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## **Auriemma Consulting Group Analyses Lessons Learnt from International Credit Card Regulation**

[LONDON] – On 15 March 2010, the Department for Business, Innovation & Skills (BIS) released the response to the consultation on credit and store cards. As part of the consultation process, BIS commissioned Auriemma Consulting Group (ACG) to research features of international credit card markets and how they are regulated, and to identify what lessons could be learned. A number of markets outside of the UK, particularly the US and Canada, have recently implemented regulatory proposals related to credit cards. The ACG study provided evidence on market structure and credit card usage in the international markets and included detailed data and analysis of current regulations and its impact on the payments industry and consumers. Key findings include:

1. Measuring the impact of the BIS regulation will be difficult since it is also coinciding with unprecedented economic changes.
2. Limiting issuers' ability to change terms in a reactive fashion impacts their ability to manage risk.
3. Having an open dialogue between politicians, regulators and industry participants will ensure that the impact and goals of the regulation are understood by all parties, and that changes are made in a organised and effective fashion.
4. Regardless of the scope of the regulation, it is critical that the industry is provided with enough time to implement and appropriately test any necessary changes.
5. The consumer credit industry is creative and innovative. The industry will adapt to the regulation and will develop products, services and strategies that appropriately reflect the new market constraints.

These findings will have significant impact on the UK credit industry. The most impactful result is the limitations on the ability that credit issuers have to manage risk (i.e. change terms) reactively, particularly when a consumer demonstrates financial hardship. This fundamental change to the industry's long-standing business practices will result in less credit being available to consumers and the credit that is available will be more expensive in terms of higher interest rates and fees. Other potential changes we predict are:

- It is expected that benefits and features associated with these products will reflect the new requirements for increased transparency and/or be re-purposed versions of old best practices. Some examples include the re-introduction of charge cards as a mainstream product, widespread annual fees on cards, no interest free periods and rewards being only offered to the most affluent and/or profitable cardholders.

- New credit industry regulation is likely to continue in reaction to the unintended consequences of the current regulation, though these are not expected to be introduced for 1-2 years.
- Some issuers, particularly those who are categorised as being small- or medium-sized lenders, may cease to issue credit and/or store cards, due to the high financial and human resources required to comply with the new rules.
- Financial education efforts, particularly those focused on improving consumer financial literacy, will become more prevalent and focused.
- As credit becomes more difficult to obtain, the migration of consumers to debit and prepaid will accelerate. It also seems likely that short-term lending products like payday loans will gain interest among the mainstream public.

All data included in this study was obtained by ACG using a combination of interviews, desktop research, consumer surveys (using ACG's proprietary market research platform, Cardbeat®) and internal industry insight. The full version of the report is available to download at <http://www.bis.gov.uk/creditconsultation/response>).

#### **About Auriemma Consulting Group**

Since 1984, ACG has offered comprehensive management consulting, research, industry roundtable and benchmarking services to the financial services industry. ACG clients include credit card issuers and networks, commercial banks, mortgage lenders, merchants, and other industry participants. With offices in London and New York, ACG offers actionable solutions to help clients make important business decisions to maximise their efficiencies and revenues.

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