

High-cost Credit Review: Overdrafts

Consultation Paper

CP18/13***

May 2018

How to respond

We are asking for comments on this Consultation Paper (CP) by 31 August 2018.

You can send them to us using the form on our website at: www.fca.org.uk/cp18-13-response-form.

Or in writing to:

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takes you to helpful abbreviations

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1 Summary

Why we are publishing

- 1.1** Although a widely used credit product, our research shows that overdrafts are poorly understood, with low levels of consumer engagement and weak competition. This matters to millions of consumers. In the UK, 52 million people have a personal current account (PCA) and we estimate that 37% use an arranged overdraft and 25% use an unarranged overdraft¹ each year. In 2016, firms made an estimated £2.3bn in revenues from overdrafts, of which around 30% was from unarranged overdrafts.²
- 1.2** We launched the High-cost Credit Review (HCCR) in November 2016 to identify patterns and sources of harm to consumers across high-cost credit products, and to decide whether specific products needed deeper investigation.
- 1.3** In our July 2017 Feedback Statement³ we identified overdrafts (arranged and unarranged), rent-to-own, home-collected credit and catalogue credit as areas for further review.
- 1.4** The Feedback Statement, and subsequent update in January 2018⁴, highlighted the high level of unarranged overdrafts fees compared with the amount borrowed. These are regularly over ten times higher than the fees for borrowing similar amounts through high-cost short term credit (or 'payday loan'). In investigating this market, we set out that we believed there to be "a case to consider fundamental reform of unarranged overdrafts and whether they should have a place in any modern banking market."
- 1.5** Our research has found that charges for overdrafts are highly concentrated, with a minority of consumers paying the majority of fees. The current distribution of charges across the PCA market appears potentially harmful – particularly for unarranged overdraft users. There is a significant difference between arranged and unarranged overdraft prices, with firms making around ten times the yield on unarranged lending than on arranged lending. Furthermore, vulnerable consumers are more likely to use unarranged overdrafts and pay more in charges.
- 1.6** An overdraft is primarily intended as a short-term credit product, but these fees often fall on consumers using arranged overdrafts repeatedly over long periods. For these customers, an overdraft may not be the most suitable credit product.
- 1.7** From this work, we see that there is a case for intervention around overdrafts. We are in a position to consult on some of these measures now.

1 An unarranged overdraft is where a payment is made which takes a consumer over a pre-agreed limit for an arranged overdraft. Where a consumer does not have an arranged overdraft, any payment which takes their PCA into a negative balance will be an example of them using an unarranged overdraft.

2 Overdraft usage statistics come from FCA analysis of transaction-level data submitted by six large banking groups on 250,000 accounts per banking group for a period covering 2015 and 2016.

3 FCA (2017) HCCR Feedback Statement : www.fca.org.uk/publications/feedback-statements/fs17-2-high-cost-credit

4 FCA (2018) HCCR update : www.fca.org.uk/publication/feedback/high-cost-credit-review-update.pdf



- 1.8** The interventions contained in the **consultation** element of this publication (Chapter 3) aim to encourage competition through increasing consumer awareness of how they are using their overdrafts and how the facility works. These include mobile phone alerts linked to overdrafts, improvements in the visibility and content of key information and online tools to allow consumers to quickly get an indication of their eligibility for an overdraft.
- 1.9** We are also considering the case for more interventionist measures such as directly intervening in how firms structure their prices (including a ban on the use of fixed fees), price capping and measures to ensure that firms take active steps to address repeat overdraft use. Further analysis is required to complete our analysis of harm and to model the impact of these measures and their proportionality.
- 1.10** These potential measures, as well as the role of our ongoing analysis in our decision-making, are set out in the **discussion** element of this publication (Chapters 4 and 5).
- 1.11** The interventions we are considering could have a significant impact on the distribution of charges between overdraft users and could have impacts on wider PCA services. There is also the possibility of some consumers losing access to credit. Due to this, we are conducting further analysis to better model the potential impact and are drawing on work from our Strategic Review of Retail Banking Business Models (the Strategic Review). We aim to consult on any specific proposals later in 2018.

Who this applies to

- 1.12** Who needs to read this whole document?
- banks and building societies that provide overdrafts
 - trade bodies representing these firms
 - consumer organisations
- 1.13** Who only needs to read this summary?
- other consumer credit firms and trade bodies
- 1.14** Who doesn't need to read this document, although it affects them?
- consumers who have a PCA

The wider context

- 1.15** Weak competition in retail banking has been a longstanding concern, with low levels of switching between PCA providers. Within this, competition between banks for overdraft users is weaker than for non-overdraft users.⁵ This has had an impact on how

⁵ CMA (2016), Retail banking market investigation Final report:
www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk

firms provide and price overdrafts. Traditional business models have seen a few larger firms holding large and stable market shares, although in more recent years challenger banks have emerged offering a wide range of services.

- 1.16** There have been a number of recent regulatory changes to encourage competition, including the second Payment Services Directive (PSD2) and Open Banking, and the New Bank Start-up Unit.⁶ However, we still see evidence of harm from both usage patterns and the level of overdraft charges.
- 1.17** In August 2016, the Competition and Markets Authority (CMA) published the Final Report of its investigation into competition in the retail banking market covering PCAs and accounts for small and medium-sized enterprises (SMEs) in the UK. This work reinforced the view that competition around PCAs in general, and amongst overdraft users in particular, is weak.
- 1.18** The CMA set out a package of remedies to address the problems it found. It also recommended that we consider further interventions to increase PCA customer engagement and improve transparency for overdraft users. We have considered these recommendations and we set out the findings of this work primarily⁷ in the consultation element of this publication (Chapter 3), including proposed rules from this analysis.
- 1.19** We also extended the scope of this work to reflect our objectives and remit, with a consumer protection as well as a competition focus. Following the CMA's investigation, we announced two major reviews: the HCCR and the Strategic Review. The Strategic Review is considering, in detail, the business models of retail banking, with a particular focus on the revenues and costs of providing PCAs. These related reviews allow us to carefully analyse the harm linked to overdrafts. The work we have done under the HCCR on overdrafts, set out in this paper, has been conducted with a view to considering the findings and potential remedies alongside the Strategic Review.
- 1.20** In January, we published an update on the HCCR. This highlighted our concerns around the high level of charges for unarranged overdrafts, the complexity of pricing structures, and the significant concentration of fees and charges – notably among repeat arranged overdraft users.
- 1.21** The discussion element of this publication builds on this and sets out a range of potential remedies that we intend to model. We will consider how they would complement the package of measures that we are consulting on now, in order to operate as a whole to address the consumer harm we see.
- 1.22** We have used a wide range of data in this work. This includes two rich datasets. The first contains the full transactional history of 1.5 million PCA customers drawn from the six largest PCA providers covering a two-year period (2015 and 2016). The second consists of data from credit reference agencies (CRAs) covering a six-year period and around 10% of the adult UK population. By merging these datasets, we have created a unique resource for studying which consumers use their overdrafts, the patterns of this behaviour and the context of their borrowing against their wider credit position.

6 The joint New Bank Start-up Unit assists new banks to enter the market and through the early days of authorisation. It draws staff from the PRA and the FCA and provides new banks with the information and materials they need to navigate the process to become a new bank, as well as with focused supervisory resource during the early years of authorisation.

7 Our analysis of the CMA's MMC is set out in the discussion paper as it is more closely linked to our work on potential pricing interventions.






We are currently analysing financial information that we have collected from PCA providers, which will inform any proposals we make later in the year. We also collected data from firms specifically for our review of the monthly maximum charge for unarranged overdrafts (MMC). Finally, we have also carried out desk-based reviews of different PCA products and commissioned a range of qualitative consumer research.

1.23 In parallel, we are publishing a paper outlining consultation proposals and a discussion covering our wider high-cost credit work on home-collected credit, rent-to-own (RTO), catalogue credit products, and alternatives to high-cost credit.⁸

1.24 Analysis of CRA data⁹ shows that consumers who take out other high-cost credit products also often use overdrafts. In particular, we saw that around 20% of catalogue and store card credit users have outstanding overdraft debt. For home-collected credit this number rises to around 30%, for rent-to-own it is 40% and for high-cost short-term credit, around half of users have outstanding overdraft debts. For these consumers, their overdraft debts account for 4–10% of their total outstanding debt.

What we want to change

1.25 In this section we set out a package of remedies for consultation and potential measures for discussion.

Potential package of remedies to address harm in overdraft market				
Harm	Prices too high for consumers 			
Drivers of harm	Lack of awareness / engagement 	Complex price structure 	High level of fees 	Repeat use 
Remedies	Alerts Online eligibility tool Online charges calculator Clear information at account opening Banning inclusion of overdraft in available funds Prompts	Ban fixed fees on arranged and unarranged overdrafts Pricing by single interest rate APRs in advertising	Alignment of arranged and unarranged overdraft prices Backstop price cap on overdraft charges Guidance to help firms ensure refused payment fees reflect relevant costs	Early identification of repeat users Timed interventions

⁸ FCA CP18/12 (2018) HCCR publication, www.fca.org.uk/publication/consultation/cp18-12.pdf

⁹ FCA (2017) HCCR Technical Annex 1, www.fca.org.uk/publication/feedback/fs17-02-technical-annex.pdf, p.25

For consultation:

- 1.26** To improve **consumer engagement and awareness** of overdrafts, we propose to introduce new rules to:
- Require firms to provide online or in-app tools that assess eligibility for overdrafts. This will reduce barriers to consumers when considering switching and searching for a PCA with an overdraft.
 - Improve the visibility and content of key information about overdrafts – in particular, when a PCA is opened. This information will include an online calculator to show the costs of overdrafts for different patterns of use and will help consumers understand how overdrafts work.
 - Require firms to send consumers overdraft alerts to address unexpected overdraft use. These alerts could be text message or push notification alerts warning consumers of overdraft use that may result in charges.
- 1.27** We also outline the commitment the industry has given to regularly prompt all their PCA customers to take action to engage with their current account and to raise awareness of the switching service and overdraft usage.

(See Chapter 3)***For discussion:***

- 1.28** To address the complexity of overdrafts and the high level of fees, we set out for discussion a potential package of remedies we are planning to model as part of the next stage of our work. We are currently considering the following measures which could play a role in remedying harm:
- Simplifying overdraft pricing structures, in particular:
 - banning all fixed overdraft fees, other than fees for refusing a payment due to lack of funds ('refused payment fees')¹⁰
 - requiring firms to charge a single interest rate for arranged overdrafts on each customer account, which can vary between different PCA products or, potentially, individual accounts
 - requiring the rate for unarranged overdrafts to align with arranged overdrafts, with any rate differences to be based on significant and reasonable differences in the cost of providing the credit
 - standardising how prices are represented, through requiring an annual percentage rate (APR) in advertising for arranged overdrafts
 - a potential backstop price cap for overdraft charges
 - guidance around exactly which costs firms should consider when ensuring refused payment fees reasonably reflect the actual costs, as required by law

¹⁰ Refused payment fees (also known as 'unpaid item fees' or 'declined transactions fees') are permitted under the Payment Services Regulations 2017; we therefore treat them differently in our proposals.

(See Chapter 4)

- 1.29** To address the repeat use of overdrafts, we set out for discussion the potential measures we plan to model in the next stage of our work. In particular, we are considering the possible role of the following:
- An explicit obligation on firms to have adequate systems and policies around their provision of overdrafts that allow them to:
 - assess whether customers are in, or at risk of, financial difficulties
 - take appropriate action, and
 - deal with customers showing signs of actual or possible financial difficulties
 - Interventions by firms at prescribed intervals. For example:
 - a prompt to a customer to consider changing their behaviour
 - a reminder for those who do not appear to have reacted to the prompt
 - later, offering a plan for repayment over a suitable period, possibly combined with restricting further credit limit increases and/or suspending the facility for customers whose charges have been suspended (been shown 'forbearance') or who have not responded

(See Chapter 5)

Outcome we are seeking

- 1.30** Our proposals seek to improve competition for PCAs with overdrafts, and in the wider PCA market, by making it clear to consumers how overdrafts work, what they cost, how they compare with other credit products, and how much they are using them. We expect that this will lead to greater consumer engagement with consumers making more informed decisions and increased competition between firms, which may reduce prices and increase quality.
- 1.31** Unarranged overdrafts can play a useful role in allowing consumers to fulfil important payments which would otherwise be declined. Missing these payments could have negative consequences including additional fees for arrears or increased anxiety and stress. We therefore see that there could be a place in the market for unarranged overdrafts as a form of credit but that it should be priced appropriately, and that any differences between arranged and unarranged prices should be based on significant and reasonable differences in the cost of providing the credit. We are seeking a solution that enables firms to continue to offer both arranged and unarranged overdrafts, where this is in consumers' interests, while competing meaningfully on price.
- 1.32** We also aim to secure greater protection for consumers using overdrafts. We want to ensure that charges are not unexpected and that consumers feel in control of their borrowing. We are considering measures to address situations where firms' incentives

may not be aligned with those of their customers and, in particular, where consumers are using their overdraft (a short-term credit product) to a significant extent over a long period.

Measuring success

- 1.33** We will be looking at the overall use of overdrafts and any changes in the level and distribution of fees and charges.
- 1.34** Our view of success will depend upon the final package of measures which we decide to adopt, in particular around pricing interventions and repeat overdraft use. We will provide further detail later this year.

Next steps

- 1.35** Please respond to this consultation and discussion by 31 August 2018 by emailing cp18-13@fca.org.uk
- 1.36** We will consider feedback before finalising our rules (for Chapter 3) towards the end of the year or as part of the next stages of our analysis on pricing interventions and repeat overdraft use (Chapters 4 and 5).

2 The wider context

The harm we are trying to address

- 2.1** Consumers use overdrafts for many purposes and see value in having access to both arranged and unarranged overdrafts – in particular, to cover unexpected expenses including important bills. A significant number of unarranged overdraft users do not have an arranged overdraft and this form of borrowing acts as a short-term safety net which allows them to avoid some of the negative consequences of missing a payment. Most consumers use their overdrafts infrequently and for short periods of time, often spending under 5 days in an unarranged overdraft and borrowing less than £60.
- 2.2** However, consumers may not be fully aware of how they use their overdraft and the charges they are paying. Many consumers do not see their overdraft as a form of debt, partly because of the way it is attached to their PCA.¹¹ There is clearly scope for consumers to have better understanding, awareness and engagement with this form of credit so that they can make better decisions about using it. More information about overdraft users can be found in Box 1.
- 2.3** As set out in our January update, our concern about overdrafts is mainly around price. This is either due to the level of the fees and charges or from the accumulation of charges over time through repeat use. There are several drivers of this, which require different approaches to reduce harm.

Drivers of harm

(a) Lack of awareness/engagement

- 2.4** The findings of the CMA investigation, and our own research, show that many consumers are not aware of when they are using their overdraft or are not clear about some key features of overdrafts, including fees and charges. Customers are often hindered from switching because they do not know if they will be eligible for an overdraft with another provider.

(b) High level of fees

- 2.5** This is most acute with unarranged overdrafts where there are often high fixed fees, which can be incurred by consumers on relatively small levels of borrowing. FCA analysis of the level of overdraft use and charges for 1.5 million consumers over 2015 and 2016 shows that unarranged overdraft charges are often the equivalent of over 10% interest per day. We also see that 15% of those incurring charges for unarranged use are paying over 20% a day. This could occur, for example, if a consumer was charged £5 a day for borrowing £25 with an unarranged overdraft. Such pricing structures are common in the market.
- 2.6** These fees fall mainly on a minority of consumers. Our analysis of PCA transactional data shows that around 14% of PCA customers incurred charges for using an unarranged overdraft in 2016 and over half the charges were concentrated on just 1.5% of customers. We have linked our data with census information to see that consumers living in deprived areas are more likely to use an unarranged overdraft and to do so heavily. On average, consumers in more deprived areas pay twice as much in charges for unarranged overdrafts than consumers living in less deprived areas. This suggests that the distribution of fees may be harmful.

11 Four out of five people from a sample of 99 overdraft users. Atticus (2018) Consumer research on overdrafts, p8

Box 1 – The UK overdraft market and its users

Many consumers do not see overdrafts as debt

Number of arranged/unarranged overdraft users



Around **19 million** people use an **arranged** overdraft each year



Around **13 million** people use an **unarranged** overdraft each year

Around **7.3 million** people use both an **arranged** and **unarranged** overdraft each year



Consumers who use their arranged/unarranged overdrafts have, on average

8 months out of 12 where they use an **arranged** overdraft

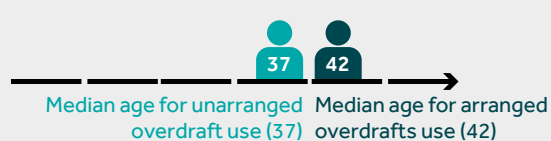


4 months out of 12 where they use an **unarranged** overdraft



Age and gender of arranged/unarranged overdraft users

Unarranged overdrafts users tend to be younger than arranged overdraft users



There is a **50:50** split between males and females using overdrafts

Amounts borrowed by arranged/unarranged overdraft users

The majority of **arranged** borrowing is for under

£250

The majority of **unarranged** borrowing is for under

£60

Typical time spent in overdraft, each time (arranged and unarranged)

Unarranged

5 days



Arranged

7 days



Revenues

We estimate firms made around

£2.3bn

in revenue from overdrafts in 2016



Around **30%** of this came from **unarranged** overdraft fees and charges

Yield from arranged/unarranged overdrafts

In 2016, firms made around **25p** for every **£1** lent out through **arranged** overdrafts over the year



In 2016, firms made around **£2.50** for every **£1** lent out through **unarranged** overdrafts over the year



2.7

The wide use of fixed fees, which do not depend on the amount borrowed, means that there is no clear relationship between the amounts charged and the level of use of the unarranged overdraft. We also see this, although to a lesser extent, in arranged overdrafts where fixed daily and monthly fees have increasingly replaced interest rates. This means that small levels of additional borrowing can result in significant increases in the fees charged.



(c) Complexity of price structure

2.8 The range of firms' price structures is now highly complex, with firms using different combinations of interest rates, tiered daily fees, monthly fees and fees for allowing a payment despite lack of funds ('allowed payment fees').¹² This makes it difficult for consumers to compare between different overdraft providers or with other forms of credit, such as credit cards.

2.9 Our research shows that consumers tend to focus on only one part of the price structure. As overdrafts usually have many different components to the price, focusing on only one can lead consumers to underestimate the cost of the facility. This is especially the case when they use it over longer or repeat periods. We also see that consumers significantly underestimate fixed fees when comparing them to interest rates.

(d) Repeat use

2.10 Overdrafts are primarily intended as a short-term form of borrowing, but a significant number of consumers use their overdraft heavily over long periods. Across 2015 and 2016, around half of overdraft revenues were generated by consumers who used their overdraft every month.

Changes in the overdrafts market

2.11 There have been a number of changes in overdrafts over the last decade, with many firms focusing on arranged, rather than unarranged, overdrafts as a source of revenue. This is particularly clear when looking at how firms have evolved the pricing structures for overdrafts over time. They have moved away from charging interest payments towards including a number of fixed monthly and daily fees.

2.12 More recently, we have seen some firms remove all unarranged overdraft charges either from all their accounts, or from accounts which carry a monthly fee. We expect that many firms are considering changes to their overdraft pricing. One aim of our overdrafts work is to give some structure to these new developments to make it more likely they will contribute to consumer welfare and decrease harm. We will continue to take account of any changes firms make in the market when considering the costs and benefits of any potential remedies.

How it links to our objectives

Consumer protection

2.13 We are proposing measures to protect some consumers from unexpected charges and considering steps to reduce harm from high prices.

2.14 Many consumers are unaware that they are using their overdrafts and can build up significant charges without realising. While not all consumers can avoid using their overdrafts, many will have other options. Our proposals for overdraft alerts aim to protect consumers from incurring charges unexpectedly and give them greater control over their borrowing.

2.15 We are also discussing potential remedies to tackle consumers accumulating significant charges from repeat use of what is primarily intended to be a short-term credit product. As a significant proportion of overdraft revenues are linked to repeat

¹² These are also known as 'paid item fees'

use, we are concerned that firms' incentives may not be aligned to their customers' and are considering how this may need to be addressed.

Competition

2.16 Our proposals seek to enhance competition in the retail banking market by addressing low levels of transparency and engagement. They will do this by removing barriers to switching, helping consumers understand how overdrafts work and addressing the unforeseen use of overdrafts.

2.17 We are also discussing potential measures to address the complex range of pricing structures for overdrafts across different firms, which hinder competition. We want consumers to be able to compare easily between different overdraft providers and with other forms of credit, particularly 'revolving' credit such as credit cards. We also want firms to compete actively on their overdraft prices, as this will help to improve outcomes for consumers.

Wider effects of this consultation

2.18 When considering interventions around pricing or repeat use of overdrafts, we recognise that this could lead to a loss of access to credit for some consumers. We have seen in other credit markets, such as high-cost short-term credit (HCSTC), that losing access to credit can help some consumers. But the net effect depends on the product and customer base, including the availability of other forms of credit or alternatives to borrowing. We need to carry out further work to evaluate the risks from any potential loss of access and the subsequent impact on consumers.

2.19 We are also aware that overdrafts sit as one part of a wider PCA offering. As a result, any reduction in revenue in one part of the PCA could lead to an increase in prices elsewhere. There is clearly risk that any intervention around pricing could simply move harm rather than remedying it. However, a shift to revenue sources that are more transparent to consumers could reduce consumer harm. We will be using insights from the Strategic Review to investigate these 'waterbed' effects in more detail. We will also consider whether our interventions are likely to have a significant impact on the free-if-in-credit banking model.

2.20 We do not expect the competition remedies to have impacts beyond those which are intended.

What we are doing

2.21 This paper sets out a package of measures to tackle the four drivers of harm we have identified in the overdraft market. We are:

- consulting on rules which aim to improve levels of awareness and engagement around overdrafts (Chapter 3)
- setting out, for discussion, the range of remedies we intend to model around the high level of fees and complex pricing structures (Chapter 4)

- setting out, for discussion, potential remedies aimed at tackling harm from repeat use of overdrafts (Chapter 5)

Equality and diversity considerations

- 2.22** Our proposals are not intended to discriminate between consumers and we do not consider they will adversely affect people with protected characteristics. However, the extent to which consumers benefit from our proposals may vary.
- 2.23** Arranged and unarranged overdrafts are used by a wide range of consumers, but we know that:
- younger age groups have higher levels of overdraft use
 - consumers in more deprived areas are 70% more likely to use an unarranged overdraft than other consumers. These consumers tend to have lower incomes, tend to be from Black, Asian and minority ethnic (BAME) communities, and have a higher probability of being vulnerable due to poor health or a disability.
- 2.24** Our proposals for online overdraft eligibility tools and overdraft calculators rely on online or in-app solutions. The initial results of our Equality Impact Assessment found some people who do not have digital skills or access to the internet may not be able to access these tools directly. We expect this will particularly affect disabled consumers, older consumers and low-income consumers, as internet use is lower among these groups than the UK population overall.¹³ We expect firms to make provisions for these customers to access the services by other means, such as with help from telephone banking and branch staff. There should of course be no negative impact for customers who can't access the tool and so opt to contact bank staff instead, for example, overdraft eligibility checks conducted by staff should not leave a mark on the customers' credit file.
- 2.25** Consumers' ability to receive overdraft alerts will depend on them having registered a mobile phone number with their PCA provider or using their provider's mobile app. We know that disabled and older consumers are less likely than the UK average to use a mobile phone.¹⁴ Overdraft alerts are designed to prompt immediate action and paper notifications sent by post are not a suitable replacement. We consider costs would be disproportionate if firms were required to contact customers by telephoning them. Our rules do not prevent firms from alerting customers in a different way if the customer specifically requests it.
- 2.26** Further work is required to assess the impact of potential proposals around pricing and repeat use of overdrafts on loss of access to credit and the potential impact on consumers. This further work will include considering the equality and diversity implications of our proposals as they develop and their impact on the protected groups.
- 2.27** In the meantime, we welcome any views on our initial assessment and the equality and diversity implications of the issues set out in this paper.

¹³ Ofcom (2017) Access and inclusion in 2016, pp 4-5

¹⁴ Ofcom (2017) Access and inclusion in 2016, pp 4-5

3 Competition remedies (for consultation)

3.1 In this chapter, we consult on new rules and guidance that aim to improve consumer engagement and transparency of information related to overdrafts. Our proposals seek to:

- **Remove barriers to switching: by requiring firms to provide online or in-app overdraft eligibility tools** that allow their customers to get a clear indication of the likelihood of being granted an overdraft without an application for credit appearing on their credit file.
- **Help consumers understand how overdrafts work: by requiring firms to improve the visibility and content of key information about overdrafts and clearly presenting overdrafts** as a form of debt. This includes requiring firms to provide an overdraft cost calculator.
- **Better engage consumers with their overdraft use and address the unexpected use of overdrafts: by requiring firms to automatically enrol their customers into overdraft alerts** to make their customers aware of how much they are using their overdraft and that it may lead to charges. And by **banning firms from including available overdrafts in their descriptions of their customers' available balance**.

3.2 We also outline a commitment the industry has given to deliver timely prompts to consumers that tell them about the cumulative cost of their overdraft, raise awareness of CASS and prompt them to take action to engage with their PCA.

3.3 The proposals in this chapter seek to help consumers make more informed choices about when and how to use overdrafts by improving transparency and engagement. We expect them to help address the harm of high prices in this market. For example:

- The proposal for firms to provide an overdraft calculator will go some way to address the problems we see arising from the complexity of overdraft pricing structures, in particular the difficulties in calculating costs in pounds and pence. However, as set out in Chapter 4, we see that there may also be a case for intervening directly in how firms structure their pricing of overdrafts in order to address problems in comparison of overdraft prices and the overall level of fees.
- While overdraft alerts are an effective remedy to unanticipated use of overdrafts and can make consumers more aware of how much they are using their overdraft, they do not have a significant behavioural effect on more frequent overdraft users who may not be in a position to avoid charges. This leaves these consumers at risk of harm due to high prices.

3.4 We discuss additional potential proposals to address the harm of high prices in Chapter 4. These include price simplification, standardisation of prices and APRs, alignment of arranged and unarranged overdraft prices, and price capping. In Chapter 5 we discuss potential proposals that seek to address repeat use of overdrafts. The proposals in this chapter take account of, and would complement, the potential proposals discussed in the remainder of the document.



- 3.5** We currently stand at a crossroads. Technology facilitated by Open Banking and PSD2 has the potential to create significant change, driving innovation and competition for the benefit of users. They enable and allow consumers to share their data with newly regulated payment initiation services (PIS) and account information services (AIS). In the future, these developments may bring sophisticated and more helpful PCA and overdraft comparison tools and cost calculators. We have considered not acting in this market until we have seen how these initiatives develop. However, the harm we see suggests we should take some action now so that overdraft users can better engage with their overdraft use.
- 3.6** The proposed rules in this chapter apply to firms (other than credit unions) offering PCAs defined as payment accounts within the meaning of the Payment Accounts Regulations 2015. They do not apply to current account mortgages. Firms would not be required to comply with the rules for accounts that do not allow an arranged overdraft, an unarranged overdraft and do not charge customers for refused payments. We are proposing to exclude credit unions from the rules as requiring them to comply is unlikely to be proportionate since membership requirements restrict customers' ability to choose their credit union. We do not propose to apply these rules to Business Current Accounts (BCAs) and business overdrafts at this time as we have not seen the same evidence of harm in that market.
- 3.7** Due to the costs associated with implementing proposed rules relating to overdraft eligibility tools and overdraft alerts, we propose that only bank and building society brands with 70,000 or more PCAs should be required to comply with these rules. We do not consider it proportionate to require firms to implement these proposals for smaller brands. We also propose to exclude private banks from these rules. This will ensure that the majority of UK consumers will benefit without placing obligations on firms that are not actively competing in the UK PCA market.
- 3.8** To allow firms to update the information they provide to their customers and build necessary systems, we propose to give firms 12 months to comply from the implementation date of the final rules. Where compliance with a rule is contingent on meeting the 70,000 PCA threshold, we propose that firms will be given 12 months from reaching the threshold to comply.

Q1: Do you agree that the threshold for application of the overdraft eligibility and overdraft alerts rules should be set at bank and building society brands (excluding private banks) with 70,000 or more PCAs?

Q2: Do you agree that firms should be given 12 months to comply with the proposed rules?

Overdraft eligibility tools

Background

- 3.9** The switching service is designed so that a switch starts once the account opening process is complete. However, in the past we have seen evidence of consumers not finding out whether they will be given an arranged overdraft until the switching process

has started, by which time it cannot be stopped and their existing account may have been closed.¹⁵

3.10 Following the CMA's retail banking market investigation, Bacs agreed to work with firms to ensure that they give a firm decision to a customer about their arranged overdraft after the customer has completed the PCA provider's application process but before they switch accounts.¹⁶

3.11 It remains difficult for consumers to find out whether they will be eligible to get an overdraft with a potential new PCA provider before they have completed the application process.

What is the harm?

3.12 Despite potentially having the most to gain from switching, overdraft users, particularly those who use their overdrafts most heavily, are the least likely to switch current account.¹⁷ This means that they pay higher prices than they would if they moved to an account more suitable for their needs. It also reduces incentives on PCA providers to compete to keep overdraft users as customers.

Why do we think our intervention is justified?

3.13 While levels of switching are low across PCA customers, we have identified additional barriers that prevent overdraft users from switching:

- Overdraft users may not know how overdrafts work or what might make them eligible - or ineligible - for an overdraft. Some consumers may not know that they can switch if they are overdrawn.¹⁸
- Overdraft users who have considered switching often cannot find out what level of overdraft they could get with another provider until they have opened an account.
- The process of applying for an overdraft typically involves a hard credit check that marks the consumer's credit file. This deters consumers from shopping around to compare the overdrafts available to them.

3.14 Our research indicates that online eligibility tools will allow consumers searching for alternative PCAs to better predict the size and type of arranged overdraft facilities that different providers are likely to offer them. This can help reduce barriers for some consumers when they consider switching, particularly for heavier arranged overdraft users, and so enable them to make better informed switching decisions.

3.15 Our consumer research has found that online eligibility tools could lead to greater engagement and transparency about available overdrafts, which can help improve competition.¹⁹ The CMA found over a third (35%) of PCA overdraft users said that being able to check what overdraft they were likely to be offered by the new bank, before they decided to change bank, would make them more likely to consider switching.²⁰

15 FCA (2015) Making current account switching easier, p29

16 CMA (2017) Notice of acceptance of final undertakings, p11

17 CMA (2016) Retail banking market investigation Final report, pxiii

18 CMA (2016) Retail banking market investigation Final report, pp190-191

19 Atticus (2018) Consumer research on overdrafts, p12

20 CMA (2016) Retail banking market investigation Final report, Appendix 15.4



- 3.16** This is a market that is not heavily intermediated and at the current time we don't see intermediaries addressing the harm we have identified. Because of this we consider there is more of a case for intervening here than in other markets and we propose to apply rules directly to firms who provide overdrafts.
- 3.17** While we do not currently see intermediaries focusing on overdraft users, we are seeking views on whether firms should enable, through Application Programming Interfaces (APIs), third-parties (such as brokers or digital comparison tools (DCTs)) access to compare a consumer's likely overdraft eligibility across different providers. We know from our work that providers may be reluctant to offer access to commercially sensitive lending criteria data to third parties. But we also know that access to this data is possible where lenders are not forced to divulge criteria – only the result of the eligibility check.
- Our proposals**
- 3.18** We propose to make rules to require bank and building society brands (excluding private banks) with more than 70,000 PCAs to provide a prominent, easily accessible overdraft eligibility tool on their website or in their mobile banking app. We do not consider it proportionate to require firms to implement this tool for smaller brands or private banks. However, if they choose to provide such a tool, we propose that they should be required to comply with these rules to ensure a meaningful and consistent comparison across providers.
- 3.19** We do not intend to prescribe the precise information a firm should require from a consumer during the search process, or the detailed process a firm must follow to arrive at the output. We expect firms to design the tool in a proportionate and practical way. We propose that individual firms will specify the information they need from the consumer to carry out an eligibility search. However, we do propose to prescribe that:
- Consumers must be able to input or select the level of overdraft they are seeking.
 - Information requested by the firm must be readily available to the consumer and proportionate to require the consumer to provide ahead of a full application.
 - Using the tool must not leave any imprints on the consumer's credit file that are visible to lenders.²¹
 - The outcome must represent a reasonably accurate estimate of the consumer's likelihood of being approved, based on the information the consumer has provided.
 - Firms must monitor the accuracy of the output of the tool to ensure it continues to generate reasonably accurate results. They should review it if there are material changes to their lending policies or they find its predictive effectiveness reduces.
- 3.20** We propose to require that firms make clear the indicative nature of the results, ie that they are not binding and do not guarantee eligibility for an overdraft of any amount.
- 3.21** The whole process should be quick (almost immediate) and we propose that the output must represent a reasonable pre-estimate by the firm of the probability that it would offer the customer an overdraft of the amount selected. It must be communicated in a fair clear and not misleading way.

21 This builds on Guidance in CONC 2.4.3.

- 3.22** Firms should consider how best to convey the output to their target market. For example they may provide this as a percentage, a qualitative description or a visual representation. The output should adequately represent the range of probability of approval.
- 3.23** These proposals contribute to competition by increasing the level of transparency and helping reduce barriers to switching for overdraft users, particularly the heaviest overdraft users who may have the most to gain financially from switching.
- 3.24** To give firms time to build the tool to comply with the rules, we propose that firms will have 12 months to comply from the implementation date of the final rules or within 12 months of reaching the 70,000 PCAs threshold. This does not prevent brands with fewer PCAs from offering an overdraft eligibility tool but if they do it should meet the minimum standards we set out.

Q3: Do you agree with our draft rules to require firms to offer an online overdraft eligibility tool which indicates the likelihood of a consumer being eligible for an overdraft facility?

Q4: Should we require firms to design tools in a way that could be provided through APIs to third-party providers so that the same comparison can be run for a consumer across different banks?

Improved information about overdrafts at account opening

- 3.25** We propose changes to the way information about overdrafts is presented to a consumer before they open an account. These changes should lead to greater engagement from some consumers who are considering their choice of PCA and use of overdrafts. In turn this should help to improve competition over overdrafts.
- 3.26** We propose to require firms to offer a tool that assists consumers to better understand how overdrafts work and to help consumers gain an understanding of the likely costs, in pounds and pence, of using an overdraft. The discussion on the potential role of pricing interventions (Chapter 4) takes into account the improvements we are proposing here.

Background

- 3.27** Our research has confirmed earlier findings that overdraft users have limited awareness of and engagement with their overdraft use. There is a widespread lack of understanding of how overdrafts work, the implications of using them, and how much they typically cost.²²

What is the harm?

- 3.28** Not being able to assess how much an overdraft is likely to cost is a key barrier to enabling consumers to make an informed decision about when, where and how to use their overdraft.

22 Atticus (2018) Consumer research on overdrafts, pp40-43



- 3.29** Our research also found that it is difficult for consumers to compare one provider with another or with other forms of credit. Few consumers understand how much their overdraft costs and many focus on an individual element of the cost, such as a daily charge or a monthly fixed fee and don't take account of other charges or fees. As a result, they underestimate the cost of the facility especially when using it over long or multiple periods.²³

Why do we think intervention is justified?

- 3.30** Our recent qualitative research explored consumers' use, experience and understanding of overdrafts. The key findings, shown below, reveal that there is scope for improvement in the way that firms' position, communicate and offer overdrafts.
- 3.31** **Many consumers do not consider their overdraft as a debt.**²⁴ The framing of overdrafts by providers can encourage consumers to use and normalise overdrafts without clearly understanding the risk and costs or considering them a debt.
- 3.32** **Consumers are confused about how overdrafts work, the implications of using them, and the charges linked to them.**²⁵ There is a need for clear information on the distinction between arranged and unarranged overdrafts as consumers are often unclear about the differences between the two. Some consumers believe an unarranged overdraft is an arranged facility. We observed confusion and concern among consumers around the impact an arranged and unarranged overdraft might have on their credit record.
- 3.33** **Consumers struggle to work out how costs are calculated and how much overdraft use is likely to cost.**²⁶ Some felt this information was hidden in terms and conditions or presented in a way that was difficult to understand. The way charges are presented causes confusion as overdrafts usually have many components to the price including interest, fixed fees and daily or monthly charges. Consumers find it difficult to relate them to their overdraft use and the presentation of multiple charges or components can result in them focusing on one element, such as the daily fee.
- 3.34** **Consumers have limited engagement with their overdraft use.**²⁷ Our research showed that they do not consider how an overdraft should be used or assess the costs of use as they may do for a loan or credit card. Further, a lack of clarity, transparency and consistency around the cost of using an overdraft is a barrier to enabling consumers to make an informed decision about their overdraft. This is one of the reasons why overdrafts are often seen as cheaper and less risky alternatives to other credit products.
- 3.35** **Consumers don't know if they can decrease their overdraft limit and, if they can, they want a simple way of doing so.**²⁸ Some consumers felt providers were generally in favour of increasing rather than decreasing overdraft limits. Some consumers who had asked for their overdraft limit to be reduced had found this difficult or had not managed to achieve it. Others said they could not decrease their overdraft limit online. Instead, they had to make direct contact with their provider to request this. In

23 Atticus (2018) Consumer research on overdrafts, pp52-59

24 Atticus (2018) Consumer research on overdrafts, p46

25 Atticus (2018) Consumer research on overdrafts, pp40-43

26 Atticus (2018) Consumer research on overdrafts, p10, pp50-54

27 Atticus (2018) Consumer research on overdrafts, pp7-8

28 Atticus (2018) Consumer research on overdrafts, p47

all instances, consumers felt this to be a barrier to being in control and setting a lower overdraft limit as required.

Our proposals

3.36 To tackle low engagement and a lack of transparency, we propose to introduce rules to require all banks and building societies to provide clear and prominent information about overdrafts. If the account includes an overdraft, firms must provide this information before a consumer completes a PCA application or an application for an overdraft. Clear information should be provided and seen by a consumer, explaining:

- What arranged or unarranged overdrafts are, including what they cost, the risks of each and the differences between the two.
- The possible impact on the consumer's credit rating of using an arranged and unarranged overdraft.
- Whether consumers will be automatically enrolled to receive overdraft alerts, and how they can choose to opt-out or modify those alerts subsequently.²⁹
- How consumers can get and give up access to an overdraft or reduce a given limit. The process to give up or reduce an overdraft limit should be easy, efficient and prompt for consumers.

3.37 We propose to require that firms clearly present overdrafts as a form of borrowing or debt. They should also signpost customers to the availability of an overdraft eligibility tool and cost calculator.

3.38 Although some firms already provide detailed information about overdrafts, it is not always easily accessible, available in one place or given at the right time. We want the information firms provide to be clear, simple, easy to read, prominent, and positioned so that consumers can see it before they apply for an overdraft. It should be comprehensive and provided in one place.

3.39 Our proposals are aimed at all providers of PCAs who offer an overdraft. Our intention is for this information to be provided just before and during the opening of a PCA so consumers can make more informed decisions about their overdraft products.

3.40 We recognise that these proposals focus on point of sale and that PCAs can be a long-term product. We have received commitments that industry will deliver a package of prompts that aim to increase existing customers' engagement with their PCA (including their overdraft). This is discussed further from paragraph 3.85.

Q5: Do you agree with our draft rules to require firms to provide clear, easy-to-read, prominent information about overdrafts to their customers before they apply for an overdraft?

3.41 Overdraft charging structures vary and can be complex and difficult to understand. Our research³⁰ has identified two clear issues with the presentation of overdraft charges:

²⁹ Further detail about our alerts proposals is provided later in this chapter.

³⁰ Atticus (2018) Consumer research on overdrafts, p52-55



- consumers cannot easily work out how much they are likely to pay each month for their overdraft
- consumers cannot easily compare the cost of an overdraft either with different overdraft providers or other types of credit

- 3.42** To address the first issue, we want providers to make an online or in-app calculator available to enable consumers to easily work out the cost in pounds and pence of an overdraft based on their typical or likely usage, or under different scenarios. This calculator will allow consumers to calculate their likely overdraft costs when they apply for an account. It will also be available to help existing customers understand the cost of their overdraft facility.
- 3.43** We discuss the second issue in Chapter 4, as part of our discussion on pricing interventions.
- 3.44** A number of providers already offer a form of online or in-app calculator for overdrafts. Our qualitative consumer research identified these useful tools, particularly if all providers had a similar tool which could allow easier comparison between different overdraft products. A calculator would work by having several inputs, including: the account type, a specified amount, the number of days the overdraft is used and the option of going over an arranged overdraft. The results should then generate the total borrowing, total days the overdraft is used, total costs and the charges breakdown. The charges would include the arranged and unarranged costs where applicable. Where consumers do not have access to digital channels, we would expect providers to tell potential customers about the calculator and give them the opportunity to use it.
- 3.45** Going forward we are aware that the Open Banking open data APIs could enable a third party, such as a DCT, to provide a calculator that works out costs across a number of providers. Consumers could also allow such tools to base calculations on their transaction history. We have considered not taking action in this market until we have seen if such tools are developed. However, the harm we have seen suggests we should take some action now so that consumers can easily calculate overdraft costs.
- 3.46** The calculator will complement the new Fee Information Document (FID) required by the Payment Accounts Regulations 2015.³¹ From 31 October 2018 firms will be required to provide this document to consumers in good time before they enter into a contract for a payment account and to make the FID available on their websites. The FID will list the new standardised terms that describe some of the services linked to payment accounts that are subject to a fee.³² It will also list the corresponding fees.
- 3.47** To give firms time to update the information they provide consumers and build the necessary systems to comply with the rules, we propose that firms will have 12 months to comply from the implementation date of the final rules.

Q6: Do you agree with our draft rules that online calculators should be made available to show consumers how much they will be charged for their overdraft and allow consumers to calculate their costs?

31 Payment Account Regulations 2015

32 FCA (2018) Payment Account Regulations: Final Linked Services List

Overdraft alerts

- 3.48** To address concerns around consumers unexpectedly finding themselves being charged for using an arranged or unarranged overdraft or a refused payment, we propose to require firms to send consumers text messages or push notifications in mobile banking applications to let them know:
- they have entered (or the firm can predict they will enter based on known transactions) an arranged overdraft
 - they have entered (or the firm can predict they will enter based on known transactions) an unarranged overdraft, either by exceeding their overdraft limit or, where there is no overdraft facility, the funds in their PCA
 - they have had a payment refused due to lack of funds or the firm can predict they will do so based on known transactions

- 3.49** The CMA currently requires firms with 150,000 active PCAs across GB and NI to enrol their customers into two of these alerts (unarranged overdraft and refused payment alerts).³³ We propose to apply our rules to firms with 70,000 or more PCAs.

Background

- 3.50** Following a UK Government initiative in 2012, some firms started to offer overdraft text alerts.³⁴ These alerts tell consumers if they have a low balance or warn them of unarranged overdraft use. They alert consumers to the opportunity to transfer money into their account before they are charged for unarranged overdraft use (known as a 'grace period').

- 3.51** In 2013-14, many large PCA providers agreed to operate a 'same day retry system' when processing scheduled payments, meaning that if there is not enough money in a consumer's account to cover a payment, the firm will try again in the afternoon to give the transaction a second chance to clear. Combined with alerts, this retry system offers consumers a 'grace period' in which to act to avoid a payment being refused due to lack of funds.

- 3.52** Self-enrolment rates into overdraft alerts are low at 2–8%.³⁵ From February 2018, to increase the benefits from alerts, the CMA required larger firms to automatically enrol their customers into unarranged overdraft alerts and refused payment alerts.³⁶ The CMA recommended that the FCA consider whether providers should automatically enrol their customers into more alerts and how providers may be able to improve the alerts' effectiveness. We conducted a wide-ranging programme of research to consider:

- how providers may be able to enhance the effectiveness of overdraft alerts: for example, by changing the type, medium, content, timeliness and frequency of the alerts offered, and/or their automatic enrolment policies
- the grace periods operated by providers and the timings communicated in alerts

33 The Retail Banking Market Investigation Order 2017

34 Department of Business, Innovation & Skills and HM Treasury consumer credit and personal insolvency review, BIS/11/1341

35 FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts www.fca.org.uk/publication/occasional-papers/occasional-paper-36.pdf

36 The Retail Banking Market Investigation Order 2017



- the set of alerts consumers should be automatically enrolled into by providers

3.53 This involved qualitative and quantitative research, analysis of the impact of automatically enrolling consumers into pre-existing unarranged overdraft and refused payment alerts. It also included randomised controlled trials (RCTs) with firms looking at the impact of automatic enrolment of low-balance, near (arranged overdraft) limit, and arranged overdraft alerts. We have published the majority of this research alongside this CP, this includes an Occasional Paper (OP) on automatic enrolment into unarranged overdraft and refused payment alerts (referred to in the OP as unpaid item alerts). We will publish a second OP on the findings of RCTs of low-balance, near-limit and arranged overdraft alerts in July. Following this programme of research we now propose to require firms to automatically enrol consumers into arranged overdraft alerts as well as unarranged overdraft and refused payment alerts.

What is the harm?

3.54 There is low awareness and engagement with overdrafts. This results in consumers, particularly those who are not heavy overdraft users, paying overdraft charges they could potentially avoid.

3.55 In 2016, the CMA found 52% of overdraft users underestimated how often they used their overdraft by two or more months and 38% of them did not believe that they had gone into overdraft.³⁷ Our research has found consumers' value overdraft alerts to help them manage their money and avoid overdraft charges, but there is mixed awareness of available alerts.³⁸ Even where consumers are aware of alerts, they may not self-enrol.

3.56 Charges for using overdrafts can be substantial. While some charges are a result of intended overdraft use, **evidence suggests that some consumers have access to funds and can avoid or reduce charges if they are made aware of their impending overdraft use in good time.**³⁹ This is particularly the case for consumers who are not heavy overdraft users.

Why do we think intervention is justified?

3.57 Our research has found that **most consumers support automatic enrolment into alerts.** Awareness of existing text services offered by firms is low. Automatic enrolment can ensure alerts reach people who need them most.⁴⁰

3.58 **Consumers overwhelmingly find overdraft alerts 'helpful'** and a majority of consumers say they take action because of alerts. The most commonly cited action taken to avoid charges was transferring money from savings. The second most common action was cutting back on spending.⁴¹ In our analysis of existing alerts and RCTs we found that automatic enrolment into the following overdraft alerts can significantly reduce charges paid by consumers for overdraft use and payments refused due to lack of funds:

³⁷ CMA (2016), Retail banking market investigation Final report, p173.

³⁸ Atticus (2018) Consumer research on overdrafts, p63

³⁹ FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts www.fca.org.uk/publication/occasional-papers/occasional-paper-36.pdf

⁴⁰ Atticus (2018) Consumer research on overdrafts, p63

⁴¹ Finding of a survey carried out with customers involved in our low-balance, near-limit and arranged overdraft alert trials. An occasional paper detailing findings of these trials will be published in July 2018.

- **Unarranged overdraft alerts informing consumers of grace periods can reduce charges for consumers by as much as 25%.** This impact was greater in percentage terms for consumers who do not regularly use an unarranged overdraft. However, consumers who regularly use an unarranged overdraft, and so have higher total charges, tend to save more money in absolute terms.⁴² The CMA Order currently requires some firms to automatically enrol consumers into these alerts.
- **Refused payment alerts informing consumers of retry periods can reduce charges for refused payments by as much as 24%.** This impact was greater in percentage terms for consumers who do not regularly have refused payment charges. However, consumers who regularly pay these charges, and so have higher total charges, tend to save more money in absolute terms.⁴³ The CMA Order currently requires some firms to automatically enrol their customers into alerts that inform them of refused payment charges. In practice, as part of an industry agreement, many firms operate a retry period, during which consumers can take action to avoid refused payment charges.
- **Arranged overdraft alerts can reduce the charges paid by consumers for arranged overdraft use by as much as 7%.** This corresponds to a 3.1-6.7% reduction in 'total overdraft charges'.⁴⁴

3.59 Overall we estimate that **if firms with 70,000 or more PCAs automatically enrol consumers into the above alerts, consumers may save up to £140.5m a year** in reduced overdraft and refused payment charges and fees as a result of incurring these charges less frequently.⁴⁵

3.60 We found mixed evidence as to whether consumers benefit from automatic enrolment into early-warning alerts. For consumers with no overdraft facility, who would incur refused payment charges if their balance reached £0, low-balance alerts appeared to have no effect. Low-balance alerts may have reduced charges for other consumers, but the effect seen was not statistically significant. We found near-limit alerts to have no statistically significant impact on overdraft charges. While we didn't find significant impacts on overdraft charges, consumers involved in our trials of early-warning alerts told us that they found the alerts 'helpful' and took action to avoid incurring overdraft fees as a result of them. 65-71% of customers thought that their bank should offer the alerts we trialled automatically.⁴⁶

Our proposals

3.61 We propose to introduce rules to require banks and building societies to automatically enrol their payment account customers into a set of overdraft alerts. We have clear evidence that these alerts are both effective and welcomed by consumers. We also note that new banks entering the market are providing their customers with alerts as part of their standard service. We are aware that some established banks and building societies are considering extending automatic enrolment to a wider range of alerts.

42 FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts www.fca.org.uk/publication/occasional-papers/occasional-paper-36.pdf

43 FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts www.fca.org.uk/publication/occasional-papers/occasional-paper-36.pdf

44 Total charges refers to all charges related to overdrawing and refused payments. Reduction is in addition to the effects seen for the unarranged and refused payment alerts currently required by the CMA. Our estimates of the impact of arranged overdraft, near-limit and low-balance alerts are taken from RCTs. An occasional paper detailing findings of these trials will be published in July 2018.

45 This is in addition to savings already seen following the automatic enrolment exercise required by the CMA. The range of benefits is from a low range of £68m to a high range of £140.5m per year. See Annex 2 for further details of our Cost Benefit Analysis.

46 Our estimates of the impact of arranged overdraft, near-limit and low-balance alerts are taken from RCTs. An occasional paper detailing findings of these trials will be published in July 2018.



- 3.62** We consider that requiring firms to automatically enrol their customers into alerts will improve consumer protection. It will give consumers who can avoid overdraft use the information they need to understand what action to take, and by when, to reduce or avoid overdraft charges. We expect these rules to reduce arranged and unarranged overdraft use and charges among consumers who can transfer funds to avoid overdrawing – typically occasional and rare users.
- 3.63** These proposals will also contribute to improving effective competition by increasing awareness of overdraft use and associated charges. This, combined with the CMA's remedies and other remedies in our package, will contribute to greater consumer engagement with their PCAs.
- 3.64** We recognise that firms will incur costs by setting up an alerting system. To be proportionate, **we propose to require bank and building society brands (excluding private banks) with 70,000 or more PCAs to automatically enrol their customers into alerts**. This threshold will ensure that the majority of UK consumers will benefit from automatic enrolment without placing obligations on smaller firms and firms not actively competing in the UK PCA market. This threshold is lower than that set by the CMA who, since February 2018, has required that firms with 150,000 active PCAs combined in GB and NI automatically enrol their customers to receive alerts where they have exceeded or attempted to exceed an agreed credit limit (unarranged and refused payment alerts).
- 3.65** We propose to bring the alerts already required by the CMA into our Handbook. In doing so, this will extend the requirement to more banking brands so that more consumers can benefit from automatic enrolment. Except for scope, we want our rules requiring these alerts to be consistent with those already required by the CMA order. Including these rules in our Handbook would ensure that all rules on alerts are supervised by one body, so reducing the regulatory burden on firms. The CMA has confirmed that, if we decide to proceed with our proposals after consultation, the CMA would expect to review its Order and, if it found there had been a change of circumstances such that parts of the Order could be varied or revoked, consult on changes to it to avoid unnecessary duplication for those firms subject to both the CMA's Order and our rules.
- 3.66** To give firms time to build the necessary systems to comply with the rules, we propose that firms will have 12 months to comply from the implementation date of the final rules or 12 months from reaching the 70,000 PCAs threshold. This does not prevent brands with fewer PCAs from offering or automatically enrolling their customers to receive overdraft alerts.

Q7: Do you agree that rules requiring consumers to be automatically enrolled into unarranged overdraft and refused payment alerts should be included in the FCA Handbook?

3.67 We propose that the set of alerts that firms automatically enrol their customers into must include the following:

Unarranged overdraft (exceeded credit limit) alerts	<p>Sent when the firm knows that a customer has entered (or the firm can reasonably determine they will enter based on known transactions) an unarranged overdraft.⁴⁷</p> <p>The alert tells customers about the available grace period within which they can transfer funds to avoid overdraft charges for using an unarranged overdraft.</p>
Refused payment (attempt to exceed credit limit) alerts	<p>Sent when the firm knows that a customer has tried to overdraw without previous agreement (or the firm can reasonably determine that they will do so based on known transactions) and the payment has been or will be refused and will incur a refused payment charge.</p> <p>The alert applies to 'pre-notified payments', ie standing orders, direct debits and future-dated payments that may incur refused payment charge.</p>
Arranged overdraft alerts:	<p>Sent when the firm knows that a customer has entered (or the firm can reasonably determine they will enter based on known transaction) an arranged overdraft.</p>

3.68 **Automatic enrolment into text message or push-notification alerts:** We propose to require firms to automatically enrol all new PCA customers to receive these alerts when they open an account. We also propose to require firms to automatically enrol all existing customers to receive the alerts unless they have previously opted out of receiving an equivalent alert. We propose that alerts be sent by text message to a mobile phone or a push notification from a mobile banking application, unless the firm offers and the customer specifically requests alerts in another appropriate medium.

3.69 As discussed in Chapter 2, we recognise that these proposals will not directly benefit consumers who do not use mobile banking or have not registered a mobile number with their bank. We expect firms to take reasonable steps to get mobile phone numbers from their customers for the purpose of sending overdraft alerts. However, we recognise that not all consumers use a mobile phone or will want to share their number with their provider. The purpose of the alerts is to prompt immediate action and paper notifications sent via mail are not a suitable replacement. We consider the costs of requiring firms to contact their customers by telephoning them to be disproportionate.

3.70 As with existing CMA requirements to alert consumers, our proposed requirements to automatically enrol consumers into these alerts are not aimed at reducing other types of alerts which may complement the alerts we will require and help consumers. Our trials generated mixed evidence on whether some consumers might benefit from automatic enrolment into low-balance and near-limit alerts. We did not find evidence of consumers gaining financially but we did find that consumers are happy to receive these alerts because they give them an earlier warning to act. While we do not intend to require firms to automatically enrol their customers into these alerts at this time, we recognise that consumers appreciate these alerts and we encourage firms to make them available.

⁴⁷ We propose that this alert is also required for emergency borrowing facilities that may be arranged, i.e. facilities provided to customers in addition to or instead of an arranged facility that incur charges similar to an unarranged overdraft. Our draft rules require this via provisions for additional alerts (the content of which mirrors unarranged overdraft alerts) that are sent where there are multiple arranged overdraft limits.



- 3.71 Scheduling of alerts:** We understand that firms' existing alerting systems vary, with some sending alerts in real time and others batched, and we do not propose to specify either system. In our trials, we did not see evidence of 'alert fatigue'. This is where consumers switch off or ignore alerts because they receive too many alerts or alerts they cannot act on. However, to help prevent this becoming an issue, we propose to require that firms avoid sending their customers multiple alerts in a single day where these are triggered by a single payment or scheduled payments. In this case, we would expect the firm (where possible) to only send the alert signalling the final position of the account. We recognise that it will not always be possible for firms to avoid sending their customers multiple alerts, for example where payments are not scheduled and alerts are sent in real-time.
- 3.72** We propose to specify that alerts should be timely. As with the existing CMA Order, where an unarranged overdraft or refused payment alert is brought about by a scheduled payment, we propose to require that the alert must be sent by 10am on the day of the scheduled payment. We also propose to apply this rule to arranged overdraft alerts.
- 3.73 Content of alerts:** Our research has found that alerts are most effective where they explain consequences of overdrawing, are friendly, clear and direct consumers towards positive action they can take to avoid or reduce charges. Alerts that inform consumers that they will be charged and the time by which they must act are more likely to drive action.⁴⁸ We propose that the alerts sent by firms communicate:
- why the alert has been sent, eg that they have entered an arranged overdraft
 - the action the customer can take to avoid or limit their overdraft use or refused payments, eg that the customer should transfer funds to avoid this. Where relevant this includes informing customers of the available grace period
 - that the customer will or may incur charges if they become or remain overdrawn (if this is the case)
- 3.74 Grace periods:** Our analysis of transactional data has found that grace periods currently offered by firms are giving consumers enough time to act. Consumers respond within the same-day grace periods firms currently offer and there are peaks in responses immediately after receiving the alert and shortly before the end of the period.⁴⁹
- 3.75** We propose to require that firms communicate available grace periods when sending unarranged overdraft alerts. The grace periods communicated should give consumers reasonable time to act to avoid charges. Like the CMA, we do not propose to require firms to offer their customers a charge-free 'grace' or 'retry' period for refused payment alerts. The voluntary agreement – introduced in 2013–14, which sees firms operate a 'retry' system (described at paragraph 3.51) – is working well. We expect all firms required to automatically enrol customers into refused payment alerts to participate in this agreement.

48 Decision Technology (2018) FCA Prompts and Alerts Design: Behavioural Evidence, p27

49 FCA (2018) Occasional Paper 36 Sending out an SMS The impact of automatically enrolling consumers into overdraft alerts and occasional paper detailing findings of these trials will be published in July 2018
www.fca.org.uk/publication/occasional-papers/occasional-paper-36.pdf

- 3.76** We are not proposing to require firms to offer their customers a grace period to avoid arranged overdraft charges as we do not consider it would be proportionate. The purpose of this alert is to increase customer awareness of their arranged overdraft use. Customers agree to an arranged overdraft and charges for arranged overdraft use are typically lower than for unarranged. This does not prevent firms from offering a grace period with these alerts.

Q8: Do you agree with our draft rules to require firms to automatically enrol their customers into arranged overdraft, unarranged and refused payment alerts?

Q9: Do you agree with our draft rules regarding alert channel, content, scheduling and grace periods?

Available funds

- 3.77** We propose banning the use of the terms 'balance', 'available balance', 'available funds' or similar terms to refer to available arranged overdraft. This is to ensure that overdraft facilities are presented clearly as debt and to engage customers with their overdraft use.

Background

- 3.78** When communicating account balances to their customers (eg at cash machines, on statements, in internet banking and on mobile apps) some firms show customers, alongside their account balance, their 'available funds' or 'available balance'. This figure includes the arranged overdraft available to them combined with the money they have in their account.

What is the harm and why do we think intervention is justified?

- 3.79** Our research in 2014⁵⁰ identified that some firms' presentation of available funds as the balance in credit plus the overdraft facility reinforces their customers' perception that overdraft funds are their money rather than a line of credit. Our recent consumer research has further confirmed this.⁵¹

- 3.80** Presenting arranged overdraft facilities combined with balances as 'available funds' contributes to consumers' low awareness of, and engagement with, their overdraft use. It does not present the arranged overdraft facility as a form of credit contributing to the finding from our research that many consumers do not see overdraft borrowing as a form of debt.⁵² If consumers do not know that 'available funds' includes their arranged overdraft facility, they could spend more than they actually have in their account, and as a result have to pay overdraft fees and charges.

Our proposals

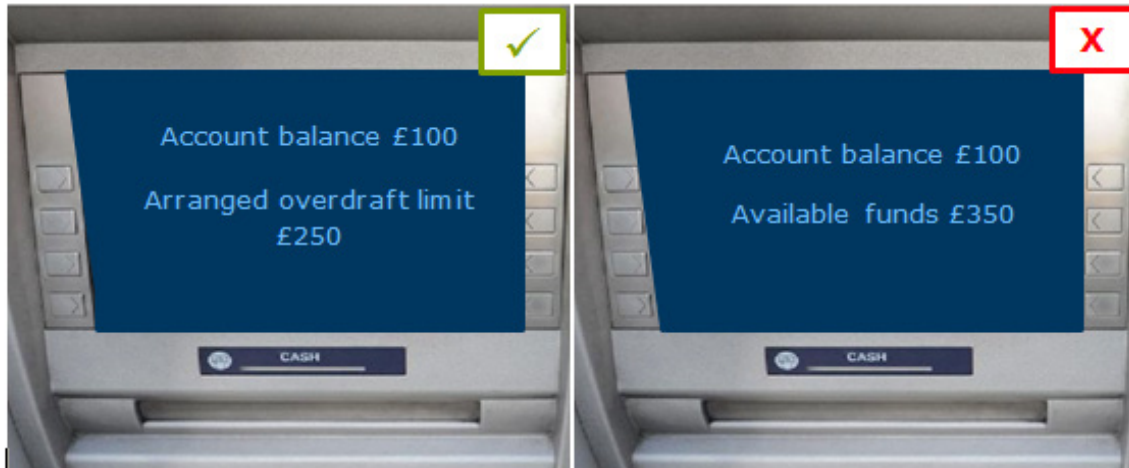
- 3.81** We propose to make rules to require that if a firm refers to 'balance', 'available funds', or 'available balance', this must exclude any arranged overdraft available to the customer. This will ensure that where available arranged overdraft is presented, this is separate to the customer's own money.

50 FCA (2014) Consumer Credit Qualitative Research: Credit Cards & Unauthorised Overdrafts, pp20–21.

51 Atticus (2018) Consumer research on overdrafts, p10

52 Atticus (2018) Consumer research on overdrafts, p46

- 3.82** This rule will strengthen consumer protection by addressing a potentially misleading presentation of the available overdraft facility and better engaging consumers with their overdraft use.



- 3.83** We propose that this rule should apply anywhere firms display or refer to available funds. This includes, for example, in overdraft alerts, at cash machines, on bank statements, internet banking, mobile apps or telephone banking, etc. We propose to issue guidance that the rule does not prevent firms from disclosing the amount of arranged overdraft available to the customer alongside their account balance. As shown in the example above.

- 3.84** As well as getting balance information directly from their PCA provider, consumers often access this information via the LINK cash machine network. We understand that no changes to the LINK scheme are needed to implement our proposals. The LINK scheme currently requires PCA providers to send LINK cash machines the customer's account balance. Providing other balance information, including available balance - with arranged overdraft - is optional. We know some providers already choose not to show their customers an available balance that includes their arranged overdraft at their own cash machines or via the LINK network. While not a requirement of our proposals, if firms wish to show their customers their available arranged overdraft at cash machines, they may choose to work with the LINK scheme to display available arranged overdraft alongside the customers balance.

Q10: Do you agree with our draft rules to require that if a firm refers to 'balance', 'available funds', or 'available balance', this must exclude any arranged overdraft available to the customer?

Prompts

- 3.85** We have received commitments that industry will deliver a package of prompts to increase consumers' engagement with their PCA and raise awareness of the current account switching service and developments in the retail banking market, such as Open Banking.

Background

3.86 Following its retail banking market investigation, the CMA proposed that prompts given at suitable times could encourage consumers to consider their current banking arrangements and shop around for alternative banking services. They suggested prompts might be triggered by specific events affecting the consumer, such as the closure of a local branch. Other prompts might be periodic, such as a reminder included in an annual statement. The CMA recommended that the FCA undertake a programme of research to identify which prompts would be most effective and (subject to the results of the research programme) implement a series of prompts to be communicated to consumers. In our response to the CMA, we agreed to undertake a prompts research programme.⁵³

3.87 At the same time, Bacs (who run the current account switch service (CASS)) committed to run a long-term promotional campaign to increase awareness and confidence in CASS. This ongoing campaign seeks to communicate to consumers the security and convenience of using CASS to switch accounts. Bacs are targeting promotional activity at consumer groups that have low awareness of CASS or could benefit most from switching PCA providers, including small and medium size enterprises (SMEs) covered by CASS, overdraft users, consumers with high credit balances, the young and the financially disadvantaged. Bacs committed to reflect any work by the FCA on consumer prompts in the campaign.⁵⁴

What is the harm?

3.88 In its final report on competition in the retail banking market, the CMA concluded that consumers' lack of engagement with the retail banking market 'is in part caused by the 'evergreen' nature of PCAs that have no contract end date. Unlike other products, most consumers hold a PCA for many years without ever being prompted to make a conscious choice about whether to continue or switch provider.'⁵⁵

3.89 The CMA found that while the 'CASS has already made a positive difference to the switching process... many customers either do not know about it or do not have confidence in it'. Overdraft users and BCA customers are particularly unaware that they can use it to switch account.⁵⁶

3.90 As previously discussed, levels of engagement with overdraft use and charges are also low with many consumers underestimating how often they use their overdraft and how much it cumulatively costs them. We have found consumers are not clear of the purpose of their overdraft or how it operates. Consumers are not aware of services their bank offers to help them manage their money, including their package of alerts.⁵⁷

3.91 Consumers' lack of engagement in the market reduces incentives on firms to compete on price and service. In recent years, a number of initiatives have been launched to increase competition in the PCA market by improving consumer engagement. These include Open Banking, standardised account opening procedures for BCAs and the publication of information about PCA and BCA service. The success of these initiatives will not be maximised if consumers are not aware of the developments. Open Banking launched at the start of 2018, we are aware that many consumers do not know that they can now share their information with third parties or how this might affect them.

53 FCA (2016) Our response to the CMA's final report on its investigation into competition in the retail banking market

54 CMA (2017) Notice of acceptance of final undertakings

55 CMA (2016) Retail banking market investigation Final report, pxxxix

56 CMA (2016) Retail banking market investigation Final report, xl

57 Atticus (2018) Consumer research on overdrafts, p61 and CMA (2016) Retail banking market investigation Final report, p173



Why do we think intervention is justified?

- 3.92** Our previous work on behavioural biases and smarter communications has shown clearly that communications can overwhelm, confuse, distract or even deter people from making effective choices if presented in a way people struggle to engage with. In addition, it shows that one-size-fits-all information can often be insufficient to empower consumers to make informed decisions and that, in order to be effective, communications should be designed to meet the needs of their target audience.
- 3.93** However, when done well, disclosure can drive better consumer outcomes, especially when crafted in a way that means consumers pay attention to it, have the capacity to interpret it, and are willing to incorporate it into their decision-making.
- 3.94** We have seen evidence from firms that sending targeted prompts to consumers, eg prompts targeted at non-mobile banking users to enrol in mobile banking, can be effective. We also know that firms use direct mail, email and advertisements in internet/mobile banking to promote their product range to their customers.
- 3.95** Having considered existing evidence, we undertook a programme of qualitative and quantitative research to identify which PCA prompts have most potential to increase consumer awareness of the potential benefits of switching PCAs and encourage consumers to think more about their account use, including the charges they incur. We found participants were most receptive to the idea of prompts that were presented in the context of informing them of a major upcoming change to service and that online banking and mobile apps were identified as preferred channels for communication.
- 3.96** Across the board, visual elements (eg appropriate use of colour, charts and symbols) were perceived as engaging. Definitive, action-oriented headlines were also found to be important. We found that longer (but still fairly concise), more informative messages tested better than shorter ones. This might be due to the additional elements adding new and useful information. Prompts that included information on service quality and cost, and also included a strong call to action, tested particularly well. Service-based messages were of interest to those not paying for their account. Graphical ways of presenting information tested better than text alone. A tailored overdraft message that 'being overdrawn does not stop you from switching' resonated with overdraft users as did messaging on 'not missing out'. Costs were most resonant when they were personalised and tailored, ie including cumulative past costs.⁵⁸
- 3.97** The evidence of which prompt 'elements' were most effective informed a short series of pilots. These involved firms sending prompts to over 2 million PCA and BCA customers. The prompts piloted were designed to:
- encourage consumers to engage with existing accounts
 - raise awareness of switching
 - encourage consumers to engage with their overdraft use
- 3.98** We found that how firms delivered prompt messages to their customers had a significant impact on how consumers interacted with the prompts.

58 Collaborate research (2017) Future personal current account prompts and alerts research report of qualitative research and Decision technology (2018) FCA prompts and alerts design: behavioural evidence

3.99 Across our pilots, background banners displayed in internet banking were not effective and prompts delivered to online banking mailboxes were generally not read. Consumers who received pop-up messages in internet banking or emails that included design elements which research indicated would be more effective were more likely to recall receiving messages from their bank about how to get the most from their account or how to switch banks. Some pop-up and email prompts that included more of these elements also more resulted in some small but statistically significant differences in customer awareness.⁵⁹

3.100 While the observed differences were small, prompts are designed to build impact over time. Our pilots took place over a month with most customers prompted only once. We consider the cumulative impact of these proposals on awareness should increase as consumers are exposed to more prompts. Further, the timing of our pilots meant that we were not able to pilot messages containing the CMA's core service metrics or messages about Open Banking. Our research indicates that including the indicators should increase the effectiveness of prompts.

3.101 We consider that over time, information provided by firms to their customers through prompts could lead to increased awareness among consumers of how they use their account, the total charges they incur, the benefits of their account and the potential benefits of switching. Increasing awareness of elements of the PCA remedies package, for example Open Banking will help maximise the benefits of these interventions. Increased awareness, coupled with other changes in the market, could encourage more active account management and increased switching.

3.102 We are not currently proposing to introduce rules because, to be effective, we consider this remedy requires a flexible approach that both enables firms to reflect innovations in how they communicate with their customers and how their customers manage their accounts. It also needs to allow firms to respond to potentially significant changes in the retail banking market.⁶⁰ Instead, we asked the industry to reach an agreement on prompts that results in new and robust industry guidance.

Commitments from the industry

3.103 UK Finance has worked with firms to deliver a package of three prompts to address low consumer awareness and engagement.

3.104 We welcome this commitment from industry to deliver an agreement that will see firms deliver timely messages that raise awareness of the switching service and prompt customers to take action to engage with their PCA. As a minimum, firms have committed to deliver the following messages to consumers:

- a.** When an account changes or an offer comes to an end and the customer will be worse off or no longer have access to a key service previously available with the account:
 - that the customer should consider if their account remains suitable for them.
 - that the CASS offers a secure and easy way to switch account in 7 days. Firms will include the CASS logo where appropriate.

⁵⁹ We plan to publish a report summarising findings of our prompts pilots in July.

⁶⁰ Following the CMA's retail banking investigation and PSD2.



- b.** Periodically (eg monthly) when overdraft charges or refused payment charges are incurred:
- the cumulative cost of overdraft use and refused payments
 - when charges will be taken (if they are rolled up to be charged at a later date)
 - details of where the customer can find information on the costs of using an overdraft
 - information about account features that may help the customer manage their money, eg overdraft alerts and mobile banking
 - that customers should consider if their overdraft use is the most suitable option for their borrowing
 - that overdraft users should consider if their account is the most suitable deal or appropriate product for them.
- c.** Annually
- the total annual cost of the account or an explanation that this information is included in the Statement of Fees
 - if the firm is required to participate⁶¹ the firm's overall CMA service level indicator result
 - the account features available that may help the customer manage their money
 - information about Open Banking, ie that they can share their account information with third-party services that can help them manage their money
 - the customer should consider if their account is the best deal for them
 - that the CASS offers a secure and easy way to switch account in 7 days. Firms will include the CASS logo where appropriate.

3.105 UK Finance has agreed to report annually to the FCA on firms' activity with a sample of the material distributed.

3.106 In designing their prompts, we recommend firms consider the research published alongside this report and monitor the impact of the prompts programme, periodically refreshing prompts to reflect changes in retail banking.

3.107 We are aware that in addition to this industry agreement UK Finance is working with its members to identify customers who are repeated or persistent users of an overdraft. It is testing approaches to engage these consumers. We discuss repeat overdraft use further in chapter 5.

61 By the CMA's Retail Banking Market Investigation Order 2017

Next steps

- 3.108** If, having considered the feedback to this CP, we decide to make rules we plan to publish a Policy Statement towards the end of the year or as part of the next stages of our analysis on pricing interventions and repeat overdraft use (Chapters 4 and 5).

4 Pricing interventions (for discussion)

- 4.1** In this chapter, we consider the complexity of pricing structures and the high level of fees and charges. We set out evidence for harm and present a range of potential measures which we intend to model in the next phase of our analysis.
- 4.2** The potential remedies which we present for discussion in this chapter look to take into account the package of competition remedies we set out for consultation in chapter 3, which build on the existing CMA remedies. Those measures aim to increase consumer awareness and engagement with their overdraft, to make it easier for consumers to calculate how much they will be charged for their overdraft and to remove barriers to switching.
- 4.3** However, these remedies will not address all of the potential harm from high and complex fees. There is currently a substantial difference between arranged and unarranged overdraft prices and our research suggests a link between unarranged overdraft use and vulnerability. We also see that the current range of ways that firms price their overdrafts can make it difficult for consumers to compare easily between different PCA providers or other credit products.
- 4.4** In this chapter we set out a case for considering more direct intervention in the way that firms price their overdrafts in order to address these concerns. We set out a potential package of measures which we intend to model:
- **price simplification** through a ban on all fees, a requirement for firms to charge for overdrafts using interest rates and to include APRs in arranged overdraft advertising
 - **price alignment** between arranged and unarranged overdrafts
- 4.5** We are also looking to model the potential role of a backstop price cap, which could cover both arranged and unarranged overdraft charges.
- 4.6** The CMA considered a number of these remedies as part of its investigation into retail banking and noted that they could potentially lead to a reduction in access to credit and could impact the pricing of other parts of the PCA. We will be considering these points in detail as part of the next stages of our review. We are currently collecting further data from firms to allow us to model the potential impact and proportionality of these measures alongside the wider work of the Strategic Review.

What is the harm?

- 4.7** Overdrafts sit as part of a wider PCA offering and are not a standalone product. Firms can charge for PCAs indirectly through how they set their interest rates on deposits and directly through a variety of fees and charges including for arranged and unarranged overdrafts, foreign exchange transactions and refused payment fees. This can be part of a free-if-in-credit model or can sit alongside a monthly fee payable by account holders.

4.8 It is a business decision for firms to choose how they price their PCAs. It is reasonable to expect charges for PCAs to vary between consumers since they use their PCA in different ways that incur different direct costs for the firm. However, as set out in our Mission, we see 'prices being too high, or quality too low' as a form of harm.⁶² Following this, we see that distributions of charges that place significant charges on a minority of consumers, in particular vulnerable consumers, could be harmful – especially if those charges significantly exceed the costs incurred by the firm from servicing those consumers. In this situation, prices for certain elements of the PCA may be too high, leading to these consumers paying a disproportionate share towards profits or the costs incurred by the firm for providing the wider PCA offering.

4.9 We set out below our current findings, which suggest that the way that unarranged overdrafts are priced is potentially harmful⁶³:

- on average, firms make over 10 times more in revenue from unarranged lending for each pound lent than for arranged overdraft lending
- consumers are paying high effective interest rates, often more than 10% a day, for unarranged overdrafts
- looking across unarranged overdraft users, we do not see any clear relationship between the level of charges and the amount they use an unarranged overdraft⁶⁴
- charges for unarranged overdrafts are paid by around 14% of PCA customers but the majority of fees are concentrated on only 1.5% of customers; we estimate that these consumers pay on average around £450 a year in unarranged overdraft fees
- consumers living in more deprived areas are more likely to use an unarranged overdraft than those in less deprived areas and pay around twice as much in fees and charges

4.10 We are still assessing the costs incurred by firms by offering arranged and unarranged overdrafts. This work is being conducted alongside the Strategic Review. Once completed this will allow us to understand how far overdrafts revenue is used to cover costs within the PCA offering beyond overdrafts.

Revenues and charges for unarranged overdrafts

4.11 Unarranged overdraft prices are high compared with the amount borrowed and are significantly more expensive than arranged overdrafts.

4.12 In the past, the process of deciding whether to accept a payment which would take a consumer into an unarranged overdraft required someone to make a specific manual decision. This would take time and therefore incur a material cost for the firm. This has changed with technology. The majority of firms now make these lending decisions automatically and decide in advance how far they are willing to lend to a consumer through an unarranged overdraft. This is usually on the basis of the same information

62 FCA (2017) Our Mission: www.fca.org.uk/publication/corporate/our-mission-2017.pdf, p.12

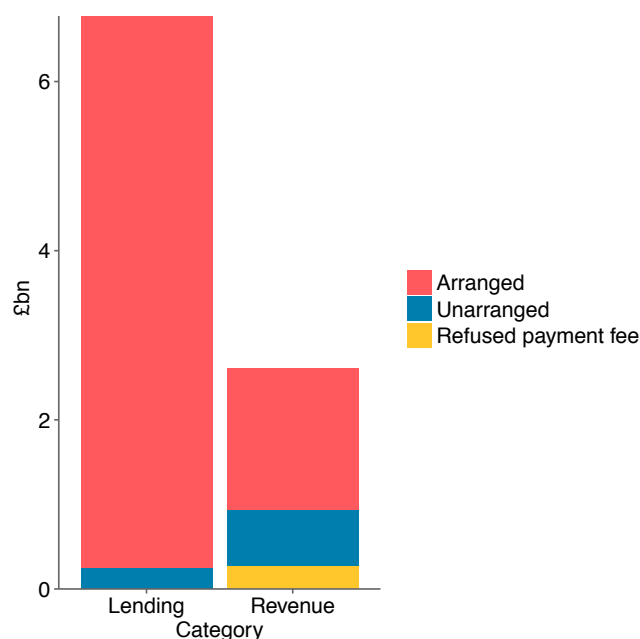
63 The estimates in this section have been calculated using a representative sample of 1.5 million UK PCA accounts covering 2015 and 2016. We have only used the 2016 data in this section as it is the most recent. We note that this data does not take into account the impact of the monthly maximum charge or other recent changes made by individual firms. While we have seen that following the MMC there has been a decrease in the revenue from unarranged overdrafts and refused payment fees, we do not think that this materially affects the analysis of harm presented in this section. When modelling any potential remedies, including any cost/benefit analysis, we will be taking all relevant recent market changes into account.

64 In terms of pounds borrowed over time.

used for deciding whether to offer an arranged overdraft. As a result, there is now a smaller difference in underlying costs for firms for providing unarranged overdrafts compared with arranged overdrafts. We are currently analysing, as part of the next stage of our work, how far this is true for other costs related to offering overdrafts.

4.13 Figure 1 shows average amounts outstanding for arranged and unarranged overdrafts and gross revenues for 2016. We estimate that firms lent an average of £6.6bn each day through their arranged line and made an annual revenue of £1.7bn, or 25% of the average daily amount outstanding. In comparison, unarranged overdrafts, revenues were around £670m. This equates to 270% of the average amount outstanding, which is over 10 times higher than arranged overdrafts. The chart includes revenue from refused payments fees for comparison, although we see this as a distinct revenue stream from overdrafts.

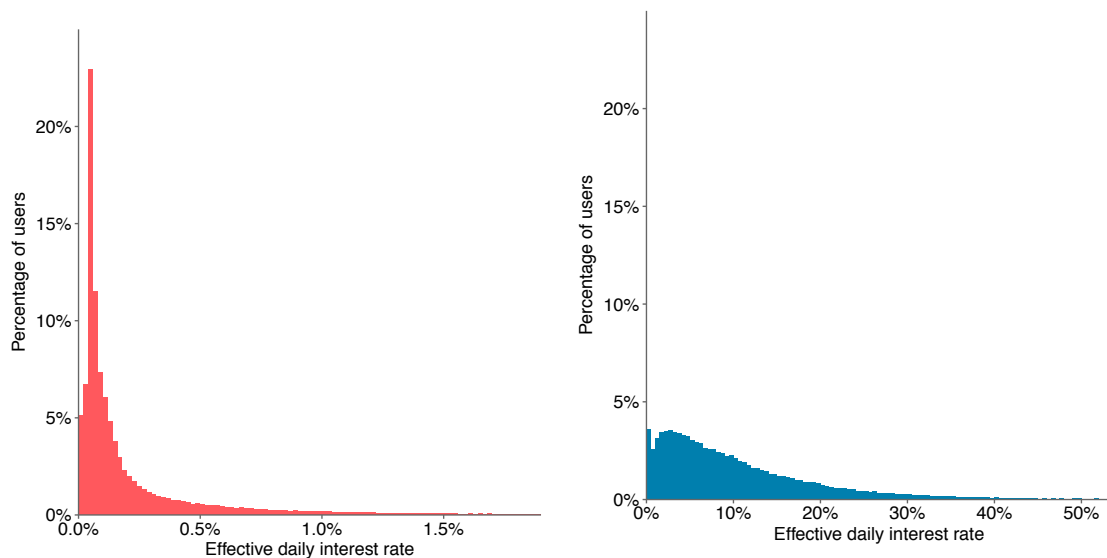
Figure 1: Average amounts outstanding for arranged and unarranged and revenues from overdrafts and refused payment fees for 2016



4.14 While firms generally earn more revenue from arranged overdrafts, the amount raised from unarranged makes up a substantial share of their total revenue from overdrafts, with additional revenue from refused payment fees. Looking across the six largest PCA providers, we see that unarranged overdrafts account for, on average, around 30% of all overdraft revenues.

4.15 We see a similar picture when looking at how individual consumers incur charges for their overdraft use. Using the same representative sample of customers for from the six largest PCA providers in 2016, we looked at how much they borrowed through arranged and unarranged overdrafts, both in terms of the amounts borrowed and the time they were overdrawn. We then compared this with their charges to see what their effective daily rate of interest was for their overdraft use across 2016. Figure 2 shows the results of this.

Figure 2: Effective daily interest rates for arranged (left) and unarranged (right) in 2016



4.16 It is important to note the difference between the two scales in Figure 2. For arranged overdrafts, we see that the effective daily interest rate tends to be between 0.1-0.5%, while for unarranged overdrafts consumers are regularly paying more than 10% a day.

4.17 As Figure 2 shows, there is variation in the effective interest rates that different consumers pay for their overdrafts. This variation is more pronounced for unarranged overdrafts than arranged. We would expect some variation due to differences in prices across account types and different firms; however, we see similar patterns when looking at different customers with the same type of account at the same firm. When looking at unarranged overdrafts we found no clear relationship between the amounts that consumers used an unarranged overdraft, taking into account the number of days they used the facility, the amounts they borrowed, and the amount they were charged. We also see this, although to a lesser extent, with arranged overdrafts.

4.18 Fixed fees drive this variation in the effective interest rates because a small amount of additional borrowing on an overdraft can lead to significant additional charges. This is particularly the case for unarranged overdrafts where the amounts overdrawn tend to be much smaller, but is also seen for those arranged overdrafts where the majority of fees are incurred through fixed monthly and daily fees.

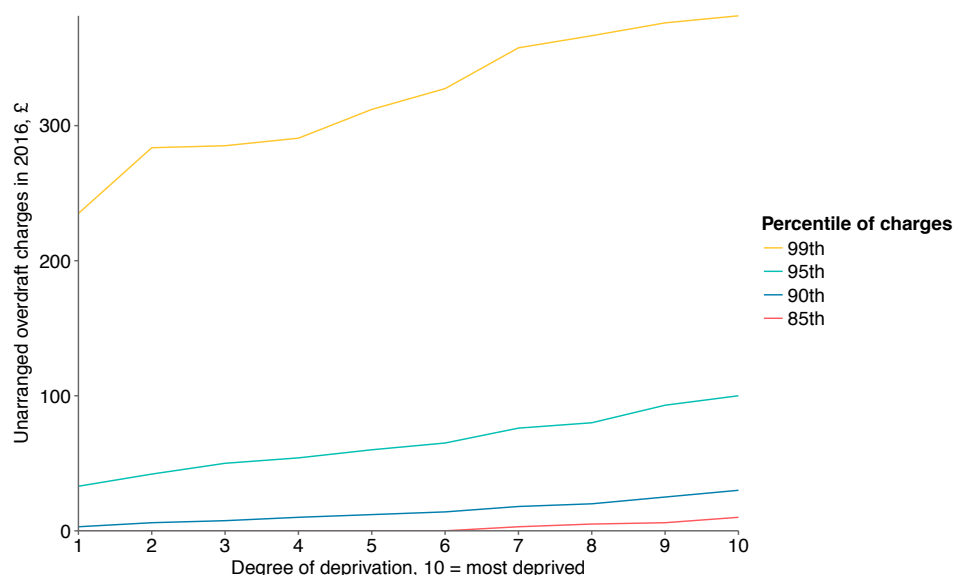
4.19 Figure 2 shows the range of effective interest rates for users that were charged for using an arranged or unarranged overdraft. However, some users of arranged and unarranged overdrafts did not pay anything at all. 11% of those who used arranged overdrafts did not pay for using it, and 34% of those who used unarranged overdrafts did not pay for using it. This can happen for a variety of reasons – for example customers may be using fee-free buffers included in their overdraft, or may have had charges waived by their bank.

Distribution of charges

4.20 Charges for unarranged overdrafts are highly concentrated. In 2016, roughly 14% of all PCA customers incurred charges for unarranged overdrafts; however, the majority of charges were incurred on only 1.5% of customers.

- 4.21** We estimate that these consumers paid around £450 in fees and charges for unarranged overdrafts (in addition to any other fees and charges for arranged overdraft use). An initial analysis suggests that this is likely to be several times more than the average PCA customer pays (directly or indirectly) for their PCA.
- 4.22** We also see a strong link between unarranged overdraft use and consumer vulnerability. In particular, we see that consumers living in the most deprived areas are 70% more likely to use an unarranged overdraft than those in the least deprived areas, and tend to use the unarranged facility more frequently leading to higher charges.⁶⁵
- 4.23** Figure 3 shows how unarranged charges in 2016 vary across customers living in geographic areas with different levels of deprivation. When comparing people in the top 10% with those in the bottom 10%, we see that consumers in the more deprived areas are around 70% more likely to use an unarranged overdraft and pay around twice as much in charges as those in the less deprived areas.

Figure 3: Variation of unarranged charges against deprivation⁶⁶



- 4.24** We do not see a similar pattern when looking at arranged overdrafts. In general consumers in more deprived areas are less likely to use an arranged overdraft and are less likely to have an arranged overdraft in place. In addition, consumers with an arranged overdraft in more deprived areas tend to have a lower overdraft limit. As a result of the link between unarranged overdraft use and vulnerability, we see firms using unarranged overdrafts as a source of revenues to fund other parts of the PCA offering as highly likely to be harmful.

⁶⁵ Deprivation is measured using the English Index of Multiple Deprivation (IMD) for the area where the PCA customer resides. By 'area' we mean the 'Lower Layer Super Output Area' (LSOA) which consists of around 1500 individuals. As the IMD only applies within England, we have only analysed accounts in England which represents a large majority of the UK population, and consequently customers in our dataset. We do not believe the results for Wales, Scotland or Northern Ireland would be materially different if data were available. For more information on the IMD see: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/464431/English_Index_of_Multiple_Deprivation_2015_-_Infographic.pdf

We also considered the distribution of unarranged overdraft use against credit turnover, however we did not find this to be a robust approach to studying trends related to vulnerability. There are many reasons why credit turnover can be a poor proxy for income, in particular for low levels of credit turnover which would be the area we are most interested in. We view the IMD as a better way of measuring trends linked to vulnerability, recognising that income is only one part of the picture of consumer vulnerability.

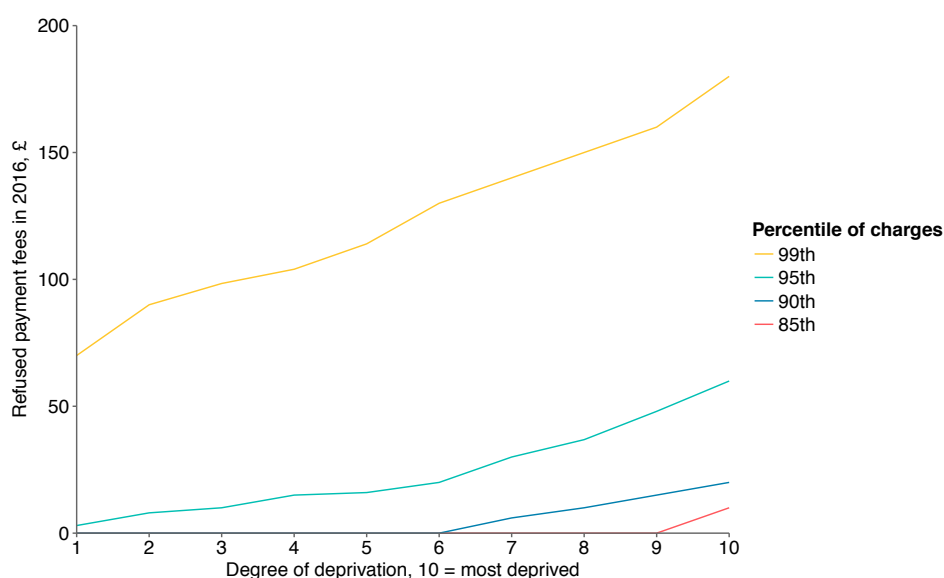
⁶⁶ We ranked consumers' local areas (LSOAs) by the IMD and split our sample into 10 deciles deprivation. The yellow line shows how much, at least, the top 1% of consumers in each decile paid in charges. The chart also shows these figures for the 5%, 10% and 15% of consumers paying the most in each region.

Refused payment fees

4.25 Consumers enter an unarranged overdraft when there are not sufficient funds in their PCA (including any arranged overdraft) to cover a payment and the firm still decides to accept the payment. Firms do not always accept such payments and may instead decline them. In some cases, firms charge a refused payment fee⁶⁷ to the consumer when this occurs. Not all firms do this, but when they do it usually covers direct debits, standing orders and cheques and can range from £5–25 for each declined transaction.

4.26 We see a similar picture emerging for refused payment fees as we do for unarranged overdraft charges. In 2016, firms made an estimated £270m through refused payment fees. Figure 4 shows how refused payment fees in 2016 vary across customers living in geographic areas with different levels of deprivation. We see that consumers in more deprived regions are much more likely to receive a refused payment fee. On average, these consumers pay 3.5 times as much each year in refused payment fees as consumers in less deprived regions.

Figure 4: Variation of refused payment fees against deprivation



4.27 The fees are also highly concentrated. In 2016, 10% of consumers were charged for declined transactions, with the majority of charges being paid by 1.2% of consumers.

4.28 The above discussion indicates a link between refused payment fees and vulnerability.

Complexity of pricing structure

4.29 Firms use a variety of different pricing elements in their overdraft pricing structures, including interest charges, daily fees monthly fees and allowed payment fees.⁶⁸ As seen in Table 1, these differ considerably between different firms. There are also differences between different accounts offered by each firm. Daily fees may be fixed or can vary depending on the amount borrowed. There is no standard approach to how these fees can vary, with some firms increasing the fee for each additional £1,000 borrowed and others for amounts as small as each additional £7 borrowed.

⁶⁷ These are also known as 'unpaid item fees' or 'declined transaction fees'

⁶⁸ These are also known as 'paid item fees'

Table 1: Examples of firms' pricing structures in May 2018

	Arranged			Unarranged				
	Daily fee (£)	Monthly fee (£)	Interest, EAR (%)	Daily fee (£)	Allowed payment fee (£)	Interest, EAR (%)	Refused payment fee (£)	MMC (£)
Range	0.50–3	6–10	11–67	£5–10	£5–15	16–19	5–25	
Barclays ⁶⁹	✓			✓			✓	67
HSBC			✓	✓				80
LBG ⁷⁰			✓					N/A
Nationwide			✓	✓	✓	✓	✓	50
RBS		✓		✓			✓	80
Santander ⁷¹	✓			✓			✓	95

4.30 As set out in chapter 3, the use of multiple pricing elements within a single PCA product can make it hard for consumers to calculate how much, in pounds and pence, they are likely to pay for their overdraft.

4.31 A further outcome of pricing complexity is that overdrafts are difficult to compare with one another. Our research showed that consumers:

- underestimate the expense of fixed fees when comparing with interest rates
- see daily fees in isolation and do not think about how they can accumulate
- tend to focus on only one part of the pricing structure even when it has several elements⁷²

4.32 It can be difficult for consumers to know in advance how they will use their overdraft, in terms of how much they will borrow and over how many days. Indeed, overdrafts are often advertised as helping to cover unexpected costs. Despite this, accurate comparison between overdraft providers currently requires consumers to correctly predict their future borrowing behaviours. For example:

- an interest rate leads to cost of borrowing varying continuously according to both how much is borrowed and for how long
- a fixed daily fee will lead to cost of borrowing varying according to the number of days the overdraft is used for

69 For the purposes of our analysis, we have classified Barclays's 'Emergency Borrowing' as a form of unarranged overdraft. This is because we see similar risks of harm from this approach to structuring an arranged overdraft as we do for charges linked to exceeding arranged credit limits.

70 While Lloyds Banking Group uses a daily fee as its pricing structure, this fee (1p per £7 borrowed) bears more similarity to an interest charge and so we have classified it as such for the purposes of this table. Where we refer to firms pricing overdrafts using interest rates later in this chapter, particularly as part of our potential package of measures, it should not be assumed that this form of pricing will be classed as an interest rate.

71 This table is based on overdraft pricing structures which are correct as of time of publication. We are aware that Santander has announced changes to its unarranged overdraft pricing for certain accounts and is planning to lower its MMC.

72 Atticus (2018) Consumer research on overdrafts, p.54

- a tiered daily fee (e.g., £1 for every £1000 borrowed), which depends on the amount borrowed, leads to cost of borrowing varying according to both amount borrowed and the number of days, but with sudden changes in price when thresholds are crossed

4.33 The complexity of overdraft pricing structures also makes it difficult to compare them with other forms of credit. In particular, credit cards are usually priced using interest rates and most advertising includes an APR, which consumers would be familiar with. Overdrafts are not currently required to have an APR, so consumers cannot use this figure to compare them with other forms of revolving credit.

4.34 Overall, the range of overdraft pricing structures, and the regular use of multiple fixed fees within them, hinders comparison between different overdraft providers and with other forms of credit. This in turn can lead to high prices due to a combination of consumers underestimating the expense of fixed fees and not being able to compare with other forms of credit. The lack of a single headline price, or price comparator covering arranged overdrafts, means that there is not a clear price for firms to compete on.

4.35 It could be argued that a diversity of pricing structures in the market reflects that firms are competing with each other on how the way they charge for overdrafts.⁷³ While some consumers may benefit from this form of competition, the evidence we have seen indicates that the problems which arise from having this range of structures outweigh this.

4.36 In terms of unarranged overdraft charges, the CMA required firms to set monthly maximum charges (MMC) following its retail banking market investigation. The MMC is a monthly cap on the charges a customer can incur in any given month as a result of exceeding or attempting to exceed a pre-agreed credit limit. Most firms have set MMCs for each of their brands since August 2017.

4.37 In addition to capping total monthly charges, the CMA expected the MMC to address some of the complexity of unarranged overdraft charges by giving customers a single measure to make like-for-like comparisons on the caps set by PCA providers. However, the MMC does not apply to arranged overdrafts. The findings from our review of the MMC can be found in Annex 3.

Q11: Do you agree with our approach to harm in this chapter?
Do you have any comments, observations or evidence
which would be relevant to this part of our analysis?

What remedies could we put in place?

4.38 In our Feedback Statement, we said that we would consider the case for 'fundamental reform of unarranged overdrafts and consider whether they should have a place in any modern banking market'.⁷⁴

4.39 We are considering the case for placing some control over the pricing of unarranged overdrafts and for reducing the complexity of arranged and unarranged overdraft

⁷³ The CMA, for example, consider that firms could compete on diversity of pricing structures and that restricting this could be seen as a restriction of competition. See CMA (2016) Retail Banking Market Investigation, Final Report, p. 566

⁷⁴ FCA (2017) High-cost credit and review of the high-cost short-term credit price cap, p.51.



pricing. Unarranged overdraft prices cannot be considered in isolation from arranged overdrafts. As a result, we think that there may be a case for reforming the entire approach to pricing both arranged and unarranged overdrafts.

Price simplification

- 4.40** Overdraft price structures should allow consumers to easily compare between both different overdraft providers and other forms of credit. The current range of structures does the opposite, requiring consumers to compare between different types and combinations of pricing elements and requiring accurate prediction of future borrowing patterns.
- 4.41** Price structures should avoid using several different elements so that consumers can focus on a single, meaningful headline number. Standardising the price structure in this way would encourage firms to compete on that headline price.
- 4.42** Consumers do not spend much time thinking about overdraft charges and so it is important that they are simple. Prices that are not linked to the level of use, or that contain significant jumps in price for small additional levels of borrowing, make it harder to consumers to apply simple rules of thumb to understand their overdraft charges.
- 4.43** The clearest way to accomplish this is through firms charging for overdrafts using only an interest rate charge. This links the price payable by the customer to both the amount of the overdraft and the period over which it is held. It is also possible to express this price simply through a single number.
- 4.44** A drawback of interest rates is that many consumers find it difficult to understand exactly what they will be charged for a particular use of their overdraft. As a result, requiring firms to price using interest rates could be seen as making prices more opaque. We think that the impact of this would be limited, since:
- While a fixed fee would offer more clarity on what each use of the overdraft would cost, consumers tend to overlook how these fees can accumulate over time. The benefit of clarity on daily costs can be over-emphasised.
 - The proposals in Chapter 3 to introduce online calculators will mean that consumers have a tool available to calculate charges if they need it.
 - Other credit products make use of interest rates and so having interest rates for overdrafts allows for simpler comparison.
- A potential approach to price intervention**
- 4.45** We currently think that a move to pricing overdrafts only using interest rates would be the best approach to simplifying prices to allow consumers to compare easily and for firms to compete on a meaningful headline price.
- 4.46** Taking this into account we intend to model a package of measures which would aim simplify prices and place a degree of control over unarranged overdraft prices. These are:
- **A ban on all fixed fees** including daily, monthly and allowed payment fees, for arranged and unarranged overdrafts. This would not include refused payment fees.

- Arranged overdrafts to be charged using a **single interest rate** on each individual account. This could vary for different account types, or even different customers holding the same account, but could not have different tiers within a single account.
- Introduction of a rule to require firms to provide a **representative APR** advertising of arranged overdrafts, as currently required for other forms of consumer credit.⁷⁵
- **Alignment of arranged and unarranged prices.** Unarranged overdrafts are also to be priced using a single interest rate, no higher than a fixed percentage uplift of the interest rate for arranged overdrafts. We will carry out further work to determine what this uplift should be or whether unarranged should be no more expensive than arranged.

Standardisation of pricing and APRs

- 4.47** There are a number of different ways that firms could charge by using an interest rate. The rate could be charged each day, week or month and it could be compounded in a variety of ways. Further to this, firms may seek to express an interest rate in different ways, including annual percentages, daily percentages, or other ways.
- 4.48** The impact of how prices are expressed is not neutral. We are concerned that some ways of representing prices may be misinterpreted and that consumers' biases may lead to predictable mistakes. Our research asked consumers to compare two prices: 37% APR and '1p for each £8 borrowed'. While the latter is more expensive, consumers tended to anchor to the '1p' aspect when judging the price and thought it was cheaper.⁷⁶
- 4.49** We do not think that it would be proportionate or effective to ban any particular ways of representing prices but a degree of standardisation appears necessary to ensure that consumers can easily compare prices.
- 4.50** We think that the best candidate for this standardisation would be for firms to include APRs prominently in advertising for arranged overdrafts, in line with other forms of credit. This would give a single number, based on a standardised calculation which can be used to quickly and easily compare prices.
- 4.51** If overdrafts are charged using only an interest rate, then an APR would be effective as a quick and simple tool for comparison. If a consumer sees two overdrafts with two different APRs, the lower of the two APRs corresponds to the cheaper provider. It is important to note that due to the way that APRs are calculated this would not be true if other charges, such as fixed fees, are included as part of the price structure.
- 4.52** The assumptions for APR calculation are different for overdrafts than for other forms of revolving credit, such as credit cards, and tend to produce slightly lower APRs. However, the difference is only significant for APRs in excess of 100%. Arranged overdrafts and credit cards tend not to have such high APRs. We therefore do not see that the differences in the way the APRs are calculated for credit cards and overdrafts would impact on consumers using the APR for comparison between these two products.

⁷⁵ For credit products generally, a representative example (including representative APR) is triggered if the promotion indicates an interest rate or an amount relating to the cost of credit. In addition, a representative APR is triggered if the promotion includes a 'sub-prime' or 'comparative' indication or an 'incentive' (see CONC 3.5).

⁷⁶ Atticus (2018) Consumer research on overdrafts p.55



Alignment of arranged and unarranged prices

- 4.53** Our research has shown that there is a significant difference in the cost of borrowing between arranged and unarranged overdrafts. We are considering aligning the prices for arranged and unarranged overdrafts to remove this difference. This would mean that firms could not charge any more for unarranged lending than for arranged, although they could charge less. In cases where the customer has no arranged overdraft, we are considering whether the rate should be based that typically applied across all the firm's customers for unarranged overdrafts.
- 4.54** We are aware that there may be certain costs to firms which are specific to unarranged lending. We are collecting and analysing data from firms to identify any such costs, working also with information from the Strategic Review. If we do find that there are significant differences in the costs for firms then it is possible that aligning arranged and unarranged prices could make unarranged lending to some consumers unprofitable and potentially lead to firms reducing unarranged lending. In this case we will be considering whether there could be a small, capped, difference between arranged and unarranged prices to take account of this.
- 4.55** A package of measures consisting of price simplification and alignment of arranged and unarranged overdrafts would stop short of setting an absolute price cap for either arranged or unarranged overdrafts. It would leave firms to make the decision on their overdraft prices, although it would limit the extent to how much they can put place additional charges on unarranged overdraft users. This would be intended to allow firms to recover any additional costs of providing unarranged overdrafts. We are also considering other measures around price capping which are discussed below.

Buffers

- 4.56** Many firms currently offer charge free buffers as part of their overdraft price structure. These are popular with consumers who see them as fair, allowing consumers to not be charged for making small mistakes.
- 4.57** We do not see any reason at present to prohibit firms from using buffers. However, if consumers exceed the buffer, then there is a question as to whether firms should be able to then charge on the full amount borrowed. For example, if there is a £100 buffer and a consumer borrows £101, should the firm apply charges on the £1 which exceeds the buffer or the full £101? If the firm charges on the full £101 then this would mean there could be a significant jump in charges for a small amount additionally borrowed. As we are looking to avoid sudden jumps in charges for small levels of additional borrowing, we are considering prohibiting firms structuring their prices in this way.

Potential impact of price simplification and alignment on consumers

- 4.58** Any changes to the pricing structure of overdrafts will leave some consumers better off and others worse off, at least initially and assuming no changes in behaviour. While further work is required to model the potential remedies discussed above, we note that they are likely to be beneficial for the majority of consumers who use unarranged overdrafts. A move from fees to an interest rate – together with the alignment of arranged and unarranged pricing and APRs to encourage comparability – should lead to significantly lower prices for unarranged borrowing. This is because charges would take account of the size of the amount borrowed (which is typically very small) rather than charging a fixed fee and would be linked to arranged overdraft prices.
- 4.59** For arranged overdraft users, we would expect that the main consumers who would benefit from the potential package of measures discussed above would be those who

borrow smaller amounts, whereas consumers who have large credit limits and spend a significant amount of time overdrawn may be worse off. On this point, we note three key considerations:

- The move to interest rates and a requirement to have an APR could lead to increased competition around the price on arranged overdrafts. This could reduce the number of consumers who may be negatively impacted by the proposals.
- Where consumers have other options, for example available savings or cheaper forms of credit (including consolidation loans), any increase in prices may incentivise them to consider these options.
- Where consumers do not have other options and find themselves stuck in their overdraft, we would expect these consumers to be helped through remedies around repeat overdraft use (see Chapter 5).

4.60 Understanding the potential effect of these, or other, remedies on consumers will be a central goal of the modelling we will be conducting in the next stage of our work. We are collecting further data from firms which will allow us to carry out this analysis, alongside the Strategic Review. We will also consider the effects of any potential remedies on the wider PCA offering.

Price capping

4.61 In addition to the measures around price simplification and aligning arranged and unarranged prices, we are also modelling the potential role of an absolute price cap to act as a backstop.

4.62 This could take a number of forms, including a combination of:

- extension of the CMA's monthly maximum charge
- setting our own upper limit on the MMC
- setting a daily fee cap for unarranged overdrafts (e.g., £2 a day)
- setting a daily interest limit for unarranged overdrafts. (e.g., 0.2% a day)

4.63 The price cap could also be extended to cover arranged as well as unarranged overdrafts.

4.64 The FCA has reviewed the MMC and our full findings are in Annex 3.

4.65 Our current view is that the MMC complements the potential measures outlined in this chapter. In particular, it is a useful cap on high cumulative charges for heavy unarranged users. However, it does not address all our concerns about arranged and unarranged overdraft pricing. First, it only applies to unarranged overdrafts and so does not tackle complexity of arranged overdraft pricing complexity or repeat overdraft use. Also, although it provides a comparison point for unarranged overdraft costs, we found that consumers are not broadly aware of the MMC and do not understand what it is. We also found that it could be made more prominent and easier to find. In this respect, including the MMC in the improved information at account opening that we have proposed in Chapter 3 could help enhance its prominence and increase consumer awareness of it.



- 4.66** Given the MMC does not address all the harm we have identified, there is scope for us to consider further potential remedies to do so. The findings of our MMC review will inform our further consideration and design of any potential pricing remedies.

Refused payment fees

- 4.67** The proposal to ban all overdraft fees, which we are planning to model, will not include refused payment fees. This is because firms are entitled to charge these fees under the Payment Services Regulations 2017 ('PSR'). On the other hand, the PSR make clear that the fees should 'reasonably correspond to the payment service provider's actual costs'.⁷⁷

- 4.68** There are clear links between the population of consumers who use unarranged overdrafts and refused payment fees, and we are aware that if there is a move in the market away from offering unarranged overdrafts, then there may also be a rise in the number of declined transactions. We would be concerned if firms looked to do more than recover legitimate costs using refused payment fees.

- 4.69** We are currently analysing data to understand the underlying costs for declining transactions and whether firms are using the revenue from refused payment fees to also cover other costs linked to the PCA. As there is significant scope for harm, we may consider putting in place guidance to make clear exactly which costs firms should consider to ensure that their refused payment fees are cost reflective.

Open Banking and PSD2

- 4.70** One of the key aims of the potential package of remedies we are considering is to reduce the complexity of overdraft pricing in order to increase competition. PSD2 and Open Banking may facilitate AIS and PIS with similar aims. Despite this, given the potential harm we see in the market, we do not think that it would be proportionate to wait and see if technology solutions will develop to address this harm.

- 4.71** While Account Information Service Providers and Payment Initiation Service Providers may develop tools that help consumers to compare overdraft prices, AIS and PIS will only be of use to consumers who decide to use the technology, whereas the approach we are considering will allow all consumers to easily compare overdrafts and credit products. It currently remains unclear whether, and when, significant numbers of consumers will choose to share their banking data to access AIS and PIS, and what impact this will have.

- 4.72** There remains significant scope for AIS and PIS to raise levels of consumer engagement with their overdrafts and to help them compare different PCAs. Technology will continue to have an important role within the development of overdrafts and PCAs more widely in the future and to build on the reforms in the market which we are considering.

Q12: Do you have any comments, observations or evidence about the range of potential remedies we have discussed?

⁷⁷ Payment Services Regulation 2017, Article 66(1)(c).

Q13: Are there other remedies we could consider to address the high level of fees or complexity of price structures? Please explain what the impact might be, why such remedies would be appropriate, and any evidence you have to support your views.

Next steps

- 4.73** In the coming months, we will be completing our analysis of the market in relation to the costs for firms related to overdrafts and refused payment fees. We will combine this with data we already hold in order to assess the potential range of measures discussed above. We will also be using the insights from our Strategic Review of Retail Banking Business Models to see overdrafts within the context of the wider PCA offering and to model how any changes to arranged or unarranged overdrafts may impact other parts of the PCA.
- 4.74** If this analysis shows that intervention is warranted we would aim to consult on proposed rules by the end of 2018, with the intention that any rules would be in force by mid-2019.

5 Repeat overdraft use (for discussion)

What is the harm?

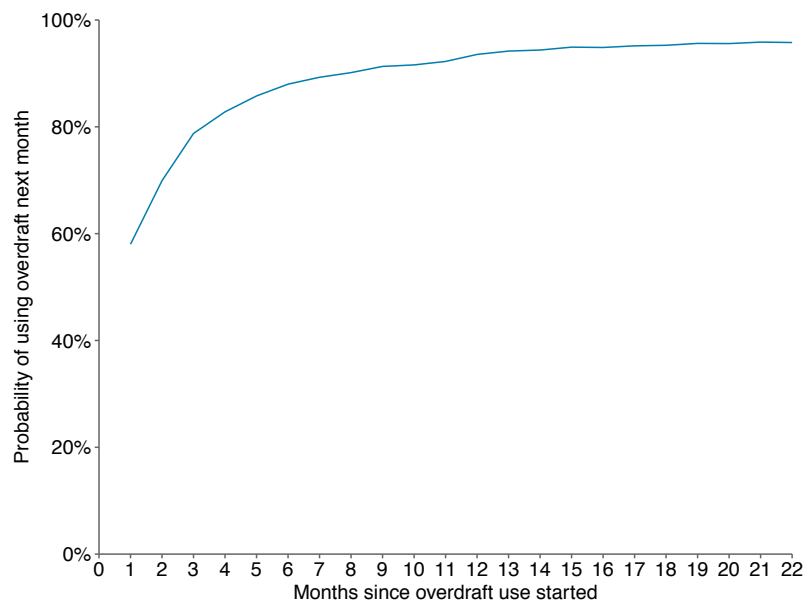
- 5.1** Overdrafts are intended for short-term or emergency borrowing, but some customers are using them repeatedly⁷⁸ over a long period of time. This repeat overdraft use harms customers because it is an expensive way to borrow, and they can build up problem debt over time.
- 5.2** These customers bear a significant burden of the costs charged by firms, and are often unaware of the high cumulative costs or alternatives. Repeat overdraft users usually have a deteriorating financial position, and many repeat arranged overdraft users go on to use an unarranged overdraft - more than those that use an unarranged overdraft alone.
- 5.3** Some customers could clear their debt – and avoid having to use their overdraft in the next month – if they made a one-off payment or reduced their spending. Others could cut their costs if they were offered cheaper longer-term alternatives, e.g. loans, or credit cards. Firms could do more to help, but they have a profit incentive not to.

What evidence do we have of the harm?

- 5.4** We have conducted an analysis of repeat overdraft use by using a rich dataset containing the transaction history of 1.5 million PCA customers over 2015 and 2016. With this we have been able to understand how often people use their overdraft, for how long each time and how much is borrowed. Here we set out our main findings.
- 5.5** Once people start using their arranged overdraft they can quickly become dependent on it, using it repeatedly. For some people, this becomes a habit. For others this becomes a necessity. After an initial use, the majority of people (58%) will use an overdraft again in the next month. After three months of consecutive use, this probability rises to 79%, and after six months to 88% (Figure 5 below).

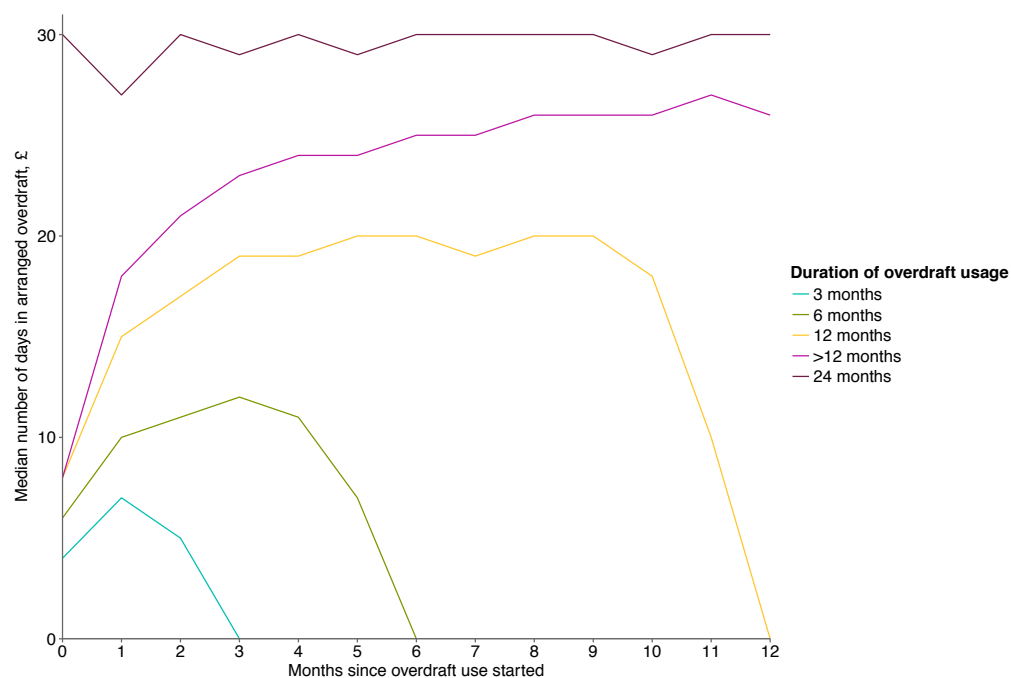
78 We define repeat use as use in consecutive months, as this reflects the common pattern of use.

Figure 5: Likelihood of using arranged overdraft next month by months since overdraft use started



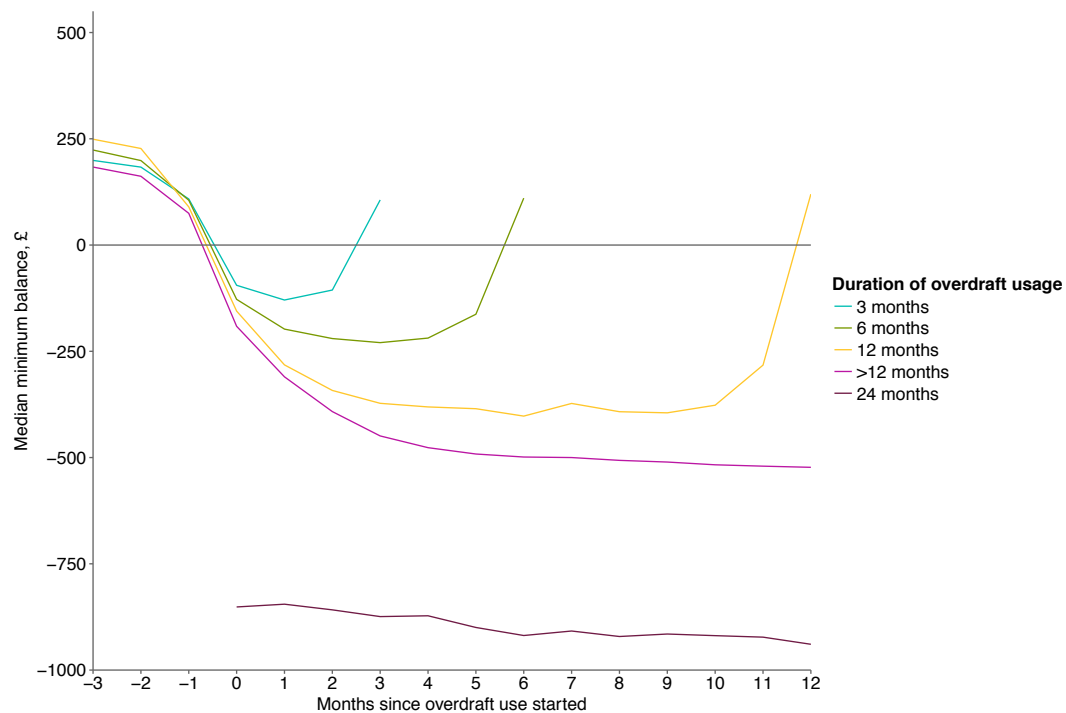
5.6 This increasing dependency is also reflected by an increase in the median numbers of days overdrawn each month (Figure 6 below). After three months, half of overdraft users are likely to be overdrawn for around 20 days each month. By six months, this has risen to 25, and by nine months to 30. Nearly half of all arranged overdraft use by days can be observed in accounts that have been overdrawn every month for two or more years.

Figure 6: Median number of days in arranged overdraft by months since overdraft use started



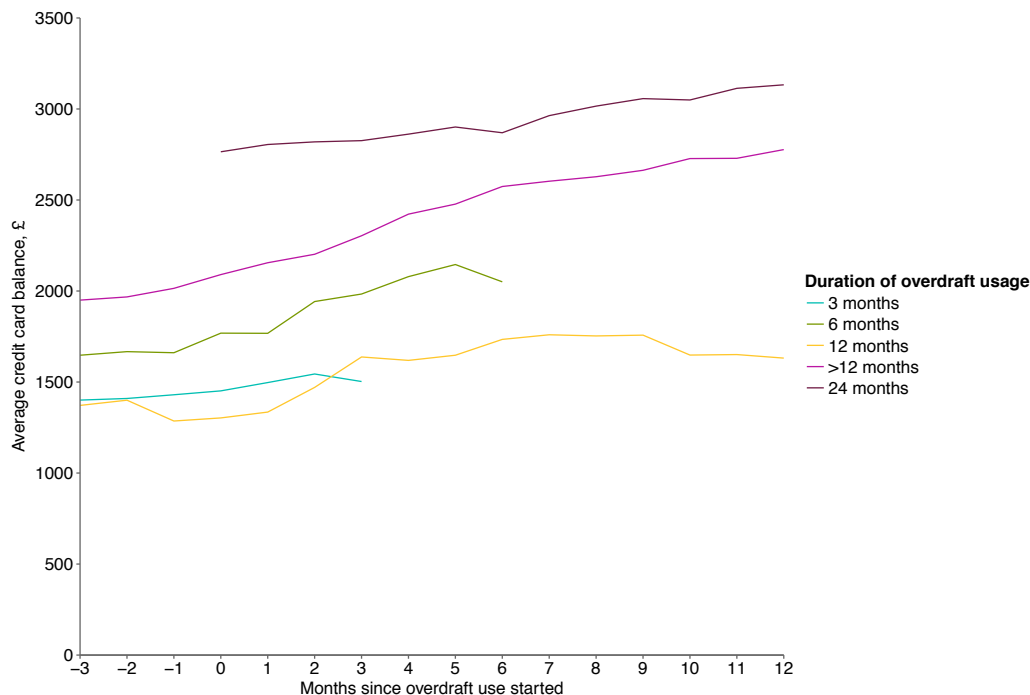
- 5.7** Repeat overdraft users bear a significant burden of the costs charged by firms. Only 6.5% of customers used their arranged overdrafts every month in 2015 and 2016, but they were almost always overdrawn (85% of the time), and paid half of all arranged overdraft fees and 40% of unarranged fees.
- 5.8** Repeat overdraft users usually have a deteriorating financial position. This is reflected in current account balances (Figure 7 below), even though some may be clearing their balances every month, as well as for other credit products such as credit cards (Figure 8 below).

Figure 7: Lowest median account balance⁷⁹ by months since overdraft use started



⁷⁹ Median lowest current account balance during the month.

Figure 8: Average credit card balance by months since overdraft use started



5.9 Many customers that start using an arranged overdraft go on to use an unarranged overdraft. In 2016, over a quarter of all overdraft users (7.3 million, 29%) used both, with average borrowing of £605, and total value of borrowing being £4.4bn. This is more than those using an unarranged overdraft alone (5.8 million, 23%).

5.10 Those that do manage to halt use tend to be left in a poorer financial position, with lower current account balances and higher credit card balances than they had before starting to use their overdraft. For example, a customer that has used their overdraft for six months and then paid it off may see their credit card balance rise from £1700 to £2000 (Figure 8 above). This highlights the potential value in discouraging repeat use of overdrafts, as this use may correlate with a deteriorating financial situation, and tackling repeat use earlier may leave the customer in a better financial position than tackling it later.

5.11 In 2016, around a third of all arranged overdraft users used their arranged overdraft for a full 12 months, with an average overdraft borrowing of £791, and a total value of borrowing (including unarranged) of £5.4bn, 79% of all overdraft borrowing. Around 6% of unarranged overdraft users did similar, with over two thirds (69%) using an unarranged overdrafts for less than 6 months.

Consumer research – findings on repeat use

5.12 Our consumer research on overdrafts⁸⁰ also looked at repeat use, highlighting the complexity of the issue. Key findings are summarised below.



- 5.13** Overdraft use had been normalised to the point that it was not seen as debt or borrowing.⁸¹ Users justified their use by reference to peers – as ‘only what everyone else is doing’. Repeat users that cleared their balance each month (full or in part) considered their pattern of use as low risk and short term, and were not thinking about the cumulative impact. Heavy users factored the costs into their spending, like an expected utility bill. Many had become so dependent on their overdraft that they felt that they could not manage their finances without it, and some were using it to pay off other debts. This dependency meant that removing access was seen as ‘unworkable’: for those most at risk, it could lead to a worse financial situation.
- 5.14** Some with bad debt experiences had resorted to perverse strategies to control the temptation to use, choosing not to arrange an overdraft even though this would be much cheaper than using an unarranged one. After participating in the research and reflecting on it, many of the more self-confident participants had come to realise that they did not know as much about overdrafts as they thought they did.
- 5.15** There were also conflicting beliefs, with a reluctance to go to firms for help, but an expectation that they should be responsible for intervening. Consumers were concerned that seeking help could result in the withdrawal of their overdraft facility, or firms trying to make more money from them (e.g. offering loans when looking for advice). It was felt that providers could encourage overdraft use that was not in consumers’ interests and ignore the signs of problems or persistent behaviour.
- 5.16** Nevertheless, there was a recognition that some customers were in denial, hoping for something or someone to help change their circumstances, and the belief that providers could be more proactive in spotting problems and providing more support. Signs of difficulty included:
- overdraft balance growing consistently for 3–6 months in a row
 - being overdrawn every month, for any amount, for 3 to 12 months in a row
 - an overdraft limit/amount outstanding not being covered by monthly income, and/or coupled with the above behaviour
- 5.17** Participants suggested a few options for dealing with problem repeat use, including a buffer to allow for minor mishaps, making charges proportionate, or the ability to choose a current account without an arranged overdraft or with a low limit.

Q14: Do you agree that repeat overdraft use is a harm that we should address? Please explain what pattern(s) of repeat use that you would consider problematic, and provide any evidence that you may have to support your views.

81 Four out of five people from a sample of 99 overdraft users, Atticus (2018) Consumer research on overdrafts, p8.

What remedies could we put in place?

- 5.18** We want firms to monitor customers more closely and have more regular communication with them: to make sure their overdraft remains a good way of borrowing for them and to stop them getting into financial difficulties.
- 5.19** One way to achieve this could be to use a similar two-stage approach to that used for addressing persistent credit card use.⁸²
- An explicit obligation on firms to have adequate systems and policies around their provision of overdrafts that allow them to:
 - assess whether customers are in, or at risk of, financial difficulties
 - take appropriate action
 - deal with customers showing signs of actual or possible financial difficulties
 - Interventions by firms at prescribed intervals. For example:
 - a prompt to a consumer to consider changing their behaviour
 - a reminder for those who do not appear to have reacted to the prompt
 - later, offering a plan for repayment over a suitable period, possibly combined with restricting further credit limit increases and/or suspending the facility for customers whose charges have been suspended (been shown 'forbearance') or who have not responded
- 5.20** We may also wish to consider the case for applying one or more of these interventions immediately to customers that who already been using overdrafts repeatedly for some time, as a one-off exercise.
- 5.21** The timing of these intervals would need to be chosen carefully to ensure that offers of advice and support come at times when customers are more likely to want or need them.
- 5.22** We think that it would be fair and proportionate for customers to be given chances to make voluntary changes to their overdraft use, if they can, before changes are imposed on them. Our recent consumer research showed demand for better support from firms, including help to reduce repeat use and discussing alternative credit options.⁸³
- 5.23** Other options could include:
- A voluntary industry agreement on prompts to tackle repeat use, similar to that discussed in Chapter 3. We understand that UK Finance is currently investigating this possibility with members.

82 FCA (2018) PS18/4: Credit card market study: persistent debt and earlier intervention - feedback to CP17/43 and final rules, FCA.; www.fca.org.uk/publications/policy-statements/ps18-04-credit-card-market-study

83 Atticus (2018) Consumer research on overdrafts, pp71-73.



- Reducing what firms can charge over time to remove incentives to let customers use repeatedly. For example, cost tapering, with a firm only able to charge 50% of what they charged the previous month; or cost stepping, where charges reduce after a certain number of months, potentially to zero.
- Removing an overdraft facility to stop customers getting further in debt, either after a certain number of months, or using a certain cumulative value.

5.24 These measures would be more intrusive and could have unintended consequences such as encouraging more overdraft use or leaving consumers without sufficient money to fund essential expenditure – our data suggests that customers only have other credit sources available around a quarter of the time.

Q15: Do you have any comments, observations or evidence about the range of potential remedies we have discussed, or when we should intervene?

Q16: Are there other remedies we could consider? Please explain what the impact might be, why such remedies would be appropriate, and any evidence you have to support your views.

Next steps

5.25 We intend to do further analysis to understand:

- who the repeat users are: for instance, whether they are more likely to be vulnerable, on lower incomes, self-employed, etc
- why they get into debt, and get out of it (if they have done so)
- what signals there may be that indicate their use becoming problematic, so that we can target any remedies accordingly.

5.26 We are also collecting data from firms on their processes for monitoring and helping those at risk of financial difficulties.

5.27 If this analysis shows that intervention is warranted we would aim to consult on proposed rules by the end of 2018, with the intention that any rules would be in force by mid-2019.

Annex 1

Questions in this paper

Consultation questions

- Q1:** Do you agree that the threshold for application of the overdraft eligibility and overdraft alerts rules should be set at bank and building society brands (excluding private banks) with 70,000 or more PCAs?
- Q2:** Do you agree that firms should be given 12 months to comply with the proposed rules?
- Q3:** Do you agree with our draft rules to require firms to offer an online overdraft eligibility tool which indicates the likelihood of a consumer being eligible for an overdraft facility?
- Q4:** Should we require firms to design tools in a way that could be provided through APIs to third-party providers so that the same comparison can be run for a consumer across different banks?
- Q5:** Do you agree with our draft rules to require firms to provide clear, easy-to-read, prominent information about overdrafts to their customers before they apply for an overdraft?
- Q6:** Do you agree with our draft rules that online calculators should be made available to show consumers how much they will be charged for their overdraft and allow consumers to calculate their costs?
- Q7:** Do you agree that rules requiring consumers to be automatically enrolled into unarranged overdraft and refused payment alerts should be included in the FCA Handbook?
- Q8:** Do you agree with our draft rules to require firms to automatically enrol their customers into arranged overdraft, unarranged and refused payment alerts?
- Q9:** Do you agree with our draft rules regarding alert channel, content, scheduling and grace periods?
- Q10:** Do you agree with our draft rules to require that if a firm refers to 'balance', 'available funds', or 'available balance', this must exclude any arranged overdraft available to the customer?

- Q17:** Do you have any comments on our cost benefit analysis?
- Q18:** Do you have any views on the outcome of our EIA or the equality and diversity implications of the issues set out in this paper?

Discussion questions

- Q11:** Do you agree with our approach to harm in this chapter? Do you have any comments, observations or evidence which would be relevant to this part of our analysis?
- Q12:** Do you have any comments, observations or evidence about the range of potential remedies we have discussed?
- Q13:** Are there other remedies we could consider to address the high level of fees or complexity of price structures? Please explain what the impact might be, why such remedies would be appropriate, and any evidence you have to support your views.
- Q14:** Do you agree that repeat overdraft use is a harm that we should address? Please explain what pattern(s) of repeat use that you would consider problematic, and provide any evidence that you may have to support your views?
- Q15:** Do you have any comments, observations or evidence about the range of potential remedies we have discussed, or when we should intervene?
- Q16:** Are there other remedies we could consider? Please explain what the impact might be, why such remedies would be appropriate, and any evidence you have to support your views.

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA) of our proposed Handbook rules. Specifically, section 138I requires us to publish 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'. It also requires us to include estimates of those costs and benefits, unless they cannot reasonably be estimated or it is not reasonably practicable to produce an estimate.
2. This analysis presents estimates of the significant impacts of our proposals. We estimate monetary values for the impacts where we believe it is reasonably practicable to do so. For other impacts, we provide qualitative analysis. Our proposals are based on carefully weighing up these impacts and reaching a judgement about the appropriate form and level of intervention.
3. Our proposals (outlined in Chapter 3) seek to improve consumer engagement with their PCA and the transparency of information related to overdrafts. Our proposals seek to:
 - **Remove barriers to switching: by requiring PCA providers to provide online overdraft eligibility tools** that allow their customers to get a clear indication of the likelihood of being granted an overdraft without an application for credit appearing on their credit file.
 - **Help consumers understand how overdrafts work: by requiring PCA providers to improve the visibility and content of key information about overdrafts** and clearly presenting overdrafts as a form of debt. This includes requiring firms to provide an overdraft cost calculator.
 - **Better engage consumers with their overdraft use and address the unexpected use of overdrafts: by requiring firms to automatically enrol their customers into overdraft alerts** to make customers aware of how much they are using their overdraft and how this may lead to charges. And by **banning firms from including available overdrafts in their descriptions of their customers' available balance**.
4. This CBA relates to the policy proposals outlined in Chapter 3. For each of our proposals, the table below outlines the current baseline situation in the market and a summary of what the proposals will address, as well as the impact we expect our proposals to have.

Table 1 - Baseline market conditions for proposals

Proposal	Current baseline market conditions	Market conditions post-proposal
Overdraft eligibility tool	The lack of widespread provision of online overdraft eligibility tools makes it difficult for consumers to check how likely they are to receive an overdraft from a different PCA provider.	PCA brands with 70,000 or more payment accounts will be required to offer an online or mobile banking application overdraft eligibility tool which will indicate the likelihood of a consumer being approved for an overdraft.
Account opening	There is a considerable amount of variation between different PCA brands in the nature and presentation of information for arranged and unarranged overdraft facilities at the point at which an account is opened.	All PCA brands will be required to provide a clearer and simpler explanation of arranged and unarranged overdraft products than they currently provide. This information will include outlining that overdrafts are a form of debt and providing details of how to apply for or close an overdraft facility. Consumers will also be provided with an overdraft calculator which will show how much an overdraft may cost them under different conditions.
Overdraft alerts	The CMA requires the largest current account providers ¹ to automatically enrol consumers into unarranged overdraft and refused payment alerts. New providers who have recently entered the market appear to be offering alerts, including arranged overdraft alerts, as part of their account offering.	All PCA brands with 70,000 or more payment accounts will be required to automatically enrol consumers into arranged overdraft alerts, unarranged overdraft alerts and refused payment alerts.
Available funds	Some firms currently display to consumers their 'available funds' inclusive of the value of an arranged overdraft through platforms where their balance is displayed, such as cash machines, online banking and mobile apps.	All PCA brands will no longer be able to display a customer's available funds or available balance inclusive of the value of an arranged overdraft. Firms may choose to show their customers their arranged overdraft limit separately.

5. The rest of this annex is structured as follows:

- Summary of the costs and benefits of the proposals
- Our analytical approach
- Market failure analysis
- Estimated costs of our proposals

¹ The CMA defined these providers as having 150,000 or more active payment accounts across GB and NI

- Estimated benefits of our proposals

Summary of costs and benefits

6. We expect our proposals to address the lack of transparency and low engagement amongst consumers which we have identified as drivers of harm through high overdraft prices. The proposals are intended to work as a package by tackling different drivers of harm that we outline later in this chapter.
7. In the UK, 52 million people have a PCA and we estimate that 37% use an arranged overdraft and 25% use an unarranged overdraft.² Improvements in the provision of overdrafts across the market as a result of these proposals therefore have the potential to benefit all those consumers using an overdraft facility.
8. We estimate our package of proposals to have total one-off incremental costs of between £42.1 and £48m and on-going costs of between £19.7 and £21.1m. Our proposal for overdraft alerts is expected to be the costliest for firms, with a total one-off incremental compliance cost of between £21.5 and £24.8m and total on-going costs of between £15.9 and £16.7m. Firms not only incur significant one-off costs due to changes needed to update their information technology (IT) systems, but also significant on-going costs associated with sending text messages to their customers. Estimates provided by firms included costs related to low-balance alerts and near-limit alerts. Our proposed rules do not require these alerts. We estimate, based on data from two large providers, the reduction in on-going costs as a result of not including these alerts.³ Because of the inclusion of low-balance and near-limit alerts, we expect that responses from firms potentially overestimate the one-off costs of implementing overdraft alerts.
9. Our proposals aim to better inform consumers of their overdraft usage and charges, allowing them to make more effective decisions about when and how to use their overdraft. We consider this will in turn increase competitive pressure on firms, potentially leading to lower charges incurred by customers as a result of greater engagement with their overdraft usage. Using evidence from trials conducted with two banks, we estimate that the overdraft alerts proposal could benefit consumers by reducing the overdraft fees and charges they incur between a range of £68 and £140.5m per year.⁴ We do not believe that it is reasonably practicable for us to quantify the monetary benefits we expect to see from our overdraft eligibility tool, account opening and available funds proposals. However, we expect that our proposals will contribute to driving increased competition in the PCA market.

Our analytical approach

10. To understand the impact of our proposals on the market, this CBA analyses the:
 - costs to firms from implementing our proposals

2 Overdraft usage statistics come from the FCA analysis of transaction-level data submitted by six large banking groups on 250,000 accounts per banking group for the period 2015 and 2016

3 See paragraphs 39-40 for details of how we estimated the on-going costs

4 See paragraphs 66-70 for details of how we calculated this estimate

- the benefits to consumers as a result of the proposals
- any wider impacts or unintended consequences, such as costs to consumers

11. The analysis presented below has been produced using evidence from the following sources:

- voluntary survey responses from a sample of large and small PCA providers active in the overdraft market that may incur costs as a result of our proposals
- analysis of the impact of automatically enrolling consumers into pre-existing unarranged overdraft and refused payment alerts⁵
- RCTs which tested the impact on consumers of various other overdraft alerts⁶
- consumer research commissioned from an independent external agency which gathered evidence on consumer perceptions and experience of their current overdraft facility⁷
- findings from the CMA retail banking market investigation⁸
- account level data for PCAs taken from a random sample of accounts from large and small PCA providers representing around 60% of the PCA market⁹

Market Failure Analysis

12. We have identified 4 key market failures that drive harm to consumers through high prices of overdrafts. These are:

- asymmetrical information between consumers and firms
- complexity
- behavioural distortions which impact the way consumers make decisions
- lack of competition in the retail banking sector

Asymmetrical information

13. Consumers often do not have access to timely information about overdrafts and their associated charges, or their eligibility to obtain overdrafts from alternative providers. This means it is difficult for consumers to understand:

- how overdrafts work and the charges linked to them

⁵ FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts

⁶ An occasional paper detailing findings of these trials will be published in July 2018

⁷ Atticus (2018) Consumer research on overdrafts

⁸ CMA (2016) Retail banking market investigation Final report, <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk>

⁹ Market share calculated using various FCA resources and desk-based research.

- how their usage impacts on the charges they incur and what action they can take to reduce these charges
- whether they would be eligible to switch to cheaper overdrafts

Complexity

- 14.** The way information about overdrafts, including overdraft charges, are presented can be confusing. Overdrafts usually have many components to the price including interest, fixed fees and daily or monthly charges. The presentation of multiple charges or different components of charges can create an expectation that charges are minimal. Consumers find it difficult to relate charges to their overdraft use.
- 15.** The presentation of available funds inclusive of arranged overdrafts by some firms can reinforce consumers' view that what is being described is their own money rather than a line of credit.
- 16.** The complexity of information about overdrafts acts as a barrier to consumers making informed decisions about when and how to use their overdraft.

Behavioural distortions which impact the way consumers make decisions

- 17.** Consumers are subject to behavioural distortions which often leave them unable to accurately anticipate or control their overdraft usage (especially in the case of unarranged overdrafts).¹⁰ These may cause consumers to use overdrafts in a way that means they incur high charges. These distortions include:
- **Present bias** - Consumers can value the present over the future resulting in poor self-control and procrastination. This can result in consumers utilising overdrafts in the short term in order to gain immediate gratification at the cost of longer term over-borrowing and higher charges.
 - **Overconfidence** - Consumers may wrongly believe that they will never use their overdrafts for a variety of reasons.¹¹ They may expect to spend less or earn more in the future, or simply believe that they will be more careful in managing their money than they will be. This can result in consumers incurring overdraft charges that they did not expect when they made decisions about where to bank, what type of account to use, or whether to request (or accept) an overdraft facility.
 - **Inertia** – Due to procrastination or a tendency to be more concerned about errors of action rather than errors of inaction, consumers sometimes fail to take actions that would be in their own self-interest. For instance, they may not switch their PCA even though there are better value accounts available in the market.
- 18.** Overdraft users generally have limited awareness of and engagement with their overdraft. For example, half of overdraft users surveyed by the CMA underestimated their usage by 2 or more months in a year and over a third were not aware that they had entered into their overdraft when they in fact used it. Additionally, around half

¹⁰ For more detail on these behavioural distortions see: FCA, April 2013, Occasional Paper No.1, Applying behavioural economics at the FCA, <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf>

¹¹ In 2016, the CMA found that half of consumers who had used an unarranged overdraft were unaware that they had done so

of unarranged overdraft users did not believe they had entered into an unarranged overdraft.¹²

19. Finally, low awareness and engagement amongst PCA customers results in consumers (particularly consumers who are not heavy overdraft users) incurring overdraft charges that could otherwise be avoided.

Lack of competition

20. The overall level of consumers' engagement with PCAs remains low. This is demonstrated by the low levels of switching and the continued prevalence of potential substantial gains if consumers were to switch PCAs.¹³ Research conducted previously has also found that consumers faced specific barriers to accessing information and making judgements about PCA charges, making it difficult for overdraft users to search and switch for better overdraft deals.¹⁴
21. Low levels of consumer engagement have meant the competitive pressure applied by consumers on PCA providers through switching and the threat of switching is not as high as it could be. This weakens firms' incentives to compete to gain new and retain existing customers. In particular, there is a lack of competitive pressure surrounding overdraft charges, especially unarranged overdraft charges. Research shows that competition in PCA markets is not working as well as it could be.¹⁵
- Harm to consumers**
22. The combined effects of information asymmetries, complexity, behavioural distortions and the lack of competition set out above results in high prices for consumers using a PCA with an overdraft facility.

Estimated costs of our proposals

Summary of costs to firms

Table 2: Estimated aggregate incremental one-off and on-going costs of our proposals¹⁶

FCA Proposal	Aggregate incremental compliance costs to the industry	
	One-off costs	On-going annual costs
Overdraft eligibility tool	£6.7 - £8.6m	£2 - £2.1m
Account opening	£3.6 - £3.7m	£1.7 - £2.3m
Alerts	£21.5 - £24.8m	£15.9 - £16.7m
Available funds	£10.4 - £10.9m	£5,000 - £36,000
All proposals	£42.1 - £48m	£19.7 - £21.1m

Source: (FCA analysis using data submitted by a sample of firms)

23. The proposals we are consulting on impose costs on PCA providers operating payment accounts with some proposals impacting only certain segments of the market:

12 CMA (2016) Retail banking market investigation Final report, p. xv

13 The CMA found that overdraft users have potentially the most to gain from switching, with GB consumers in overdraft for 8 to 14 days a month gaining approximately £180 per year. GB consumers who use unarranged overdrafts for eight or more days a month and do not use any arranged overdrafts could gain by switching between £540 and £564 per year

14 CMA (2016) Retail banking market investigation Final report, ppxv-xvi

15 CMA (2016) Retail banking market investigation Final report, pxxviii

16 Our proposals for account opening and available funds require all PCA providers with an overdraft facility to implement these measures. We used various FCA resources and desk-based research, to identify, as accurately as possible, the PCA providers captured in our proposals

- proposals relating to overdraft alerts and overdraft eligibility will apply to PCA providers with at least 70,000 PCA consumers
- proposals relating to available funds and account opening will apply to all PCA providers that offer payment accounts with overdrafts; regardless of the number of PCA customers they have

Estimating costs to firms

- 24.** We sent a questionnaire to a sample of firms seeking their feedback on the incremental one-off and on-going costs of complying with our proposals.¹⁷ These firms account for around 60% of the UK PCA market in terms of accounts.¹⁸ The questionnaire requested cost estimates based on a 12 month implementation period, as well as estimates of how these costs might vary if the proposals were alternatively implemented over a 6 month or 18 month timeframe.¹⁹
- 25.** On the basis of information provided by this sample of large and small PCA providers, we estimate that the aggregate incremental compliance costs of our proposals could range between £42.1 to £48m for one-off costs²⁰ and £19.7 to £21.1m for on-going²¹ costs. The aggregate costs for each of our proposals are summarised in Table 2 above. Breakdowns of the inputs for each proposal are outlined in the following tables.
- 26.** Aggregate cost estimates were produced by taking the sum of estimated costs for PCA providers included in our cost survey and applying average costs from our survey to the remaining PCA providers that offer an arranged overdraft or allow consumers an unarranged overdraft.
- 27.** We also differentiated between large and small PCA providers, producing different averages for each group. For larger PCA providers we extrapolated the average cost estimates provided by respondents to our survey to the largest 6 PCA providers. For smaller PCA providers, we extrapolated the average cost estimates provided by respondents to our survey to remaining PCA providers. For extrapolation purposes, the averages we use in our calculations of aggregate costs are the median for the lower range and the mean for the upper range.
- 28.** Our rationale for using the mean and median measures of the average is due to the wide range of cost estimates received from the firms surveyed.²² The mean measure weighs cost estimates provided by the respondents equally and therefore includes estimates at the upper end of the range, helping to produce our upper range aggregate cost estimate. The median measure of the average meanwhile is not skewed by the costs at the upper end of the range and avoids outliers in the data, helping to produce our lower range aggregate cost estimate.
- 29.** Based on analysis of responses provided by firms to our survey, costs appear to be driven by:
- updating existing or building IT systems to implement our proposals

17 We received cost estimates from a sample of large and small PCA providers

18 Market share calculated using various FCA resources and desk-based research

19 The survey also included questions on the wider impacts of our proposals to firms and consumers

20 One-off costs are set-up costs associated with putting in place systems that allow the above proposals to be implemented

21 On-going costs are annual costs associated with continuing to comply with the rules

22 We have also taken this approach as we have been unable to weight the cost estimates by the number of PCAs held by each bank impacted by our proposals

- the number of current accounts impacted and costs associated with engaging individual customers eg sending out text messages

30. Cost estimates outlined in this section reflect those likely to be incurred by individual PCA providers and by the sector as a whole based on aggregation as explained above. For large PCA providers, costs are likely to be incurred from implementing our proposals for one or more of their PCA brands.

Overdraft eligibility tool

Table 3: Estimated incremental one-off and on-going costs for overdraft eligibility tool

	Average incremental compliance costs per firm ²³		Aggregate incremental compliance costs to the industry		Estimated number of firms impacted by our proposal
	One-off costs	On-going annual costs	One-off costs	On-going annual costs	
Larger PCA providers	£300,000 - £892,000	£271,000 - £287,400	£6.7 - £8.6m	£2 - £2.1m	6
Smaller PCA providers	£107,000 - £294,000	£30,000 - £36,000			11 ²⁴

Source: (FCA analysis using data submitted by a sample of firms)

- 31.** Responses to our survey suggest costs of complying with our proposal for overdraft eligibility tools includes one-off IT costs associated with building the online tool and costs of capturing a customer's information before an assessment is made about the customer's eligibility for an overdraft. Most firms also reported annual costs associated with running the overdraft eligibility tool.
- 32.** For larger PCA providers, estimated incremental compliance cost ranged between £90,000 and £2.9m for one-off costs and between £150,000 and £558,000 for on-going costs. The wider range for one-off costs is due to the relative IT readiness of different firms to implement the new requirements; with some requiring significant investment. The wide range for on-going costs is due to some firms reporting high IT and third-party CRA costs associated with running the overdraft eligibility tool.
- 33.** Smaller PCA providers reported estimated costs of between £86,000 and £960,000 for one-off costs. On-going costs were estimated to be between £25,000 and £82,000. The wider range for one-off costs is due to a firm reporting IT development costs of almost £1m.

²³ The averages presented in the following tables are the median for the lower range and the mean for the upper range. The mean weighs estimates equally, helping to produce our upper range estimate. The median measure is not skewed by the costs at the upper end of the range, helping to produce our lower range estimate

²⁴ Estimated smaller PCA providers with 70,000 or more PCAs

Account opening

Table 4: Estimated incremental one-off and on-going costs for account opening

	Average incremental compliance costs per firm ²⁵		Aggregate incremental compliance costs to the industry		Estimated number of firms impacted by our proposal
	One-off costs	On-going annual costs	One-off costs	On-going annual costs	
Larger PCA providers	£250,000 - £387,000	Up to £234,000 ²⁶	£3.6 - £3.7m	£1.7 - £2.3m	6
Smaller PCA providers	£50,000 - £51,000	£19,000 - £33,000			27 ²⁷

Source: (FCA analysis using data submitted by a sample of firms)

- 34.** Responses to our survey suggested implementing this proposal will include IT costs associated with the creation of the online overdraft cost calculator.
- 35.** Larger PCA providers estimated one-off costs that ranged between £25,000 and £860,000 and between £50,000 and £1.1m for on-going costs; though some reported no on-going costs. The wider range for on-going costs is due to some firms reporting no additional on-going costs after setting up the online calculator with a single firm reporting on-going costs of £1.1m.
- 36.** Smaller PCA providers estimated one-off costs of between £2,000 and £99,000. On-going costs ranged between £10,000 and £95,000. The wider range for small firms is because one firm reported minimal additional costs whereas other smaller firms reported significantly higher one-off and on-going costs.
- 37.** Three large firms provided standalone costs of setting up and running the online calculator, with estimates of one-off costs ranging from £25,000 to £100,000 and minimal on-going costs. 1 small firm reported one-off costs of £57,000 and on-going costs of £11,000. These costs are included in the costs outlined above.

²⁵ The averages presented in the following tables are the median for the lower range and the mean for the upper range. The mean weighs estimates equally, helping to produce our upper range estimate. The median measure is not skewed by the costs at the upper end of the range, helping to produce our lower range estimate

²⁶ Several large PCA providers reported no additional on-going costs which would have provided a range of £0 to £234K.

²⁷ Based on FCA research on PCA providers in the market with an overdraft facility

Overdraft alerts**Table 5: Estimated incremental one-off and on-going costs for overdraft alerts**

	Average incremental compliance costs per firm ²⁸		Aggregate incremental compliance costs to the industry		Estimated number of firms impacted by our proposal
	One-off costs	On-going annual costs	One-off costs	On-going annual costs	
Larger PCA providers	£2.5m - £3.6m	£2m - £2.7m	£21.5 - £24.8m	£15.9 - £16.7m	6
Smaller PCA providers	£14,000 - £292,000	£13,000 - £24,000			11 ²⁹

Source: (FCA analysis using data submitted by a sample of firms)

- 38.** Our survey asked firms to provide cost estimates of implementing different types of alerts, including low-balance and near-limit alerts. We are not proposing to require firms to provide or automatically enrol consumers into either low-balance or near-limit alerts.
- 39.** Estimates provided by larger PCA providers indicated that if low-balance and near-limit alerts were not required it could reduce on-going costs by as much as half. This was largely a result of anticipating having to send out significantly fewer text messages.
- 40.** One large PCA provider gave us on-going cost details if near-limit and low-balance alerts were not included in our alerts proposals. This suggested that removing these alerts from our proposals reduced total on-going costs for alerts by around 50%. Another firm provided us with a breakdown of their calculation for part of their total on-going costs which split costs between those allocated to low-balance, near-limit and arranged overdraft alerts. This indicated that, for this portion of on-going costs, removing near-limit and low-balance alerts would also reduce on-going costs by around 50%. To account for these responses and the possibility that other larger PCA providers may have a higher proportion of fixed costs, we have estimated on-going costs on the basis that removing low-balance and near-limit alerts will reduce the on-going costs to firms from our proposals by 40% across all the larger providers.
- 41.** Responses to our survey suggested that the IT costs of delivering the proposed package of overdraft alerts would be significant. Firms with existing IT systems capable of delivering our proposed alerts provided lower cost estimates than other firms that may need to update their systems.
- 42.** Larger PCA providers estimated incremental one-off costs of between £978,000 and £10.3m for one-off and between £1.5 and £5.5m a year for on-going costs.
- 43.** Smaller PCA providers, likely reflecting their smaller share of the current account market, reported one-off costs of between £13,000 and £850,000 and on-going costs between £13,000 and £60,000.

28 The averages presented in the following tables are the median for the lower range and the mean for the upper range. The mean weighs estimates equally, helping to produce our upper range estimate. The median measure is not skewed by the costs at the upper end of the range, helping to produce our lower range estimate

29 Estimated smaller PCA providers with 70,000 or more PCAs

44. Overdraft alerts have higher estimated on-going costs due to the high volume of text messages (rather than mobile application push notifications) that firms expect to send to consumers.³⁰

Available funds

Table 6: Estimated incremental one-off and on-going costs for available funds

	Average incremental compliance costs per firm ³¹		Aggregate incremental compliance costs to the industry		Estimated number of firms impacted by our proposal
	One-off costs	On-going annual costs	One-off costs	On-going annual costs	
Larger PCA providers	£1.4 - £1.7m	Minimal significance	£10.4 - £10.9m	£5,000 - £36,000	6
Smaller PCA providers	£11,000 - £18,000	Up to £1,000			27 ³²

Source: (FCA analysis using data submitted by a sample of firms)

45. Firms that do not include available arranged overdraft in the definition of available funds will incur no additional costs as a result of our proposals.
46. Responses to our survey suggest IT costs would be the largest component of the costs of complying with the proposal on available funds.
47. For larger PCA providers, one-off costs ranged between £1.4 and £5.3m. None of the large PCA providers reported that they will incur any significant on-going costs.
48. Smaller PCA providers estimated one-off costs of between £23,000 and £50,000 with on-going costs up to £5,000.

Costs to consumers

49. Our proposals could potentially result in indirect costs to consumers. In the following section we outline the potential costs to consumers from the wider impacts or unintended consequences of our proposals.

Overdraft eligibility tool and available funds

50. Broadly we believe there are no significant costs to consumers from our proposals for overdraft eligibility tools and available funds.

Account opening

51. Consumers may experience marginal increases in the time taken to open a new bank account. While this is not possible to estimate, we think that risks from this are very low because our proposals do not require firms to present any additional information, rather, present the information currently available in a simpler manner.

30 We understand that firms incur on-going costs for sending text messages that they would not necessarily incur sending mobile application push notifications

31 The averages presented in the following tables are the median for the lower range and the mean for the upper range. The mean weighs estimates equally, helping to produce our upper range estimate. The median measure is not skewed by the costs at the upper end of the range, helping to produce our lower range estimate

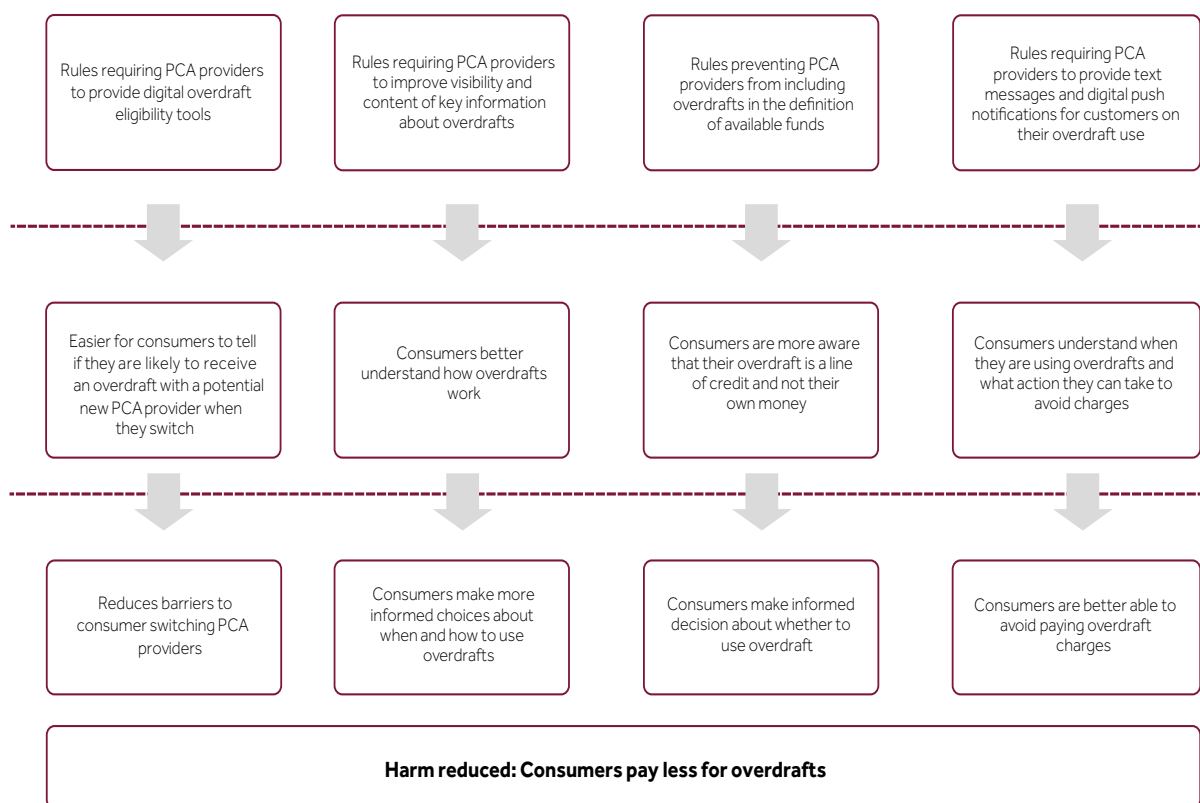
32 Estimate based on FCA research on smaller PCA providers in the market with an overdraft facility

Overdraft alerts

52. Consumers may increase borrowing by using alternative lines of credit away from current account overdraft products. Other forms of credit may be more or less expensive. While it is not possible to estimate this possibility, we think that risks from this are low.
53. Consumers may suffer from overdraft alert fatigue if too many text messages or mobile app notifications are sent; making the proposals less effective if consumers ignore them. However, results from the alert trials we carried out showed 87 to 92% of consumers said that the frequency of alerts were 'about right' and 4 to 7% said they would like to receive them more frequently.³³

Estimated benefits

54. In the UK, 52 million people have a PCA and we estimate that 37% use an arranged overdraft and 25% use an unarranged overdraft.³⁴ Improvements in the provision of overdrafts across the market as a result of these proposals have the potential to benefit all consumers using an overdraft.
55. The diagram below shows how our proposals are expected to lead to the benefits described and how they address the identified harm.

Diagram 1: Causal chain of how FCA proposals and requirements are expected to lead to benefits

33 FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts

34 Overdraft usage statistics come from the FCA analysis of transaction-level data submitted by six large banking groups on 250,000 accounts per banking group for the period 2015 to 2016

56. We believe that it is not proportionate or reasonably practicable to quantify the monetary benefits from our overdraft eligibility tool, account opening and available funds proposals as the only way to do this would be to carry out live trials. Carrying out these trials would impose disproportionate burdens on any firms involved. Instead we have provided a qualitative assessment of the potential impact they could have on consumers and competition in the market based on the research we have carried out. However, we have estimated the benefits of our overdraft alerts proposal from trials carried out with a sample of PCA providers.
57. In the discussion part of this paper (Chapters 4 and 5) we consider the complexity of pricing structures and the high level of fees and charges. We discuss a range of potential measures which we intend to model in the next phase of our work. The potential proposals we put forward for discussion would complement the measures we discuss in this CBA. They would aim to tackle the potential harm that these measures do not address.

Overdraft eligibility tool

58. Online eligibility tools allow consumers searching for alternative PCAs to better predict the size and type of arranged overdraft facilities that different providers are likely to offer them. This can help reduce barriers for some consumers when they consider switching, particularly for heavier arranged overdraft users, and so enable them to make better informed switching decisions.

Supporting evidence

59. Participants in our qualitative consumer research felt that an overdraft eligibility tool, combined with a cost calculator, could lead to greater engagement and transparency and would help raise awareness and drive competition between current account providers by potentially increasing the clarity around cost difference between providers.³⁵
60. 35% of PCA overdraft users said that they would be more likely to consider switching if they could check what overdraft they were likely to be granted by a new bank before they decided to switch.³⁶ The overdraft eligibility tool may help reduce some of the barriers to switching that consumers face, particularly when trying to compare the overdraft facilities offered by a number of providers.
61. It remains difficult for consumers to find out whether they will be eligible to get an overdraft with a potential new PCA provider before they have started the application process, by which time it cannot be stopped and their existing account may have been closed.³⁷ The process of applying for an overdraft involves a hard credit check that marks the customer's credit file. Because of this overdraft users face barriers to comparing the overdrafts available to them. The overdraft eligibility tool would better inform consumers of the different facilities available in the market, allowing them to make more effective decisions about which account or provider the consumer could potentially switch to in order to get a better overdraft facility.

Account Opening

62. Our proposal to require all PCA providers to provide clear and prominent information on overdrafts upon account opening should help consumers by providing a better

35 Atticus (2018) Consumer research on overdrafts, p12

36 CMA (2016) Retail banking market investigation Final report, Appendix 15.4

37 FCA (2015) Making current account switching easier, p29

understanding of their overdraft facility. Consumers may use this information to make better and more informed overdraft choices about when and how they use overdrafts, potentially resulting in lower overdraft charges.

Supporting evidence

- 63.** Our qualitative consumer research found that consumers do not understand their overdrafts clearly. They find it difficult to work out how costs are calculated and the implications of using their overdraft.³⁸ We believe that by improving the presentation of information and by using an overdraft cost calculator, consumers could have a better understanding of the implications of using overdrafts and the charges they will incur.
- 64.** Many consumers in our research did not see overdraft borrowing as a form of debt.³⁹ Information on overdrafts presented to consumers in a simpler way may allow them to better understand the implications of using their overdraft and the cost associated with it, and to understand that it is a line of credit rather than their own money. This may deter consumers from using their overdrafts and result in them incurring lower charges.
- 65.** In our qualitative consumer research, consumers also indicated that they struggled to work out how the costs to their overdrafts are calculated. When presented with a concept of a cost calculator, consumers reacted positively. Our research found that it could provide greater transparency and context on their overdraft costs and increased salience and engagement.⁴⁰

Overdraft alerts

Overdraft alerts help inform consumers of their overdraft usage and make them aware of the implications of using their overdrafts. They can give consumers who can avoid overdraft use the information they need to understand what action to take, and by when, to reduce or avoid overdraft charges. We estimate that consumers may save between £68 and £140.5m⁴¹ in reduced overdraft and refused payment fees and charges, as our proposals result in them incurring these less frequently.

Supporting evidence

- 66.** Our estimate of the benefits to consumers for the overdraft alerts proposals measures the reduction in overdraft and refused payment fees and charges. We expect these benefits to occur as a result of the effects of arranged overdraft alerts and the effects of applying unarranged overdraft and refused payment alerts to firms with 70,000 or more PCAs.
- 67.** Based on a sample of PCA accounts, we estimate that, for consumers with an arranged overdraft facility, total overdraft fee revenue in the UK was around £2.2 billion in 2016.⁴² As outlined earlier in this document we conducted RCTs with two banks trialling several different alerts proposals.⁴³ These trials indicated that for consumers with an arranged

38 Atticus (2018) Consumer research on overdrafts

39 Atticus (2018) Consumer research on overdrafts, p46

40 Atticus (2018) Consumer research on overdrafts

41 This figure reflects a transfer between firms providing overdraft charges and the consumers utilising them. These estimates are based on 2016 data, and recent market developments could cause these to be over or under-estimates of the actual effects (eg PCA providers changing their overdraft pricing structure)

42 To calculate this figure we estimated the average revenue generated per account from arranged overdraft, unarranged overdraft and unpaid item charges for accounts which have arranged overdraft credit lines, were open for the whole year our data covered and where the customer had more than £500 in monthly median deposits. We then aggregated this to the market level by multiplying this by the total number of PCA customers. Subsequently, we applied a reduction to these account numbers to account for the PCAs held by those firms whom our proposals would not impact

43 An occasional paper detailing findings of these trials will be published in July 2018

overdraft facility that were automatically enrolled into arranged overdraft alerts, total overdraft fees and charges were between 3.1% and 6.4% lower than for the control group.⁴⁴ Assuming that this average impact applies for all PCAs impacted by our proposals⁴⁵, we estimate that consumers could save between £67.3 and £138.9m per year in reduced overdraft fees and charges as a result of our arranged overdraft alerts proposals.⁴⁶ This benefit represents a transfer between consumers and firms as the benefit to consumers is correspondingly the lost revenue to firms.

- 68.** Findings from our alert trials with 2 banks showed that 57 to 66% of consumers recalled taking action to avoid incurring overdraft fees as a result of alerts. 87 to 92% of consumers found overdraft alerts to be helpful and provide peace of mind.⁴⁷
- 69.** We estimate that the extension of unarranged overdraft alerts and refused payment alerts are likely to impact between 210,000 and 450,000 consumers.⁴⁸ Based on a sample of PCA accounts we estimate that total unarranged overdraft revenue for these consumers would be between £2.2 and £4.6m whilst total refused payment revenue would be between £0.9 and £1.9m.⁴⁹ Evidence from the FCA's occasional paper studying the impact of automatically enrolling consumers into overdraft alerts indicates that, respectively, they reduce unarranged overdraft fees by 25% and refused payment fees by 21 to 24% per account.⁵⁰ Assuming these average impacts apply for all PCAs impacted by our proposals⁵¹, we estimate that affected consumers could save between £0.7 to £1.6m per year in unarranged overdraft fees and refused payment charges as a result of our proposals.⁵² This benefit represents a transfer between consumers and firms.

Available funds

- 70.** Presenting available arranged overdraft combined with balances as 'available funds' contributes to consumers' low awareness of, and engagement with, their overdraft use. By banning the use of the term 'balance', 'available balance' or 'available funds' or similar terms to refer to available arranged overdraft, consumers will understand how much available money they have in their account, before entering overdraft. This should allow consumers to make more informed decisions about whether they should use their overdraft. We would expect consumers to pay lower charges for their account as a result.

44 The 6.4% reduction in fees and charges measures the combined impact of being opted into a suite of alerts for arranged overdraft usage. When implemented as a single alert at the point at which a consumer becomes overdrawn, the arranged overdraft usage alert resulted in a 3.1% reduction in total overdraft fees and charges for those consumers automatically enrolled

45 There may be some small differences between the customers taking part in the trials and those customers in the general PCA population for whom we estimate the benefits of the proposals

46 We have been unable to reliably estimate the share of total accounts covered by our alerts proposals which have a mobile phone number linked to them and can therefore receive overdraft alerts. Ofcom 'Fast Facts' state that as of Q1 2017, 94% of adults in the UK personally owned/used a mobile phone. Although the proportion of payment accounts with mobile phone numbers linked maybe lower than the number of adults with a mobile phone, we would expect this proportion to increase over time as the market evolves

47 An occasional paper detailing findings of these trials will be published in July 2018.

48 Based on the differing de minimus PCA thresholds between our proposals and the CMA's order, we have identified 3 banks which we understand are not currently covered by the CMA order on unarranged overdraft and refused payment alerts, but would be impacted by our proposals because they have 70,000 or more PCAs but do not have 150,000 or more active PCAs

49 To calculate this figure we estimated the average revenue generated per customer through either unarranged overdraft or unpaid item charges for all accounts which were open for the whole year our data covered and where the customer had more than £500 in monthly median deposits. We then aggregated this to the range of accounts we estimate could be impacted by our proposals

50 FCA (2018) Occasional Paper 36 Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts

51 There may be some small differences between the customers taking part in the trials and those customers in the general PCA population for whom we estimate the benefits of the proposals

52 We have been unable to reliably estimate the share of total accounts covered by our alerts proposals which have a mobile phone number linked to them and can therefore receive overdraft alerts. Ofcom 'Fast Facts' state that as of Q1 2017, 94% of adults in the UK personally owned/used a mobile phone. Although the proportion of payment accounts with mobile phone numbers linked maybe lower than the number of adults with a mobile phone, we would expect this proportion to increase over time as the market evolves



Supporting evidence

- 71.** Our research found that the presentation of available funds by some firms, as the balance in credit plus the overdraft facility, reinforces the view in the consumer's mind that this is their money rather than a line of credit.⁵³ We expect prohibiting firms from including available arranged overdraft in their description of available funds would result in more informed borrowing decisions and reduced unintended borrowing.

Competition benefits

- 72.** We expect the combination of proposed remedies to increase the level of competition in the PCA market through increased demand-side pressure, resulting from consumers being more engaged with and making better decisions about their overdraft usage and charges. This in turn would result in consumers paying lower overdraft charges.

Q17: Do you have any comments on our cost benefit analysis?

53 Atticus (2018) Consumer research on overdrafts

Annex 3

Review of the monthly maximum charge for unarranged overdrafts: summary of our analysis

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1 Summary

What this report is about

- 1.1** This report sets out the findings from our review of the monthly maximum charge for unarranged overdrafts (MMC). The MMC was introduced by the Competition and Markets Authority (CMA) following its retail banking market investigation.¹ All firms must set an MMC for each of their personal current accounts (PCA). Most firms have set MMCs since 2 August 2017. Some firms had set caps on unarranged overdraft charges before this.² We committed to review the MMC after it was introduced.³
- 1.2** The MMC aims to protect consumers by requiring firms to cap the total amount of charges consumers can incur in a month; either for exceeding or attempting to exceed a pre-agreed borrowing limit. It also aims to address some of the complexity of unarranged overdraft charges and increase consumers' awareness of how much it costs to use unarranged overdrafts.
- 1.3** Our review covered the period March – December 2017. This enabled us to compare outcomes for consumers before and after the MMC was introduced. It looked at the following areas:
- What is the level of MMCs in the market?
 - How have arranged and unarranged overdraft charges changed during this period?
 - How many consumers incurred enough charges to hit the MMC in each month after it was introduced?
 - What happened to firms' arranged and unarranged overdraft revenues after the MMC was introduced?
 - Are particular groups of overdraft users better or worse off since the MMC was introduced?
 - Is the MMC being displayed clearly to consumers and do they understand it?

1 CMA retail banking market investigation final report (August 2016):
<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

2 Note these caps applied in different ways, for example some may only have applied to fixed overdraft charges and not interest charges.

3 Our response to the CMA's final report on its investigation into competition in the retail banking market (November 2016):
<https://www.fca.org.uk/publication/corporate/response-cma-final-report-competition-retail-banking-market.pdf>

Key findings

1.4 In summary, our findings are:

- Heavy users of unarranged overdrafts are paying less in charges since the MMC was introduced in August 2017 – on average around £5.45 less per account per month. We have not seen evidence of firms recouping significant revenues from arranged overdraft users through higher or additional charges.
- We estimate that total unarranged overdraft charges have reduced by around £5.6 million per month since the MMC was introduced, with heavy users of unarranged overdrafts benefiting the most.
- Consumer research found that awareness of the MMC is low and there is some misunderstanding of what it is. However, once explained, participants thought the MMC was a good way to help heavy users of unarranged overdrafts. The findings from our consumer research are published alongside this overdrafts paper.
- Information firms provide for consumers about the MMC is not always easy to find and it could be made more prominent.

Conclusions

- 1.5** Our current view is that the MMC is a useful measure to cap high cumulative charges for heavy users of unarranged overdrafts. It also complements the competition remedies discussed in chapter 3 of this overdrafts paper, particularly those aimed at increasing consumer awareness and engagement with the cost of overdrafts.
- 1.6** However, the MMC does not address all of our concerns about arranged and unarranged overdrafts discussed in this overdrafts paper. It only applies to unarranged overdrafts and so does not tackle complexity of arranged overdraft pricing. It also does not address all of our concerns about persistent arranged and unarranged overdraft use. We think more could be done to improve the transparency of the MMC to make consumers more aware of it and help them use it to compare overdraft providers.
- 1.7** As the MMC does not address all of our concerns about arranged and unarranged overdrafts, there is scope for us to consider further potential remedies - for example those discussed in chapter 4 of this overdrafts paper. The findings of our MMC review will inform our consideration and design of any further potential remedies.

2 Background to our review

The CMA retail banking market investigation

- 2.1** The CMA published its final report into the effectiveness of competition in the retail banking market in August 2016.⁴ It found that consumer engagement was low, and that there were barriers to searching for information about current accounts and switching providers. The CMA concluded that these barriers had a greater impact on overdraft users (even greater for unarranged overdraft users) who could potentially gain the most from switching.
- 2.2** The CMA set out a package of measures to address the problems identified. It introduced some of these measures itself, one of which was the MMC.

The MMC

- 2.3** The CMA's rationale for introducing the MMC was to deal with detriment arising from limited constraints on unarranged overdraft facilities, in particular significant charges that heavier unarranged overdraft users can build up over time. The CMA envisaged the MMC would address this by:
- Requiring all PCA providers to set a monthly cap on the charges a consumer could incur in any given month as a result of exceeding or attempting to exceed a pre-agreed credit limit.
 - Addressing some of the complexity of unarranged overdraft charges by giving consumers a single measure to make like-for-like comparisons on the caps set by PCA providers.
 - Increasing consumers' awareness of the potential cumulative effect of charges incurred as a result of exceeding or attempting to exceed a pre-agreed credit limit, with the potential to:
 - Increase consumers' engagement with how they use their PCA so they can avoid these charges.
 - Help consumers make more informed decisions, which may lead them, for example, to consider requesting an arranged overdraft (or requesting a higher arranged limit) and making use of other services that can help them avoid these charges.

⁴ CMA retail banking market investigation final report (August 2016):
<https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

2.4 The charges to which the MMC applies include, but are not limited to:

- Interest for the amount borrowed beyond a pre-agreed credit limit.
- Time-based charges such as monthly, weekly or daily charges.
- Charges associated with allowing a payment due to lack of funds.
- Charges associated with refusing a payment due to lack of funds.
- Administrative charges other than overdraft control charges.

2.5 The MMC does not include charges for using an arranged overdraft.

2.6 In addition to requiring firms to set an MMC, the CMA specified how it should be described and presented - using standardised wording across providers.

Our review of the MMC

2.7 In our response to the CMA's market investigation, we said that we would review the MMC after it was introduced in August 2017. Our feedback statement on high-cost credit,⁵ published in July 2017, identified concerns about harm to consumers from arranged and unarranged overdrafts. It also said that we would do further analysis to identify possible interventions. Our review of the MMC has allowed us to explore what role the MMC can play in helping to mitigate harms identified in our high-cost credit review.

2.8 The rest of this report sets out:

- The objectives of our review and approach we used.
- Our findings.

⁵ High-cost credit. Including review of the high-cost short-term credit price cap. Feedback statement (July 2017): <https://www.fca.org.uk/publication/feedback/fs17-02.pdf>

3 Review objectives and our approach

Objectives

- 3.1** Our review covered the period March – December 2017. This enabled us to compare outcomes for consumers before and after the MMC was introduced in August 2017. It looked at the following areas:
- What is the level of MMCs in the market?
 - How have arranged and unarranged overdraft charges changed during this period?
 - How many consumers incurred enough charges to hit the MMC in each month after it was introduced?
 - What happened to firms' arranged and unarranged overdraft revenues after the MMC was introduced?
 - Are particular groups of overdraft users better or worse off since the MMC was introduced?
 - Is the MMC being displayed clearly to consumers and do they understand it?

Our approach - Data

- 3.2** We collected details of a sample of firms' arranged and unarranged overdraft charging structures before and after the MMC was introduced - from publicly available sources and directly from firms. We used this to identify whether there were changes in how much arranged and unarranged overdraft users were being charged before and after the MMC was introduced. We also used this to inform our analysis of whether groups of consumers were better or worse off after the MMC was introduced.
- 3.3** We also collected the following data from a sample of firms, covering March – December 2017:⁶
- How many of their consumers hit the MMC each month.⁷
 - Total monthly revenue from arranged and unarranged overdrafts across all their consumers.
 - The average monthly amount of arranged and unarranged overdraft used across all of their consumers.

⁶ Due to differences in firms' billing cycles and data collection policies, the dates covered by the data did not match exactly. However, the data broadly covered the ten month period from March to December 2017.

⁷ Firms are required to give this information to the CMA under the CMA's Retail Banking Market Investigation Order 2017 and it included information relating to January 2018.

- An anonymised sample of data from 150,000 accounts. This showed how much arranged and unarranged overdrafts were used and how much was paid in overdraft charges for each account. We also collected information about these accounts' arranged and unarranged overdraft limits. The accounts were randomly selected by firms from a range of groups identified by how much arranged and/or unarranged overdraft charges were paid by them from March – December 2017.⁸ Our sample focused on firms that charged for unarranged overdraft usage over the whole period from March to December 2017.⁹

3.4 We used the data on consumers hitting the MMC and total overdraft users to understand what proportion of overdraft users across the sample of firms incurred enough unarranged overdraft charges to hit the MMC.

3.5 We used the data on total overdraft revenue and average consumer overdraft use to analyse whether there had been any changes in these across firms' total consumer bases after the MMC was introduced and how any changes impacted on overdraft users.

3.6 We used the account data to compare how much arranged and unarranged overdraft consumers used and what they paid for this before and after the MMC was introduced. We used this to understand whether particular groups of consumers were better or worse off after the MMC was introduced.

Our Approach - Consumer research

3.7 We commissioned qualitative consumer research to understand consumers' attitudes to overdrafts and awareness of the costs of using overdrafts and the MMC. In total, 99 consumers took part in the research. They represented different types of arranged and unarranged overdraft users, and a mix of gender, age, lifestage, income and social grade.

3.8 The findings from this research are published alongside this overdrafts paper.

Our Approach - Information provided on the MMC

3.9 We reviewed information about the MMC provided by a sample of firms to consumers. This included:

- Information provided to new consumers when opening accounts.
- Communications sent directly to consumers (for example letters about account statements or overdraft charges).

⁸ These groups ranged from low to high amounts of arranged and/or unarranged overdraft charges paid each month. This did not include accounts that had no arranged and unarranged usage. We also asked firms how many of their total accounts fell into each of the groups used to select the sample. This allowed us to scale up the sample of accounts in the different groups to represent the total book of each of the firms that we sampled for the analysis we did (except where we had data for the total book). This was done by scaling individual accounts by a weighting factor (total number of accounts in a group divided by the number of sample accounts collected within the group).

⁹ Lloyds Banking Group restructured its arranged overdraft pricing structures in November 2017 and removed charges for unarranged overdrafts.



- Explanatory documents and pre-contractual information setting out account charges.
- Information available online and provided through mobile banking.

3.10 We analysed this to understand whether firms are providing information about the MMC in a clear and prominent way. We also considered whether and how presentation of information about the MMC could be improved to be more useful for consumers.

Context for our analysis

3.11 It was important for us to conduct this review now to ensure the findings inform our wider work on overdrafts as part of our high-cost credit review. However, there is some important context attached to our analysis.

3.12 First, we are mindful that the MMC has been in place for a relatively short period of time. This inevitably meant we had less data to analyse than if we had conducted the review over a longer period. We are also aware of potential seasonality effects that may impact on what we have observed in the data.

3.13 Further, the scope of our review is limited to analysing what has happened in respect of arranged and unarranged overdrafts. We have not, for example, looked at whether the MMC has impacted on firms' non-overdraft charges or revenues.

3.14 There are also other developments in the retail banking market, such as Open Banking and other competition remedies, which may affect how the MMC impacts on consumer outcomes in the longer term.

4 Our findings

Summary of findings

- For 12 non-premium brands, the average cap on unarranged overdraft charges has fallen from £113 before firms introduced their MMCs to £76 in May 2018.
- Firms in our sample did not change arranged overdraft charges after the MMC was introduced, but some did make changes to unarranged overdraft charges.
- Of the firms that we sampled, we estimate that around 1% of consumers with the most common current accounts have hit the MMC each month since it was introduced.
- Firms' arranged and unarranged overdraft revenues have fallen since the MMC from an average of £141 million a month to £135 million a month, with the majority of this change resulting from reduced unarranged overdraft revenues.
- Heavy users of unarranged overdrafts are paying around £5.45 less on average per month. Medium and low unarranged users pay around £1 less per month. We estimate that consumers are paying around £5.6 million per month less in unarranged overdraft charges since the MMC was introduced.
- Consumer awareness of the MMC is low and there is some misunderstanding of what it is.
- Information about the MMC could be made clearer and easier for consumers to find.

What is the level of MMCs in the market?

- 4.1** For 12 non-premium PCA brands for which we captured data, the average cap on unarranged overdraft charges reduced from £113 before firms introduced their MMCs to £76 in May 2018. The MMCs for these brands ranged between £50 and £100 in May 2018. There is variation in MMCs, with some firms setting different levels from their competitors.

How have arranged and unarranged charges changed post-MMC?

- 4.2** The arranged overdraft charging structures for all firms in our sample remained the same after the MMC was introduced in August 2017.
- 4.3** A number of the firms in our sample have changed their unarranged overdraft charging structures since August 2017. Some firms lowered their previous monthly caps on unarranged overdraft charges when setting the MMC. There were also changes to specific unarranged overdraft charges, for example interest charges, or daily charges for using unarranged overdrafts and refused payment fees (fees for refusing a payment due to lack of funds). In the case of charges for usage and refused payment fees, we are aware that some firms increased these while others decreased them. Caps on these charges either decreased or remained the same across all the firms in our sample.

How many consumers incurred enough charges to hit the MMC?

- 4.4** Using information from our sample of firms, we estimated how many of their accounts in total had hit the MMC since August 2017.¹⁰ We asked firms to identify which accounts in the sample data hit the MMC after it was introduced. We then scaled this up based on the total number of firms' accounts that fell into the arranged and unarranged overdraft usage groups we used to select the sample data.¹¹
- 4.5** Around 1% of standard current accounts hit the MMC each month between September and December 2017, but with a very small gradual decrease over the period.

Table 1: Around 1% of standard current accounts hit the MMC each month between September and December 2017

Period	Total accounts in account data sample groups across sample of firms	Estimated total number of accounts that hit the MMC in each period across sample of firms	Estimated proportion of total accounts that hit the MMC across sample of firms
September	11,666,133	116,985	1.00%
October	11,666,133	102,269	0.88%
November	11,666,133	96,278	0.83%
December	11,666,133	86,627	0.74%

Pre and post MMC comparison of proportion of accounts that hit unarranged overdraft caps

- 4.6** Some firms had set caps on unarranged overdraft charges before the MMC was introduced. For some of the firms in our sample we also obtained information on whether consumers hit their unarranged overdraft caps in the periods before the MMC compared to an average of 0.70% of accounts that hit the MMC over the period September to December 2017. This allowed us to compare the proportion of accounts that hit these caps and the proportion that hit the MMC. We used the same methodology as we used in the analysis in paragraph 4.4 above and find that on average 0.55% of accounts hit the caps that were in place in the five month period before the MMC, compared to an average of 0.70% of accounts that hit the MMC in the four months after the MMC was introduced.

What happened to firms' arranged and unarranged overdraft revenues since the MMC?

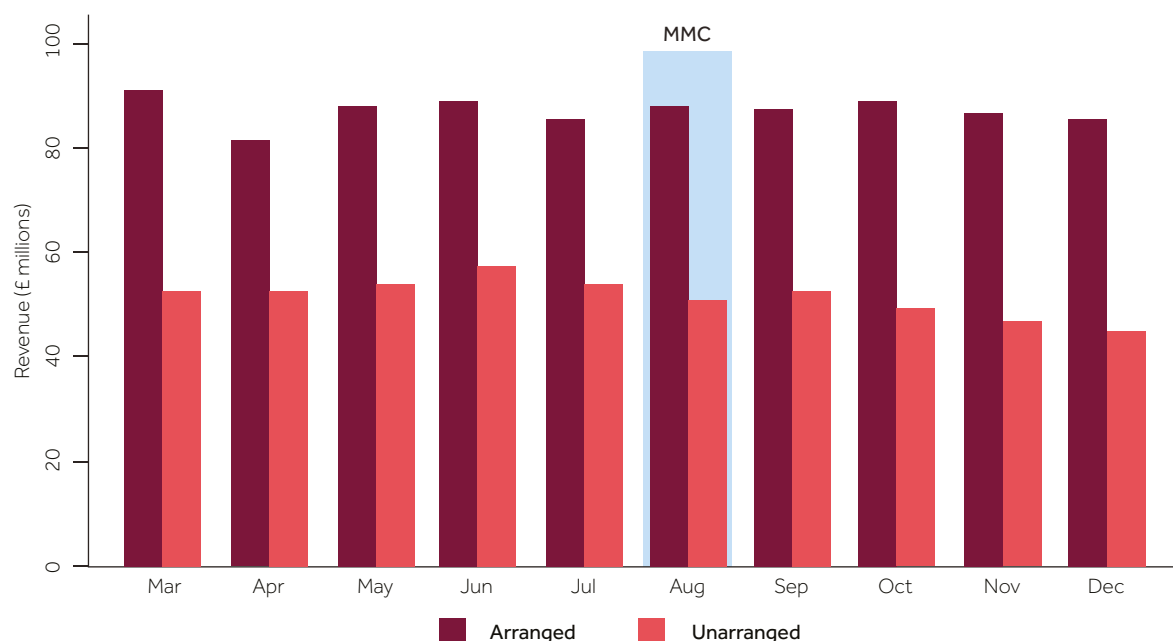
- 4.7** We asked a sample of firms how much revenue they made from arranged and unarranged overdrafts across all their accounts each month between March and December 2017. While some firms' billing cycles are slightly different,¹² the data broadly cover the period March – December 2017 and allow us to identify trends over time.

¹⁰ These sample account data included only the most common current accounts of the firms.

¹¹ Using the same methodology as described in footnote 8.

¹² For example aggregate revenue figures were either reported for all charges across all accounts within a specific calendar month period, or were aggregated based on whether the accounts billing start date fell into the particular month in question.

Figure 1: A gradual fall in unarranged overdraft revenues post-MMC¹³



4.8 Unarranged overdraft revenues across our sample of firms have fallen over the 10 month period. In the pre-MMC period, total overdraft revenues were on average £141 million per month (£87 million arranged and £54 million unarranged on average per month). In the post-MMC period, total overdraft revenues have fallen to an average of £135 million per month (£87 million arranged and £48 million unarranged on average per month).

4.9 When looking at revenues for individual firms in our sample, we find a similar pattern of decreases in unarranged overdraft revenues post-MMC. Some firms experienced more significant decreases in unarranged revenue than others. Some also experienced decreases in arranged overdraft revenues.

4.10 We also obtained further data about firms' total monthly arranged and unarranged revenues between January and March 2018. Having analysed these data, our conclusions have not changed.

Are particular groups of overdraft users better or worse off since the MMC?

4.11 We used the account data that we collected from the firms to consider whether certain groups of overdraft users were incurring a higher proportion of overdraft charges since the MMC.

How we identified different groups of arranged and unarranged overdraft users

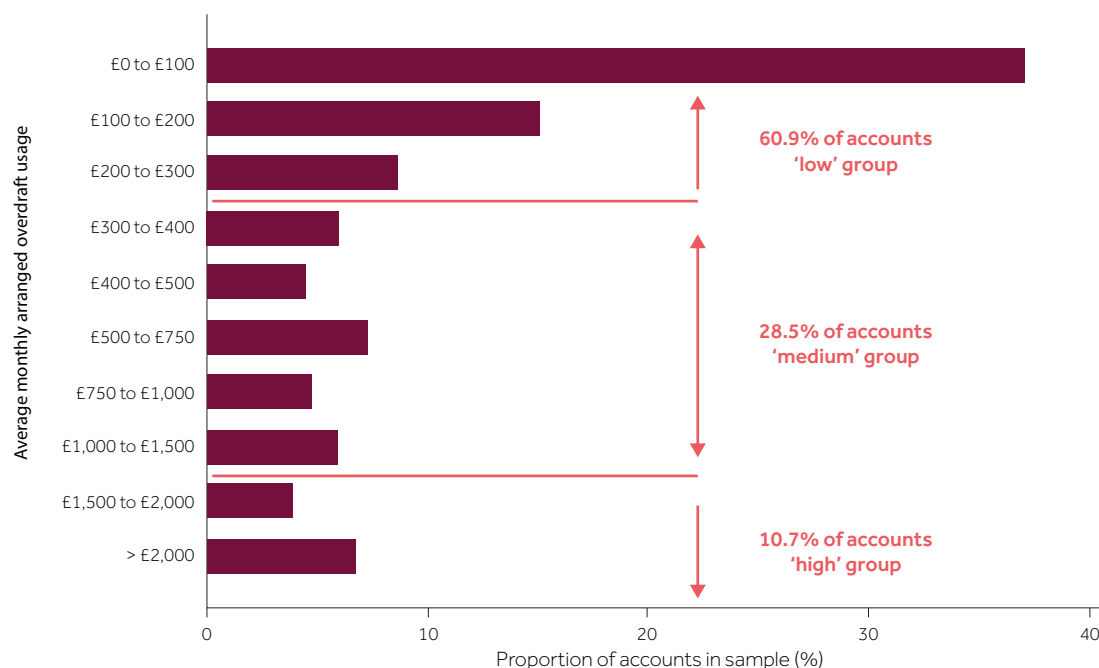
4.12 Firstly, we identified groups of users based on how much overdraft they used each month between March and December 2017. The segmentation of the groups was

¹³ Due to differences in billing cycles of firms that we collected data from, the month of data referred to as August in our results contains accounts that were charged according to a mix of pre and post-MMC overdraft charging structures. Therefore September is the first month of data where all accounts were subject to the post-MMC charging structures.

informed by the distribution of accounts' arranged and unarranged overdraft usage in the sample.

4.13 We identified accounts in the bottom 60%, next 30% and finally the top 10% of accounts in terms of usage.¹⁴ The cut off values were rounded to the nearest £10 or £100 of usage to obtain the final groupings that we used in our analysis.¹⁵ The chart below shows the groups we identified.¹⁶ For simplicity, we refer to these groups as the 'low', 'medium' and 'high' users in the rest of the report.

Figure 2: Distribution of accounts by arranged overdraft usage



Note: Accounts with only refused payment fees have been excluded from the above distribution and make up 0.2% of the accounts presented above. Due to rounding, the proportion of accounts across all groups does not add up to 100%.

4.14 The low users group used less than £300 of arranged overdraft per month, on average, and accounted for 60.9% of accounts. The medium group used, on average, between £300 and £1,500 of arranged overdraft per month over the period. This group accounted for 28.5% of accounts. The high users group accounted for the remaining 10.7% of accounts and were accounts that used more than £1,500 of arranged overdraft per month.

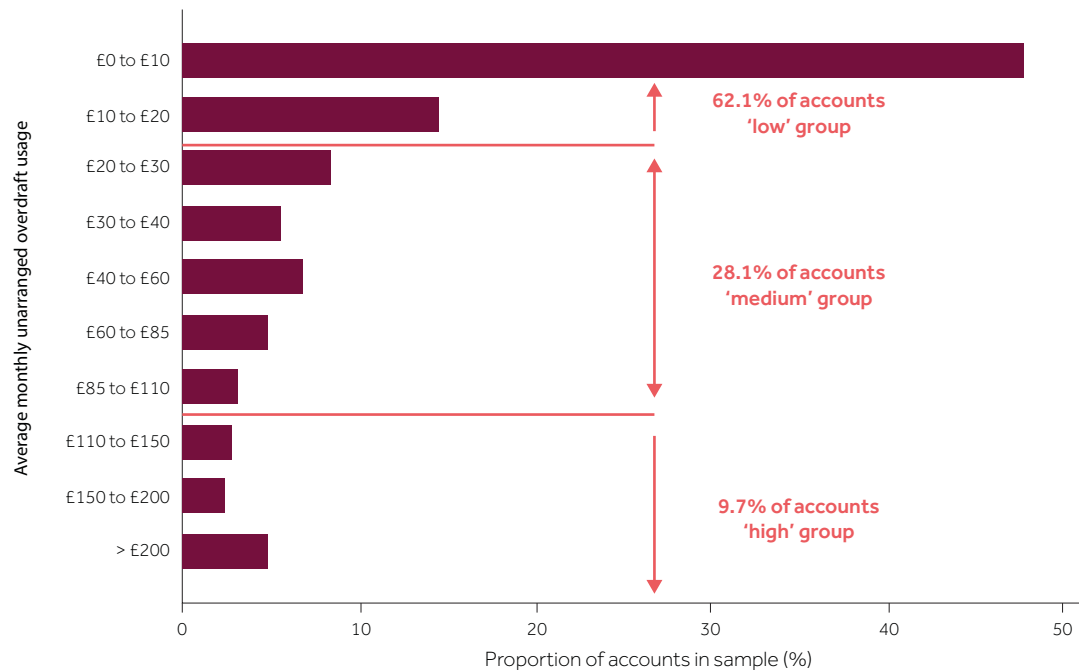
4.15 Similar groups were constructed for unarranged overdraft users, based on their unarranged overdraft usage. The chart below presents the groups we identified.

¹⁴ We chose these groupings by looking at the distribution of usage across arranged and unarranged overdrafts. This provided a small number (three) of distinct groups. We checked our results using other groupings of accounts (and different number of groupings) and these yielded similar results.

¹⁵ The purpose of the rounding is presentational. Very similar results are obtained when the cut off values of usage are not rounded.

¹⁶ The distributions are across all firms in the sample, with the sample of accounts for each firm weighted upwards to represent their entire book, see footnote 8 for a description of how the sample accounts were scaled.

Figure 3: Distribution of accounts by unarranged overdraft usage



Note: Accounts with only refused payment fees have been excluded from the above distribution and make up 9.9% of the accounts presented above. Due to rounding, the proportion of accounts across all groups does not add up to 100%.

4.16 We constructed similar groups for arranged and unarranged overdraft users based on their arranged and unarranged overdraft charges incurred. In each instance, the distribution of the low, medium and high groups was around 60%, 30% and 10% of accounts respectively. Grouping accounts by their arranged or unarranged usage or by charges incurred showed similar results in our analysis. We therefore only present the results based on accounts grouped by usage in this report.

Analysis of proportions of revenues and overdraft charges accounted for by different groups

4.17 Using the above groups, we calculated how much groups paid in charges each month between March and December 2017 and how much of firms' total overdraft revenue this accounted for. The charts below show the results of our analysis for arranged and unarranged overdraft revenue separately:

Figure 4: Proportion of arranged overdraft revenues accounted for by different usage groups remained fairly constant over the ten month period

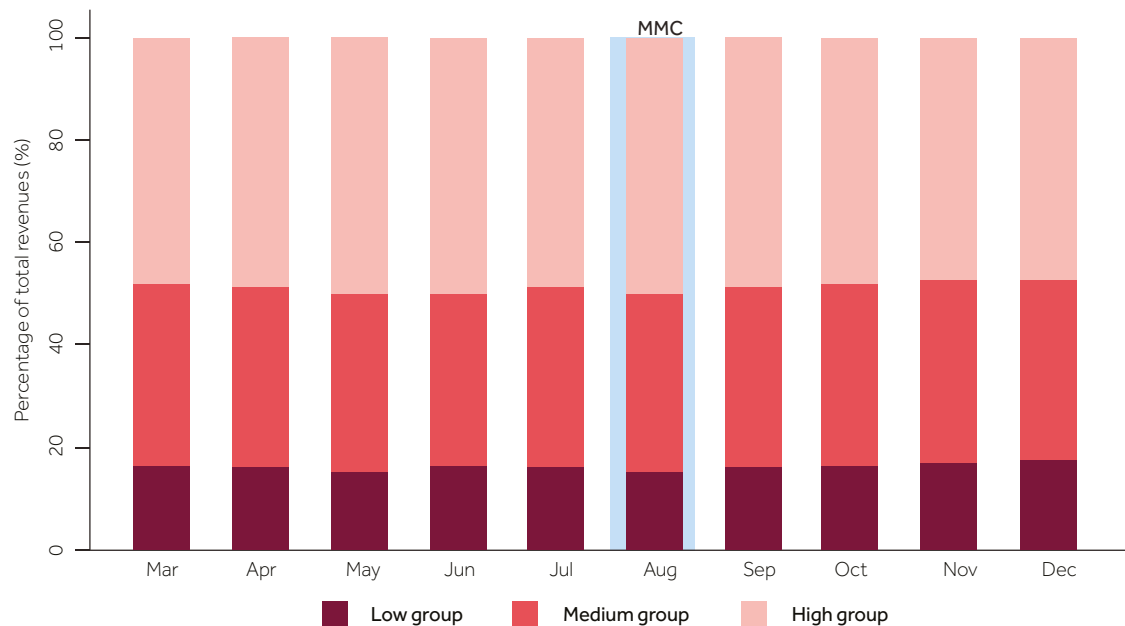
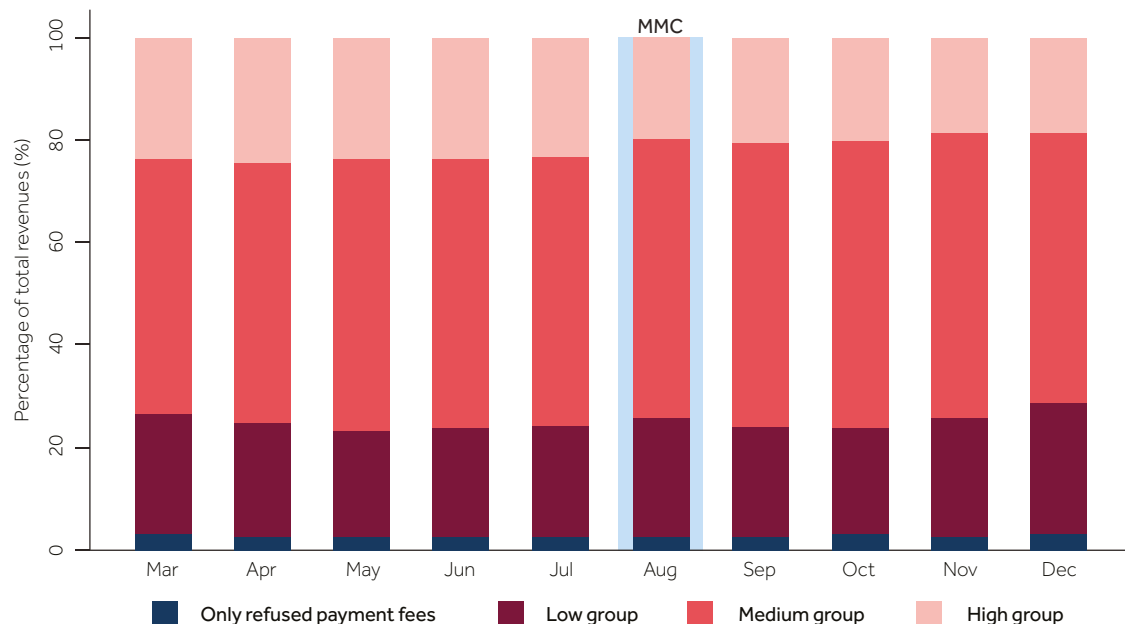


Figure 5: Proportion of unarranged overdraft revenues accounted for by different usage groups remained fairly constant over the ten month period



4.18 Our analysis shows that the proportion of revenues that the different groups account for remained fairly constant over the 10 month period. The high unarranged overdraft users group account for a smaller proportion of revenues in the post-MMC period, from an average of just over 24% before the MMC, to just under 20% after.¹⁷ We also see an increase for the medium usage group, with unarranged overdraft charges incurred increasing from an average of just over 53% pre-MMC to just under 57% post-

¹⁷ The averages are calculated across the five months before the MMC, March to July 2017, and the last four months post-MMC, September to December 2017. August is not included as it contains accounts that were charged according to a mix of pre and post-MMC overdraft charging structures due to firms' billing cycles.

MMC. There are some accounts that only incurred refused payment fees but did not use unarranged overdrafts. These accounts are presented separately in the chart above for completeness, but do not show significant changes over the period.

Analysis of which groups of overdraft users paid more or less post-MMC

4.19 For arranged overdrafts, charging structures did not change over the period for which we collected data. Consumers using arranged overdrafts were charged the same rate for using their arranged overdrafts in both the pre and post-MMC period.

4.20 Our analysis shows that all groups of unarranged overdraft users (according to our definitions above) saw a decrease in average charges after the MMC was introduced. The largest decrease was for those accounts in the high usage group who are paying on average around £5.45 less per account, per month. We estimate that accounts in the medium and low user groups are paying around £1 less per month.¹⁸

Table 2: All unarranged overdraft user groups are paying less in unarranged charges on average post-MMC

Unarranged overdraft usage group	Estimated average total monthly charges before the MMC	Estimated average total monthly charges after the MMC	Estimated reduction in unarranged overdraft charges paid post-MMC
Low	£3.00	£2.05	£0.95
Medium	£18.22	£17.13	£1.09
High	£22.53	£17.08	£5.45

4.21 Overall we estimate that unarranged overdraft users paid almost £5.6 million less in unarranged overdraft charges per month since the MMC between September and December 2017. High unarranged overdraft users are the biggest beneficiaries of the changes.

Had the MMCs been in place between March and July 2017, how much could consumers have saved in charges?

4.22 We also used the sample account data to estimate how much, if any, unarranged overdraft users could have saved in unarranged overdraft charges had each firm's current MMC been in place between March and July 2017. This was based on the assumption that the amount of overdraft used remained the same. We applied each firm's MMC that was in place during August 2017 to see how many accounts in our sample would have hit the MMC in each case. We then looked at how much more each account paid above each firm's MMC.¹⁹ We then scaled this up based on the total number of accounts that each firm had across all the groups used for selecting the sample account data.²⁰ Based on this analysis, we estimate there could have been average monthly savings of 9% in unarranged overdraft charges – around £4.7 million in total from March – July 2017. This would have amounted to an average saving of almost £8 per account, per month. However, because the level at which the MMC was

¹⁸ We are aware of a small group of accounts (which make up 10% of accounts in our sample) who could be paying more for their unarranged overdraft usage as a result of increases in daily and/or refused payment fees. Given the scope of this review, we did not collect granular data on what specific charges were applied to individual accounts. Therefore we have not estimated how much more this small group of accounts may have paid more in charges, and they are excluded from table 2. When these accounts are included in analysis of which overdraft users pay more or less, all groups we defined still pay less in unarranged overdraft fees post MMC on average across all firms in our sample.

¹⁹ For each account, in each month before the MMC was introduced, we compared the total fees paid to the level of MMC in place after August 2017. The amount that accounts would have saved (fees charged in a month less MMC for that firm) is calculated for each account in each month (if they would have hit the MMC). This is summed to obtain total figures across all the firms' consumers in each month.

²⁰ Using the same methodology as described in footnote 8.

set varied across each firm, the estimated savings varied significantly for individual accounts.

Is the MMC being displayed clearly to consumers and do they understand it?

- 4.23** We analysed whether information about the MMC provided by a sample of firms to consumers was clear and easy to find.
- 4.24** The CMA's Retail Banking Market Investigation Order 2017²¹ sets out the requirements on how firms must describe and present the MMC. In summary, firms must disclose the MMC every time information about relevant charges is disclosed, and it must be disclosed as prominently as this other relevant information. Firms must also use standardised wording to explain what the MMC is.²² We did not assess compliance with the CMA Order. However, we did use the CMA requirements as a starting point for analysing whether firms are displaying the MMC clearly.
- 4.25** There is variation in how firms display MMCs. Overall we found that information about the MMC could be made clearer and easier to find. It is often part of longer and detailed documents, or consumers have to click through multiple webpages to find it. While firms provide summaries of key information about accounts, the MMC is not always included in these.
- 4.26** Linked to this, and as we explain in chapter 4 of this overdrafts paper, overdraft charging structures generally remain complex. This complexity is likely to hinder the awareness of the MMC. We discuss these issues in more detail and our current analysis of possible interventions in our overdrafts discussion paper.
- 4.27** Our consumer research tested consumers' understanding of overdrafts and how much they cost to use. As part of this, we asked consumers if they were aware of the MMC and if they understand what it is.
- 4.28** The research found that consumers find overdraft costs to be unclear and confusing. There was greater clarity and awareness of unarranged compared to arranged overdraft charges. However, consumer awareness of the MMC was low. Few participants could recall seeing or hearing about it. There was also some misunderstanding of what it is. For example, some participants thought that the MMC was a new limit on how much overdraft they could use.
- 4.29** When the MMC was explained to consumers, participants thought it was a good way to help heavy unarranged overdraft users. For those participants who had incurred large amounts of unarranged overdraft charges, they thought the MMC would have greatly helped them. Others thought that the cap could be made more proportionate, for example to help those consumers for whom unarranged overdraft charges were high compared to their lower incomes.
- 4.30** We also asked participants for ideas on how to help them understand overdraft costs better. They saw an opportunity to improve the clarity of charges. They preferred communications that did not use large blocks of text, small font and/or jargon. Where

21 Retail Banking Market Investigation Order 2017 (February 2017):
<https://assets.publishing.service.gov.uk/media/5893063bed915d06e1000000/retail-banking-market-investigation-order-2017.pdf>

22 See Appendix 1 for the text required by the CMA.

communications were text heavy without a clear flow of information, participants felt they would be less inclined to engage with them. They also said that examples, for instance how much it would cost to use a specific amount of overdraft, would help them to understand more complex information.

- 4.31** The findings from our consumer research are published alongside this overdrafts paper.

Conclusions

- 4.32** Our current view is that the MMC is a useful measure to cap high cumulative charges for heavy users of unarranged overdrafts. It complements the competition remedies discussed in chapter 3 of this overdrafts paper, particularly those aimed at increasing consumer awareness and engagement with the cost of overdrafts.
- 4.33** However, the MMC does not address all of our concerns about arranged and unarranged overdrafts discussed in this overdrafts paper. It only applies to unarranged overdrafts and so does not tackle complexity of arranged overdraft pricing. It also does not address all of our concerns about persistent arranged and unarranged overdraft use. We think more could be done to improve the transparency of the MMC to make consumers more aware of it and help them use it to compare overdraft providers.
- 4.34** Given the MMC does not address all of our concerns about arranged and unarranged overdrafts, there is scope for us to consider further potential remedies - for example those discussed in chapter 4 of this overdrafts paper. The findings of our MMC review will inform our consideration and design of any further potential remedies.

Appendix 1

Requirements on firms for setting and presenting the monthly maximum charge for unarranged overdrafts

1. The CMA Order sets out requirements on firms for specifying and presenting their MMCs. This annex provides more detail on these requirements.

Specification of the MMC

2. Firms must specify for each PCA product they offer the maximum relevant charges that could accrue in relation to that PCA in any month as a result of exceeding or attempting to exceed a Pre-agreed credit limit on the PCA. This is the MMC.
3. Firms can specify a different MMC for different PCA products and for different brands. They do not need to specify a MMC for basic bank accounts or for any PCA in which no relevant charges apply. Firms are not allowed to impose further relevant charges in relation to a PCA in any month where the MMC has been reached.
4. For the purposes of the CMA Order:
 - 'Month' means the Provider's monthly charging period.
 - 'Relevant charges' means all charges that could accrue to an account as a result of exceeding or attempting to exceed a Pre-agreed credit limit. This includes but is not limited to:
 - Interest for the amount borrowed beyond a Pre-agreed credit limit.
 - Time-based charges such as monthly, weekly or daily charges.
 - Charges associated with allowing a payment due to lack of funds.
 - Charges associated with refusing a payment due to lack of funds.
 - Administrative charges other than overdraft control charges.

Communication of the MMC

5. Firms must disclose the level of MMC each time information relating to relevant charges is disclosed and no less prominently than the presentation of that information.
6. Firms must also use standardised terms and definition of MMC in any communications which:

- Refers to the MMC.
- Is intended to be used for the purpose of helping existing or prospective consumers (or both) understand the terms of a PCA to which that MMC applies.

7. There are two forms of presentations firms can use – the 'full' form and the 'short' form. The short form version may be used where the full form version would be impractical due to limitations of space. The full and short form presentations are set out below:

Full Form

Monthly cap on unarranged overdraft charges

1. Each current account will set a monthly maximum charge for:
 - (a) going overdrawn when you have not arranged an overdraft; or
 - (b) going over/past your arranged overdraft limit (if you have one).
2. This cap covers any:
 - (a) interest and fees for going over/past your arranged overdraft limit;
 - (b) fees for each payment your bank allows despite lack of funds; and
 - (c) fees for each payment your bank refuses due to lack of funds.

Short Form

The monthly cap on unarranged overdraft charges for [your/the] [insert PCA product name] account is [insert amount]. Further details can be found online at [insert website address to a page that shows the 'Full Form' definition].

Annex 4

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is:
 - a. compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and
 - b. its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA.
3. The FCA is also required by section 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under section 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes an assessment of the equality and diversity implications of our proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.
7. Finally, the FCA confirms that the proposals outlined in this consultation are consistent with Government's economic policies that we must have regard to when discharging our functions.

The FCA's objectives and regulatory principles: Compatibility statement

8. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective to promote effective competition by:
- improving consumer engagement with their PCAs
 - helping consumers understand how overdrafts work by improving the visibility and content of key information about overdrafts as part of the account opening process
 - removing barriers to switching and searching by requiring firms to provide digital overdraft eligibility tools
 - addressing the unexpected use of overdrafts by introducing overdraft alerts warning customers about their overdraft use
 - addressing the unanticipated use of overdrafts by customers by preventing overdraft borrowing being included in the definition and illustration of available funds by firms
9. We consider these proposals compatible with the FCA's strategic objective to enhance consumer protection. We expect these rules to enable customers to better engage with their current account through increased availability of relevant and timely information to make better informed decisions about potentially avoid overdraft charges.
10. In considering what degree of protection for consumers may be appropriate, we have had regard to the 8 matters listed in section 1C of FSMA.
11. We also consider these proposals compatible with the FCA's strategic objective of ensuring relevant markets function well. They seek to address the lack of transparency and low engagement amongst consumers which we have identified as a driver of harm (high prices) in this market. They do this by addressing low consumer awareness, unexpected use of overdrafts, helping consumers understand how overdrafts work.
12. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in section 3B of FSMA.
- The need to use our resources in the most efficient and economic way**
13. We limit the burden on FCA resources by ensuring that our work is co-ordinated. We are not requiring firms to report or submit new data to the FCA. Implementing these proposals will require us to introduce new rules and guidance. These rules will require supervision and enforcement, but we have assessed they would not require additional FCA resourcing.
- The principle that a burden or restriction should be proportionate to the benefits**
14. Our proposals are proportionate to the benefits being sought. Competition in the current account market is not working effectively for many consumers, and a lack of transparency and low engagement amongst consumers is a key driver of this. In considering our proposals, we have sought to address identified market failures. We are not proposing to introduce rules where we consider the desired outcome can be achieved through other means; including via voluntary industry agreement. We have managed burdens on firms by limiting the scope of two of our higher cost proposals to PCA brands with 70,000 or more PCAs.



The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

15. Our proposals should increase competition in the current account market by addressing the identified lack of transparency and low customer engagement. Increased information should enable consumers to make informed and effective comparisons and choices, and drive providers, both incumbents and challengers, to compete. This will support sustainable growth in the retail banking sector.

The general principle that consumers should take responsibility for their decisions

16. Our proposals are intended to encourage and equip consumers to make informed comparisons and choices. Research has found some consumers are unaware they could lower costs and benefit financially by switching current account providers. This can result in poor outcomes as customers continue using products that are no longer the best for their needs. We, therefore, believe introducing new rules and guidance to encourage informed decision-making by consumers is justified. Our proposals will empower consumers to take responsibility for their own financial wellbeing.

The responsibilities of senior management

17. Senior managers will need to ensure compliance with our new proposed rules in the same ways as they do for other rules in our Handbook.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

18. We recognise that firms have different business models. We believe that our proposals should be applied consistently and have taken account of the need to ensure that this takes place in our draft rules and guidance.
19. We recognise that firms will incur the largest costs setting up an overdraft alerting system. To be proportionate, we propose that brands with 70,000 or more PCAs should provide overdraft alerts. This threshold ensures the majority of UK consumers will benefit from alerts without obligations being placed on firms not actively competing in the UK PCA market. To give firms time to build the necessary systems to comply with the rules we propose that firms will have 12 months to comply after crossing this threshold.
20. None of proposals apply to credit unions. Our proposals will not apply to most building societies as few provide current accounts with overdrafts. We discuss the expected effect of our proposals on mutual societies further in paragraphs 24 to 26.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

21. Our proposals are compatible with this principle.

The principle that we should exercise of our functions as transparently as possible

22. In developing these proposals, we have worked with firms to pilot prompts and conduct RCTs looking at the impact of automatically enrolling customers low-balance, near-limit and arranged overdraft alerts. We also shared details of our draft proposals with selected firms.
23. In formulating these proposals, we have had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the

general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). However, we do not consider this relevant to our proposals.

Expected effect on mutual societies

24. Our proposals will not apply to most building societies as few provide current accounts with overdrafts. Where our proposals do apply, we do not expect them to have a significantly different impact.
25. Where building societies do offer overdrafts, costs of implementing our proposals may be proportionately significant. We propose to limit rules for two of our higher cost proposals, overdraft eligibility tools and alerts, to brands with 70,000 or more PCAs. Other proposals, relating to the communication of available funds and information about overdrafts at account opening apply to all PCA providers that offer overdrafts. We consider that applying these proposals to all firms is justified to ensure a consistent experience for consumers and to enable a level playing field for all PCA providers.
26. We propose to exclude credit unions from the rules as few credit unions offer large numbers of current accounts with an overdraft and membership requirements restrict customers' ability to choose their credit union and therefore the ability of credit unions to compete. Our rules do not prevent credit unions from voluntarily implementing our proposals should they wish to do so.

Equality and diversity

27. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.
28. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 2.22-2.27 of this paper. Our proposals are not intended to discriminate between consumers and we do not consider they will adversely affect people with protected characteristics.

Q18: Do you have any views on the outcome of our EIA or the equality and diversity implications of the issues set out in this paper?

Legislative and Regulatory Reform Act 2006 (LRRRA)

29. We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are:
- **Transparent:** We are following an established consultation process in making these rules
 - **Accountable:** We are seeking feedback from this CP on whether stakeholders agree with our proposed approach
 - **Proportionate:** We have carefully deliberated our approach and believe our proposals are proportionate. We have sought wherever possible to minimise costs while enabling consumers to benefit



- Consistent: Our proposed approach applies in a consistent way
- Targeted: Proposals are targeted only at cases in which action is needed, as outlined in this CP, we consider that there is a strong case for the introduction of these proposals given the harm we have seen.

30. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily, in a manner that leads to improved outcomes for consumers and addresses issues identified in this market.

Treasury recommendations about economic policy

31. In developing our proposals, we have had regard to HM Treasury's recommendations to us about aspects of the Government's economic policy the FCA should have regard to when discharging its functions. In particular, our proposals should increase competition and innovation in the retail banking market, improving outcomes for consumers.

Annex 5

Abbreviations used in this paper

AIS	Account Information Services
APR	Annual percentage rate of charge
BCA	Business current account
BAME	Black, Asian, and minority ethnic
BCOBS	Banking: Conduct of Business Sourcebook
CASS	Current account switch service
CBA	Cost benefit analysis
CDD	Customer due diligence
CMA	Competition and Markets Authority
CONC	Consumer Credit Sourcebook
CP	Consultation Paper
CRA	Credit Reference Agency
EAR	Equivalent Annual Rate
FCA	Financial Conduct Authority
FID	Fee Information Document
FSMA	Financial Services and Markets Authority
GB	Great Britain
HCCR	High-cost Credit Review
HCSTC	High-cost short-term credit
LRRA	Legislative and Regulatory Reform Act 2006
MMC	monthly maximum charge
NI	Northern Ireland

OP	Occasional Paper
PARs	Payment Account Regulations 2015
PCA	Personal current account
PIS	Payment Initiation Services
PSD2	Second Payment Services Directive
PSRs	Payment Services Regulations 2017
RCT	Randomised Controlled Trials
RTO	Rent-to-Own
SME	Small and medium-sized enterprise

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS

Appendix 1

Draft Handbook text

PERSONAL CURRENT ACCOUNTS AND OVERDRAFTS (INFORMATION AND TOOLS FOR CUSTOMERS) INSTRUMENT 2018

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the “Act”):
- (1) section 137A (General rule-making power);
 - (2) section 137R (Financial promotion rules)
 - (3) section 137T (General supplementary powers); and
 - (4) section 139A (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on [date – 12 months from making].

Amendments to the Handbook

- D. The Banking: Conduct of Business sourcebook (BCOBS) is amended in accordance with Annex A to this instrument.
- E. The Consumer Credit sourcebook (CONC) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Personal Current Accounts and Overdrafts (Information and Tools for Customers) Instrument 2018.

By order of the Board
[date] 2018

Annex A

Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Application

1.1 General application

...

Limitations on the general application rule

...

- 1.1.4 R (1) Chapters 2, 2A, 5 and 6 of *BCOBS* (except for *BCOBS* 5.1.10AR to *BCOBS* 5.1.19 R) and *BCOBS* 4.3 and 4.4 apply to payment services where Parts 6 and 7 of the Payment Services Regulations apply.

...

...

- 1.1.5 R *BCOBS* 2.2A, *BCOBS* 2.2B, *BCOBS* 4.1.2G(2A) to (2E), (3A), (6A) and (6B), *BCOBS* 4.1.4AG(2)(a), *BCOBS* 4.4, *BCOBS* 5.1.3AG, *BCOBS* 5.1.3BG, *BCOBS* 5.1.5AR, *BCOBS* 5.1.5BG, *BCOBS* 5.1.13R~~2~~ and *BCOBS* 7 (except as applied by *BCOBS* 7.1.4R) and *BCOBS* 8 do not apply to a *credit union*.

...

2 Communications with banking customers and financial promotions

...

2.2 The fair, clear and not misleading rule

...

- 2.2.6 G A communication or a *financial promotion* that refers to sums available by way of an *authorised non-business overdraft agreement* should make clear that such sums constitute borrowing or credit.

...

After *BCOBS* 2.2A (Summary box for savings accounts) insert the following new section,

BCOBS 2.2B. The text is not underlined.

2.2B General information about overdrafts for personal current accounts

- 2.2B.1 R (1) A *firm* must ensure that a *direct offer financial promotion* includes the information set out in BCOBS 2.2B.2R if
- (a) it relates to an account, other than a current account mortgage which:
 - (i) is a payment account within the meaning of the *Payment Accounts Regulations*; and
 - (ii) does not fall within paragraph (2); and
 - (b) it is made in writing.
- (2) An account falls within this paragraph if it is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *banking customer* to overdraw on the account cannot arise; and
 - (b) either:
 - (i) the account cannot become overdrawn without prior arrangement; or
 - (ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and
 - (c) no charge is payable where the *firm* refuses a payment due to lack of funds.
- (3) In the case only of a *direct offer financial promotion* on paper, it is sufficient for the purposes of (1) if the *direct offer financial promotion* is accompanied by the required information on a separate sheet.
- 2.2B.2 R The information required by this *rule* is:
- (1) general information about overdrafts consisting of, so far as is relevant to the account or accounts that are the subject of the *direct offer financial promotion*:
 - (a) an explanation that an overdraft is a borrowing or credit facility;
 - (b) a general description of the nature and principal features of

arranged and unarranged overdrafts associated with the personal current accounts offered by the *firm*;

- (c) an explanation of the principal risks associated with:
 - (i) overdrawing without prior arrangement; and
 - (ii) opting out of an unarranged overdraft facility (if the *firm's* terms and conditions permit this).
 - (d) an explanation of what may happen when a customer attempts to exceed an arranged overdraft limit or to overdraw in the absence of an arranged overdraft;
 - (e) a general explanation of how the use of an arranged or unarranged overdraft might impact the *banking customer's* credit file;
- (2) information about the availability of the following tools and how the *banking customer* can access them:
- (a) the overdraft cost calculator required by *BCOBS* 8.2; and
 - (b) (if *BCOBS* 8.3 applies to the *firm* in relation to the personal current account) the overdraft eligibility tool required by *BCOBS* 8.3.

- 2.2B.3 R (1) The information required to be included under *BCOBS* 2.2B.2R must be:
- (a) concise;
 - (b) in clear, simple language; and
 - (c) presented prominently.

- (2) The information required to be included under *BCOBS* 2.2B.2R must be presented together.

- 2.2B.4 G (1) A *firm* may consider including the following in the information included to comply with *BCOBS* 2.2B.2R(1):
- (a) that overdrafts are primarily intended for short-term borrowing and are not generally suitable for longer-term borrowing;
 - (b) an explanation of what an arranged overdraft is and how to request one;
 - (c) an explanation of what an unarranged overdraft is and how it might arise;

- (d) that use of an overdraft will or may give rise to interest or other charges (as applicable) and how *banking customer* can find out more; and
 - (e) that attempting to exceed a credit limit or become overdrawn without a pre-arranged overdraft may result in items not being paid and that this will or may incur charges.
- (2) Where the nature and features of arranged and unarranged overdraft facilities associated with the accounts that are the subject of the *direct offer financial promotion* differ significantly between accounts, the *firm* should set out the ways in which they differ.
 - (3) The information provided under this chapter should be general in nature but a *firm* may refer in that information to where additional or more detailed information can be found.
 - (4) Information will not be treated as included prominently unless it is presented, having regard to other content it is presented alongside, in such a way that it is likely that the attention of the average *banking customer* would be drawn to it.
 - (5) The effect of *BCOBS 2.2B.1R(1)* is that the information must be incorporated in the *direct offer financial promotion* itself. It is not sufficient, for example, to include in a *direct offer financial promotion* that appears on a website a link to a separate page containing the information. *BCOBS 2.2B.1R(3)* provides a limited exception to this where a *direct offer financial promotion* is on paper, in which case the information may accompany the *direct offer financial promotion* as a separate document.

After *BCOBS 2.3.9G* insert the following new provisions. The text is not underlined..

2.3 Other general requirements for communications and financial promotions

...

- 2.3.10 R (1) This *rule* applies to the communication of the balance of a payment account within the meaning of the *Payment Accounts Regulations*, other than a current account mortgage.
- (2) The communication must not include a figure described as “available funds”, “balance” or “available balance” or any similar expression that includes both sums standing to the credit of the account and sums available under an *authorised non-business overdraft agreement* associated with the account.

- 2.3.11 G (1) *BCOBS 2.3.10R* does not prohibit a *firm* from disclosing sums available for drawdown under an *authorised non-business overdraft agreement* alongside a “balance”, “available funds” or “available balance” figure.
- (2) Where an account is overdrawn, *BCOBS 2.3.10R* does not prohibit a *firm* from describing as a “balance” a figure that represents the amount by which the account is overdrawn.

...

4 Information to be communicated to banking customers

...

After *BCOBS 4.3* (Information to be provided by a non ring-fenced body to individual account holders) insert the following new section, *BCOBS 4.4*. The text is not underlined.

4.4 Further information to be provided about personal current accounts

Application

- 4.4.1 R (1) The *rules* in this section apply to a *firm* that offers personal current accounts unless all personal current accounts offered by the *firm* are excluded accounts.
- (2) In this section, a “personal current account” means an account, other than a current account mortgage, which is a payment account within the meaning of the *Payment Accounts Regulations* (see *BCOBS 4.4.2G(1)*).
- (3) In this section, an “excluded account” is a personal current account that is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *banking customer* to overdraw on the account cannot arise; and
 - (b) either:
 - (i) the account cannot become overdrawn without prior arrangement; or
 - (ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and

- (c) no charge is payable where the *firm* refuses a payment due to lack of funds.

- 4.4.2 G (1) The definition of “personal current account” refers to the definition of a “payment account” under the *Payment Accounts Regulations*, that is: “an account held in the name of one or more consumers through which consumers are able to place funds, withdraw cash and execute and receive payment transactions to and from third parties, including the execution of credit transfers, but does not include any of the following types of account provided that the account is not used for day-to-day payment transactions: savings accounts; credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt; current account mortgages or e-money accounts”. The *FCA* has issued guidance on this definition: see ‘FG16/6 – Payment Accounts Regulations 2015’.
- [**Note:** <https://www.fca.org.uk/publications/finalised-guidance/fg16-6-payment-accounts-regulations-2015-definition-payment-account>]
- (2) The definition of “excluded account” captures personal current accounts where there cannot be a pre-arranged overdraft facility, there cannot be an unarranged overdraft to which interest or charges apply and charges for refusing a payment due to lack of funds cannot arise.

Further information to be communicated to applicants for a personal current account

- 4.4.3 R A *firm* that this section applies to must communicate to a *banking customer* who applies for a personal current account that is not an excluded account:
- (1) general information about overdrafts consisting of, so far as relevant to the account applied for:
 - (a) an explanation that an overdraft is a borrowing or credit facility;
 - (b) a general description of the nature and principal features of arranged and unarranged overdrafts associated with the personal current accounts offered by the *firm*;
 - (c) an explanation of the principal risks associated with:
 - (i) overdrawn without prior arrangement; and
 - (ii) opting out of an unarranged overdraft facility (if the *firm*’s terms and conditions permit this).
 - (d) an explanation of what may happen when a customer attempts to exceed an arranged overdraft limit or to overdraw in the absence of an arranged overdraft;

- (e) a general explanation of how the use of an arranged or unarranged overdraft might impact the *banking customer's* credit file;
 - (2) information about the availability of the following tools and how the *banking customer* can access them:
 - (a) the overdraft cost calculator required by *BCOBS* 8.2; and
 - (b) (if *BCOBS* 8.3 applies to the *firm* in relation to the personal current account) the overdraft eligibility tool required by *BCOBS* 8.3; and
 - (3) general information about reductions in arranged overdraft limits including:
 - (a) whether the *banking customer* can request the reduction or removal of their arranged overdraft facility after the personal current account has been opened;
 - (b) how the *banking customer* can do this; and
 - (c) any limitations or conditions on the *banking customer's* ability to do this.
- 4.4.4 R A *firm* that is required to provide alerts relating to the personal current account or chooses to do so must communicate to a *banking customer* who applies for a personal current account:
- (1) a description of any alerts that the *banking customer* will automatically receive, including any alerts required under the *rules* in *BCOBS* 8.4;
 - (2) a description of any (or any additional) alerts the *banking customer* may choose to receive;
 - (3) an explanation of how alerts can assist the *banking customer* to manage overdraft use and associated costs; and
 - (4) information about the availability of any options to customise the alerts the *banking customer* receives to suit the *banking customer's* needs, and the methods available for doing so.
- 4.4.5 R Where the *banking customer* applies for a personal current account without at the same time applying for a pre-arranged overdraft, a *firm* need not communicate the information set out in *BCOBS* 4.4.3R(2)(b) and (3).
- 4.4.6 R A *firm* must communicate the information required by *BCOBS* 4.4.3R and *BCOBS* 4.4.4R to a *banking customer* who already holds a personal current account with a *firm* and who subsequently applies for a pre-arranged overdraft as though they were a *banking customer* applying for a personal

current account.

- 4.4.7 G (1) A *firm* may consider including the following in the information communicated to comply with *BCOBS* 4.4.3R(1):
- (a) that overdrafts are primarily intended for short-term borrowing and are not generally suitable for longer-term borrowing;
 - (b) an explanation of what an arranged overdraft is and how to request one;
 - (c) an explanation of what an unarranged overdraft is and how it might arise;
 - (d) that use of overdraft will or may give rise to interest or other charges (as applicable) and how the *banking customer* can find out more; and
 - (e) that attempting to exceed a credit limit or become overdrawn without a pre-arranged overdraft may result in items not being paid and that this will or may incur charges.
- (2) Where the nature and features of arranged and unarranged overdrafts associated with the personal current accounts offered by the *firm* differ significantly between accounts, the *firm* may either set out the ways in which they differ or communicate only the information specific to the type of account the *banking customer* has applied for or is eligible for (if known).
- (3) The information communicated under this section should be general in nature but a *firm* may refer in that information to where additional or more detailed information can be found.

Method and timing of communication

- 4.4.8 R (1) Except as otherwise provided in this *rule*, a *firm* must communicate the information required under *BCOBS* 4.4.3R to 4.4.6R by providing it to the *banking customer* prior to the conclusion of the agreement for the personal current account, except and in so far as the information has been made available to the *banking customer* in accordance with (2).
- (2) Information is made available to a *banking customer* in accordance with this paragraph if it is presented in such a way that it must have been viewed by the *banking customer* before making an application.
- (3) A *firm* must consider the point during the application at which the information will be most relevant and useful to a *banking customer* and provide the information at that time where practicable.

- (4) Where the personal current account is opened using a means of distance communication which prevented the *firm* from complying with (1), for example by voice telephony, a *firm* may instead provide the information as soon as practicable after the agreement for the personal current account is concluded.
- 4.4.9 G (1) The effect of *BCOBS* 4.4.8R is that all *banking customers* who open a personal current account other than an excluded account will receive the information required by *BCOBS* 4.4.3R to 4.4.6R either before, during or immediately after the account opening process.
- (2) Where the *firm's* website or mobile application constitutes or includes a *direct offer financial promotion* in relation to the personal current account, the information required by *BCOBS* 4.4.3R(1) and (2) should have been included in this material in accordance with *BCOBS* 2.2A. If that material is published in such a way that a potential *banking customer* will view it before they commence their application the *firm* need not communicate it again.
- (3) The provision of an application form to a *banking customer* is an opportunity to provide the information required by this section. A *firm* that provides paper application forms for its personal current accounts to *banking customers* should consider whether to supply the information required by *BCOBS* 4.4.3R to 4.4.6R alongside the application form, or whether a more appropriate opportunity to supply some or all of it will arise prior to the account being opened.
- (4) The following are examples of appropriately timed disclosures during an application process:
- (a) providing the information required by *BCOBS* 4.4.3R(2) (about available calculators) at an early stage in the process to allow the *banking customer* to assess the suitability of the personal current account before completing the application;
 - (b) where a *firm* allows a *banking customer* to customise alerts during the application process, providing the information in *BCOBS* 4.4.4R when offering that opportunity; and
 - (c) where a *firm* allows a *banking customer* to select whether to apply for an arranged overdraft during the application process, providing the information in *BCOBS* 4.4.3R(3) when offering that opportunity.
- 4.4.10 R (1) The information required to be communicated under *BCOBS* 4.4.3R to 4.4.6R must be communicated in writing and be:
- (a) concise;
 - (b) in clear, simple language; and

- (c) presented prominently.
- (2) The information required to be communicated under *BCOBS* 4.4.3R(1) must be presented together.
- 4.4.11 G (1) Information will not be treated as presented prominently unless it is presented, having regard to other content it is presented alongside, in such a way that it is likely that the attention of the average *banking customer* would be drawn to it.
- (2) When providing information electronically, information is unlikely to be presented prominently if all that is provided is a link to a separate webpage where it can be viewed, or the option to download and open a separate file containing it.
- (3) Although the information is required to be in writing, it is not required to be in a *durable medium*.

Information about overdrafts to be made generally available

- 4.4.12 R (1) A *firm* must make available general information about overdrafts covering the information required to be communicated under *BCOBS* 4.4.3R(1) for each of the trading names under which it offers personal current accounts other than excluded accounts in either or both of the following ways:
 - (a) by publishing it in writing in an easily accessible place on the website of the brand; and
 - (b) by publishing it in writing in an easily accessible way through a mobile telephone application associated with the brand.
- (2) A *firm* should choose how and where to make available the general information required under this *rule* so as to be consistent with how it ordinarily communicates with its *customers*. It should select a method most likely to come to the attention of its *customers* and potential *customers*.
- (3) A *firm* that makes the information required under this *rule* available only through a mobile telephone application must refer on the website of the brand to the availability of such information through that application.
- (4) *BCOBS* 4.4.7G, *BCOBS* 4.4.10R and *BCOBS* 4.4.11G(1) apply to information required to be published under this *rule* as they apply to information required to be communicated under *BCOBS* 4.4.3R(1).
- 4.4.13 G Where the *firm* is subject to *BCOBS* 8.2 (Cost calculator) or *BCOBS* 8.4 (Eligibility calculator) it will be required to make these tools available, or publish a reference to their availability, alongside the information required

to be published under *BCOBS* 4.4.12R (see *BCOBS* 8.2.3R and *BCOBS* 8.3.3R).

After *BCOBS* 7 (Information about current account services) insert the following new chapter, *BCOBS* 8. The text is not underlined.

8 Tools for personal current account customers

8.1 General and application

Special terms used in this chapter

- 8.1.1 R (1) A “personal current account” means an account, other than a current account mortgage, which is a payment account within the meaning of the *Payment Accounts Regulations* (see *BCOBS* 8.1.2G(1));
- (2) A “private bank” is a *bank* or *building society* or an operationally distinct brand of such a *firm* over half of whose *banking customers* are eligible individuals within the meaning of article 9 of the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (SI 2014/1960) or meet the condition in paragraph (3) of that article (see *BCOBS* 7.1.5G(2)).
- (3) An “excluded account” is a personal current account that is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *banking customer* to overdraw on the account cannot arise; and
 - (b) either:
 - (i) the account cannot become overdrawn without prior arrangement; or
 - (ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and
 - (c) no charge is payable where the *firm* refuses a payment due to lack of funds.
- (4) an “arranged overdraft” is the facility provided for in an *authorised non-business overdraft agreement* that is a *regulated credit agreement*.
- (5) an “unarranged overdraft” is a *regulated credit agreement* that arises as a result of:

- (a) a personal current account becoming overdrawn in the absence of an arranged overdraft; or
- (b) the *firm* making available to the *banking customer* funds which exceed the limit of an arranged overdraft.

8.1.2 G (1) The definition of “personal current account” refers to the definition of a “payment account” under the *Payment Accounts Regulations*, that is: “an account held in the name of one or more consumers through which consumers are able to place funds, withdraw cash and execute and receive payment transactions to and from third parties, including the execution of credit transfers, but does not include any of the following types of account provided that the account is not used for day-to-day payment transactions: savings accounts; credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt; current account mortgages or e-money accounts”. The *FCA* has issued guidance on this definition: see ‘FG16/6 – Payment Accounts Regulations 2015’.

[**Note:** <https://www.fca.org.uk/publications/finalised-guidance/fg16-6-payment-accounts-regulations-2015-definition-payment-account>]

- (2) The definition of “personal current account” for the purposes of this chapter is different to that used in *BCOBS 7*, because “premium service accounts” as defined in *BCOBS 7* are not excluded from the definition of a personal current account in this chapter.

Purpose

8.1.3 G This chapter requires a *firm* to:

- (1) make available a cost calculator tool on its website or mobile telephone application in accordance with *BCOBS 8.2*;
- (2) make available an overdraft eligibility tool on its website or mobile telephone application in accordance with *BCOBS 8.3*; and
- (3) provide alerts to personal current account *customers* about their personal current account usage in accordance with *BCOBS 8.4*.

Who and what?

8.1.4 R (1) This chapter applies to a *firm* that provides or offers to provide personal current accounts with respect to the provision of *retail banking services*, arranged overdrafts and unarranged overdrafts in connection with those accounts.

- (2) This chapter does not apply to a *firm* if all personal current accounts provided or offered by the *firm* are excluded accounts.
- (3) This chapter does not apply to a private bank.

- 8.1.5 G (1) In accordance with *BCOBS* 1.1.5R this chapter does not apply to a *credit union*.
- (2) *BCOBS* 8.3 (overdraft eligibility tool) applies:
- (a) to a *firm* in relation to a trading name if 70,000 or more personal current accounts are held with the *firm* under that trading name, unless all personal current accounts provided or offered by the *firm* under that trading name are excluded accounts; and
 - (b) to any other *firm* to which this chapter applies and that chooses to offer an overdraft eligibility tool.
- (3) *BCOBS* 8.4 (Alerts) applies to a *firm* in relation to a trading name if 70,000 or more personal current accounts are held with the *firm* under that trading name.
- (4) *BCOBS* 8.4 (Alerts) continues to apply to a *firm* in relation to some personal current accounts if the number of personal current accounts held with the *firm* falls below 70,000 but the *firm* has previously informed *customers* they will receive alerts, in accordance with *BCOBS* 8.4.6R.

Where?

- 8.1.6 G *BCOBS* applies only to the activity of *accepting deposits* from *banking customers* carried on from an establishment maintained by a *firm* in the *United Kingdom* and activities connected with that activity (see *BCOBS* 1.1.1R). This chapter does not therefore apply to activities carried on from *branches* outside the *United Kingdom*.

8.2 Cost calculator

Application

- 8.2.1 R This section applies to a *firm* that provides or offers to provide personal current accounts unless all personal current accounts provided or offered by the *firm* are excluded accounts.
- 8.2.2 G In accordance with *BCOBS* 1.1.5R this chapter does not apply to a *credit union*.

Requirement to provide a cost calculator tool

- 8.2.3 R (1) A *firm* must make publically available a tool that enables a *banking customer* or potential *banking customer* to easily calculate the cost of overdrawing on personal current accounts other than excluded accounts offered by the *firm* (“a cost calculator”).

- (2) The cost calculator must be made available continuously on the website of each trading name under which the *firm* offers or provides personal current accounts other than excluded accounts in a prominent and easily accessible location, except in the circumstances provided for in (3).
- (3) A *firm* that offers personal current account opening services exclusively through a mobile telephone application may instead make the cost calculator required under this *rule* available through that mobile telephone application, but must refer prominently on its website to the availability of the tool through that application.
- (4) A *firm* should choose how and where to make the cost calculator available so as to be consistent with how it ordinarily communicates with its *customers* and select a method most likely to come to the attention of its *customers* and potential *customers*.
- (5) The cost calculator or the reference to it must be published on the *firm's* website alongside the information required to be published under *BCOBS* 4.4.12R.
- (6) The cost calculator for each trading name must cover the costs of overdrawing on:
 - (a) each of the personal current account products offered under that trading name to *banking customers* seeking to open a new current account; and
 - (b) any other personal current accounts no longer offered under that trading name but that continue to be held by *banking customers* of the *firm* under that trading name.

- 8.2.4 R (1) The cost calculator must allow the *banking customer* to easily input or select from an appropriate and representative range:
- (a) an amount borrowed;
 - (b) a number of days for which the amount is to be borrowed; and
 - (c) (where the terms relating to different personal current accounts offered by the *firm* under a particular trading name would result in different outputs from the cost calculator) the particular type of personal current account the *banking customer* wants to model.
- (2) The cost calculator must allow the *banking customer* to choose to:
- (a) select whether the amount is to be borrowed under an *authorised non-business overdraft agreement* or without prior arrangement; and

- (b) alternatively, input an arranged overdraft limit and input an amount borrowed that exceeds that limit.
 - (3) The cost calculator must automatically output the following information:
 - (a) confirmation of the amount and duration of borrowing the calculation is based on;
 - (b) the total sum (rounded to the nearest £0.01) of interest and charges that the *banking customer* would incur if they overdrew by the amount selected for the duration selected; and
 - (c) (where the borrowing includes both borrowing under an *authorised non-business overdraft agreement* and borrowing without prior arrangement) the sum of the charges referred to in (a) that relate to borrowing under an unarranged overdraft (rounded to the nearest £0.01).
 - (4) A *firm* must not require a *banking customer* to input information other than that set out in (1) and (2) to obtain an output from the cost calculator unless that additional information is necessary to enable the *firm* to calculate the outputs required by (3), having regard to the assumptions required to be made under *BCOBS* 8.2.6R.
 - (5) A *firm* whose cost calculator requires additional information in accordance with (3) must provide clear explanations that are readily accessible from the cost calculator about how to ascertain the additional details required.
- 8.2.5 G (1) A *firm* should ensure that the range of inputs available to a *banking customer* for the amount borrowed and the length of borrowing is representative of the range of borrowing amounts and durations that arise in practice under arranged overdrafts and unarranged overdrafts on the personal current account product in question.
- (2) The cost calculator should clearly communicate any limitations to the valid range of inputs.
 - (3) A *firm* is not required to provide a continuous range of inputs for either the amount borrowed or the length of borrowing. If a *firm* chooses not to provide a continuous range of inputs it should ensure that it makes available sufficiently granular options that are representative of the borrowing amounts and durations that arise in practice under arranged overdrafts and unarranged overdrafts on the personal current account product in question.
 - (4) A *firm* has flexibility as to the presentation of the cost calculator and the method or methods of input selected. When designing the cost calculator, a *firm* should have regard to the ease with which a

banking customer can use the tool. For example, a sliding horizontal bar is likely to be more easily accessible than a drop-down menu holding a large number of options.

- (5) The outputs of the cost calculator should include the amounts of any interest or charges incurred during the period even where those charges do not become due for payment until after the end of the period.
- (6) The outputs of the cost calculator should not include the amounts of any charges payable by the *banking customer* for the operation of the personal current account whether or not the *banking customer* is overdrawn.

Assumptions

- 8.2.6 R (1) For the purpose of arriving at the output of the cost calculator a *firm* must assume that:
- (a) the amount borrowed is drawn down in full at noon on the date of calculation;
 - (b) the period specified by the user is a continuous period starting at noon on the date of calculation;
 - (c) at the time the borrowing is drawn down, the balance of the personal current account is £0.00;
 - (d) no credits will be made to the account during the period;
 - (e) any charges and interest relating to the borrowing being modelled will be debited from the account in accordance with the terms and conditions of the personal current account and will not be waived;
 - (f) no other debits will be made from the account during the period;
 - (g) the outstanding balance of capital, interest and other charges will be repaid in full at noon on the last day of the period;
 - (h) in the case of an *authorised non-business overdraft agreement* allowing variations in:
 - (i) the rate of interest; or
 - (ii) any other charge,
 unless any variation can be quantified at the time of calculation, it must be assumed that they will remain unchanged during the period; and

- (i) (in so far as the terms of the personal current account allow for a monthly or other periodic charging period that will or may influence the charges required to be calculated):
 - (i) (where the start date of the period may vary between *banking customers*) that the cost calculator is being used on the first day of any such period; or
 - (ii) (in any other case) that the *banking customer* has not previously overdrawn the personal current account during that periodic charging period.
- (2) Where a *firm* determines the rate of interest or level of other charges that apply to an agreement with a *banking customer* on a case by case basis by reference to specific features of the individual application, the cost calculator tool is not required collect or take into account all of the customer-specific information that the *firm* would need to make that determination.
- (3) If, in the circumstances described in (2), the cost calculator does not collect all of the information that the *firm* would need to determine the actual rate of interest or level of other charges that would apply:
 - (a) the *firm* may allow a *banking customer* who is an existing *customer* of the firm to select or input the actual interest rate or level of other charges that applies to their existing agreement if it is for a product that is the same or comparable to the one selected for the purpose of the calculation, and
 - (b) the *firm* must otherwise base the cost calculation on an interest rate or level of other charges that is no more favourable to the customer than the terms the *firm* reasonably expects to offer to 51% of *banking customers* applying for the relevant personal current account.

8.3 Eligibility tool

Application

- 8.3.1 R (1) This section, apart from *BCOBS* 8.3.2R, applies to a *firm* in relation to a trading name if:
 - (a) 70,000 or more personal current accounts are held with the *firm* under that trading name; and
 - (b) the *firm* offers personal current accounts other than excluded accounts under that trading name.
- (2) *BCOBS* 8.3.2R applies to a *firm* that this chapter applies to: see

BCOBS 8.1.4R, BCOBS 8.1.5G and BCOBS 8.1.6G.

- 8.3.2 R A *firm* must not publish a tool that purports to perform the function of an eligibility tool as described in *BCOBS 8.3.3R(1)* unless the *firm* complies with the *rules* in this section as though the *firm* were a *firm* to which this section (apart from this *rule*) applied in respect of that tool.

Publishing an eligibility tool for arranged overdrafts

- 8.3.3 R (1) A *firm* must make available a tool that enables a potential *banking customer* to obtain an indication tailored to the individual circumstances of that *banking customer* of the likelihood that the *firm* would offer an arranged overdraft of a particular amount to that *banking customer* if the *banking customer* opened a personal current account with the *firm* (“the eligibility tool”):
- (a) for each trading name to which this section applies; and
 - (b) beginning on the *day* one year after the first time 70,000 or more personal current accounts are held with the *firm* under that trading name.
- (2) A *firm* must make the eligibility tool available continuously and in an easily accessible location on the website for each trading name in respect of which this section applies except in the circumstances provided for in (3).
- (3) A *firm* that offers personal current account opening services exclusively through a mobile telephone application may instead make the eligibility tool required under this *rule* available through that mobile telephone application, but must refer prominently on its website to the availability of the tool through that application.
- (4) A *firm* should choose how and where to make the eligibility tool available so as to be consistent with how the *firm* ordinarily communicates with its *customers* and select a method most likely to come to the attention of its *customers* and potential *customers*.
- (5) The eligibility calculator or the reference to it must be published on the *firm*’s website alongside the information required to be published under *BCOBS 4.4.12R*.
- (6) A *firm* must either:
- (a) present the eligibility tool together with the cost calculator required under *BCOBS 8.2*; or
 - (b) include in close proximity to the eligibility tool a prominent indication of the existence of the cost calculator required under *BCOBS 8.2* and a link enabling a *banking customer* to access that cost calculator.

- 8.3.4 R The eligibility tool must be accompanied by a prominent statement that:
- (1) the output of the eligibility tool is dependent on the accuracy of the information input by the *banking customer*;
 - (2) the output of the eligibility tool is indicative only and does not guarantee that the *banking customer* will be offered an arranged overdraft of the amount selected or at all;
 - (3) any overdraft offered by the *firm* will depend upon a full eligibility assessment that may affect whether the *banking customer* is able to obtain an arranged overdraft and of what amount; and
 - (4) use of the eligibility tool and will not adversely affect the *banking customer's* credit file.

Inputs to the eligibility tool

- 8.3.5 R
- (1) The eligibility tool must allow the *banking customer* to input or select the level of arranged overdraft that the *banking customer* wants to obtain an indication of likelihood of eligibility for.
 - (2) The eligibility tool may require the *banking customer* to:
 - (a) input such personal details as the *firm* specifies; and
 - (b) consent to the *firm* conducting a *credit reference agency* search in respect of the *banking customer* of a kind that will not leave evidence of an application on the *banking customer's* credit file.
 - (3) The eligibility tool must enable a *banking customer* to assess eligibility for different overdraft amounts on the same occasion without re-entering other information.

- 8.3.6 G A *firm* is not required to provide a continuous range of inputs for the level of arranged overdraft that the *banking customer* wants to obtain an indication of likelihood of eligibility for. If a *firm* chooses not to provide a continuous range of inputs it should ensure that it makes available sufficiently granular options that are representative of the levels of arranged overdraft that it offers in practice.

- 8.3.7 R A *firm* must not use the information input into the eligibility tool by the *banking customer* for any purpose other than:
- (1) generating the output of the eligibility calculator; and
 - (2) monitoring the accuracy of the eligibility calculator.

Outputs of the eligibility tool

- 8.3.8 R The output of the eligibility tool must be provided promptly and must:
- (1) represent a reasonable pre-estimate by the *firm* of the probability that it would offer the *banking customer* an overdraft of the amount selected if the *banking customer* were to apply for it; and
 - (2) be communicated in a fair, clear and not misleading way.
- 8.3.9 G
- (1) A *firm* may choose how to present the output of the eligibility tool, provided the format chosen is fair, clear and not misleading. For example, the output may be given as a percentage, a qualitative description or graphical representation.
 - (2) The output should adequately represent the range of likelihood of approval. In particular any graphical representation suggesting a spectrum of likelihood of approval, such as a dial or an indicator along a bar, should represent the full range of likelihoods of approval ranging from certain refusal to certain acceptance, even if in practice no *banking customer* will fall at either extreme of the scale.
 - (3) The probability of a *banking customer* being offered an overdraft should be assessed having regard to the proportion of *banking customers* who are similar to the *banking customer* by reference to the factors assessed by the eligibility tool whom the *firm* reasonably expects would be offered an arranged overdraft of the amount selected.

Design and monitoring of the eligibility tool

- 8.3.10 R
- (1) A *firm* must have regard to its process for approving an overdraft for a *banking customer* when selecting the factors considered and process used by the eligibility tool to produce its output, but it is not required to duplicate that process.
 - (2) A *firm* must design the eligibility tool so as to use only factors that:
 - (a) could have a significant impact on:
 - (i) the likelihood of the *firm* approving a *banking customer* for an arranged overdraft; or
 - (ii) the amount of arranged overdraft approved;
 - (b) can be assessed in an automatic manner; and
 - (c) can be assessed based on information that:
 - (i) is readily available to the *banking customer* and proportionate to require prior to a full application being made;

- (ii) is readily available to the *firm*; or
 - (iii) the *firm* can readily obtain by conducting a *credit reference agency* search in respect of the *banking customer* of a kind that does not leave evidence of an application on the *banking customer's* credit file.
 - (3) A *firm* should select the information it requires a *banking customer* to provide when using the eligibility tool, and the factors considered and process used by the eligibility tool to produce its output so as to achieve a proportionate balance between:
 - (a) the accuracy of the output of the tool; and
 - (b) the amount of information a *banking customer* is required to input.
 - (4) A *firm* is not required to verify the accuracy of any information input by the *banking customer* into the eligibility tool.
- 8.3.11 G (1) A *firm* should approach the task of designing the eligibility tool in a proportionate, balanced and practical way so as to maximise the eligibility tool's utility to the *banking customers* who use it. A *firm* is not required to analyse every possible factor to produce the output of the eligibility tool.
- (2) A *firm* should only seek information from the *banking customer* or *credit reference agency* where this is likely to have a significant impact on the likelihood of the *banking customer* being offered an arranged overdraft or on the amount of arranged overdraft offered to the *banking customer*.
- (3) A *firm* should have regard to the fact that the *banking customer* may be using the eligibility tool to compare a number of providers and should avoid, where practical, requesting detailed information that is likely to discourage a *banking customer* from using the eligibility tool. A *firm* should consider whether less comprehensive information would be more appropriate for the purposes of the eligibility tool. For example a *banking customer* is likely to be able to readily confirm their employment status or total income, but requiring a detailed breakdown of income and expenditure is likely to be disproportionate.
- 8.3.12 R (1) A *firm* must establish a process for monitoring the accuracy of the output of the eligibility tool.
- (2) A *firm* must review the factors considered and process used by the eligibility tool to produce its output whenever:
- (a) there is a material change to the *firm's* policies or processes for approving an overdraft; or

- (b) the *firm's* monitoring of the eligibility tool reveals that the eligibility tool's outputs deviate to a significant degree from those expected.

8.3.13 G Examples of processes a *firm* could use to comply with *BCOBS* 8.3.12R(1) include:

- (1) periodically comparing the outcomes of samples of actual overdraft decisions with the outputs the tool would have generated for those *banking customers*; and
- (2) periodically sampling *banking customers* who used the tool and subsequently applied for a personal current account to assess whether approval decisions correspond to those expected if the tool was accurate.

8.4 Alerts

Application

8.4.1 R (1) Subject to *BCOBS* 8.4.2R this section applies to a *firm* in relation to personal current accounts held with the *firm* under a trading name if 70,000 or more personal current accounts are held with the *firm* under that trading name.

- (2) This section does not apply to excluded personal current accounts.

8.4.2 R Where a *firm* has notified a *banking customer* in accordance with *BCOBS* 8.4.6R that they will receive alerts under this section in respect of a personal current account, this section continues to apply to the *firm* in respect of that personal current account, even if it would not apply to the *firm* under *BCOBS* 8.4.1R, until:

- (1) the *firm* has notified the *banking customer* in writing that they will no longer receive the alerts they were previously notified of; and
- (2) 28 *days* have elapsed since the *firm* sent the notification.

Automatic enrolment

8.4.3 R (1) Except as otherwise provided for in *BCOBS* 8.4.5R a *firm* must ensure that in relation to each personal current account held by the *banking customer*, the *banking customer* is, by the date specified in (2), enrolled to receive:

- (a) arranged overdraft usage alerts in accordance with *BCOBS* 8.4.12R;
- (b) unarranged overdraft alerts in accordance with *BCOBS*

8.4.13R; and

- (c) attempt to overdraw without prior arrangement alerts in accordance with *BCOBS* 8.4.15R; and
 - (d) where *BCOBS* 8.4.16R applies, the additional alerts required under that *rule*.
- (2) A *banking customer* is enrolled to receive alerts in relation to a personal current account when:
- (a) the *firm* has put in place arrangements that enable it to comply with this section; and
 - (b) those arrangements are operational in respect of that personal current account.
- (3) Where a personal current account is held by two or more *banking customers* jointly, a *firm* must enrol each *banking customer* in the alerts required under this section.
- (4) A *firm* must comply with (1) not later than whichever is the latest of:
- (a) on the day one year after the first time that 70,000 or more personal current accounts are held with the *firm* under that trading name;
 - (b) three working days after the agreement for the personal current account is concluded; and
 - (c) where *BCOBS* 8.4.4R(1) applied, ten working days after:
 - (i) the *firm* obtains a mobile telephone number from the *banking customer*; or
 - (ii) (if the *firm* provides alerts by push notification from a mobile banking application) the *banking customer* is able to receive alerts in this way.

- 8.4.4 R (1) Where a *firm* is required to enrol a *banking customer* in alerts under this section but the *firm*:
- (a) does not hold a mobile telephone number for the *banking customer*; or
 - (b) has reasonable grounds to believe that the mobile telephone number held in respect of the *banking customer* is no longer used by the *banking customer*;

the *firm* must take reasonable steps to obtain a mobile telephone number to which alerts may be sent to that *banking customer* as soon as possible.

- (2) Before opening a new personal current account, a *firm* must:
 - (a) take reasonable steps to obtain the *banking customer's* mobile telephone number for the purposes of enrolling them in alerts relating to that personal current account; or
 - (b) (where the *firm* already holds a mobile telephone number for the *banking customer*) seek the *banking customer's* confirmation that the mobile telephone number held by the *firm* is the *banking customer's* preferred mobile telephone number for the purposes of receiving alerts relating to that personal current account.
- (3) When complying with (1) or (2) the *firm* must provide the *banking customer* with an explanation of how alerts can assist the *banking customer* to manage overdraft use and associated costs.
- (4) Where a *banking customer* declines to provide or confirm a mobile telephone number when requested to do so under (1) or (2) the *firm* must warn the *banking customer* that they will not be able to receive alerts about their overdraft use and as a result may incur avoidable charges.
- (5) This *rule* does not apply if:
 - (a) the *firm* provides alerts by push notification from a mobile banking application and the *banking customer* is able to receive alerts in this way; or
 - (b) the *banking customer* has elected to receive alerts in respect of that personal current account by an alternative means in accordance with *BCOBS* 8.4.8R(3).

Exceptions to automatic enrolment

- 8.4.5 R
- (1) A *firm* is not required to enrol a *banking customer* to receive alerts under *BCOBS* 8.4.3R in the circumstances set out in (2) to (4).
 - (2) A *firm* is not required to enrol a *banking customer* to receive arranged overdraft usage alerts in accordance with *BCOBS* 8.4.12R in respect of a personal current account that has no arranged overdraft.
 - (3) A *firm* is not required to enrol a *banking customer* to receive a particular type of alert in respect of a personal current account if that *banking customer* already receives an alert (or alerts) that performs at least an equivalent function.
 - (4) A *firm* is not required to enrol a *banking customer* to receive a particular alert in respect of a personal current account if that *banking customer* has previously requested not to receive an alert or

alerts that perform a similar function.

- (5) For the purposes of (4) a *banking customer* is not to be treated as having requested not to receive an alert merely because it has been previously offered to them.

Notification of enrolment

- 8.4.6 R (1) A *firm* must notify a *banking customer* who has been (or will be) enrolled to receive alerts that they have been (or will be) so enrolled.
- (2) When giving such notification the *firm* must also inform the *banking customer* of any options available to customise the alerts the *banking customer* receives to suit the *banking customer's* needs and the method or methods available for doing so.
- 8.4.7 G A *firm* that has complied with *BCOBS* 4.4.4R when opening the personal current account will have complied with *BCOBS* 8.4.6R and need not provide a further notification to the *banking customer*.

Method for delivering alerts

- 8.4.8 R A reference in this section to an alert being sent in respect of a personal current account is to the *firm* completing all steps necessary to initiate the sending of an alert:
- (1) by SMS text message to the *banking customer's* mobile telephone number;
- (2) by push notification from a mobile banking application; or
- (3) by an alternative method if:
- (a) that method provides for reliable receipt by the *banking customer* in a comparable timeframe from the point when the *firm* sends the alert to the methods provided for in (1) or (2); and
- (b) the *banking customer* has expressly and freely opted to receive alerts by way of such delivery method instead of the methods provided for in (1) or (2).
- 8.4.9 G An 'opt-out' or pre-filled check box to receive alerts by an alternative method would not satisfy the requirement in *BCOBS* 8.4.8R(3)(b) for the *banking customer* to have expressly and freely opted to receive alerts by an alternative method.

Customising alerts

- 8.4.10 R (1) A *firm* must put in place arrangements that allow a *banking customer* to choose not to receive one or more of the alerts required by *BCOBS* 8.4.12R to 8.4.16R.

- (2) A *firm* must ensure that any arrangements put in place for *banking customers* to choose not to receive alerts, or to otherwise customise alerts, are easily accessible, clear and straightforward.
 - (3) A *firm* must ensure that a *banking customer* is able to exercise the choice in (1) independently in respect of each type of alert provided for in *BCOBS* 8.4.12R to 8.4.16R.
 - (4) A *firm* must warn a *banking customer* who chooses not to receive any alerts that they will not receive alerts about unintended overdraft use and may incur avoidable charges.
- 8.4.11 G
- (1) *BCOBS* 8.4.10R does not prevent a *firm* from allowing a *banking customer* to customise alerts in additional ways to that required by that *rule*.
 - (2) Nothing in this section prohibits a *firm* from offering alerts additional to those required by this section, such as alerts sent when:
 - (a) the balance of the personal current account is low;
 - (b) the personal current account approaches the applicable overdraft limit; or
 - (c) there are insufficient funds to process a transaction at a particular time but the *firm* will attempt to process the transaction again.

Arranged overdraft usage alerts

- 8.4.12 R
- (1) A *firm* must send an alert to a *banking customer* if the *firm*:
 - (a) knows based on information available to it that the *banking customer's* personal current account is making use of arranged overdraft; or
 - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the *banking customer's* personal current account will make use of arranged overdraft that day in the absence of:
 - (i) action by the *banking customer*; or
 - (ii) a transaction other than those the *firm* is aware of.
 - (2) The alert must communicate to the *banking customer* in plain simple language:
 - (a) the reason why the alert has been sent;
 - (b) a description of action the *banking customer* can take to

avoid or reduce their use of arranged overdraft; and

- (c) that the *banking customer* will or may incur charges if they become or remain overdrawn, if this is the case.

Unarranged overdraft alerts

- 8.4.13 R (1) A *firm* must send an alert to a *banking customer* if the *firm*:
- (a) knows based on information available to it that the *banking customer's* personal current account has entered unarranged overdraft;
 - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the *banking customer's* personal current account will enter unarranged overdraft in the absence of:
 - (i) action by the *banking customer*; or
 - (ii) a transaction other than those the *firm* is aware of.
- (2) The alert must communicate to the *banking customer* in plain simple language:
- (a) the reason why the alert has been sent;
 - (b) that the *banking customer* has incurred or may incur charges; and
 - (c) that the *banking customer* has a period of time during which they have an opportunity to take action to avoid or reduce charges and specify:
 - (i) the actions which may be taken; and
 - (ii) the time by which the *customer* must take such action to reduce or avoid the charge or charges.
- 8.4.14 G (1) The period communicated under *BCOBS* 8.2.13R(2)(c) should give the *banking customer* as good an opportunity to take action to avoid or reduce charges as possible having regard to:
- (a) the time when the alert is required to be sent;
 - (b) the terms and conditions applicable to the personal current account; and
 - (c) the *firm's* obligations under:
 - (i) the *Payment Services Regulations*; and

(ii) *BCOBS 5.1.1R.*

- (2) *Firms* should keep in mind, in particular, that, where it applies, regulation 89 of the *Payment Services Regulations* (Value date and availability of funds) has the effect that the value date of a credit to a payment account can be no later than the business day on which the payment transaction was credited to the bank's or building society's account. The *firm* cannot set a "cut-off" time earlier than the end of a business day, after which funds received in its account are treated as being received the next day for the purposes of giving credit value to the *banking customer*. For many personal current accounts where for example a customer has online banking and can make and receive payments at any time using Faster Payments, the business day will be 24 hours long.

Attempt to exceed alerts

- 8.4.15 R (1) A *firm* must send an alert to a *banking customer* if the *firm*:
- (a) knows based on information available to it that the *banking customer* has incurred a charge for attempting to enter unarranged overdraft but has not entered unarranged overdraft because the *firm* declined to process the transaction;
 - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, a situation described in (a) will occur that day in the absence of:
 - (i) action by the *banking customer*; or
 - (ii) a transaction other than those the *firm* is aware of.
- (2) The alert must communicate to the *banking customer* in plain simple language:
- (a) the reason why the alert has been sent; and
 - (b) that the *banking customer* has incurred or may incur charges.

Additional alerts where there are multiple arranged overdraft limits

- 8.4.16 R (1) This *rule* applies to a *firm* in relation to an *authorised non-business overdraft agreement* where the terms of that agreement provide for significantly different levels of charge for credit in respect of different tiers of drawdown under the facility.
- (2) Where this *rule* applies the *firm* must send an alert to the *banking customer* if the *firm*:
- (a) knows based on information available to it that the *banking*

customer's personal current account has entered a different tier of drawdown under the facility where significant additional costs are associated with that tier of drawdown; or

- (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the circumstances in (a) will occur that day in the absence of:
 - (i) action by the *banking customer*; or
 - (ii) a transaction other than those the *firm* is aware of.
- (3) The alert must communicate to the *banking customer* in plain simple language:
 - (a) the reason why the alert has been sent;
 - (b) that the *banking customer* has incurred or may incur charges; and
 - (c) that the *banking customer* has a period of time during which they have an opportunity to take action to avoid or reduce charges and specify:
 - (i) the actions which may be taken; and
 - (ii) the time by which the *banking customer* must take such action to reduce or avoid the charge or charges.

General provisions about the timing and content of alerts

- 8.4.17 R Where a *firm* has sent an alert under *BCOBS* 8.4.12R to 8.4.16R it is not required to send a further alert in respect of the same personal current account under the same *rule* unless, since the last alert under that *rule* was sent:
- (1) (in respect of alerts sent under *BCOBS* 8.4.12R(a)) any arranged overdrawing has been repaid;
 - (2) (in respect of alerts sent under *BCOBS* 8.4.12R(b)) either:
 - (a) the personal current account did not enter arranged overdraft on the day the alert was sent; or
 - (b) the personal current account entered arranged overdraft but any arranged overdrawing has been repaid;
 - (3) (in respect of alerts sent under *BCOBS* 8.4.13R(a)) any unarranged overdrawing has been repaid;
 - (4) (in respect of alerts sent under *BCOBS* 8.4.13R(b)) either:

- (a) the personal current account did not enter unarranged overdraft on the day the alert was sent; or
 - (b) the personal current account entered unarranged overdraft but any unarranged overdrawing has been repaid; or
 - (5) (in respect of alerts sent under *BCOBS* 8.4.15R) the obligation to send the alert arises because of a further attempt to enter unarranged overdraft; and
- 8.4.18 R (1) Subject to (2) to (4) a *firm* must send an alert required by this section as soon as practicable after the circumstances giving rise to the obligation to send the alert arise.
- (2) Where the obligation to send an alert or alerts is brought about by one or more transactions that are scheduled payments the *firm* must:
- (a) send an alert no later than 10am on the day when the obligation to send the alert arises; and
 - (b) treat all scheduled payments due to be debited from the personal current account on a single day as a single transaction for the purposes of (3).
- (3) Where a transaction would, apart from this paragraph, give rise to an obligation to send multiple alerts under different *rules* in this section, a *firm* must only send the alert most relevant to the final balance of the personal current account after the transaction.
- (4) Where a series of transactions that the *firm* becomes aware of in rapid succession would, apart from this paragraph, give rise to an obligation to send multiple alerts under different *rules* in this section, a *firm* may treat them as a single transaction for the purposes of (3).
- (5) Nothing in this section requires a *firm* to send an alert where doing so would be a breach of another regulatory requirement applicable to the *firm*.
- (6) In this *rule*, a “scheduled payment” is one where the *firm* has knowledge of both the amount and date of the payment on the day before the payment is to be debited from the personal current account.
- 8.4.19 G (1) The purpose of the alerts in this section is to give *banking customers* notice of potential and actual arranged and unarranged overdraft use to enable them to:
- (a) take informed decisions about their personal current account use; and
 - (b) where possible, take action to avoid such use if it is not in

their interests.

- (2) The *rules* in this section leave scope for *firms* to customise alerts to suit the method used to send them, the *firm*'s products, brands and customers.
- (3) The content required by the *rules* in this section is minimum content and *firms* may choose to include additional content in the alerts including information about:
 - (a) the balance of the personal current account;
 - (b) the *banking customer*'s pre-arranged overdraft limit; and
 - (c) the amounts of charges that the *banking customer* will or may incur.
- (4) *Firms* should have regard to available evidence about the content and presentation that is most effective at engaging *banking customers* when designing the content and presentation of alerts in compliance with these *rules*.
- (5) The requirement to send alerts as soon as practicable in *BCOBS* 8.4.18R(1) does not preclude a *firm* from grouping alerts due to be sent to *banking customers* in 'batches', provided that alerts are sent at reasonable intervals.

Annex B

Amendments to the Consumer Credit sourcebook (CONC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Financial promotions and communications with customers

...

3.3 The clear fair and not misleading rule and general requirements

...

Guidance on misleading introductions

3.3.11 G ...

[**Note:** paragraph 3.9p (box) of *CBG*]

Financial promotions of non-business overdraft agreements

3.3.12 G A communication or a *financial promotion* that refers to sums available by way of an *authorised non-business overdraft agreement* should make clear that such sums constitute borrowing or credit.

...

3.5 Financial promotions about credit agreements not secured on land

...

Total charge for credit and APR

3.5.13 R ...

Promotions relating to non-business overdraft agreements

3.5.14 G A *direct offer financial promotion* made in writing and relating to a *non-business overdraft agreement* will additionally need to comply with the *rules* in *BCOBS 2.2B* (General information about overdrafts for personal current accounts) where those *rules* apply.

...

4 Pre-contractual requirements

...

4.7 Information to be provided ~~on entering a~~ in relation to current account ~~agreement~~ agreements

...

Information on entering into current account

4.7.2 R ...

Additional requirements in relation to certain current accounts

4.7.3 G In addition to the *rules* in this section, *BCOBS* contains *rules* about information and tools to be provided to *customers* which may apply to *firms* that engage in *consumer credit lending* in connection with overdrafts on current accounts. In particular:

- (1) *BCOBS* 4.4 (Further information to be provided about personal current accounts) contains *rules* requiring certain *firms* that offer personal current accounts to provide information about overdrafts and other matters to applicants for certain types of current account, and to publish such information; and
- (2) *BCOBS* 8 (Tools for personal current account customers) contains *rules* requiring certain *firms* to make available tools to enable banking customers to:
 - (a) calculate the cost of overdrawing on a current account; and
 - (b) obtain an indication of the likelihood they will be approved for an *authorised non-business overdraft agreement* of a particular amount.

...

6 Post contractual requirements

...

6.7 Post contract: business practices

...

Credit cards: persistent debt

...

6.7.40 G ...

Authorised non-business overdraft agreements: reductions in credit limits

6.7.41 R A *firm* must provide an easy, efficient and prompt process that enables a borrower under an *authorised non-business overdraft agreement* to request:

- (1) a reduction in the *credit limit* under that agreement; or

- (2) to terminate the *authorised non-business overdraft agreement* but retain the current account that it is associated with, where the terms of the agreement permit this.

6.7.42 G A *firm* is not required to approve all requests from a *borrower* to reduce their *credit limit* or to terminate their *authorised non-business overdraft agreement*. When considering such a request a *firm* should have regard to its obligation to treat *customers* fairly. In many circumstances it would be unfair to require a *borrower* to retain an unwanted facility. The following are examples of when it would be fair to refuse a request:

- (1) the current account that the *authorised non-business overdraft agreement* is associated with is offered on terms that it must be associated with an *authorised non-business overdraft agreement*, or with an *authorised non-business overdraft agreement* with a particular credit limit; or
- (2) the *borrower's* indebtedness exceeds the reduced *credit limit* requested; or
- (3) the *borrower* has requested termination of an *authorised non-business overdraft agreement* but there are sums outstanding under that agreement.

