

Summary: Intervention & Options

Department /Agency:

Department for Business
Innovation and Skills

Title:

Impact Assessment of credit card cheques

Stage: Final

Version: 1.0

Date: 20th October 2009

Related Publications: Regulatory impact assessment, published with "Credit Card Cheques: A Discussion Paper" (DTI), November 2005, URN 05/1770

Available to view or download at:

<http://www.berr.gov.uk/whatwedo/consumers/consumer-white-paper/page52784.html>

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What is the problem under consideration? Why is government intervention necessary?

Credit card cheques are a method of accessing money available on a consumer's credit card account. The unsolicited nature of credit card cheques, combined with the numbers sent out, may make it easier for consumers in financial distress to use them and the often high costs associated with credit card cheques can make their situation worse. Evidence suggests that previous action to increase transparency has not been entirely successful in increasing consumer understanding of the associated costs. The market failure rationale in this case is imperfect information, coupled with behavioural biases, as explained below.

What are the policy objectives and the intended effects?

The policy objective is to encourage consumers to exercise more control over their financial affairs. The removal of unsolicited credit card cheques should have the positive effect of forcing consumers to behave more proactively regarding their finances, exploring other credit options or deferring/restricting spending, rather than using a credit card cheque.

What policy options have been considered? Please justify any preferred option.

The following options have been considered:

- (i) Do nothing
- (ii) Banning unsolicited credit card cheques
- (iii) Banning all credit card cheques

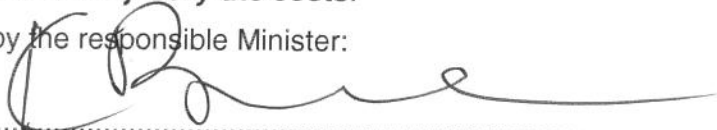
The Government's preferred option is (ii), which would go some way to guaranteeing an appropriate level of consumer protection, while minimising any unintended consequences for fully-informed users of credit card cheques.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? This impact assessment is being prepared for the Financial Services Bill, which enters Parliament in November 2009. This will only be subject to change if there are amendments to the Bill. A post-implementation review will be undertaken in Spring 2013/15.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:



..... Date:

3/11/09

Summary: Analysis & Evidence

Policy Option: Option 2 - Ban unsolicited credit card cheques

Description: Ban issuers from sending unsolicited credit card cheques to consumers

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Costs to credit card issuers in terms of lost revenue (up to £130m pa); costs to perfectly-informed users from not being willing or able to request credit card cheques (up to £21m pa); lost revenue to printers of credit card cheques (£18m pa)
	One-off (Transition)	Yrs	
	£ -	10	
	Average Annual Cost (excluding one-off)		
	£ 18m-169m		Total Cost (PV) £ 112m-1,048m
Other key non-monetised costs by 'main affected groups' Potential costs to industry to adjust their operating systems to a model based on only solicited credit card cheques; costs to individuals from being unable to use credit card cheques in situations where no alternative is available, and if they do not request them			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Savings for imperfectly-informed consumers from not having to pay costs associated with use of credit card cheques (up to £130m pa); cost savings to credit card issuers from lower processing and printing costs (£18m pa)
	One-off	Yrs	
	£ -	10	
	Average Annual Benefit (excluding one-off)		
	£ 18m-148m		Total Benefit (PV) £ 112m-917m
Other key non-monetised benefits by 'main affected groups' Potential benefits for consumers associated with a reduction in stress and/or health problems associated with the use of credit card cheques, where such use contributes to an increased likelihood of unsustainable levels of debt.			

Key Assumptions/Sensitivities/Risks

£21m annual costs identified above assumes that all perfectly-informed users would not request credit card cheques; for NPV best estimate, it is assumed that 50% of these potential costs will be realised. Assume that credit card cheque values will decline by average 2005-8 levels (i.e. -8.1%)

Price Base Year 2008	Time Period Years 10	Net Benefit Range (NPV) £ 0 to -131m	NET BENEFIT (NPV Best estimate) £ 0 to -65m
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What is the geographic coverage of the policy/option?		UK		
On what date will the policy be implemented?		2010		
Which organisation(s) will enforce the policy?		Trading Standards		
What is the total annual cost of enforcement for these organisations?		£ Unknown		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		N/A		
What is the value of the proposed offsetting measure per year?		£ N/A		
What is the value of changes in greenhouse gas emissions?		£ N/A		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro Unknown	Small Unknown	Medium Unknown	Large Unknown
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)		
Increase of £ 0	Decrease of £ 0	Net Impact	£ 0	

Summary: Analysis & Evidence

Policy Option: Option 3 – Ban credit card cheques

Description: Ban issuers from sending credit card cheques to consumers

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Costs to credit card issuers in terms of lost revenue (£130m pa); costs to perfectly-informed users from not being able to use credit card cheques (£21m pa); lost revenue for printers of credit card cheques (£18m pa)
	One-off (Transition)	Yrs	
	£ -	10	
	Average Annual Cost (excluding one-off)		
	£ 169m		Total Cost (PV) £ 1,048m
Other key non-monetised costs by 'main affected groups' Costs to individuals from being unable to use credit card cheques in situations where no alternative is available			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Savings for imperfectly-informed consumers from not having to pay costs associated with use of credit card cheques (£130m pa); cost savings to credit card issuers from lower processing and printing costs (£18m pa)
	One-off	Yrs	
	£ -	10	
	Average Annual Benefit (excluding one-off)		
	£ 148m		Total Benefit (PV) £ 917m
Other key non-monetised benefits by 'main affected groups' Potential benefits for consumers associated with a reduction in stress and/or health problems associated with the use of credit card cheques, where such use contributes to an increased likelihood of unsustainable levels of debt.			

Key Assumptions/Sensitivities/Risks

Assume that credit card cheque values will decline by average 2005-8 levels (i.e. -8.1%).

Price Base Year 2008	Time Period Years 10	Net Benefit Range (NPV) £ -131m	NET BENEFIT (NPV Best estimate) £ -131m
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	Trading Standards			
What is the total annual cost of enforcement for these organisations?	£ Unknown			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ N/A			
What is the value of changes in greenhouse gas emissions?	£ N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro Unknown	Small Unknown	Medium Unknown	Large Unknown
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £ 0	Decrease of £ 0	Net Impact	£ 0

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Overview

1. Issues around the use of credit card cheques have been considered for some time. Initially, this was considered through the Task Force on Tackling Over-indebtedness¹ and the Treasury Select Committee on Credit Card Charges and Marketing². The second Task Force report in January 2003³ made a number of recommendations concerning the precautions lenders should take about a customer's financial status before sending out credit card cheques and the information that should be provided concerning the charging arrangements, conditions of use and the difference in protection compared with the use of a credit card. Meanwhile, the Treasury Select Committee made similar recommendations in 2005⁴ and also expressed concern about how the unsolicited issuing of credit card cheques had the potential to disproportionately affect households at risk of over-indebtedness.
2. The banning of unsolicited credit card cheques was the subject of a consultation in 2005⁵, following which such a ban was rejected. During the passage of the Consumer Credit Act 2006, it was decided to allow industry to adopt voluntary measures to make charges and fees related to credit card cheques more transparent. However, Government also made the commitment to continue to monitor whether further regulation was necessary in this area.
3. The industry took steps to enhance the information provided to consumers, by introducing a summary box with all credit card cheques to include key information, such as interest rates and handling charges. However, evidence suggests that these voluntary measures have not been entirely successful in increasing consumer awareness to a satisfactory level – for example, there is evidence that the vast majority of users still do not understand the costs associated with the use of credit card cheques.
4. It may also be that many potential users of credit card cheques could be vulnerable, by virtue of their precarious financial position. Furthermore, as the economic downturn may worsen the financial situation for many consumers, those voluntary rules may not be sufficient to address this information problem.
5. The recently published Consumer White Paper⁶ aims to achieve these outcomes. It acknowledges the fact that credit card cheques are still useful and suitable products for some consumers, as long as those who use them are aware of the associated costs. However, evidence suggests that awareness among users is low, despite previous action by industry to provide more transparent information on the costs associated with their use. The unsolicited nature of credit card cheques and the volume that are sent out may make it easier for consumers in distress to use them, instead of facing up to their problems and cutting expenditure or seeking more affordable credit; the high costs associated with them can make the situation worse.

Issue

6. Consumer indebtedness in the UK has increased significantly during the last 10 years – consumers currently owe around £1.4 trillion, up from £600 billion at the turn of the century.

¹ Household Survey on the Cause, Extent and Effects of Over-indebtedness; November 2002

² <http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmselect/cmtreasy/274/27402.htm>

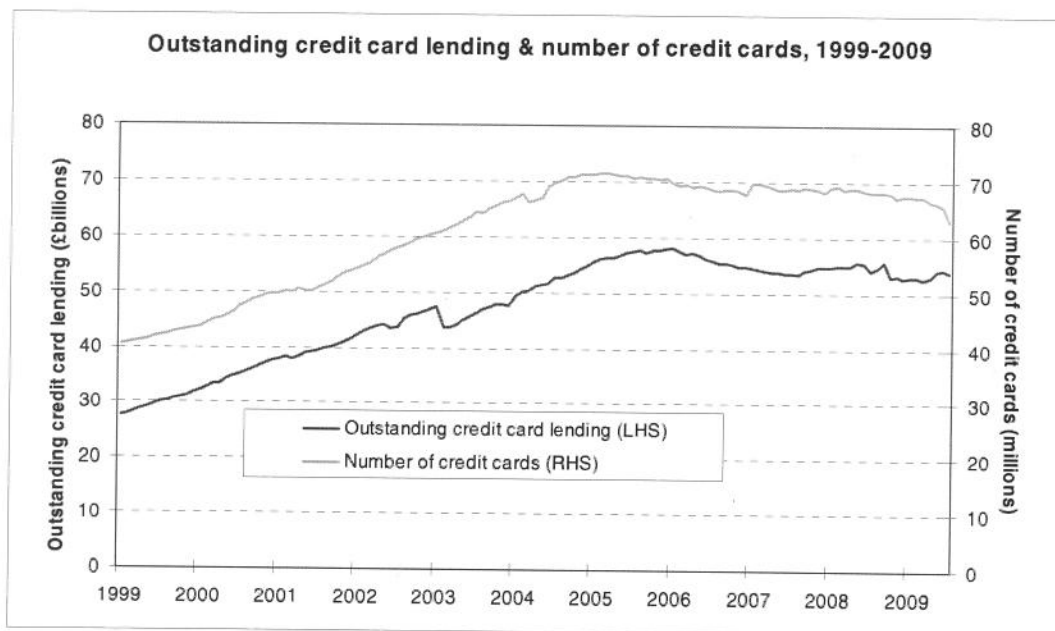
³ <http://collections.europarchive.org/tna/20031220221849/http://www.dti.gov.uk/ccp/topics1/pdf1/2ndreport.pdf>

⁴ <http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmselect/cmtreasy/274/27402.htm>

⁵

The ratio of debt to income has also risen sharply over this period, from 95% to over 150%. The vast majority of this borrowing (£1.2 trillion) is for mortgages on houses, with the remainder (around £230 billion) accounted for by unsecured credit, which includes personal loans, overdrafts, credit cards, store cards and some other forms of specialist lending.

7. According to Bank of England figures for June 2009, credit cards accounted for £54 billion (24%) of outstanding unsecured credit, nearly double the amount in 2000. Credit cards have become increasingly important unsecured credit products, with 63 million cards in circulation as of July 2009⁷ (up from 44 million in 2000) and an average of 1.5 cards held per adult in the UK⁸.



Source: Bank of England and BBA

8. Credit card cheques have been offered by credit card issuers for about 12 years and are an additional way of accessing the credit offered by a credit card. Currently, 9 banking groups offer credit card cheques on at least one of their credit card lines. They are typically used for balance transfers, such as repayment of an outstanding loan from another lender, and for payments to third parties where there are no facilities to use a card. According to YouGov research published by USwitch⁹, 35% of people use credit card cheques for balance transfers, 23% to put cash into their accounts, 16% to pay household bills and 7% to consolidate debts. Evidence from industry suggests that balance transfers account for 31-32% of credit card cheque usage, a further 22% used for cash and 9% for utility bills.
9. Credit card cheques differ from card purchases, in that they are typically treated by the card issuer as cash advances, thereby attracting a fee on issue, usually 2.5% or 3% of the amount of the cheque (though some issuers do not charge a handling fee on their credit card cheques¹⁰). The interest rate attached to credit card cheques can be higher than the standard purchase rate, such as a cash withdrawal rate¹¹, or it may be a lower promotional rate (which may be as low as 0%) for a period. The promotional period is most commonly between 3 and 6 months, or sometimes until the cheque is paid off¹². Evidence from industry indicates that the average interest rate for credit card cheques can therefore end

⁷ Source: BBA

⁸ Source: UK Cards Association

⁹ <http://www.uswitch.com/press-room/?downloadfile=CONSUMERS-SPLURGE-3.6-BILLION%5B1%5D-ON-CREDIT-CARD-CHEQUES>

¹⁰ Such as Abbey, which it is estimated accounts for 2-3% of all credit card cheques (based on their credit card market share – source: Datamonitor; Mintel)

¹¹ An average APR of 26.7%, according to USwitch

¹² —

up being much lower – for example, one issuer had an average interest rate of 6.29% on their credit card cheques in 2008, whilst another said that 80% of its credit card cheques were priced at an APR of less than 8.9%.

10. In addition, there is no interest-free period as with card purchases; interest is charged from the date of the transaction. Unlike card purchases (but in common with cheques drawn on current accounts), joint liability protection under section 75 of the Consumer Credit Act 1974 does not apply to credit card cheques.
11. Evidence from the UK Cards Association¹³ indicates that 292 million credit card cheques were issued in 2008 (4.5% more than were distributed in 2007) and 2.7 million were used, representing 0.9% of the total (compared to 1.1% of cheques used a year earlier). The total value of these payments in 2008 was £3.2 billion (£3.6 billion in 2007) and the average value of a cheque was £1,200 (up from £1,141 a year earlier). Survey evidence submitted by industry in response to our consultation indicates that around 4% of credit card holders use credit card cheques, equivalent to 1.3-1.5 million consumers.
12. As can be seen from the table below, compared to 2004 figures, many more credit card cheques are being sent out and less are being used, but the average value of each credit card cheque is increasing (an average value of £850 per cheque in 2004 compared with £1,200 in 2008). Credit card cheques also account for a slightly higher proportion of total outstanding credit card spending – in 2004, just under £3bn was written on credit card cheques, equivalent to 2.9% of all credit card spending¹⁴, but by 2008, this had risen slightly to 3.1%.

Table: Number of credit card cheques distributed, volume and value of credit card cheques used, 2004-2008

Year	Number of credit card cheques distributed (m)	Volume of credit card cheques used (m)	Value of credit card cheques used (£bn)
2004	213.9	3.6 (1.7%)	2.9
2005	257.1	4.3 (1.7%)	4.1
2006	325.9	4.1 (1.2%)	4.0
2007	279.6	3.2 (1.1%)	3.6
2008	292.1	2.7 (0.9%)	3.2

Source: UK Cards Association

13. The USwitch research found that 97% of all credit card cheques issued are unsolicited, with 8% of credit card holders receiving credit card cheques once a month and 18% receiving them twice a year. Evidence submitted by industry suggests that the actual proportion of credit card cheques that are unsolicited is 93-94%. However, only a small proportion of credit card cheques received are actually used, as stated above.
14. Evidence from USwitch¹⁵ indicates that 86% of those who use credit card cheques do not know the correct fees for these products, despite action by the industry to provide consumers with more information about the conditions attached to credit card cheques. It also shows that a significant proportion of consumers appear to be using the cheques in ways that might suggest financial distress by, for example, putting cash into their bank accounts and paying utility bills.

¹³ UK Plastic Cards 2009: "The Way we Pay"

¹⁴ 2004 figures taken from Regulatory Impact Assessment published with DTI's "Credit Card Cheques: A

Rationale for intervention

15. The market failure rationale behind Government intervention in this area is that of **imperfect information**. This is supported by the USwitch research, which shows that most consumers do not have a clear understanding of what interests and charges apply when using a credit card cheque. While we acknowledge some consumers might find credit card cheques useful and convenient products, there is a concern that if not understood they could present a great disadvantage for some consumers.
16. The unsolicited nature of credit card cheques, combined with the numbers that are sent out, may make it easier for consumers in financial distress to use them, with the often high costs associated with credit card cheques potentially making their financial situation worse. As stated above, previous action to increase the information provided to consumers does not appear to have been successful in increasing consumer understanding of the associated costs.
17. Evidence from behavioural economics suggests that the unsolicited nature of credit card cheques may be of particular concern. Credit card cheques can be an expensive form of credit when other options are available. However, this can be particularly important if they are sent unsolicited to consumers, as they are more readily accessible. This creates the potential for significant consumer detriment, especially when they are not fully understood.
18. Consumers are prone to certain psychological biases which may impair their ability to make utility-maximising choices. For example, inertia and procrastination can cause problems, particularly in relation to financial decisions¹⁶. 'Status quo bias', where consumers prefer not to change their current situation, can lead people to routinely prefer the 'default' option.
19. This quality, combined with cognitive limitations on processing complex and potentially voluminous financial information, can lead to many more consumers receiving a product or service when they do not have to actively 'opt in' to receiving them. This issue is particularly relevant for credit card cheques, as under the current *status quo*, clients receive unsolicited credit card cheques without opting to receive them. They may not be suitable products for obtaining credit given their specific financial circumstances, but they might use them in circumstances of financial distress.

Objectives

20. The policy objective is to encourage consumers to exercise more control over their financial affairs. By making credit card cheques less readily available, consumers would be forced to give more thought to their financial position, exploring other (potentially cheaper) credit options or deferring/restricting spending rather than using a credit card cheque.
21. The outcomes we would like to see are a significant reduction in the number of credit card cheques sent out and a reduction in the total amount of credit card cheque debt, where it contributes to an increased likelihood of unsustainable debt. There may also be a small increase in the total amount of non-credit card debt if consumers switch their spending to alternative unsecured credit products rather than reduce it. Although a small decrease in the total amount of consumer debt would be expected, it will be very difficult to attribute changes in debt levels to this action alone, in isolation from other factors.

Options

22. Three options were considered for the purpose of this impact assessment:
 - (i) do nothing;
 - (ii) ban unsolicited credit card cheques and,
 - (iii) ban credit card cheques completely.

23. Industry measures to increase transparency of fees and charges associated with the use of credit card cheques appear not to have worked. Evidence from USwitch indicates that 86% of those who use credit card cheques do not know the correct fees for these products. This is broken down into:
- 23% of users do not know if there is a fee;
 - 11% believe there is no fee;
 - 13% wrongly believe that there is a standard interest-free period, along with a standard purchase APR; and
 - 39% believe there is a handling charge but incorrectly believe there is a standard purchase APR along with the standard interest-free period.
24. On an average cheque value of £1,200¹⁷, the handling fee would be £30¹⁸. Assuming that the consumer pays off a credit card cheque over a 12-month period, industry calculations of the associated interest cost are £106.38. However, survey evidence provided by industry indicates that 43% of credit card cheque users pay off their balance in full every month, and so would not incur such significant interest costs. If the purchase was made on the credit card, the total charge would be £81.17 (assuming the balance is paid off over 12 months and the interest rate is the 12-month rolling average credit card rate, based on Bank of England data¹⁹, which was 12.26%).
25. Therefore, in terms of the unexpected charges experienced by users of credit card cheques, we estimate that, in 2008:
- £27 million were paid by consumers in unexpected handling fees²⁰;
 - An 'unanticipated' £19.6 million was paid by those consumers (13%) that believed there was no handling fee, a standard interest-free period and standard purchase APR, and
 - £27.6 million would have been paid by the 39% of credit card cheque users that thought there was a handling fee but wrongly believed there was a standard purchase APR and a standard interest-free period.
26. This would mean that the cost to consumers related to unexpected charges amounts to approximately £74 million per year, based on 2008 data. However, given that 43% of credit card cheque users pay off their balance in full each month, the interest costs identified above will only be incurred for one month for those users. This would reduce the costs incurred by credit card cheque users by £28 million.
27. Of the remaining £46 million, we cannot assume that all of this amount would have been saved by increasing the information available. Previous action to give consumers more and clearer information about credit card cheques does not seem to have been entirely successful. Therefore, it is not clear how much additional benefit there would be in further strengthening information provisions.
28. However, there are some instances in which credit card cheques do offer a number of benefits to consumers:
- Well-informed consumers can use them for balance transfers, potentially benefitting from lower interest rates during promotional periods, and
 - Credit card cheques can be used where cards are not accepted, for example to pay small tradesmen²¹.

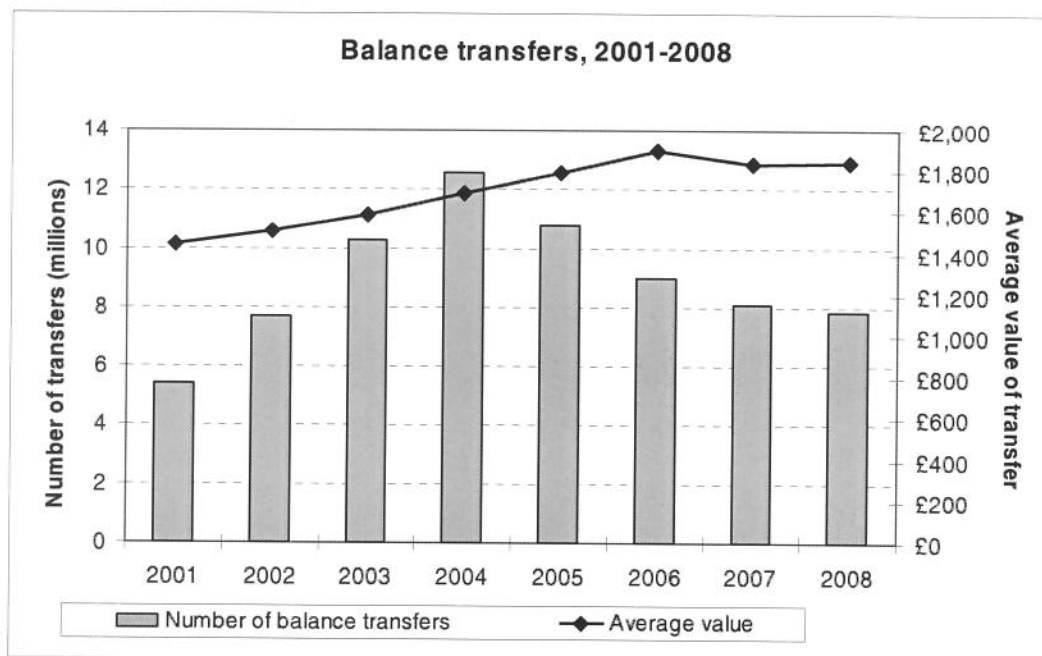
¹⁷ Source: UK Cards Association

¹⁸ Assuming a 2.5% handling fee

¹⁹ Series – CFMHSDP [average, July 2008-July 2009]

²⁰ 34% of users either thought there was no handling fee, or did not know there was a handling fee; 2-3% do not

29. In relation to balance transfers, evidence suggests that around 30% of credit card cheques are used for this purpose. As can be seen from the chart below, balance transfer activity has declined markedly since 2004, but the average value of a balance transfer has remained relatively stable.



Source: UK Cards Association

30. Despite the costs identified above, it is likely that those who use credit card cheques for balance transfers do so because the benefits (in terms of the difference between the interest rate on the cheque and their current credit card, assuming that the latter is higher) exceeds the associated costs (in terms of the handling fee). However, it is difficult to evaluate the scale of those benefits, particularly as they will be traded off against potentially higher interest costs that may be incurred if repayment goes beyond the promotional period.
31. In any case, it is more likely that credit card cheque users who utilise them for balance transfers fall into the category of informed customers – i.e the 14% who understand the costs associated with credit card cheque use.
32. In relation to the second of these benefits, it is very difficult to assess what proportion of credit card cheques are used in situations where cards are not accepted. Industry evidence indicates that around 14-17% of cheques are used for personal cheques, which might be thought to include such situations. However, it is more likely that these transactions fall into a category of low-value purchases, which could be more likely to be paid off in full every month. Therefore, the associated costs of using credit card cheques in this way is likely to be low.
33. In addition to the 3 options set out below, a further option was considered, of allowing credit card cheques to be sent unsolicited to existing customers who had previously used them (previous use being taken as consent to receive future cheques) and to new customers who opted in to receiving cheques. However, this option was not pursued as it was not considered to meet the policy objective. While such an option has the potential to reduce numbers of new users of cheques (because fewer customers would be offered them), the problems regarding a lack of understanding set out above were identified among current users.
34. Under such an option, the position of those who have used credit card cheques in the past would remain unchanged and there may also be a risk to new users, meaning that the

increase their understanding. This could mean that some consumers may have used credit card cheques without fully understanding the associated costs²², which would mean that the policy objective had not been achieved.

Option 1: Do nothing option

35. The first option is to do nothing, which would imply maintaining the *status quo*. In this case, issuers would continue to send significant amounts of cheques and consumers will continue to use them, potentially in situations of distress, without understanding the fees and charges that apply to them. The do nothing approach is used in this impact assessment (as is common practice) as the baseline to our analysis

Option 2: Ban unsolicited credit card cheques

36. This is the preferred option. Under this proposal, credit card issuers would be prohibited from sending out cheques except in response to a request from a customer. The credit card issuer could offer to send cheques to the customer but the customer would have to 'opt in' to receiving them. There would not be any restriction on the number of cheques that could be sent out at any one time.
37. Although such action would reduce cheque volumes by 93-97%²³, evidence indicates that the proportion of received credit card cheques that are actually used is less than 1%²⁴. It is difficult to estimate what proportion of the credit card cheques used are unsolicited; it seems unlikely that 93-97% of used credit card cheques are also unsolicited (particularly given the behavioural biases identified above), as this would imply that credit card cheques are equally likely to be used whether they were unsolicited or not.

Costs

38. As a result of implementing this proposal, there would be a transfer of the revenue derived from credit card cheques from credit card issuers to consumers. Potential sources of cost would therefore arise from a loss of consumer surplus for those perfectly-informed consumers that currently use unsolicited credit card cheques and those consumers who use unsolicited credit card cheques where it is not possible to substitute towards payment on a credit card.
39. If users of credit card cheques continued to request the same number of cheques and usage therefore stayed unchanged, there would be no transfer of revenue from credit card issuers to consumers. Equally, at the other extreme, if all credit card cheques currently used are unsolicited, and all credit card cheque usage could be substituted to credit card usage, then all of the revenue generated from handling fees and interest differential between credit card cheques and credit card purchases would be transferred from credit card issuers to consumers (estimated to be £148 million per year).
40. Due to the difficulty in knowing what proportion of credit card cheques currently used are unsolicited, it is difficult to say which of these scenarios might be more likely. Consumers would still be able to request credit card cheques, which might mean that those that use them will continue to request to receive them. However, the 'status quo bias' identified above means that the number actually taking the time to make that request might be lower than one might expect given their usage; this may change over time as consumers get used to the idea of having to request cheques.

²² This could also potentially hinder their ability to find out whether the expenditure could be funded more cheaply, or even not incurred at all

²³ Based on the proportion of credit card cheques that are unsolicited (source: USwitch, November 2008; UK Cards

41. Therefore, the revenue lost by credit card issuers – that will be transferred to those credit card cheque users that are imperfectly informed²⁵ – could be **up to £130 million per year**²⁶ (depending on the proportion of currently-used credit card cheques that are also unsolicited), amounting to **up to £805 million over 10 years**²⁷, discounted at a standard rate of 3.5%²⁸.
42. There would also be a cost for some fully-informed consumers who derive financial benefits from using credit card cheques – the USwitch survey evidence suggests that around 14% of credit card cheque users are fully aware of all associated fees and charges. Given that these consumers are willing to pay the costs of using credit card cheques, economic theory would suggest that the value they attribute to this product/service is at least equal to that amount of money. In the worst possible case, if the 14% of credit card cheque users that are perfectly informed only use unsolicited credit card cheques do not request them under an ‘opt-in’ scenario, this would indicate that these consumers could stand to lose **up to £21 million per year**, or a **maximum of £131 million over 10 years**.
43. This calculation assumes that purchases that would have been made with a credit card cheque can be conducted with a credit card; however, this is unlikely to always be an available payment option. It is very difficult to quantify the proportion of credit card cheques that are currently used in situations where there is no alternative payment option, and the consumer would not request credit card cheques under an ‘opt-in’ scenario.
44. Similarly to the transfer of revenue identified above, there would also be a transfer between firms that print and dispatch credit card cheques (a cost in terms of lost revenue) and credit card cheque issuers (a benefit in terms of a cost saving). According to 2008 figures, this means that nearly 290 million cheques will not be needed. If each batch of cheques costs 25p to print and dispatch (assuming 4 cheques in a batch; figures used in 2005 RIA), this suggests lost revenue of approximately **£18m per year** which, over a 10-year period discounted at a standard rate of 3.5%, would be **£112 million**. This benefit and cost will therefore offset each other for no net impact on the overall cost-benefit analysis for this option.

Benefits

45. As discussed earlier, there would be savings to those credit card cheque users (that are imperfectly-informed) from not incurring charges associated with credit card cheques. This would be equal to the lost revenue previously identified – i.e. **up to £130 million per year**, amounting to **a maximum of £805 million over 10 years**.
46. As set out above, there would be savings to credit card issuers from less cheques being sent out to consumers, though this would approximately equal the lost revenue for companies who print and dispatch credit card cheques – i.e. approximately **£18m per year**, amounting to **£112 million over 10 years**.
47. There could also be benefits to consumers from a reduction in the incidence of problems associated with over-indebtedness (e.g. health problems, relationship breakdown), in which credit card cheques may play a contributory role. It is very difficult to quantify these benefits and we have not been able to do so here.

Option 3: Ban credit card cheques completely

48. A third option would be to ban the use of credit card cheques completely. Lenders would not be allowed to provide cheques to their customers under any circumstances.

²⁵ 86% of credit card cheque users, according to the USwitch research

²⁶ Calculation based on difference between interest costs for credit card cheques (£106.38, according to industry calculations) and credit card purchases (based on an interest rate of 12.26%), and an average handling fee of 2.5%

²⁷

Costs

49. Similarly to the previous option, there would be a transfer of the revenue derived from credit card cheques from credit card issuers to consumers but in this case it would be the maximum amount, i.e. for all credit card cheques (**£130 million per year, £805 million over 10 years**).
50. Other potential sources of cost would therefore arise from a loss of consumer surplus for those perfectly-informed users of credit card cheques and those consumers who currently use credit card cheques, where it is not possible to substitute towards payment on a credit card (or any other alternative).
51. Similarly to option 2, the costs for fully-informed consumers who derive financial benefits from using credit card cheques would be approximately **£21 million per year**, amounting to **£131 million over 10 years**.
52. There would be also be costs in terms of lost revenue for those firms that print and dispatch credit card cheques, the same as those outlined for Option 2 above – i.e. **£18m per year; £112 million over 10 years**.
53. Again, it is very difficult to quantify the proportion of credit card cheques that are currently used in situations where there is no alternative payment option and it has not been possible to do so here.

Benefits

54. The benefits to industry for this option would be the same as those outlined for Option 2 above – i.e. a cost saving for issuers of credit card cheques equal to the revenue lost by printers and distributors of credit card cheques (**£112 million over 10 years**).
55. As for option 2, there would be savings to those credit card cheque users (that are imperfectly-informed) from not incurring charges associated with credit card cheques. This would be equal to the lost revenue previously identified – i.e. **up to £130 million per year**, amounting to **£805 million over 10 years**. Again, there could also be benefits to consumers from a reduction in the incidence of problems associated with over-indebtedness (e.g. health problems, relationship breakdown), in which credit card cheques may play a contributory role. It is very difficult to quantify these benefits and we have not been able to do so here.

Risks

56. The risk of Option 1 is that more consumers will continue to incur the cost of using credit card cheques because of the easy availability of credit card cheques and the fact that many do not understand the true cost of using them.
57. The risks of Option 2 are that, although consumers who use cheques to their advantage will continue to do so, the loss of revenue for issuers may lead to increased rates for all users and the credit card cheque may even disappear altogether if this leads to a sharp decline in usage, which would render the product unprofitable.
58. Under Option 2, the risk associated with consumer incurring costs of using credit card cheques should be mitigated by the fact that issuers will still be able to offer cheques to customers and customers will still be able to request them. The 'status quo bias' suggests that most customers will not use cheques if they have to ask for them, but this behaviour may change if cheques are only available on request and as customers get more used to the idea of asking for them.
59. The risks of increasing interest rates on credit cards (and credit card cheques) and the possibility of credit card cheques disappearing will be influenced by the number of customers who request and continue to use cheques and (in the case of the latter) by the replacement of credit card cheque purchases by credit card purchases. A relevant factor

60. The risks of Option 3 are the same as the first two risks identified for Option 2, but without the mitigating factors.

Enforcement

61. The proposed new provision would be enforced by Trading Standards. A lender guilty of the offence of sending out unsolicited credit card cheques is liable to a fine. Civil sanctions will also be an option. Enforcement will be compliant with the Hampton Code, and will be conducted in a fair, open and transparent manner. There is already a detailed legal framework in place for consumer credit and those offering credit card cheques are already required to hold a consumer credit license from the Office of Fair Trading and to comply with a number of legal requirements. In terms of monitoring, a post-implementation review will be undertaken to examine the impact of the measure, which will be undertaken in Spring 2013/15.

Recommendation and Summary Table of Costs and Benefits

62. Option 2 is the recommended option as it achieves the policy objective with the best balance of costs and benefits.

Option	Costs	Benefits
1 – Do nothing	n/a	n/a
2 – Ban unsolicited credit card cheques	<p>Costs to credit card cheque issuers from lost revenue associated with imperfectly-informed users of up to £805 million</p> <p>Costs to fully-informed users of credit card cheques (who do not request them) of up to £131 million</p> <p>Lost annual revenue for printers of credit card cheques of approximately £112 million</p> <p>Costs to consumers from not being able to use a credit card cheque where it is not possible to use an alternative payment mechanism (assuming that they do not request to receive credit card cheques)</p>	<p>Savings for imperfectly-informed users associated with credit card cheques of up to £805 million</p> <p>Cost saving for credit card cheque issuers in printing costs of approximately £112 million</p> <p>Potential benefits from reduced incidence of over-indebtedness that is contributed to by use of credit card cheques</p>
3 – Ban credit card cheques completely	<p>Costs to credit card cheque issuers from lost revenue for imperfectly-informed users of £805 million</p> <p>Costs to fully-informed users of credit card cheques (who cannot request them) of approximately £131 million</p> <p>Lost revenue for printers of credit card cheques of approximately £112 million</p> <p>Costs to consumers from not being able to use a credit card cheque where it is not possible to use an alternative payment mechanism</p>	<p>Savings for imperfectly-informed users associated with credit card cheques of £805 million</p> <p>Cost saving for lenders in printing costs of approximately £112 million</p> <p>Potential benefits from reduced incidence of over-indebtedness that is contributed to by use of credit card cheques</p>

Implementation

63. Implementation guidance to industry will be issued before the provision comes into force. When this will be precisely depends on the passage of the Financial Services and Business Bill. As discussed earlier, a post-implementation review will be undertaken in Spring 2013/15.

Monitoring and evaluation

64. In terms of monitoring, a post-implementation review will be undertaken to examine the impact of the measure, in Spring 2013/15. Data will continue to be collected on credit card cheque usage – key variables could include: the number and value of credit card cheques used, and reasons for requesting credit card cheques.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

Annexes

Competition Assessment

Our preferred option will be likely to affect some credit card issuers more than others as some do not issue credit card cheques and the frequency is different amongst those who do. However, consumers using a credit card cheque are already holders of a credit card issued by the same institution. The fact that unsolicited credit card cheques are banned would not, in principle, have an effect on competition since the consumer would still be able to use a credit card issued by the same institution if desired.

Small Firms Impact Test

The prohibition on sending unsolicited credit card cheques will not affect small firms as none of the companies that provide credit card cheques qualify as small firms.

Race Equality

After initial screening as to the potential impact of this policy/regulation on race equality, it has been decided that there will not be a major impact upon minority groups in terms of numbers affected or the seriousness of the likely impact.

Disability Equality

After initial screening as to the potential impact of this policy/regulation on disability equality, it has been decided that there will not be a major impact upon minority groups in terms of numbers affected or the seriousness of the likely impact.

Gender Equality

After initial screening as to the potential impact of this policy/regulation on gender equality, it has been decided that there will not be a major impact on gender in terms of numbers affected or the seriousness of the likely impact.

Legal Aid

After initial screening as to the potential impact of this policy/regulation on legal aid, it has been decided that there will not be a major impact on legal aid

Human Rights

After initial screening as to the potential impact of this policy/regulation on human rights, it has been decided that there will not be a major impact on human rights.

Rural Proofing

After initial screening as to the potential impact of this policy/regulation on rural proofing, it has been decided that there will not be a major impact on rural areas.

Health Impact Assessment

After initial screening as to the potential impact of this policy/regulation on health, it has been decided that there will not be a major impact on the health of the population.

Sustainable Development/Environmental Impact

After initial screening as to the potential impact of this policy/regulation on the environment, it has been decided that there is potential for the banning of unsolicited credit card cheques to reduce the amount of paper and other resources associated with the printing of the cheques. Our preferred option would prevent issuers from printing cheques unless the consumer requests them therefore reducing the amount of cheques produced with potential positive impact on the environment, this impact has however not been quantified for the purpose of this impact assessment.

Sensitivity Analysis

It has been assumed under the analysis for options 2 and 3 that approximately 14% of credit card cheque users are perfectly informed, and that such consumers would therefore suffer costs associated with the banning of (unsolicited) credit card cheques (assuming that they do not request them).

If this assumption were to be increased to 20%, then the costs for these consumers would be approximately £30m per year, or **£187m over 10 years**. If this assumption were decreased to 10%, then the costs for these consumers would be approximately £15m per year, or **£94m over 10 years**.

A further assumption for the analysis of options 2 and 3 is the likely decline in credit card cheques, which is based on the average decline in the aggregate value of credit card cheques between 2005 and 2008 (-8.1%). This then impacts on all the major costs and benefits:

- transfer of revenue for imperfectly-informed users of credit card cheques (£130m per year; £805m over 10 years);
- costs to fully-informed users (£21m per year; £131m over 10 years);
- transfer of revenue from printing/distribution of credit card cheques (£18m per year; £112m over 10 years).

If this assumption were to be increased to -10%, then the overall impact would be:

- transfer of revenue for imperfectly-informed users of credit card cheques (£130m per year; £748m over 10 years);
- costs to fully-informed users (£21m per year; £122m over 10 years);
- transfer of revenue from printing/distribution of credit card cheques (£18m per year; £104m over 10 years).

The overall impact of this change, in terms of its effect on net benefits of the proposals would be:

- Option 2 = 0 to -£122m
- Option 3 = -£122m

If this assumption were to be decreased to -6%, then the overall impact would be:

- transfer of revenue for imperfectly-informed users of credit card cheques (£130m per year; £873m over 10 years);
- costs to fully-informed users (£21m per year; £142m over 10 years);
- transfer of revenue from printing/distribution of credit card cheques (£18m per year; £121m over 10 years).

- Option 2 = 0 to -£142m
- Option 3 = -£142m

Under option 2, a small additional burden for users and issuers associated with the request of credit card cheques may be created, though this is unlikely to be substantial and no attempt has been made to quantify it here.

Vulnerable consumers

Although we do not have evidence on the demographic characteristics of credit card cheque users, such users may be in a vulnerable position, by virtue of their financial position. Previous research has found that credit card cheques were sent to above-average proportions of cardholders in financial difficulties²⁹. Such action may inadvertently exacerbate a household's precarious financial situation, potentially pushing them into a position of over-indebtedness, although credit card issuers argue that they have tightened up their risk profiling considerably in recent years and do not send credit card cheques to those in financial difficulties.