

**DANSKE BANK**  
**RETAIL BANKING MARKET INVESTIGATION**  
**Response to Invitation to comment on additional remedy suggestions**

## **Introduction**

**1. The CMA has recently consulted on its provisional findings and notice of possible remedies for its retail banking market investigation into the supply of personal current accounts (PCAs) and of banking services to small and medium-sized enterprises.**

**2. Responses to this consultation have been wide-ranging and helpful. We are considering all responses. Alongside this process, we are publishing this notice to highlight a number of areas on which we would be interested in any additional views you may wish to provide. These areas are set out in more detail below.**

The comments provided in this response supplement the comments of Danske Bank as set out in its response to the notice of possible remedies and should therefore be read in conjunction with Danske Bank's previous responses.

## **PCA overdraft customers**

**3. Several respondents to this consultation raised some concerns regarding the extent to which the proposed remedies may address difficulties faced by PCA overdraft customers, who may face greater challenges in engaging with the market, and whom we have provisionally found to have a lower propensity to switch. As a result, it was argued that these customers may remain inactive and providers may continue to have limited incentives to compete for these customers even if our proposed remedies are implemented.**

**4. There was especial concern for PCA customers using unarranged overdrafts, who may have limited to no ability to avoid unarranged overdraft charges at the point at which they are incurred, given that such charges are to some extent unpredictable and only their current provider can offer the unarranged overdraft facility.**

**5. We note that the proposed remedies already envisage solutions tailored to overdraft users. For example, our notice of possible remedies refers to:**

**(a) the possibility of sending prompts to customers alerting them when they are about to incur or have incurred overdraft charges;**

**(b) remedies aimed at facilitating comparisons between providers that could assist to increase the transparency of overdraft charges, but these would not address all concerns related to unarranged overdrafts; and**

**(c) remedies aimed at making it easier for prospective PCA customers to find out whether the overdraft facilities they were seeking would be available to them from another provider that could facilitate switching by overdraft users. These again, however, would not be relevant to concerns related to unarranged overdrafts.**

Danske Bank has no further comments to make in relation to the above.

**6. Some respondents also suggested alternative remedies or further variants on the proposed remedies that may address issues faced by overdraft customers. While this notice is not intended to provide an exhaustive list of these suggestions, for illustration they include the following:**

**(a) Which? suggested several options, including that PCA providers should be prohibited from differentiating their charging structures for arranged and unarranged overdrafts; should cease applying unpaid item charges; and should be required to further clarify overdraft terms and conditions. See Which?'s submission.**

Danske Bank does not agree with a proposed charging structure which permits no distinction between agreed, authorised overdraft facilities and unarranged overdrafts. It is our view that there is a distinct difference between an authorised overdraft, which has been provided following a credit assessment of the individual customer's credit worthiness and ability to repay and an unauthorised overdraft, which is typically granted at short notice to deal with exceptional circumstances where a customer has exceeded the limit of their agreed facility. In such a scenario the bank is accepting additional risk and accordingly a potentially higher cost of funding as it is increasing its credit risk. In addition there will be increased costs for the provider in re-assessing the unauthorised credit which would not have been anticipated or considered as part of the initial application/arrangement fee. Accordingly Danske does not agree that prohibiting differentiated charging structures for authorised and unauthorised overdrafts is an acceptable proposal. It is our view that removing this could ultimately create a scenario where unauthorised overdrafts are either no longer made available or a scenario where the charges for all overdrafts could increase to reflect the greater credit risk of unauthorised overdrafts.

In respect of the suggestion that overdraft Terms and Conditions should be further clarified it is our view that overdraft terminology and positions are already clearly defined in our Terms and Conditions documentation.

**(b) The Financial Services Consumer Panel suggested that unarranged overdrafts should be considered a form of high-cost short-term credit and hence made subject to the price cap for high-cost short-term credit that was introduced by the Financial Conduct Authority and has been in force since 2 January 2015.<sup>1</sup> See the Financial Services Consumer Panel's submission.**

The competitive development of the PCA market in recent years is apparent in many areas including overdrafts with the emergence of differing approaches to the charging structures applied to arranged and unarranged overdraft facilities, such as daily charging as well as event based charging models.

Danske Bank would suggest that overdraft charges, both arranged and unarranged, are competitive features of the marketplace which would be distorted by the imposition of any minimum or maximum charging levels. The imposition of a cap could lead to a scenario whereby all providers gravitate to that cap, or indeed remove the "unauthorised" overdraft from their products. As such, we consider that the effect of such a remedy would be to reduce rather than enhance competition.

**(c) First Trust Bank suggested a UK-wide extension of the requirement on certain Northern Ireland banks under the Northern Ireland PCA Banking Market Investigation Order 2008 (as varied in 2011) (the NI Order) to provide customers with relevant information including information about charges and interests. See First Trust Bank's submission. The CMA notes, for example, paragraph 6 of the NI Order in which the relevant banks undertake a duty to notify a customer before deducting overdraft charges and debit interest. The NI Order is being reviewed by the CMA in parallel with the retail banking market investigation. See the CMA website for more information about the NI Order and its ongoing review.**

Danske Bank reiterates its views expressed at the Northern Ireland roundtable in relation to the benefits of pre-notifying customers about charges and interest on their accounts and the UK wide extension of the NI Order, both of which are consistent with the suggestion by First Trust Bank that the requirements on Northern Ireland banks under the Northern Ireland PCA Banking Market Investigation Order 2008 (as varied in 2011) should be extended on a UK-wide basis.

**(d) Lloyds Banking Group suggested additional behavioural remedies aimed at encouraging customers to engage more with how they use their accounts so that they may reduce their costs of banking, regardless of whether they switch provider. See Lloyds Banking Group's submissions. The CMA considers such remedies would be variants on the proposed prompts to overdraft customers described in paragraph 5(a) above, where these prompts could potentially be accompanied by opportunities for customers to actively engage to avoid the charge, such as grace periods before the charge is applied, requirements to pre-authorise the charge, or the ability to automate or trigger the transfer of funds from a nominated account.**

Under the terms of the NI Order, Danske Bank is required to prenotify customers of the impending imposition of PCA interest and fee charges in advance of the application of those charges.

In addition to the written pre-notification of impending charges, Danske Bank has invested extensively in the provision of tools which help consumers avoid incurring such fees at all. Internet banking and mobile banking services, which allow consumers to actively access and monitor their account balance information, and a text alerts system which consumers can opt into and which alerts consumers to large payments in or out of the account and when they are approaching a consumer defined account balance level, are features which we use to both compete for business and better enable consumers to reduce the charges associated with their current account business.

**(e) The Royal Bank of Scotland suggested in its hearing with the CMA that banks should be prohibited from providing unarranged overdrafts unless a customer had actively opted in to this. It felt that this would improve customer understanding and act as a lever to support lower cost and more transparent arranged borrowing.**

Danske believes that the provision of authorised and unauthorised overdraft product features are competitive aspects of the current account market, upon which banks can differentiate and compete. As unauthorised overdrafts are typically temporary and often unplanned in nature, it is our view that consumers may opt out now and potentially regret later a decision made at a point of time. Consequently we consider that a proposed “opt in” approach should be viewed as a competitive feature which any provider can choose to adopt and compete upon, rather than the CMA adopting as an industry wide remedy.

It is our view that such an outcome is best achieved through the consumer’s choice of product, where a consumer can, for example, choose a Basic Bank account if he/she wishes to eliminate unauthorised overdraft charges.

**(f) TSB suggested the development of a ‘credit passport’, where PCA providers should be required to provide a centralised resource, such as an existing credit agency, with customers’ account usage and transactional histories. The credit agency, when requested by the consumer, would make the data available, in a usable format, to any prospective alternative PCA provider thereby assisting them to better assess the credit risk and affordability of new customers and increase the likelihood of the alternative provider matching the customer’s existing overdraft limit. See TSB’s submission.**

Danske considers the potential effectiveness of such a proposal to be limited for two reasons. Firstly we consider that many consumers may be reluctant to consent to data sharing to this extent, given concerns about data security and the potential for their personal data to be inappropriately used. Secondly we believe that there may be scenarios where consumers consent to multiple potential new providers accessing credit data. This would create multiple footprints on the customer’s credit history and negatively affecting the consumer outcome.

Please also refer to Danske Bank's comments in relation to Remedy 9 in its response to the notice of possible remedies.

**7. We said in paragraphs 175 and 176 of the notice of possible remedies that we were not minded to pursue measures to control outcomes such as price controls, but that we may reconsider this view in the light of submissions received. In considering the submissions we have received, particularly Which?'s and the Financial Services Consumer Panel's suggestions relating to forms of price controls, we will consider whether the views in those two paragraphs should be updated.**

Danske Bank agrees with the CMA's position as outlined in its notice of possible remedies that these remedies should not be pursued. Danske Bank believes there is a distinct possibility that the imposition of maximum charges or minimum interest rates would effectively become fixed charges/interest rates. This would have the effect of limiting competition and potentially increasing prices for consumers. It could also render price comparison websites ineffective as there would be little price variation between banks.

#### **Other suggested remedies**

**8. We have consulted on remedies aimed at prompting customers (remedies 1 and 2 in our notice of possible remedies), and remedies aimed at facilitating comparisons between providers (remedies 3 to 5 in our notice of possible remedies). We have noted in this regard the incoming EU Payment Accounts Directive (PAD) which will standardise terms of PCA banking services and offer customers more information on fees in a pre-contractual fee information document and annual fee statements.**

Danske has no further comment to make in relation to this issue.

**9. For PCAs, a number of parties have suggested alternative remedies or further variants on the proposed remedies, including the following:**

**(a) Tesco suggested requiring a standardised labelling approach for PCAs, using traffic light colour coding to make it clear to customers both the cost of their account, and how it compares to others in the market. See Tesco's submission.**

We consider the range of PCA providers and PCA account options available to be extensive such that the adoption of a "standardised labelling" approach would, in Danske's view, be impractical.

**(b) TSB suggested requiring banks to provide PCA customers with a standardised monthly bill, which would set out all the costs associated with the services provided to the customer (including interest foregone), the charges incurred and the rewards earned each month, in a clear, standardised format. TSB considered that this would improve pricing transparency for customers and could help periodically to prompt them to take action. See TSB's submission. Under the PAD, as noted above, banks would be required to provide customers with an annual fee statement with standardised terminology. We would be interested in views whether more frequent communication would be appropriate and what information (if any) should be included in addition to what may be required under the PAD.**

Danske Bank already provides customers with regular statements of charges incurred on both PCAs and BCAs. In addition PCA customers are provided with an annual statement of all the fees and charges incurred in the operation of their current account. We consider such communication to be an accurate reflection of the cost of operating a PCA.

Given that the practice of communicating the actual cost of operating a PCA provides customers with an accurate statement of the costs that they have incurred in operating their PCA we consider the benefit of introducing additional "notional costs" to be limited.

The introduction of interest foregone, for example, is likely to reflect the comparative value of a savings product to a PCA; a savings product is not a PCA and as such does not reflect a like for like comparison. Additionally, the calculation of any such notional costs fails to also quantify the benefits of additional PCA value features which consumers can avail of from some PCAs.

**(c) Virgin Money suggested that PCA providers should be required to pay their customers credit interest on PCAs at or above a minimum level. See Virgin Money's submission.**

The payment of credit interest on PCAs is a competitive feature of the market today, with some providers choosing to use this as a competitive tool. We would consider the imposition of any such remedy as a restriction on competition.

In addition the imposition of such a remedy is likely to lead to a review of PCA charging structures by providers. This could, for example, lead to the imposition of account fees or transaction fees, which in turn could represent an additional PCA cost for many customers who retain limited credit funds in their accounts. As a result, PCA customers with limited credit funds, who would only marginally benefit from payment of credit interest, could be worse off if providers were mandated to pay credit interest on all PCAs.

## **How to respond to this request**

**10. We are interested in any additional views you may wish to provide on:**

**(a) the sufficiency of the existing remedy proposals to address the issues faced by arranged and/or unarranged PCA overdraft users; and**

**(b) any of the alternative remedies suggested as listed above.**

Danske Bank has no further comment to make in relation to the above.

**11. For any specific alternative suggestion listed above, such comments could include views on issues such as those set out in paragraph 17 of the CMA's notice of possible remedies, including (if applicable) views on:**

**(a) the likely effectiveness of the suggested alternative;**

**(b) how the suggested alternative, or variants thereof, might best be developed further by the CMA;**

**(c) barriers to, or concerns about, the adoption and/or implementation of the suggested alternative or variants thereof;**

**(d) the proportionality of the suggested alternative or variants thereof; and**

**(e) other preferred approaches, if any, to achieving the same or similar objectives to the suggested alternative.**