
The changing role of the OFT in consumer finance

A speech to the British Bankers' Association annual retailing banking conference

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15 November 2006

It's a pleasure to be invited here to the BBA's third annual conference. I am particularly pleased to speak alongside Clive Briault of the FSA, given the joint work that the OFT and FSA have recently engaged in, and expect to continue over the coming months.

As you'll be aware the OFT's overall role is to make markets work well for consumers. This applies just as much to consumer finance as to other areas of the economy, and I'll use the first part of my talk this morning to illustrate how the OFT has fulfilled this role to date.

Despite the title of my speech, I want to be clear that this remains our role going forwards. That said, you are likely to see a shift in emphasis, to enable the OFT to take a more strategic approach. This will involve working closely with the FSA on key strategic issues, as well as developing a more holistic approach to retail banking markets. And I'll explain what I mean by this in the second part of my speech.

The role of the OFT in improving consumer finance markets

The OFT's consumer finance work is very wide-ranging, facilitated by its dual role as competition and consumer authority. This provides scope to consider issues in the round, and a toolbox offering a wide range of potential remedies.

There are essentially four broad dimensions to our work and these often overlap one another.

- The first is competition. Competition can provide a powerful stimulus to firms to offer consumers value for money and to innovate. It not only brings direct benefits for consumers but also improves efficiency and productivity, bringing further benefits over time. Our involvement here has included:
 - referring mergers likely to significantly reduce competition, such as Lloyds TSB / Abbey National
 - assessing the impact of multilateral interchange agreements on competition and consumer choice, through Mastercard, Visa and LINK cases under CA98
 - working with industry and other stakeholders to improve access, efficiency and innovation in clearing systems, where network effects seriously limit scope for competition
 - referring Northern Irish personal current account banking services to CC because competition appeared particularly weak.
- But for competition to be effective, we need informed and proactive consumers who can identify good value for money. So the second dimension relates to consumer information (and the third to consumer behaviour). There is a clear need for consumers to have basic financial skills, (hence the FSA's financial capability work that Clive has already mentioned), as well as practical information and guidance so that they can choose a provider that offers them a good deal. The OFT has supported this by, for example:
 - tackling misleading advertising, such as adverts offering 'introductory' APRs, which made it harder for consumers to compare the overall cost of credit
 - providing consumer information and guidance leaflets, in particular on shopping around for consumer credit, supported by our 'be choosy about credit' campaign last year
 - investigating store cards, where the OFT found a worrying lack of transparency before signing, at point of sale and after the contract

had been signed. This made it difficult for consumers to assess the costs and benefits of using store cards.

- Ensuring that the relevant information is out there may not be enough. The OFT is also alert to other factors that might prevent consumers from actually securing value for money. This is the third aspect of our work, and it relates to concerns about firms taking advantage of the way consumers tend to behave by, for example:
 - using high pressure sales tactics that persuade consumers to buy products they don't want or are poorly suited to their needs, including their ability to repay. The OFT will have stronger powers to tackle so-called 'aggressive commercial practices' when Unfair Commercial Practices Directive (UCPD) comes into force
 - setting unfair standard terms and conditions knowing that consumers are very unlikely to read and take on board all the detail contained in the small print. This is where our recent work on default charges comes in, to protect consumers from unfair penalties that recover more than the cost of dealing with a default.
- Finally, the fourth aspect is about ensuring government interventions support the way markets work, so that unnecessary burdens are not created through heavy-handed, outdated or overlapping interventions. We have been working closely with FSA where our interests overlap, and will continue to do so. Here our intended outcomes are to:
 - reduce burdens on business by streamlining processes where possible
 - join-up work to promote consistency in approach, and better investigations/outcomes for markets
 - ensure better communication and advice for business and consumers by joining forces to target messages, and by including relevant signposting on web-sites and at contact centres.

I'm sure Clive will agree with me that both sides have benefited from a greater sharing of expertise and experience. We have also delivered tangible benefits for firms, such as rule changes and simplified guidance on jointly-regulated advertising.

The OFT has had a number of successes in consumer finance. To highlight a few:

- The Payments System Task Force has secured changes not only to improve governance of payment schemes but also to improve efficiency, bringing benefits for consumers. For example BACS payments currently take 3 days to process. From November 2007 industry will process telephone and internet payments in just 2 hours. As announced yesterday, the Task Force is also set to deliver significant improvements in the cheques clearing system, with maximum time limits on clearing for value, withdrawal and fate.
- Our work on credit card default charges found that more than £300 million was being earned through unlawful penalty charges. Credit card issuers have agreed to reduce default charges, the majority by almost half.
- The OFT's study into PPI suggests that many consumers get a very poor deal on PPI, with scope for consumer savings of the order of £1bn. PPI also provides a good example of how well the OFT and FSA can work together to tackle key consumer problems in markets where our interests overlap, as Clive has outlined in his speech.

What changes are you likely to see going forwards?

As I mentioned at the start of my speech, the OFT's overall role is not changing. So in many ways it will be business as usual. We will continue to improve the way consumer finance markets work within the context of the framework just outlined.

In terms of approach:

- We will continue to have a strong preference for enhancing consumer choice and competitive processes rather than increasing regulation.
- In line with this we will continue to provide guidance to industry to enable firms to raise standards of customer service and tackle unfair practices. The OFT's fitness guidance on debt collection and debt management are well known to industry. We will be producing guidance on the new consumer credit licensing regime and other consumer protection provisions of the Consumer Credit Act 2006. The BBA is one of several industry stakeholders with whom we are working to ensure that we create a regime

within which we can all work effectively and which is fit for the 21st century.

- In addition, we will continue to choose collaborative approaches to resolving market problems where possible, as exemplified by the work of the Payment Systems Task Force. Such an approach works well when industry is ready to engage on strategic level, and sees treating customers fairly as a competitive selling point.
- In terms of enforcement, we will continue to take a risk-based and proportionate approach. This is not only true for our existing powers, but is also true for new powers, such as the stronger and more effective enforcement powers the OFT has been given under the Consumer Credit Act 2006 (CCA 2006).

So what will change?

The emphasis will change. Specifically, we want to develop a more strategic approach. This entails:

- Working closely with the FSA on key strategic issues where our interests overlap. We are both keen to:
 - build on the success of the Joint Action Plan and of individual projects such as PPI to ensure that regulation and other interventions are efficient and effective
 - think more about who does what, and to share that thinking with stakeholders. This will help improve regulatory certainty for business.
- Taking a more holistic approach to retail banking to ensure that we are clear about when and how best to intervene.
 - as previously indicated, we want to conduct a broader review of our banking work. We want to take stock of the wide-ranging retail banking work to date and the issues raised in, for example, the CC's investigation into personal current account banking services in NI, Treasury Select Committee's reports on credit card charges and marketing, and the OFT's enforcement and other work. By looking at competition and consumer issues in the round, we will be clear where the key problems lie, and able to take any waterbed effects

into account (whereby reduced charges in one area resurface in another)

- we also want to think more about remedies, to ensure that we take full advantage of the OFT's competition and consumer expertise and tools. We want to consider the relative effectiveness of different remedies and to use our tools more readily in combination with one another, including new powers such as the Unfair Relationship provisions of CCA 2006, the new licensing powers of that Act and the provisions of the UCPD. A key question is what information do consumers need to drive competition? This issue is of central importance to a wide range of financial services markets. It is also highly relevant to the Banking Code and Business Banking Code, both of which are being reviewed over the coming months.

This work will enable the OFT to take a more coordinated and prioritised approach, focused on markets and outcomes, in line with the broader internal changes that the OFT is currently undergoing.

Existing work will be pursued in line with this approach. We are already engaging with the FSA, as well as the BBA and other stakeholders on a range of issues and will continue to do so. And I am confident that by adopting a more strategic approach we will improve the OFT's ability to make consumer finance markets work well for consumers.