

**MANCHESTER CITY COUNCIL**  
**REPORT FOR INFORMATION**

**COMMITTEE:** SOCIAL STRATEGY OVERVIEW AND SCRUTINY COMMITTEE  
**DATE:** 25 MAY 2006  
**SUBJECT:** COMPETITION COMMISSION REPORT ON STORE CARDS  
**REPORT OF:** DIRECTOR OF ADULT SOCIAL CARE

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**PURPOSE OF REPORT**

The purpose of this report is to inform Members about the results of the inquiry into store card credit services by the Competition Commission.

**RECOMMENDATIONS**

It is recommended that the Social Strategy Overview and Scrutiny Committee note the details contained in this report.

**FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET**

None

**FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET**

None

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**WARDS AFFECTED: ALL**

**IMPLICATIONS FOR:**

**Anti-Poverty**  
Yes

**Equal Opportunities**  
Yes

**Environment**  
No

**Employment**  
No

## **1. INTRODUCTION**

- 1.1. This report summarises the recent findings of the report by the Competition Commission into store card credit charges and outlines the remedial measures required to help prevent store cardholders being overcharged.

## **2. BACKGROUND**

- 2.1. A report to Committee on October 2005 set out the detailed context into the inquiry. The Competition Commission is an independent public body established by the Competition Act 1998. It replaced the Monopolies and Mergers Commission on 1 April 1999. The Office of Fair Trading (OFT) made a reference to the Competition Commission using powers under the Enterprise Act 2002. The Commission was asked to examine

- 2.1.1. The supply of store card credit services to retailers, and

- 2.1.2. Consumer credit provided through store cards

- 2.2. Provisional findings of the inquiry found that there was considerable consumer disadvantage operating in the store card market and the Competition Commission consulted on a number of proposed remedies. Officers from Manchester City Council responded to the consultation, broadly endorsing the proposed remedies and outlining further measures that could be taken to enhance consumer protection in this area.

## **3. FINDINGS**

- 3.1. The Competition Commission confirmed that there was a lack of effective competition in the market and found that the APR on store cards was on average 10%-20% too high. The impact of this was that consumers were paying excessive prices for credit and associated insurance products of at least £55 million each year although consumer groups have estimated that this is up to £100 million pa.
- 3.2. The inquiry found that there are 11 million store cardholders with APRs clustered at around 30%. Store cards are provided by around 70 retailers who in turn are provided with credit services by 6 store card issuers. Outstanding balances total around £2 billion. About 57% of store cardholders did not settle balances in full and were subject to interest charges.

## **4. REMEDIES IMPOSED BY THE COMPETITION COMMISSION**

- 4.1. The Competition Commission has told store card holders that they must:
  - 4.1.1. Add a "wealth warning" to cardholders about their charges on monthly statements and warn that cheaper credit may be available elsewhere for store cards charging 25% APR or more:

- 4.1.2. Display more detailed and better information on all monthly statements, including the APR, the interest payable next month, the level of fees and charges and insurance details.
- 4.1.3. Offer cardholders the option of paying their account balance by direct debit, to avoid charges for late payments.
- 4.1.4. To separate out the bundles of insurance policies from store cards and offer as separate items payment protection insurance alone, and a bundle of price and purchase protection; this will enable consumers to better understand the costs of these products and make informed choices as to their affordability and suitability.

These measures are expected to be in place within the next twelve months.

## 5. **RESPONSE TO THE COMPETITION COMMISSIONS' REMEDIES**

- 5.1. The remedies imposed by the Competition Commission go some way to enhancing consumer protection in this area. However, there are issues of concern to consumer protection groups that have not been addressed in the findings of the inquiry. Specifically these include:
  - 5.1.1. The lack of a requirement to give a "wealth warning" at the point that the credit is taken out and on other marketing materials.
  - 5.1.2. The requirement to allow the consumer to take away the application form to consider the offer.
  - 5.1.3. The starting point for "wealth warnings" set at an overly generous 25% APR, when the average credit card rate is around 15% APR, with many others at below 10% APR.
  - 5.1.4. The lack of attention to the sales process and to setting standards for training staff who are paid incentives to sell store cards. A mystery shopper exercise conducted by "Which?" found that the majority of staff have little understanding of the of the financial details of store cards or the associated insurance products sold alongside them.
- 5.2. The reports findings have not been welcomed by the Finance and Leasing Association (the trade association for providers of consumer finance, including store cards) who consider that vulnerable consumers could be affected as they would be unprofitable to serve by store card providers and who would have to resort to alternative forms of credit at higher APRs than on store cards.

## **6. IMPLICATIONS FOR KEY COUNCIL POLICIES**

- 6.1. The implications of this report for the Council's policies of combating poverty and disadvantage are that consumers will gain benefit from the remedies imposed by the Competition Commission.

Store card credit holders generally cite the ability to budget for items of household expenditure as the main reason why store card credit is used, particularly for white goods and clothing.

Clearer and more transparent information about the cost of credit and associated financial products will result in greater consumer choice as store cards become more competitive, reduce levels of indebtedness to store card credit providers and help reduce financial inclusion as more consumers benefit from lower cost credit. Officers from Manchester Advice will monitor the effect of the changes once introduced with a particular focus on vulnerable consumers and the impact of their use of credit.

Further improvements to the operation of the market can be made and officers will continue to press for these to be made in a further response to the Competition Commission.

- 6.2. The implications of this report for the Council's policies of promoting equal opportunities are that it is the most disadvantaged groups of Manchester residents who are financially excluded from cheaper forms of credit and who are more likely to have to borrow at higher rates of interest.

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**27 April 2006**