

# **Banking services to small and medium sized enterprises**

**Undertakings related to targets for current account switching**

October 2003

# 1 INTRODUCTION

- 1.1 The Office of Fair Trading (OFT) has secured undertakings from the clearing banks listed below on targets relating to the switching of current accounts of small and medium sized enterprises (SMEs).<sup>1</sup> This follows recommendations on timescales for the switching process set out in the Competition Commission (CC) report on *The supply of banking services by clearing banks to SMEs* published in March 2002. The OFT in implementing these recommendations examined the findings of studies carried out by the banks into problems associated with current account switching,<sup>2</sup> and also examined revisions to the Business Banking Code<sup>3</sup> which included several targets related to elements of the account switching process.
- 1.2 The targets have been set for certain individual steps of the switching process carried out by the banks. These will come into effect on 31 December 2003 to allow time for the banks to put in place the systems needed for them to comply with the undertakings. A copy of the undertakings is available on the DTI website.<sup>4</sup> The OFT will be monitoring the banks' activities to ensure that they comply with these undertakings.

# 2 UNDERTAKINGS RELATING TO SWITCHING TARGETS

- 2.1 The clearing banks listed below have agreed to improve conditions for competition and customer choice by making changes to ease the switching of accounts:
- AIB Group (UK) plc, in respect of First Trust Bank's SME business and branches in Northern Ireland
  - Bank of Ireland, in respect of its SME business and branches in Northern Ireland
  - Barclays Bank plc, in respect of its SME business and branches in England and Wales

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<sup>1</sup> These are enterprises with a turnover of up to £25 million.

<sup>2</sup> *Resolving problems associated with the need to transfer Direct Debit Instructions when switching banks* and *The Report on the Transfer of Security* were prepared by the eight main clearing groups as part of the CC's behavioural remedies and published on the British Bankers' Association's (BBA) website on 14 March 2003.

<sup>3</sup> A revised version of the Business Banking Code was published by the BBA in March 2003.

<sup>4</sup> [www.dti.gov.uk/ccp/topics2/monopolies.htm#banks](http://www.dti.gov.uk/ccp/topics2/monopolies.htm#banks)

- Clydesdale Bank,<sup>5</sup> in respect of its SME business and branches in Scotland
- HBOS plc, in respect of Bank of Scotland's SME business and branches in Scotland
- HSBC Bank plc, in respect of its SME business and branches in England and Wales
- Lloyds TSB Bank plc, in respect of its SME business and branches in England and Wales
- Northern Bank Limited,<sup>5</sup> in respect of its SME business and branches in Northern Ireland
- The Royal Bank of Scotland Group plc, in respect of The Royal Bank of Scotland plc's SME business and branches in England and Wales and Scotland, National Westminster Bank plc's SME business and branches in England and Wales and Ulster Bank Ltd's SME business and branches in Northern Ireland.

### **Setting targets for the switching process**

- 2.2. Switching accounts involves a number of different steps to be taken by a number of different players, including the new bank, the old bank, the customer and the originators of direct debits on the customer's account.
- 2.3 The purpose of these undertakings is to set clear target timescales for both the old and the new banks to complete certain of the steps they need to take to switch accounts. This allows the SME customer, wishing to switch its account, to know the process and how long each of these steps is expected to take. The steps in the switching process are summarised in Table 1. Targets have been set only in those areas where there is direct control of the process by the bank. The targets indicate the maximum time allowed for the bank to perform each task (the banks may be able to perform these tasks in a shorter period of time).
- 2.4 Each task is initiated either by the new bank authorised by the SME customer or the SME customer itself. Where the SME customer is initiating the task and it wants the targets to apply, the SME must tell the bank that it is switching. This is necessary to ensure that the bank knows that the SME is switching and that the bank must therefore comply with the requirements of the undertakings.

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<sup>5</sup> Clydesdale Bank and the Northern Bank are part of National Australia Bank Limited.



**TABLE 1: TARGETS FOR BANKS WHEN SWITCHING SME CURRENT ACCOUNTS**

Old bank task	New bank task	Targets
Provide details of customer's regular payment instructions (RPI) <sup>6</sup> to new bank and/or SME.		Send RPIs to new bank/customer <b>within three days</b> of a request.
	Set up RPIs on new account and send transfer advice to each DD originator.	Set up RPIs and send advice to DD originators <b>within four days</b> of receipt of list or a later date if agreed with the SME.
Cancels RPIs on SME's old current account.		Cancel RPIs <b>within three days</b> of a request or a later date if agreed with the SME.
	Ask old bank to transfer any remaining credit balance to the new account.	Send request to new bank to transfer balance <b>within three days</b> of a request or a later date if agreed with the SME.
Transfer credit balance and, if asked to, close account.		Transfer balance <b>within four days</b> of a request with an additional day to close account.
	Transfer funds to old bank to pay off any outstanding unsecured overdrafts held by the SME.	Transfer funds <b>within three days</b> of request to do so or a later date if agreed with the SME.
Level off old account (set balance to zero) and, if asked to, close old account.		Level off account <b>within four days</b> of receiving funds from new bank or SME with an additional day to close account.

All days indicated are working days which do not include Saturday, Sunday or Bank holidays and include the day of request/receipt.

<sup>6</sup> This is a list of the SME customer's direct debits (DDs) and standing orders (SOs).

- 2.5 The banks, when acting as either the old bank or the new bank, are required to meet all of the relevant switching targets detailed above in a minimum of 80 per cent of cases. Each bank is required to publish on its website its performance in meeting the old and new bank targets.

**Payment scheme offered by old bank when targets for switching tasks are missed**

- 2.6 The undertakings require the banks to each set up a system under which an SME may be eligible for a payment from the bank for a failure to promptly complete one or more tasks in the switching process when the bank is acting as the old bank. It is for each bank to devise its own scheme of payments and to determine how these payments will be triggered. However, details of the bank's scheme must be set out clearly on its website and made available on request in branches. It is for the individual banks to choose whether or not to offer payments if targets for tasks are missed when acting as a new bank.