Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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18th Jan 2010

Our ref: credit/dbis

Dear Ms Anderson,

Credit Cards and Store Cards

The Financial Services Consumer Panel is an independent statutory body established under the Financial Services and Markets Act 2000 to advise and monitor the Financial Services Authority on all its policies and activities, from an independent consumer point of view. We also review and comment on wider developments in financial services, such as EU initiatives and financial issues that fall within the remit of Government Departments or regulators other than the FSA.

We welcome this consultation. Clearly, the availability and management of credit are important issues which have a significant impact on consumers' overall financial position. While access to credit can be helpful in managing one's finances, increasing over-reliance on credit card debt has led to significant consumer detriment. Although the FSA does not have regulatory responsibility for credit, the Consumer Panel has called for the FSA to take over responsibility for the regulation of consumer credit in authorised firms where it already has a significant relationship. In particular, we believe that for major lenders with whom the FSA dedicates significant resource and enjoys a strong day to day relationship, the FSA is in a far better place to deliver effective regulation than the OFT. We believe that the transfer of responsibility for credit regulation would not only address potential regulatory underlaps/overlaps and reduce consumer confusion, but also lead to improved consumer protection.

We would like to commend your attempts to engage consumers directly with this consultation. It is laudable to present a paper in plain English which seeks to engage a wider audience. However, we do think that by adopting this style, much of the necessary analysis and background evidence has been omitted. In addition, it is not clear how responses to the consultation will inform decision-making. The style and wording of the consultation document suggests that each of the available options carries equal weight and implications for the market, but this cannot be the case, in reality. Without knowing the potential impact of the options presented it is difficult to respond to the consultation with considered judgements, rather than simply with opinions. We would be interested in hearing how effective this style of consultation has been and whether it has given respondents sufficient material to deliberate.

Turning specifically to the issues raised, we recognise that consumer debt is a key source of consumer detriment in our society. Consequently the Panel has taken a rather firm line in response to the issues in the consultation. We do note however that the changes proposed by this consultation could have significant implications for the business models of credit providers. In deciding the way forward, we would wish DBIS to take into account the impact on all users of credit cards, not just those using cards to manage long-term debt.

Differential interest rates

We believe that providers should allocate payments against the most expensive debt first.

Minimum Payments

Overall we believe that there should be more clarity regarding the length of time it will take to pay off the debt. Credit cards are not suitable for long term borrowing. Ideally we would like to see the minimum payment increased to 5% so that debts are paid off much faster. However we are concerned that detriment might be caused to some consumers who would find their minimum payment doubled and their borrowing unaffordable. So whilst we would like to see the minimum payment increased on new borrowing, customers must be offered the option of opting out of the higher repayment level on existing borrowing and continuing their current level of minimum payments.

Increased credit limits

We believe that credit providers should be banned from giving unsolicited higher credit limits to customers. Credit limits should only be raised at the direct request of the customer.

Interest rates being increased with little explanation

There have been punitively high interest rates introduced over the last year. The Consumer Panel believes that a number of measures should be taken:

1) credit card companies should be required to tell customers why their interest rate has been increased

2) changes should only be allowed to occur if it costs more than it used to for the credit company to lend to people or the level of risk for the company changes

3) credit card companies should be stopped from raising interest rates on debts already on the card

We also support the suggestion in the paper that credit card companies need to be much clearer about how credit cards work and that credit card companies should give an annual summary of how the customer is managing outstanding credit card balances. On the plethora of cards, we believe that there would be value in a comparative table, produced by the FSA under the Money Made Clear brand, so that consumers were able to make comparisons.

I hope you find these comments helpful and the Panel looks forward to the changes in the regulatory regime in due course.

Yours sincerely

Adam Phillips
Chairman
Financial Services Consumer Panel