



HM Treasury

Basic bank accounts:

January to June 2016



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1 Introduction

Background

1.1 Basic bank accounts have been available in the UK for over a decade, aimed at supporting financial inclusion for those without a bank account. Previous industry agreements on basic bank accounts were not prescriptive, but established that basic bank accounts should not charge the customer for everyday transactions, and should not be able to go overdrawn.

1.2 An absence of rules on eligibility, combined with the relatively attractive terms, led to an increase in demand beyond the original target customer group. By 2014 it was estimated that basic bank accounts represented approximately 11% of all UK personal current accounts (PCAs).

1.3 Some participating institutions sought to reduce the costs of providing basic bank accounts, including limiting access to ATMs, or charging significant fees when direct debits or standing orders failed. Those charges were in some cases very high, and at some banks, without any cap. Some basic bank account customers developed significant overdrafts that left many customers unable to use their accounts and effectively unbanked. The introduction of Universal Credit, which requires claimants to have a transactional bank account (e.g. that can be used to pay rent by direct debit) brought this issue into sharp relief.

1.4 Following extensive negotiations with the banking industry, in December 2014 the coalition government announced a new voluntary agreement ('the 2014 agreement') with the 9 largest PCA providers in the UK to improve basic bank accounts. The participants were:

- Barclays
- Clydesdale and Yorkshire Bank
- Co-operative Bank
- HSBC
- Lloyds Banking Group (including Halifax and Bank of Scotland brands)
- Nationwide
- Royal Bank of Scotland (including NatWest and Ulster Bank brands)
- Santander
- TSB

1.5 Since the beginning of 2016, all 9 participating institutions have offered basic bank accounts that are fee-free for standard operations, including a failed payment, removing the risk that customers run up unintended overdrafts. Basic bank account customers are able to use the same services (e.g. ATM and Post Office counter access) as the institution's other personal current account customers.

1.6 The government set the threshold for participation in the 2014 agreement on the basis of personal current account market share at the start of negotiations, and with a market share greater than one per cent of the market were invited to participate. The rationale for this decision was that it captured the largest institutions, as well as the medium-sized institutions who were seeking to grow their market share, and ensured sufficient coverage across over 90% of the UK's PCA market.

1.7 The 2014 agreement included a commitment by participating institutions to provide data to the Treasury on basic bank accounts and personal current accounts, and a commitment by the Treasury to publish information on basic bank account market share. The data in this publication fulfils this commitment.

The Payment Accounts Regulations 2015

1.8 The 2014 agreement was made in the knowledge that the requirements in the EU's Payment Accounts Directive (PAD) would apply to the UK from 18 September 2016. Under PAD, consumers legally resident in the EU who meet certain eligibility criteria have a right to open and use a basic bank account.

1.9 PAD does not require every credit institution in the UK to offer basic bank accounts. Instead, member states must ensure that basic bank accounts are provided to consumers by a sufficient number of firms to guarantee access for all consumers and prevent distortions of competition.

1.10 At Budget 2016, the government designated the same 9 participating institutions under the Payment Accounts Regulations 2015 (PARs). This means that these 9 institutions are legally required to offer basic bank accounts, as defined in that legislation, to eligible customers from 18 September 2016.

1.11 At the same time, the previous Economic Secretary to the Treasury wrote to the designated institutions to clarify that where their earlier commitments under the 2014 agreement were not superseded by the PARs, they were expected to continue to meet them. That included continuing to report the data outlined in paragraph 1.7 above. Recognising the importance of transparency and clarity in this market, and certainty for the future, the Treasury has included the text of these letters at Annex A.

About the data

1.12 This publication presents data that has been reported to HM Treasury by each of the 9 designated institutions. The reporting period was from 1 January 2016 to 30 June 2016.

1.13 This publication does not include data from institutions that were not either parties to the 2014 agreement or designated under the PARs. Other institutions in the UK may offer accounts that have similar features to a basic bank account, or are marketed as such, but data on those accounts is not reported to the Treasury.

1.14 The figures reported have not been verified by HM Treasury or any other body. Enquiries on any individual institution's data or basic bank account product should be directed to that institution.

Further information

1.15 Further information about the 2014 agreement can be found at:
<https://www.gov.uk/government/publications/revised-basic-bank-account-agreement>

1.16 The Payment Accounts Regulations 2015 can be found at:
<http://www.legislation.gov.uk/uksi/2015/2038/made>

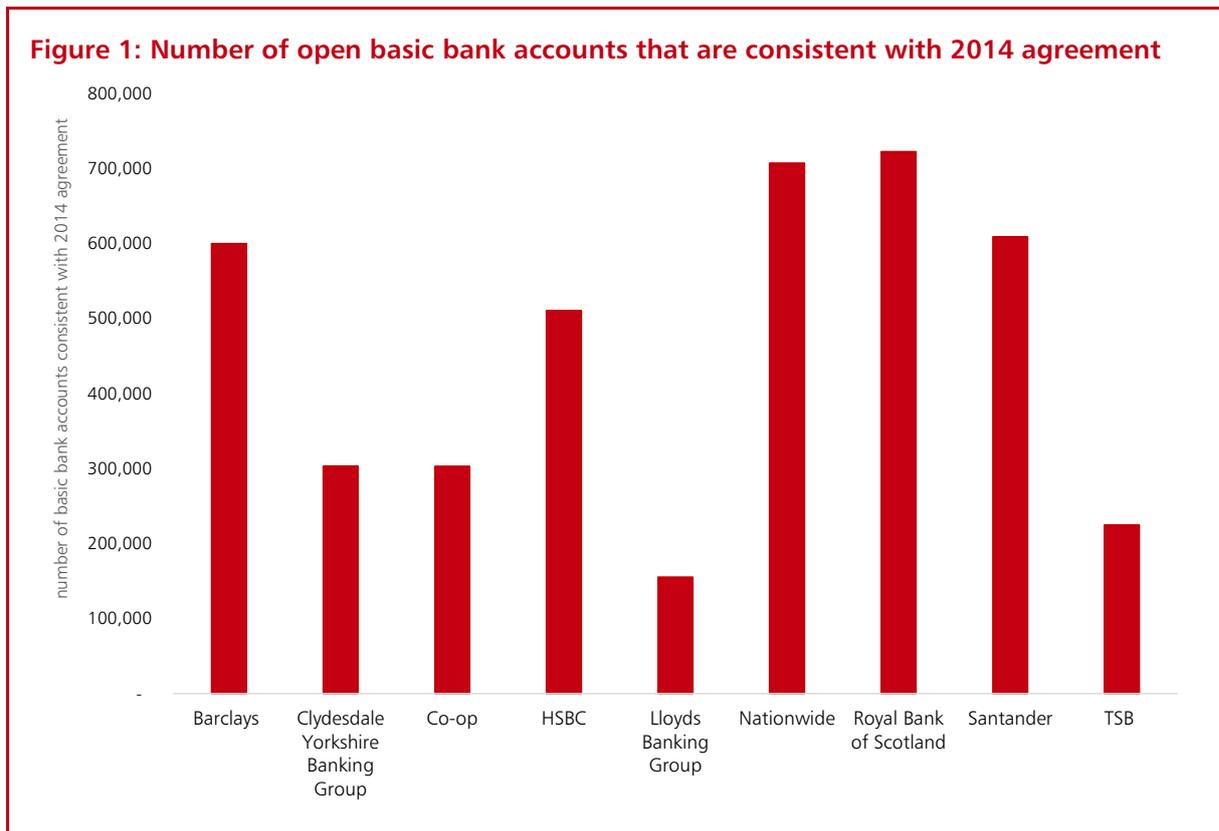
1.17 Further information on the UK's compliance with PAD can be found at:
<https://www.gov.uk/government/publications/uk-compliance-with-the-eu-payment-accounts-directive/uk-compliance-with-the-eu-payment-accounts-directive>

2 Basic bank accounts

Basic bank accounts that are consistent with the 2014 agreement

2.1 At 30 June 2016, 4,137,241 basic bank accounts that were consistent with the 2014 agreement were open at participating institutions.

2.2 Figure 1 shows how many of these basic bank accounts were open at each participating institution.



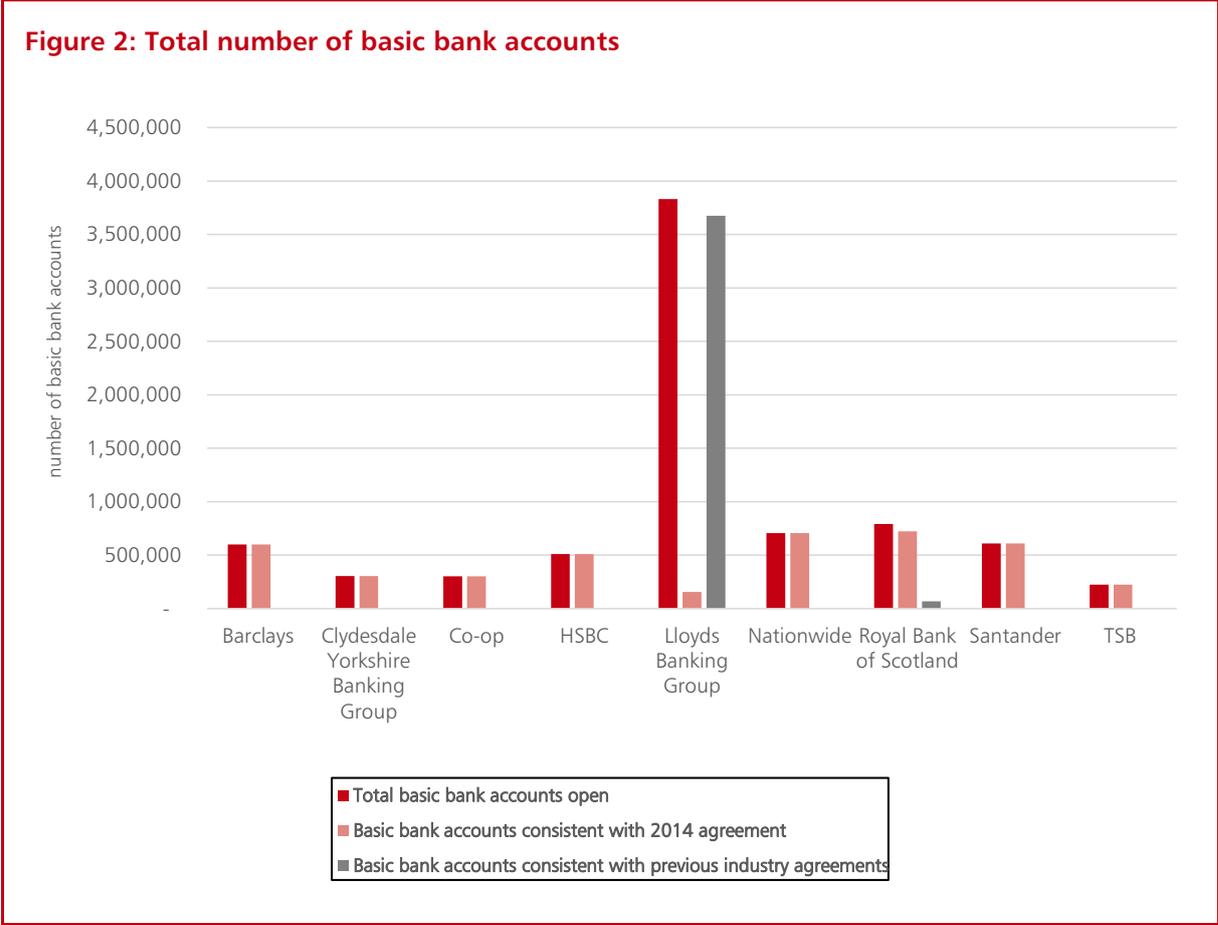
- a basic bank account is considered open even if no transactions on the account have taken place
- a basic bank account is considered open if a decision has been taken to close the account, but the account has not yet been closed

All basic bank accounts

2.3 At 30 June 2016, a total of 7,882,502 basic bank accounts were open at participating institutions. This included basic bank accounts that were consistent with the 2014 agreement and other basic bank accounts that were consistent with previous industry agreements.

2.4 Participating institutions were required to offer basic bank accounts that were consistent with the 2014 agreement from January 2016. Although firms were able to migrate customers from their old basic bank account to a basic bank account that was consistent with the 2014 agreement, either before or after that date, they were not compelled to do so.

2.5 Figure 2 shows the total number of basic bank accounts, broken down by participating institution.



- customers with a basic bank account opened before January 2016 should ask their bank or building society whether they could still be charged if a payment fails, and whether they may be eligible for a basic bank account that does not charge these fees

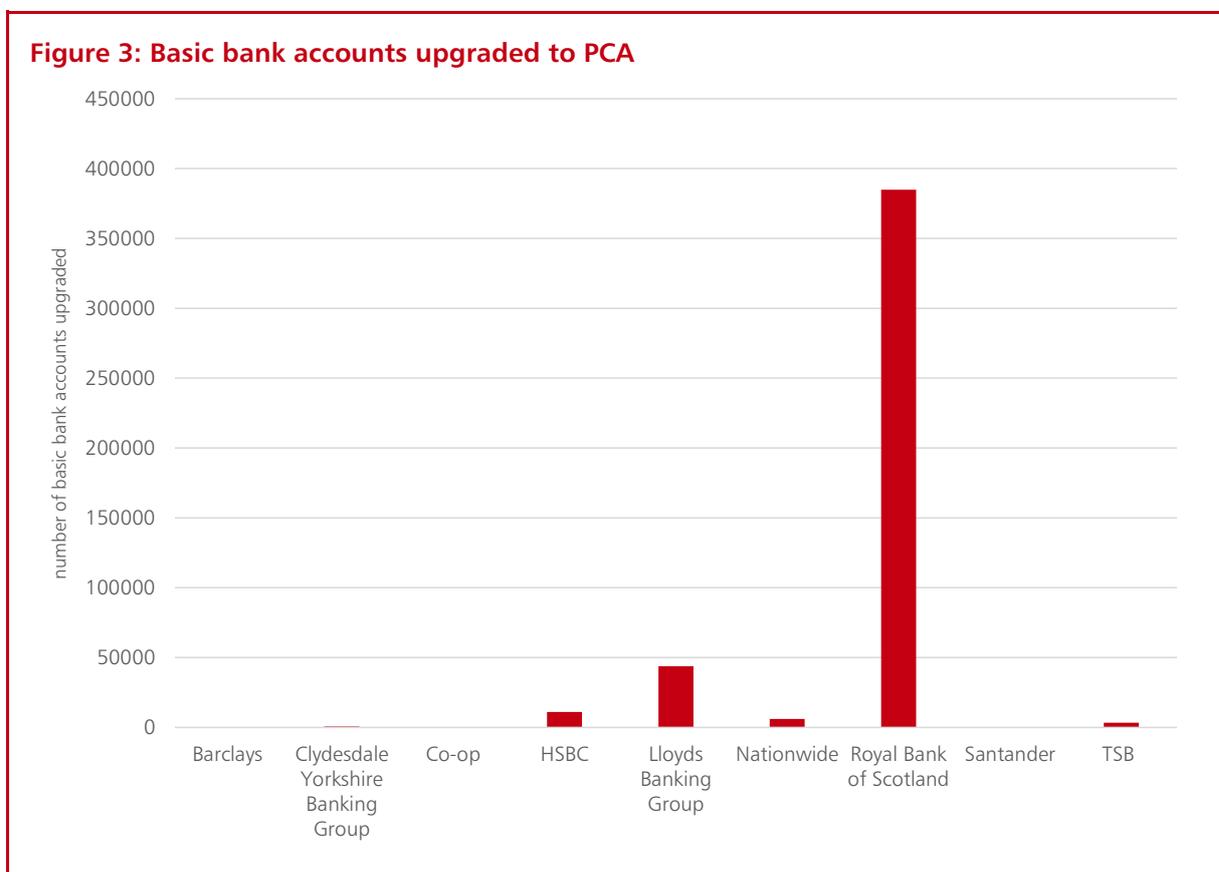
Upgrading

2.6 Participating institutions may review their portfolio of basic bank accounts periodically and upgrade customers on to a more appropriate PCA, taking account of:

- the eligibility criteria for basic bank accounts
- customers' financial circumstances
- the pattern of usage on the account

2.7 Institutions will give the customer at least two months written notice, explaining why they intend to upgrade the account. Institutions should also have regard to the requirement to treat their customers fairly.

2.8 Figure 3 shows the total number of basic bank accounts that have been upgraded to another PCA in the reporting period by each participating institution.



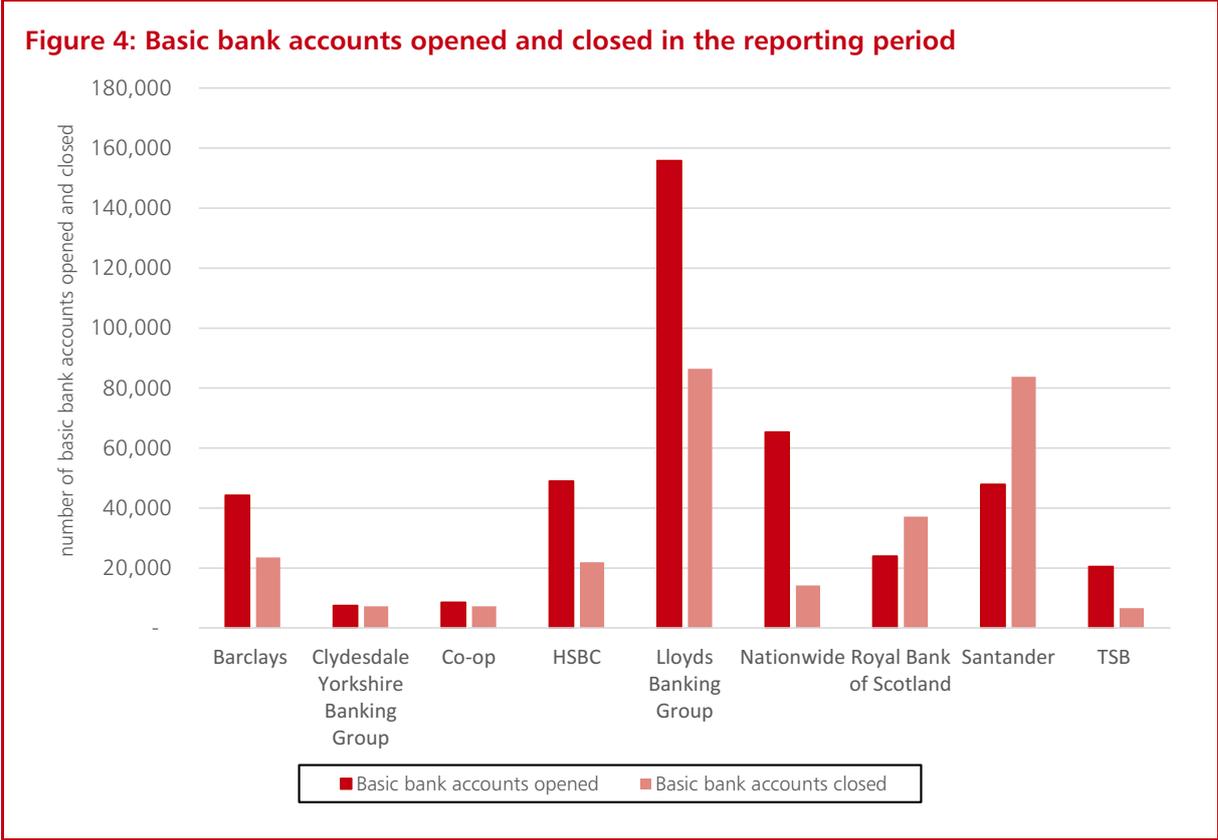
- the figures include basic bank accounts that have been upgraded at the customer's request, as well as those upgraded in line with the process set out in the 2014 agreement
- the figures do not include the number of basic bank accounts for which written notice has been given to the account holder(s) that they will be upgraded, but have not actually been upgraded by the period end
- where figures for upgrades are <1000 they do not appear due to scale of graph

Opening and closing

2.9 Figure 4 shows the number of basic bank accounts that have been opened and closed during the reporting period.

2.10 All basic bank accounts opened by participating institutions in this period should be consistent with the 2014 agreement.

2.11 A basic bank account opened under the 2014 agreement may only be closed in the limited circumstances set out in that agreement.

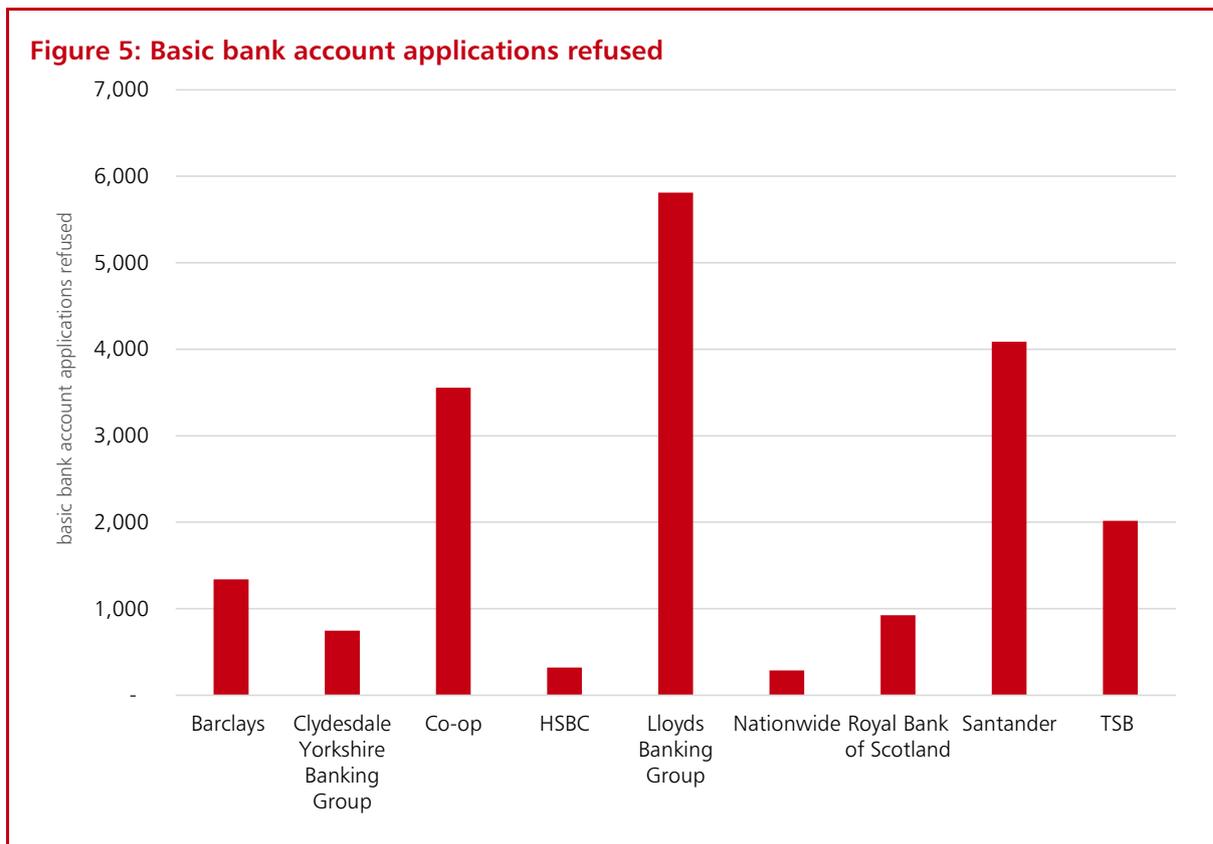


- the figures include basic bank accounts closed at the customer’s request, as well as those closed in line with the process set out in the 2014 agreement

Refusals

2.12 Under the 2014 agreement, participating institutions may refuse applications for basic bank accounts that otherwise meet the eligibility criteria in limited circumstances.

2.13 The figures below include cases where an application cannot be accepted due to the customer not meeting a participating institution's ID requirements (where these take place after a full application has been made) or fraud checks.



- this data includes partially completed applications that are considered and subsequently refused
- the data does not include partially completed applications that are not considered
- the data does not include applications that are still under consideration or 'pending'
- from September 2016, the PARs required that where an application is refused, the participating institution must without delay inform the customer in writing and free of charge of the reason for the refusal if it may lawfully do so. In those circumstances the credit institution must also tell the customer how to complain to the credit institution and the Financial Ombudsman Service, and provide the relevant contact details

3 Market distribution

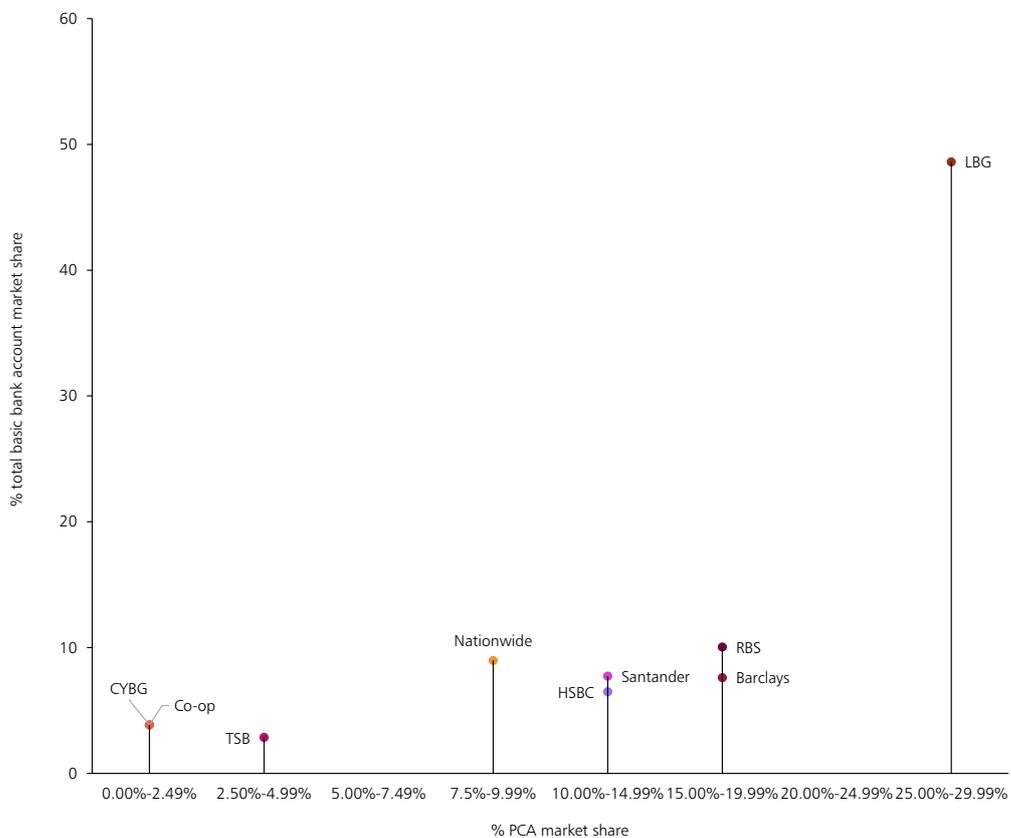
Market shares

3.1 Figure 6 uses data reported by participating institutions on their total numbers of basic bank accounts (as set out in Figure 2) and PCAs to calculate market shares and compare them.

3.2 Market share in figures 6 and 7 refers to the share of the market held by the 9 participating institutions only. The market shares have not been calculated based on the entire UK market.

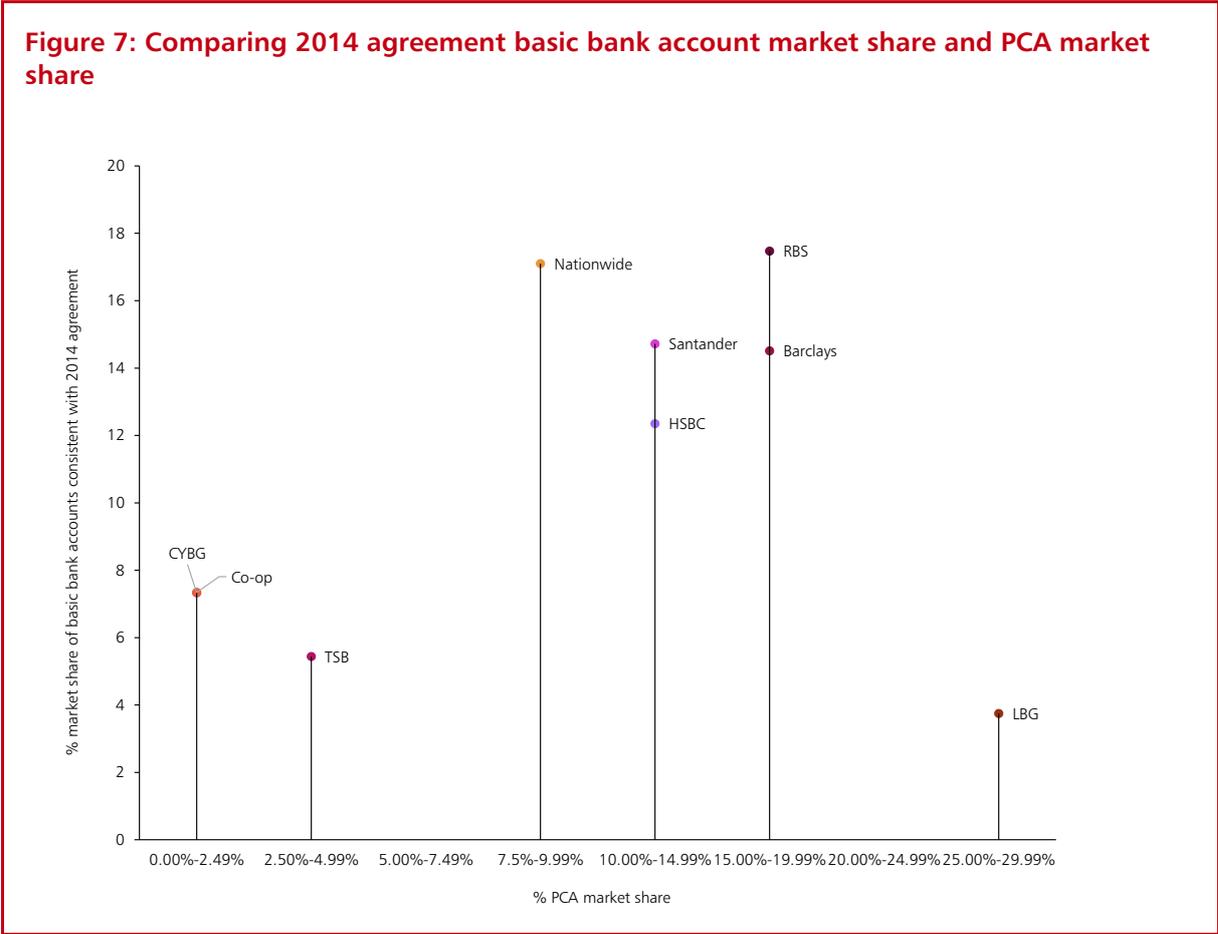
3.3 Participating institutions are not required to reach or exceed any particular number of basic bank accounts. There is no upper or lower limit on the number of basic bank accounts a participating institution can open or hold.

Figure 6: Comparing total basic bank account market share and PCA market share



- PCA market share is only reported as a range as it is considered commercially confidential by a number of the participating institutions

3.4 Figure 7 uses data reported by participating institutions on their total numbers of basic bank accounts that are consistent with the 2014 agreement (as set out in Figure 1).



- PCA market share is only reported as a range as it is considered commercially confidential by a number of the participating institutions

A Ongoing commitments

A.1 The Payment Accounts Regulations 2015 confirmed measures included in the 2014 agreement where the measures were compatible with the Payment Accounts Directive.

A.2 However, not all the measures in the 2014 agreement were addressed in the Directive or in the implementing regulations. In its response to the public consultation on the Payment Accounts Regulations, the government made clear that it expected the measures in the 2014 agreement that were not covered by PAD would continue after the regulations came into force.

A.3 In March 2016 the then Economic Secretary wrote to the institutions that had been designated under the Payment Accounts Regulations 2015 to ensure that these expectations were clear. Each designated institution received the same letter and was asked to make the same commitments.

A.4 Recognising the importance of transparency and clarity in this market, and certainty for the future, the Treasury has included the text of the letter in this publication.

Text of March 2016 letter

The Treasury, in line with regulation 21 of the Payment Accounts Regulations 2015 (PARs), and having regard to the factors specified in Schedule 6 of the PARs, has decided to designate [institution] as a provider of payment accounts with basic features ('basic bank accounts') for the purposes of Part 4 of the PARs. Please find attached the formal designation notice.

The relevant provisions come into force on 18 September 2016. As a designated credit institution, [institution] must offer payment accounts with basic features that comply with the provisions from this date.

In line with Part 5 of the PARs, the Financial Conduct Authority (FCA) is the body responsible for monitoring and enforcing the compliance of credit institutions with the requirements imposed under Part 4 of the PARs.

The Treasury may cancel the designation notice at a future date. If this situation arises, the Treasury will have regard to paragraph 3(2) of Schedule 6.

Until 18 September 2016, [institution] should comply with the 2014 agreement on basic bank accounts. After this date, elements of the 2014 agreement continue to apply in so far as they pertain to:

Upgrading – [institution] may review its portfolio of basic bank accounts periodically and migrate customers on to a more appropriate personal current account. Before migrating a customer, [institution] will consider the eligibility criteria for a basic bank account; the customer's financial circumstances; and the pattern of usage on the account. Customers will receive two months' written notice of the upgrade, including an explanation of why [institution] intends to upgrade the customer.

Monitoring and review – [institution's] data on its basic bank accounts and personal current accounts will be shared with the Treasury on a six-monthly basis using the reporting template and guidance issued by the Treasury. The data will be published in a form agreed with the industry.

Distribution – basic bank accounts will be visible to potential customers alongside other personal current accounts. Applications for basic bank accounts will also be accepted through the same channels used by applicants for other personal current accounts.

Account opening – basic bank accounts will continue to be offered to undischarged bankrupts and as joint accounts where all parties are eligible for a basic bank account.

The Treasury will continue to monitor the implementation of the commitments made in the 2014 agreement.

B Enquiries

Media Enquiries

Office hours: 020 7270 5238

Out of hours: 020 7270 5000

Email: pressoffice@hmtreasury.gsi.gov.uk

Public Enquiries

Email: basicbankaccountdata@hmtreasury.gsi.gov.uk

HM Treasury contacts

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If you require this information in an alternative
format or have general enquiries about
HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk