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## Personal current accounts in the UK

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### Summary

On 29 March 2007 the Office of Fair Trading (OFT) announced a study into retail bank pricing.<sup>1</sup> This market study will enable the OFT to consider wider questions about competition and price transparency in the provision of personal current accounts and obtain the necessary context for assessing the fairness of unauthorised overdraft charges.

This document provides further details about the OFT's study. Specifically, it sets out why a study into personal current accounts meets the OFT's criteria for launching a study, the focus of the study and timescales.

### Why the OFT is conducting a market study

The OFT's market studies guidance outlines the factors that the OFT takes into account to ensure that it selects the best candidates for study.<sup>2</sup> The main factors that have influenced the OFT's decision to proceed to a market study are:

- *The significance of personal current accounts to consumers and economic growth.* Current accounts provide consumers with a range of key services. For example, they are used to receive salary and cheques, pay bills and make instant or regular payments without using cash, and provide immediate access to funds.<sup>3</sup> In 2005/6, 90 per cent of households had a personal current account.<sup>4</sup> In addition, consumers may buy additional retail banking products from their current account provider, suggesting

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<sup>1</sup> See [www.offt.gov.uk/news/press/2007/54-07](http://www.offt.gov.uk/news/press/2007/54-07)

<sup>2</sup> See [www.offt.gov.uk/shared\\_offt/business\\_leaflets/enterprise\\_act/oft519.pdf](http://www.offt.gov.uk/shared_offt/business_leaflets/enterprise_act/oft519.pdf).

<sup>3</sup> As the Cruickshank report noted, current accounts are increasingly needed to participate effectively in the economy, (see paragraph 7.4 of Don Cruickshank *Competition in UK banking* March 2000).

<sup>4</sup> See Table 5.1, Department for Work and Pensions *Family Resources Survey 2005/6*.

that current accounts can also act as a 'gateway' to the sale of other products.

- *Complaints about the level and incidence of current account charges.* The OFT has received a significant number of complaints about unauthorised overdraft charges and returned item fees and shares the widespread public concern about those charges. It has therefore launched a formal investigation into the fairness of these charges. It recognises the need to consider unauthorised overdraft charges and returned item fees in a broader context, including the range of credit and debit interest rates and other charges levied for the bundle of services provided by personal current accounts, as well as the competitive dynamics in the market for providing such accounts.<sup>5</sup> The market study will provide this context.
- *Low levels of price transparency.* In Northern Ireland, the Competition Commission (CC) found that banks have unduly complex charging structures and practices, and do not fully or sufficiently explain them.<sup>6</sup> These two factors raise concerns and make it difficult for consumers to make informed choices about which current account provider they should use and about how best to use the different services provided as part of their current account.<sup>7</sup> The OFT considers that the same issues are likely to be relevant to the rest of the UK, as set out in its contributions to the 2007 Banking Codes review.<sup>8</sup>
- *Limited extent to which consumers help drive competition in the provision of personal current accounts (PCAs).* In Northern Ireland, the CC found that 'customers generally do not actively search for alternative PCAs or switch provider.' There is evidence to suggest that this is also true in

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<sup>5</sup> Including links to the provision of other retail banking products.

<sup>6</sup> Paragraph 58, Competition Commission *Market investigation into personal current account banking services in Northern Ireland Provisional findings report* October 2006.

<sup>7</sup> For example in terms of the level of credit balances and use made of authorised and unauthorised overdraft facilities.

<sup>8</sup> In its sector inquiry into retail banking, the European Commission's DG COMP argued that a market characteristic of retail banking in Europe is the difficulty SMEs and individual consumers can face in assessing the 'price' of a current account and additional difficulties in comparing products across providers. It argued that the informational asymmetry between banks and their customers dampens price competition (Sub-paragraph A.1.1, European Commission, *Report on the retail banking sector inquiry*). In addition, the Cruickshank report observed that consumers were not adequately informed about their financial products and found significant levels of confusion among consumers about charges for current account. The Cruickshank report noted that this may partly reflect a lack of experience of some charges (Paragraphs 4.67 to 4.69, Don Cruickshank *Competition in UK banking* March 2000).

Great Britain,<sup>9</sup> and it may in part be driven by the low levels of price transparency. Taken together, these potential concerns raise questions for the OFT about whether there is effective competitive pressure to provide customer-focused PCAs.

- *Prospect of obtaining evidence.* The OFT proposes to conduct this market study in consultation with industry, industry representatives and consumer advice bodies, as well as the Financial Services Authority (FSA), Financial Ombudsman Service (FOS) and Government. We envisage that the co-operation of these interested parties will enable us to obtain the information required.
- *Prospect of identifying remedies.* Possible remedies include measures to enable consumers to take more informed decisions in relation to PCAs, building on but not limited to the provisional remedies identified by the CC's market investigation in NI.<sup>10</sup> As outlined in its contributions to the 2007 Banking Codes review, the OFT considers that the CC's remedies may have relevance for the rest of the UK and not just Northern Ireland.<sup>11</sup> Such remedies<sup>12</sup> would be additional and complementary to any action that may be taken as a result of the OFT's formal Unfair Terms in Consumer Contracts Regulations (UTCCRs) investigation into potentially unfair current account charges. The UTCCRs investigation could, for example, lead to action in relation to the level of charges.
- *The OFT is best placed to undertake the study.* An OFT market study under section 5 of the Enterprise Act 2002 (EA02) facilitates a market-wide consideration of both competition and consumer issues. Whilst it is recognised that the FSA is the lead regulator for UK banking, the EA02 enables the OFT to assess wider competition issues in a way that is not open to the FSA. The OFT sees strong benefits in carrying out both the

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<sup>9</sup> The Cruickshank report found that nearly two-thirds of people surveyed had held the same current account for over 10 years (Paragraph 4.20, Don Cruickshank *Competition in UK banking* March 2000). Studies by the Department of Trade and Industry (DTI) and National Consumer Council (NCC) have found low switching rates for personal current accounts and have also found that those rates are low compared to rates found across a range of other markets such as utilities, mobile phones, car and home insurance. This feature may be driven in part by low levels of price transparency.

<sup>10</sup> Given the larger size of the market and hence of potential detriment in Great Britain compared to NI, there is likely to be a different balance between costs and benefit of introducing remedies such as, for example, changes to banks' systems.

<sup>11</sup> [www.offt.gov.uk/shared\\_offt/reports/financial\\_products/oft903.pdf](http://www.offt.gov.uk/shared_offt/reports/financial_products/oft903.pdf)

<sup>12</sup> For further details on the principal outcomes of a market study, see paragraph 3.18 of the OFT's guidance on market study at [www.offt.gov.uk/news/press/2007/54-07](http://www.offt.gov.uk/news/press/2007/54-07)

market study and formal UTCCRs investigation, so that the market study can inform any action that may be taken, and therefore does not consider it appropriate to make a market investigation reference to the CC at this point in time. However, it does not rule out the potential for such a reference as an outcome of the OFT's study, particularly if it found that the CC's information gathering or remedies powers might be required. The OFT does not currently consider that a Competition Act 1998 investigation is appropriate.

## **Outcomes**

The outcomes the OFT wishes to achieve are:

- active and informed consumers who drive competition among banks, which in turn delivers efficiency in supply and value for consumers
- banks treating consumers fairly and well within a coherent self-regulatory framework<sup>13</sup> and through compliance with the regulatory framework, thereby pre-empting high levels of regulatory intervention.

## **The scope of the study**

The main issues the OFT intends to examine are:

- Whether the widespread provision of so-called 'free-if-in-credit' current accounts delivers sufficiently high levels of transparency and value for consumers. This will entail understanding the extent to which consumers are able to make informed choices<sup>14</sup> that drive competition and provide banks with incentives to operate efficiently and to innovate to deliver increasing value for consumers over time.
- What the implications might be for competition and consumers if there were a shift away from the widespread provision of so-called 'free-if-in-credit' current accounts. In particular, are different pricing models more or less likely to drive competition to deliver value to consumers?
- The fairness and impact on consumers generally of the incidence, level and consequences of unauthorised overdraft charges and returned item fees. The OFT will want to consider these charges in the broader context

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<sup>13</sup> In particular through the Banking Codes.

<sup>14</sup> This includes choices about how consumers use their current account, which provider(s) they use and when to switch.

of other charges and any interest payments that are made for the bundle of services provided by PCAs.

- What steps could be taken to improve consumers' ability to secure better value for money, in particular to help consumers make more informed current account choices<sup>15</sup> and drive competition.

To inform its assessment of the above issues, the OFT will need to understand the commercial economics of current accounts and how this impacts on the competitive dynamics in the market. It will also need to gather evidence on consumers' ability to understand and willingness to act on different types of information.

The OFT's study will focus on PCAs, but will include an examination of the links between PCAs and other retail banking products (in particular savings accounts, credit cards, personal loans and mortgages),<sup>16</sup> in order to take account of the competitive dynamics of UK retail banking.

During the course of the study, the OFT will consult industry and consumer advice bodies, FSA, FOS as well as Government.

### **Geographic coverage**

Northern Ireland forms a separate geographic market for personal current accounts from Great Britain<sup>17</sup> and has been the subject of the CC's in-depth market investigation. On the other hand UTCCRs apply in NI as well as in GB. The OFT intends that its research will cover the main UK banks. It would expect its findings to have relevance to NI both in relation to

UTCCRs (by application of principles and because several of the UK banks to be covered by the research operate in NI) and wider market considerations (where it will draw on the CC's report in considering relevance).

### **Issues that are outside the OFT's focus**

This study will not cover payment systems, which has been examined in detail by the Payment Systems Task Force, chaired by the OFT. Further work on outstanding issues is now being taken forwards by the Payments Council. Neither will the study cover banking for small and medium-sized enterprises

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<sup>15</sup> Including about whether to switch and if so to which provider.

<sup>16</sup> For example, to what extent are current accounts a gateway to the provision of other services?

(SMEs) because the OFT has recently completed a review of undertakings given by clearing banks in relation to SME banking services.<sup>18</sup>

Current account complaints handling<sup>19</sup> will not be examined by the OFT as part of this study because the FSA is carrying out a thematic review of the handling of unauthorised overdraft complaints under its complaints handling rules.<sup>20</sup> The FOS considers individual complaints that are referred to it by consumers that are unable to resolve concerns directly with their bank or building society.

The availability of current accounts and of basic bank accounts in particular has a critical impact on financial inclusion, which is a key policy concern for HM Treasury. The OFT's remit does not extend to social policy issues. However as part of its assessment of the market and the economic impact of 'free-if-in-credit' current accounts, it will want to examine the potential impact of any changes in the current account charging structure on consumers, including on financial inclusion.

The OFT's study will not address concerns relating to fraud. This is mainly a matter for other bodies such as law enforcement bodies, the Home Office and the FSA.<sup>21</sup> The Attorney General has recently led a wide-ranging review of fraud, to which the Government has recently responded.

## **Timetable and process of the market study**

### ***Indicative timescale***

This is a short study intended to provide the OFT with a better understanding of the competitive dynamics of personal current accounts, the fairness of charges and whether outcomes for consumers could be improved, so that it can decide what further action is appropriate.

The OFT currently intends to publish the findings of the study by the end of the year.

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<sup>17</sup> See paragraph 3.37 of Competition Commission Market investigation into personal current account banking services in Northern Ireland Provisional Findings October 2006.

<sup>18</sup> See announcement at [www.offt.gov.uk/news/press/2006/14-06](http://www.offt.gov.uk/news/press/2006/14-06). The OFT has now advised the Competition Commission on whether there are grounds to vary, release or supersede any of the existing undertakings.

<sup>19</sup> This refers to the individual disputes between banks and customers in relation to claims for individual redress.

<sup>20</sup> FSA *Major Thematic Work Plan* April 2007.

<sup>21</sup> One of the FSA's four statutory objectives is the reduction of financial crime.

### ***Contacting the OFT***

Given the limit to the resources and time available to the OFT, the OFT will not be directly contacting all potentially interested parties. The OFT will focus on contacting specific bodies and businesses to obtain the necessary evidence to assess the issues outlined above.

However, the OFT welcomes relevant written submissions on this topic and it would assist the case team if submissions were laid out as follows:

- a summary of the main points you would like the OFT to consider
- a more detailed explanation of these points
- evidence to support the views being made:
  - if this includes data or financial figures, precise definitions, the dates and source of the data should be provided. All data or financial figures should be provided in electronic format
  - if this includes detailed calculations, an annexe or spreadsheet which allows the OFT to replicate these calculations should be provided
  - if this includes specific examples of events, a chronology and background to the events should be provided
  - if this includes comparators, the reasons why you consider the comparator to be appropriate should be provided
- if you are willing to answer questions further to your submission, a named point of contact whom the case team can contact and contact details including telephone number
- if the submission is representing a business, please state:
  - the company name and ultimate ownership
  - a brief summary of the activities of the company.

Please note that the OFT may wish to refer to submissions in any report or other material published as a result of our review, or make permitted disclosure under Enterprise Act 2002. The OFT may also be required to disclose information under Freedom of Information Act 2000. Please indicate clearly if you consider that any information in your submission is confidential and explain briefly why. This will be taken into account when considering whether or not the information should be disclosed but, given legal duties on the OFT, we cannot give an assurance that it would not under any circumstances be released.

The OFT recognises that it is not always the case that evidence is available to parties to support their views. Parties may be able to suggest information the OFT should seek out. However, the OFT may not be able to pursue all avenues of study. Where no evidence is provided, the weight the OFT can place on the views is lower than where evidence is provided.

The deadline for written submissions is 30 June 2007.

Submissions should be sent to:

Retail Banking Market Study (1st floor)  
Office of Fair Trading  
Fleetbank House  
2-6 Salisbury Square  
London EC4Y 8JX

They can also be emailed to [retailbanking.study@oft.gsi.gov.uk](mailto:retailbanking.study@oft.gsi.gov.uk)