



House of Commons
Treasury Committee

**Responses to the
Committee's Second
Report of Session
2004–05: Credit card
charges and marketing
(HC 274)**

**Second Special Report
of Session 2004–05**

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The Treasury Committee

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Second Special Report

On 4 February 2005, we published our Second Report of the current session, *Credit card charges and marketing*, as House of Commons paper No. 274.¹ We have now received responses from the Department of Trade and Industry for the Government (dated March 2005, appended below as Appendix 1), the Office of Fair Trading (dated 7 February 2005, appended below² as Appendix 2) and the Financial Services Authority (dated 21 February 2005, appended below³ as Appendix 3).

APPENDIX 1

GOVERNMENT RESPONSE TO THE SECOND REPORT OF THE TREASURY COMMITTEE, SESSION 2004–05 (HC 274)

1. INTRODUCTION:

1.1 This is the Government's third formal response to the Committee in the course of its ongoing investigation into the credit card market.

1.2 In two responses, in February and June 2004, to the Committee's first report of December 2003, the Government welcomed the Committee's continuing focus on the need to improve transparency in the credit card market and highlighted the measures that had been identified in the December 2003 White Paper "Fair, Clear and Competitive: the Consumer Credit Market in the 21st Century" for advancing the transparency agenda.

1.3 Since then, the Government has been active in pushing forward that process of reform—working with business, consumer groups, regulators and others to achieve a substantial package of reforms.

1.4 The White Paper itself acknowledged the importance of ensuring that consumers are empowered by providing them with a transparent marketplace. To that end, regulations have been made during the last year that simplify the rules governing the advertising of consumer credit; standardise the calculation of the APR; make the form and content of credit agreements clearer; introduce a fairer method for calculating the costs of early settlement of loans; and for the facilitation of online credit agreements.

1.5 In December last year a new Consumer Credit Bill was introduced into Parliament to strengthen the consumer credit licensing regime to enable more effective enforcement of

1 This was the Committee's second report on this subject, following its report of December 2003: *Transparency of Credit Card Charges* (First Report, Session 2003–04, HC 125); responses to that Report were published in March and June 2003 (First Special Report, Session 2003–04, HC 431 and Sixth Special Report, Session 2003–04, HC 761).

2 See page 12

3 See page 14

standards of conduct; to enable borrowers to challenge unfair credit transactions rather than only those that are extortionate; and to provide for a system of alternative dispute resolution. This has completed its Commons stages.

Progress since the Committee's 2003 Report

Recommendation 2: We welcome the recent actions taken by both the DTI and the OFT in the area of credit and store cards charges and marketing and trust that this reflects the higher level of priority required for these issues that we called for in our earlier report.

1.6 The Government welcomes the Committee's acknowledgement of the efforts that have been made in this area. Reform of the consumer credit market was a manifesto commitment in 2001, and has been taken forward by the Department of Trade and Industry under a thorough and wide-ranging review since July 2001. That review has been characterised by unprecedented levels of consultation with all of the key stakeholder groups—representing the credit industry, consumer groups and enforcement authorities—and culminated in the publication of the December 2003 White Paper.

1.7 The White Paper set out the most significant package of reforms to the consumer credit regime since the Consumer Credit Act itself was enacted over thirty years ago. The Government's focus over the last year has been on bringing these reforms into effect. A comprehensive package of measures that increase and improve the information available to consumers are already on the statute book:

The Consumer Credit (Advertisements) Regulations 2004—which came into force on 31st October last year—introduce a new, simplified approach to the advertising of consumer credit. They establish the APR as the prime comparator; and prevent advertisers from hiding key information in the small print by requiring key information about the costs of credit to be displayed together and with equal prominence.

The Consumer Credit Act (Electronic Communications) Order 2004—which came into effect on 31st December 2004—amends the Consumer Credit Act and legislation made under the Act to remove impediments to the conclusion of credit agreements by electronic means—e.g. over the internet.

The Consumer Credit (Disclosure of Information) Regulations 2004 and the **Consumer Credit (Agreements) (Amendment) Regulations 2004**—which take effect of 31st May 2005—introduce new requirements on lenders to provide consumers with clear, upfront information about the costs and other key terms of the product before they sign up. This must be in a form that the consumer can take away and study. In addition, HM Treasury brought into force **The Financial Services (Distance Marketing) Regulations 2004** on 31st October 2004. These Regulations—which implement the EU Directive on the Distance Marketing of Consumer Financial Services—require all contracts for financial services that are made at a distance, including for consumer credit, to give the consumer a 14 day right of withdrawal.

The Consumer Credit (Early Settlement) Regulations 2004—which also come into force on 31st May—abolish the old Rule of 78 that is used to calculate the settlement fee for

borrowers who wish to settle their loans early. The Regulations substitute a new, fairer actuarial method of calculation.

2. TRANSPARENCY IN CHARGING:

The summary box

2.1 As stated above, the Government has introduced its own measures to improve the quality of information that is available to consumers before they commit themselves to a credit agreement. New regulations requiring lenders to provide potential borrowers with pre-contract information come into force on 31st May 2005. They will mean that potential borrowers will be presented – in a form that they can take away and study, and in a form that replicates the structure of the agreement itself – all of the key terms of the agreement. Not only will consumers have the opportunity to consider the benefits of the agreement on offer; but the common format will also make it much easier for them to compare the relative merits of competing products.

2.2 Within the credit card sector, these provisions will be augmented by the Summary Box. The Government has worked closely with the credit card providers to encourage the development of the Summary Box, which we welcome as an important aid to consumer understanding. Ministers have repeatedly said that they welcome any initiative that has the effect of increasing the quality and quantity of information available to consumers and that helps them to make informed choices. To that end, the Government will continue to work closely with the credit industry to develop and refine these initiatives.

Annual Percentage Rates (APRs)

Recommendation 9: We welcome the move to a single method of calculating the APR for credit card advertisements. However, we regret that this change could not be aligned with that in credit agreements and note that this difference could result in a source of confusion for consumers until May 2005. We would welcome an explanation as to why it was thought necessary to delay implementation of the requirements for a single method of calculating the APR in credit agreements.

2.3 The Committee will be aware that, during the course of its first hearings on the credit card market, substantial pressure was placed on the Government to bring forward a new, unified approach to the APR at the earliest opportunity. The Committee was also keen to see the proposed new approach to the regulation of credit advertising brought into force as soon as possible. As a consequence, the implementation date for what became the Consumer Credit (Advertisements) Regulations was brought forward to 31st October 2004.

2.4 The acceleration of this implementation timetable prompted lenders to express concern about their ability to meet both that deadline and an early date for the introduction of the new regulations governing the form and content of credit agreements. After consulting stakeholders on the implementation timetable, it was agreed that the date on which the agreements regulations came into force should be set at 31st May 2005.

2.5 The principal point made by lenders in arguing for a later implementation date for the new rules on agreements was that the necessary changes to their computer systems could not be made by the earlier, October, implementation date. In addition there would

be a substantial effort and cost involved in re-drafting, re-printing and re-stocking all of their agreements in the shorter timescale. Had the Government insisted that the new APR rules had been applied to agreements as well as to advertisements from 31st October 2004, we would have imposed exactly those administrative burdens that the later implementation date had been designed to avoid.

Interest calculation method

Recommendation 10: We note that even many industry leaders largely conceded that the variety of interest calculation methods presently in use can be unfair for the consumer. The consumer may often be unaware that the differences exist and unable to understand the effects the differences can have. As one issuer has noted, an “illusion” can be created that a deal is better than it really is.

Recommendation 11: Lack of clarity about interest calculation methods and their effects continues to be a major problem for consumers... We recommend that the industry, working with the consumer bodies, give further consideration to whether some elements of standardisation of charging methods could be introduced and bring forward proposals to achieve it. This could be through the establishment of one or two well publicised (and therefore more widely understood) standards, from which individual issuers would be free to diverge so long as clear indications were given of the effect on consumers.

2.6 In our formal response to the Committee in February last year, we argued that the key to consumer empowerment in this area was ensuring that borrowers were given clear information, before they commit themselves, about how the interest charges under an agreement would be calculated.

2.7 The new transparency regime that we introduced last year fulfils this function. In particular, the new rules requiring consumers to be given pre-contract information and on the form and content of credit agreements will require clear explanations of how and when interest charges are calculated and applied under the contract.

2.8 The Regulations come into force on 31st May this year. The Government believes that, in promoting this important information about the costs of credit from the small print to a prominent position in the agreement, they will help consumers to select the product that best suits their needs before they commit themselves.

2.9 Beyond this, the Government has consistently said that it has reservations about whether requiring standardisation in the way that interest is calculated and applied would actually be beneficial to consumers.

2.10 While the Government shares the Committee’s concerns about consumers not knowing how interest is applied to their loan account, and acknowledges that this can have an impact on the amount of interest that they pay, we are also concerned that standardisation would restrict or even eliminate consumer choice.

2.11 Not all borrowers want to use credit in the same way, and they benefit from being able to choose a product that complements the way that they organise their finances. A standardised approach that suits one consumer might prove an expensive or inconvenient

option for another. For example, some credit card users 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—as the new transparency provisions will require—we believe that it is better to give consumers a choice of different products. Standardisation would bring certainty, but it would come at the expense of flexibility, innovation and, ultimately, competitiveness and consumer choice.

Risk-based pricing

Recommendation 12: With the increased use of risk-based pricing, under which the consumer may not know the interest rate until after applying for the card, more and more consumers will have to shop around by making multiple applications. But the very act of shopping around can sometimes damage a customer’s credit rating. This could result in the consumer paying a higher rate, which would cost them more. We recommend that the industry immediately implement their ability to undertake ‘enquiry searches’ so that shopping around does not damage a consumer’s credit rating.

2.12 The regulations made by the Government last year to create transparency in the credit marketplace, have the objective of enabling consumers to shop around more. We are aware that many lenders who operate risk-based pricing already have the capability to conduct a credit search without leaving a footprint, but that the issue can be in identifying those consumers that simply want a quote and those who are applying for credit. We support the Committee’s recommendation that the industry should ensure where possible that undertaking ‘enquiry searches’ does not damage a consumer’s credit rating.

Recommendation 13: We welcome moves by the DTI to ensure that the ‘typical’ APR (or less) will now be available to 66% of borrowers.

Recommendation 14: We recommend that the OFT develops guidance to deal with the practice of ‘implicit’ risk-based pricing. This should clarify whether the requirement that the ‘typical’ APR (or less) be available to 66% of borrowers applies to products using implicit risk-based pricing. When a customer is turned down for the product originally applied for and is offered a more expensive credit card, they should be provided with clear written reasons as to why. The industry should review its practices to ensure that this is the case.

2.13 The Government has been encouraged by the widespread level of support that it has received from all sides—including both the credit industry and consumer groups—for the introduction of its new rules on the quoting of a typical APR in credit advertisements. The 66 percent rule, which came into force with the new Consumer Credit (Advertisements) Regulations on 31st October last year, is designed to ensure that consumers who respond to an advertisement can do so with a degree of confidence that the rate quoted will be representative of the rates that are actually offered.

2.14 The Government recognises that the application of the 66 percent rule is particularly important where credit providers are lending on the basis of risk-based pricing. We are working with the Office of Fair Trading to ensure that lenders apply the

rule consistently and in compliance with the legal requirements. We understand that the OFT is in the process of updating its Frequently Asked Questions on the advertisements regulations and that these include guidance on how the 66 percent rule should be applied to such products.

Balance transfer fees

Recommendation 15: Charging handling fees on balance transfers is a legitimate business practice, but such fees erode some of the value to the consumer of balance transfer offers. The industry should revise the summary box guidance to ensure that the level of these charges is clearly communicated to the consumer. The OFT should revise its guidance on advertisements to ensure that firms outline the size of the fee in any promotion containing the introductory interest rate.

2.15 New regulations governing the advertising of consumer credit (which came into force on 31st October last year) and the form and content of credit agreements (which take effect from 31st May this year) require lenders to set out clearly key financial information about their products, including any fees and charges that might apply.

Default charges

Recommendation 16: Credit card issuers continue to maintain that their penalty charges represent a fair recovery of the costs involved, but it is impossible to know—because companies have been unwilling to place in the public domain the information needed to create confidence that these charges are reasonable. We therefore strongly welcome the investigation by the OFT and await the result with interest.

2.16 The Government also awaits the outcome of the ongoing OFT investigation into the levels of penalty and default charges. We will respond to the outcome of that investigation at that time.

3. DATA SHARING AND RESPONSIBLE LENDING:

Data sharing

Recommendation 17: The lack of full data sharing in the credit card industry has significantly contributed to problems of over-commitment by hampering responsible lending. As industry representatives themselves acknowledged, there is significant scope for the system of data sharing to be improved and the industry must make progress in this direction.

3.1 The Government strongly supports the principle of data sharing where it is proportionate to the benefits received in terms of minimizing overindebtedness.

Recommendation 18: We recommend that all banks should share the maximum permitted data on credit card accounts. We welcome the explicit support from all APACS members for this course of action and hope it will be accomplished promptly. However, there will continue to be room for improvement, particularly regarding the sharing of behavioural data to identify those consumers who may be over-committed

and making the minimum payment across several cards, sometimes by using cash withdrawals from other cards.

3.2 While the Government supports the sharing of data where it is predictive of overindebtedness, it is important to ensure that the use of behavioural data is carefully considered to avoid damaging the credit rating of consumers on the basis of a short-term behavioural change, for example withdrawing cash from a credit card whilst on holiday. We understand that industry will look at the metrics noted by the Committee when revising their decision systems.

Recommendation 19: There are problems relating to the sharing of data on ‘historic’ accounts where customer consent was not obtained at the time the account was opened. There are differences of opinion between the industry and the Information Commissioner regarding the extent of the problem. We believe the industry should immediately carry out a pilot study to assess the response rate to letters seeking customer consent. If response rates remain low, then we believe there is a case for an exemption from the common law duty of confidence for the sharing of positive information on credit card accounts. The industry, relevant government departments and the Information Commissioner need to work together to resolve the legal barriers to sharing historic data.

3.3 The Government does not share the Committee’s view that there is a case for an exemption from the common law duty of confidence for the widespread sharing of data on historic accounts. Enabling lenders to share data on historic accounts would require legislation. Such new legislation requiring the widespread disclosure of data would also need to be ECHR compliant and therefore any measure would have to be proportionate. The Government is therefore working with industry to produce a business case to support the change. This includes quantifying the impact of opening the data on these accounts on overindebtedness, and examining what specific aspects of the data would bring the greatest benefits.

Recommendation 20: Improved data sharing needs to be accompanied by strong and robust safeguards to prevent predatory lending. We note evidence from card issuers that these safeguards are in place; it would be appropriate for the DTI to review the adequacy of these arrangements.

3.4 The Government agrees with the Committee’s view that the issues of predatory lending and greater data sharing should be treated as a whole and not separately. The DTI will therefore consider what safeguards are in place to prevent predatory lending, and whether these are appropriate.

Data sharing: customers in financial difficulties

Recommendation 21: When a consumer is in financial difficulties, an early referral to independent debt counselling can be beneficial in preventing the situation becoming worse. Individual banks may be monitoring their own exposure to the consumer, but many people now have several credit cards spread across a large number of lenders so there is a need for a more integrated approach across the industry to identify those customers in financial difficulty and to offer them appropriate advice. We recommend

that the industry work towards establishing a set of industry trigger points, so that people with debt commitments can be referred to debt counselling.

3.5 The Government shares the Committee's view that it is highly beneficial that where a consumer gets into financial difficulties, they are able to access appropriate advice quickly in order to prevent any further deterioration in their situation. We would welcome work by the credit industry to identify trigger points, identifying when a consumer is in financial difficulty, in order that they can be referred to debt counselling.

3.6 Related to this is the issue of ensuring that there is adequate provision of free debt advice. We welcome the fact that a large part of the credit industry has increased its funding of free debt advice services and placed this funding on a sustainable, three-year basis. We strongly encourage the industry to ensure that these services continue to be funded adequately.

Annual consolidated debt statement

Recommendation 22: We welcome the measures in the Consumer Credit Bill requiring an annual statement for each individual credit agreement. We note the provisions in this area of the US Fair and Accurate Credit Transactions Act and will be looking at them further.

3.7 The Government wants to ensure that consumers are aware of the current state of their credit obligations. Informed consumers can make better choices about credit, encourage better business performance and improve competition in the consumer credit market. The Bill provides that, in respect of all credit accounts that continue for more than one year, the lender will be required to provide the consumer with a statement of the activity on the account at least once a year. The Consumer Credit Act already provides that consumers should receive regular statements about running account credit agreements, such as credit card accounts, and the Bill will provide for the inclusion of additional information in these statements, such as minimum repayment warnings.

3.8 The statement will be required to include specified information about the account and, once the Bill becomes law, the Department will consult on the range of information to be included in the statements. In addition to this, the Bill provides that lenders should provide consumers with information about amounts in arrears and also fees and charges imposed as a consequence of default, so as to ensure that consumers are aware of any credit problems at an early stage.

Credit card cheques

Recommendation 23: We welcome the inclusion in the Banking Code of guidelines covering the marketing of credit card cheques, although there is undoubtedly room for improvement in how the information regarding the interest rates and terms and conditions are communicated to the consumer. Credit card cheques continue to be issued unsolicited, a practice which we believe should cease. If consumers wish to avail themselves of credit card cheques, they should opt in to the system.

Recommendation 24: The industry should also introduce new measures to combat the fraudulent use of credit card cheques. The ending of unsolicited issuing will be very helpful in this regard.

3.9 Concerns about the unsolicited issuing of credit card cheques were raised during the passage of the Consumer Credit Bill through Parliament. A number of Members of Parliament wanted a statutory provision that would require consumers to state that they were willing to receive credit card cheques before those cheques could be issued.

3.10 The Minister for Consumers, Gerry Sutcliffe MP, indicated his sympathy with these arguments. He made clear that the Government did not consider it to be appropriate for information about credit card cheques to be restricted to the small print of the agreement. He believed that consumers should be clearly informed at the time that they make the agreement that they may be sent credit card cheques, and made aware of what using those cheques would mean for them.

3.11 To that end, the Minister committed the Government to using existing powers under the Consumer Credit Act to bring forward secondary legislation that would require consumers to be told clearly when an agreement is made that they may be sent credit card cheques and to be informed of all the charges and interest rates associated with the use of such cheques.

3.12 The Government will consult on proposals to implement this commitment in due course.

Credit limit increases

Recommendation 25: We welcome the inclusion of guidelines covering credit limit increases in the Banking Code. However, we believe that implementing a system restricting the number of unsolicited increases in credit limits would be beneficial in preventing some cases of financial difficulty. We do not believe that this would place excessive restraints on the industry as companies would continue to be free to raise credit limits should customers contact them to request an increase. We also note that some lenders already operate such a system and, to ensure responsible lending, this should become common practice across the industry.

3.13 The Government agrees with the Committee that the guidelines covering credit limit increases in the Banking Code are welcome. We look forward to seeing the industry's response to the Committee's recommendation to restrict unsolicited increases in credit limits.

Customers with mental health problems

Recommendation 26: As a matter of urgency we urge the banks to seek to work further with the money advice associations to agree guidance on dealing with people who have diagnosed mental health problems that impair their ability to handle money, and to publish draft guidance for the Banking Code by the end of the year.

3.14 The Government strongly supports the recommendation that banks work closely with money advice providers to develop guidance to ensure people who have diagnosed mental health problems are supported.

Access to basic bank accounts

Recommendation 27: Basic bank accounts are a useful way for people in debt to manage their commitments and attempt to resolve their problems. Banks should ensure that their credit checking procedure does not deny access to basic bank accounts for those in financial difficulty.

3.15 Basic bank accounts can be a useful way for people in debt to manage their commitments and attempt to resolve their problems. HM Treasury continue to work closely with the banking industry, to ensure that consumers are able to access basic bank accounts as part of the Government strategy to tackle financial exclusion (see 'Promoting financial inclusion'—HM Treasury, December 2004). The banks and Government have agreed to work together towards the goal of halving the number of adults in households without a bank account, and of making significant progress in that direction within two years.

Payment Protection Insurance

Recommendation 28: We recommend that once the transfer of responsibilities for insurance regulation to the FSA has been completed the FSA should begin an investigation into the selling of Payment Protection Insurance. This should include the safeguards in place to prevent the miss-selling of PPI to customers who would not be able to benefit from it due to exclusions, how more competition could be introduced into the market, and how the provision of information to consumers could be improved to allow better informed choices about whether to take out PPI and about which policy is appropriate for individual circumstances.

3.16 The Financial Services Authority started regulation of the mediation of general insurance contracts in January. As part of their initial work to monitor the industry they are committed to delivering a thematic project to look at PPI.

3.17 New rules governing the provision of pre-contract information and the form and content of credit agreements come into force on 31st May 2005. These will require lenders to set out clearly the costs and other terms of both the credit on offer and of any associated products, such as payment protection insurance.

3.18 For the first time, the new agreements regulations will require a borrower who is taking out PPI to make an additional signature on the agreement confirming that he or she agrees to the terms of the insurance policy.

Department of Trade and Industry

March 2005

APPENDIX 2

RESPONSE BY THE OFFICE OF FAIR TRADING

Letter to the Chairman of the Committee

Many thanks for sending a copy of your Committee's report on credit card charges and marketing which was published on Friday. The comments in the report on the progress made by the OFT, among others, are welcome. As you know, we attach great importance to ensuring that consumers benefit from a market for credit which is truly competitive, transparent and fair.

We are well advanced in our work on credit card default charges and have now narrowed down our consideration to a small number of key issues. As I have indicated before, it is not possible because of legal restrictions to say more of substance in advance of the conclusion of our enquiries, but I can assure you that we are progressing this with all possible speed and will make public our position as soon as we can.

My main purpose in writing now is to deal specifically with two matters raised in your report on which we have acted and are continuing to act. These are:

- The application of the 66% requirement for typical APRs; and
- Handling fees levied for balance transfers.

On the first of these points paragraph 46 of your Committee's report calls upon the OFT to issue guidance to make clear that the 66% requirement for typical APRs applies where there is risk-based pricing for card products. Such guidance has already been issued by the OFT and was included in the guidance document which we published on 15 October. Paragraph 6.2 states:

“The definition of ‘typical APR’ relates to agreements arising from the advertisement. It is necessary therefore to start by calculating an ‘advert APR’ for each agreement expected to be entered into as a result of the advertisement. This is done by applying the assumptions in Sch 1 and the TCC Regs.

Having calculated an ‘advert APR’ for each individual agreement, a typical APR can be derived using the 66% rule in Reg 1(2). ‘From’ and ‘to’ rates can be determined on a similar basis.”

Thus the rate for the typical APR relates to all agreements that result from the advertisement and not just those agreements that relate to the specific product advertised. Other products offered at different rates on response to an advertisement would, accordingly, have to be factored into the typical APR.

We will investigate any matter where there is evidence that our guidance is not being followed and the typical APR does not meet the 66% rule. Such evidence will, of course, have to relate to advertisements which were published after the Regulations came into effect on 31 October last year. We will also, more generally, be reviewing the advertising of credit card issuers in order to ensure compliance.

On the second point, in paragraph 47 of your Committee's report you call for our guidance to be revised to ensure that handling charges for balance transfer fees are made clear to consumers. This matter was covered in our October guidance under the general issue of the displaying of interest rates in advertisements. Our guidance said:

“if an interest rate is shown this must not be liable to mislead consumers contrary to s46.”

We have however been keeping our guidance under review and we intend to update it shortly. One of those updates will explicitly cover the matter raised at paragraph 47 of your Committee's report.

I hope that this is helpful and look forward to further progress on transparency issues as a result of the combined efforts of your Committee, the industry, the Government and the OFT.

Sir John Vickers
Chairman
Office of Fair Trading
7 February 2005

APPENDIX 3

RESPONSE BY THE FINANCIAL SERVICES AUTHORITY

Letter to the Chairman of the Committee

CREDIT CARDS—PAYMENT PROTECTION INSURANCE

Your Committee's report on Credit Card Charges and Marketing (HC 274) published on 4 February made a recommendation to the FSA on payment protection insurance (PPI). As your report notes, selling and advising on PPI has fallen under our remit since 14 January, when we took over the regulation of general insurance business. Your report recommends that we:

- investigate whether more competition could be introduced into the market; and
- conduct an investigation into the selling of PPI which should consider how to prevent mis-selling and improve the provision of information to consumers.

The OFT considered PPI as part of their work on debt consolidation last year. As you acknowledge, the Competition Commission is also considering PPI as part of its current store card investigation. We are restricted in the extent to which we can consider competition issues. We have regard to competition issues to the extent that our own activities may affect competition in the market. And as part of our detailed consultation and cost benefit analysis we consider the impact the introduction of any of our proposed rules will have on the markets we regulate.

We set out our initial plans for supervision work in the general insurance market in our 2005/06 Business Plan, published on 26 January. This includes a review of linked sales of PPI. The project will look at compliance by firms with our rules on selling practices and disclosure. This will involve a focused review of the selling practices at a sample of firms and a desk-based review of the product disclosure provided to consumers. We will also be considering whether to carry out mystery shopping in this market.

We have set out in our Handbook the standards we expect firms selling general insurance products to meet. These include the disclosures firms must make to consumers. It also sets out suitability standards for those firms advising customers on these products.

Under our new regime, consumers buying PPI receive protection in the following areas:

- **Improved information:** consumers now receive both status disclosure information, giving details about the service the firm is providing to the consumer, and product information in the form of a policy summary, the content of which is specified in our rules. The policy summary is a succinct summary of the key aspects of the policy that sets out any significant and unusual exclusions to the policy. Policy summaries will include a Key Facts logo, which highlights to consumers that this is important information which they should read. We are running a publicity campaign to raise consumer awareness of this logo. In addition, consumers will receive a statement of price which will set out clearly the costs of the policy.

- **Suitable advice:** those consumers receiving advice from a firm will also benefit from our rules on suitability. Firms will need to ensure that the PPI meets the consumer's needs, taking account of relevant exclusions such as those for pre-existing medical conditions and exclusions based on employment criteria. In the light of these requirements, consumers should not be advised to take out PPI where they will not benefit from it.
- **Cancellation rights:** Consumers will have a statutory cancellation period (of 14 or 30 days depending on the contract), which will give them time to make sure they want the policy.

We have worked closely with the industry to assist them with the implementation of our rules. Our continuing supervision work and the thematic work detailed above will also help us to monitor compliance.

We have considered the results of the Which? survey to which you refer. We are in contact with Which? on a number of issues, and will seek to work with them and other consumer organisations in taking forward our work on PPI.

I hope that is helpful.

Clive Briault
Managing Director
Retail Markets
Financial Services Authority
21 February 2005

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Second Report	Credit card charges and marketing	HC 274	<i>HC 508</i>
Third Report	Work of the Treasury Committee in 2004	HC 335	—
Fourth Report	Excise Duty Fraud	HC 126	<i>Awaited</i>
Fifth Report	Cash machine charges	HC 191	<i>Awaited</i>

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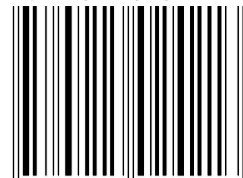
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