

## **Store cards market inquiry**

### **Statement of provisional decisions on remedies**

#### **Introduction and overview**

1. On 14 September 2005, the Competition Commission (CC) issued a remedies notice which invited comments on the actions that might be taken by the CC, or recommended for implementation by others, to remedy, mitigate or prevent the adverse effect on competition (AEC), or resulting detrimental effects on customers, as identified in its provisional findings of the same date. This paper sets out the provisional decisions of the CC's inquiry group (the Group) on remedies in the light of responses to the remedies notice, further submissions from parties and further CC analysis. The paper considers the framework for decisions on remedies, the AEC to be addressed, and certain general issues before considering in detail each remedy option outlined in the remedies notice. Provisional decisions on remedies are then summarised at the end of the paper. The Group requests that the parties to this inquiry, and any other interested persons, should provide any views in writing on the following analysis and provisional decisions by 5pm on Monday, 9 January 2006.

#### **Framework for decisions on remedies**

2. Under section 134 (4) of the Enterprise Act (the Act), if the Group has decided that there is an adverse effect on competition it should decide the following additional questions:
  - (a) whether action should be taken by it for the purpose of remedying, mitigating or preventing the adverse effect on competition concerned or any detrimental effect on customers so far as it has resulted from, or may be expected to result from the adverse effect on competition;

- (b) whether it should recommend the taking of action by others for the purpose outlined in (a) above; and
- (c) in either case, if action should be taken, what action should be taken and what is to be remedied, mitigated or prevented.
3. In choosing appropriate remedial action, the Group has a statutory obligation to 'achieve as comprehensive a solution as is reasonable and practicable to the adverse effect on competition and any detrimental effect on customers so far as resulting from the adverse effect on competition'.<sup>1</sup>
  4. It follows from the above that appropriate remedies should be effective in addressing, within a reasonable timescale, the feature or features giving rise to the AEC and/or the detrimental effects. Consideration of effectiveness includes considering the feasibility of implementation and the practicality of monitoring and enforcing compliance.
  5. In seeking to achieve a solution that is reasonable, the Group 'will aim to ensure that no remedy is disproportionate in relation to the adverse effect on competition and any adverse effects on customers' and in 'choosing between two remedies which it considers would be equally effective, it will choose the remedy that imposes the least cost or that is least restrictive'.<sup>2</sup> However, this does not imply that the Group is required to undertake a detailed cost/benefit analysis of the various remedy proposals.
  6. The Group will also have regard to the effects of any remedial action on any relevant customer benefits within the meaning of section 134 (8) of the Act arising from the

---

<sup>1</sup>Act 134 (6).

<sup>2</sup>CC3—Market Investigation References: Competition Commission Guidelines—paragraph 4.10.

adverse feature or features of the market concerned. Such benefits comprise lower prices, higher quality or greater choice of goods or services or greater innovation in relation to such goods and services. To qualify within the meaning of section 134(8), the Group should consider that the benefit would be unlikely to accrue without the relevant feature or features.

### **The AEC to be addressed**

7. In its provisional findings on this reference published on 14 September 2005, the Group concluded that there was an AEC within the meaning of section 134(2) of the Act. The Group concluded that the combination of features of the relevant markets identified in Section 9 of its provisional findings: (a) insulates consumer credit services provided through store cards from the competitive pressures that would otherwise be brought to bear on them from credit cards, including store-branded credit cards, which we regard as the closest potential substitutes for some store cards; and (b) insulates insurance purchased in association with the provision and use of store cards from the competitive pressures that would otherwise be brought to bear on it. That combination of features thus prevents, restricts or distorts competition in connection with the supply of (a) consumer credit through store cards in the UK; and (b) insurance purchased in association with the provision and use of store cards in the UK. Section 9 also identifies (in paragraph 9.6) detrimental effects on customers which have resulted from or may be expected to result from the AEC.
  
8. The Group has not, at this stage, made a final decision regarding the existence and form of an AEC. For the purposes of this document, the Group has maintained the working assumption that the AEC is unchanged from that outlined in the provisional findings. The Group's final decisions on any AEC, and appropriate remedies, will take into account responses to its Provisional Findings and to this Statement of Provisional Decisions on Remedies.

9. The Group acknowledges that trials or introductions of lower annual percentage rates (APR) have been launched for several significant store card programmes, for example Debenhams, Asda and Mothercare, in recent months. These programmes normally provide store cards and store-branded credit cards (SBCC). Although the typical APR anticipated for new customers in such cases is generally less than 20 per cent over the combined SBCC and store card programmes, they provide several interest rate tiers, the usage of which depends on customer risk assessment and whether an SBCC or store card is provided. The latter are generally provided at the programmes' higher APR tiers. The Group also notes that some providers have not made changes to APRs, and have not indicated an intention to do so in the near future.
  
10. The Group has carefully considered these developments and discussed them with the relevant parties. The Group welcomes movement to lower APRs but also believes that caution is appropriate in interpreting the significance of these recent developments. From the views of retailers and providers, it appears that adverse publicity regarding store card APRs, partly as a result of this inquiry, is likely to have been a significant factor in stimulating change. Following the conclusion of this inquiry, this stimulus may be far less prominent and the impetus to further change subdued in the absence of remedies. From current plans it also appears that the extent and timing of migration of existing store card customers to lower APRs in programmes subject to change is uncertain. We therefore currently believe that it is too early to reach a reliable assessment of the impact of these changes on the store cards market as a whole.

### **General issues**

11. Several parties have commented that the Group should not consider the impact of its proposed remedies in isolation from changes in the broader regulatory framework

applying to this sector such as the impact of the The Association for Payment Clearing Services' (APACS) Best Practice Guidelines, the Consumer Credit Bill and the Insurance Conduct of Business Rules. The Group is aware of the nature of these changes and has taken these into account in considering proposed remedies.

12. Certain parties have expressed the view that remedial action, such as disclosure requirements or constraints on sale of insurance, should not be implemented beyond that which is current practice in comparable sectors, such as credit cards, otherwise there is a risk of creating market distortions. The Group notes that it is under an obligation to remedy the AEC arising in the market that has been referred to it and therefore should not be constrained to conform to practices in other markets. However, the Group will seek to minimise potential distortions and will take account of any resulting costs that are likely to arise, as it will any other relevant costs, in considering remedial action.
  
13. The view has been expressed to the Group that the remedies currently proposed might result in less profitable store card providers exiting the market with the result that competitive constraints on store card provision might reduce. The Group recognises that where remedies are implemented, such as those contemplated in this case, which seek to enhance transparency and competitive forces, then there is a possibility that marginally profitable providers might choose to exit if they are unable to adapt to more competitive market conditions and lower prices. However, it does not follow that this will reduce competitive constraints in store card provision. The store card programmes of exiting providers may be taken over by newer entrants with more competitive business models and the competitive constraints provided from outside the store card market (by, for example, the credit card market) are likely to increase given greater transparency and information as a result of the remedial measures.

14. The Group does not have evidence to lead it to believe that there are significant, relevant customer benefits arising within the meaning of section 134(8) of the Act. This will therefore not be considered further in this paper as a factor in determining choice and design of remedies.
15. At present, the Group does not consider that it will be necessary to recommend the taking of action by others to address the AEC.

### **Consideration of specific proposed remedies**

16. We now turn to considering each remedies proposal in the following order:
  - (a) full information on statements;
  - (b) APR warning on statements;
  - (c) provide and prominently display facility to pay outstanding balances by direct debit; and
  - (d) separate offer of payment, purchase and price protection.

In the following sections we review, for each remedy, the responses to our proposals followed by the Group's reasoning which has led to its provisional decision on each respective remedy.

### **Proposed remedies—full information on statements**

17. In the remedies notice, the Group proposed a requirement that every store card statement should provide full information to enable store card customers to make informed decisions regarding use of store card credit and the extent of their card-related insurance cover. It was proposed that each statement should prominently display:
  - (a) the annual percentage rate (APR) applicable to outstanding balances;
  - (b) an estimate of interest payable in the event that the card holder only makes a minimum payment;

- (c) the level of late payment fees;
- (d) a 'wealth warning' outlining the consequences of only making minimum payments; and
- (e) the level of insurance charges and type of insurance cover purchased, if applicable, and contact details for amending or cancelling cover.

The remedy would also require disclosure on the statement of:

- (a) the assumptions used in calculating the interest estimate;
- (b) the policy for charging late payment fees; and
- (c) the basis of insurance charges and cancellation rights in relation to insurance cover.

18. The proposed remedy seeks to address the following features contributing to the AEC, as identified in the provisional findings, and the detrimental effects expected to result from the AEC:

- (a) Most store card providers do not provide adequate information on customers' monthly statements about APRs, late payment fees or insurance charges, or how these contribute to the current and ongoing costs of revolving credit on their store cards.
- (b) Most retailers' customers do not exert competitive pressure on APRs (either at the take-up stage or when they take credit) because their sensitivity to them is low.
- (c) Most retailers offering store cards do not exert competitive pressure on the level of, or the provider's policy in relation to, the levying of late payment fees.
- (d) Most retailers' customers do not exert competitive pressure on the level of late payment fees levied on store cards.
- (e) Most retailers' customers do not exert competitive pressure on premiums for insurance purchased in association with the provision and use of store cards

because their sensitivity to the price of such insurance cover is low and they have a poor understanding of the terms of the cover they are purchasing.

19. In general, store card providers and retailers responding to the remedies notice supported the provision of most of the additional information on store card statements proposed in the remedies notice. However, there were some concerns that the statements should not become overloaded with information. The Group agrees that information should be appropriately focused and displayed to ensure that key messages are shown clearly and are not obscured by detailed disclosures.
20. A repeated theme of respondents was that disclosure requirements should not be more onerous than for credit cards and should reflect credit card standards. APACS has developed a set of best practice guidelines for the credit card industry, now incorporated in the Banking Code, which requires disclosure of details in a standard summary box format as follows:

APR	
Other interest rates	
Interest free period	
Interest charging information	
Allocation of payments	
Minimum repayment	
Amount of credit	
Fees	
Charges	
Default charges	

The guidelines aim to comply with the Consumer Credit Act. The Finance and Leasing Association (FLA), which includes store card providers amongst its membership, has also introduced a summary box for its members that is consistent with the above. Given the amount of detailed information required to be disclosed in the summary box, most providers show the box on the reverse side of the statement.

21. The Group supports the use of a consistent format summary box across store cards, SBCCs and credit cards to aid comparison by customers and minimize cost for providers. However, given that the summary box is generally sited on the reverse side of statements and contains much detailed information, the Group considers that it is essential for the remedy to be effective for certain key items of information to be prominently displayed on the front page of store card statements and not be obscured in the detail on the reverse side. These items are as follows:

- (a) the annual percentage rate (APR) applicable to outstanding balances (shown in bold);
- (b) an estimate of interest payable next month in the event that the card holder only makes the minimum payment;
- (c) a 'wealth warning' outlining the consequences of only making minimum payments;
- (d) the basis of insurance charges, for example £ or pence per £100 alongside each insurance charge appearing in the transaction box; and
- (e) a reference to the reverse side of the statement for contact details to amend or cancel insurance cover and details of how to pay.

The font size of the above details should not be less than the largest font size used for transaction and balance details. The above details are largely consistent with the items noted for prominent disclosure in the remedies notice (paragraph 16 above). One provider [X] felt that disclosure of a monthly interest rate was more appropriate than an APR. The Group considers that disclosure of an APR is more appropriate than a monthly interest rate as it provides a better basis for comparison with rates charged on other credit such as mortgages and unsecured loans.

22. The Group considers that other details that should be shown on the statement (but can be displayed on the reverse side either in a summary box format or elsewhere) are as follows:

- (a) late payment or default charges and the policy for levying these charges (as illustrated on the attached appendix);
- (b) the basic assumptions used in calculating the interest estimate;
- (c) contact details for setting up or amending a direct debit, prominently displayed within a 'how to pay' section; and
- (d) contact details for amending or cancelling insurance cover sold with the store card and a brief summary of insurance cover.

23. An example of a statement format that complies with the above requirements is shown in the attached appendix. This is similar in most respects to an example statement helpfully developed by one store card provider [X] in response to our remedies statement. We understand from our discussions with store card providers that amending the format of store card statements is not complex. We have received estimates of costs from providers that show that the costs of amending store card statements are not a major item compared to the overall costs of card administration. Monitoring compliance with the proposals also appears to be relatively straightforward.
24. The Group considers that providing information on store card statements in the manner described above will enable customers to make more informed decisions regarding store card credit and card related insurance. However, the Group does not consider that this remedy is sufficient on its own to address the AEC comprehensively in respect of APRs. In particular, it does not directly address the feature that 'most retailers offering store cards do not exert competitive pressure on APRs'.

## **Proposed remedies—APR warning on statements**

25. The remedies notice proposed a requirement that, where a store card APR exceeded a specified threshold level, the store card provider would be required to display a prominent warning notice on each regular statement informing cardholders that the APR on the store card might be high compared to alternative sources of credit available to them. For illustration the wording was proposed as:

‘The rate of interest charged on your xxxxx store card of xx per cent APR may be higher than other sources of credit available to you. It may be costly for you to leave balances owing on your store card after the end of the interest free period.’

26. It was envisaged that the threshold level could be linked to base rate and the remedy would remain in force for a limited period. The Office of Fair Trading (OFT) would then review whether the threshold should remain in force after a period of around three years. Views were particularly sought on the appropriate level of the threshold and the period for which it should apply.

27. As in the ‘full information on statements’ remedy above, this proposal seeks to address some of the features listed in paragraph 18 (and the resulting detrimental effects) by ensuring that all store card customers are consistently well placed to take informed decisions regarding use of store card credit. In addition, it also addresses the feature that most retailers offering store cards do not exert competitive pressure on APRs, by creating an incentive for retailers to negotiate lower APRs with providers in order to avoid any adverse reputational effects of the warning notice. The warning thus seeks to overcome the insulation of store cards from the competitive pressures of credit cards (as outlined in paragraph 7 above) by inviting customers and influencing retailers to compare store cards with other credit alternatives.

28. Most responses to the remedies notice from retailers and providers either claimed that a warning notice was not necessary on the basis that transparency measures were sufficient, or that a warning notice was disproportionate as it would act as a price cap and create significant resultant harm. As already outlined in paragraph 24 above, the Group does not believe that transparency measures alone would be sufficient to address the AEC effectively in respect of APRs. The parties' argument that the warning notice would act as a price cap and create consequential harm has three main elements, each of which we will examine in turn:
- (a) most providers and retailers will respond to avoid the warning notice and reduce APRs below the threshold level;
  - (b) providers will be forced to respond to the reduction in APRs by reducing the customer acceptance rates of their store card programmes; and
  - (c) customers excluded from store card programmes will suffer loss due to paying higher APRs on alternative forms of borrowing or being excluded from store card benefits.
29. The warning notice is intended to fulfil a quite different purpose from that of a rate cap and will operate in a very different manner from such a cap. The Group continues to believe that a rate cap is not appropriate. The warning notice will provide focused information to customers and retailers in specific circumstances and thus depends on their competitive responses rather than on the specific prohibition imposed by a rate cap. The wording now proposed for the warning, as illustrated on the example statement in the attached appendix and in paragraph 52 below, is moderate and encourages cardholders to consider alternatives rather than providing definitive advice.
30. The response of retailers to the APR warning will depend on their sensitivity to being associated with a product that may have uncompetitive pricing. Some providers [✂]

have argued that retailers will create such major pressure to reduce APRs below the warning level that the warning will effectively operate as a rate cap. One provider [X] told us that it was unlikely to reduce APRs in response to the APR warning. Although retailers have generally agreed that they would be concerned about the reputational effects of the APR warning notice and would wish to avoid a warning notice appearing on their statements, some [X] have argued that in their circumstances they have little influence over APRs unless the contract with the store card provider is in or approaching renegotiation. Overall on the evidence we have received, the Group considers that the warning notice would be effective in creating pressure to address the adverse feature that 'most retailers offering store cards do not exert competitive pressure on APRs' and some programmes would respond to this stimulus. However, we believe that some rates will remain above the threshold level.

31. Another point that has been made to us is that providers and/or retailers with APRs below any threshold might increase them to just below the threshold (ie the threshold would act as an APR floor). It has been put to us that the threshold will be regarded as being 'officially sanctioned' and therefore it will be both acceptable and possible for providers to price up to that level. The Group does not consider this plausible given increasing visibility of APRs and ease of comparison with other credit products as a result of other proposed remedies. We note that those retailers with low store card APRs (eg John Lewis, M&S, Ikea) have decided to maintain or move to this low level despite the absence of significant market pressure to do so, and we see no reason why their motivation should change because an APR warning is now required at a much higher level of APR. In addition, the proposed wording of the warning notice does not mention the level of the threshold and it therefore would not have the appearance of an officially sanctioned rate to the public in general.

32. Providers have argued that if they have to reduce APRs below the warning threshold level, then they will have to reduce the acceptance rates of their store card programmes significantly. The Group does not consider that reductions in APRs will necessarily result in significant reductions in acceptance rates as:

(a) providers, in conjunction with retailers, are able to revise the business model of the store card programme, for example by using cross selling rights, obtaining greater retailer commitment to marketing the programme or reducing retail benefits;

(b) providers may accept a lower level of profitability on particular programmes; and

(c) throughout this inquiry, retailers have emphasized their need for high customer acceptance rates on their store card programmes. It is likely that retailers will wish to compromise on other contractual terms (eg profit sharing arrangements, contract renewal premiums) rather than suffer a significant reduction in acceptance rates that might endanger customer goodwill, especially if applied to existing store card holders.

It is particularly noteworthy that [X] store card programmes that have [X] reduced APRs have not been subject to significant reductions in acceptance rates [X]. We do not therefore consider that providers and retailers will necessarily respond to lower APRs by reducing acceptance rates; and furthermore the evidence in our view suggests that, if there is any reduction in acceptance rates, it will be small.

33. We now turn to the consequences for any applicants for store cards who are rejected as a result of lower acceptance rates. It is likely that such cardholders would either use alternative sources of finance or would forego the purchases which would otherwise be financed by borrowing on a store card.

34. The evidence in the NOP survey, carried out for the OFT, and the CC's survey suggests that the decision to take out a store card is in most cases a spontaneous

one driven by applicants' desire to obtain store card benefits (rather than the desire to obtain credit) and that this applies as much to less creditworthy applicants as to other applicants. In the light of this and our survey evidence that the vast majority of store card holders have at least one credit card (some 80 to 85 per cent of credit revolvers), it seems likely that, if there are additional rejected store card applicants, some would be able to finance their purchases from existing cash resources or lines of credit, while others would simply not make the purchases they would have done if they had had a store card. We therefore do not accept the suggestion by some parties that such applicants would resort to borrowing at very high APRs. (We consider further the costs of alternative credit sources to store card customers in the following section on the appropriate threshold for the APR warning).

35. We agree that any applicants who do not receive a store card will be likely to experience some detriment as they will lose the store card benefits they would otherwise have received. But we consider the total size of any such detriments is likely to be small relative to the benefits that the majority of cardholders would receive from lower APRs. The detriment from loss of card benefits is difficult to quantify but, assuming an initial discount of 10 per cent of initial purchase on opening a store card account and subsequent rewards equivalent to 1 per cent of card spend, we estimate a detriment from loss of card benefits equivalent to about £4.00 per annum per active account.<sup>3</sup> This suggests that, even if as many as 5 per cent of existing card holders would be rejected with lower APRs, the total detriment would be no more than about **£2.2million** per annum.<sup>4</sup> We do not consider that any changes in acceptance criteria are likely to be applied to existing cardholders; hence the

---

<sup>3</sup>Table 1 in section 3 of our provisional findings shows 2004 average spend per active account was £264 per year suggesting rewards equivalent to £2.64 per active account (assuming rewards of 1 per cent of spend). Spend per transaction averages £40, with the value of the initial discount being 10 per cent of £40, ie £4.00 (we note that account opening spend might exceed the average per transaction but also that not all account openings benefit from a 10 per cent discount). Account openings are about one-third of the total number of active accounts, so the long run total per active account is  $\pounds\{2.64+4.00/3\}=\pounds3.97$ .

<sup>4</sup>Based on projected 11.2 million store card holders at end 2005.

detriment in the first year would be less, no more than **£1million** per annum.<sup>5</sup> By contrast, on similar assumptions, the benefit to continuing card holders from reducing APRs to 25 per cent on programmes with current APR's above this threshold is likely to be of the order of **£40 million** per annum<sup>6</sup>.

36. In conclusion, the Group considers that while it is possible that a number of store card programmes may reduce APRs to avoid including a warning notice on statements, it does not follow that most of these programmes will significantly reduce customer acceptance rates as a result. To the extent that such acceptance levels are reduced it is likely that any detriments to customers excluded from holding store cards would be small relative to the gains to the majority of customers from lower APRs.

#### ***APR warning—the appropriate threshold***

37. The remedies notice invited comments on the appropriate level of the threshold. There were two main types of response, first, those that favoured no threshold or a very low threshold so that the warning would apply to all store card schemes irrespective of APR and second, those that favoured a high threshold that would apply to a limited number of schemes with particularly high APRs.
38. We will consider the question of the threshold in two stages. Firstly we discuss whether a threshold should be used or whether, as suggested by some respondents, all store cards should bear a warning. Secondly if it is desirable to use a threshold, we will consider what is likely to be the most appropriate level.

---

<sup>5</sup>Up to 0.4 million accounts would not be opened ( $11.2/3 \times 0.05$ ) and would lose initial discount of £4.00 and rewards of £1.32 (on average each account is open for half the year and gets rewards equivalent to half of £2.64).

<sup>6</sup>Based on projected balances at end 2005 of £1.8 billion on programmes with APRs in excess of 25 per cent.

39. The advantages of not using a threshold are:
- (a) the maximum number of store card customers receive the warning notice; and
  - (b) no issue arises regarding the choice of an appropriate basis for the threshold.
40. On the other hand, the absence of a threshold would have major disadvantages:
- (a) the absence of a threshold removes any particular pressure on retailers or providers with high APRs to reduce APRs, as the warning is required irrespective of the level of APR;
  - (b) the warning may be inappropriate for many of the incremental card holders receiving a warning where there is no threshold as compared with a situation where a threshold is used. For low APR store card schemes, (such as the John Lewis and IKEA programmes) a high proportion of customers may receive an inappropriate warning;
  - (c) the general nature of the warning in the absence of a threshold is likely to reduce the level of impact of the warning. It may simply be interpreted or portrayed by providers and retailers as very general advice to consider alternatives as opposed to being a focused warning dealing with high APR card schemes; and
  - (d) a general warning may provide a disincentive to new entrants providing low APR store cards to expand their operations.
41. In the light of the above the Group considers that use of a threshold is preferable to applying the warning notice to all store cards. The judgement regarding the appropriate level of threshold should be driven mainly by what is most likely to be effective in addressing our identified features or the resulting adverse effects. The effectiveness of a threshold is largely a function of:
- (a) the likelihood of providing a reliable signal to store card holders regarding the availability of cheaper forms of credit and the coverage of customers receiving such a signal; and

(b) the likelihood that retailers will exert pressure on APRs which will result in providers reducing APRs to more competitive levels.

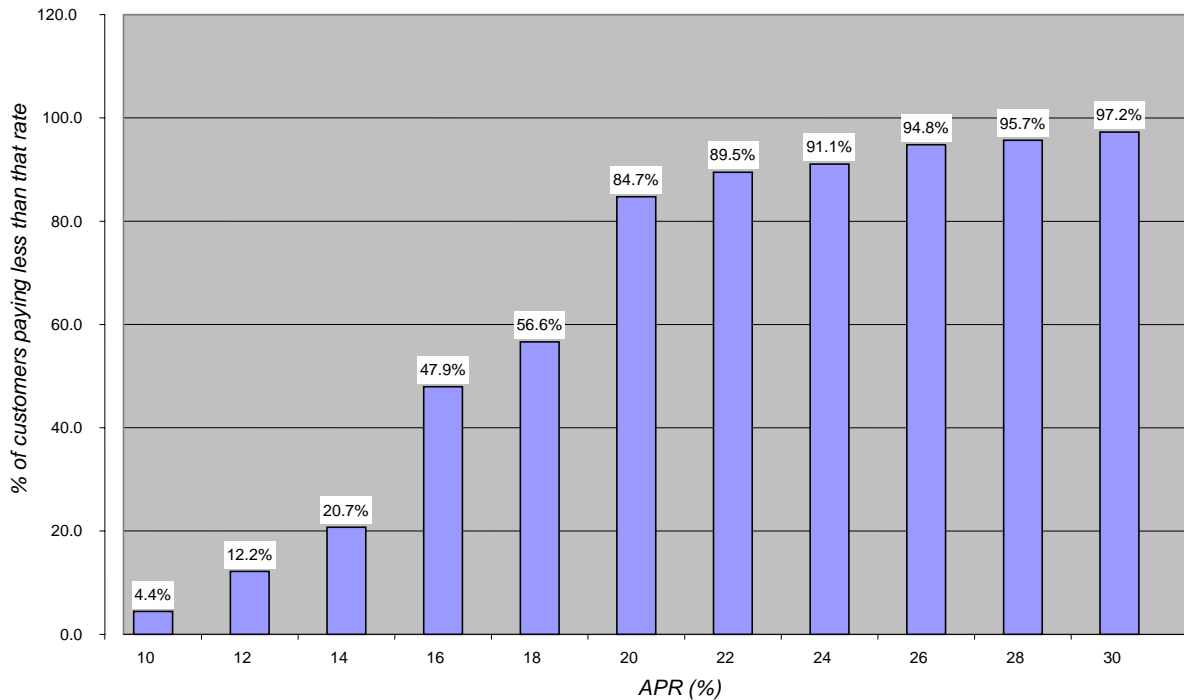
42. With regard to providing a reliable signal to store card holders, we are aware from our survey evidence that the vast majority of store card holders have at least one credit card (some 80 to 85 per cent of credit revolvers). Relatively few of these customers not having a credit card have been refused a credit card (about 9 per cent) and the socio-economic profile and other credit characteristics of store card holders appear more favourable overall than for the population as a whole. Store card holders who appear to be highly credit-constrained appear to constitute a very small proportion of the total. For example, only around 1 per cent of store card holders use domestic credit. We also note that most store card customers will also have access to unsecured loans through their banking provider or elsewhere and these loans typically have lower APRs than on credit cards or store cards.
43. The average effective credit card APR, as noted in our provisional findings was around 16 per cent in contrast to a typical store card APR approaching 30 per cent. From a recent survey we conducted of major credit card providers,<sup>7</sup> which together account for over 38 million active credit card accounts or in the region of two-thirds of the UK active credit card base, we have the following distribution of APRs paid by credit card customers, as shown in Figure 1.

---

<sup>7</sup>We obtained responses from seven credit card providers in December 2005 which outlined the number of active accounts in 4Q 2005 on which interest rates would be payable within the ranges indicated.

FIGURE 1

**Cumulative distribution of rates paid by credit card customers**



Source: CC analysis.

44. From the above, it is apparent that approximately 85 per cent of credit card customers pay an APR of less than 20 per cent on their credit cards from the surveyed providers, almost 90 per cent pay an APR of less than 22 per cent and almost 95 per cent pay an APR of less than 26 per cent. We have no reason to believe that our sample of credit card providers is biased towards lower APR credit card customers than for credit card providers in total as it includes providers that are actively engaged in the sub prime market. It would therefore appear likely that a warning threshold set at an APR of 20 per cent or above would create a reliable signal to most store card customers that at least one other form of credit (ie credit cards) would be less costly. Unsecured loans may be an even cheaper form of credit available to store card holders.

45. We now turn to the likelihood that retailers will exert pressure on APRs which will result in providers moving APRs to more competitive levels. In paragraph 32 above we outlined various options by which store card APRs might be reduced without a significant reduction in acceptance rates. Downward movement in APR's is likely to exhaust progressively these options of flexibility. Thus the likelihood of effective downward pressure on APRs from retailers to providers may decrease with distance from current APR levels.
46. In our provisional findings we indicated a range for cost-reflective APRs, based on average industry data from 1999 to 2003, of 22 to 24 per cent. This provides a broad indication of the level below which pressure to reduce APR's by retailers is unlikely to be effective *unless* retailers were willing to bear significant costs for having a store card facility. The current cost-reflective APR for certain programmes may lie above the 22 to 24 per cent range noted above due to the current circumstances of the programmes. This would not invalidate the use of a threshold below the cost-reflective APR for such a programme as the message to card holders that other sources of credit are likely to cost less would remain correct for most card holders.
47. The recent changes in store card APRs for schemes maintaining single APRs (see Table 1) suggest that significant changes in APRs are feasible:

TABLE 1 **Changes in store card APRs**

	<i>per cent</i>	
	<i>APR</i>	
	<i>March 2005</i>	<i>Current</i>
Monsoon	29.9	18.9
New Look	29.9	25.9
Principles	29.9	24.6
River Island	29.9	17.9
Harvey Nichols	28.9	21.9

Source: Store Card Provisional Findings and CC research.

The Group was aware of the above changes at the time of the provisional findings. As noted earlier, reductions have also been announced more recently for certain schemes employing risk-based pricing and multiple interest tiers.

48. It has been put to us by one provider [X] that the CC does not have the necessary information to determine appropriate levels of threshold as this would effectively require detailed calculation of cost-reflective APRs for individual programmes. We believe this misunderstands the purpose of the APR warning. The intention is not to develop price caps that remove excess profitability above cost-reflective levels for each store card programme. The warning seeks to provide information to customers and create incentives to retailers that will facilitate competitive forces. In both cases it is important to emphasise that the aim of the notice is to provide a general signal rather than a precise instruction.
49. The Group considers that an APR warning notice with a threshold as low as 20 per cent APR would be justifiable in terms of providing most customers with meaningful indications of the existence of lower cost alternatives. However, the gap between such a threshold and most store card APRs may be so large that it fails to incentivise most retailers and providers to reduce APRs. The Group therefore proposes a higher APR threshold of 25 per cent on the basis that:

- (a) from recent changes to APR on store card programmes and the responses to our Provisional Findings, it appears that there is sufficient flexibility in charging APRs to assume that such a threshold would provide an appropriate incentive for retailers and providers to reduce APRs and avoid having to display a warning notice; and
- (b) such a threshold would provide a reliable signal to store card holders regarding the availability of cheaper forms of credit as over 90 per cent of credit card holders, based on our sample of providers, pay an APR of less than 24 per cent.
50. It has been put to us that use of an APR warning is inappropriate where a store card programme uses risk-based pricing. Certain retailers have also indicated that credit limits on the upper tiers of their risk-based programmes are relatively low (in certain cases £400 or less) and consider that *de minimis* principles should be applied. The Group considers that where risk-based pricing is applied, the likelihood of a meaningful indication of lower cost alternatives from a warning notice is reduced when compared to single APR programmes. This when combined with low credit limits could significantly reduce the expected gain to customers from acting on the APR warning.
51. The Group proposes that where a store card programme uses risk-based pricing it needs to apply warning notices only to those interest tiers that are above the warning threshold. In addition, where the average APR of a risk-based store card programme<sup>8</sup> is less than the threshold level, then a warning notice is not required for tiers of the programme which exceed the threshold if the maximum credit limit for card holders on such tiers does not exceed a *de minimis* level of £400.

---

<sup>8</sup>Not including SBCCs offered in conjunction with the programme.

### ***APR warning—other implementation issues***

52. The Group considers that the APR warning should be prominently displayed, as indicated on the attached appendix, on the front page of the statement above the transaction box, in bold lettering and in a font size no smaller than the largest font size used for transaction and balance details. The proposed wording of the statement is slightly revised from that appearing in the remedies notice and is as follows: **‘The rate of interest charged on your account may be higher than on other sources of credit available to you. It may be costly for you to leave balances owing on your account after the interest free period’**. The warning should be separate from all other text.
53. We proposed in the remedies notice that the APR warning remedy should remain in force for a limited period and suggested that the OFT should review the remedy after three years. Some parties suggested a shorter duration in view of the degree of change and reduction in APRs that they currently perceive in the market. The Group notes that to the extent that APRs fall below the threshold level then the warning notice will automatically cease to apply. The Group proposes that the remedy should remain in force for a minimum period of three years from the date of the applicable order (or acceptance of undertakings). At the end of this period, continuation of the warning and the appropriate rate of the threshold will be subject to review by the OFT.
54. The Group proposed to link the level of the warning threshold to base rate. Some parties have questioned the basis of this linkage and others proposed that a more elaborate formula should be applied. The Group now considers that the threshold should not be based on a formula but should remain unchanged until reviewed. We consider that a complex formula is not warranted given the relatively short period until review and the general nature of the warning. We note that major changes of

circumstances can be dealt with through applications for variation of orders or undertakings.

55. We do not expect the operational costs of implementing the APR warning remedy to be significant as this is just one further element of redesign of store card statements as considered under the ‘full information on statements’ remedy considered above. Monitoring compliance with this remedy would also be relatively straightforward.

**Proposed remedies—provide and prominently display facility to pay outstanding balances by direct debit**

56. In its provisional findings, the Group reached the view that one of the detrimental effects which has resulted from or may be expected to result from the AEC is that most store cardholders who take credit pay higher prices for store card credit than would be expected in a competitive market. The Group therefore considered measures which aim to reduce the proportion of cardholders revolving credit inadvertently or through inertia as a result of a lack of awareness of APRs and payment terms. The Group is also seeking to address the absence of pressure from customers on store card APRs and late payment fees by providing an avenue by which customers can easily choose (fully or partly) to avoid incurring these costs.
57. The Group therefore proposed in the remedies notice that all store cardholders should be given the option of paying outstanding balances in full, or a fixed monetary limit,<sup>9</sup> by direct debit and that this option should be prominently displayed on the front page of each regular statement and in initial contractual material when store cards are applied for. In many store card programmes a facility for paying by direct debit is currently available but its existence is not always readily apparent.

---

<sup>9</sup>As specified by the cardholder.

58. One provider [redacted] challenged the legal basis for this remedy as it considered that it did not directly address features leading to the AEC finding. However, as noted above, the proposal seeks to deal with detriments resulting from the AEC and this is appropriate for that purpose and within the CC's jurisdiction. Most providers noted that they already provided direct debit facilities and had no significant objections to our proposal regarding disclosure but favoured prominent disclosure of the facility on the reverse rather than the front of monthly statements. One provider [redacted] noted that it did not currently provide a direct debit facility.
59. The Group considers that, in the interests of avoiding excessive wording on the front of statements, providers need not show the direct debit option on the front page provided that this option together with contact details for setting up or amending a direct debit is prominently displayed as the first item within a 'how to pay' section on the reverse side of the statement and there is a prominent reference to the 'how to pay' section on the front of the statement. These disclosures are illustrated in the attached appendix.
60. It has been put to us that setting up a direct debit to pay minimum account payments may, through inertia, maximize the amount of interest paid by store card customers. Indeed the generally accepted wording for the 'wealth warnings' on store card and credit cards draws attention to the undesirability of only paying the minimum payment. Certain parties [redacted] do not make direct debit facilities available when issuing store cards other than on a minimum payment basis. We consider that store card providers should provide a direct debit facility to pay the whole balance or a fixed amount and should not limit this option to paying minimum payments. In addition, the wealth warning regarding minimum payments should be repeated on direct debit mandates.

61. One provider [X] considered that providing a direct debit mandate with the card application form was too complex and costly and that customers could set up a direct debit mandate by contacting the provider's call centre. This was in contrast to the experience of other parties [X] who provide a direct debit mandate routinely with the initial application form. The Group considers that it is important, for the effectiveness of this measure, that customers are provided with documentation to set up a direct debit with initial contractual information and should not have to make further requests to facilitate this.

### **Proposed remedies—separate offer of payment, purchase and price protection**

62. The remedies notice proposed a requirement that if providers offer 'packages' of two or more elements of payment, purchase and price protection insurance (PPI), they should offer each element to store card customers separately. This seeks to provide greater choice for customers in selecting insurance products to match their needs and enabling each element of the insurance package to be compared with competitor offerings.
63. This proposal seeks to address the following features contributing to the AEC identified in the provisional findings and resulting detrimental effects:
- (a) Many store card credit providers combine different insurance products into packages (that is, payment protection insurance offered with purchase and/or price protection insurance) which they sell in association with store cards.
  - (b) Most retailers offering store cards do not exert competitive pressure on providers to lower their insurance premiums or to offer the components of PPI separately.
  - (c) Most retailers' customers do not exert competitive pressure on premiums for insurance purchased in association with the provision and use of store cards because their sensitivity to the price of such insurance cover is low and they have a poor understanding of the terms of the cover they are purchasing.

64. By addressing the AEC the remedy would also aim to address the resulting detriments, namely that:
- (a) to the extent that payment, purchase and price insurance are packaged together and are not individually available, cardholders have no choice but to purchase all three products even if they want or need only one or two of them, or indeed even if they are not eligible for one or two of them; and
  - (b) some consumers who revolve their store card balance will continue to pay for elements of the package that they no longer either require or, indeed, are not entitled to receive.
65. Although store card providers and insurers agreed in their responses that it would be possible to offer elements of the PPI package separately, they also said that the offer of individual components of cover, either separately or alongside a packaged offering, potentially would have the following significant commercial consequences:
- (a) the offer of individual components of cover would increase costs for both card and insurance providers as a percentage of premiums. This increase in costs may result in an increase in the premiums paid by customers for single elements of the PPI package. It was noted that such an increase in costs would come on top of the additional costs that had resulted from the Insurance Conduct of Business (ICOB) measures recently implemented by the FSA and these had resulted in all but one store card provider exiting from sale of insurance at the retail point of sale;
  - (b) the offer at the point of sale (POS) of separate policies would be complex. It could potentially become more confusing for customers and might present regulatory issues that would lead to a reduction of the insurance cover available to consumers at the POS as providers either offer only one insurance product at POS or withdraw completely and switch to telemarketing; and

(c) various concerns were mentioned as to whether unbundling should or should not apply for insurance sales after the retail point of sale.

66. One store card provider [X] submitted that limited unbundling would be feasible in order to offer price and purchase elements together in a single package and the payment protection element separately. In this case, payment protection insurance would be calculated in relation to the outstanding balance and purchase and price protection could be based on the value of the retail transactions covered. An insurance provider [X] noted that it would be unlikely to offer price and purchase protection as a separate bundle due to the risks of adverse selection by high claimant customers.
67. It has also been put to us that the CC should also consider prohibiting the sale of insurance at POS since the POS advantage prevents the emergence of competition from other supply options. The Group notes that the incumbent provider's advantage in the form of exclusive access to customer, transaction and outstanding balances data is similar at POS and post POS. Therefore delinking at POS would not be expected to provide a greater opportunity for competition to emerge, given the low premium amounts involved in store card PPI, than the unbundling and disclosure measures that we are proposing. The Group therefore considers that such a delinking remedy is inappropriate in the context of PPI sold with store cards.
68. The Group has provisionally decided that where store card providers offer PPI packages, they should also offer payment protection cover and a package of purchase and price protection as separate items. This arrangement should provide greater choice for customers to tailor insurance to their requirements. Customers would also be able to compare payment protection cover more readily with the open market alternative of income protection cover as a result of this arrangement. It is

acknowledged that other elements of the PPI package do not currently have readily accessible alternatives on the open market at present.

69. The unbundling of each element of the PPI package could, in principle, widen consumers' choice further but we accept the views of retailers and providers that it would also significantly increase the complexity of implementation such that this benefit of choice may not be realized in practice or may be offset by higher costs to customers.
70. PPI packages are sold at POS and post-POS. Any remedy that considers the unbundling of elements of the package should in principle apply to both channels. The Group believes that it would be difficult to justify a different approach to unbundling in the two channels considering that the incumbent provider's advantage in the form of exclusive access to customers, transaction and outstanding balances data is similar for both channels. The Group therefore considers that the proposed unbundling should apply equally to PPI sold at POS and post POS.

### **Summary of provisional decisions on remedies**

71. The Group's provisional decisions on remedies are listed below in summary form and should be interpreted in conjunction with the details provided in earlier sections.

### ***Full information on statements***

72. Certain key items of information must be prominently displayed on the front page of store card statements and the font size employed for these details should not be less than the largest font size used for transaction and balance details. These items are as follows:
  - (a) the annual percentage rate (APR) applicable to outstanding balances (shown in bold);

- (b) an estimate of interest payable next month in the event that the card holder only makes a minimum payment;
  - (c) a 'wealth warning' outlining the consequences of only making minimum payments; and
  - (d) the basis of insurance charges shown alongside each insurance charge appearing in the transaction box.
73. Other details that should be shown on the statement (but can be displayed on the reverse side either in a summary box format or elsewhere) are as follows:
- (a) late payment or default charges and the policy for levying these charges;
  - (b) the basic assumptions used in calculating the interest estimate;
  - (c) contact details for setting up or amending a direct debit, prominently displayed within a 'how to pay' section; and
  - (d) contact details for amending or cancelling insurance cover sold with the store card and a brief summary of insurance cover.

### ***APR warning on store card statements***

74. An APR warning should be prominently displayed on the front page of the monthly statement where the APR for the store card programme exceeds 25 per cent. The proposed wording of the warning is as follows: 'The rate of interest charged on your account may be higher than on other sources of credit available to you. It may be costly for you to leave balances owing on your account after the interest free period'. The warning should be displayed above the transaction box in bold lettering and in a font size no smaller than the largest font size used for transaction and balance details. The remedy should remain in force for a minimum period of three years. At the end of this period, continuation of the warning and, if applicable, the appropriate rate of the threshold will be subject to review by the OFT.

75. Where a store card programme uses risk-based pricing it needs to apply warning notices only to those interest tiers that are above the warning threshold. However, where the average APR of a risk-based store card programme is less than the threshold level, a warning notice is not required for tiers of the programme which exceed the threshold if the maximum credit limit for such tiers does not exceed £400.

***Provide and prominently display facility to pay by direct debit***

76. Store card providers should provide an option to pay the account balance or a fixed amount by direct debit. This option together with contact details should be prominently displayed as the first item within a 'how to pay' section on the reverse side of the statement and there should be a prominent reference to the 'how to pay' section on the front of the statement. Customers should be provided with documentation to set up a direct debit with initial contractual information. The 'wealth warning' regarding minimum payments should be repeated on direct debit mandates.

***Separate offer of payment, purchase and price protection***

77. Where store card providers offer PPI packages, they should also offer payment protection cover and a package of purchase and price protection as separate items.

**Implementation**

78. At present the Group is minded to pursue implementation of the measures by order rather than undertakings. Parties to the inquiry have indicated timescales of between six months to one year to implement most of the various measures outlined above. The Group proposes an implementation timescale of nine months for all the above measures from the date when an order is made.

## **Next Steps**

79. The Group requests that the parties to this inquiry, and any other interested persons, should provide any views in writing on the above analysis and proposals by 5pm on Monday, 9 January 2006.

20<sup>th</sup> December 2005

### Illustrative example of proposed card statement format

FRONT OF STATEMENT

Retailer's LOGO

Mrs XYZ

XXXXXX

XXXXX

XXX

<b>Account Number</b>	2354689
<b>Statement Date</b>	19 May 2005
<b>Credit Limit</b>	£1,000
<b>Available to Spend</b>	£800.00
<b>Rate of Interest- APR</b>	<b>29.9%</b>

The rate of interest charged on your account may be higher than on other sources of credit available to you. It may be costly for you to leave balances owing on your account after the interest free period.

Reward Points (if applicable)	Date	Reference	List of charges and credits	Amount
			TOTAL BROUGHT FORWARD Xxxxx yyyyyyyyy XXXX PAYMENT THANK YOU Payment Protection-xxp per £100 balance Price and Purchase Cover -xxp per xxxx	

#### MARKETING MESSAGES

<b>New Balance</b>	£200.00
<b>Minimum Payment</b>	£4.00
<b>Payment Due Date</b>	13 <sup>th</sup> June 2005
<b>Estimated Interest Next Month ( see reverse)</b>	£4.93

See reverse for details of how to pay and change or check insurance cover (if applicable). Only making the minimum payment will significantly increase time taken to clear your balance and cost you more.

---

#### PAYMENT SLIP

**Estimated Interest** is the amount of interest payable next month based on paying only the minimum payment by the due date.....

How to Pay
<ul style="list-style-type: none"> <li>• <b>By Direct Debit</b></li> </ul> <p>If you would like to set up or amend a direct debit over the telephone to pay the minimum amount, a fixed amount or your full outstanding balance each month, call us on 0870 123 4567</p> <ul style="list-style-type: none"> <li>• <b>At a bank</b></li> <li>• <b>By post</b></li> <li>• <b>Phone /Internet Banking</b></li> <li>• <b>Etc</b></li> </ul>

Summary Box
<ul style="list-style-type: none"> <li>• <b>Interest free period</b></li> <li>• <b>Interest Charging information (eg, periods over which interest are charged)</b></li> <li>• <b>Allocation of payments (how payments received are allocated between transactions and charges)</b></li> <li>• <b>Minimum repayment</b></li> <li>• <b>Fees</b></li> <li>• <b>Charges</b></li> <li>• <b>Default charges</b> <ul style="list-style-type: none"> <li>○ <b>Late payment fee -£xx- we may impose a late payment fee if you miss payment by the due date</b></li> <li>○ <b>Over credit limit fee -£xx</b></li> <li>○ <b>Administration fee- £xx -for returned cheques or direct debits</b></li> </ul> </li> <li>• <b>Insurance Cover</b> <p>Payment protection: your payments will be made for you if you are unable to work due to an accident or ....</p> <p>Price cover: if items you have bought are reduced in price within x days of your purchase, you can claim the difference in price....</p> <p>Purchase cover: Most items purchased on your store card are protected for up to X days against loss, theft or accidental damage.</p> </li> </ul>

**ACCOUNT INFORMATION**

- Change of Address**  
.....
- Lost or stolen cards**  
.....
- Security**  
.....
- Merchandise Queries**  
.....
- Online account access**  
.....

**Insurance Changes And Cancellation**

If you are not satisfied with your insurance cover, there is a X day cooling off period in which you can cancel your policy at no cost to yourself. After this you can cancel the policy at any time without incurring any cancellation charges. We will not return any of your monthly premiums. To cancel your policy or change your cover call us on .....

**ACCOUNT ENQUIRY**

**Customer Helpline**

**0870 123 4567**