

# **Personal current accounts in the UK**

A follow up report

October 2009

OFT1123

© **Crown copyright 2009**

This publication (excluding the OFT logo) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as crown copyright and the title of the publication specified.

## **CONTENTS**

Chapter/Annexe	Page
1 Executive summary	4
2 Introduction	11
3 Charging structure	18
4 Transparency of cost	25
5 Switching between personal current accounts	45
6 Conclusion and next steps	54
A Response to the Consultation	59
B Cost Benefit Analysis	67
C PCA Quantitative Research	74

# 1 EXECUTIVE SUMMARY

- 1.1 This report summarises the follow up work of the Office of Fair Trading (OFT) since the publication of its market study, Personal current accounts in the UK,<sup>1</sup> in July 2008. It sets out the initiatives agreed between the OFT, personal current account (PCA) providers<sup>2</sup> and Bacs<sup>3</sup> to address the OFT's concerns about transparency and switching. These improvements to the market will assist consumers in shopping around for PCAs and increase competition in the market. In relation to unarranged overdraft charges<sup>4</sup> – the third area of concern identified in the 2008 market study – we expect to make more substantive comments on our thinking on in due course after the judgment from the Supreme Court.
- 1.2 The £8 billion PCA market is the cornerstone of the UK's retail finance system and an essential service for 90 per cent of adult consumers. However, the OFT's market study concluded that the PCA market was not working well for consumers. The OFT was concerned that a combination of complexity and opacity made it extremely difficult for individual consumers to know how much their account could be costing them compared with others on offer. This, together with perceived difficulties in switching, had led to very low switching rates and thus reduced incentives for banks to compete on price or provide new products and services.
- 1.3 The OFT identified three particular problem areas within the market:

---

<sup>1</sup> [www.offt.gov.uk/shared\\_offt/reports/financial\\_products/OFT1005.pdf](http://www.offt.gov.uk/shared_offt/reports/financial_products/OFT1005.pdf). Alongside the report the OFT published a consultation paper to invite comments from stakeholders on the high level concerns identified in the report.

<sup>2</sup> In the context of this report, the term 'PCA provider' will refer to banks and building societies.

<sup>3</sup> Bacs Payment Schemes Limited is the payment processor responsible for processing payments such as Direct Debits and Standing Orders.

<sup>4</sup> In this report we use the term 'unarranged overdraft' to mean an overdraft which the bank grants to a consumer once either the arranged overdraft has been exceeded, or if there is no arranged overdraft, once the PCA is no longer in credit. Some PCA providers use different terminology.

- complexity in the way that unarranged overdraft charges were implemented, which made it hard for consumers to predict when they would be charged, coupled with a lack of mechanisms for consumers to exercise control or opt out of situations that incur high charges
- low levels of transparency on unarranged overdraft charges, forgone interest and other fees. These elements were the least visible<sup>5</sup> to consumers and were not effectively competed on by PCA providers, and
- a perception amongst consumers that switching was both complex and risky with some real risk of the switching process going wrong.

1.4 Collectively, we found these factors constrained the market's ability to deliver value for a significant proportion of consumers and reduced PCA providers' incentives to increase efficiency and provide new and innovative products. The market was stuck in an equilibrium that does not work well for consumers.

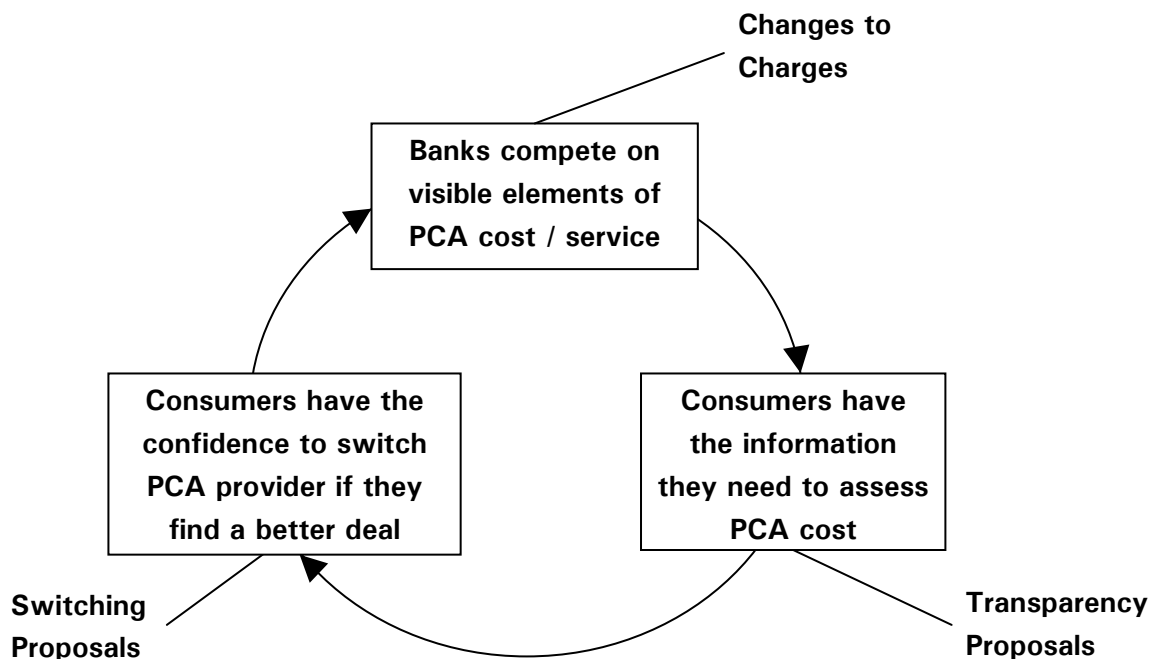
### **An effective market outcome**

1.5 If consumers were to become more aware of the costs of their current account and more confident in switching as a means to get better service, so PCA providers would need to offer more competitive products and innovative services to attract custom. This is illustrated in diagram 1, the 'virtuous circle'. In a market displaying these characteristics, more efficient firms gain market share at the expense of less efficient providers which is good for consumer welfare and, by providing pressure to reduce costs, is good for UK productivity.

---

<sup>5</sup> Our market study found that competition concentrated predominantly on the more 'visible' aspects of PCAs, such as monthly and core transaction fees.

**Diagram 1: the pro-competitive 'virtuous circle'**



## **Unarranged overdraft charges**

- 1.6 The market study found that, during 2006, PCA providers earned £2.6 billion from charges associated with unarranged overdrafts, which represented approximately 30 per cent of their revenue from PCAs. Amongst consumers who incurred these charges – often low income, low savings consumers – the average amount incurred was £205 per year and £500 or more was not uncommon.
- 1.7 These charges are complex for consumers to understand, predict and control, and as a result it is difficult for consumers to drive effective competition in this part of the PCA market. For example, during the market study we asked the PCA providers to calculate how much a hypothetical consumer would have to pay in a specified scenario (which included exceeding an agreed overdraft limit). The reported charges ranged from £0 to £260.
- 1.8 We believe that the concerns regarding bank charges need to be addressed by a significant change in the way PCA providers' charges operate.
- 1.9 Alongside our market study work the OFT is pursuing a separate investigation into the fairness of PCA unarranged overdraft charging

terms under the Unfair Terms in Consumer Contract Regulations 1999 (UTCCRs). At time of publication (October 2009) the OFT is expecting a judgment from the Supreme Court following the banks' appeal to the House of Lords which will determine whether these charges are assessable for fairness under the UTCCRs.

1.10 We expect to make more substantive comments on our thinking on unarranged overdraft charges in due course after the judgment from the Supreme Court.

1.11 Further detail on our concerns about PCA providers' charging structure and the UTCCRs test case can found in chapter 3 of this report.

### **Greater transparency of charges, interest rates and fees**

1.12 Research carried out for the market study found that:

- 67 per cent of all consumers did not know the level of unarranged overdraft charges at their bank
- 25 per cent of those who had incurred a charge still did not know the level of their bank's charges
- 80 per cent of consumers did not know the credit interest rate applied to their PCA, and
- in 2006, when the base rate was significantly higher than its current level, nearly 90 per cent of accounts had an annual interest rate of less than 0.5 per cent.

1.13 Many consumers are therefore not familiar with the key prices associated with their current account and so are not well placed to determine whether they are getting value for money, assess the potential gains from switching, or decide how to manage their account better. Even if consumers know key prices such as credit interest rate, most do not have the information necessary to calculate total cost easily, for example their average balance.

1.14 The OFT has worked with the industry and consumer groups to develop initiatives to improve the ability of all consumers to assess the costs and benefits of their PCA. These are designed to enable them to improve the

way they use their PCA, to consider whether or not they should switch PCA and to make comparisons between different providers and therefore to secure value for money.

- 1.15 To increase transparency, most PCA providers<sup>6</sup> have agreed to:
- provide enhanced monthly information
  - provide consumers with an annual summary of the cost of their PCA
  - provide information on average credit and average debit balances, and
  - provide illustrative scenarios showing unarranged overdraft costs.
- 1.16 The OFT is also taking steps to help consumers understand and compare the costs of PCAs through new advice and tools on our Consumer Direct website. In addition, the Financial Services Authority (FSA) will launch a feasibility study on the introduction of a PCA price comparison section on its 'moneymadeclear'<sup>7</sup> website.
- 1.17 These improvements to the transparency of PCA costs are discussed in more detail in chapter 4 of this report.

### **Improving the perception and process of switching**

- 1.18 Our market study identified that the UK has below average rates of switching between PCAs when compared with other EU countries. Only six per cent of PCA holders had switched accounts in the year of our analysis.
- 1.19 A low switching rate is not necessarily indicative of a market that is not working well and achieving a high switching rate is not an end in itself. However, the competitive process works better when consumers

---

<sup>6</sup> With the exception of certain aspects of the enhanced monthly information, PCA providers representing over 90 per cent of the PCA market have agreed to implement these initiatives.

<sup>7</sup> [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

actively shop around and make informed choices to secure value for money. This does not necessarily require high levels of switching - a credible threat that enough consumers are able and willing to switch in response to a better offer will sometimes be sufficient to ensure providers remain competitive.

1.20 Qualitative research carried out by the OFT found that the reasons for the low switching rate include concerns over the difficulty in switching and fears, in some cases justified, that the process would go wrong.

1.21 We have therefore worked with the industry group Bacs and the following improvements have either been introduced or are being introduced:

- measures to increase consumer awareness of the automatic switching process including a new consumer guide and website
- measures to reduce the number of problems that arise with the transferring of Direct Debits including through a best practice campaign aimed at Direct Debit originators and standardised industry redirection letters, and
- measures to reduce the impact on consumers of any problems that arise with Direct Debits, including an update to the Bacs rules stipulating that consumers should not be adversely affected by any problems caused by the switching process.

1.22 The improvements to the switching process, and the increased confidence this should give consumers about switching PCA provider, are discussed in more detail in chapter 5.

## **Next steps**

1.23 The OFT believes that the initiatives agreed with the PCA providers in two out of the three problem areas identified are welcome steps towards improving the current account market. However, the third element in this 'package' of improvements – bank charges – still needs to be resolved for the market to truly work well for consumers.

- 1.24 The OFT will monitor PCA providers' progress in implementing the transparency initiatives, as well as their impact, and will make these findings public.
- 1.25 Recommendations to make switching between PCAs easier have already been implemented, or are being implemented. The success of the recommendations will be measured by Bacs (which provides the Direct Debit product), and Bacs will report to the OFT on their success.
- 1.26 We expect to make more substantive comments on our thinking on unarranged overdraft charges in due course after the judgment from the Supreme Court.
- 1.27 Further details on how all the initiatives will be monitored and measured for success are outlined in chapter 6.

## 2 INTRODUCTION

- 2.1 This report summarises the work undertaken by the OFT since the publication of our market study, *Personal current accounts in the UK*,<sup>8</sup> in July 2008. It sets out the initiatives agreed between the OFT, PCA providers and Bacs to address the OFT's concerns about transparency and switching. These improvements will assist consumers in making best use of their accounts and shopping around for better value PCAs and will thus help drive competition in the market. In relation to unarranged overdraft charges – the third area of concern identified in the 2008 market study – we expect to make more substantive comments on our thinking in due course after the judgment from the Supreme Court.
- 2.2 This chapter briefly provides some background to the OFT's recent work on PCAs, identifying the concerns that were raised and explaining the reasons for them. It sets out what we believe should be changed in the market and what follow-up work we have been doing since the publication of the market study to secure change. Finally it provides a brief description of the structure of this report.

### **The OFT's market study on PCAs**

- 2.3 The OFT launched our market study into PCAs in April 2007. The main drivers of the market study were:
- the importance of PCAs to consumers and the UK economy
  - concerns about the level and incidence of PCA charges associated with unarranged overdrafts
  - low levels of price and cost transparency – we were influenced, in particular, by the findings of the Competition Commission on the

---

<sup>8</sup> [www.oft.gov.uk/shared\\_oft/reports/financial\\_products/OFT1005.pdf](http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005.pdf). Alongside the report the OFT published a consultation paper to invite comments from stakeholders on the high level concerns identified in the report.

complex charging structures and practices of PCA providers in Northern Ireland,<sup>9</sup> and

- the limited extent to which consumers were driving competition in the provision of PCAs - influenced again by findings of the Competition Commission on PCA providers in Northern Ireland.

2.4 Concerns expressed about the operation of the PCA market have led to two previous investigations:

- the Cruickshank Report<sup>10</sup> considered the UK PCA market and concluded that 'consumers ... found it difficult to compare financial products' and that there was 'clear evidence that consumers are not adequately informed about their financial products'.<sup>11</sup>
- the Competition Commission considered the Northern Ireland PCA market and concluded that PCA providers had unduly complex charging structures, that they did not fully or sufficiently explain their charging structures and practices and consumers generally did not actively search for alternative PCAs or switch bank.<sup>12</sup>

2.5 A recently published report by the European Commission<sup>13</sup> revealed that the tariffs of current bank accounts in the UK were 'below average in terms of transparency' and that more than half of the PCA providers included in the study had to be contacted to provide further details or to clarify the information provided on their websites. On switching, the report drew on data collected as part of a Eurobarometer survey in

---

<sup>9</sup> '*Personal current account banking services in Northern Ireland market investigation*', Competition Commission, May 2007.

<sup>10</sup> '*Competition in UK Banking, A Report to the Chancellor of the Exchequer*', Don Cruickshank, March 2000.

<sup>11</sup> '*Competition in UK Banking, A Report to the Chancellor of the Exchequer*', Don Cruickshank, March 2000 paragraph 4.67.

<sup>12</sup> '*Personal current account banking services in Northern Ireland market investigation*', Competition Commission, May 2007 paragraph 58 of the Executive Summary.

<sup>13</sup> [www.ec.europa.eu/consumers/rights/fin\\_serv\\_en.htm](http://www.ec.europa.eu/consumers/rights/fin_serv_en.htm) September 2009.

2008<sup>14</sup> and concluded that nearly one in four PCA consumers had difficulties comparing current account offers and that only nine per cent of consumers had switched their current account in the previous two years despite the fact that 44 per cent of those who did switch reported finding a cheaper provider.

- 2.6 In addition to all the above, concerns about the nature and legality of charges incurred as a result of unarranged overdrafts also raised questions about how well the market is working.
- 2.7 Alongside the market study, the OFT is pursuing a separate investigation into the fairness of PCA unarranged overdraft charging terms under the Unfair Terms in Consumer Contract Regulations 1999 (UTCCRs). This followed a significant number of complaints and media coverage about the level and incidence of unarranged overdraft charges in 2006. The OFT is currently expecting a judgment following the PCA providers' appeal to the Supreme Court which will determine how these charges are assessable for fairness under the UTCCRs.
- 2.8 The OFT market study Personal Current Accounts in the UK was published in July 2008 and identified three significant areas of concern. These were:
- complexity in the way that unarranged overdraft charges were implemented, which makes it hard for consumers to predict when they will be charged, coupled with a lack of mechanisms for consumers to exercise control or opt out of situations that incur high charges
  - low levels of transparency on unarranged overdraft charges, forgone interest and other fees. These elements were the least visible to consumers and were not effectively competed on by PCA providers, and
  - a perception amongst consumers that switching was both complex and risky with some real risk of the switching process going wrong.

---

<sup>14</sup> Eurobarometer of July 2008. Report covered switching levels across eleven services including financial services over the previous two years.

2.9 Alongside the market study report, the OFT published a consultation document. This document did not identify specific transparency initiatives, but did ask for ideas on solutions to allow consumers to have available the right information, in an easily digestible format, to help them to understand the true cost of running their account and hence manage it more effectively. A summary of the responses to this consultation can be found in Annexe A. This report follows on from the 2008 report and consultation document. It covers initiatives that will be implemented to improve the transparency of PCAs and improvements being made to the switching process.

## **Overview of the OFT's initiatives for change**

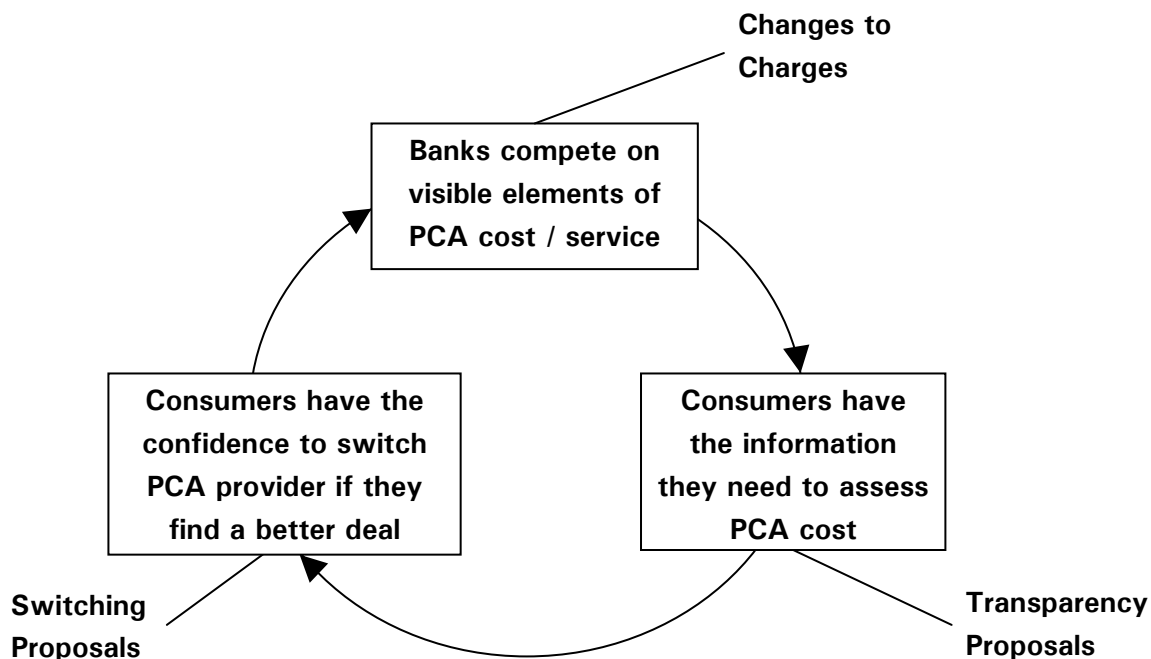
2.10 We have sought to address the issues identified above in three ways:

- first, by focussing consumers' attention on the price aspects of PCAs, by providing the right information in an easily digestible format and by providing tools to enable them to compare accounts more easily
- second, by addressing underlying problems that arise in the switching process and seeking to promote greater consumer confidence in it, and
- third, by tackling the way PCA charges for unarranged overdrafts work. The OFT will be able to make more substantive comments on this after the judgement on the PCA providers' appeal has been delivered by the Supreme Court.

2.11 As consumers become more aware of the costs of their current account and more confident in switching as a means to get better value for money, so PCA providers will need to offer more competitive products and innovative services to attract custom. This is illustrated in diagram 1, the 'virtuous circle'.

2.12 The OFT believes that the initiatives agreed with the PCA providers in two out of the three problem areas identified are welcome steps forward for the current account market. However, the third element in this 'package' of improvements – unarranged overdraft charges – still needs to be resolved for the market truly to work well for consumers.

**Diagram 1: the pro-competitive 'virtuous circle'**



## Approach

2.13 In carrying out our follow-up work we researched and analysed the PCA market and engaged with a wide range of interested parties. The main elements of the OFT's approach included:

- issuing a consultation paper to invite comments on the OFT's findings to identify initiatives to make the market work better for consumers
- establishing and chairing a Transparency Working Group<sup>15</sup> (TWG), with representation from the banking industry including British Bankers Association (BBA), Banking Code Standards Board (BCSB) and Building Societies Association (BSA), consumer groups and the FSA
- requesting key data from PCA providers, complemented by meetings

---

<sup>15</sup> The aim of the TWG was to develop proposals which ensure that consumers have access to the information that allows them to secure value for money either by improving the way they use their accounts or by comparing across accounts so they can switch.

- commissioning both qualitative and quantitative consumer research on PCA use
- discussions with FSA and government departments
- meetings with key consumer groups, and
- working with the Bacs Switching Working Group to address problems with switching.

2.14 The OFT's approach to securing change has been to discuss initiatives with PCA providers, consumer groups and other relevant bodies and then to seek voluntary change from the industry. We have considered whether the initiatives outlined below are proportionate to the size of the problem, as any excess costs borne by PCA providers are likely to be passed on to consumers in the form of higher prices or less choice. Our cost-benefit analysis on the key transparency initiatives discussed in this report is included in full at Annexe B.

## Report structure

2.15 The rest of the report is structured as follows:

- **chapter 3** outlines why the application of unarranged overdraft charges is complex and lacks transparency and the impact this has on consumers. It also provides an update on progress of the investigation and test case
- **chapter 4** examines the problems associated with understanding the real cost of using a PCA and sets out the initiatives for improved transparency of information. It explains how these will help consumers manage their accounts more effectively
- **chapter 5** explores the problems associated with switching between PCAs. It then describes how, by improving consumer awareness of the switching process and by reducing the number of problems consumers' experience when switching, consumers will drive a more efficient and responsive market, and
- **chapter 6** sets out our conclusions and next steps. It explains how we expect the improvements proposed to deliver significant benefits

to consumers and the wider economy and what further steps are necessary to make this happen.

## **3 CHARGING STRUCTURE**

### **Introduction**

- 3.1 The market study found that the PCA providers earned £2.6 billion from levying charges associated with unarranged overdrafts in 2006. This represented approximately 30 per cent of their total annual revenues. Of those consumers who incurred charges, the average amount incurred was £205. A substantial number of people paid over £500.
- 3.2 The report identified concerns regarding the way charges operate, specifically the complexity of assessing the likelihood and cost of using an unarranged overdraft, consumers' lack of knowledge and understanding of charges and consumers' lack of control over their use of unarranged overdrafts. As a result it is difficult for consumers to drive effective competition in this part of the PCA market. This chapter provides further detail on the OFT's concerns about the PCA providers charging terms.
- 3.3 Alongside our market study work the OFT is also pursuing a separate investigation into the fairness of PCA unarranged overdraft charging terms under the Unfair Terms in Consumer Contracts Regulations (UTCCRs). The applicability of the Regulations to unarranged overdraft charging terms is being considered in a test case. This chapter provides an update on progress of the investigation and the test case as at October 2009.
- 3.4 We believe that the concerns regarding bank charges need to be addressed by a significant change in the way the charges operate. We expect to make more substantive comments on our thinking on unarranged overdraft charges in due course after the judgment from the Supreme Court.

### **Concerns identified in the July 2008 Report**

- 3.5 The OFT found that the complexity of unarranged overdraft charges, the lack of transparency and the limited ability of consumers to predict when they will use unarranged overdrafts makes it difficult for them to easily assess the likely cost of their current account. This is consistent with

the findings of the Competition Commission in its study of Northern Ireland personal current account banking.<sup>16</sup>

3.6 The complexity of PCA providers' charges was described in the market study report.<sup>17</sup> It identified a number of factors that determine the total amount charged when payment of an item creates or increases (or would create or increase if it were paid) an unarranged overdraft. These include:

- **the different types of charges levied by the bank** - the majority of PCA providers levy 'transaction' charges (per item charges, such a charge for returning an unpaid transaction) and/or maintenance charges (a charge levied when an account is in unarranged overdraft for a certain period, such as a monthly or daily overdraft excess charge). Single transactions can result in multiple charges (for example, both a charge for making a payment and a monthly overdraft excess charge)
- **whether or not an item is paid and the order in which transactions are processed** - charges for paid items are often different from charges for unpaid items and the way in which debits are due for payment and credits are due to be received can affect the type and number of charges incurred, and
- **the use of refunds, buffers and caps** - many PCA providers operate buffers (where an account can go into unarranged overdraft by a certain amount without incurring charges), waivers (where certain charges are not levied or are refunded) and caps (for example maximum numbers of charges that can be incurred in a day). In some cases these are based on explicit policies that consumers are informed of, but in other cases they are operated on a discretionary basis by PCA providers.

---

<sup>16</sup> 'Personal current account banking services in Northern Ireland market investigation', Competition Commission, May 2007. This study found that 'unauthorised overdraft charges for all accounts ... showed considerable and undue complexity. We believe that this complexity ... makes it more difficult for consumers to understand and react to overdraft charges'.

<sup>17</sup> *Personal Current Accounts in the UK* pages 75 to 77.

- 3.7 This complexity in the application of charges makes it difficult and time consuming for consumers to calculate the cost of using an unarranged overdraft.
- 3.8 The market study report also found that there was a general lack of awareness of charges by consumers. The consumer survey conducted for the market study found that a majority of respondents did not know what their bank charged for entering into unarranged overdraft and some respondents were not even aware that some charges exist. These issues and the OFT's initiatives to address them are discussed in chapter 4 of this report.
- 3.9 The market study also found that it was difficult for consumers to predict when they would use an unarranged overdraft as it is difficult for consumers to keep track of their account position. At any given time, to work out whether they have funds available, consumers need to take into account:

- their current balance
- what commitments they have already made (for example, cheques they have written but have not yet been cashed by the recipient)
- what upcoming commitments they may have (such as Direct Debits), and
- what known payments are coming in, such as salary or benefits payments.

They also need to understand how the timing of these will affect their balance.

- 3.10 Keeping track of balances may not be easy for consumers. Although there are a number of ways consumers can access information on their balance, the balance that a consumer gets from an ATM (for example) does not include impending Direct Debits and it might not be the one used by the bank to assess whether the consumer has available funds or is liable for a charge.
- 3.11 The OFT found that some PCA providers have begun to offer mechanisms such as text alerts to warn consumers when they have

made a transaction which takes them close to their limit to help them keep track of their balances. The OFT welcomes these developments although we note that these are not suitable for all consumers (such as those without mobile phones) or types of transactions (such as those payments processed overnight). Similarly we understand that some PCA providers contact consumers by telephone if they have concerns about a consumer's balance but we understand that this is not a systematic and widespread approach taken by all PCA providers.

- 3.12 It is also difficult for consumers to predict the timings of transactions. As reported in the market study, research<sup>18</sup> showed that 19 out of 22 PCA providers gave out wrong cheque clearance times or were unable to offer practical advice on this to consumers. The number of direct debit commitments consumers have may complicate their assessment of the likelihood of becoming overdrawn or exceeding their limit as consumers do not authorise direct debit payments individually before they are removed from an account. In the UK 14.6 million households had five or more regular direct debit commitments on their main current account.<sup>19</sup>
- 3.13 The problems of complexity faced by consumers when trying to manage their accounts is reflected in the consumer research conducted for the market study. This found that only seven per cent of consumers who exceeded their arranged overdraft limit said it was a deliberate decision.<sup>20</sup> While this statistic may be susceptible to under reporting by consumers, it is clear that many consumers do not make an informed choice to exceed their overdraft limit and hence incur these charges.
- 3.14 The OFT would like all consumers to be given greater control as to whether they enter into unarranged overdraft. This is supported by consumer research that indicated that consumers would value the ability to opt out of unarranged overdrafts. Indeed, the OFT found that more than half of consumers said that they would opt out of having the ability to go into unarranged overdraft if they could, and over half said that

---

<sup>18</sup> *'Themed Review of Cheque Clearing Cycles'*, Banking Code Standards Board, May 2006.

<sup>19</sup> *Personal Current Accounts in the UK* para 4.84 page 73.

<sup>20</sup> *Personal Current Accounts in the UK* Table 4.10 page 69.

they would not want a debit card transaction processed that would take their current account into unarranged overdraft.<sup>21</sup>

- 3.15 The market study reported that the average daily unarranged overdraft balance over the year<sup>22</sup> in 2006 was £680 million and yet the revenue raised by the PCA providers in levying paid item and maintenance fees<sup>23</sup> was more than double this - at £1.5 billion. This is a return of over 220 per cent on the balances.<sup>24</sup> These figures point to possible inefficiencies from the current charging terms. The OFT would therefore like to see charging terms that provide consumers with greater transparency of the cost of their account and the facility to exercise greater control over the costs they incur.

### The UTCCRs Investigation and Test Case

- 3.16 As mentioned in the introduction to this chapter, alongside the work on the market study, the OFT is conducting an investigation<sup>25</sup> into the fairness of some charging terms relating to unarranged overdrafts<sup>26</sup>.
- 3.17 The OFT launched its investigation in April 2007. The case is in two stages. So far the courts have considered stage one, that is, how unarranged overdraft charging terms can be assessed for fairness under the UTCCRs. The Court of Appeal confirmed on 26 February 2009 the OFT's view that unarranged overdraft charging terms are not part of the

---

<sup>21</sup> *Personal Current Accounts in the UK*, paragraph 4.96 page 77.

<sup>22</sup> The sum of daily unarranged debit balances divided by the number of days in the year.

<sup>23</sup> Monthly and/or daily overdraft excess charges levied for each relevant period the balance remains in unarranged overdraft. The period may be a month or may be a day depending on the bank.

<sup>24</sup> This excludes £1 billion in unpaid item charges, which are unarranged overdraft charges levied on any unpaid payment that, if paid, would create or extend an unarranged overdraft.

<sup>25</sup> Further details can be found at [www.of.gov.uk/advice\\_and\\_resources/resource\\_base/market-studies/current/personal/personal-test-case/](http://www.of.gov.uk/advice_and_resources/resource_base/market-studies/current/personal/personal-test-case/). The market study provided a broader context for the test case, which is focusing on the 'fairness' of particular terms, taking into account wider questions about competition and value for money in the provision of PCAs.

<sup>26</sup> The investigation relates to terms and condition operated in 2007/08.

core or essential bargain between a consumer and his/her bank, and therefore that these terms can be fully assessed for fairness. We are currently awaiting the judgment following the PCA providers' appeal to the Supreme Court which will determine whether these terms are subject to the full fairness test under the UTCCRs.

- 3.18 Stage two of the case addresses the issue of whether the terms are unfair. In August 2008 the OFT wrote to the seven PCA providers and one building society setting out its approach to the assessment of fairness and, for seven of them,<sup>27</sup> its concerns that the unarranged overdraft charging terms may be unfair. Following the PCA providers' responses to that letter, the OFT's concerns remain and it is continuing to progress the investigation in order to reach a final view on fairness.
- 3.19 In March 2009, in order to progress the investigation in the shortest and most efficient way possible, the OFT focused its investigation on three PCA providers – Lloyds TSB, HSBC and Clydesdale. The OFT believes that the terms<sup>28</sup> of the three selected PCA providers provide the best representative selection of all the PCA providers' unarranged overdraft charging terms, and therefore the outcome of this more focused investigation will be relevant to the assessment of other PCA providers' terms. **It should not be assumed that the terms of the three PCA providers are more or less likely to be unfair than other PCA providers.**
- 3.20 If the investigation concludes that in the OFT's view the PCA providers' unarranged overdraft charging terms are unfair and the PCA providers continue to claim that they are fair, the OFT will work with the PCA providers to identify how any subsequent litigation can be managed sensibly and efficiently.

## Next Steps

- 3.21 The OFT wants to see a market where consumers can easily predict how much a product will cost them and can readily control the overall cost. It

---

<sup>27</sup> While Barclays is a signatory to the litigation agreement, it had introduced new terms during the investigation. So as not to delay our investigation unduly, we concentrated on the terms of the others. OFT has not expressed a view regarding the fairness of Barclay's new terms.

<sup>28</sup> Terms refer to those offered in 2007/08 prior to the Lloyds TSB and HBOS merger.

also wants to see a market where PCA providers are rewarded when they meet consumers' needs and their incentives are aligned with what consumers look for, such that those PCA providers who provide the best products win most consumers and are the most successful.

- 3.22 The work that the OFT is undertaking on charging structures seeks to identify the basic elements required to address the concerns identified in the market study, such as providing greater transparency about charges and when they will be levied and providing simple mechanisms for consumers to control or opt out of unarranged overdrafts. This in turn should drive competition to ensure charges are only incurred when consumers value them.
- 3.23 The OFT is committed to progressing the work on future bank charges in parallel to the test case. We expect to be able to make more substantive comments in due course after the Supreme Court judgment on the PCA providers appeal in the test case.

## 4 TRANSPARENCY OF COST

### Introduction

4.1 The two main sources of revenue from PCAs are net credit interest<sup>29</sup> and unarranged overdraft charges. Although the perception of banking is that it is free, in 2006 PCA providers' total revenue from PCAs was £8.3 billion, equating to £152 per active PCA. Of this, £4.1 billion came from net credit interest and £2.6 billion from unarranged overdraft charges.<sup>30</sup>

4.2 The OFT's market study report found that many consumers were unaware of the key costs associated with their PCA. This was partly due to the low levels of transparency of significant PCA costs such as unarranged overdraft charges and interest forgone.<sup>31</sup>

- We found that for those that paid charges for unarranged overdrafts the average was £205 with 1.4m people paying over £500.
- Nearly 90 per cent of accounts in 2006 received an annual rate of interest less than 0.5 per cent<sup>32</sup> at a time when the average Bank of England base rate was around 4.5 per cent.

4.3 This chapter briefly summarises the OFT's findings on consumer awareness of the cost of their PCA and outlines the key problems that the lack of transparency causes. It then explains how the OFT sought to address this problem, and outlines the initiatives that the PCA providers will voluntarily implement.

---

<sup>29</sup> Net credit interest income on a current account balance can arise in two ways. On credit balances it is the funding benefit earned on the funds held minus the interest paid to the depositor. On debit (overdraft) balances it is the interest paid by the borrower minus the funding cost from financing the overdraft.

<sup>30</sup> *Personal Current Accounts in the UK*, Chart 2.3, page 18.

<sup>31</sup> Interest forgone is calculated by subtracting the amount of interest earned currently on a PCA from the amount of interest that could be earned had the consumer put his or her money in a PCA which earns higher interest, or put some of that money in savings.

<sup>32</sup> *Personal Current Accounts in the UK*, paragraph 4.16, page 59.

## Consumers' awareness of the cost of their PCA

- 4.4 The market study found that there was a lack of awareness of unarranged overdraft charges and it was difficult for consumers to assess the amount of interest forgone on their PCA. Our market study concluded that the lack of transparency in value for money is a key barrier to consumers identifying when it is in their interest to consider switching PCAs.
- 4.5 Evidence of a lack of awareness of charges was obtained from a consumer survey conducted for the OFT. This found that:
- of all consumers, 67 per cent said they did not know what their bank charged for entering unarranged overdraft
  - over a fifth of consumers who had been charged in the last twelve months did not know about unarranged overdraft charges before they incurred one, and
  - of those consumers that had been charged in the past twelve months 25 per cent did not know what their bank charges were.<sup>33</sup>
- 4.6 A significant number of consumers do not pay charges and it would be rational for them not to be concerned about charges. However, for the significant minority of consumers who do pay charges, this lack of focus on cost results in them being poorly placed to assess their PCAs value for money and the potential gains from switching. Only five per cent of people we surveyed said that lower charges were an important factor when they chose their main PCA,<sup>34</sup> even though a significantly higher proportion incurs charges.<sup>35</sup>
- 4.7 The problem is not just confined to a lack of understanding of unarranged overdraft charges. As noted above, the other main cost to

---

<sup>33</sup> *Personal Current Accounts in the UK*, page 72.

<sup>34</sup> *Personal Current Accounts in the UK*, paragraph 4.8 page 57.

<sup>35</sup> 23 per cent of all PCAs incurred at least one charge during 2006 (*Personal Current Accounts in the UK*, chart 4.7 page 67).

consumers of PCAs is interest forgone. While the OFT found that consumers could generally understand the concept of interest forgone, we found that 80 per cent of consumers did not know their credit interest rate and further research conducted for the OFT revealed that out of a small sample of consumers the majority underestimated their average balance, some by 40 per cent or more.<sup>36</sup>

- 4.8 Without information on both their credit interest rate and their average credit balance it is very difficult for consumers to estimate how much extra interest they would receive by moving to a PCA which offers a higher credit interest rate or moving some of their money into a savings account. As a result, many consumers may be underestimating the benefits of switching to a different PCA or changing the way they use their account. Only seven per cent of consumers in our survey saw interest rates as important when choosing an account,<sup>37</sup> while 35 per cent of active accounts (nearly 20 million accounts) had an average balance when in credit of over £1,000, with nearly eight per cent (four million accounts) holding an average balance of more than £5000.<sup>38</sup>
- 4.9 This lack of awareness of the cost elements associated with PCAs, together with consumers' reluctance to switch (discussed in chapter 5), results in consumers not actively searching for a new PCA as often as they should. This in turn means that PCA providers do not have to offer increasingly competitive products, dampening the incentives to be efficient and innovative in the market, leading to an overall loss in consumer welfare.

## Outcomes in an effective market

- 4.10 An effective PCA market is one in which consumers make informed choices about which product is best for them, use those products efficiently and switch to better products when they identify them. The

---

<sup>36</sup> This research was conducted by IPSOS MORI for the OFT, and asked 19 consumers to estimate their average monthly balance. This was then compared to their actual average monthly balance.

<sup>37</sup> *Personal Current Accounts in the UK*, paragraph 4.27 page 62.

<sup>38</sup> *Personal Current Accounts in the UK*, chart 4.3 page 59.

OFT considers that the initiatives to increase the transparency of PCA cost are a vital way of achieving this objective. Greater transparency of cost will allow consumers to:

- better understand the costs of their PCA, enabling them to make better choices about how to use their existing PCA more efficiently, and
- better understand the potential costs of other PCAs against the benefits offered and so allowing them to assess which is the best one for them.

4.11 Making unarranged overdraft charges more prominent in statements will make consumers more likely to be aware that they have incurred them, and this may result in them changing their behaviour so that they do not incur charges in the future or switching to an account that has lower charges.

4.12 Similarly, making those who hold significant positive balances in their PCA more aware of their balance and the credit interest rate applicable to their PCA will enable them to assess the interest they forgo. Some may gain substantially if they switch to a better value PCA or make use of a savings account paying a better rate. At the time of writing this report interest rates are at historically very low levels and as a result the benefits of transferring money to savings accounts or switching to an alternative PCA paying a higher rate of credit interest may be limited. We would expect however that these levels of interest rates will not persist and the gains of transferring money or switching account will be greater in future.

### **The OFT's approach**

4.13 Alongside the market study report, the OFT published a consultation document. This document did not identify specific transparency initiatives, but did ask for ideas on improvements to allow consumers to have available the right information, in an easily digestible format, to help them to understand the true cost of running their account and hence manage it more effectively.

4.14 The OFT received a total of 17 responses to the consultation, which are summarised at Annexe A. Responses were received from the banking

industry, consumer groups and other bodies with an interest in consumer welfare and/or banking.

- 4.15 The OFT established a Transparency Working Group (TWG) to resolve issues about the transparency of the cost of PCAs. It was made up of representatives from the banking industry (including the biggest seven providers of PCAs), consumer groups and FSA. Our objective has been to identify improvements that would apply to as wide a group of PCA holders as possible, with a particular focus on those that incur unarranged overdraft charges.
- 4.16 The TWG was focused on providers of PCAs in the UK. Some of these also operate in Northern Ireland,<sup>39</sup> and other PCA providers in Northern Ireland were represented indirectly through the British Bankers' Association (BBA).
- 4.17 The transparency of PCA cost in Northern Ireland is currently addressed by the Competition Commission's Northern Ireland PCA Banking Market Investigation Order 2008.<sup>40</sup> However, following the entry into force on 1 November 2009 of the Payment Services Regulations 2009, implementing in the UK Directive 2007/64/EC (the Payment Services Directive), it is our view that some of the Order's transparency provisions cannot be enforced. The OFT is currently considering how best to address this matter. A number of PCA providers in Northern Ireland have already agreed to implement the initiatives set out in this report.<sup>41</sup> The OFT will be discussing these initiatives with other PCA providers in Northern Ireland as it would be desirable that PCA consumers in Northern Ireland and Great Britain all have the same transparency of information.

---

<sup>39</sup> UK Banks who also have a presence in Northern Ireland include HBOS (now part of Lloyds Banking Group), HSBC, Barclays, Nationwide, Santander and Royal Bank of Scotland Group (Ulster Bank).

<sup>40</sup> [www.competition-commission.org.uk](http://www.competition-commission.org.uk).

<sup>41</sup> In addition to those TWG members who operate in Northern Ireland, both Allied Irish/First Trust Bank and Bank of Ireland have confirmed to us that they are implementing the initiatives outlined in this report.

- 4.18 The OFT considered whether the initiatives discussed by the TWG were proportionate to the size of the problem and sought to avoid expensive untested ones. Where possible, the OFT believes the agreed initiatives can be delivered through existing channels, such as the monthly statement process and the internet. However, where evidence supports their introduction, some initiatives would involve PCA providers making enhanced information available through new channels.
- 4.19 We are aware that much of the information that consumers need in order to make better informed decisions about their PCAs is already available to them. However, this information is often provided in amongst other information, making it difficult to distinguish. For example, unarranged overdraft charges are usually recorded in the body of a statement, where they can get lost in amongst all the other transactions. The OFT therefore took the approach that key information on PCA costs should be summarised and/or highlighted where possible.
- 4.20 We acknowledge the importance of striking a balance between the need for information and the potential for information overload. Our aim is to ensure consumers receive the right type of information that is accurate, timely and appropriate for their needs. We also recognise that sometimes the information provided will not be used directly by consumers themselves but rather by price comparison sites or rival PCA providers who will utilise the enhanced information to help consumers understand the potential benefits of switching.

### **Transparency initiatives**

- 4.21 The transparency initiatives are designed to allow consumers to make informed decisions about the use of their existing PCA, and to be able to make informed decisions about which is the best PCA for them.
- 4.22 The initiatives that PCA providers have broadly agreed to implement voluntarily are summarised below:
- **enhanced monthly information:** PCA providers will make the key costs of the PCA incurred by consumers more prominent (for example in a summary box)
  - **annual summary:** PCA providers will provide a statement setting out the key costs of the PCA to each PCA customer on an annual basis

- **average credit and average debit balances and credit and debit interest rates:** information on interest rates and average credit and debit balances will be provided on monthly statement or annual summary statements, and
- **charging scenarios:** PCA providers will publish information showing how much would be charged in a series of scenarios of consumers going into unarranged overdraft. Some scenarios will be typical of consumer behaviour whilst others are examples of more extreme cases.

4.23 Additionally, the FSA will carry out a feasibility study into providing a price comparison website for PCAs, and the OFT has published on our Consumer Direct website information to help consumers understand and compare PCAs.<sup>42</sup>

4.24 Further details on these initiatives are set out below. The biggest PCA providers have volunteered to implement most of the initiatives to provide further information, and details of how they will do so are set out below. Where this agreement is not universal we have listed the details.

### **Enhanced monthly information**

4.25 The following information will be provided:<sup>43</sup>

- **unarranged overdraft charges:** the total value and number of charges incurred by the consumer in that period, together with a breakdown by the type of charge (for example, whether it is an unpaid item charge, a paid item charge, a guaranteed paid item charge or any other similar charges incurred in that period). Some PCA providers will list charges individually
- **monthly/periodic management fees:** the total value of any regular fees associated with the normal running of an account, for example fees for operating a packaged or premium account

---

<sup>42</sup> [www.consumerdirect.gov.uk/before\\_you\\_buy/money\\_and\\_credit/Currentaccounts](http://www.consumerdirect.gov.uk/before_you_buy/money_and_credit/Currentaccounts).

<sup>43</sup> Subject to caveats detailed in paragraphs 4.31.

- **value of debit interest:** the total amount of interest that has been deducted from the consumer's account (at each of the applicable rates for arranged and unarranged overdrafts) in the relevant period, and
- **value of credit interest:** the total amount of interest that has been added to the consumer's account in the relevant period.
- **information on debit and credit interest rates** and the consumer's average credit and debit balances are discussed separately below.

4.26 We are aware that most, if not all PCA providers have introduced or are introducing statements or letters that provide consumers with advance notice of charges and debit interest before they are debited to their PCA. Where the information on charges is provided in a pre-notification format (rather than in a summary box on the statement itself) most PCA providers have volunteered to highlight the appropriate charges within the transaction list of the monthly statement (for example, these charges could be in bold type).

4.27 Research carried out by the OFT to assess the effectiveness of providing the costs of PCAs in different ways on monthly statements found that costs in summary boxes were easier to identify than those in a statement without a summary box.

4.28 The OFT found that consumers would value costs being highlighted in the body of a statement. Nearly half (45 per cent of respondents) said a statement with charges in bold (bold was used as an example of how costs could be highlighted on a statement) was better than their current statement. Only 16 per cent of respondents said that the bolding of charges was not preferable.<sup>44</sup>

4.29 We see significant benefit to consumers from enhanced monthly information on the cost of their PCA. We expect consumers to be able to manage their accounts better as a result by taking note of this information and changing their behaviour accordingly. For example, a clear total and breakdown of charges in summary form will bring these

---

<sup>44</sup> See Annexe C for more details.

costs to the fore and may result in some consumers taking action to avoid unarranged overdraft charges in future. Likewise better information on average credit balance may allow consumers to 'sweep' excess balances into a savings account.

- 4.30 A secondary benefit of providing the summary is that some consumers (for example, those consumers who have incurred high unarranged overdraft charges) may find it a prompt to consider switching to a PCA that is more appropriate for them. It may also help consumers identify the information they need to obtain on different accounts in order to compare them.
- 4.31 The provision of enhanced monthly information was discussed with PCA providers. All major PCA providers have committed to introduce enhanced monthly information voluntarily:
- Barclays,<sup>45</sup> HSBC, Lloyds Banking Group, National Australia Banking Group, Nationwide, Royal Bank of Scotland<sup>46</sup> (RBS) and Santander.

### **Annual Summary**

- 4.32 An annual summary would provide an easy to understand analysis of the charges and interest rates that have been applied to the consumer's PCA in the previous twelve months. The charges incurred would be broken down into categories so consumers can see where savings could be made.
- 4.33 The main benefit of an annual summary is expected to be that it would prompt consumers with significant costs to investigate whether to switch to another PCA, although it is also likely to contribute to changing consumers' behaviour in managing their existing PCA. A key specific benefit of having an annual summary in addition to a monthly

---

<sup>45</sup> Barclays already provide total value and number of Personal Reserve fees and value of debit interest but are not proposing to offer a summary of monthly fees and highlighting/bolding of charges and fees.

<sup>46</sup> RBS will not highlight charges within the transaction list but will mark the charges with the term 'CHG' or 'Charge'. The initiatives agreed by RBS in this report apply to the NatWest and Royal Bank of Scotland brands only.

statement is that an annual summary contains a total cost figure for the year, which we believe is more likely to jolt consumers into taking action than smaller, regular monthly figures. In addition, it would provide something akin to a natural break point for a PCA contract, which is currently not available for a PCA. With some other financial products, like car and house insurance, contracts usually last a finite period, for example a year, prompting consumers to search annually for a better product.

- 4.34 Consumer groups with whom we have engaged also support the introduction of annual summaries. One group said that the provision of an annual summary would make some consumers 'sit up and take notice' of what they are paying for their PCA and what they are getting in return.
- 4.35 OFT research revealed that 49 per cent of respondents would find an annual summary of value, and that percentage rises to 65 per cent of consumers who have paid charges.<sup>47</sup> The research also indicated that consumers could envisage how they would use them. The most popular answers were that an annual summary would help the respondent to know whether the PCA was being used appropriately and whether the PCA offered value for money or not.
- 4.36 In other markets where consumer understanding of product costs is relatively low, annual summaries have been recommended to raise understanding and awareness of product costs. For example, Ofgem published a report in November 2008 into the state of the energy supply markets in Great Britain.<sup>48</sup> It found that although consumer engagement in the utilities market is good (with annual switching rates reaching 18 per cent compared to six per cent in the PCA market), more could be done. One of Ofgem's recommendations<sup>49</sup> was to improve transparency and consumer engagement by requiring an annual summary to be provided to each consumer showing, for example, the consumer's

---

<sup>47</sup> See Annexe C for further details.

<sup>48</sup> Ofgem *Energy Supply Probe- Initial Findings Report*, October 2008.

<sup>49</sup> Ofgem *Energy Supply Probe- Initial Findings Report*, October 2008 page 13.

current tariff, the size of any premium they are paying (for example, relative to an average tariff or other payment method), their annual consumption level and alternative price packages available from that supplier. Ofgem is currently consulting with the industry in light of its proposed remedies, including the provision of annual summaries and is looking to make a decision shortly.<sup>50</sup>

4.37 Furthermore Consumer Focus<sup>51</sup> commissioned an omnibus survey to gather some initial views from consumers on the Ofgem proposed actions. This survey found that an annual summary would prompt 37 per cent of those polled to consider switching, while 22 per cent said they would be unlikely to switch.

4.38 Two options for providing annual summaries were discussed with PCA providers. The first would contain the following information:

- **unarranged overdraft charges:** the total value and number of charges incurred by the consumer in that year, and a breakdown of charges by type (for example, into unpaid item charge, paid item charge, guaranteed paid item charge or other similar charges)
- **monthly/periodic management fees:** the total value of any regular fees associated with the normal running of an account, for example fees for operating a packaged or premium account
- **value of debit interest:** the total amount of interest that has been deducted from the consumer's account (for both arranged and unarranged overdrafts) in the relevant period
- **total of all overdraft charges, fees and debit interest for the year:** this would be an aggregate of all the costs debited by the bank as part of the running of a PCA during the year

---

<sup>50</sup> [www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Retail%20package%20-%20decision%20document.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Retail%20package%20-%20decision%20document.pdf).

<sup>51</sup> [www.consumerfocus.org.uk/en/content/cms/News\\_Press\\_speech/Energy\\_probe/Energy\\_probe.aspx](http://www.consumerfocus.org.uk/en/content/cms/News_Press_speech/Energy_probe/Energy_probe.aspx).

- **value of credit interest:** the total amount of interest that has been added to the consumer's account in the relevant period, and
- **Information on debit and credit interest rates** and the consumer's average credit and debit balances (these are discussed separately below).

4.39 The second option would be information which was required by the Competition Commission for the Northern Ireland PCA providers.<sup>52</sup> Having listened to the banks' views we have taken on board the concerns that some had about generating a different annual summary than the one they had already developed for implementation in Northern Ireland. We therefore consider that an annual summary of the type provided for Northern Ireland consumers would be an acceptable alternative to one providing the elements outlined in paragraph 4.38 above. We do however believe there is substantial benefit for consumers having all of our essential elements included on the annual summary and would therefore welcome the inclusion in the annual summary of all the elements the OFT sees as desirable.

---

<sup>52</sup> The Northern Ireland summary statement obliged the banks to provide a statement: which includes the following information:

(a) any regular account charge (for example, monthly charge for maintaining the PCA) payable when the PCA is in credit

(b) any transaction charges (for example, for setting up a standing order) payable when the PCA is in credit

(c) credit interest

(d) authorised overdraft:

(i) debit interest, (ii) annual or monthly maintenance charges, (iii) and other relevant charges

(e) unauthorised overdraft:

(i) debit interest, (ii) maintenance charges, (iii) transaction charges (for example, referral or unpaid charges), and other relevant associated charges (for example, letters to consumers).

This information should be broken down to show the total of each individual type of charge or interest payment made over the relevant period relating to the consumer's PCA but need not include ancillary charges. The summary must include an explanation of the level and application of all those charges included on the statement.

4.40 We are pleased that all the banks that were members of the TWG have agreed to provide annual summaries to their customers. Some banks that were not directly represented at the TWG have also said that they will introduce an annual summary.

### **Average credit and debit balances and credit and debit interest rates**

4.41 The OFT found that consumers significantly underestimated the amount of money they hold in their PCAs. This makes it likely that consumers will under-estimate the benefits of moving to a PCA with a better interest rate or of sweeping excess funds into a savings account that pays higher interest. If consumers are made aware of the average credit balance of their PCA, they would be able to accurately judge how much more interest they would earn by switching to a PCA offering a higher interest rate on credit balances.

4.42 Similarly, we believe that consumers should be provided with better information on their average debit balance. If consumers are made aware of the average debit balance of their PCA, they would be able accurately to judge how much less interest they would be charged if they switched to a PCA with a more competitive debit interest rate.<sup>53</sup>

4.43 All major PCA providers<sup>54</sup> have volunteered to provide interest rate information either as part of the annual summary or as part of the enhanced monthly information:

- **debit and credit interest rates:** these will include any rates which are currently, or could be, applied to the account (so, for example, the overdraft interest rates will be provided even if a consumer has not gone into overdraft).

---

<sup>53</sup> The average credit balance is the sum of all the credit balances divided by the total number of days in the month/year. The average debit balance is the sum of all the debit balances divided by the total number of days in the month/year.

<sup>54</sup> Except Barclays who do not provide information on credit interest rate where there is no credit interest payable.

4.44 All major PCA providers have committed to introduce average credit and debit balances voluntarily. This information will be provided as part of the enhanced monthly information or as part of the annual summary:

- **the consumer's average credit and debit balances:** each consumer will be informed of his average credit balance or average debit balance, or if time is spent in both, both average balances. The average credit balance is the sum of the closing balances for those days that the consumer was in credit divided by the total number of days in the statement period.<sup>55</sup> Average debit balances would be calculated in the same way for those days in debit.

### Charging scenarios

4.45 The PCA providers have agreed to provide information on how much their PCAs would cost in each of a series of scenarios involving transactions that result in unarranged overdrafts. The scenarios are intended to illustrate to consumers how different patterns of usage affect the level of charges of different PCAs. While they will not enable consumers directly to identify the PCA that is the best for them (given the sensitivity of charges to specific patterns of usage), they will provide some initial comparisons that are likely to be of assistance to consumers.

4.46 Scenarios have been agreed in principle with PCA providers,<sup>56</sup> with details being agreed at an implementation group which will meet following the publication of this report. They will be provided for each PCA offered by each PCA provider. The scenarios will differ by the number of days overdrawn and the number and value of transactions. While some of these will be designed to be reasonably representative of common ways that consumers might use an unarranged overdraft,

---

<sup>55</sup> For example, if in February a consumer spent seven of the 28 days in credit and had a closing balance of £100 at the end of each of those days, and spent 21 of the 28 days in debit and had an overdraft of £100 at the end of each of those days, the consumer's average credit balance would be £25 and their average debit balance would be £75. For those PCA providers that will not update balances over the weekend the balance for Saturday and Sunday will be the same as the Friday balance.

<sup>56</sup> Subject to final agreement at the implementation group. See chapter 6 for further details.

others will show consumers less typical examples to illustrate exactly how differing consumer behaviour affects the level of charges.

4.47 Seven scenarios have been discussed in detail<sup>57</sup> as follows:

- one unpaid item fee
- one unarranged overdraft transaction under £10 where the consumer remains in unarranged overdraft for one day
- two unarranged overdraft transactions where the consumer remains in unarranged overdraft for two days
- two unarranged overdraft transactions where the consumer remains in unarranged overdraft for two months
- ten unarranged overdraft transactions where the consumer remains in unarranged overdraft for ten days
- twenty unarranged overdraft transactions where the consumer remains in unarranged overdraft for one month, and
- consumer goes in and out of unarranged overdraft throughout a month with ten unarranged overdraft transactions.

4.48 While the scenarios are yet to be finalised, the OFT consider that scenarios such as these will provide examples of how charges would be applied based on a range of behaviours. All PCA providers have agreed to display the information, once finally agreed at the implementation group, in a format which is easy to understand for consumers on their websites.<sup>58</sup> The OFT has spoken to third party websites (including some price comparison websites and bodies that provide financial advice to consumers) who have shown interest in supporting scenarios by using

---

<sup>57</sup> These are broadly agreed in principle. Although a number of banks have raised issues with the number of scenarios and issues with specific scenarios, these will be dealt with at the implementation group. The scenarios may therefore be subject to change.

<sup>58</sup> PCA providers have also agreed to direct consumers to the scenarios in their relevant promotional material.

the information contained in them as part of a wider assessment of PCAs.

- 4.49 The OFT propose that the scenarios should be reviewed on an annual basis by the PCA providers implementation group (discussed further in chapter 6) to ensure they have not become outdated. The PCA providers will also provide revised information if and when their terms change during the year. This will ensure that scenarios remain relevant.

### **Information to help consumers choose PCAs**

- 4.50 The OFT's research<sup>59</sup> found that some consumers had little knowledge of what information they require in order for them to take full advantage of greater transparency in the PCA market. With this in mind we have introduced a number of tools designed to inform consumers about PCAs. This should lead to consumers being better informed about the costs and benefits of PCAs, and consumers making better decisions about which products to take out. These tools are available on to the Consumer Direct website,<sup>60</sup> and are open to anyone to use or to provide to consumers. The tools are:

- **a page of advice on PCAs** covering what they are, what they do, and what to look out for
- **a list of key questions that consumers should ask of PCA providers before taking out a PCA** including questions on the benefits that a PCA offers and the key costs of the PCA
- **a comparison sheet of key PCA features** which allows consumers to make a note of the key features of as many PCAs as they want to compare, so that they can choose the right PCA for their needs, and

---

<sup>59</sup> Research carried out for the OFT by Carol Goldstone Associates. The research asked a small sample of consumers about the information needed to understand and compare the services offered by banks, and how they would like such information to be provided.

<sup>60</sup> [www.consumerdirect.gov.uk/before\\_you\\_buy/money\\_and\\_credit/Currentaccounts](http://www.consumerdirect.gov.uk/before_you_buy/money_and_credit/Currentaccounts).

- **an on-line calculator of credit interest** which allows consumers to compare the amount of interest they are currently earning to the amount of interest they would be earning with a different account.<sup>61</sup>

### **Impartial price comparison website for PCAs**

- 4.51 Research has demonstrated that comparison websites can reduce the risk of people buying inappropriate, poor quality or over-priced products. However, our research has shown that existing price comparison sites that cover PCAs do not allow consumers to sort on important features such as PCA cost. The OFT's research also suggested support for an impartial price comparison website that would be run by an organisation with no financial interest in the consumer's choice such as the OFT or FSA.
- 4.52 To be useful such a site should allow comparisons to be made on interest rates (both credit rates and overdraft rates) and on charges. A practical way of achieving this would be for the FSA to introduce a price comparison website for PCAs which met these needs, as part of its 'moneymadeclear' website. The FSA has considerable experience in running price comparison sites, as it already does so for pension annuities, mortgages, savings accounts, stakeholder and personal pensions, ISAs, investment bonds and savings endowments.
- 4.53 There are a number of benefits associated with an FSA-run price comparison website:
- consumers would recognise and trust the FSA brand, and
  - an FSA site would allow consumers to list products in order of the cheapest, taking into account factors like unplanned overdraft charges. Current commercial price comparison sites, while offering a useful service, do not allow consumers to list products in order of total cost of the PCA.

---

<sup>61</sup> A very basic illustrative calculator has been provided at present. Once banks provide average balance information a slightly more sophisticated calculator will be provided.

4.54 The FSA will consider the feasibility of a website that would allow consumers to list products based on key PCA costs.

### **Cost of implementation**

4.55 The OFT has conducted a very simple cost benefit analysis using a similar approach adopted by the Competition Commission in its enquiry into Northern Irish Personal Current Account Banking.<sup>62</sup> This suggests that the benefits to consumers of the recommendations could significantly outweigh their cost of implementation.

4.56 In addition we have conducted a sensitivity analysis which suggests that a relatively small decrease in the cost of unarranged overdraft charges or increase in the rate of credit interest, brought about by competition promoted by greater transparency, would more than outweigh the cost of introducing an annual summary and enhanced monthly information on PCA cost.

4.57 The cost of providing such consumer information would be relatively low, and the information could be distributed through existing distribution channels. We consider it likely that even a small number of consumers changing their behaviour as a result of acting upon this information would result in benefits that outweigh its costs.

4.58 The costs to PCA providers of producing the overdraft charging scenarios are also likely to be minimal. Some price comparison websites have already said that they would like to use the scenarios as part of their websites, suggesting that they can see their value to consumers. The OFT doesn't just see the main value of scenarios to consumers as being a guide to which is the best PCA for them (although, combined with analysis from a commercial price comparison website, they may achieve this), it sees them as a very effective tool as well in raising consumers' awareness of the cost of a PCA, and specifically how different types of behaviour can lead to very significant charges.

---

<sup>62</sup> For further details please see Annex B.

## Timetable for implementation and monitoring

- 4.59 Most of the PCA providers have now volunteered to introduce the improvements to PCA transparency that have been set out in this chapter. There are some further details to be discussed on some of the initiatives and these will be taken forward by an implementation group.
- 4.60 We expect that scenarios will be relatively straight forward to introduce and require little investment. We are therefore looking to all PCA providers to introduce scenarios in the second quarter of 2010. Simultaneous introduction by all banks would be desirable.
- 4.61 In relation to enhanced monthly information and annual summaries, we are aware that this requires investment and system changes that will take time to implement. We would hope PCA providers will be providing this information to consumers by late 2011 unless there are clear and compelling reasons why this can't be achieved. We will discuss this at the implementation working group.
- 4.62 The OFT will also encourage new entrants to the PCA market to adopt the transparency initiatives discussed in this chapter.
- 4.63 The consumer information on PCAs and the credit interest calculator are now available for consumers to use through the Consumer Direct website.
- 4.64 The OFT proposes to monitor the effects of the transparency over the next few years. This is likely to involve:
- making periodic checks to see if PCA providers are continuing to provide charging scenarios and enhanced monthly account information as discussed above, and
  - assessing the effectiveness of transparency initiatives, for example, by carrying out a survey into consumer knowledge of PCA charges and other costs which can be compared to the research carried out by the OFT for its July 2008 report.
- 4.65 The OFT will also commit to providing information to the public on PCA providers' progress on implementing the initiatives outlined above.

## Conclusion

- 4.66 Many consumers are not in a position to assess whether they are getting value for money from their PCA and whether there are potential gains to be made from switching. The lack of familiarity with the key costs associated with running their PCA is at the root of this. A lack of transparency of cost results in consumers using their PCAs inefficiently and reduces their ability to seek out the most appropriate PCA for their needs.
- 4.67 We welcome the commitment from the industry to improve the transparency for consumers based on the voluntary initiatives detailed above which are intended to increase the transparency of PCA costs.
- 4.68 We hope that an increase in the transparency of PCA costs will in turn lead to consumers both using their PCA more efficiently (for instance in avoiding charges, and keeping lower average balances), and in being more able to shop around for a better PCA. We anticipate that both of these outcomes will help to drive the efficiency of the PCA market, which in turn will lead to PCA providers needing to offer better value products to retain and attract consumers.

## 5 SWITCHING BETWEEN PERSONAL CURRENT ACCOUNTS

### Introduction

- 5.1 The OFT's market study found that the UK had low levels of switching between PCAs. A contributory factor to these low levels is the actual and perceived costs that consumers face when switching. The OFT considered that a reduction in these costs would lead to an increase in the consideration of switching and that in turn would help to increase the competitiveness of the PCA market.
- 5.2 Rather than set up our own separate work stream, we thought it more efficient to work with the existing Switching Working Group set up by Bacs Payment Schemes Limited (Bacs are the body that processes payments for a number of different payment schemes in the UK, including Direct Debit and Direct Credit).<sup>63</sup>
- 5.3 This chapter addresses the switching process. Ensuring that consumers can assess the possible gain from switching is addressed through our transparency work and is not covered further in this chapter.

### The OFT's objectives for the switching process

- 5.4 Low levels of switching are not necessarily a problem. A market can become more competitive even though switching rates remain low, if consumers are offered better deals from their existing providers to prevent them switching. However, where low switching levels are because consumers are uncertain whether they will be better off by switching provider or fearful of the switching process itself this is very likely to reduce the competitiveness of the market. The OFT market study found this applies to the PCA market.
- 5.5 Therefore the OFT's objective was not to increase the levels of switching for their own sake but to ensure that the industry put the consumer at the heart of the switching process and removed barriers to switching. This may or may not lead to an increase in levels of switching

---

<sup>63</sup> The Bacs working group was made up of all members of Bacs (a full list can be found on the following link: [www.bacs.co.uk/bacs/corporate/corporateoverview/pages/ourmembers.aspx](http://www.bacs.co.uk/bacs/corporate/corporateoverview/pages/ourmembers.aspx)).

– depending on how providers respond to the increased threat of switching – but should improve the competitive dynamic.

## **Problems identified with switching between PCAs**

5.6 The OFT identified three main areas of concern:

- low consumer awareness of the switching process
- there were a number of ways in which the switching process could go wrong for a consumer, and
- there was a perception that the switching process was risky and more complex than it is in reality.

### **Low consumer awareness of the switching process**

5.7 The OFT's market study found indicators of low consumer awareness of various aspects of the switching process including how it worked, the existence of an automatic switching process and the amount of time that switching actually takes. A low level of awareness of these issues can result in consumers being reluctant to even consider switching PCAs.

### **The existence of real problems in the switching process**

5.8 The main problems Bacs identified<sup>64</sup> were:

- moving Direct Debits (39 per cent of all problems)
- length of time taken (28 per cent of all problems)
- transferring their balance to the new bank (22 per cent of all problems), and
- problems with paperwork (16 per cent of all problems).

---

<sup>64</sup> Source: Bacs PCA Switchers Survey (2007).

5.9 As an illustration of the problem we looked at the largest category – the transferring of Direct Debits. In the four months leading to June 2009 approximately 1,045m Direct Debits were collected through the Bacs system.<sup>65</sup> Within the same period 1.5m transfer advices were sent to Direct Debit Originators<sup>66</sup> advising of a change of account details. Approximately 135,000 Direct Debits were sent to the old bank during the switching process (nine per cent of all transfer advices). Around half of that number (69,000) were unpaid, which could have led to the consumer being adversely impacted.

### **The perceived risk and complexity of the switching process**

5.10 In addition to the problems encountered when switching between PCAs, consumers perceive the switching process to be working poorly. The OFT found in its market study that:

- 45 per cent of non-switchers were not very/not at all confident about the switching process being smooth,<sup>67</sup> and
- there is a perception that the switching process is onerous, with only 58 per cent of UK consumers thinking it would be easy compared to 69 per cent in the EU as whole.<sup>68</sup>

### **The effect of these problems**

5.11 Consumers who experience problems with switching between PCAs are less likely to want to switch between PCAs in the future. They are also likely to share their experiences with other consumers, who may then be reluctant to switch PCA, as evidenced in the OFT's market study:

- a quarter of switchers would not switch again,<sup>69</sup> and

---

<sup>65</sup> Figures from Bacs.

<sup>66</sup> Direct Debit originators are bodies that collect Direct Debit payments from consumers' PCAs and include government, utility providers and credit card companies.

<sup>67</sup> *Personal Current Accounts in the UK*, paragraph 5.47.

<sup>68</sup> *Personal Current Accounts in the UK*, paragraph 5.55.

- a third of switchers would not recommend switching to their friends and family.<sup>70</sup>

5.12 In total, the effect of these problems on the PCA market is to discourage switching, resulting in the low levels we see in the PCA market. Only six per cent of consumers switched PCA in the year leading up to August 2007.<sup>71</sup>

5.13 Low levels of switching caused by barriers, or perceived barriers, to switching do not lead to a responsive market. The reward for PCA providers seeking to attract new consumers by offering more competitive products is weak if consumers fear the process of switching. Therefore, problems with switching, and consumer perceptions of those problems, are likely to lead to a stagnant market, where PCAs are not as competitive as they would otherwise be.

5.14 These problems can be reduced or removed by making the process of switching easier, and by reducing or removing the negative perceptions of switching. This should have the effect of incentivising PCA providers to offer better PCA products, in the knowledge that consumers are not prevented from switching to them. In turn, consumers will, the OFT hope, take advantage of those better offers, perhaps choosing PCAs with lower charges, debit interest rates, or higher credit interest rates.

### **Improvements made to the switching process**

5.15 In order to remove or reduce the barriers to switching the OFT identified three outcomes to achieve working with the Bacs Switching Working Group:

- **increase levels of consumer awareness of the switching process.** Consumers should be aware that they can switch PCAs using an automatic process, and that they can find information on switching easily and readily

---

<sup>69</sup> *Personal Current Accounts in the UK*, paragraph 5.56.

<sup>70</sup> *Personal Current Accounts in the UK*, paragraph 5.56.

<sup>71</sup> *Personal Current Accounts in the UK*, paragraph 5.1.

- **reduce problems encountered by consumers when switching.** There should be a reduction in the number of problems encountered by consumers and those problems that are encountered should be resolved swiftly and satisfactorily. Consumers should not incur costs or inconvenience as a result of the mistakes or omissions of others, and
- **reduce the fear of the switching process.** The success of the first two outcomes will contribute to this.

5.16 Following the work of the Switching Working Group Bacs has published details of a number of improvements being introduced.<sup>72</sup>

### **Increasing consumer awareness of the switching process**

5.17 The Bacs switching group has recommended a number of new sources of information to increase levels of consumer awareness of, and confidence in, the switching process:

- a **guide to switching between PCAs**, which tells consumers clearly what they and their bank need to do in the switching process. This can be downloaded from Bacs website<sup>73</sup> and from 1 November it will be given by PCA providers to consumers, on request.<sup>74</sup> The guide also answers some frequently asked questions about switching accounts
- a Direct Debit help centre for questions regarding Direct Debits, including how to set them up and transfer them to a new PCA,<sup>75</sup> and

---

<sup>72</sup> Link to Press Notice:

[www.bacs.co.uk/Bacs/Press/PressReleases/2009/Pages/Bacssaysswitchingiseasierthanyouthink20-05-2009.aspx](http://www.bacs.co.uk/Bacs/Press/PressReleases/2009/Pages/Bacssaysswitchingiseasierthanyouthink20-05-2009.aspx).

<sup>73</sup> Link to Switching Guide:

[www.bacs.co.uk/Bacs/SiteCollectionDocuments/500148\\_Accountswitchingguide\\_vF.pdf](http://www.bacs.co.uk/Bacs/SiteCollectionDocuments/500148_Accountswitchingguide_vF.pdf).

<sup>74</sup> A commitment following the European Banking Industry Committee's 'Common Principle for Bank Account Switching'.

<sup>75</sup> Link to Direct Debit help centre:

[www.bacs.co.uk/bacs/Consumers/DirectDebit/HelpCentre/Pages/default.aspx](http://www.bacs.co.uk/bacs/Consumers/DirectDebit/HelpCentre/Pages/default.aspx).

- a consumer website which provides helpful advice and tools for switching between PCAs,<sup>76</sup> including a timeline for the switching process, and template letters for consumers to use to send to their old bank and to bodies that send them credit payments, such as an employer, and letters that can be used to help correct any problems that might arise with Direct Debits.

5.18 These information sources have now been introduced by Bacs and are available to consumers. The OFT believes that these initiatives will result in consumers being more confident and informed when considering whether to switch between PCAs.

### **Reducing switching problems encountered by consumers**

5.19 The Bacs Switching Working Group based their recommendations on both preventing problems occurring in the first instance and reducing the impact on consumers of any problems that do occur.

#### **Preventing problems occurring in the first instance**

5.20 Bacs' research indicated that many of the problems associated with switching between PCAs resulted from Direct Debits being wrongly applied to the 'old' PCA. These problems stemmed from some Direct Debit originators failing to update their records quickly enough. To reduce the number of Direct Debit originators updating their records too slowly Bacs has introduced an originator education strategy, which includes:

- **disseminating best practice** on updating records to Direct Debit originators through a website specifically designed for Direct Debit originators. This will be backed-up by site visits to Direct Debit originators to help resolve issues, and training to assist the switching of Direct Debits where necessary
- **writing to Direct Debit originators** who did not update their records quickly enough explaining the importance of prompt action, and

---

<sup>76</sup> <http://www.consumerdirect.gov.uk>  
[www.bacs.co.uk/Bacs/Consumers/AccountSwitching/Pages/default.aspx](http://www.bacs.co.uk/Bacs/Consumers/AccountSwitching/Pages/default.aspx).

- producing **new forms to standardise interbank communication** and producing **an account switching timeline** setting out the typical timings involved in the account switching process, including when Direct Debit details should be amended.

- 5.21 The OFT considers that these initiatives should be effective in reducing the number of Direct Debits sent to the wrong PCA.
- 5.22 The Bacs Switching Working Group also determined that problems could exist with the application of Direct Credits (including benefits payments and salary payments) into consumers' PCAs. To ensure that Direct Credits are transferred promptly to the 'new' PCA the Bacs Switching Working Group recommended the introduction of a standard credit redirection letter. This will ensure that all the required information, including the payment method, is provided in the correct format. From 1 November PCA providers will provide consumers, on request, with the standard credit redirection letters, which can then be sent on to their employer, or other body that sends credits.<sup>77</sup>
- 5.23 The OFT considers that this initiative will significantly reduce the number of times that consumers who switch PCAs do not receive their salary or benefit payments. This in turn should also ensure they do not suffer inconvenience through being left short of funds when Direct Debits and other withdrawals are applied to the PCA.
- 5.24 To prevent delays caused by the transfer of the consumers' balance from the 'old' account to the 'new' one Bacs have introduced a standard redirection letter, which is replacing the variety of methods previously used to move balances between accounts. The OFT consider that this should lead to fewer instances of balances failing to transfer successfully.

### Reducing the impact of any problems on consumers

- 5.25 The OFT asked the Bacs Switching Working Group to ensure that in the event of any problems caused by the switching process, neither the 'new' or 'old' bank, nor the Direct Debit originator, would leave the

---

<sup>77</sup> A commitment following the European Banking Industry Committee's 'Common Principle for Bank Account Switching'.

consumer adversely affected. In particular the OFT sought to ensure that where, for example, a payment was missed when the Direct Debit originator had incorrectly applied a Direct Debit to the 'old' PCA, consumers would not face charges from the Direct Debit originator nor would they have their credit ratings adversely affected.

- 5.26 Consumers are already protected by paragraph 7.5 of the Banking Code which states that 'We will cancel any bank charges you have to pay as a result of any mistake or unnecessary delay by us when you transfer your current account to or from us'.<sup>78</sup> However, this only covers PCA providers that are a signatory to the Banking Code, and does not cover Direct Debit originators. The Bacs Switching Working Group therefore recommended that Bacs should update its Service User's Guide and Rules (due to be published in December 2009) to stipulate that consumers should not be adversely affected by any problems caused by the switching process or a Direct Debit originator.
- 5.27 The OFT considers that this initiative will result in greater consumer confidence in the switching process. Consumers will be confident that if they follow the switching process correctly (which will be easier because of the new Switching Guide, consumer website and Direct Debit help centre) they will not suffer any adverse effects.

### **Reducing the fear of switching**

- 5.28 Both the Bacs Switching Working Group and the OFT consider that perceived problems with switching are caused by the two factors discussed above: the real problems that occur while switching between PCAs; and the low levels of consumer understanding of the process. By addressing these two issues, as is discussed above, the perceptions of switching should also improve.

### **Conclusion**

- 5.29 The OFT believes that the improvements to the switching process outlined above will be effective in removing and reducing barriers to

---

<sup>78</sup> The current version of the Banking Code can be found here: [www.bankingcode.org.uk/home.htm](http://www.bankingcode.org.uk/home.htm).

switching between PCAs. Consumers should have greater confidence in the switching process as they will be provided with clearer information about the switching process and the steps that they can take to make it run smoother. In addition, Bacs are taking steps to ensure that there will be significant reductions in the error rate from originators and, where there are errors, Bacs will insist that all originators will not levy charges on consumers as is already the case with PCA providers. The effectiveness of these remedies will be measured by Bacs.

5.30 To gauge the effectiveness of the improvements to the switching process Bacs will:

- repeat the Bacs account switching survey to measure the incidence of problems when account switching in GB and NI
- monitor and report on the downloads of the account switching materials from [www.bacs.co.uk](http://www.bacs.co.uk).
- monitor and report on the number of visits and page views of the account switching information within the Direct Debit HelpCentre on [www.bacs.co.uk](http://www.bacs.co.uk).
- develop, launch and measure an online questionnaire served to site visitors who download the Bacs account switching material, and
- solicit Bacs member PCA providers for measures of uptake and distribution of Bacs or own branded.

## 6 CONCLUSION AND NEXT STEPS

6.1 The OFT identified three areas of concern with the PCA market:

- complexity in the way that unarranged overdraft charges were implemented, which made it hard for consumers to predict when they would be charged, coupled with a lack of mechanisms for consumers to exercise control or opt out of situations that incur high charges
- low levels of transparency on unarranged overdraft charges, forgone interest and other fees. These elements were the least visible to consumers and were not effectively competed on by PCA providers, and
- a perception amongst consumers that switching was both complex and risky with some real risk of the switching process going wrong.

6.2 Collectively, these factors constrained the market's ability to deliver value for a significant proportion of consumers and limited PCA providers' incentives to increase efficiency and provide new and innovative products. The market was stuck in an equilibrium that does not work well for consumers.

6.3 The OFT has been discussing with the banking industry a range of voluntary initiatives to secure change in the PCA market which will deliver benefits to consumers.

6.4 To increase transparency of cost PCA providers have agreed to:

- provide monthly enhanced information
- provide consumers with an annual summary of the cost of their PCA
- provide information on average credit and average debit balances, and
- provide illustrative unarranged overdraft scenarios.

6.5 Additionally, the FSA will carry out a feasibility study into providing a price comparison website for PCAs, and the OFT has published on the

Consumer Direct website information to help consumers understand and compare PCAs.<sup>79</sup>

- 6.6 To improve the switching process the following have either been introduced or are being introduced:
- measures to increase consumer awareness of the automatic switching process including a new consumer guide and website
  - measures to reduce the number of problems that arise with the transferring of Direct Debits including through a best practice campaign aimed at Direct Debit originators and standardised industry redirection letters, and
  - measures to reduce the impact on consumers of any problems that arise with Direct Debits, including an update to the Bacs rules stipulating that consumers should not be adversely affected by any problems caused by the switching process.
- 6.7 The package of initiatives contained in this report, when implemented, should help to create a pro-competitive 'virtuous circle' (as illustrated in diagram 1).
- 6.8 Consumers will be more aware of costs that they previously found difficult to judge. The enhanced monthly information on cost and the annual summary will make key costs such as unarranged overdraft charges more prominent. The combination of average balance information and an interest calculator will help consumers to judge how much interest they are forgoing. The charging scenarios will help consumers understand and compare the costs of different types of behaviour and different PCAs. The price comparison site will, if introduced, assist consumers to assess the value of other PCAs.
- 6.9 Improvements in the switching process will be successful in reducing the problems faced by consumers when switching and improve consumer confidence in the process. We expect to see a significant reduction in misplaced Direct Debits, which are the main cause of problems with

---

<sup>79</sup> [www.consumerdirect.gov.uk/before\\_you\\_buy/money\\_and\\_credit/Currentaccounts](http://www.consumerdirect.gov.uk/before_you_buy/money_and_credit/Currentaccounts).

switching, and we expect that consumers will not be charged by Direct Debit originators for mistakes made by those originators in the switching process. We consider that ensuring that consumers are 'held harmless' in this regard (PCA providers are already subject to such provisions) will be a major factor in increasing consumer confidence.

- 6.10 Although there will be improvements in transparency and switching, the OFT believes that how banks charge for unarranged overdrafts needs to be improved for the market to work well overall. We expect to make more substantive comments on our thinking on unarranged overdraft charges in due course after the judgment from the Supreme Court.
- 6.11 The long term aim is for consumers to drive the competitiveness of the PCA market. PCA providers will have to provide more competitive products and innovative services to consumers to stop them switching to other providers. More efficient providers will gain market share at the expense of less efficient providers which is good for consumer welfare and, by providing pressure to reduce costs, is good for UK productivity. However for the market to truly work well for consumers there needs to be a significant change in the way PCA providers' charges operate. The OFT will publish its views on the future of bank charges in due course after the Supreme Court judgment.
- 6.12 The OFT has made some simple estimates of the costs and benefits of the proposals made in this report. This is explained in Annexe B. Our view is that the benefits to consumers, through increased competition forcing up credit interest rates and forcing down unarranged overdraft charges and debit interest rates, will be significantly greater than the costs of implementing the initiatives. The simple analysis estimates that the net present value of benefit to consumers over ten years will have a middle value of £5.8 billion with a lower bound of £2.4 billion and an upper bound of £11.4 billion. This is significantly greater than the net present value of costs to the PCA providers over a ten year period. We expect those costs to be around £172 million. The OFT anticipates that further benefits will accrue to consumers through its work on charges for unarranged overdrafts.
- 6.13 The improvements to the PCA market outlined in this report are designed to be consistent with and to support a number of regulatory initiatives.

The Payment Services Regulations<sup>80</sup> (PSRs) set out rules on enhanced information to be provided to users of payment services by payment service providers, and also cover the respective rights and obligations of payment service users and providers. FSA's Banking Conduct of Business source book<sup>81</sup> (BCOBS) will provide rules and guidance on relationships between PCA providers and their consumers for deposit taking business. However, the PSRs and the BCOB rules do not specifically address the problems that consumers have in understanding the cost of, and switching between, PCAs.

## Next steps

- 6.14 Some of the initiatives are being introduced with the launch of this report. The specific consumer information on PCAs and the credit interest calculator are now available for consumers to use through the Consumer Direct website.
- 6.15 We expect that scenarios will be relatively straight forward to introduce and require little investment. We are therefore looking to all PCA providers to introduce scenarios in the second quarter of 2010. Simultaneous introduction by all banks would be desirable.
- 6.16 In relation to enhanced monthly information and annual summaries, we are aware that this requires investment and system changes that will take time to implement. We would hope PCA providers will be providing this information to consumers by late 2011 unless there are clear and compelling reasons why this can't be achieved. We will discuss this at the implementation working group.
- 6.17 The introduction of the initiatives that will be implemented directly by the PCA providers (charging scenarios, enhanced monthly information on

---

<sup>80</sup> The Payment Services Regulations (PSRs) come into effect on 1 November 2009. They require anyone who is providing payment services (which includes money remittance) as a business to be authorised by or registered with the Financial Services Authority.  
[www.fsa.gov.uk/Pages/About/What/International/psd/](http://www.fsa.gov.uk/Pages/About/What/International/psd/).

<sup>81</sup> The FSA will take over all retail banking conduct regulation for deposit taking and payment services on 1 November 2009. For more information see  
[www.fsa.gov.uk/Pages/Doing/Regulated/bcoobs/index.shtml](http://www.fsa.gov.uk/Pages/Doing/Regulated/bcoobs/index.shtml).

cost, average credit and debit balances and annual summaries) will be supported by an implementation group. This group, which will consist of PCA providers but be open to consumer and government bodies, will for example:

- ensure that average credit and average debit balances are calculated in a consistent way
- ensure that overdraft charging scenarios are calculated consistently across PCA providers, and provide a mechanism for updating scenarios for the future, and
- ensure that caveats around charging scenarios are consistent and suitable to all parties.

6.18 The OFT will sit on this implementation group to assist the group make changes which benefit consumers and meet the aims of the project.

6.19 The OFT proposes to monitor the implementation and effect of the transparency and switching initiatives over the next few years. This is likely to involve:

- making periodic checks to see if PCA providers are continuing to provide charging scenarios, enhanced monthly information and annual summaries as discussed above
- assessing the effectiveness of transparency initiatives, which could include, for example, carrying out a survey into consumer knowledge of PCA charges and other costs that could be compared to the research carried out by the OFT for its July 2008 report, and
- liaising with Bacs to ensure that the number of Direct Debits sent to a switching consumers' 'old' account shows a significant decrease.

6.20 The OFT will also provide information on PCA providers' progress on implementing the initiatives outlined above.

## A RESPONSES TO THE CONSULTATION

### Introduction

- A.1 The Office of Fair Trading (OFT) published its Personal Current Account (PCA) market study in July 2008. The issues raised during the course of this market study were grouped under three broad headings:
- complexity over the charging structure making it hard for consumers to predict and control the costs they incur
  - low levels of transparency, and
  - low levels of switching.
- A.2 We issued a consultation paper on 16 July 2008 in which we invited interested parties to comment on each of these areas. The consultation ran for over three months and ended on 31 October 2008.
- A.3 The OFT received a total of 17 responses from a range of parties.<sup>82</sup> We are grateful to all those who responded to our consultation.

### Responses on Transparency

- A.4 We received some contrasting views and opinions from respondents on this issue. Views often differed between those respondents representing the banking industry and those from outside the industry, which were mainly represented by consumer groups and other bodies with an interest in consumer welfare ('other groups').
- A.5 We note that some of the respondents to our consultation, particularly the consumer bodies and other groups, agreed with our findings on transparency. They said that general transparency and consumer awareness of the key features of PCAs was very low and that the banking industry needed to do more to rectify this, particularly in relation

---

<sup>82</sup> Bacs, Banking Code Standards Board, Barclays Bank plc, British Bankers Association, Building Societies Association, Citizens Advice, Citizens Advice Scotland, National Australia Banking Group, Financial Services Authority, Financial Services Consumer Panel, HBOS, HSBC, Legal Beagles, LloydsTSB, Money Advice Scotland, Nationwide, and Royal Bank of Scotland Group.

to the level of unarranged overdraft charges and when and how these charges would be levied.

- A.6 One consumer group had evidence from clients which supported our view that many consumers have little awareness of the charges and fees associated with running a PCA. It went on to say that, although consumers have a responsibility to manage their finances, PCA providers have a responsibility to make sure that the relevant charges and fees associated with unarranged borrowing should be made as clear and simple as possible.
- A.7 Another consumer group specifically commented on the difficulties faced by vulnerable consumers and those on low incomes in assessing and choosing a current account for their needs. It considered that these groups should be taken specifically into account when considering proposals to improve the market.
- A.8 Consumer groups proposed a number of solutions designed to help consumers including clearer explanations about charges and fees, an annual summary of charges and average balance information.
- A.9 Other groups from outside the industry wanted to see the UK banking market regulated. One body wanted to see the market brought under the direct regulation of the Financial Services Authority (FSA), as it believed the industry as a whole was not treating consumers fairly. This organisation also called for swift and effective measures to improve the market and was concerned about lengthy delays in implementing these measures if the OFT referred the market to the Competition Commission (CC). Another body had similar views and called for independent regulation, as it felt self regulation of the market had failed.
- A.10 In contrast, industry respondents did not agree with the OFT's characterisation of transparency. They told us that the PCA 'free if in credit' model was one of the simplest and most transparent pricing models available in Europe. They questioned the OFT's data and analysis, primarily the consumer survey data, on which the finding of low transparency was based, and said that much of the OFT's conclusions about transparency lacked any strong foundation.
- A.11 One particular industry respondent stated that the market study findings did not accurately reflect its own practices and policies in terms of

transparency, stating specific examples of how it ensured its consumers were aware of the key costs associated with their account. This respondent said that it was very proactive in ensuring that its consumers were provided with sufficient information to enable them to manage their accounts effectively.

- A.12 Other industry respondents held similar views. They stated that information provided to their consumers was in plain and understandable language and in a manner which was easy to understand. They said that when consumers make use of unarranged overdraft facilities or incur a charge, they are advised by letter, with notice of charges provided at least 14 days in advance of charges being taken from the account. In addition they said that details of charges, interest rates and other fees are prominently displayed on PCA providers' websites and readily available in documentation and leaflets in branches.
- A.13 Some industry respondents also pointed to the ongoing requirements for greater transparency imposed as a result of the CC enquiry into the Northern Ireland PCA market, including clearer explanations of the levels of charges and interest rates and annual summaries. However some questioned whether the wholesale adoption of the CC's Northern Ireland remedies by the rest of the UK banking market would be workable. They urged the OFT to ensure that practical difficulties experienced by PCA providers in Northern Ireland in implementing the CC's remedies were taken into consideration when considering proposals for implementation by UK PCA providers. They also saw the need for the OFT to take into account the varying requirements of the Banking Code and other directives and regulations to which UK PCA providers are subject.
- A.14 Some respondents from the industry also stressed the importance of striking a balance between the need for information and the potential for information overload. They said that the provision of additional information would not necessarily lead to greater engagement by consumers and that any significant increase in the amount and type of information provided to consumers may be too confusing.
- A.15 Despite the doubts expressed about the basis on which the OFT came to its conclusion on low transparency, many industry respondents acknowledged that more could be done to improve the type of information available to their consumers in order for them to manage their

accounts better. They also expressed their willingness to work at developing improvements through the Transparency Working Group proposed by the OFT.

## **Responses on Switching**

- A.16 As with transparency, views on switching differed between those from the industry and those from the consumer groups and others, with many in the industry not accepting the OFT's view that switching was problematic for consumers and that switching rates were low. However these views were not held by consumer groups in particular, who supported the OFT's findings on switching.
- A.17 One consumer group said that it considered that levels of switching between PCAs was low due to problems consumers experienced. In addition it said that there was a feeling amongst consumers that switching provides no real gain, often due to a perception that PCAs are 'free' and that all accounts offer the same benefits. This consumer group also said that some consumers held a sense of loyalty to their bank that was misplaced given that some PCA providers offer better deals to new consumers than to those who have remained consumers for a long period of time.
- A.18 Another consumer group talked about consumers who were keen to switch but were prevented from doing so because of the overdraft held with their existing provider.
- A.19 One other group from outside the industry called for penalties to be paid by financial institutions that cause errors in the switching process. It considered this might have the effect of reducing the frequency of errors. It also considered that consumers should not be penalised for errors during the switching process which are no fault of their own, and they called for grace periods in which charges are not applied during the switching period.
- A.20 Consumer groups and others took the view that low switching levels had a negative impact on competition, with weaker incentives for PCA providers to offer better deals in order to win more consumers. This led to low switching rates.

- A.21 A number of measures were put forward by consumer groups to increase incentives to switch. One such suggestion was an annual switching 'window', whereby all bank consumers receive their annual summary at the same time, which may then prompt consumers to compare their current PCA against others. Another measure proposed was for PCA providers to provide a booklet on the advantages of switching and how the process works.
- A.22 There was support for the work the OFT was doing with Bacs to improve the switching process and consumer groups urged the OFT and PCA providers to ensure they worked together to improve consumer confidence.
- A.23 The view from the industry contrasted with the OFT's assessment and those of the consumer groups and others. They questioned the OFT's conclusions on switching and said that the actual level of switching was understated by the OFT due to a failure to recognise, amongst other factors, first time account holdings and consumers opening and holding multiple accounts. Many consumers open a new PCA without closing their existing one, and so these consumers may have been omitted from the OFT figures.<sup>83</sup> They stated that some consumers who switch may be difficult to identify as they may only move accounts over time, or even close an account that is no longer in use as the main account after a number of years.
- A.24 Industry respondents said that low levels of switching do not necessarily indicate high switching costs and a lack of competition, and pointed to the high level of consumer satisfaction with their PCAs as a reason why switching rates may be low. Industry respondents also highlighted the fact that the vast majority of consumers who have switched accounts (80 per cent) found the experience relatively easy.
- A.25 Nearly all industry respondents mentioned that they had processes in place to ensure that their current account consumers were protected should problems arise during the switching process. The majority of industry respondents also held the view that problems usually arise in

---

<sup>83</sup> This should not, however, have been the case as the OFT defined 'switching' to include consumers who have switched provider for their primary PCA requirements, even if they have kept their old account open.

relation to Direct Debits and that the main cause of these problems is the actions of third party Direct Debit originators.

- A.26 A number of respondents mentioned obligations on subscribers to the Banking Code to aid switching, including the obligation to close accounts without charge, to provide all items required to operate the new account within 10 working days and a refund of any charges incurred by the consumer as a result of mistakes by others.
- A.27 Despite doubts about the basis of the OFT's findings in relation to switching, industry respondents acknowledged that more could be done to improve the switching process and consumers' perceptions of it.
- A.28 There was some support from the industry for the remedies proposed as a result of the CC's Northern Ireland inquiry, particularly for the recommendations coming out of the Bacs review of the switching process. One recommendation included the formation of a Switching Working Group and industry respondents subsequently offered their full commitment to support this industry wide initiative to improve the switching process.
- A.29 However some other remedies proposed by the CC were said to be less appropriate and received less support from the industry. Two particular examples included the mandatory free overdraft period when mistakes occur and the annual reminder to consider switching. The mandatory free overdraft was seen as an unfair imposition on PCA providers where the failure was not the PCA provider's fault. A reminder sent from PCA providers to consumers to consider switching was seen as an unnecessary and disproportionate tool that would not add any real value. Many consumers knew they could switch and did not need a document to remind them to do so.

## **Responses on the Charging Structure and Control**

- A.30 The consumer groups in particular had quite strong views about bank charges and the detrimental affect these have had on some of the consumers who had approached them over recent years. The industry told us that bank charges were transparent, understandable and predictable.

- A.31 Consumer groups considered that charges that consumers face are punitive and disproportionate, particularly for those on benefits and low and irregular incomes. Some suggested that PCA providers should do more to ensure that vulnerable consumers are offered assistance when they get into severe financial difficulties and said that such consumers should not be subject to multiple charges.
- A.32 A particular focus for consumer groups was the high charges for unpaid items and multiple charges or charges on charges, which in some cases can lead to severe debt and even bankruptcy. They argued that PCA providers could do more to allow consumers who go into unarranged overdraft to take immediate action to rectify their situation so as to minimise the charges they face or avoid them altogether. Consumer groups also said that a clearer explanation about when charges would be applied, their level and limit would help clarify the area of charges, which they said are a mystery to many PCA holders.
- A.33 One other body from outside the industry called for the OFT to use statutory powers to do more to ensure consumers were not being unfairly penalised by bank charges.
- A.34 Industry respondents disagreed with the OFT's findings on charges, stating that PCA providers' contractual terms relating to charges were clear, in plain, understandable language and easy to understand, with the charges themselves being both predictable and controllable. One PCA provider declined to comment on charges while the test case was ongoing.
- A.35 One industry respondent said that it had policies in place to ensure that small triggers would be exempt from any charges and that it had a cap on charges to a specified amount in any one monthly charging period. These policies, it said, would ensure that no consumer would be disproportionately charged for entering into unarranged overdraft.
- A.36 Industry respondents did not agree with the OFT's view that bank charges were not 'visible' or competed on. They said consumers were aware of all the main price elements associated with a PCA. However one industry respondent said that some consumers attach more weight to non price factors because PCAs were primarily a vehicle to facilitate transactions rather than for borrowing or savings. It suggested that

factors such as quality of service and access to branch networks were of more importance to consumers than interest rates, for example.

A.37 Again the changes as a result of the CC's inquiry into Northern Ireland banking were mentioned by industry respondents. Measures such as advance notification of charges and debit interest incurred would afford consumers an even greater degree of control over the charges they incur. In addition to this, they said, innovative developments, such as balance and text alert services and online and telephone banking services, would allow PCA consumers to take greater responsibility for deciding whether or not they want to make use of an unarranged overdraft facility.

A.38 Some PCA providers said that they had launched new current account propositions which would give PCA consumers greater choice and freedom, in some instances replacing unarranged overdraft facilities with a fundamentally new approach. These changes, which would include opting out of unarranged overdrafts and grace periods, would have the effect of significantly reducing the charges for those consumers who go beyond their agreed overdraft limit.

## **B COST BENEFIT ANALYSIS**

### **Introduction**

- B.1 The key concerns regarding the charging structure, transparency and switching identified in the PCA market study report<sup>84</sup> mean that consumers are not driving competition. As a result many consumers are not securing the benefits from competition they might when the concerns are addressed.
- B.2 Increased transparency will allow consumers to compare PCAs which in turn will lead to consumers switching from less efficient PCA providers to more efficient PCA providers. As a consequence of a greater threat of switching in the market there will be increased pressures on all PCA providers to be more efficient, reducing costs, which will ultimately be passed on to consumers through lower prices.
- B.3 The OFT has measured the likely benefits of the transparency and switching initiatives in the UK PCA market using a methodology based on the Competition Commission's (CC) method, employed for the estimating consumer benefits in the Northern Ireland (NI) PCA report.<sup>85</sup> This method, which assumes various interest rates and charges are higher than would be expected in a more competitive market, has the advantage of simplicity.
- B.4 It should be noted that the OFT only uses this as a simple illustration of the impact of the transparency and switching initiatives. The OFT expects that the benefit that would be obtained from changes to unarranged overdraft charges would be significantly greater.

### **The Competition Commission's Northern Ireland Approach**

- B.5 In the Northern Ireland PCA Report the CC estimated the detriment in the market caused by prices of unarranged overdrafts and debit interest being above what the CC consider to be a competitive price, and the

---

<sup>84</sup> [www.oft.gov.uk/shared\\_of/reports/financial\\_products/OFT1005.pdf](http://www.oft.gov.uk/shared_of/reports/financial_products/OFT1005.pdf).

<sup>85</sup> [www.competition-commission.org.uk/rep\\_pub/reports/2007/527banking.htm](http://www.competition-commission.org.uk/rep_pub/reports/2007/527banking.htm).

level of credit interest being below the competitive level. The CC used different assumptions to generate an upper bound and a lower bound to estimate the consumer detriment, and hence the benefit if this detriment no longer existed once the recommendations were implemented.

- B.6 The CC's lower bound estimate assumed that unarranged overdraft charges were five per cent higher than they would have been if greater transparency and improved switching resulted in consumers driving competition more. For credit interest paid to consumers it was assumed that the average rate would be 0.5 per cent, an increase of 0.21 per cent. The average arranged overdraft interest rate would be 9.5 per cent, a decrease of 0.31 per cent if greater transparency promoted competition. On this basis the CC's lower bound estimate of annual detriment was £14.2 million.
- B.7 The CC's upper bound estimate assumed that if the market were more competitive then unarranged overdraft charges would be £5 lower at £46 per account as a result of transparency and switching recommendations. For credit interest paid to consumers it was assumed that the average rate would be 0.7 per cent, an increase of 0.41 per cent. The average arranged overdraft interest rate would be nine per cent, a decrease of 0.81 per cent. On this basis the CC's upper bound estimate of annual detriment was £28.1 million.

## **Estimates of Consumer Benefit**

- B.8 The OFT has followed a similar methodology but has used more conservative assumptions in estimating the lower, medium and upper bound to produce an estimate of potential benefit.
- B.9 Like the CC we consider three different categories to estimate the benefit: revenue from charges, average credit interest rate and average debit interest rate.
- B.10 The CC estimates consider a percentage reduction of total bank revenue from unarranged overdraft charges for the lower bound and a reduction in absolute value for the upper bound. The OFT looked at what percentage reduction the CC's absolute reduction represented and has adopted this as an upper bound rather than use an absolute change. The absolute reduction from £51 to £46 in the CC's report equates to approximately a 10 per cent reduction in revenue from charges. In order

to be more conservative we have used the CC's lower bound estimate (five per cent) as a middle estimate, and used one per cent as our lower bound estimate. Thus the OFT has looked at the benefits from a one per cent, five per cent and 10 per cent reduction in unarranged overdraft charges revenue.

- B.11 The OFT worked out the average credit interest rate for the established PCA providers and the average credit interest rate for the challenger PCA providers rather than just the average credit interest rate for all PCA providers. The average credit interest paid in 2006 for the established PCA providers was 0.23 per cent. The average credit interest paid in 2006 for the challenger PCA providers was 1.26 per cent, a difference of approximately one per cent. The OFT considered what the benefits would be if switching and transparency allowed the challengers to provide a greater competitive constraint on the established PCA providers. In a fully transparent market with no barriers to switching one might expect that the established PCA providers start to offer credit interest rates and debit interest rates similar to those of the challenger PCA providers as they are forced to become more competitive. Our upper bound therefore assumes that the established PCA providers' average credit interest rate is 1.23 per cent. Our middle bound assumes that the established PCA providers are forced to decrease the difference by half and their average credit interest rate is 0.73 per cent. The lower bound estimate assumes that the established PCA providers offer credit interest rates equal to the average credit rate across all PCA providers which is 0.47 per cent. The OFT assume that there is no change in the interest paid by the challenger PCA providers for all bounds.<sup>86</sup>
- B.12 The same method was applied to average debit interest in 2006. The challenger PCA providers average debit interest rate was 7.43 per cent compared to the average debit interest rate of 10 per cent for the established PCA providers. As such the upper bound assumes that the established PCA providers offer an average debit interest rate of 7.43 per cent and the medium bound assumes that the established PCA

---

<sup>86</sup> The data we used is from 2006 when interest rates were considerably higher than they are currently. We expect that by the time these initiatives are implemented interest rates will have returned to a higher level meaning that the data is realigned and the rate rises we suggest are reasonable and achievable.

providers offer an average debit interest rate of 8.53 per cent. The lower bound assumes that the established PCA providers offer a debit interest rate of 9.64 per cent which is the average debit interest rate of all PCA providers.

- B.13 As noted above these are estimates of the possible benefit of the transparency and switching initiatives only and not the OFT's other work relating directly to unarranged overdraft charges.
- B.14 The approach set out was applied to the UK PCA market using data provided by PCA providers in response to the PCA market study questionnaire in 2006. The resulting estimates of consumer benefit from transparency and switching initiatives are set out in Table B1 below. In the table below we have combined the lower bound estimates of all three categories to create the lower bound overall estimate and similarly for the medium and upper bounds. However, it should be noted that there can be different combinations of these three categories to create estimates of benefits from the transparency and switching initiatives.

**Table B.1: The assumptions and estimates of consumer benefit from transparency initiatives for the UK (2006)**

<b>Assume that benefit equals</b>	<b>Lower bound</b>	<b>£m</b>	<b>Middle Bound</b>	<b>£m</b>	<b>Upper bound</b>	<b>£m</b>
	1% of total charges paid by consumers.  Total revenue from charges in 2006 was £2600 million.	26	5% of total charges paid by consumers.	128	10% of total charges paid by consumers.	256
	The established PCA providers increase their average credit interest to 0.47 %.  This is an increase of 0.24%.	159	The established PCA providers increased their average credit interest to be half way between their current average and the average of the challenger PCA providers This is an increase of 0.5% to 0.73%.	332	The established PCA providers increase their average credit interest rate to the average of the challenger PCA providers. This is an increase of 1% to 1.23%.	663

	The established PCA providers reduce their average debit interest rate to 9.64%. This is the average debit rate of all PCA providers.  This is a reduction of 0.38%.	26	The established PCA providers reduce their average debit interest rate to 8.53%.  This is a reduction of 1.49%.	100	The established PCA providers reduce their average debit interest to 7.43%. This is the average debit interest rate of challenger PCA providers.  This is a reduction of 2.59%.	173
<b>TOTAL £m</b>		<b>211</b>		<b>560</b>		<b>1,093</b>

B.15 This method provides lower, middle and upper bounds of annual benefit estimates from the transparency and switching initiatives of £211 million, £560 million and £1.1 billion for 2006. In a market with revenue of £8.3 billion this equates to 2.5 per cent, 6.7 per cent and 13.2 per cent of revenue in 2006. In the Northern Ireland estimate the benefits were estimated to be between 7.2 per cent and 13.6 per cent of the £167 million revenue in the NI PCA market. Again this suggests that our estimates are conservative.

## Costs of implementation

B.16 The implementation of the initiatives will involve initial one-off set up costs. We believe these will involve mainly IT development costs as the majority of the initiatives are heavily dependent on the PCA providers' IT systems. There will also be ongoing costs incurred, especially for the annual summary statements. The PCA providers did not provide details on how these costs are broken down and hence we cannot validate them. However we have no indication that they have underestimated them.

B.17 The OFT has aggregated the costs of implementation of the initiatives using the figures PCA providers provided for monthly and annual summaries. We believe that these estimates cover all significant costs of all the initiatives as the costs of other transparency initiatives will be negligible.

- B.18 The one-off cost of implementation in total is estimated by the PCA providers to be in the region of £35.7 million for the PCA providers that account for 84 per cent of PCAs. This equates to £17.1 million for the improvements to the monthly statements and £18.6 million for the annual summary statements.
- B.19 The OFT also asked PCA providers for an estimation of the annual ongoing costs for monthly and annual summaries. We believe that these estimates cover all significant costs of all the initiatives. Once again, we have no way of confirming this, however we have no indication that PCA providers would underestimate them. The total ongoing costs are estimated to be up to £25.1m for PCA providers that account for 84 per cent of PCAs.

## Cost Benefit Analysis

- B.20 As the initiatives are expected to remain in place for a substantial period of time, the benefits are expected to accrue over time. Typically for a cost benefit analysis we would calculate the costs and benefits over 10 years. On this basis we estimate the middle value of net present value of benefits for consumers to be £5.8 billion with lower and upper bound boundaries of £2.4 billion and £11.4 billion,<sup>87</sup> assuming a discount rate of 3.5 per cent as recommended by HMT in The Green Book on appraisal and evaluation in Central Government at the risk free rate of return.<sup>88</sup>
- B.21 The cost estimates provided by the eight PCA providers suggest that the net present value of costs to the PCA providers over a 10-year period would be in the range of £172 million. As we are looking at costs rather than revenues, the appropriate discount rate is the PCA providers cost of capital. We have used the NI cost of capital at a post-tax discount rate of nine per cent.<sup>89</sup> This is likely to be preferable to using PCA providers

---

<sup>87</sup> As the data used to calculate the benefits of our recommendations is from 2006 and as we are using cost estimates for 2009 we have discounted the benefits for a further three years in order to have comparable figures.

<sup>88</sup> [www.hm-treasury.gov.uk/d/green\\_book\\_complete.pdf](http://www.hm-treasury.gov.uk/d/green_book_complete.pdf).

<sup>89</sup> This discount rate is based on the average cost of equity of three banks over the period 2002 to 2005.

current cost of capital figures given the financial volatilities. This equates to an average cost of £17.2 million per year.

B.22 Even using the conservative assumptions above, it is clear that there is a substantial positive cost benefit case for introducing the changes identified and discussed above. The lower bound estimate of benefits is 14 times greater than the cost estimates, the medium bound estimate suggests that the benefits would be 33 times greater and the upper bound estimate suggests that the benefits would be 66 times greater than the costs of the initiatives.

## C PERSONAL CURRENT ACCOUNTS QUANTITATIVE RESEARCH

### Executive summary

- C.1 In May 2009 the OFT placed a number of questions on a consumer omnibus survey to assess consumer reactions to certain propositions designed to address shortcomings in the transparency of PCA costs and charges. The objective was to provide robust quantification for qualitative consumer research completed earlier in the year.<sup>90</sup> This report provides commentary on the results of this research.
- C.2 Consumers were asked about different ways in which monthly information on the cost of PCAs could be provided. Three mock monthly statements were tested on consumers. One provided information on the cost of the PCA in the body of the statement, not highlighted in any way. The second had cost information in bold print in the body of the statement. The third included cost information in a summary box. Examples of these mock statements can be found at the end of this report.
- C.3 Consumers were asked to compare these to each other, and to compare them to the statements they currently receive. Current account holders indicated that of the three mock statements presented to them, the second statement (which highlights PCA costs in bold) was the easiest to use to identify costs and see how much the account holder has been charged. Statement two was also scored 'easier to use' than the statement account holders currently receive. Those who incurred charges were more likely to say that the third statement, with charges in a summary box, was better for them than those who did not.
- C.4 The research also covered questions about whether consumers would value annual information on account usage. Approximately half (49 per

---

<sup>90</sup> Two pieces of qualitative research was carried out for the OFT. The first was carried out by Carol Goldstone Associates, looking at the information needed to understand and compare the services offered by banks, and how consumers would like such information to be provided. The second was conducted by IPSOS MORI and looked at how PCA consumers regard interest foregone.

cent) of account holders said it would be useful to be told the total amount of their bank charges for a year. Of those who have not paid charges 41 per cent said it would be useful compared to 65 per cent of those who have paid charges. The most popular answer selected for how this information on bank charges might be used was to help the account holder consider whether they were using their account appropriately (58 per cent).

- C.5 The OFT considers that these results support the OFT's belief that monthly information on costs which is summarised or highlighted in some way would be valued by consumers. We also believe that this research shows that annual cost of account information would be valued by those consumers that need it the most – those that incur charges.

## Methodology

- C.6 Seventeen questions<sup>91</sup> were placed on the GfK NOP Random Location Omnibus (RLO). This is a face-to-face (CAPI) omnibus with UK coverage of approximately 2,000 adults aged 16+. Most consumers hold a PCA making omnibus surveys a suitable, quick and cost effective method for surveying them. Fieldwork was conducted between 14 and 19 May 2009. Using a face-to-face omnibus meant that we were able to show respondents examples of PCA statements and ask them questions about what they thought of these.
- C.7 The RLO uses a fresh sample for each survey. Respondents are selected using a random location methodology with quotas set on age and by gender within working status. Interviews are conducted in-home using CAPI (Computer Assisted Personal Interview) laptop computers at 175 randomly selected sampling points by fully trained and supervised market research interviewers.
- C.8 Given that the sample is controlled by quotas, the final demographic profile should be fairly close to that of the target population. However, the achieved sample is examined post-survey to ensure the profile is as it should be. If necessary, the sample is then weighted to ensure that it is

---

<sup>91</sup> The questions are listed at the end of this report.

representative in terms of known population data on age, sex, social class, number of adults in household, working status and region.

C.9 The survey covered respondents throughout the UK but the results presented here cover just Great Britain. This is in line with the scope of the market study.<sup>92</sup>

## Results

C.10 92 per cent of the 2,040 omnibus respondents have a personal current account. This is broadly in line with results from our previous research and other sources such as the Department of Work and Pensions Family Resources Survey.<sup>93</sup>

C.11 The survey asked some background questions on what sort of accounts consumers held, and how they used their accounts. Those questions allowed us to interpret some of the later questions more effectively. As illustrated in chart 1, the majority (79 per cent) of respondents with a current account had a regular current account. Ten per cent had a packaged current account<sup>94</sup> and 11 per cent had a basic bank account.<sup>95</sup>

---

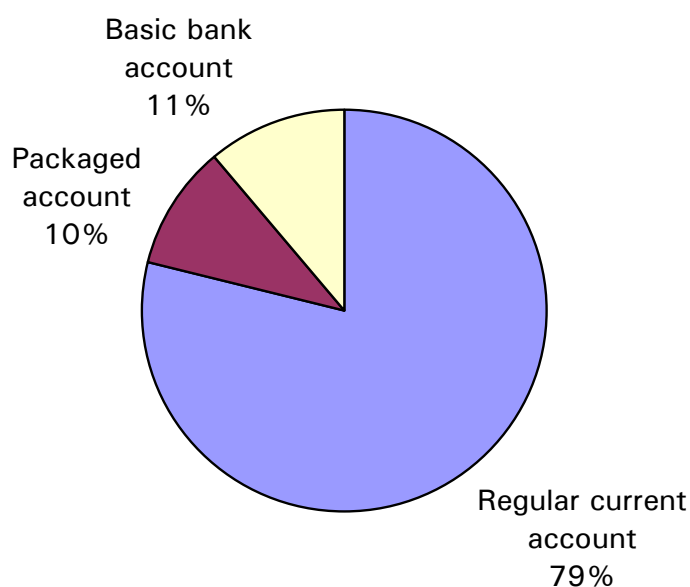
<sup>92</sup> Northern Ireland was excluded from the scope of the market study as personal banking there was being investigated by the Competition Commission at the time.

<sup>93</sup> Table 5.1 of the *2007/08 Family Resources Survey (UK)* indicates that 91 per cent of UK households have a current account [www.dwp.gov.uk/asd/frs/2007\\_08/frs\\_2007\\_08\\_report.pdf](http://www.dwp.gov.uk/asd/frs/2007_08/frs_2007_08_report.pdf).

<sup>94</sup> Defined as an account that charges a small regular account fee and provides additional benefits such as free mobile phone insurance, free break-down cover, preferential interest rates and other benefits.

<sup>95</sup> Defined as an account that offers a cash machine card with no account fees, and does not offer cheque books or overdrafts.

## Chart 1: Type of current account held



Base: all respondents who have current account 1,885

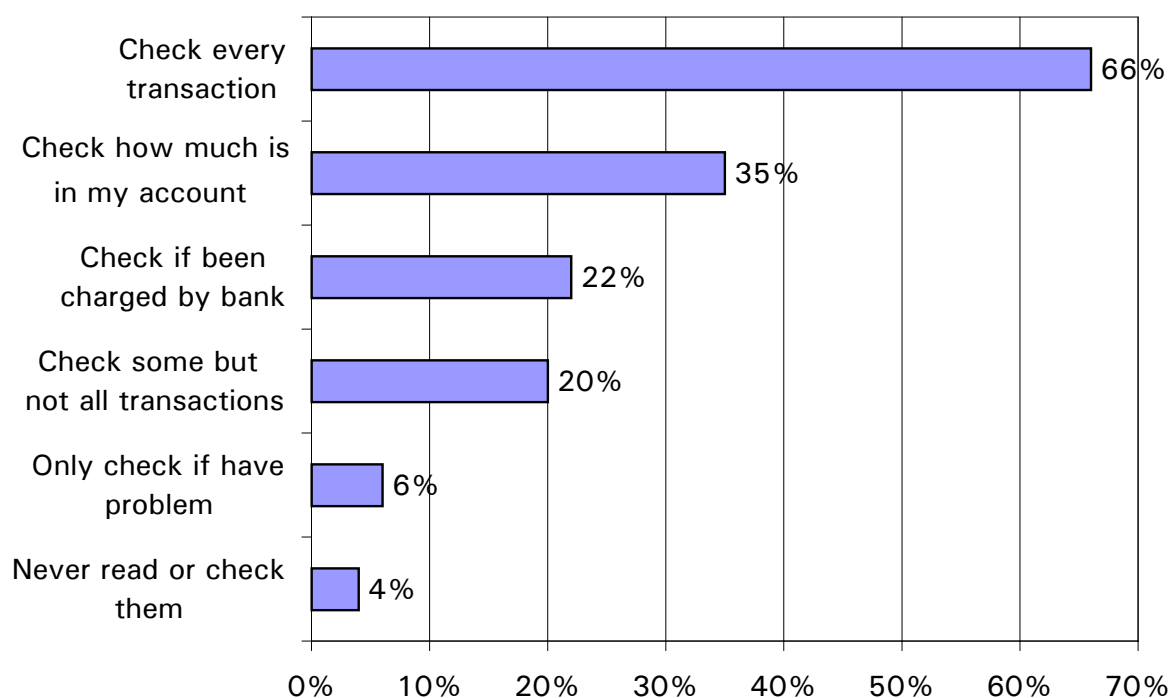
- C.12 Nearly one-third (31 per cent) of respondents that held a current account had made payments to banks in relation to having an overdraft facility in the last 12 months. These included interest incurred on an overdraft or charges for going overdrawn or exceeding arranged overdraft limits or having payments refused as a result of having insufficient funds.<sup>96</sup>
- C.13 Respondents were asked what action they took on receiving a bank statement. Two-thirds (66 per cent) of current account holders look at their statements and check that each transaction is correct and 20 per cent check some parts of their statement but not every transaction. Just over one-third (35 per cent) use their statement to check how much money is in their current account and 22 per cent use it to check if they have been charged by the bank.
- C.14 Six per cent of respondents that hold a current account only read or check their statement if they have a problem with their finances. Of those

---

<sup>96</sup> Our previous research indicated that 'Overall, 19 per cent of consumers have been charged by their bank for either going overdrawn without an overdraft, exceeding an agreed overdraft limit or having a payment refused.' Paragraph 2.60 *Annexe D of Personal current accounts in the UK – an OFT market study* [www.ofg.gov.uk/shared\\_ofg/reports/financial\\_products/oft1005d.pdf](http://www.ofg.gov.uk/shared_ofg/reports/financial_products/oft1005d.pdf). This figure did **not** include interest paid on an overdraft.

who only read or check their statements when they have a problem, 14 per cent check each item is correct, 19 per cent check parts of the statement but not every transaction, 22 per cent check how much money in their current account and 15 per cent check to see if they have been charged by the bank (based on 110 responses). Just four per cent of all respondents that hold a current account never read or check their statements.

**Chart 2: Actions taken with bank statements.**



Base: all respondents who have current account.

Note: more than one answer could be chosen, so answers may sum to greater than 100 per cent

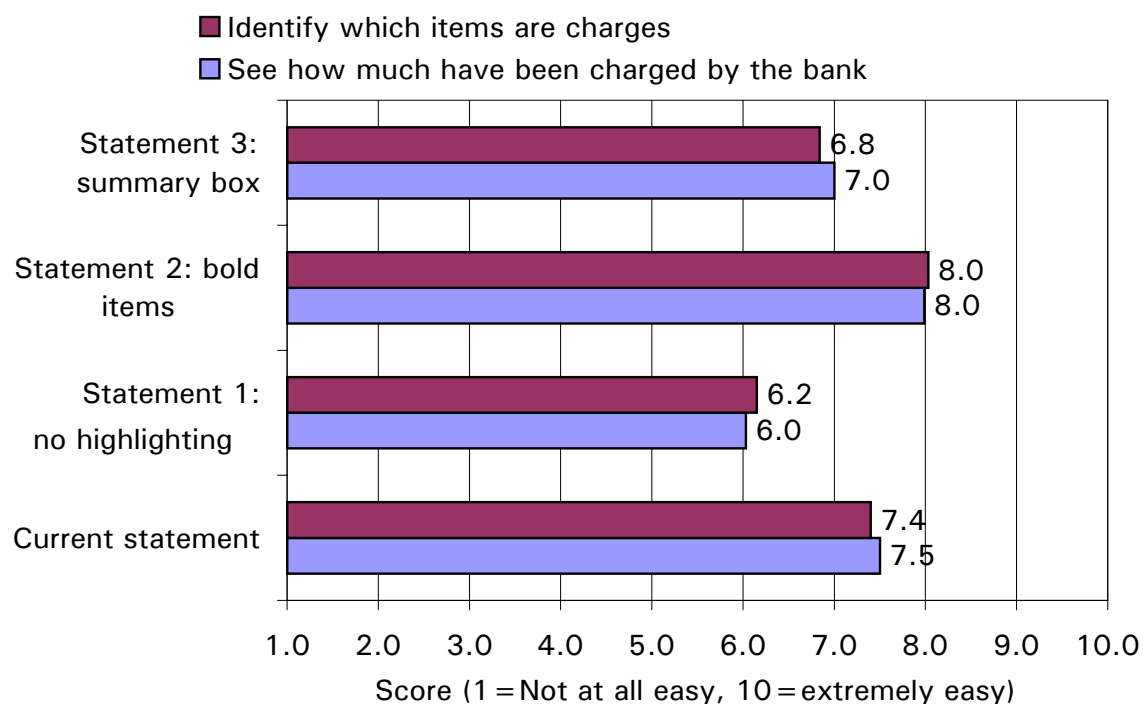
C.15 Those who have not paid bank charges were more likely to check every transaction on their banks statements (70 per cent compared to 57 per cent for current account holders who have paid bank charges), whereas those who have paid charges were more likely to check some parts but not every transaction on their statement (27 per cent compared to 17 per cent of those who have not paid charges). Perhaps unsurprisingly, those who have paid charges were more likely to check their statement for charges (28 per cent compared to 19 per cent of those who have not paid charges). They were also nearly twice as likely as those who have

- C.16 Basic bank account holders were twice as likely as regular current account holders to only read or check their statements if they have a problem with their finances (10 per cent compared to five per cent). The equivalent number for packaged account holders was six per cent. A higher proportion of regular account holders (68 per cent) checked every transaction compared to 59 per cent of basic bank account holders. The equivalent number for packaged account holders was 60 per cent.
- C.17 There is relatively little difference in the way people use their statements between those that receive their statements online, those that receive paper statements, and those that receive both. The most significant difference is that 30 per cent of those that receive both an on-line and paper statement check to see if they have been charged by the bank, while the equivalent figure for account holders who only receive a paper statement is 20 per cent.

### **Enhanced monthly information on PCA costs**

- C.18 Current account holders who read or check their statements and who had also paid charges were asked to rate how easy it is to identify which items are charges using the statements and any pre-notification advice of charges that they currently receive from their bank for their current account. They were asked to use a scale of 1-10, where one is defined as 'not at all easy' and 10 is defined as 'extremely easy'. The average score was 7.4. They were also asked to rate how easy it is to identify how much they have been charged by their bank, for which the average score was 7.5.
- C.19 Current account holders were then shown three show cards containing 'mock' bank statements. The first of these did not highlight or summarise costs in any way, the second highlighted charged items in bold text and the third used the presentation of the first statement but preceded this with a box summarising charged items. All current account holders were asked to rate these using the same scale of 1-10 as described in the previous paragraph. The average scores for these three statements are presented in chart 3.

**Chart 3: Ease with which statements identify charged items and cost of charges**



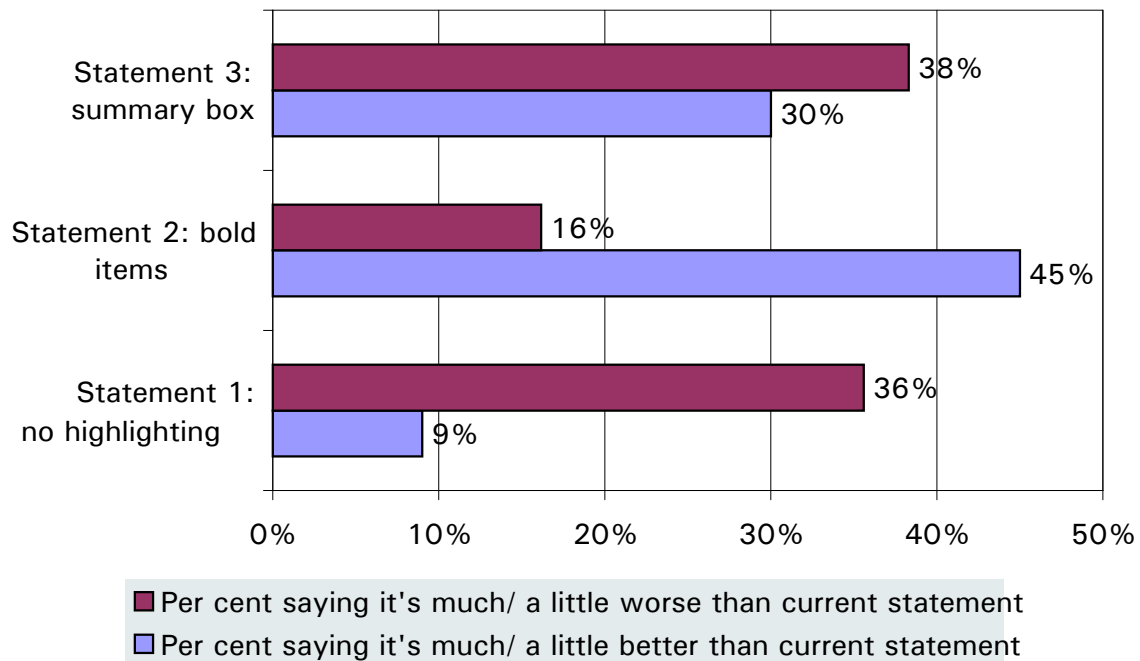
Base: current statement all who paid charges in last 12 months **and** read/check statements 559, statements 1-3 all who read/checked statements 1,806.<sup>97</sup> The second statement (with charges in bold) was independently scored the easiest from which to identify which items were charges and how much the account holder has been charged by the bank. Moreover, the second statement was scored as easier to use than the respondents' current statements and notification materials.

C.20 Account holders were also asked to compare each of the three mock statements to their current statement. Nine per cent of account holders said the first statement (without charges highlighted or summarised) was much better or a little better than their current statement and 35 per cent said it was much worse or a little worse. Nearly half (45 per cent) said the second statement (charges in bold) was better than their current

<sup>97</sup> The questions about the current statement were only asked of those who have paid charges, as those who have not paid charges would not be able to fairly assess how easy it is to identify charged items or how much they have paid in bank charges. The questions about the mock statements were asked of **all** account holders who read/check their statements since all respondents could assess the templates provided.

statement, with only 16 per cent saying it was worse. Thirty per cent of account holders said that the third statement (charges in a summary box) was better than their current statement and 39 per cent said it was worse.

**Chart 4: Proportion who indicated mock statement is better/worse than their current statement**

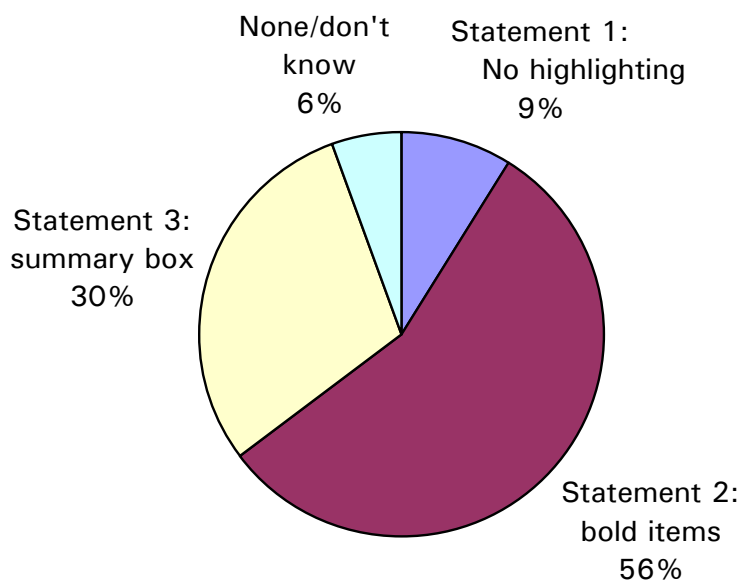


Base: all who read/checked statements 1,806.

C.21 Account holders who have paid bank charges were more likely to say that the second statement (charges in bold) is better: 51 per cent of those who have paid charges indicated that the second statement is better compared to 44 per cent of those who have not paid charges. They were also more likely to say that the third statement is better (charges summarised): 12 per cent of those who have paid charges indicated that the third statement is better compared to eight per cent of those who have not paid charges.

C.22 Account holders were asked which of the three mock statements they prefer. 56 per cent preferred statement two (charges in bold). Nearly one-third (30 per cent) preferred statement three (charges in a summary box) and just nine per cent preferred statement one (without charges highlighted or summarised).

## Chart 5: Preferred statement

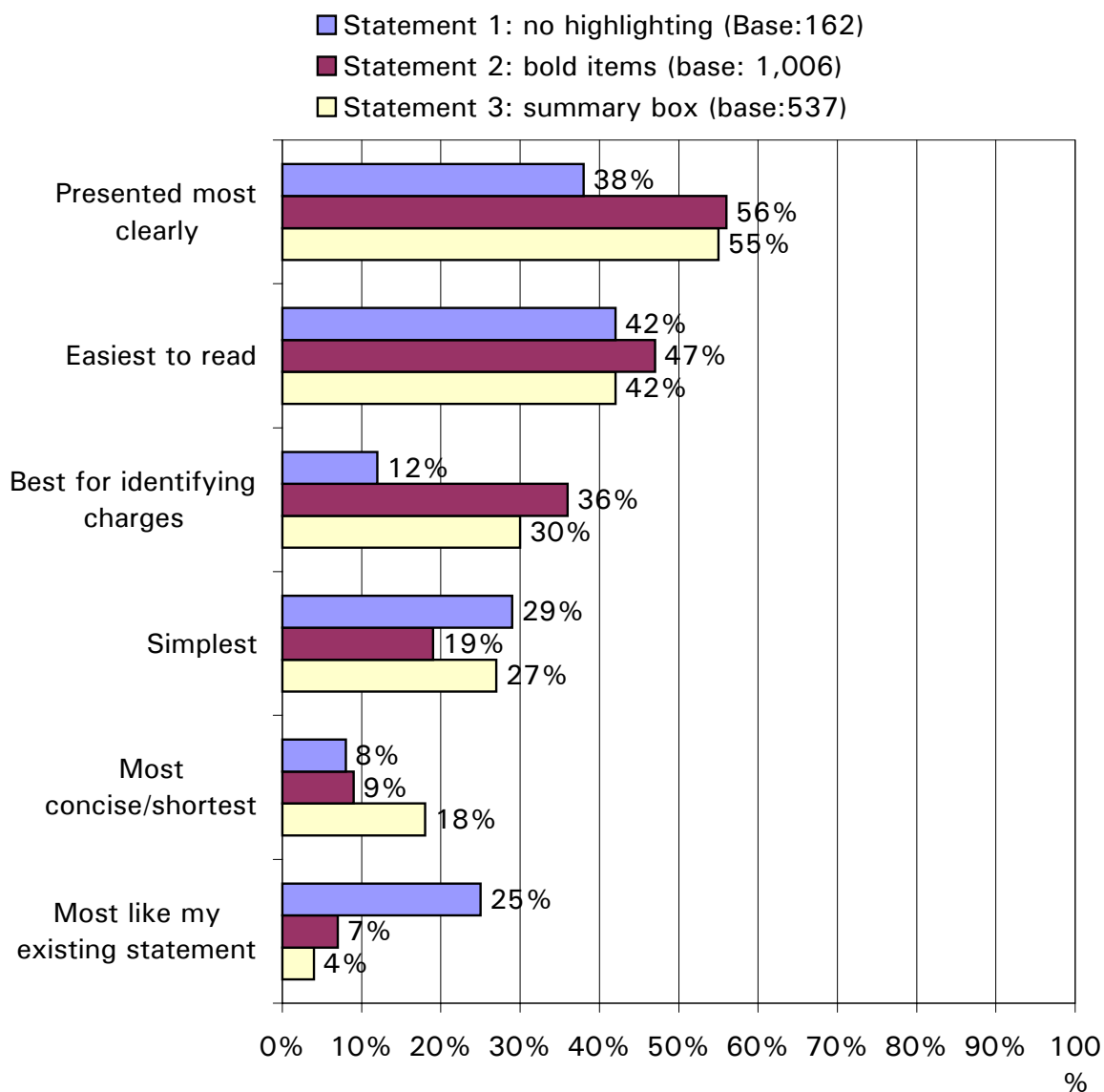


Base: all who read/checked statements 1,806

C.23 35 per cent of account holders who have paid charges preferred statement three (with charges summarised) compared to 27 per cent of those who have not paid charges.

C.24 Those who stated a preference were then asked why that statement was their favourite. These are illustrated in chart 6.

**Chart 6: reason for preferring statement**



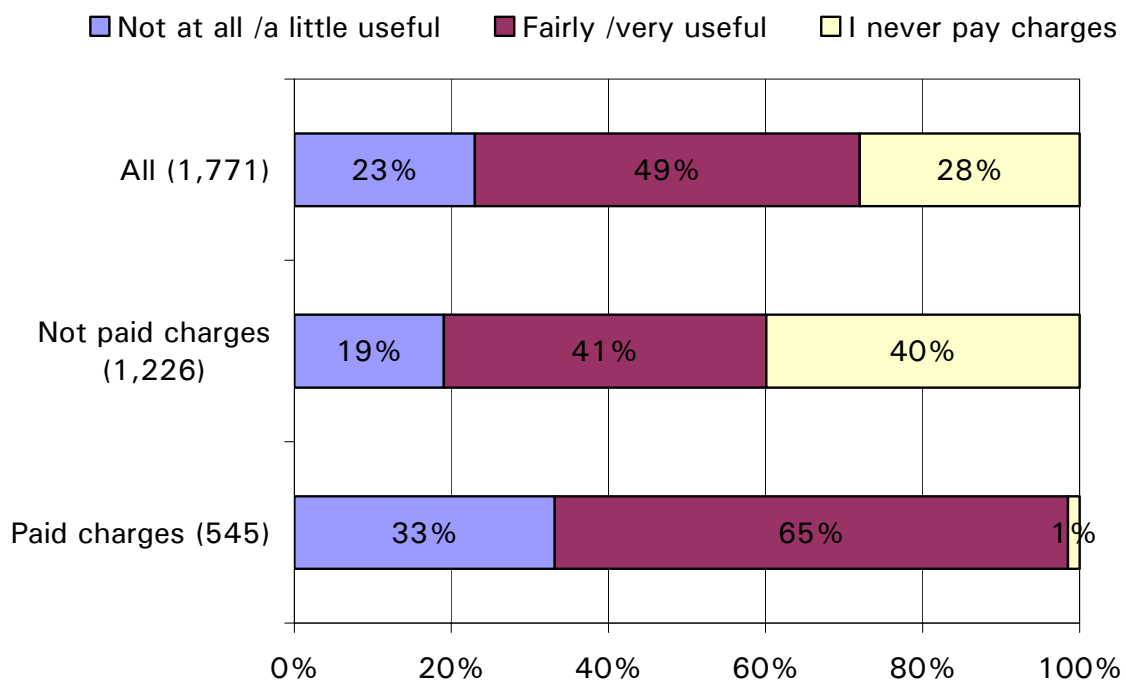
Note: more than one answer could be chosen, so answers may sum to greater than 100 per cent. Less popular and don't know responses are not presented here.

C.25 For those respondents who preferred statement 2 (with bold items) and 3 (with summary box), the main reasons for those preferences were that the information was presented most clearly, they were easiest to read and they were best for identifying charges. The key difference for those respondents who preferred statement one (charges not highlighted or summarised) was that a much lower proportion preferred it because it was best for identifying charges and a much higher proportion preferred it because it looks most like their existing statement.

## Annual summary statements

C.26 Overall, approximately half of all respondents (49 per cent) felt it would be fairly useful or very useful to be told the total amount of their bank charges for a year. As demonstrated in chart 7, a much larger proportion (65 per cent) of current account holders who have paid charges thought this information would be useful.

**Chart 7: How useful it would be to be told the total amount of bank charges for a year**



Base: all who read/checked statements 1,771 (excluding 35 'don't know' responses).

C.27 Those who thought this annual amount would be useful or who are unsure whether it would be useful, were asked what they might expect to do with this information. 58 per cent said that it would help them consider whether they were using their account appropriately and 40 per cent said that it would help them consider whether their account offered good value for money. Just over one-third said that it would help them consider whether they should change their account provider and one-quarter said that it would help them understand what information they would need to compare account providers.

C.28 As table 8 illustrates, the proportion who considered they would use this information to consider whether their account was good value for money and to help them consider whether to change account provider was higher for those that have a packaged or regular current account than those with basic bank accounts. A higher proportion of those with packaged accounts than with regular or basic current accounts also responded that they expected to use the information to understand what information they would need to compare account providers.

**Table 8: How information on annual bank charges would expect to be used**

	Regular	Packaged	Basic	All
It would help me consider whether I was using my account appropriately	58%	64%	55%	58%
It would help me consider whether my account offered good value for money	40%	50%	27%	40%
It would help me consider whether I should change my account provider	35%	40%	27%	34%
It would help me understand what information I would need to compare account providers	24%	32%	25%	25%
Base all who would find annual charges useful	851	124	111	1,085

Note: more than one answer could be chosen, so answers may sum to greater than 100 per cent

C.29 Half of those who thought that the annual amount of bank charges would be useful, or are unsure whether it would be useful said they would prefer this information to be presented as part of their regular statement and 42

per cent said they would prefer to receive it in a separate document (either paper or online).

# QUESTIONNAIRE

**CURRENT ACCOUNTS**  
**16+ SECTION ANSWERED ---01**

I'd now like to ask you some questions about banking...

Q.1 Do you have a personal current account? By a current account I mean any account which has such facilities or features as a cash machine card, a debit card or a cheque book. A joint account with a partner is OK, but not a business account. **CODE ONE ONLY**

Yes----- 01  
No ----- 02  
Don't know ----- 03

**ASK Q.2 IF RESPONDENT HAS CURRENT ACCOUNT (CODE 01) AT Q.1. OTHERS GO TO NEXT SECTION**

Q.2 Which of the following best describes your main current account? **READ OUT. CODE ONE ONLY**

A regular current account: it offers facilities such as debit cards, cheque books, and overdrafts, and as long as you're in credit you don't get charged----- 01

A packaged account: it charges a small regular account fee for additional benefits such as free mobile phone insurance, free break down cover, preferential interest rates and other benefits.----- 02

A basic bank account: you have a cash machine card and there are no account fees, but it does not offer cheque books or overdrafts. ----- 03

Q.3 Have you paid your bank any charges in the last 12 months? By charges we mean interest on an overdraft or fees for going overdrawn or exceeding your agreed overdraft limit, or having a payment refused due to insufficient funds. **CODE ONE ONLY**

Yes----- 01  
No----- 02

Q.4 In general, how do you usually receive your current account statements? **READ OUT. CODE ALL THAT APPLY**

Paper ----- 01  
Online ----- 02

Q.5 Which of the following best describe what you generally do with your bank statements? **READ OUT. CODE ALL THAT APPLY**

- I look at the statements and check that each transaction is correct----- 01
- I check some parts but not every transaction----- 02
- I look at the statements to see how much money I have in my account --- 03
- I look at the statement to check if I have been charged by the bank ----- 04
- I only read or check them if I have a problem with my finances----- 05
- I never read or check them ----- 06

**ASK Q.6 IF RESPONDENT HAS PAID CHARGES IN LAST 12 MONTHS (CODE 01) AT Q.3 AND READS/CHECKS STATEMENTS (CODES 01-05) AT Q.5. OTHERS GO TO INSTRUCTION AT Q.7**

Q.6 I now want you to think about the statements and any pre-notification advice of charges that you currently receive from your bank for your personal current account. On a scale of 1-10, where 1 is not at all easy and 10 is extremely easy, how easy is it to...? **READ OUT. CODE ONE ONLY FOR EACH STATEMENT**

1 2 3 4 5 6 7 8 9 10 Don't know

- see how much you have been charged  
by your bank ----- 01 ----02 --- 03-- 04-- 05 --06 -- 07 --08 ---09--- 10 ----- 11
- identify which items are  
charges ----- 01 ----02 --- 03-- 04-- 05 --06 -- 07 --08 ---09--- 10 ----- 11

**ASK ALL WHO READ/CHECK STATEMENTS (CODES 01-05) AT Q.5. OTHERS GO TO NEXT SECTION**

I'm now going to show you three bank statements.  
This is the first statement **SHOW STATEMENT 1**

Q.7 On a scale of 1-10, where 1 is not at all easy and 10 is extremely easy, how easy is it to...? **READ OUT. CODE ONE ONLY FOR EACH STATEMENT**

1 2 3 4 5 6 7 8 9 10 Don't know

- see how much the holder of this account has been charged  
by their bank ----- 01 ----02 --- 03-- 04-- 05 --06 -- 07 --08 ---09--- 10 ----- 11
- identify which items are  
charges ----- 01 ----02 --- 03-- 04-- 05 --06 -- 07 --08 ---09--- 10 ----- 11

Q.8 How does this compare to your current statement? Is it... **READ OUT. CODE ONE ONLY**

- Much worse ----- 01
- A little worse ----- 02
- The same ----- 03
- A little better ----- 04
- Much better ----- 05
- Don't know(**DO NOT READ OUT**)----- 06

This is the second statement **SHOW STATEMENT 2**

Q.9 Again, on a scale of 1-10, where 1 is not at all easy and 10 is extremely easy, how easy is it to...?  
**READ OUT. CODE ONE ONLY FOR EACH STATEMENT**

1 2 3 4 5 6 7 8 9 10 Don't know

see how much the holder of this account has been charged  
by their bank ----- 01 ---- 02 --- 03-- 04-- 05 -- 06 -- 07 -- 08 --- 09--- 10 ----- 11  
identify which items are  
charges ----- 01 ---- 02 --- 03-- 04-- 05 -- 06 -- 07 -- 08 --- 09--- 10 ----- 11

Q.10 How does this compare to your current statement? Is it... **READ OUT. CODE ONE ONLY**

Much worse ----- 01  
A little worse ----- 02  
The same ----- 03  
A little better ----- 04  
Much better ----- 05  
Don't know(**DO NOT READ OUT**) ----- 06

This is the third statement **SHOW STATEMENT 3, BOTH PAGES**

Q.11 Again, on a scale of 1-10, where 1 is not at all easy and 10 is extremely easy, how easy is it to...?  
**READ OUT. CODE ONE ONLY FOR EACH STATEMENT**

1 2 3 4 5 6 7 8 9 10 Don't know

see how much the holder of this account has been charged  
by their bank ----- 01 ---- 02 --- 03-- 04-- 05 -- 06 -- 07 -- 08 --- 09--- 10 ----- 11  
identify which items are  
charges ----- 01 ---- 02 --- 03-- 04-- 05 -- 06 -- 07 -- 08 --- 09--- 10 ----- 11

Q.12 How does this compare to your current statement? Is it... **READ OUT. CODE ONE ONLY**

Much worse ----- 01  
A little worse ----- 02  
The same ----- 03  
A little better ----- 04  
Much better ----- 05  
Don't know(**DO NOT READ OUT**) ----- 06

Q.13 Of the three statements you've just seen, which do you prefer? **READ OUT. CODE ONE ONLY.**  
**SHOW ALL THREE STATEMENTS AGAIN IF NECESSARY**

Statement 1 ----- 01  
Statement 2 ----- 02  
Statement 3 ----- 03  
None/Don't know (**DO NOT READ OUT**) ----- 04

**ASK Q.14 IF RESPONDENT PREFERS A STATEMENT (CODES 01-03) AT Q.13. OTHERS GO TO Q.15**

Q.14 Why do you prefer that particular statement? **DO NOT READ OUT. CODE ALL THAT APPLY**

- It presented the information most clearly ----- 01
- It was the most concise/shortest ----- 02
- It was the simplest ----- 03
- It was the easiest to read ----- 04
- It looked the most like my existing account statement ----- 05
- It was the best one for identifying charges ----- 06
- It was the best for identifying how much the account cost over the period ---- 07
- It was the best for understanding how much money was in the account ----- 08
- Other **(please specify)** ----- 09
- Don't know ----- 10

**ASK ALL**

Q.15 In addition to the information you already receive on your statements and any pre-notification advice of charges how useful do you think it would be to be told the total amount of your bank charges for a year? **READ OUT REVERSING ORDER. CODE ONE ONLY**

- Not at all useful ----- 01
- A little useful ----- 02
- Fairly useful ----- 03
- Very useful ----- 04
- I never pay bank charges ----- 05
- Don't know **(DO NOT READ OUT)** ----- 06

**ASK Q.16 IF RESPONDENT WOULD FIND BANK CHARGES FOR A YEAR USEFUL OR DON'T KNOW (CODES 02-04, 06) AT Q.15. OTHERS GO TO NEXT SECTION**

Q.16 How would you expect to use this information? **READ OUT. CODE ALL THAT APPLY**

- It would help me consider whether I was using my account appropriately ----- 01
- It would help me consider whether my account offered good value for money ----- 02
- It would help me consider whether I should change my account provider ----- 03
- It would help me understand what information I would need to compare account providers ----- 04
- Other ----- 05
- Don't know **(DO NOT READ OUT)** ----- 06

Q. 17 How would you prefer this information to be presented? **READ OUT. CODE ONE ONLY**

- Once a year as part of your regular monthly/periodic statement ----- 01
- Once a year in a separate document (either paper or on-line) ----- 02
- Other **(please specify)** ----- 03
- Don't know **(DO NOT READ OUT)** 04

# SHOW CARDS (MOCK STATEMENTS)

## Statement 1

High Street Bank  
London Branch

1 DECEMBER 2008 TO 1 JANUARY 2009

Account name High earner  
Account holder Miss A.N. Other  
Sort code 110486  
Account number 1255855  
Date issued 01-Jan-09

Date	Details	Withdrawn	Paid in	Balance
01-Dec	BROUGHT FORWARD			300
01-Dec	Cash withdrawal Paris @ex rate 1.21 Euro	36.50		263.50
01-Dec	Overseas cash withdrawal fee	1.00		262.50
02-Dec	Direct Debit DIY PLC	22.00		240.50
03-Dec	Card Transaction 9958 01CU 253			
	ACCI CCHGFDEE	7.23		233.27
03-Dec	Direct Debit Gas	25.67		207.60
03-Dec	Direct Debit Electricity	32.54		175.06
04-Dec	Cash Withdrawal	20.00		155.06
05-Dec	Cash Withdrawal	10.00		145.06
05-Dec	Charges PAID REFERRAL FEE	60.00		85.06
06-Dec	Interest		0.13	85.19
06-Dec	Direct Debit Salisburys	24.95		60.24
07-Dec	Standing Order TV License	11.95		48.29
10-Dec	Debit Card Esso	25.00		23.29
12-Dec	Debit card M&S	10.00		13.29
15-Dec	Account Fee	12.00		1.29
17-Dec	Automated credit KFC		800	801.29
18-Dec	Standing Order Car Insurance	22.42		778.87
19-Dec	Standing Order Jolly Savings	35.00		743.87
21-Dec	Charges UNPAID ITEM FEE	38.00		705.87
22-Dec	Direct Debit Johnsons windows	5.00		700.87
23-Dec	Cash Withdrawal	20.00		680.87
23-Dec	Direct Debit Water	23.65		657.22
24-Dec	Interest	9.53		647.69
24-Dec	Charges GTEE CARD PYMT FEE	35.00		612.69
		<b>487.44</b>	<b>800.13</b>	

## Statement 2

High Street Bank  
London Branch

1 DECEMBER 2008 TO 1 JANUARY 2009

Account name High earner  
Account holder Miss A.N. Other  
Sort code 110486  
Account number 1255855  
Date issued 01-Jan-09

Date	Details	Withdrawn	Paid in	Balance
01-Dec	BROUGHT FORWARD			300
01-Dec	Cash withdrawal Paris @ex rate 1.21 Euro	36.50		263.50
01-Dec	<b>Overseas cash withdrawal fee</b>	<b>1.00</b>		262.50
02-Dec	Direct Debit DIY PLC	22.00		240.50
03-Dec	Card Transaction 9958 01CU 253			
	ACCI CCHGFDEE	7.23		233.27
03-Dec	Direct Debit Gas	25.67		207.60
03-Dec	Direct Debit Electricity	32.54		175.06
04-Dec	Cash Withdrawal	20.00		155.06
05-Dec	Cash Withdrawal	10.00		145.06
05-Dec	<b>Charges PAID REFERRAL FEE</b>	<b>60.00</b>		85.06
06-Dec	<b>Interest</b>		<b>0.13</b>	85.19
06-Dec	Direct Debit Salisburys	24.95		60.24
07-Dec	Standing Order TV License	11.95		48.29
10-Dec	Debit Card Esso	25.00		23.29
12-Dec	Debit card M&S	10.00		13.29
15-Dec	<b>Account Fee</b>	<b>12.00</b>		1.29
17-Dec	Automated credit KFC		800	801.29
18-Dec	Standing Order Car Insurance	22.42		778.87
19-Dec	Standing Order Jolly Savings	35.00		743.87
21-Dec	<b>Charges UNPAID ITEM FEE</b>	<b>38.00</b>		705.87
22-Dec	Direct Debit Johnsons windows	5.00		700.87
23-Dec	Cash Withdrawal	20.00		680.87
23-Dec	Direct Debit Water	23.65		657.22
24-Dec	<b>Interest</b>	<b>9.53</b>		647.69
24-Dec	<b>Charges GTEE CARD PYMT FEE</b>	<b>35.00</b>		612.69
		<b>487.44</b>	<b>800.13</b>	

## Statement 3

High Street Bank  
London Branch

Account name High earner  
Account holder Miss A.N. Other  
Sort code 110486  
Account number 1255855

Date issued 01-Jan-09

### AT A GLANCE- YOUR ACCOUNT SUMMARY 1 DECEMBER 2008 TO 1 JANUARY 2009

Opening balance at 1Dec 08	£300.00
Closing balance at 01 Jan 09	£612.69
Total paid in	£800.13
Total paid out	£449.94

Average credit balance	£320
Average debit balance	£0

Credit interest earned @ 0.1% AER	£0.13
Debit interest paid @ 19.3% AER	£0.00
International	£1.00
Other	£0.00
Monthly fees	£12.00
<b>Insufficient funds charges:</b>	
PAID REFERRAL FEE 2@ £30	£60.00
UNPAID ITEM FEE 1@ £38	£38.00
GTEE CARD PYMT FEE 1@ £35	£35.00
<b>Total Insufficient funds charges</b>	<b>£133.00</b>

<b>GRAND TOTAL OF BANK CHARGES</b>	<b>£146.00</b>
------------------------------------	----------------

Page 1 of 2

## MORE 2 MONTHLY/PERIODIC STATEMENT

High Street Bank  
London Branch

1 DECEMBER 2008 TO 1 JANUARY 2009

Account name High earner  
Account holder Miss N.O.Body  
Sort code 110486  
Account number 1255855

Date issued 01-Jan-09

Date	Details	Withdrawn	Paid in	Balance
01-Dec	BROUGHT FORWARD			300
01-Dec	Cash withdrawal Paris @ex rate 1.21 Euro	36.50		263.50
01-Dec	Overseas cash withdrawal fee	1.00		262.50
02-Dec	Direct Debit DIY PLC	22.00		240.50
03-Dec	Card Transaction 9958 01CU 253 ACCI CCHGFDEE	7.23		233.27
03-Dec	Direct Debit Gas	25.67		207.60
03-Dec	Direct Debit Electricity	32.54		175.06
04-Dec	Cash Withdrawal	20.00		155.06
05-Dec	Cash Withdrawal	10.00		145.06
05-Dec	Charges PAID REFERRAL FEE	60.00		85.06
06-Dec	Interest		0.13	85.19
06-Dec	Direct Debit Salisburys	24.95		60.24
07-Dec	Standing Order TV License	11.95		48.29
10-Dec	Debit Card Esso	25.00		23.29
12-Dec	Debit card M&S	10.00		13.29
15-Dec	Account Fee	12.00		1.29
17-Dec	Automated credit KFC		800	801.29
18-Dec	Standing Order Car Insurance	22.42		778.87