

Quantification of consumer detriment

1. We sought to quantify the detriment, in terms of the excess prices paid by cardholders who pay interest and insurance charges on store cards, by comparing the prices actually paid with the prices they would have paid had these reflected costs, including the cost of capital.
2. Our estimated weighted average cost reflective APR was 22.0 per cent to 24.1 per cent, depending on the assumption about insurance costs (see paragraphs 8.147 to 8.153 and Appendix 8.8); the lower figures assumes that insurance costs are equal to insurance revenues, while the higher figure assumes lower insurance costs (50 per cent of insurance revenue) and hence attributes more costs to APRs. Our estimate of the weighted average APR actually charged over the same period (1999 to 2003) is 26.5 per cent.
3. Based on average store card balances over the same period, the difference represents an average excess payment on APRs of about £40 million to £80 million (the lower figure relating to the higher cost reflective APR). This represents the excess of actual APRs over cost-reflective APRs for those programmes (accounting for the bulk of store card balances) where actual APR exceeds cost-reflective APR less the shortfall on those programmes where actual APR is less than cost-reflective APR. We consider that this represents a reasonable approach for two main reasons. First, for any individual programme, actual APRs may differ from cost-reflective APRs due to fluctuations of a random nature that cancel out across a large number of programmes. Second, our estimated cost-reflective APRs are high on immature expanding programmes and are low on mature declining programmes and these effects cancel out if the store card sector as a whole is in a steady state (as appears

plausible for the period 1999 to 2003 over which our cost-reflective APRs were calculated).

4. If we exclude some programmes where actual APR falls short of cost-reflective APR, the excess increases to roughly £70 million to £105 million per year (the lower figure again relating to the higher cost reflective APR).
5. We also need to consider any excess payment on late payment fees and insurance. Our lower estimate of the weighted average cost-reflective APR (22.0 per cent) assumed that late payment fees and insurance charges reflected costs. In this case, the total excess of actual over cost-reflective prices is captured by the excess on APRs, which we estimate is £80 million, or £105 million if certain programmes are excluded. Our higher estimate of the weighted average cost-reflective APR (24.1 per cent) assumed that late payment fees reflected costs but that net insurance income from cardholders was double insurance costs. In this case we need to add cardholders' excess insurance payment, which is equal to the difference between our lower and higher estimates of the excess on APRs (about £40 million, or £70 million if certain programmes are excluded), giving a total excess of £80 million, or £105 million if certain programmes are excluded.
6. Therefore, on both our assumptions about insurance costs, our estimate of the total excess paid by cardholders is £80 million, or £105 million if certain programmes are excluded.