



House of Commons  
Treasury Committee

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**Supplementary  
Government Response  
to the Committee's  
First Report:  
Transparency of Credit  
Card Charges (HC 125)**

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**Sixth Special Report  
of Session 2003–04**

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## The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the HM Treasury and its associated public bodies.

### Current membership

Rt Hon John McFall MP (*Labour, Dumbarton*) (Chairman)  
Mr Nigel Beard MP (*Labour, Bexleyheath and Crayford*)  
Mr Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)  
Angela Eagle MP (*Labour, Wallasey*)  
Mr Michael Fallon MP (*Conservative, Sevenoaks*)  
Rt Hon David Heathcoat-Amory MP (*Conservative, Wells*)  
Norman Lamb MP (*Liberal Democrat, Norfolk North*)  
John Mann MP (*Labour, Bassetlaw*)  
Mr George Mudie MP (*Labour, Leeds East*)  
Mr James Plaskitt MP (*Labour, Warwick and Leamington*)  
Mr Robert Walter MP (*Conservative, North Dorset*)

The following Members were also members of the Committee during this inquiry: Dr Nick Palmer MP (*Labour, Broxtowe*), Mr David Ruffley MP (*Conservative, Bury St Edmonds*) and Mr Andrew Tyrie MP (*Conservative, Chichester*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in the House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk). The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997–98 onwards are available on the Internet at: [www.parliament.uk/parliamentary\\_committees/treasury\\_committee/treasury\\_committee\\_reports.cfm](http://www.parliament.uk/parliamentary_committees/treasury_committee/treasury_committee_reports.cfm).

### Contacts

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# Sixth Special Report

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On 17 December 2003, we published our First Report, *Transparency of Credit Card Charges*, as House of Commons Paper No. 125. We published responses from the Department of Trade and Industry, for the Government, and the Office of Fair Trading on 16 March 2004 (HC 431). We have now received a supplementary Government Response from the Department of Trade and Industry (dated 9 June 2004); this is appended below.

## APPENDIX

### **SUPPLEMENTARY GOVERNMENT RESPONSE TO THE FIRST REPORT OF THE TREASURY COMMITTEE, SESSION 2003–04 (HC 125)**

#### *Letter to the Clerk of the Committee*

The Government response to the above Report that I forwarded to you under cover of my letter of 27<sup>th</sup> February identified a number of areas where policy was still in development and undertook to provide an update by way of a further response once those issues had been settled. This supplementary response is attached.

As you know, the Government have been considering issues relating to credit card transparency under the aegis of the White Paper “Clear, Fair and Competitive – the Consumer Credit Market in the 21<sup>st</sup> Century” which was published for consultation on 8<sup>th</sup> December last year. As the next step in the White Paper implementation process, the Department is today publishing a summary of responses to the White Paper package. Also published today are statutory instruments to give effect to the new rules on transparency – governing the advertising of consumer credit; the provision of pre-contract information; the form and content of credit agreements; and the early settlement of loans.

I enclose copies of the Statutory Instruments, along with their accompanying Regulatory Impact Assessments and the memoranda that have been prepared for the House of Lords Select Committee on the Merits of Statutory Instruments. We will shortly be publishing guidance on the legislation, and I will ensure that this is forwarded to the Committee as soon as it is available.

Stephen Childerstone  
Consumer Credit Review Team  
Consumer and Competition Policy Directorate  
Department of Trade and Industry

9 June 2004

*Supplementary Government Response*

**1. INTRODUCTION:**

1.1 The Government provided a detailed response to the Committee's Report on 27<sup>th</sup> February 2004. However, that response identified a number of issues raised by the Committee where policy was still being finalised as part of ongoing work under the aegis of the White Paper "Fair, Clear and Competitive – the Consumer Credit Market for the 21<sup>st</sup> Century" published on 8<sup>th</sup> December last year. It promised to update the Committee once these matters had been settled.

1.2 Consultation on the White Paper package concluded on 15<sup>th</sup> March 2004. In the light of responses received, and after further discussions with stakeholders, the Government have now finalised their proposals on the transparency issues highlighted by the Committee. Statutory Instruments have been published introducing new rules on the advertising of consumer credit; the provision of pre-contract information; the form and content of credit agreements; and the early settlement of loans.

1.3 In the light of these developments, we are now able to provide the Committee with the following updates to our response.

**Regulatory environment**

***European regulation***

1.4 There have been a series of developments on proposals for a new EU Consumer Credit Directive. The European Parliament (EP) rapporteur Joachim Wuermling (EPP-ED, Germany) tried to get an outright rejection of the Commission proposal by the EP. However, he was not successful and the EP adopted its First Reading position on 20 April 2004. The DTI undertook extensive lobbying of UK MEPs in the EP, and strongly supports many of the amendments adopted by the EP at First Reading.

1.5 The European Commission is currently revising the proposal to take on board elements of the EP position. They expect to complete the revision by mid-June 2004. Negotiations in the Council Working Group will then begin in earnest.

1.6 We are continuing to lobby in Europe to ensure comprehensive legislation that links closely with our ongoing domestic reform programme.

**2. TRANSPARENCY: INCREASING CLARITY IN CREDIT CARD CHARGES:**

**Summary Boxes, pre-contract information and the form of agreements**

2.1 The Government commissioned MORI to conduct research into the proposed new formats for pre-contract information and agreements based on illustrative examples prepared by actual lenders based on the draft regulations published for consultation.

2.2 Although the results of the research (which are available on the DTI website at [www.dti.gov.uk/ccp/topics1/consumer\\_finance.htm#review](http://www.dti.gov.uk/ccp/topics1/consumer_finance.htm#review)) were encouraging, consumers generally thought that they would not be inclined to read such documents in great detail. However, where consumers were asked in focus groups to look at the documents in detail,

their reaction was that the new forms were fairly easy to read and to understand; that the layout made it easier to identify key points; and that the changes had been undertaken with the needs of consumers in mind. Detailed interviews suggested that only minor changes were required to the format, and that it was very easy to identify the key points.

2.3 We have taken account of these findings in finalising the legislation on pre-contract information and the form and content of agreements.

#### **Information on monthly statements**

2.4 We propose to introduce provisions in our proposed Consumer Credit Bill that will require statements to include a minimum repayment warning. We understand that the industry, through APACS (the Association of Payment Clearing Services), has agreed voluntarily to put a warning on statements by the end of 2004. The APACS wording states:

*“Only ever making the minimum repayment will significantly increase the time taken to clear your balance and cost you more.”*

It is expected that this will be made a requirement under the revised Banking Code.

2.5 We have concluded that such generic warnings are sufficient to alert consumers to the dangers of only making minimum repayments. While we did consider the use of illustrative scenarios on statements, we have now decided not to pursue this option any further, until we can evaluate the effectiveness of generic warnings.

2.6 We see difficulties with the use of such illustrations, and feel that they are likely to prove unrepresentative for the vast majority of consumers, most of whom pay off their debt in one go each month. By contrast, those who habitually pay only the minimum constitute a very small minority – APACS estimate 3%; recent OFT research suggests that those who tend to pay only the minimum amount to 8%. Illustrations will also be unable to take account of the impact of further future spending on balances.

2.7 If they are not giving a clear and useful message, the inclusion of such illustrations risks contributing to information overload for most consumers and detracting from other messages.

#### **Interest calculation method**

2.8 Following our discussions in this area, we have concluded that consumers would benefit from clear information about how the interest charges on credit card accounts are calculated. The Consumer Credit (Disclosure of Information) Regulations 2004 and the Consumer Credit (Agreements)(Amendment) Regulations 2004 therefore require both the pre-contract information and credit agreements to include, in a similar way to the new credit card Summary Box initiative, an explanation of how and when interest charges are calculated and applied under the contract.

2.9 It is hoped that this new information about an important feature of credit cards will and consumers to select the product that best suits their needs. These details will no longer be hidden in the small print.

2.10 We have concluded, however, that imposing standardisation in the way that interest is calculated and applied would not result in overall benefits for consumers. One consequence of an absence of standardisation is that consumers are free to choose a product that complements the way that they organise their finances. For example, some will want a lower APR, but will be prepared to pay interest from the date of a purchase; some will prefer a slightly higher APR, but will only want to pay interest on the amount left outstanding if they do not settle the whole balance. As long as these aspects of the product are clearly highlighted, we think this can assist consumers.

2.11 We are also aware that there have been calls for a CAT type standard covering, for example, when interest accrues and what percentage of the original amount it is charged on. We note that this would be a complex exercise and that it could have unintended consequences with issuers migrating to that standard at the expense of flexibility, innovation and, ultimately, competitiveness and consumer choice.

2.12 We have therefore concluded that a CAT type standard might not be necessary, so long as the improved transparency objectives of our new legislation are fulfilled. However, if we find that the changes have not proved effective, then we will consider this option further. In the meantime, APACS have told us that steps are underway to improve the Summary Box initiative to address the interest methodology issue in September 2004.

### **Risk-based pricing**

2.13 We can confirm that the revised regulations on pre-contract information and the form and content of credit agreements do require lenders to provide consumers with their true rate of interest before a credit agreement is made.

## **3. OVER-INDEBTEDNESS AND RESPONSIBLE LENDING**

### **Responsible lending**

3.1 Work to promote responsible lending in the credit market is an ongoing task. However, responding to pressure from both the Government and the Committee, industry have made a number of positive steps to increase responsibility in their lending practices.

3.2 The British Bankers Association (BBA), the Finance and Leasing Association (FLA) and APACS have been working to introduce changes to address Government and Treasury Select Committee concerns. In terms of ensuring effective competition and flexible regulations, the Government is keen to promote the use of codes of practice across the credit market.

3.3 The Banking Code, governed by the BBA, is currently being reviewed by Elaine Kempson from the Personal Finance Research Centre. It is intended that a report will be published in September 2004, and a new code introduced in March 2005.

3.4 The DTI have had a number of discussions with the BBA and Elaine Kempson, and have made clear our concerns to ensure the inclusion of responsible lending in the Banking Code.

### ***Inadequate credit checking***

3.5 In line with our continued work to promote responsible lending across the credit market we have been in discussions with stakeholders to assess the progress made in the area of data sharing and credit checking procedures.

3.6 Changes to the Banking Code will also seek to implement more structured guidelines for lenders. Proposed reforms for the benefit of consumers, include ensuring that credit checking is always undertaken to assess the ability of the consumer to repay, before any credit limit increases are granted.

3.7 We continue to encourage the credit industry to ensure that lending decisions are based on the fullest possible information.

3.8 The credit industry already shares a large amount of data. It is working to improve the information available, together with the inclusion of positive data in credit checking processes. Later this year, industry will begin to share information on current accounts and other banking data.

3.9 There is currently however, a difficulty with sharing historic data. In order to remedy this, the industry have made a reference to the Information Commissioner asking for a decision allowing them to share this data as well.

### ***Credit card cheques***

3.10 The Government have taken on board the continued concerns of the Committee that reform is required in this area. We have closely monitored discussions led by APACS over how best to increase protection and transparency for consumers.

3.11 We now understand that, working in conjunction with APACS, the following changes are to be introduced in the Banking Code:

- Issuers will be provided with best practice guidance to ensure credit card cheques are received by appropriate customers (including guidance on ensuring special care is taken for consumers under 25 - many lenders have voluntarily banned themselves from sending to under 25s);
- That checks will be made checking the cardholders ability to repay before cheques are sent;
- Information is to be supplied with credit card cheques when sent;
- A ban on prize draws or inducements to use credit card cheques.

3.12 We will continue to monitor this specific issue closely, as we are sure the Committee will also, and keep under review whether further action is appropriate.

## List of Reports from the Treasury Committee since 2001

### Session 2003–04

		Report	Govt Response*
First Report	The Transparency of Credit Card Charges	HC 125	HC 431
Second Report	Child Trust Funds	HC 86	HC 387
Third Report	The 2003 Pre-Budget Report	HC 136	HC 478
Fourth Report	Annual Report for 2003	HC 386	—
Fifth Report	Restoring confidence in long-term savings: Endowment mortgages	HC 394	HC 655
Sixth Report	The 2004 Budget	HC 479	HC 654
Seventh Report	The Administrative Costs of Tax Compliance	HC 269	awaited

### Session 2002–03

First Report	National Statistics: The Classification of Network Rail	HC 154	HC 550
Second Report	The 2002 Pre-Budget Report	HC 159	HC 528
Third Report	Split Capital Investment Trusts	HC 418	HC 651
Fourth Report	The Handling of the Joint Inland Revenue/ Customs and Excise PFI Project	HC 184	HC 706
Fifth Report	Annual Report for 2002	HC 491	—
Sixth Report	The UK and the Euro	HC 187	HC 1004
Seventh Report	The 2003 Budget	HC 652	HC 1028
Eighth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Richard Lambert	HC 811	—
Ninth Report	Appointment of Ms Rachel Lomax as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee	HC 1011	—
Tenth Report	Inland Revenue Matters	HC 834	HC 1181

### Session 2001–02

First Report	The 2001 Census in England and Wales	HC 310	HC 852
Second Report	Budget 2002	HC 780	HC 1075
Third Report	The Office of Government Commerce	HC 851	HC 1217
Fourth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Paul Tucker and Ms Marian Bell	HC 880	—
Fifth Report	Banking, the Consumer and Small Businesses	HC 818	HC 1218
Sixth Report	The Financial Regulation of Public Limited Companies	HC 758	HC 1219
Seventh Report	Parliamentary Accountability of Departments	HC 340	HC (2002–03) 149
Eighth Report	Inland Revenue: Self Assessment Systems	HC 681	HC 1220
Ninth Report	Appointment of Sir Andrew Large as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee	HC 1189	—

\* Government Responses are usually received in the same session as the Report was published. Accordingly, the HC number refers to that session unless otherwise indicated.