



# Financial Services – sector under scrutiny?

Alan Ainsworth  
Barclaycard

---

---

---

---

---

---

---

---



## Introduction

Our aim is to give an industry perspective on competition issues, focussing on recent and current examples to show what the impact and overall effect has been on the industry

- Before examining competition issues it is important to place them, and ourselves, in context by looking at the UK market and Barclaycard's role within it
- We will look at some recent and current competition issues and their impact on our industry
  - Competition Commission investigation into store card credit services
  - European Commission sector inquiry into Retail Banking – Payment Cards
  - OFT investigation into Multilateral Interchange fees for MasterCard and Visa
- This is not an exhaustive list, however, and should be considered alongside other issues including, for example:
  - OFT Market Study into Payment Protection Insurance
  - Competition Commission inquiry into Personal Current Accounts (Northern Ireland)
- Each intervention has an effect and it is important to consider the overall impact that multiple interventions have on the industry.

---

---

---

---

---

---

---

---



## Barclaycard – part of a UK success story

- From its UK base Barclaycard has seen its home consumer credit market develop in a different way from mainland Europe and this affects the way we view competition issues
- Whilst some issues may still exist, the UK consumer credit industry is a success story built on competition:
  - Maturity – 70m cards in circulation to 63% of population
  - Competition – over 60 issuers backed by 12 lenders compete in the market
  - Consumer choice – Over 300 different cards in the market
  - Product innovation – variety of features, including reward schemes, cash back and charitable donations
- It has played a key role in developing the UK economy into one of the strongest in the world :
  - 110,000 jobs created directly and indirectly through credit card companies
  - Without credit cards the UK GDP would reduce by an estimated £1.1bn
  - It has been pivotal in the development of e-commerce
- Adopting any single model across Europe will not work - scheme differences prevent this, but we hope that European regulators heed important lessons from the approach in the UK .

---

---

---

---

---

---

---

---



## About Barclaycard

- Part of the Barclays Group, Barclaycard issued the first credit card in the UK and is now the UK's single largest credit card provider
- Barclaycard operates in both the consumer credit and corporate markets:
  - Barclaycard credit cards and loans, Monument and partnership-branded credit cards along with the FirstPlus secured lending business support the consumer market
  - Barclaycard Business offers acquiring and issuing services to businesses in the UK and Europe. It is supported in the corporate marketplace by Clydesdale Financial Services, which provides point of sale finance to businesses
- Barclaycard views its position as a market leader as a great responsibility and seeks to lead on crucial issues such as transparency, fairness and responsible lending
- We believe consumers are best served if market forces are allowed to work, self regulation is encouraged and formal intervention kept to a minimum.

---

---

---

---

---

---

---

---

---

---



## Recent competition issues

**Competition Commission investigation into store card credit services**

- Investigated after heightened political awareness as they were seen as expensive and uncompetitive, particularly in comparison to credit cards.
- Competition Commission found that store card operators were insulated from competitive pressures and so intervened, primarily with transparency measures.
- We consider store cards part of the highly competitive consumer credit market.
- Barclaycard supports measures to improve transparency across all forms of consumer credit, including store cards.

**Investigations into Multilateral Interchange Fees for MasterCard and Visa**

- Both the OFT in the UK and the European Commission have investigated interchange fees in the belief that they are unnecessarily high and the way in which they are set stifles competition
- We believe it is a justifiable way to spread the costs of the payment system between issuers and acquirers
- In a similar situation the Reserve Bank of Australia intervened and reduced interchange significantly, which has led to an increase in the use of three-party schemes
- Our concern is that regulators do not appreciate the potential unintended consequences of action in this area:
  - Consumers adversely affected as choice reduced
  - Merchants adversely affected as consumers switch to less secure, more expensive, less beneficial forms of payment e.g. cash.

---

---

---

---

---

---

---

---

---

---



## Recent competition issues

**Improving competition across Europe**

- The EC's aim is to create more efficient access to finance and insurance for business, starting in Retail Banking and addressing the 'fragmented' Payment Cards industry first.
- They believe that European markets have not integrated and competition is distorted or restricted.
- We believe the European consumer credit market is fragmented for a number of reasons - some of which are cultural, legal, historical - and we support initiatives such as SEPA which seek to improve the customer experience.
- Some of the specific issues we have come across are:
  - Lack of open and harmonised technical standards to make card acceptance easier across multiple schemes;
  - Some country specific regulations and practices that make it difficult for new entrants
  - The lack of availability of shared data in some Member States;
  - Calls for SEPA solutions which are not market driven and customer oriented

---

---

---

---

---

---

---

---

---

---



## Cumulative effects

- The industry is already dealing with other regulatory and legislative changes, for example:
  - New consumer credit advertising and agreement regulations
  - A new Consumer Credit Act
  - OFT action on credit card default fees
- The effects of multiple interventions on the industry should not be underestimated:
  - Regulatory uncertainty may have an adverse affect on investment
  - There is a risk that excessive and uncoordinated intervention may distort the market
  - Intervention can hinder competition if regulatory costs make participation overly costly
- Ultimately, intervention is a balancing act between the benefits it may provide against the costs and unintended consequences.
- Regulatory inquiries divert management attention away from focusing on developing the business

---

---

---

---

---

---

---

---