**RadioCentre Response to FCA Consultation Paper CP14/20 published September 2014 -Implementation of the Mortgage Credit Directive and the new regime for second charge mortgages.**

RadioCentre is delighted to respond to the FCA's consultation paper CP14/20, *Implementation of the Mortgage Credit Directive and the new regime for second charge mortgages.* Specifically we are responding to Question 9 of this consultation paper relating to financial promotions.

**Q 9: Do you agree with our proposed approach to transposing the MCD requirements on financial promotions and the wider simplification of our rules in this area?**

1) It is important for consumers to understand the risks associated with financial products. In this context, the primary purpose of legal caveats in financial promotions (also referred to as 'terms and conditions') is to protect the consumer. It is therefore of paramount importance to ensure that these are as effective as possible.

2) There is now a significant body of evidence that these legal caveats need to be kept as clear and simple as possible in order to be effective at protecting the consumer. In particular, a recent RAB study[1] demonstrated that:-
   a) Over complex and lengthy terms and conditions are significantly more likely to disengage and alienate consumers
   b) Consumers are much less likely to pay attention to terms and conditions when they are too long – attention levels can drop by as much as 50%.

3) We therefore fully endorse the FCA's guiding principle of ensuring that any advertising must be "fair, clear and not misleading" (para 2.27)

4) We also fully endorse any simplification of FCA advertising rules which would allow firms to be more innovative and flexible whilst still ensuring a high level of protection for consumers (para 2.28)

   a) Within this we support the removal of the requirement for generic risk statements

   b) We also support the removal of requirements for the APRC to be included in ads targeting those with restricted access to credit

[1] "The effect of lengthy terms and conditions on consumer attention and perceptions", RAB 2013

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5) However, the Mortgage Credit Directive introduces the additional requirement for firms to provide a full representative example where certain information is provided in the advertisement (para 2.27). This is a major concern to us. **Based on the research and knowledge which has been built up on how legal caveats work, we believe this addition will have a negative effect from the perspective of all parties – the consumer, the financial services industry and the media industry.** Our reasons are set out below:-

   a) Research studies[2] demonstrate that the inclusion of complex information in advertising is counterproductive. Consumers simply cannot and do not absorb the detail at this early stage in the decision making process. It is more appropriate to give the details of each element of how the credit costs are broken down at a later stage when the consumer will be more receptive to them. This is especially so for mortgage advertising – para 2.28 of your document refers to "the limited role advertising plays in the purchasing decision".

   b) A full representative example is the worst example of an over-complex and consumer-unfriendly caveat which the majority of consumers would not be able to follow. Research has proved that there are much more effective ways of approaching consumer protection in financial promotions: the RAB (Radio Advertising Bureau) and the RACC (Radio Advertising Copy Clearance) recently developed a short form equivalent to the representative example. This focused on the total cost of the credit arrangement and was researched in the RAB's study "Improving the effectiveness of legal caveats and risk warnings in radio advertising". This demonstrated that, by simplifying the representative example to the most critical information only, consumers were over 30% more likely to view the ad as "clear and easy to follow" and spontaneous recall of the critical information doubled.

   c) We estimate that for radio alone the total industry cost of lengthy terms and conditions in financial advertising currently stands at approximately £136 million a year. The additional requirement for a representative example in mortgage advertising (which will add approximately 10-12 seconds to the length of a radio ad) will have a further detrimental effect. For example, we estimate the cost of a typical £300k national radio airtime campaign would increase by a third to £400k where a representative example is required representing a significant cost to the financial advertiser for no benefit to the consumer.

6) We recognise that the requirement for a representative example has been transposed directly from the EU Mortgages Directive 2014/17/EU[3]. However, given the negative impact of this on our industries, and the counter-productive effect on consumer-protection, we would urge the FCA to do everything in their

[2] "Radio Commercials and Wealth Warnings", Navigator Research, 2004;
"Improving the effectiveness of legal caveats and risk warnings in radio advertising", RAB, 2013.

[3] Directive 2014/17EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property

powers to put pressure on the relevant authorities in order to seek a review of this prior to the deadline for the regulations becoming fully operational in March 2016 and certainly as part of the planned wider review of the impact of this legislation.

7) We would be happy to work with the FCA to support this process and welcome further discussion about it.

Background

8) As the industry body for commercial radio in the UK, our role is to help support a strong and successful commercial radio industry so that it grows in audience and revenue year on year.

We promote the public value and diversity of commercial radio as well as the value of radio advertising.

RadioCentre includes the RACC team (Radio Advertising Clearance Centre) which ensures radio ads comply with the UK's BCAP code and the RAB (Radio Advertising Bureau) which works closely with advertisers and agencies to increase their understanding of radio as an advertising medium.

9) We have already built up a strong working relationship with the FCA to help advertisers navigate the correct interpretation of the regulations relating to consumer credit promotions with very positive results to date.

10) Commercial radio is a relatively small sector generating just under £540 million in advertising revenue per annum. However within this financial services advertising contributes approximately £130 million in advertising revenue and is therefore vitally important to the health of our industry.

11) A healthy advertising market is also vitally important to a vibrant and successful financial services industry and indeed to the economy as a whole. Based on the Advertising Association's Study, Advertising Pays, we estimate that financial advertising on commercial radio contributes in excess of £750 million to the UK economy.

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