3 The market for credit card services

Introduction

3.1. Credit cards provide a dual service by operating both as a method of payment for goods and services and as a source of lending to cardholders. Credit cards can be an alternative to cash, cheques and other payment cards and as such provide a service both to cardholders and to the traders who accept the cards. As a source of lending credit cards offer a service to cardholders and provide an alternative to a variety of other sources of consumer credit. In our assessment of the market we have therefore considered the scale of credit card use, both for transactions and for credit, in relation to the main alternatives. We have also looked in some detail at the two elements of credit card services for which charges are invariably made, namely the taking of extended credit and the services to traders.

The use of credit cards

3.2. Credit cards can be used to make purchases at any outlet accepting the credit card concerned up to a credit limit which is fixed for the individual cardholder. Card companies send monthly statements to cardholders allowing them either to repay the full amount owing, without incurring interest on the credit received between the time of purchase and the payment date, or to pay a minimum sum and to take extended credit on the outstanding amount at a specified monthly rate of interest. In the United Kingdom credit cards are issued and operated by a number of banks and building societies which provide the source of credit to cardholders.

3.3. In addition to providing a method of payment and a flexible source of extended credit, credit cards provide a number of other benefits to cardholders. First, they can be used to obtain cash at ATMs and at bank branches. Second, some purchases, for instance mail order goods and cinema and theatre tickets, can be made by telephone without the need physically to present the credit card itself and provide signed authentication. Third, as part of the card companies' promotional activities, cardholders may obtain free travel accident insurance and other gifts. In addition, under the provisions of the Consumer Credit Act 1974 (section 75) and subsequent amendments, credit card issuers are jointly and severally liable with traders for deficiencies in goods or services purchased on the card provided the price of the item purchased is £100 or more (up to a limit of £10,000). This connected lender liability is, however, not actively promoted by the credit card companies as a benefit to cardholders.

3.4. For cardholders, the choice between using a credit card or some other means of payment will depend on factors such as convenience, the cheque guarantee limit (at present usually of £50), the desire to avoid carrying substantial sums in cash, access to a period of free credit and access to the facility of extended credit. Credit cards also provide a convenient means of making purchases and obtaining cash overseas.

3.5. As with other forms of payment, credit cards may be used in part payment with the balance paid by cash or cheque. Where access to credit is an important consideration, credit cards may be used as an alternative to point of sale credit arrangements offered by some traders, including traders' store cards. In other cases, where access to credit is not a significant factor, credit cards can be used as an alternative to other payment cards such as charge and debit cards which offer some of the advantages of credit cards such as convenience and security but do not provide extended credit.

Credit cards in issue

3.6. At the end of 1988 there were some 24.9 million credit cards issued in the United Kingdom in current use. Of these about 10.5 million were Access cards (42 per cent of the total) and about 14.1 million were Visa cards (57 per cent of the total). In addition there were a small number of other credit cards in circulation which operate independently of Access and Visa. In the five-year period 1984 to 1988 the total number of credit cards in circulation increased at an average rate of 10 per cent per annum.

3.7. An analysis of credit cards in issue is set out in Table 3.1. It can be seen that at the end of 1988 Barclays accounted for the majority of Visa credit cards and 35 per cent of all credit cards. TSB's Visa credit card accounted for some 13 per cent of all credit cards. The main issuers of Access credit cards are NatWest, which accounted for 15 per cent of all credit cards, Lloyds 11 per cent, Midland 11 per cent and RBS 3 per cent. The Style credit card issued by Style Financial Services, a subsidiary of The Royal Bank of Scotland Group, has until recently been the principal credit card operating independently of the Access and Visa payments systems. At the end of 1988 there were about 320,000 Style cards in circulation, equivalent to 1 per cent of United Kingdom credit cards. In two towns, Tunbridge Wells and Wilmslow, `towncards' are accepted in a variety of retail outlets in each town. In 1987 8,000 of these cards were in circulation. In March 1989 American Express launched its Optima credit card in the United Kingdom. We describe new developments in card issuing in paragraphs 3.100 to 3.103 and 3.110 to 3.111.

TABLE 3.1 **Numbers of credit cards issued and in circulation in the United Kingdom***

	1984		*1985*		*1986*		*1987*		*1988*	
	'000	*%*	*'000*	*%*	*'000*	*%*	*'000*	*%*	*'000*	*%*
Access banks										
Lloyds	1,734	10	1,912	10	2,270	11	2,566	11	2,800	11
Midland**	2,310	14	2,540	14	2,797	13	2,506	11	2,820	11
NatWest***	2,508	15	2,667	14	3,044	15	3,667	16	3,797	15
RBS§	464	3	558	3	642	3	722	3	822	3
Other	0	0	0	0	0	0	14	0	269	1
All Access	7,016	42	7,677	41	8,753	42	9,475	42	10,508	42
Visa banks										
Bank of Scotland§§	268	1	508	3	649	3	839	4	1,030	4
Barclays	7,212	43	7,799	42	8,306	40	8,642	38	8,680	35
Co-op	157	1	179	1	220	1	266	1	452	2
Girobank	0	0	50	0	194	1	251	1	319	1
TSB	2,249	13	2,398	13	2,530	12	2,847	13	3,118	13
Other	0	0	0	0	0	0	25	0	521	2
All Visa	9,886	58	10,934	59	11,899	57	12,870	57	14,120	57
Style	0	0	0	0	328	1	342	1	320	1
Total	16,902	100	18,611	100	20,980	100	22,687	100	24,948	100

Source: MMC from company data.

*The figures in this table are rounded and not all the totals therefore add up. The figures refer to cards in issue at 31 December unless otherwise indicated.

**Midland figures include Clydesdale Bank and Northern Bank.

***NatWest figures include company cards.

§Figures shown for RBS refer to 30 September of each year.

§§Figures shown for the Bank of Scotland refer to 28 February of the following year.

3.8. A survey which we undertook as part of our investigation (see paragraph 4 of Appendix 5.3) indicated that in July 1988 about 38 per cent of the United Kingdom adult population held an Access or Visa card. 31 per cent of respondents held one or other of the two types of card but not both, and 7 per cent held both Access and Visa.

Value of transactions

3.9. Table 3.2 shows the value of credit card transactions and cash advances in the United Kingdom. In 1988 credit card expenditure was about £16.5 billion with £1.3 billion in cash advances. In the last five years this expenditure has increased at a rate of some 25 per cent per annum, as compared with a rate of increase of about 10 per cent per annum in consumer expenditure as a whole. The share of credit card transactions in total consumer expenditure was running at about 5.7 per cent in 1988 (see Table 3.3). We were shown evidence that for larger transactions credit cards account for a greater share of expenditure. Table 3.4 shows that for shop purchases over £10 in value, credit cards accounted for an estimated 7 per cent of transactions in 1986.

TABLE 3.2 **Net value of credit card transactions with United Kingdom traders and cash advances, 1984 to 1988***

		1984		*1985*		*1986*		*1987*		*1988*	
		£m	*% of total*	*£m*	*% of total*	*£m*	*% of total*	*£m*	*% of total*	*£m*	*% of total*
Access banks											
Lloyds	Transactions	892		1,186		1,553		1,939		2,116	
	Cash advances	72		107		150		176		185	
	Sub-total	964	13	1,293	13	1,703	14	2,115	15	2,301	13
Midland	Transactions	1,041		1,294		1,567		1,869		2,011	
	Cash advances	91		100		118		133		136	
	Sub-total	1,131	15	1,394	14	1,685	14	2,002	14	2,147	12
NatWest	Transactions	1,300		1,631		1,948		2,427		2,738	
	Cash advances	141		165		194		228		223	
	Sub-total	1,441	20	1,795	19	2,141	18	2,656	18	2,961	17
RBS	Transactions	205		294		380		449		536	
	Cash advances	19		26		32		35		37	
	Sub-total	224	3	319	3	412	3	484	3	573	3
Other	Transactions and cash advances	0	0	0	0	0	0	8	0	237	1
Total		3,760	51	4,801	49	5,941	49	7,265	50	8,219	46
Visa banks											
BoS	Transactions	88		208		302		425		533	
	Cash advances	11		27		32		62		71	
	Sub-total	99	1	235	3	335	3	488	3	604	3
Barclays	Transactions	2,611		3,454		4,177		4,981		6,496	
	Cash advances	313		405		460		465		462	
	Sub-total	2,924	39	3,859	40	4,637	38	5,446	37	6,958	39
Co-op	Transactions	56		88		123		160		223	
	Cash advances	6		9		12		13		18	
	Sub-total	63	1	97	1	135	1	173	1	241	1
Girobank	Transactions	0		17		84		117		179	
	Cash advances	0		1		6		16		23	
	Sub-total	0	0	18	0	90	1	134	1	203	1
TSB	Transactions	471		612		767		883		1,184	
	Cash advances	86		101		143		147		182	
	Sub-total	557	8	713	7	910	8	1,030	7	1,366	8
Other	Transactions and cash advances	0	0	0	0	0	0	11	0	220	1
Total		3,643	49	4,922	51	6,107	51	7,281	50	9,592	54
Style		0	0	0	0	26	0	45	0	47	0
Total		7,403	100	9,723	100	12,073	100	14,591	100	17,858	100

Source: MMC from company data.

*The figures in this table are rounded and not all the totals therefore add up. They refer to cards in issue at 31 December unless otherwise indicated.

Notes:
1. NatWest figures include the Irish File and Company cards.
2. Cash advances shown for Lloyds and BoS include cash advances made overseas.
3. Girobank figures refer to 31 March of the following year.
4. RBS figures refer to 30 September of each year.
5. Other Visa category excludes some cash advances.
6. BoS figures refer to 28 February of the following year.
7. TSB's figures include merchant transactions and cash advances made overseas.

TABLE 3.3 **The share of credit card expenditure in total consumer expenditure**

	1984	*1985*	*1986*	*1987*	*1988*
Total consumer expenditure (£ billion)	197	215	238	261	291
Credit card transactions (£ billion)	6.7	8.8	10.9	13.3	16.5
Share accounted for by credit card transactions (%)	3.4	4.1	4.6	5.1	5.7

Source: MMC.

TABLE 3.4 **Methods of payments used for shop purchases over £10 in value, 1986**

	Estimated percentage
Cash	59
Cheque	30
Credit card	7
Other	4
	100

Source: Midland.

Credit card debt

3.10. Table 3.5 sets out the value of credit (interest-bearing and non-interest-bearing) extended on each of the main credit cards over the period 1984 to 1988. The total value of credit card debt was running at about £6,166 million at the end of 1988. Access cards accounted for 47 per cent of this debt and Visa credit cards for 52 per cent. The remaining 1 per cent was accounted for by the Style card.

TABLE 3.5 **Credit card debt outstanding, 1984 to 1988***

	1984		*1985*		*1986*		*1987*		*1988*	
	£m	*% of total*	*£m*	*% of total*	*£m*	*% of total*	*£m*	*% of total*	*£m*	*% of total*
Access banks										
Lloyds	383	12	521	14	681	14	810	15	850	14
Midland	439	14	519	13	598	13	657	12	724	12
NatWest	567	19	694	18	796	17	959	17	1,019	17
RBS**	89	3	125	3	156	3	178	3	199	3
Other	0	0	0	0	0	0	3	0	79	1
Total	1,478	48	1,859	48	2,231	47	2,607	47	2,871	47
Visa banks										
Bank of Scotland***	34	1	74	2	106	2	147	3	197	3
Barclays§	1,219	40	1,540	40	1,835	39	2,103	38	2,215	36
Co-op	15	0	25	1	37	1	51	1	77	1
Girobank	0	0	5	0	24	1	41	1	65	1
TSB§§	323	11	372	9	449	9	491	9	551	9
Other	0	0	0	0	0	0	6	0	123	2
Total	1,590	52	2,016	52	2,451	52	2,839	52	3,228	52
Style	0	0	0	0	51	1	59	1	67	1
Total	3,068	100	3,875	100	4,733	100	5,505	100	6,166	100

Source: MMC from company data.

*The figures in this table are rounded and not all the totals therefore add up. They refer to debt outstanding at 31 December unless otherwise indicated.

**Figures shown for RBS refer to 30 September in each year.

***Figures shown for the Bank of Scotland refer to 28 February in the following year.

§Barclays figures include items in transit and cheques in the course of collection.

§§TSB figures represent the average aggregate balances during the month.

3.11. Credit card debt forms part of the total volume of lending to consumers. A distinction can be made between consumer credit, that is borrowing to finance current expenditure on goods and services, which is generally unsecured, and other types of borrowing such as mortgages for house purchases which are usually repayable over a longer period and supplied as secured loans.[1] In this inquiry our concern is principally with consumer credit. In the case of an unsecured loan the creditor will, in the event of default, seek to recover the debt from the general assets of the borrower but with repayment of secured debts taking priority over repayment of unsecured loans. Before providing a loan or issuing a credit card lenders normally require details of the financial status of the borrower, and may also check with a credit reference agency holding information on the credit status of individuals to identify whether the borrower has any previous record of defaulting on loans.

3.12. In addition to credit cards the principal sources of consumer credit are:

(a) *Personal loans*. Banks offer various types of unsecured personal loan sometimes for specified items of personal expenditure such as home improvement and cars. These loans are for a fixed period of up to about five years and are usually supplied at a fixed rate of interest. Building societies now provide similar types of personal unsecured loans since being permitted to do so from the beginning of 1987 under the terms of the Building Societies Act 1986. Finance houses also supply personal loans.

(b) *Overdrafts*. As an alternative to a personal loan banks may also authorise an overdraft on a customer's current account up to a specified limit. Overdrafts, however, generally run for a shorter period than personal loans and interest is charged at a fixed percentage rate above base rate.

(c) *Budget or cash flow accounts*. Banks offer various budget or cash flow accounts which are designed to assist in the budgeting of household bills. A fixed sum is paid into these accounts each month and a credit facility is normally provided, linked to the amount of regular payments, to cover those periods of the year when outgoings exceed the balance on the account.

(d) *Hire purchase*. Hire purchase is a form of consumer credit offered by retailers and mail order companies to enable their customers to be given credit for the purchase of a specific item. Loans are repaid over a specified period and goods remain the property of the seller until final payment has been made. Rates of interest are normally fixed for the duration of the loan. Although some hire purchase is financed by retailers most is financed by specialist finance houses, which themselves raise funds by borrowing from commercial banks and by receiving deposits from the general public. Some finance houses are subsidiaries of the banks.

(e) *Store cards*. Store cards issued by individual retailers offer credit for purchases in the issuing retailer's stores, or group of stores under common ownership. The basis for repayment and extended credit is similar to that for credit cards. Store cards are considered in more detail in paragraphs 3.36 to 3.42.

(f) *Other consumer credit*. Other types of consumer credit include loans from money- lenders, loans from insurance companies and credit given by tally men, ie door-to-door salesmen. Secured building society lending is also used in part to finance general consumer expenditure.

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[1] A secured loan is one where the lender has the right to take over certain assets of the borrower should the borrower fail to repay.

Amount of consumer credit outstanding

3.13. The total estimated value of unsecured consumer credit outstanding in the United Kingdom at the end of 1988 stood at £42.5 billion. Credit card debt accounted for about 16 per cent of this total. Changes in the level of consumer credit over the last five years are illustrated in Figure 3.1. Over the period from the end of 1983 to the end of 1988 total consumer credit grew at an average rate of nearly 18 per cent per annum (unadjusted for inflation), whilst credit card debt grew by 21 per cent per annum.

Number of traders accepting credit cards

3.14. In 1988 Barclays had agreements with about 316,000 Visa outlets and Access about 306,000 in the United Kingdom while TSB, which (save for two companies in the TSB Group), only recruits in Northern Ireland, had nearly 2,000 outlets. Barclays said that it believed that Access cards were also accepted in at least 90 per cent of Visa outlets in the United Kingdom, with almost complete overlap amongst large traders. In developing their business over the years credit card companies have extended their coverage of traders so that a very wide range of goods and services can now be purchased in this way. Barclays told us that in the 12-month period to the end of December 1987 it recruited about 52,000 new outlets whilst about 27,000 outlets were discontinued.

3.15. The growth in numbers of outlets accepting credit cards between 1980 and 1988 is shown in Table 3.6. Over this period the number of outlets accepting Access cards rose by 96 per cent and the number accepting Visa cards by 106 per cent.

TABLE 3.6 **Outlets accepting Access and Visa, 1980 to 1988**

	*Number of retail outlets**	
	1980	*1988*
Access	156,000	306,000
Visa	153,000	316,000

Source: Barclays and JCCC.

*To the nearest thousand.

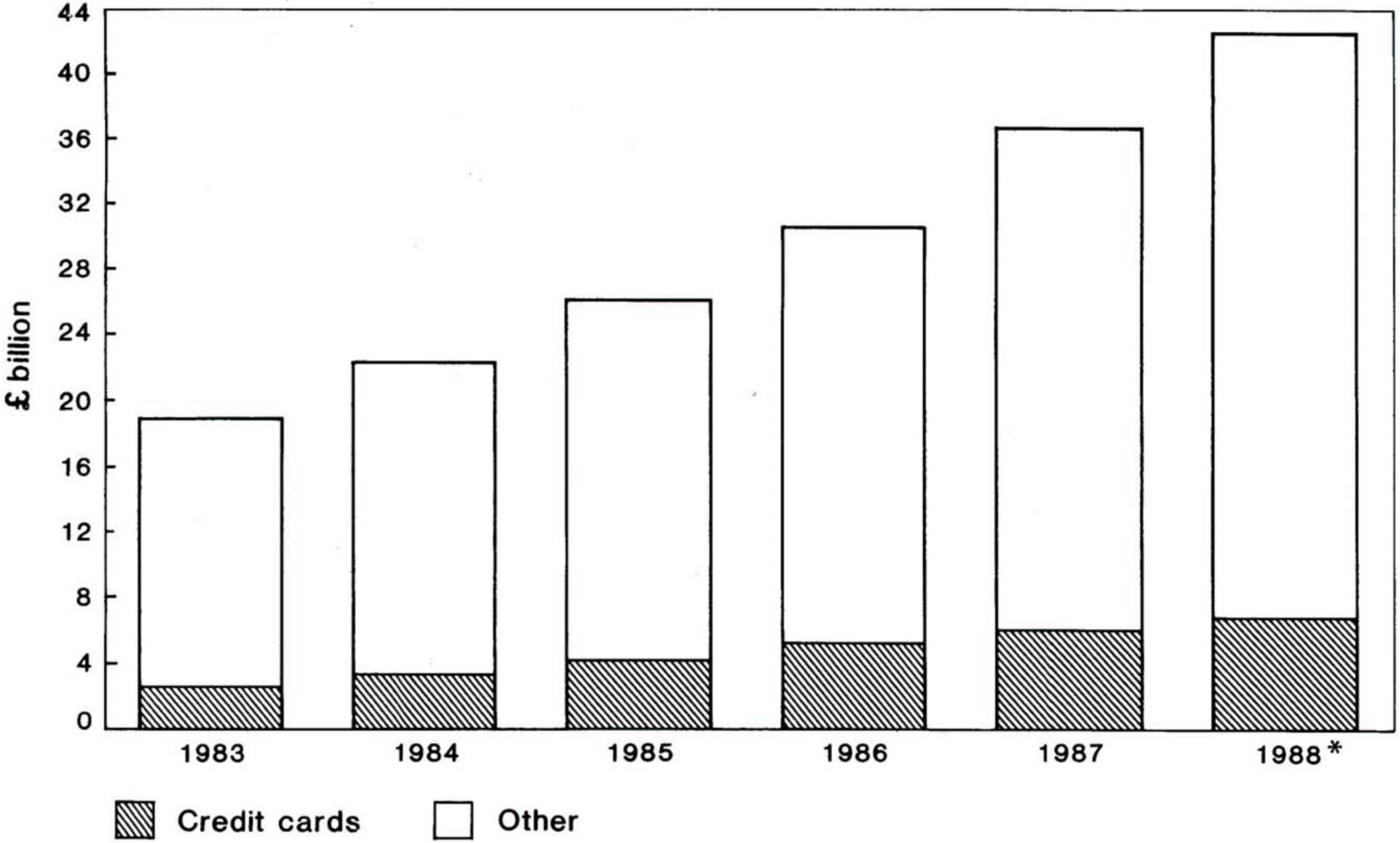
Credit card issuers

Visa

3.16. There are six different classes of membership of Visa, two of which are at present relevant to the supply of credit card services in the United Kingdom. These two classes are Principal and Participant membership. At the end of March 1989 there were 34 Principal members of Visa in the United Kingdom, the largest card issuer of which was Barclays, and two Participant members (see Table 3.7). At that date 11 of the Principal members entitled to issue cards were not doing so. In this section we consider those members who were issuing cards at the start of our inquiry. New entrants to the credit card market during the course of our inquiry are considered in paragraph 3.99 onwards.

Figure 3.1

Consumer credit, 1983 to 1988 (£ billion at end of year)



Source: MMC study.

Note: Based on figures given in CSO Financial Statistics.

*Estimate.

TABLE 3.7 **Visa's members in the United Kingdom, March 1989**

Name of member	*Class of membership (sponsor shown in brackets)*	*Date of acceptance of membership*
Abbey National Building Society	Principal	3. 5.88
Adam & Company PLC	Principal	13. 5.86
Airdrie Savings Bank	Participant (Bank of Scotland)	26. 9.83
Allied Arab Bank	Principal	30. 1.86
Allied Dunbar & Company PLC	Principal	23. 5.84
Arbuthnot Latham Bank*	Principal	23. 2.89
Associates Capital Corp Ltd*	Principal	3.10.85
Bank of Cyprus (London) Ltd	Principal	28. 1.87
Bank of Scotland	Principal	3.12.81
Barclays Bank Ltd	Principal	27.11.74**
Beneficial Bank	Principal	24. 1.85
C Hoare & Company	Principal	13. 5.86
Clydesdale Bank PLC*	Principal	23. 2.89
Co-operative Bank plc	Principal	26. 9.79
Duncan Lawrie Ltd	Principal	2.10.86
Girobank plc	Principal	19. 1.84
Guiness Mahon & Co Ltd*	Principal	19. 5.87
Halifax Building Society	Principal	3. 5.88
HFC Bank*	Principal	24. 1.85
Leeds Permanent Building Society	Principal	24. 1.88
Lloyds Bank Plc	Principal	1.10.87
Mercantile Credit Company Ltd	Participant (Barclays Bank)	22. 6.84
Midland Bank plc	Principal	2.12.88
National & Provincial Building Society	Principal	3. 5.88
National Westminster Bank PLC*	Principal	2.12.88
Nationwide Anglia Building Society*	Principal	23. 2.89
Northern Bank Ltd**	Principal	23. 2.89
Northern Rock Building Society*	Principal	23. 2.89
Robert Fleming & Co Ltd	Principal	26. 5.83
Royal Bank of Scotland plc*	Principal	23. 2.89
Standard Chartered Bank	Principal	26. 5.83
Town & Country Building Society*	Principal	2.12.88
TSB Trustcard Ltd	Principal	6. 6.78
Unity Trust Ltd*	Principal	5.10.84
Western Trust & Savings Ltd*	Principal	24. 1.85
Yorkshire Bank PLC	Principal	19. 5.87

Source: Visa International Service Association.

*Members not currently issuing a Visa card.
**Barclays Bank PLC was admitted to membership on 5 October 1984.

3.17. There are two main types of Visa card. These are the `Classic' Visa card, which accounts for the vast majority of Visa cards in circulation in the United Kingdom, and the `Premier' Visa card. According to Visa's rules a `Classic' Visa card may be operated by the card issuer either as a credit card, a debit card, or as a charge card. The `Premier' Visa card, which under Visa's rules must offer certain special additional services to cardholders, may be operated either as a credit card or as a charge card. In practice all Premier Visa cards issued in the United Kingdom are charge cards. A further type of Visa card is the `Electron' card which is for use in electronic equipment only. At present the Electron card is issued only by Co-op and Lloyds.

Barclays

3.18. Barclays has been a principal member of Visa since 1974. (When it launched Barclaycard in 1966, Barclays participated in the Bank-Americard system, which was later taken over by Visa). Barclays' credit card business is operated by the bank's Central Retail Services Division. At the end of 1988 there were some 8.68 million Barclaycards in circulation, including secondary cards.[1] About 6.9 million credit card accounts were handled by Barclays. In March 1989 the Barclaycard rate of interest was 2.00 per cent per month (26.8 per cent APR).

3.19. Barclays also issues a small number of Barclaycards bearing the name of Mercantile Credit Company Ltd, which is a finance house owned by Barclays. Until the middle of 1988 Barclays also issued a Barclaycard bearing the name of Yorkshire Bank (Yorkshire) which now issues its own credit card independent of Barclays.

3.20. Barclays provides a range of other forms of unsecured lending including overdrafts. We were told by Barclays that in recent years there had been some move away from the use of bank overdrafts towards credit card borrowing. The main reasons for this were, first, that credit cards can be widely used whilst overdrafts are often arranged to finance a particular purchase; second, that credit cards require only one initial application as opposed to the more complex arrangements often required to arrange overdrafts; and third, that credit cards provide a period of interest-free credit. Details of the other unsecured lending facilities supplied by Barclays and other banks are contained in Appendix 3.1.

TSB

3.21. TSB became a principal member of Visa and began to issue its Trustcard credit card in 1978. TSB is the second largest Visa card issuer in the United Kingdom. At the end of 1988 it had some 3.1 million Trustcards in circulation, accounting for 13 per cent of all credit cards in the United Kingdom. The rate of interest charged was 2.125 per cent per month (28.7 per cent APR) in March 1989.

3.22. TSB also provides a credit facility through its Motorcard scheme, a card marketed by Swan National Rentals (part of the TSB Group, whose business is car rentals), and supplies a Company Trustcard which is operated as a charge card.

Girobank

3.23. Girobank commenced its credit card operation as a Principal member of Visa in 1985. Initially the operational aspects of the business were conducted by Barclays on Girobank's behalf. This arrangement ended in 1987 when Girobank took over management of its own cardholder accounts. Until 1987 the Girobank Visa card was promoted only to Girobank current account customers but Girobank said that it now sought to extend its market more widely. At the end of 1988 Girobank had some 300,000 credit cards in issue. The rate of interest charged on the Girobank credit card was 1.90 per cent per month (25.3 per cent APR) in March 1989.

Bank of Scotland (BoS)

3.24. BoS became a Principal member of Visa in November 1981 and first issued the Bank of Scotland Classic Visa card in May 1982. A Premier card was issued in 1983. Until 1986 Barclays acted as operating agent for BoS. Between 1986 and 1987 the handling of accounts was transferred from Barclays and the business is now operated entirely by BoS itself. While a good proportion of the bank's credit card business had come from personal customers in Scotland, the credit card has been, and continues to be, promoted within the United Kingdom as a whole. The number of BoS credit

[1] ie a second card linked to the same credit card account.

cards in circulation stood at just over 1 million at the end of 1988, equivalent to 4 per cent of all credit cards in the United Kingdom. The rate of interest charged was 2.00 per cent per month (26.8 per cent APR) in March 1989.

Co-op

3.25. Co-op became a Principal member of Visa in 1980. The bank issues a Visa Classic credit card. It also issues a Visa Electron card. The rate of interest charged on the credit card was 2.00 per cent per month (26.8 per cent APR) in March 1989. Interest is paid to cardholders when accounts are in credit. The total number of Co-op credit cards in circulation stood at 452,000 at the end of 1988. The Electron card is operated only as a cash dispenser card but can also be used to purchase goods or services as part of an EftPos scheme. The two cards are marketed principally to Co-op account customers and to customers of the Co-operative Retail Society stores.

Other Visa credit card issuers

3.26. Other smaller issuers of Visa credit cards at the outset of our inquiry were Standard Chartered Bank (SCB), Beneficial Trust (now Beneficial Bank PLC (Beneficial)) and C Hoare & Company (Hoare).

Access

3.27. Access credit and charge cards are issued by participant members of the JCCC. The JCCC is an Association member of MCI and is proprietor of the Access trade mark. The main participant banks of the JCCC, which are also its shareholders, are Lloyds, Midland, NatWest and RBS. Other participant banks include the Bank of Ireland which issues a small number of Access cards in the United Kingdom, and former subsidiaries of Midland which are now owned by the National Australia Finance Ltd, the Clydesdale Bank and the Northern Bank.

3.28. The numbers of Access card accounts handled by the JCCC over the five-year period 1984 to 1988 are shown in Table 3.8. In 1988 the JCCC processed transactions for 10.4 million accounts (including some 386,000 company accounts and MasterCard Gold card accounts) with some 12.5 million cardholders. About 69 per cent of Access accounts were `active' in 1988 and about 31 per cent `inactive' (or not yet active if new accounts). The percentage of active accounts has declined from the earlier level of 75 per cent in 1984 and 1985.

TABLE 3.8 **Numbers of Access cardholders and accounts, 1984 to 1988***

'000

	1984	*1985*	*1986*	*1987*	*1988*
Cardholders (including MasterCard Gold card and credit cards linked to company accounts)	7,456	8,236	9,388	11,005	12,455
Accounts	6,026	6,668	7,654	9,081	10,381
Accounts with secondary cards	1,430	1,568	1,734	1,924	2,074
Active accounts	4,493	5,004	5,689	6,552	7,191
Active accounts as % of all accounts	75	75	74	72	69

Source: MMC using JCCC data.

*Figures refer to 31 October.

Lloyds

3.29. At the end of 1988 Lloyds had some 2.8 million credit cards in circulation, equivalent to 11 per cent of all credit cards in the United Kingdom. Lloyds said that it marketed its Access card principally to its own customers although for a period during 1985 the bank had promoted its card more widely. The rate of interest charged on extended credit was 2.00 per cent per month in March 1989 equivalent to 26.8 per cent APR.

Midland

3.30. Midland had some 2.8 million Access cards in issue in 1988, equivalent to about 11 per cent of the United Kingdom total. The rate of interest charged by Midland was 2.00 per cent per month (26.8 per cent APR) in March 1989.

3.31. Midland said that in recent years it had lost a number of Access accounts to other JCCC banks, whilst transfers to Midland from other banks had been on the decline. Midland markets its Access credit card principally to its existing branch customers.

NatWest

3.32. In 1988 NatWest had some 3.8 million Access cards in circulation, equivalent to 15 per cent of all credit cards in the United Kingdom. The rate of interest charged on the NatWest Access card was 1.90 per cent per month (25.3 per cent APR) in March 1989. The credit card is marketed principally to existing NatWest customers. Through its subsidiary Lombard Tricity Finance Ltd, NatWest supplies further unsecured lending facilities through its `Creditcharge' store card scheme.

RBS

3.33. The activities of RBS are conducted through five subsidiary companies, two of which supply credit card services. The companies providing credit card services are The Royal Bank of Scotland plc which issues an Access card, and RoyScot Financial Services Ltd. RoyScot Financial Services Ltd issues the Style credit card in Scotland and Northern England through its subsidiary Style Financial Services Ltd.

3.34. In 1988 RBS had 822,000 Access cards in circulation (3 per cent of the United Kingdom total). The rate of interest charged on the RBS Access card was 2.00 per cent per month (26.8 per cent APR) in March 1989.

3.35. The Style credit card, first introduced in 1980 by the Goldberg retailing group, is accepted predominantly in Scotland but also in a number of retail outlets in Northern England. We were told by RBS (which now owns Style) that its long-term aim was to extend the Style cardholder base nation-wide. The number of Style cards in circulation was running at 320,000 in 1988 (1 per cent of the United Kingdom total). The rate of interest charged was 32.9 per cent APR in March 1989.

Store cards

3.36. Some retailers issue store cards which can be used for purchases in shops forming part of a common retail group. Store cards bear a similarity to credit cards in that they provide a method of payment, offer a period of interest-free credit and the facility of extended credit. Store cards can, however, generally only be used in outlets owned by the issuing group and are therefore less widely accepted than Access and Visa credit cards. Cash advances cannot generally be obtained on a store card.

3.37. Store cards provide extended credit through either option accounts, in which the cardholder can choose how much to repay each month, or budget accounts in which a pre-set amount is repaid monthly. Some retailers also operate charge accounts in which full repayment is required each month. Most store card schemes operate as option accounts and some offer a choice between option and budget accounts.

3.38. All the major credit card companies told us that store cards presented a significant and increasing source of competition to credit cards. Information on the numbers of store cards in circulation is not readily available; however, the JCCC put the number of store cards in circulation at some 9.1 million at the end of 1986 and 11 million in 1988 whilst Barclays estimated a figure of 11 million at the end of 1986. Barclays said its market research indicated that more than 60 per cent of store cardholders also used a credit card and that in many circumstances store cards and credit cards could be used as substitutes for one another.

3.39. As part of our investigation we undertook a survey of retail groups and finance or other companies involved in the operation of store card schemes in order to obtain information about the scale of the store card business in the United Kingdom, the interest rates charged and the extent to which cards could be used outside the issuing retail group. We received responses from 22 major retailers, 10 of which operated their store card schemes in-house and 12 of which used the services of an external finance or other company. In addition we received responses from several finance or other companies direct.

3.40. Table 3.9 shows the number of store cards which we identified in our survey as being issued by retail groups on an in-house basis and on behalf of retailers by finance houses. In-house store card schemes are those for which administrative, financial and processing services are supplied principally by the retailer, in many cases through a subsidiary finance company forming part of the same retail group. The leading in-house store card issuers include the Burton Group, Marks and Spencer, House of Fraser and John Lewis.

TABLE 3.9 **The position of principal store cards in 1986/87**

	Number of accounts at end of year *m*	*Turnover* *£m*	*Debt outstanding at end of year* *£m*
In-house schemes	6.3	1,485	974
Schemes operated by finance houses for other retailers	2.5	217	446
Total	8.8	1,702	1,420

Source: MMC.

3.41. We identified 11 finance or other companies operating store card schemes on behalf of other retailers. The principal ones include Lombard Tricity Finance Ltd, Welbeck Finance (part of the Burton Group), North British Credit, DCT Retail Services Ltd, Lloyds Bowmaker Ltd, First Data Resources Ltd (a subsidiary of American Express) and Credit and Data Marketing Services Ltd, owned by Littlewoods. Although the figures shown in Table 3.9 do not cover all the store cards in issue in the United Kingdom they include the great majority of schemes. That analysis identified a total of just under 9 million store cards in issue with total turnover running at about £1.7 billion and debt outstanding of about £1.4 billion.

3.42. We were told by many retailers that the principal reasons for operating a store card scheme were to increase sales by encouraging customer loyalty, to provide a broader range of services and to obtain valuable marketing information.

Charge cards

3.43. Charge cards provide part of the service which is supplied by credit cards in that they offer a means of payment with a period of interest-free credit. Charge cards are not intended, however, to provide the facility of extended credit. Charge cards are issued in the United Kingdom by the majority of Visa and Access credit card issuers as well as by American Express and Diners Club. Charge cardholders are charged annual fees and sometimes an initial membership fee.

3.44. Tables 3.10 and 3.11 set out the numbers of charge cards in issue and the value of transactions on charge cards over the period 1984 to 1988. At the end of 1988 the total number of charge cards in issue in the United Kingdom stood at 2 million. The total value of transactions with traders was £4.6 billion in 1988.

TABLE 3.10 **Numbers of charge cards in issue in the United Kingdom at 31 December , 1984 to 1988**

'000

	1984	*1985*	*1986*	*1987*	*1988*
Total	1,328	1,506	1,718	1,842	2,079

Source: MMC from company data.

TABLE 3.11 **Value of merchant transactions on charge cards, 1984 to 1988**

£ million

	1984	*1985*	*1986*	*1987*	*1988*
Total	1,995	2,636	3,054	3,840	4,616

Source: MMC from company data.

3.45. The numbers of traders in the United Kingdom accepting American Express and Diners Club are set out in Table 3.12.

TABLE 3.12 **Numbers of traders accepting American Express and Diners Club, 1984 to 1988**

'000

	1984	*1985*	*1986*	*1987*	*1988*
American Express	na	106	122	126	141
Diners Club	65	79	90	96	104

Source: American Express and Diners Club.

Credit card interest rates

3.46. The majority of Access and Visa credit card issuers said that in setting their interest rates account was taken principally of the cost of funds, the interest rates charged on other forms of consumer lending supplied by the card issuer and the credit card interest rates charged by other card issuers.

3.47. In particular, Barclays said that it applied the rough rule of thumb that the average rate of interest paid by all its cardholders (ie total interest income received expressed as a percentage of total customer balances, whether interest-bearing or non-interest-bearing) should be about six percentage points above the LIBOR rate. Because of the period of interest- free credit and the incidence of full payers the average rate of interest paid will be some way below the APR paid on interest-bearing balances. Towards the end of our inquiry Barclays told us that competitive pressures meant that the six percentage point margin was no longer achievable.

3.48. Trends in the upper and lower levels of credit card APRs and bank base rates over the period 1983 to 1988 and comparison with bank base rates are shown in Figure 3.2. Figure 3.3 shows trends since 1983 in the differential between base rates and credit card interest rates, based on the upper and lower limits of the APRs charged by the four largest card issuers (Barclays, Lloyds, Midland and NatWest). This differential shows that credit card interest rates were 12 percentage points or more above base rate in the periods from 1983 to 1985 and again from the middle of 1987 to the beginning of 1989. Between 1985 and the middle of 1987, however, the differential increased and reached a peak of 17.8 per cent above base rates in May 1987 although within this period there were significant differences between the APRs charged by the main credit card companies.

The timing of interest rate changes

3.49. Details of the rates of interest charged on all credit cards in circulation in the United Kingdom from the middle of 1982 are set out in Appendix 3.2. This also shows the dates on which these interest rates were changed. Over this period, Barclays, BoS and Girobank (since 1985) have each altered their Visa credit card rates on the same day or within one day of one another. TSB and Co-op have not, however, changed their interest rates closely in line with the other Visa banks.

3.50. Between mid-1982 and mid-1987 the main Access card issuers all changed their interest rates within a few days of one another. Since mid-1987 there have been larger differences between the timings of changes in their interest rates. Barclays, BoS and Girobank have generally altered their interest rates within about one month of Lloyds, Midland and NatWest.

Calculation of interest charges

3.51. There are some differences in the ways in which Access and Visa card issuers calculate the interest to be charged. These are summarised in Appendix 3.3. In practice the different methods used make little difference to the cost of taking extended credit.

Interest rates on store cards

Option accounts

3.52. We obtained details of interest rates charged on 22 principal store cards linked to option accounts. In some cases retailers indicated a lower rate of interest for cardholders making agreed minimum monthly repayments by direct debit. At the end of March 1989 the monthly rates of interest charged to cardholders making direct debit payments ranged from 1.5 per cent (19.5 per cent APR) to 2.5 per cent (34.5 per cent APR); 17 of these store cards carried monthly interest rates of 2.2 per cent (29.8 per cent APR) or more. Where retailers indicated higher rates of interest for payment not involving direct debit, these ranged from 29 per cent to 41.7 per cent APR.

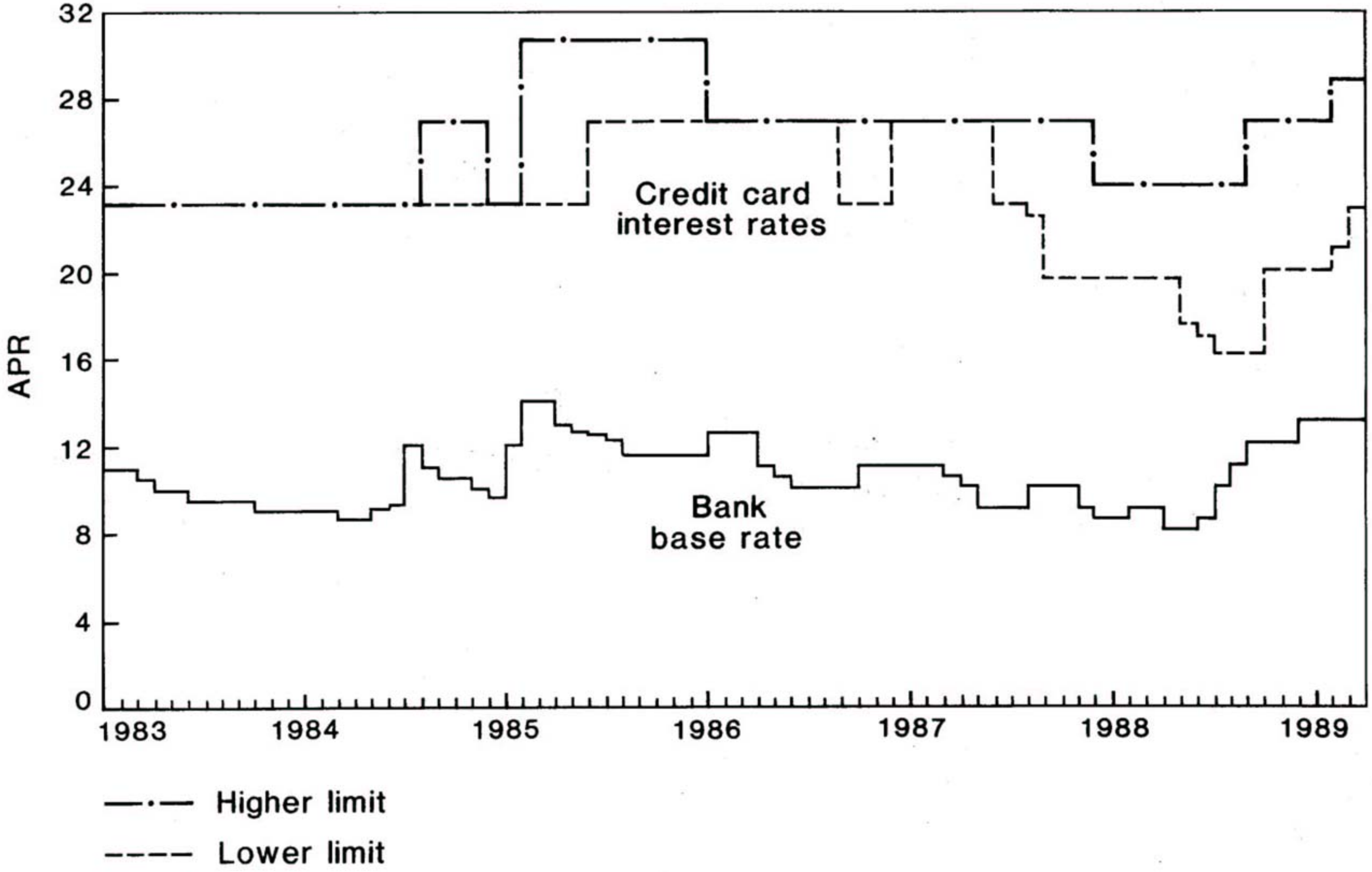
3.53. The APRs charged on store cards are in most cases considerably higher than those charged on credit cards.

Comparison between the costs of credit cards and other forms of borrowing

3.54. The APRs quoted for credit card and other types of lending do not provide a wholly accurate indication of the relative cost of borrowing from different sources. Two principal reasons for this are, first, that the effective rate of interest paid by those taking extended credit on credit cards is, in practice, slightly lower than the quoted APR because of the period of interest-free credit on purchases. Barclays told us that at a Barclaycard rate of interest of 2 per cent per month, the effective rate of interest paid by extended credit takers was about 1.94 per cent per month. This point is considered further in paragraphs 3.59 to 3.67. Second, the cost of borrowing from sources other than credit cards often involves transaction charges and annual account charges. The relative

Figure 3.2

Upper and lower limits of credit card interest rates,* and bank base rates, 1983 to March 1989

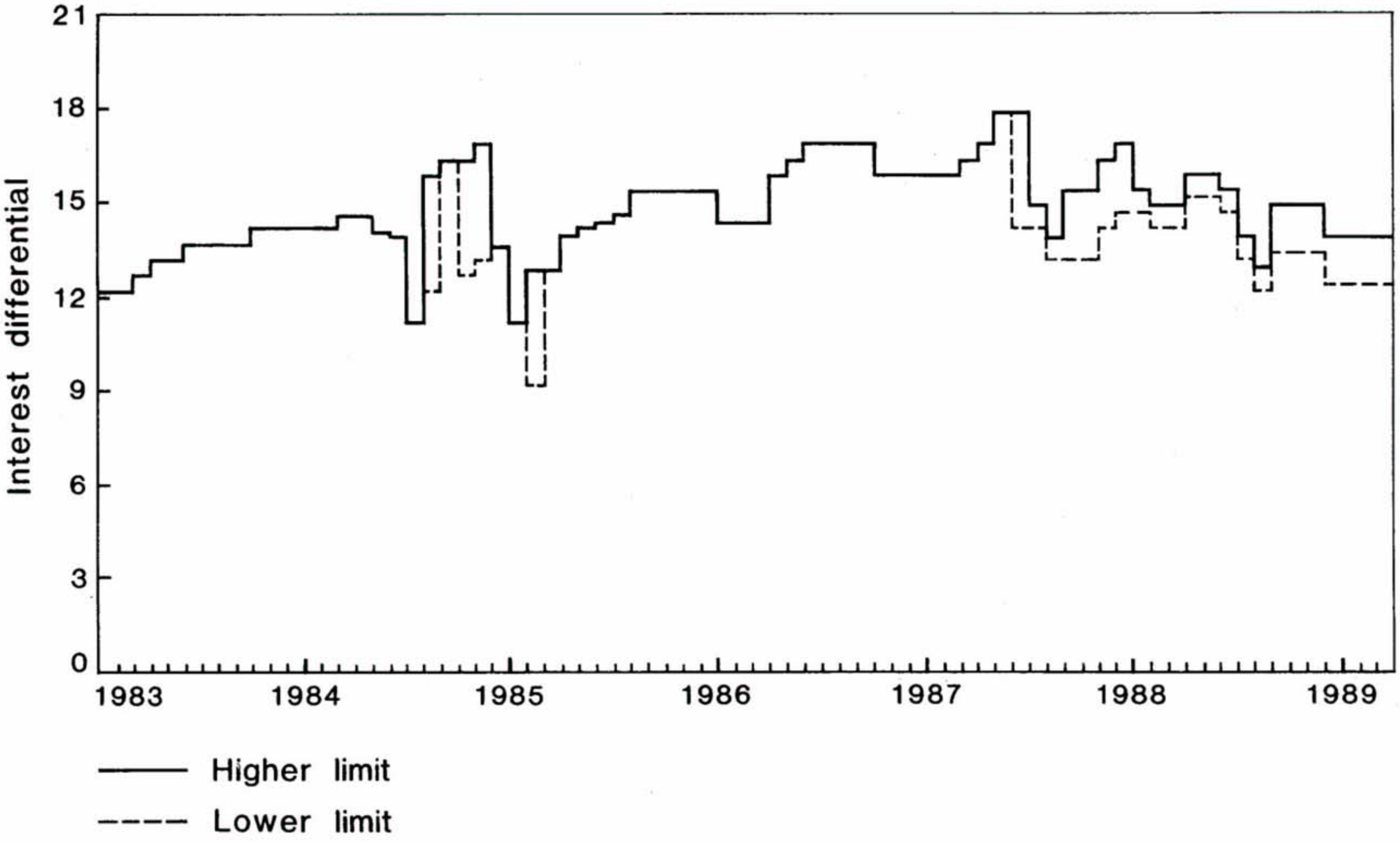


Source: MMC.

*The rates used were those offered by the great majority of card issuers.

Figure 3.3

Difference between APRs charged on specific credit cards,* and bank base rates, 1983 to March 1989



Source: MMC.

*This analysis covers credit cards issued by Barclays, Lloyds, Midland and NatWest.

cost of borrowing can therefore depend on the amounts involved and the number of transactions made.

3.55. Barclays provided us with an analysis (see Table 3.13) based on samples which showed, in broad terms, that Barclaycard was often a cheaper source of borrowing than the bank's standby overdrafts, Cashplan revolving credit accounts, and overdrafts attracting interest charges at base rate plus 15 per cent per annum. (Both unauthorised and some authorised overdrafts can attract interest charges at this rate.) Authorised overdrafts charged at base rate plus 5 per cent per annum, or less, were generally a cheaper source of borrowing than Barclaycard, although the average amounts lent at these rates of interest generally exceed £3,000. Table 3.13 sets out a comparison of the relative costs of borrowing at a Barclaycard rate of interest of 2 per cent per month (26.8 per cent APR), with base rate at 12 per cent per annum.

The use of extended credit by cardholders

3.56. Statements are sent to cardholders monthly and in any one month a proportion of credit card users pay off their statements in full. Others do not pay in full and incur interest charges in line with the principles set out in Appendix 3.3.

3.57. Amongst those paying off their statements in full in any one month there are those who sometimes take extended credit, as well as full payers. Amongst those not paying off their accounts in full in any one month there are also some cardholders who only sometimes take extended credit, as well as borrowers who take credit continuously over long periods.

3.58. A number of banks provided us with detailed analyses of the extent to which their cardholders, over a period of 12 months, fell into the following categories:

(a) full payers;

(b) occasional credit takers; or

(c) regular credit takers throughout the period.

3.59. An analysis provided by Barclays, for the year 1987, is set out in Table 3.14. This shows that about 27 per cent of Barclaycard holders (excluding non-active cardholders who did not make use of their Barclaycard) paid all their statements in full in 1987. These cardholders accounted for about 9 per cent of Barclays' credit card outstandings at the end of 1987. 33 per cent of active cardholders took extended credit throughout 1987 and therefore were charged interest continuously over the 12-month period. These cardholders accounted for 59 per cent of Barclays' outstandings at the end of the year. The remaining 40 per cent of cardholders took extended credit for at least one month (but less than 12 months) of the year; these cardholders accounted for outstandings of about 32 per cent of the total at the end of the year.

TABLE 3.13 **Comparison between the cost of borrowing on Barclaycard at a rate of interest of 2 per cent per month (APR of 26.8 per cent), and the cost of borrowing on other sources of lending, supplied by Barclays**

Type of borrowing	*Interest charged per quarter %*	*APR*	*Transaction charge per quarter £*	*Assumed average balance £*	*Assumed chargeable entries per quarter*	*Interest charge for year £*	*Transaction charge for year £*	*Account charge for year £*	*Total cost of borrowing for year £*	*Maximum cost of equivalent loan on Barclaycard 2.00% £*	*Average cost of equivalent loan on Barclaycard 1.94% £*	*Average cost of Barclaycard borrowing lower than cost of alternative loan*
1. Standby overdraft	4.50	19.25	0.29	250	5	45.00	5.80	32	82.80	60.00	58.20	Yes
				250	50	45.00	58.00	32	135.00	60.00	58.20	Yes
				1,000	5	180.00	5.80	32	217.80	240.00	232.80	No
				1,000	50	180.00	58.00	32	270.00	240.00	232.80	Yes
				289*	30.8*	52.02	35.73	32	119.75	69.36	67.11	Yes
2. Cashplan	5.50	23.88	0.40	250	5	55.00	8.00	0	63.00	60.00	58.20	Yes
				250	50	55.00	80.00	0	135.00	60.00	58.20	Yes
				1,000	5	220.00	8.00	0	228.00	240.00	232.80	No
				1,000	50	220.00	80.00	0	300.00	240.00	232.80	Yes
				870*	6.7*	191.40	10.72	0	202.12	208.80	202.01	Yes
3. Authorised or unauthorised overdraft (Base rate +15%)	6.75	29.86	0.29	250	5	67.50	5.80	12	85.30	60.00	58.20	Yes
				250	50	67.50	58.00	12	137.50	60.00	58.20	Yes
				1,000	5	270.00	5.80	12	287.80	240.00	232.80	Yes
				1,000	50	270.00	58.00	12	340.00	240.00	232.80	Yes
				571**	15**	154.17	17.40	12	183.57	137.04	132.59	Yes
				760*	13*	205.20	15.08	12	232.28	182.40	176.47	Yes
4. Authorised overdraft (Base rate +7%)	4.75	20.40	0.29	250	5	47.50	5.80	12	65.30	60.00	58.20	Yes
				250	50	47.50	58.00	12	117.50	60.00	58.20	Yes
				1,000	5	190.00	5.80	12	207.80	240.00	232.80	No
				1,000	50	190.00	58.00	12	260.00	240.00	232.80	Yes
				1,520*	38*	288.80	44.08	12	344.88	364.80	352.94	Yes
5. Authorised overdraft (Base rate +5%)	4.25	18.11	0.29	3,125*	39*	535.84	45.24	12	593.08	756.48	731.89	No
6. Authorised overdraft (Base rate +4%)	4.00	16.99	0.29	5,491*	39*	878.56	45.24	12	935.80	1,317.84	1,275.01	No
7. Authorised overdraft (Base rate +2.5%)	3.63	15.31	0.29	8,430*	39*	1,222.35	45.24	12	1,279.59	2,023.20	1,957.45	No

Source: MMC using Barclays data.

*Refers to actual average balances and numbers of chargeable entries on Barclays standby overdrafts, Cashplan accounts and authorised overdrafts.
**Refers to actual average balances and numbers of chargeable entries on unauthorised overdrafts.

TABLE 3.14 **Analysis of outstandings on active Barclaycard accounts during 1987**

	Total number of accounts at 31.12.87 '000*	*% of active accounts*	*Total outstandings at 31.12.87** £m*	*% of total outstandings*
Full payers	1,428	27	141	9
Occasional credit takers	2,076	40	510	32
Regular credit takers	1,696	33	958	59
Total active accounts	5,200	100	1,609	100
Dormant accounts	1,308			
Total	6,508			

Source: Barclays.

*Excludes active accounts opened or closed during 1987, and accounts on which measures were being taken to recover debts.

**The sum of outstandings on statements issued during the course of December is used as a close approximation to aggregate outstandings at 31 December.

3.60. A similar analysis shown to us by the four largest Access banks, based on a 1 per cent sample of accounts, is set out in Table 3.15. This shows that about 30 per cent of these Access cardholders were full payers in 1987 and, with the exception of the RBS cardholders, between 36 and 40 per cent took extended credit for less than 12 months of the year. About 30 per cent, again with the exception of the RBS cardholders, were regular credit takers. Among RBS cardholders, 55 per cent were occasional credit takers and only 15 per cent took credit throughout the year.

3.61. When providing this information, Midland commented that it was based on a 1 per cent random sample of its cardholder file. Although it had no reason to doubt the integrity of the statistics, the sample fell far short of representing a detailed qualitative analysis of total cardholder monthly outstandings either by volume or value and was therefore an unreliable base upon which to draw any conclusions as to the precise nature and behaviour pattern of the total file.

3.62. It is, however, noticeable that the breakdown of cardholders into the three categories shown in Tables 3.14 and 3.15 showed very similar proportions for the four largest banks, with only RBS showing a significantly different level of regular credit takers amongst its cardholders.

3.63. Cardholders who are full payers (category (a)) are able to maintain borrowings without paying any interest by always paying off statements in full. The average amount of interest over a full year paid by occasional credit takers (category (b)) depends on the duration and level of interest-bearing borrowings taken by the individual cardholder and on the extent to which the occasional credit takers benefit from interest-free credit.

3.64. For regular credit takers (category (c)) the effective annual rate of interest on borrowing is close to the full quoted APR. In practice the effective rate of interest is slightly below the full APR if, over the relevant period, new transactions are made on the credit card. This is because new transactions give rise to an element of interest-free lending within the total borrowings on the credit card account taken as a whole. If no new transactions are made in any particular period and repayments are made at the minimum level under the card agreement, the effective annual rate of interest is equal to the full APR quoted by credit card companies until that particular debt has been repaid. It should be noted, however, that for both category (b) and category (c) borrowers, once the interest-free period associated with a given purchase has passed, outstanding borrowings are charged at the full APR until the credit associated with that purchase has been repaid. In all these cases the interest-free period which arises when the balance is finally cleared is ignored.

TABLE 3.15 **Analysis of 1 per cent sample of active Access accounts by type of credit card user**

	Lloyds						*Midland*					
	Number of accounts	*%*	*Turnover £m*	*%*	*Interest £m*	*%*	*Number of accounts*	*%*	*Turnover £m*	*%*	*Interest £m*	*%*
(a) Full payers	4,684	30	4.2	28	0	0	5,187	32	4.8	31	0	0
(b) Occasional credit takers	6,283	40	6.8	46	0.196	22	5,898	36	6.5	42	0.141	19
(c) Regular credit takers	4,626	30	3.9	26	0.693	78	5,218	32	4.1	27	0.619	81
	NatWest						*RBS*					
(a) Full payers	6,302	31	5.7	31	0	0	1,106	30	1.0	30	0	0
(b) Occasional credit takers	7,628	38	8.2	45	0.223	21	2,066	55	1.8	56	0.098	57
(c) Regular credit takers	6,242	31	4.6	25	0.823	79	565	15	0.4	14	0.076	43

Source: MMC using company data.

3.65. Using the information in Tables 3.14 and 3.15 and other data supplied by the banks we have estimated the costs to the five banks taken together of funding the credit advanced to each of the three categories of cardholder shown in those tables, and compared those estimates with the income received by way of interest from cardholders. We have also calculated the costs of the interest-free credit provided to each category. The funding costs used in this analysis form the major part of the banks' costs, but do not include all the costs of supplying credit since other operational costs (eg the collection of deposits, preparation and issuing of cardholder accounts, the handling of queries and new applications, and the issuing of cards) are incurred. The results of our comparison are set out in Table 3.16.

TABLE 3.16 **Estimated costs of supplying credit to and income received from specified categories of credit card user in 1987**

	Cost of funding credit			*Interest income*	
					Interest income as a percentage of amounts outstanding
	*Interest-free**	*Interest-bearing*	*Full amount***	*Interest income received*	
	£m	*£m*	*£m*	*£m*	*%*
(a) Full payers	38	0	38	nil	0
(b) Occasional credit takers	44	86	130	133§	10
(c) Regular credit takers	18	235	253	533§	21
Total	100	321	421***	666§§	15

Source: MMC study.

*From information supplied by the banks, we have calculated that the interest-free element of the credit taken by occasional credit takers was on average 34 per cent of the total credit which they took; the corresponding figure for regular credit takers was 7 per cent.

**The proportions of total funding costs allotted to each category of cardholders are in accordance with their shares of total outstandings, estimated for each category as (a) 9 per cent, (b) 31 per cent, and (c) 60 per cent.

***The average outstanding cardholder balances of the five banks in 1987 amounted to £4,316 million. Assuming the cost of funding those balances was at the average three-month LIBOR in 1987 of 9.76 per cent, the total cost of funding was estimated as £421 million.

§From information supplied by the banks, we have estimated that occasional credit takers paid 20 per cent of the total interest payments received by the banks, the remaining 80 per cent being paid by the regular credit takers.

§§This is the actual income of the five banks in 1987 from interest payments by cardholders.

3.66. This analysis indicates that the estimated cost of interest-free credit taken by full payers was ver one-third of the estimated cost to the five banks of the interest-free credit taken by all cardholders, and nearly one-tenth of the estimated cost of all the credit advanced in that year. This group provided no interest income. The estimated cost of interest- free credit taken by occasional credit takers was somewhat higher than that taken by full payers. This group accounted for about 30 per cent of interest costs and provided 20 per cent of interest income. Regular credit takers benefited to a much lower extent; the estimated cost to the five banks of the interest-free credit taken by such cardholders was about 7 per cent of the estimated cost of the credit which they took. Regular credit takers accounted for 60 per cent of total interest costs and provided 80 per cent of interest income.

3.67. The average amounts outstanding for the three categories of cardholder identified in Table 3.16 were of the order of £80 for full payers, £210 for occasional credit takers and £525 for regular credit takers. The amount of interest paid by regular credit takers in 1987 was equivalent to about 21 per cent of the amount outstanding for this category of credit card user. This figure is rather lower than the APR being paid on interest-bearing credit because of the inclusion of interest-free credit allowed before items purchased are first included on a monthly statement balance. For occasional credit takers the proportion of the interest-free credit is greater and interest paid during the year amounted to only 10 per cent of the amount outstanding. Full payers were not required to pay any interest but benefited from the interest-free period. Taking the three categories of cardholder together, the interest paid amounted to 15 per cent of the amounts of credit outstanding. During 1987 the APRs charged by these five credit card issuers varied between 23.1 and 26.8 per cent. Details of aggregate amounts due from cardholders and amounts of interest charged over the five years 1984 to 1988 for these five credit card issuers are shown in Appendices 4.2 to 4.6.

Barclays' comments on the position of full payers

3.68. Barclays argued that full payers provided a net benefit to its credit card business. It supported this view with figures for 1987 which are set out in Table 3.17. This showed that full payers provided a contribution of £5.8 million after deduction of direct costs towards Barclays' system support and indirect costs, but that this left about £100 million to be recovered from other sources. The contribution identified by Barclays comes primarily from the MSC income paid by traders on transactions by full payers. Barclays also stated that full payers contribute by adding volume to the system which allows economies of scale to be made and more advanced technology to be applied. The turnover generated by full payers also makes card acceptance more attractive to traders.

TABLE 3.17 Contribution made by Barclays' full payers in 1987

£ million

	Full payers	Total credit card services
Income		
Interest charged by Barclays	0.0	278.7
Charges to traders	32.6	118.6
Other items	6.2	28.6
Total income	38.8	425.9
Costs		
Branch expense	2.1	12.3
Other recharged expenditure and other costs	15.2	67.0
Fraud losses	1.7	8.4
Interest paid by Barclays	14.0	168.9
Total direct costs	33.0	256.6
Contribution	5.8	169.3
Promotional expenditure		17.8
Bad and doubtful debts		23.7
Other recharged expenditure and other costs		64.5
Total system support costs/ indirect costs		106.0
Profit before tax		63.3

Source: Barclays.

Services supplied to traders

3.69. Traders accept credit cards under agreements with merchant acquirers for particular cards. The principal elements in those agreements have been described in paragraphs 2.21 to 2.24 for Visa and paragraphs 2.44 to 2.50 for Access. In the United Kingdom Barclays was, until recently, the only Visa merchant acquirer in Great Britain. TSB also operated as a Visa merchant acquirer in Northern Ireland in addition to Barclays, for whom the Allied Irish Banks plc acts as agent. Developments on merchant acquiring in 1989 are described in paragraphs 3.104 to 3.109.

3.70. The credit card companies argued that traders obtained the following benefits from accepting credit cards:

(a) the possibility of selling goods and services to cardholders who wish to obtain the benefits of using an Access/MasterCard/Eurocard or Visa card, resulting in additional sales, especially to foreign cardholders;

(b) guaranteed payment when sales vouchers are banked, provided authorisation has been obtained for transactions over the trader's `floor limit', followed by immediate settlement if the vouchers are presented at the bank branch holding the trader's account;

(c) a secure method of concluding telephone and mail order sales;

(d) reduction in the costs and security problems of handling cash;

(e) identification as a member of a scheme which is widely promoted to consumers as a means of payment; and

(f) the possibility of providing consumers with access to a credit facility which a trader might not otherwise be able to provide.

Barclays and the JCCC told us that it was not possible to quantify, in financial terms, the benefits which traders received, although the JCCC provided us with calculations and comparisons against which the value of some benefits could be judged.

The setting of MSCs

3.71. MSCs for credit cards almost always take the form of a percentage charge on card transactions which is paid monthly by the trader, usually by direct debit. The obligation to pay the trader is unrelated to the collection of sums due from cardholders; the risk of loss resulting from non-payment by the cardholder thus falls solely on the card issuer.

3.72. In setting MSCs for the majority of its traders Barclays works on the basis of a charging matrix under which the percentage level of charge to be proposed to a newly-recruited trader varies according to:

(a) the ATV; and

(b) the volume of turnover.

This matrix is a guide for negotiation used by Barclays' staff and is not a fixed `price list'.

3.73. The Barclays matrix has 32 points for average transaction values ranging from £10 to £150, and 30 points for annual turnover ranging from under £5,000 per annum to over £50 million. Within the various bands the MSCs range from 1.5 per cent to 4.5 per cent. Only in exceptional circumstances do charges exceed 4.5 per cent, eg in circumstances where there is a high incidence of fraudulent card use. When a newly-recruited outlet has operated for six months, the MSC is normally reviewed in the light of experience on card turnover and average transaction value. Thereafter traders may request a review at any time. Any increases in charges are discussed with traders before implementation.

3.74. Barclays provided information showing the extent to which the MSCs negotiated with traders departed from the matrix. This is analysed in Table 3.18.

3.75. This table shows that a greater proportion of total MSC revenue was obtained from traders being charged above the matrix rate than from those on or below it. About 55 per cent of traders were charged MSCs above the matrix levels and provided 51 per cent of MSC revenue. The table also shows that only about 9 per cent of traders were on matrix rates, providing just over 10 per cent of total MSC revenue. Barclays explained that a large number of smaller traders were on MSCs below the matrix because of fixed rate arrangements applying to their trade sectors or trade associations.

TABLE 3.18 **Comparison of actual MSC rates with matrix applied ratesall Visa traders, 1988**

	Trader outlets		*Visa turnover*		*Transactions*		*Gross MSC revenue*		*Average MSC charged per transaction*
	'000	*%*	*£m*	*%*	*m*	*%*	*£m*	*%*	*%*
Above matrix rate by over 0.5%	52	19.8	1,060	11.6	18	6.3	37	18.8	3.49
Above matrix rate by up to 0.5%	94	35.7	2,465	27.1	64	22.3	64	32.5	2.60
At matrix rate	23	8.8	1,059	11.6	34	11.8	20	10.1	1.89
Below matrix rate	94	35.7	4,525	49.7	171	59.6	76	38.6	1.68
	263	100.0	9,109	100.0	287	100.0	197	100.0	

Source: MMC study of Barclays data.

Note: As it is necessary for a trader to have 12 months' turnover before the reporting system can make a comparison with the matrix, those traders whose accounts are less than 12 months old are excluded from the analysis.

3.76. For certain groups of traders Barclays has negotiated standard levels irrespective of anticipated average transaction value or turnover. The principal groups include petrol retailers, travel agents and suppliers of electricity, water and telephone services. Barclays told us that these standard charges are generally lower than they otherwise might have been under the normal negotiation procedures. The main reasons for this were as follows:

(a) the importance to cardholders that the card should be accepted on a wide scale in a particular trade or activity (eg petrol);

(b) the high average Visa turnover and average voucher value achieved by some groups of traders (eg travel agents and public utilities);

(c) the emphasis placed by some organisations on the need for a wide range of payment options (eg public utilities and rating authorities);

(d) the low trading margins obtained by some traders (eg travel agents);

(e) the existence of an established standard charge in the market thus ruling out the feasibility of higher charges at the same time as maintaining coverage; and

(f) the low degree of risk associated with some types of transaction (eg insurance).

3.77. The JCCC has similar arrangements for setting and reviewing its MSCs. The JCCC's standard scale of MSCs (ranging up to 4 per cent) for internal use is based primarily on turnover. Of the various other features of a trader's business that may affect charges, the most significant is the average transaction value (ATV). Factors taken into account in negotiation with traders include:

(a) ATV;

(b) lower administration costs, eg from bulk submission of vouchers and Electronic Funds Transfer (EFT);

(c) typical levels of fraud and loss;

(d) level of disputes on connected lender liability; and

(e) any costs due to particular problems with the trader's account.

The JCCC said that it also takes a number of broader factors into account, in particular the bargaining power of traders, the extent of competition from Barclays and others, and the benefits to the trader of accepting Access cards. New traders are generally started at the 4 per cent rate. MSCs are reviewed annually. Traders can seek a review at any time.

3.78. The JCCC said that it had negotiated special rates with some groups of traders or trade associations, in particular:

(a) petrol retailers, because of their low margins and importance to the Access business as a whole (15.3 per cent of Access trader turnover);

(b) travel agents, because of their low margins, their importance to Access (9.8 per cent of Access trader turnover), and their high ATV;

(c) the insurance business, because of the bargaining power of the major insurance companies, high ATVs, and the negligible incidence of fraud; and

(d) in addition to charities, special rates have been negotiated with a wide range of professional and trade associations (such as solicitors, dentists, cycle traders, and sports goods distributors).

3.79. The JCCC provided information, for the year to October 1988, showing the extent to which concessionary and `normal' rates of MSCs applied (see Table 3.19). The table shows that about 38 per cent of outlets (many of these operated by the `top 200' retailers) were charged concessionary rates. These outlets provided about 60 per cent of the JCCC's MSC income in the year to October 1988 and paid an average MSC of 1.9 per cent. By comparison, `normal'-rated outlets provided about 40 per cent of MSC income at an average MSC of 3.1 per cent.

TABLE 3.19 **`Normal'- and concessionary-rated Access outlets**

	Outlets as at 30 October 1988	*Access trader turnover year to October 1988 £m*	*MSC income year to October 1988 £m*	*Average service charge rate %*
A. Concessionary rates				
National accounts outlets (`top 200' retailers)	50,113	4,027	68	1.7
Garages	24,334	926	22	2.4
Travel agents	7,048	417	6	1.4
Trade association members	33,995	468	14	2.8
Airlines	222	17	0.3	1.9
Insurance	1,403	27	0.5	2.0
Charities	504	6	0.025	0.5
Sub-total concessionary-rated outlets	117,619	5,888	110	1.9
B. `Normal'-rated outlets	188,159	2,327	72	3.1
Total, all UK outlets	305,778	8,215	182	2.2

Source: JCCC.

Note: Includes transactions with foreign cardholders and charge cards. Individual trade categories exclude accounts that are among the `top 200' retailers.

3.80. The costs of processing transactions in both the Access and Visa systems are lower in circumstances where traders submit data electronically. Electronic transfers attract a rebate on the trader's normal MSC. The EFT rebate ranges currently from 4 to 6 pence per transaction with Barclays, and from 3.5 to 6 pence per transaction with the JCCC.

MSC revenue

3.81. An analysis of Barclays' and the JCCC's MSC revenue by charging band is set out in Tables 3.20 and 3.21. The analysis shows that:

(a) The majority of traders are charged MSCs above 3 per cent. These traders account for 29 per cent of Barclays', and 18 per cent of the JCCC's, total MSC income.

(b) There is a wide range in average MSC revenue per transaction across the charging bands identified in the tables. Moreover, within the charging bands there is likely to be variation in average revenue per transaction around the averages shown in the tables.

(c) ATVs are significantly higher for the small minority of traders paying 1 per cent or less. ATVs for traders within the other charging bands are broadly similar to one another, although there is likely to be variation within each charging band.

3.82. Table 3.20 provides an analysis of Barclays' merchant activity in five MSC bands.

3.83. Barclays does not accept that ATVs provide an appropriate measure of either:

(a) the extent to which the MSC reflects, or fails to reflect, the costs of servicing particular traders; or

TABLE 3.20 **Analysis of Barclays' merchant activity, all traders, 1988**

MSC band %	*Number of merchant outlets*	*MSC revenue £'000*	*Percentage of MSC revenue*	*Average annual Barclaycard turnover per outlet £*	*Average revenue per outlet £*	*Average number of trans-actions per outlet*	*Average trans-action value £*	*Average revenue per trans-action £*
Dormant	22,792	-	-	-	-	-	-	-
Up to 1.00%	8,059	8,266	4	105,029	1,026	519	202	1.97
1.01 to 2.00%	65,199	87,821	43	80,073	1,347	3,190	25	0.42
2.01 to 3.00%	51,136	49,503	24	36,726	968	845	43	1.15
3.01 to 4.00%	84,966	42,244	20	13,871	497	332	42	1.50
4.01 to 5.00%	66,775	18,635	9	6,341	279	253	25	1.10
Total	298,927	206,469	100	31,938	691	1,005	32	0.69
Total excluding dormant	276,135	206,469	100	34,574	748	1,088	32	0.69

Source: MMC using Barclays data.

TABLE 3.21 **Analysis of Access merchant activity, all traders, 1988**

MSC band %	*Number of merchant outlets*	*MSC revenue £'000*	*Percentage of MSC revenue*	*Average annual Access turnover per outlet £*	*Average revenue per outlet £*	*Average number of trans-actions per outlet*	*Average trans-action value £*	*Average revenue per trans-action £*
Up to 1.00%	10,677	10,911	6	103,318	1,022	960	108	1.06
1.01 to 2.00%	43,634	57,197	32	72,764	1,311	2,549	29	0.51
2.01 to 3.00%	109,541	80,844	45	28,270	738	995	28	0.74
3.01 to 4.00%	166,220	32,394	18	4,994	195	143	35	1.37
Total	330,072	181,346	100	24,858	549	770	32	0.71

Source: MMC using JCCC data.

(b) the extent to which the MSC reflects, or fails to reflect, the benefits received by particular traders.

For example, the principal determining elements in the charge for those traders in the MSC band of 1 per cent or less are likely to be:

(i) the relatively high costs of funds to finance relatively high ATVs; and

(ii) the relatively low cost (per transaction) of processing high value vouchers.

On the other hand, the principal determining elements in the charge for those traders who fall within the 2 to 3 per cent MSC band is likely to be the relatively high cost of processing a large number of lower-value vouchers. Traders in the 3 to 4 per cent MSC band have average annual turnovers which are under half the average for all traders and therefore processing costs (and possibly other costs such as fraud, handling customer complaints, connected lender liability exposure) are likely to be higher.

3.84. Corresponding information for the JCCC is set out in Table 3.21.

3.85. The JCCC told us that in the case of those traders in the 1 per cent or less MSC band, the relatively high average revenue per transaction reflected the high ATV, which resulted in a higher incidence of those costs associated with transaction value and also a higher value to the trader of the benefits received per transaction; in the case of those traders in the 3 to 4 per cent MSC band, the relatively high average revenue per transaction reflected the small average number of Access transactions (on average less than three per week), which resulted in higher costs of handling each transaction.

TSB

3.86. TSB acts as a merchant acquirer in Northern Ireland only except that, in Great Britain, it acts as merchant acquirer for two TSB Group companies which accept Visa credit cards. At the end of 1988 it had 1,949 outlets in Northern Ireland. It is thus a very small operation compared with Barclays'.

3.87. TSB has no set scale of MSCs. It takes into account inter alia the average value of transactions, the benefits to traders (ie whether the Visa credit card is used more often in some trade sectors than others) and the low profit margins existing in some trades.

3.88. TSB was not able to provide information by MSC band, but gave the information by trade sector which is set out in Table 3.22.

TABLE 3.22 **MSCs charged by TSB in 1988**

Sector	*Average MSC* %	*Average transaction value* £	*Average revenue per transaction* £
Travel	1.0	192	1.88
Hotels	3.6	50	1.80
Restaurants	4.2	27	1.15
Motoring	2.1	14	0.30
Department stores	2.8	30	0.85
Jewellers	3.9	57	2.24
Clothing and footwear	3.6	35	1.28
Other	3.5	46	1.56
All sectors	2.8	28	0.80

Source: TSB.

The relationship of MSC rates to costs

3.89. Both Barclays and the JCCC argued that their costs per transaction in servicing traders varied. Barclays argued that while the basic processing costs per voucher were the same, irrespective of the value of the transaction, some of its costs per transaction of servicing traders tended to reduce as volume and ATV increased. The following factors tended to reduce costs:

(a) it was more economic to process the greater quantities of vouchers provided by the larger traders;

(b) a single negotiation with the Head Office of a large trader could cover a large number of outlets;

(c) the cost per transaction of stationery, imprinters, point of sale material etc was lower for larger traders; and

(d) large traders generally had better internal controls, procedures and staff training, leading to more reliable presentation of vouchers, more effective fraud prevention, and lower administrative costs on Barclays. It was also feasible to implement fraud prevention measures at short notice with larger traders.

3.90. Barclays was unable to quantify the variations in costs arising from the above factors. It provided hypothetical examples, arguing that in the case of a small trader, with a Visa turnover of £10,000 per year and producing a total MSC revenue of £370, after processing costs were deducted, a very small contribution remained towards the cost of recruiting the trader, supplying an imprinter, training the trader's staff and dealing with queries.

3.91. The JCCC said that its costs of servicing different traders varied according to a number of factors and that these may apply differently to different traders. The factors included the value of turnover, the number of transactions that had to be handled, the extent to which information was provided on paper or by electronic means, the number of outlets owned by the trader, the level of international business, the provision of special promotions, and the ability of the trader to comply with Access procedures and to prevent fraud. The JCCC argued that, whilst it was not possible to apportion costs between traders and cardholders, differences in MSCs between different traders broadly reflected differences in costs, including costs incurred by the issuing banks. The JCCC's charging structure could not take precise account of the individual circumstances of each of the large number of traders accepting Access. Nevertheless the structure did take account of costs as closely as could reasonably be expected given the complexity of the cost structure, the insoluble problem of apportioning costs between traders and cardholders, and having regard to other relevant factors including competition and traders' countervailing bargaining power. The JCCC was not able to quantify the extent of the variation in cost of servicing different traders.

Trends in MSCs

3.92. The average rate of charge on transactions for which Barclays is merchant acquirer declined from 2.43 per cent in 1982 to 2.15 per cent in 1988. Trends in average MSCs by sector are set out in Table 3.23.

TABLE 3.23 **Average MSCs by trade sector charged by Barclays, 1984 to 1988**

per cent

Sector	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
Garages	2.13	2.10	2.12	2.13	2.15	2.14	2.11
Clothing	2.91	2.83	2.79	2.73	2.64	2.58	2.42
Department stores	2.11	2.16	2.10	2.03	1.98	1.81	1.67
Radio, TV, cameras and electrical	2.18	2.06	2.00	1.99	1.97	1.97	1.93
Hotels and motels	2.85	2.71	2.65	2.62	2.53	2.47	2.38
Travel	1.07	1.13	1.18	1.23	1.22	1.54	1.17
Furniture and furnishings	2.57	2.28	2.26	2.23	2.19	2.07	1.98
Restaurants and night clubs	3.71	3.60	3.58	3.59	3.43	3.37	3.19
Footwear	3.03	2.92	2.84	2.80	2.69	2.49	2.28
Wines and spirits	2.25	2.44	2.45	2.51	2.34	2.27	2.13
Jewellers	3.35	3.21	3.11	2.99	2.85	2.71	2.50
Supermarkets	1.56	1.77	1.87	1.70	1.60	1.50	1.37
Mail order	3.26	3.33	3.21	3.07	2.93	2.81	2.72
Other	2.67	2.61	2.65	2.59	2.74	2.55	2.83
Overall average	2.43	2.36	2.35	2.32	2.29	2.23	2.15

Source: Barclays.

3.93. Barclays said that the trends shown in Table 3.23 reflected the following factors:

(a) when their charging matrix was introduced in 1982 many traders were allowed a reduction, but a significant proportion of traders from whom an increase was required resisted the move;

(b) a revision of the matrix in 1985 resulted in a significant number of traders being allowed a reduction in the rate charged;

(c) the matrix figures have not been increased to allow for inflation;

(d) new sectors have been added to the list covered by standard charges. Because of the lower level of the standard charge made in such sectors, this has further contributed to the downward trend; and

(e) supermarkets are increasingly accepting credit cards. Their size and low trading margins have led them to negotiate relatively low service charges.

3.94. The JCCC provided us with evidence showing that the average MSC charged on Access transactions had declined in recent years. In 1982 the average charge stood at 2.35 per cent and by 1988 had fallen to 2.21 per cent. Analysed by sector the Access charges over the six- year period are set out in Table 3.24.

TABLE 3.24 **The JCCC's average service charge rates by sector, 1982 to 1988**

per cent

	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
Clothing and footwear	2.58	2.56	2.58	2.59	2.59	2.58	2.55
Household and furniture	2.52	2.46	2.44	2.44	2.43	2.42	2.41
Consumer durables	2.40	2.36	2.35	2.27	2.24	2.26	2.26
General stores	2.15	2.10	2.09	2.09	2.07	2.08	2.06
Garages	2.36	2.33	2.33	2.33	2.34	2.32	2.31
Travel and entertainment	2.17	2.14	2.15	2.16	2.12	2.04	2.01
Miscellaneous	2.49	2.44	2.38	2.36	2.26	2.21	2.17
Overall average	2.35	2.31	2.31	2.30	2.27	2.24	2.21

Source: JCCC.

Notes:

1. The figures in this table are calculated from annual Access turnover and merchant income up to the end of October in each year.
2. The definitions of trade sectors used by the JCCC and Barclays do not fully correspond. The figures shown in Tables 3.23 and 3.24 are not therefore comparable.

The principal reason given by the JCCC for the decline in MSCs was that large multiple retailers with the greatest bargaining power had accounted for an increasing share of Access turnover; this in turn was due to the recent entry into the Access scheme of large food retailing groups. The growth in total Access turnover had also led to an increase in the number of traders qualifying for lower MSCs. The JCCC said that competition from Barclaycard had also had an effect on its charges. We were told that a number of traders, in particular some petrol retailers and travel agents, had put pressure on the JCCC to reduce its rates in line with those charged by Barclays.

3.95. Tables 3.25 and 3.26 show respectively the proportions of numbers of traders and associated Visa and MasterCard/Eurocard turnover falling in MSC charge bands in the three years 1986 to 1988. They show that increasing proportions of the value of purchases were made through traders paying MSCs of 2 per cent or lessfrom 57 to 64 per cent in the case of Barclays, and from 50 to 52 per cent for JCCC. The proportion of purchases made through traders paying MSCs of 2 to 3 per cent declined. The proportions of numbers of outlets paying MSCs of more than 3 per cent rose from 49 per cent to 55 per cent for Barclays and from 46 per cent to 51 per cent for the JCCC, but with little change in the proportions of turnover through those outlets. Our own survey of traders (see paragraph 21 in Appendix 5.2) showed that in the two years prior to the survey about 20 per cent of those traders had received a reduction in their MSCs.

TABLE 3.25 **Percentage of outlets and card turnover by MSC band, merchant acquirer: Barclays, 1986 to 1988**

per cent

	1986		*1987*		*1988*	
MSC band	*Merchant outlets*	*Turnover*	*Merchant outlets*	*Turnover*	*Merchant outlets*	*Turnover*
Up to 1.00	3	7	3	8	3	9
1.01 to 2.00	22	50	23	50	24	55
2.01 to 3.00	26	26	22	24	18	20
3.01 to 4.00	28	12	30	13	31	12
4.01 to 5.00	21	5	22	5	24	4
Total	100	100	100	100	100	100

Source: MMC using Barclays' data.

TABLE 3.26 **Percentage of outlets and card turnover by MSC band, merchant acquirer: JCCC, 1986 to 1988**

per cent

	1986		*1987*		*1988*	
MSC band	*Merchant outlets*	*Turnover*	*Merchant outlets*	*Turnover*	*Merchant outlets*	*Turnover*
Up to 1.00	3	12	3	13	3	13
1.01 to 2.00	13	38	13	38	13	39
2.01 to 3.00	38	41	35	39	33	38
3.01 to 4.00	46	9	49	10	51	10
Total	100	100	100	100	100	100

Source: MMC using JCCC data.

Trends in MSC income received by Barclays and the JCCC

3.96. While the average MSC percentages for Visa and Access have tended to decline, that has not been the case as regards the average income per transaction which increased in real terms between 1982 and 1988. The main reason for this has been the increase in ATV. Tables 3.27 and 3.28 set out trends in ATV and average revenue per transactions. All financial figures are adjusted to 1988 prices.

TABLE 3.27 **MSC income per transaction received by Barclays (adjusted to 1988 prices)**

	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
ATV (£)	26.93	27.50	27.82	28.97	29.88	30.93	31.52
Overall MSC rate (%)	2.43	2.36	2.35	2.32	2.29	2.23	2.15
Average revenue per transaction (p)	65.4	64.9	65.4	67.2	68.4	69.0	67.8

Source: Barclays.

TABLE 3.28 **MSC income per transaction received by the JCCC (adjusted to 1988 prices)**

	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
ATV (£)	28.98	28.97	28.81	29.08	30.32	31.84	32.54
Overall MSC rate (%)	2.35	2.31	2.31	2.30	2.27	2.24	2.21
Average revenue per transaction (p)	67.6	66.5	66.3	67.3	68.7	71.0	71.4

Source: JCCC.

3.97. Barclays' average revenue per transaction increased by 3.6 per cent in real terms between 1982 and 1988, while the ATV rose by 17.0 per cent. The overall MSC rate fell by 11.5 per cent. For the JCCC, the average revenue per transaction increased in real terms over the period by 5.6 per cent and the ATV rose by nearly 12.3 per cent. The overall MSC rate for JCCC transactions fell by 6.0 per cent.

3.98. The credit card companies argued that it was not possible to compare trends in average revenue per transaction with trends in their costs, because it was not possible to apportion costs as between the services provided to traders and those provided to cardholders.

DEVELOPMENTS SINCE JUNE 1987

Some developments which have affected the supply of credit card services since the previous inquiry

The position of the building societies

3.99. At the time of the previous inquiry, the legislation governing the building societies, the Building Societies Act 1962, did not allow them to issue credit cards. Following the enactment of the Building Societies Act 1986 and orders made under it by the Building Societies Commission, which came into force on 19 November 1987, any building society in the United Kingdom, with assets of £100 million or more, was enabled to issue credit cards. Some 65 societies at present come into that category. At present building societies are able to apply for membership of Visa and Access, but not MasterCard or Eurocard. Freedom to become a member of Access is, however, otiose without freedom to join MasterCard or Eurocard. The Building Societies Commission has told us that it would be ready to deal promptly with a request from any building society for authority to apply for membership of MasterCard or Eurocard.

New entry within the Visa and Access systems

3.100. Since June 1987, when our inquiry began, a number of new issuers of Visa credit cards have entered the market. These are Beneficial, Fleming, Halifax Building Society (Halifax), Leeds Permanent Building Society (Leeds Permanent), National & Provincial Building Society (National & Provincial), Town & Country Building Society (Town & Country), the Allied Irish Banks, the Banco

Bilbao Vizcaya and the Bank of Cyprus (London) Ltd. In addition, Yorkshire began to issue its own Visa credit card in April 1988.

3.101. The only direct new entrant to the Access system since we reported in 1980 has been the Bank of Ireland which now issues credit cards in the United Kingdom as well as the Republic of Ireland. The JCCC said that it had had discussions with a number of banks and building societies but to date none have become Access participants. In addition, the National Australia Bank acquired the Clydesdale and Northern Banks from Midland in 1987. Both banks now issue their own Access cards.

The development of affinity cards

3.102. There has also been an active development of affinity credit cards during the inquiry. These are cards which are offered to members of particular bodies (sometimes with preferential terms or other benefits), or which are aimed at people wishing to support particular charities. In the former category are, for example, Barclays' RAC MasterCard card; Co-op's Visa card issued in association with the Manufacturing, Science and Finance Union (MSF), and TSB (Scotland)'s Visa card issued in association with the General, Municipal and Boilermakers Union. Beneficial has recently launched a Visa credit card in association with the British Airline Pilots Association.

3.103. The appeal of affinity cards linked to charities is that the card issuer passes to the charity concerned a sum of money for each new cardholder recruited, and, usually, a proportion of the value of transactions on the card. Charities currently benefiting from affinity cards include Oxfam (Girobank), the RSPCA (Bank of Scotland), the Royal Society for the Protection of Birds (Co-op), and a choice of three charities offered to cardholders by the Leeds Permanent (the Imperial Cancer Research Fund, Mencap, and the British Heart Foundation). Midland has recently launched a MasterCard Arts Card from which the Arts Council and a number of arts organisations will benefit, and plans to launch shortly a Care card associated with about a dozen national charities. It is considering the launching of further MasterCard or Visa affinity cards.

The development of `duality'

3.104. Since the middle of 1988, a number of banks have obtained or applied for licences to enable them to become members of both Visa and MasterCard/Eurocard. One reason for the development, given by some of the banks, was that they saw credit and other plastic cards as becoming an increasingly important part of the money transmission and banking services which they provided to traders. It was therefore unsatisfactory to be able to offer only Visa or MasterCard/ Eurocard services. Some banks told us that by offering traders a dual service, covering both Visa and MasterCard/Eurocard/Access transactions, they could expect to obtain a substantial share of merchant acquisition business commensurate with the level of their banking business, taken as a whole, with traders.

3.105. The advantages which, it is claimed, traders would obtain from a dual service, as compared with the hitherto separate Access and Visa services, include a single sales voucher for all Access/MasterCard/Eurocard and Visa transactions; all vouchers can be paid into any branch of the merchant acquiring bank; a single point of contact for authorisation calls; one floor limit, and a single monthly statement for all transactions.

3.106. So far as cardholders are concerned, the ability to offer a dual service would enable card issuers to offer a greater variety of credit cards, either as mass circulation cards or cards aimed at particular groups of customers, such as the affinity type of card already mentioned.

3.107. Lloyds was the first bank to offer a dual card issuing service, when, in the middle of 1988, it offered a Visa debit card in addition to its Access credit card. The following banks now have both Visa and MasterCard/Eurocard membership: Barclays, the Bank of Credit and Commerce International SA (BCCI), Girobank, Lloyds, Midland, NatWest, Fleming, BoS and RBS. TSB, which is a Visa member, has applied for MasterCard/Eurocard membership.

3.108. By May 1989, the following developments had occurred in merchant acquisition and card issuing associated with the development of duality:

Merchant acquisition

(a) In March 1989 Lloyds made available to traders a service for both their Visa and their MasterCard/Eurocard/Access transactions, the only bank so far to offer such a dual service.

(b) Barclays has announced that it will offer a similar service from 30 May 1989.

(c) Midland and NatWest have announced that they will also offer a dual service to merchants as, we understand, will RBS. At present, for the reasons given in paragraphs 6.210 and 6.445 respectively, Midland and NatWest are unable to handle Visa merchant transactions. Both banks are already handling MasterCard/Eurocard/Access transactions, as is RBS.

(d) The JCCC's own merchant acquisition service is expected to decline as the Access banks themselves become merchant acquirers (see paragraph 2.63).

3.109. In their evidence the major banks said that the increased competition in merchant acquisition that would follow from the developments described in the preceding paragraph could be expected to lead to a further decline in MSCs. It is too early for much evidence of that to have emerged, but we have noted one important example; in the May edition of Forecourt, a monthly news digest published by the Petrol Retailers Association, it was reported that Barclays has offered all petrol retailers an MSC of 1.925 per cent for both Visa and MasterCard/Eurocard/Access transactions; that is, we understand, a lower rate than at present charged separately to petrol retailers for either Visa or Access transactions.

Card issuing

3.110. The following cards have been launched since the beginning of 1989 and the obtaining of dual licences by the banks concerned:

(a) Barclays has issued two new MasterCard cards. One of these is an RAC-affinity credit card, with terms similar to other mass circulation credit cards. The other is a budget credit card called `Assent' for which the cardholder agrees a fixed monthly payment which in turn determines the credit limit.

(b) Midland has issued a Visa credit card, called Indigo, with several new features including:

—different rates of interest depending on the amount borrowed;
—a charge for the card (if taken as a separate service from Midland), to be introduced in 1990;
—a direct debit options for full payers; and
—interest paid on credit balances.

(c) NatWest has launched a new Visa credit card, with terms and conditions similar to its Access credit card, including the same interest rate (1.9 per cent per monthAPR 25.3 per cent).

(d) BCCI is now offering a new MasterCard credit card for which, as one option, it makes a charge accompanied by a lower rate of interest.

(e) Midland's MasterCard Arts Card affinity card (see paragraph 3.103).

New entry outside the Visa and Access payment systems

3.111. American Express launched its Optima credit card in the United Kingdom in March 1989the first internationally acceptable credit card to be issued in the United Kingdom which is not a Visa or MasterCard/Eurocard card. Optima is offered to American Express charge cardholders with good payment records. The rate of interest charged on Optima is 17 per cent. Taking into account the American Express membership fee of £32.50 and the £10 annual fee for Optima, the cost of borrowing, on the basis of an average borrowing of £2,500 (which American Express regards as a typical amount for its cardholders) would be equivalent to an APR of 19 per cent.

Developments in charges made to cardholders

APRs

3.112. Since the inquiry began, a number of new credit cards, usually issued by new entrants into the market, have appeared, with APRs lower than those which continue to be offered by the main banks on their mass circulation credit cards. Some of these lower APRs are associated with the option of paying a charge for the card; others with larger amounts of borrowing. The growth in the range of APRs offered has been particularly marked since the middle of 1988.

3.113. As compared with APRs of 25.3 per cent (1.90 monthly) or 26.8 per cent (2.0 monthly) at present offered by the main banks on their mass circulation credit cards, the following rates are now available for borrowings on purchases:

(a) Town & Country Visa card, Allied Irish Banks Visa card and Beneficial Visa affinity card—19.5 per cent.

(b) Fleming:
- (i) 19.8 per cent if accompanied by a charge of £8.00 for the card; and
- (ii) 22.7 per cent without a charge for the card.

(c) BCCI:
- (i) 19.6 per cent, if accompanied by a charge of £6.00 for the card; and
- (ii) 25.3 per cent without a charge for the card.

(d) Barclays' Assent card 19.9 per cent (for applications made by 30 June 1989).

(e) Midland's Indigo card:
- (i) for borrowing of £249 or less21.0 per cent;
- (ii) for borrowing of £250 to £99918.2 per cent; and
- (iii) for borrowing of £1,000 and more15.4 per cent.

(f) National & Provincial:
- (i) for borrowing of less than £1,00022.8 per cent; and
- (ii) for borrowing of £1,000 and more21.6 per cent.

(g) The Chase Manhattan Bank NA (Chase)22.9 per cent.

(h) The following offer APRs of 23.1 per cent:
- (i) Co-op (Visa card issued to members of the MSF);
- (ii) Leeds Permanent; and
- (iii) the Bank of Ireland.

(i) Halifax—24.6 per cent.

Charges for the card

3.114. In addition to the annual charges for the card, included in options offered by Fleming and BCCIsee (b) and (c) in the preceding paragraphone other charge for the card is in prospect; Midland has said it will charge an annual fee of £15.00 for its Indigo card if taken by the cardholder separately from other Midland services (but the fee will be waived for all accounts opened during 1989).

Other terms and conditions offered to cardholders

Payment by direct debit

3.115. The following banks offer the option of payment by direct debit, either for the minimum or the full amount and, in the case of Town & Country, for the minimum and full amounts and for an amount of the cardholder's own choosing:
—Beneficial;
—Chase;
—Hoare;
—Girobank;
—Midland (both its Access credit card and its Indigo Visa credit card;
—National & Provincial;
—Fleming;
—Town & Country; and
—Yorkshire.

Choice of payment date or period

3.116. The following credit card issuers offer a choice of payment date or period (ie of a day within a period of several days in the month):
—Girobank;
—Halifax;
—Fleming; and
—National & Provincial.

Payment of interest if the credit card account is in credit

3.117. The following credit card issuers pay interest on credit balances:
—Beneficial;
—Chase;
—Co-op; and
—Midland (on its Indigo card).

Other terms

3.118. National & Provincial plans to give a cash rebate, calculated as a percentage (not yet announced) of the total number of transactions made throughout the year, to be paid after the end of the calendar year.

3.119. Beneficial's new Visa card, issued in association with the British Airline Pilot's Association, requires a minimum repayment of only 4 per cent (or £5, whichever is the greater), instead of the usual 5 per cent.

General intentions as to the future

3.120. A number of banks told us of their intentions to issue new credit cards, which will increase the choice available to consumers, and may also widen still further the range of interest rates and other terms and conditions on offer to cardholders.

The development of electronic methods of payment

3.121. The most significant developments taking place are of Electronic Point of Sale (EPOS) systems, and Electronic Funds Transfer at Point of Sale (EftPos) systems.

EPOS systems

3.122. EPOS systems are in the main provided by traders for their own use, but some terminals can also capture data for credit cards, thereby facilitating the transmission of data to the credit card companies. EPOS systems reduce the time taken and the errors made at check-outs, and improve stock control and the availability of other sales information to management.

EftPos systems

3.123. The main objective of EftPos systems is to provide traders with terminals at the point of sale, which can accept any type of plastic card that the trader agrees to handle including credit, debit, charge and store cards. Transactions are at present authorised and data recorded for subsequent settlement between the parties concerned. The ultimate objective is the automatic debiting of the customer's account and crediting to the trader's account, thus avoiding the use of cash, cheques or paper vouchers.

3.124. The following benefits are claimed for EftPos systems. The financial institutions will gain from a reduction in the volumes of paper (cheques and vouchers) which they need to handle, and in combating fraud. Traders will obtain guaranteed payment for properly authorised transactions, reduction in the amounts of cash they have to handle and reduced time and expense as compared with processing paper-based transactions. Cardholders will benefit from greater speed and convenience at the check-out, from a reduced need to carry cash, and from increases in authorisation levels above those of cheque guarantee cards but they may at some future date have their accounts debited more quickly than happens under the present cheque system.

3.125. Development of EftPos systems is taking place at two levels. First, a national system is being developed by EftPos (UK) Ltd, a company established under the rules of the Association for Payment Clearing Services, which supervises the other principal United Kingdom payment clearing and settlement systems. The system is intended to be used by any plastic card (including Access/MasterCard/Eurocard and Visa cards, charge cards and store cards) provided that the specifications, rules and commercial conditions of the system are met. The members of EftPos (UK) Ltd include (as at September 1988) all the main clearing banks which have been involved in this inquiry (except Girobank, which decided not to participate) and the two largest building societies.

3.126. The development of the national system is reaching the stage of the launch and testing of an inaugural service, starting in the summer of 1989, in Edinburgh, Leeds and Southampton. Further progress with the system depends on the results of those trials, but it is anticipated that as financial institutions link their existing and proposed EftPos systems into the national structure, rapid growth could ensue.

3.127. In addition to the national system, the banks and others are developing their own EftPos systems. Barclays has introduced PDQ terminals (the initials stand for Process HData Quickly). The JCCC, on behalf of the Access banks, has introduced ACCEPT terminals. Terminals such as PDQ and ACCEPT can accept Access/MasterCard/Eurocard, Visa, American Express and Diners Club cards. Some of the individual Access banks are developing their own systems, linked to their own computers. Large numbers of other data capture terminals have also been installed, especially at petrol stations.

3.128. Some of the banks told us that the prospect of benefits from EftPos, and further advances in electronic methods of payment, were of critical importance to them in deciding about the future of their credit card operations, and in particular whether or not to become merchant acquirers.