash Machines, shows that the number of cash machines in the UK has more than doubled in the past six years (from 27,379 in 1999 to 58,286 in 2005). It also reveals that Britons make the largest number of cash machine withdrawals of any country in the EU, some 2.7 billion transactions in 2005, or more than 42 per person.

Our latest research confirms that consumers now know which machines charge and which machines don't – and that we vote with our feet. Of the 33.8 million adults who regularly use cash machines the vast majority of their withdrawals - 97 per cent by value and 95.5 per cent by volume - are through non-fee charging machines.

While charging remains a marginal component in the market overall, the key for us is to ensure people know when they are paying for the convenience of using a cash machine and thereby have a choice to either pay the fee or cancel the withdrawal.

Summary of transparency and data sharing initiatives

The following provides a brief summary of major developments in transparency and data sharing encompassing recent Banking Code developments and responses to the Treasury Select Committee.

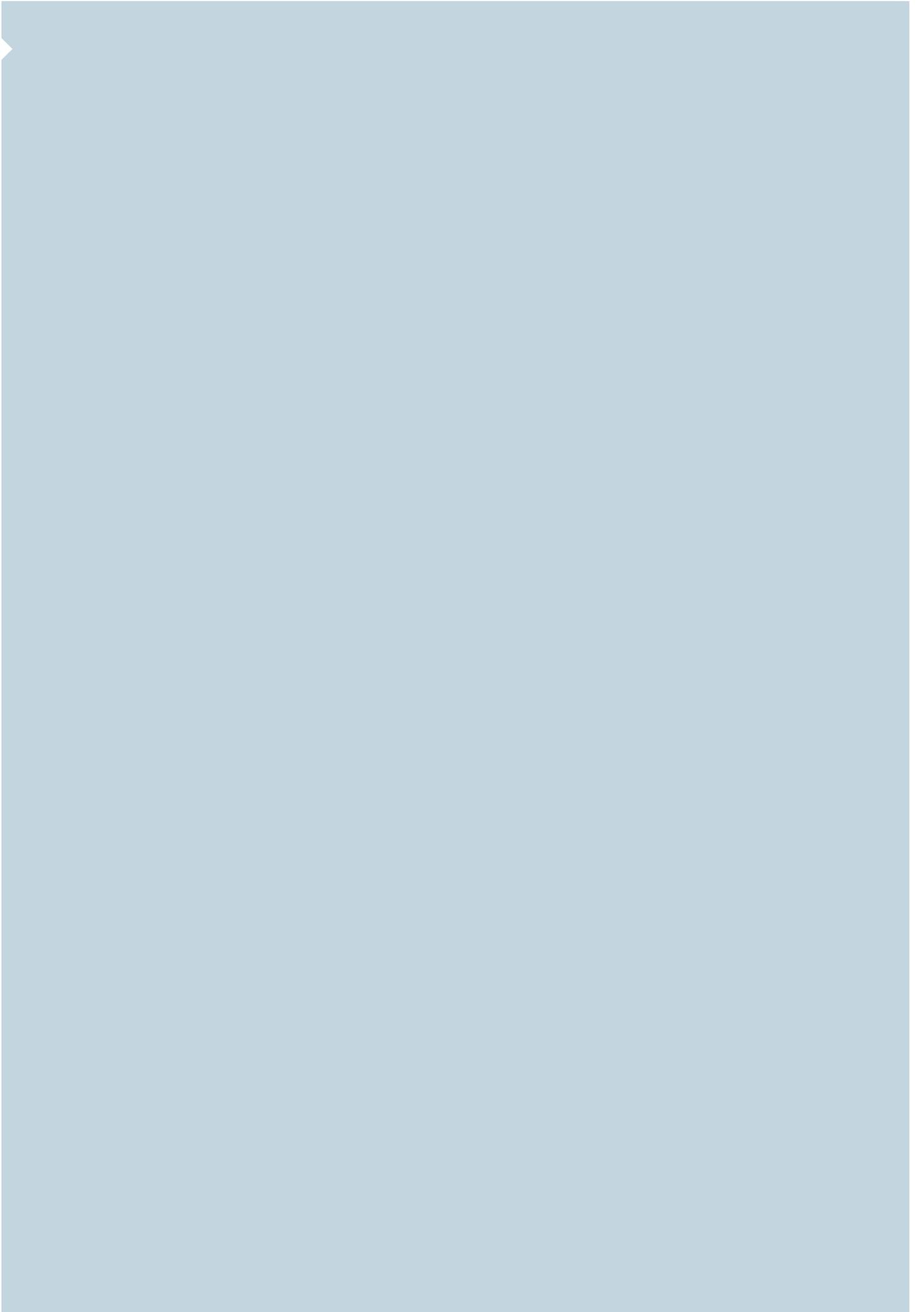
Development	Timing			
	pre - 2004	2004	2005	2006
Estimated interest amount shown on statements assuming only the minimum repayment is made by the due date.	Banking code requirement since January 2002			
Improved detail on foreign exchange transactions	Banking code requirement since September 2003			
Information on the impending expiry of any promotional interest rates		Banking Code requirement since January 2004		
Summary Box on all marketing materials		On all card issuers' material by March 2004	Banking Code requirement since March 2005	
Guidelines on the marketing of credit card cheques and the information that should be provided with them		Compliance of all credit card cheque issuers by March '04	Banking Code requirement since March 2005	
Guidelines on the application of increases to credit limits		Compliance of all credit card issuers by April 2004	Banking Code requirement since March 2005	
Health warning on all credit card statements advising against the making of minimum repayments on a regular basis		On all credit card statements by October 2004	Banking Code requirement since March 2005	
Re-convergence of all credit card issuers on a single way of calculating APRs		New Consumer Credit Act advertising regulations implemented Oct '04		
Improved version of the Summary Box following research with consumers		On all card issuers' material by December 2004		
Commitment to the sharing of full data on all credit card accounts to the extent allowed by law		Agreed September 2004	Compliance required from July 2005	
Improved LINK requirements on the transparency of charges at ATMs			Compliance required from July 2005	
Choosingandusing.com website giving impartial advice on credit cards			Launched July 2005	
Version of the Summary Box on all credit card statements			Implemented by end 2005	
Guidelines on direct sales of credit cards in shopping malls, airports, football grounds etc			Implemented by end 2005	
Version of Summary Box for credit card cheques				Implemented by end 2005
Relaunch of choosingandusing.com with more content, including low interest is calculated				Relaunched May 2006
Standardisations of interest rate terminology				For implementation by end of 2006
Sharing of greater detail of credit card accounts				Specifications finalised Oct 2006
Lobbying for the sharing of 'historic data' and Government held data, such as student loans	Lobbying continues			

Conclusion

2007 will be an important year for the industry and consumers. The industry is committed to continuing its work to increase transparency and responsibility in its lending activity throughout the year.

The Banking Code review is due to commence in January 2007, and the industry will be working to ensure that its contribution to the new review makes clear the increased transparency of plastic card products and the additional help lenders are providing to consumers. Consumers are already benefiting from the range of changes set out in previous chapters. From increased clarity on products (such as credit card cheques and in the clear terminology for explaining the way interest is charged), to more responsible lending practices (including increased data sharing between banks), all this will feature in the evidence to be submitted by card issuers. We look forward to a new Banking Code being ready for implementation during 2008.

We will also continue to work closely with government on the secondary legislation relating to the Consumer Credit Act 2006. Although implementation time scales are extremely challenging, the industry wishes to see the new legal framework implemented as soon as is practical, in order to offer increased choice and protection for consumers in a competitive market.



Appendix: useful contacts

APACS is the trade association representing the credit card industry; there are a number of other organisations with an interest in transparency, personal debt and responsible lending issues, who regularly engage with the industry. A non-exhaustive list may be found below:

Industry

APACS
Mercury House
Triton Court
14 Finsbury Square
London EC2A 1LQ
T: 020 7711 6259
www.apacs.org.uk
cardwatch.org.uk
choosingandusing.com
banksafeonline.org.uk

British Bankers' Association (BBA)
Pinner's Hall
105-108 Old Broad Street
London EC2N 1EX
T: 020 7216 8800
www.bba.org.uk

Council of Mortgage Lenders (CML)
3 Savile Row
London W1S 3PB
T: 020 7437 0075
www.cml.org.uk

Finance & Leasing Association (FLA)
2nd Floor, Imperial House
15-19 Kingsway
London WC2B 6UN
T: 020 7836 6511
Email: info@fla.org.uk
www.fla.org.uk

Consumer Credit Association
Queens House, Queens Road
Chester CH1 3BQ
T: 01244 312044
www.ccauk.org

Experian Ltd
Consumer Help Service
P.O. Box 8000
Nottingham NG1 5GX
T: 0870 241 6212
www.experian.co.uk

Equifax plc
Consumer Affairs Department
Spectrum House
1A North Avenue
Clydebank
Glasgow G81 2DR
T: 0870 514 3700
www.equifax.co.uk

Callcredit plc
Consumer Services Team
PO Box 491
Leeds LS3 1WZ
Helpline: 0870 060 1414
www.callcredit.plc.uk

Consumer Groups

Banking Code Standards Board
6 Frederick's Place
London EC2R 8BT

Which?
2 Marylebone Road
London NW1 4DF
T: 020 7770 7000
www.which.net

Citizens Advice
Myddleton House
115-123 Pentonville Road
London N1 9LZ
T: 020 7833 2181
www.citizensadvice.org.uk

Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR
T: 0845 080 1800
www.financial-ombudsman.org.uk

General Consumer Council for Northern Ireland
Elizabeth House
116 Hollywood Road
Belfast BT4 1NY
T: 028 9067 2488
www.gccni.org.uk

Money Advice Scotland
Suite 306, Pentagon Centre
36 Washington Street
Glasgow G3 8AZ
T: 0141 572 0237
www.moneyadvicescotland.org.uk

Money Advice Trust
Bridge House
181 Queen Victoria Street
London EC4V 4DZ
T: 020 7489 7796
www.moneyadvicetrust.org

National Consumer Council
20 Grosvenor Gardens
London SW1W 0DH
T: 020 7730 3469
www.ncc.org.uk

Personal Finance Research Centre
(Professor Elaine Kempson)
School of Geographical Sciences
University of Bristol
Bristol BS8 1SS
T: 0117 928 9954
www.ggy.bris.ac.uk

Welsh Consumer Council
5th Floor
Longcross Court
Newport Road
Cardiff CF24 0WL
T: 029 2025 5454
F: 029 2025 5464
e: info@wales-consumer.org.uk
www.walesconsumer.org.uk

Consumer Credit Counselling Service
Wade House
Merrion Centre
Leeds
LS2 8NG
T: 0800 138 1111
www.cccs.co.uk

National Debtline
The Arch
48-52 Floodgate Street
Birmingham
B5 5SL
T: 0800 808 4000
www.nationaldebtline.co.uk

Community Legal Service Direct
85 Grays Inn Road
London
WC1 X8T
T: 0845 345 4345
www.clsdirect.org.uk

Government Departments

Six government departments take a cross cutting interest in over-indebtedness issues, at ministerial and officer level through the work of the Ministerial Over-indebtedness Group. The work of the Ministerial Group is supported and implemented across government by the Officials Over-indebtedness Group and by the Advisory Group on Over-indebtedness.

Ed Balls MP
Economic Secretary
HM Treasury
1 HorseGuards Road
London SW1A 2HQ

Baroness Andrews
Parliamentary Under
Secretary of State
DCLG
Eland House
Bressenden Place
London SW1E 5DU

James Plaskitt MP
Parliamentary Under Secretary
of State - Commons (Joint Chair)
DWP
Richmond House, 79 Whitehall
London SW1A 2NS

Baroness Ashton of Upholland
Parliamentary Under
Secretary of State (Joint Chair)
DCA
Selbourne House
54/60 Victoria Street
London SW1E 6QW

Phil Hope MP
Parliamentary
Under Secretary of State
for Skills
DfES
Great Smith Street
London SW1P 3BT

Ian McCartney MP
Parliamentary Under Secretary of
State, Minister for Trade
(Joint Chair)
DTI
1 Victoria Street
London SW1H 0ET

Government Agencies

Office of Fair Trading
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX
T: 020 7211 8000

Social Exclusion Taskforce
4th floor, South Side
Admiralty Arch
The Mall
London SW1A 2WH
T: 020 7276 1234

Get in touch

If you would like further information on these or on any other issues relating to the credit card industry, please get in touch with us:

Corporate Communications
Mercury House
Triton Court
14 Finsbury Square
London
EC2A 1LQ
Tel: 020 7711 6259
Fax: 020 7256 5527
Email: press@apacs.co.uk
www.apacs.org.uk

APACS is the trade association for payments and for those institutions that deliver payment services to customers. Our members work together on non-competitive issues to develop policies and processes to manage most effectively all types of payment mechanisms.