

The Co-operative Bank p.l.c. (the Bank)
Response to CMA's Additional Remedy Suggestions
11 January 2016

We refer to the publication of the CMA's Additional Remedy Suggestions published 18 December 2015. In response to your invitation to submit comments and suggestions on the additional remedies, we set out below our views for your consideration.

1. Overdraft Users

The Bank agrees it is important to facilitate comparisons between providers to enhance customers' ability to compare options between different banks in relation to overdraft charging structures and in doing so to adopt a standard or common set of wording for relevant overdraft terms. We believe this would encourage and help customers to understand the benefit of moving from one provider to another, or choosing to remain with their current provider. Additionally, the illustrative examples set out by the OFT provide a meaningful assessment of overdraft usage, particularly for unarranged overdrafts, that customers can relate to and these could be expanded to capture further scenarios.

The Additional Remedies state overdraft customers may face greater challenge engaging with the market with limited incentives being available to them and potential barriers to exit. It is the Bank's view that whilst the switching process does not allow the movement of a debit balance, customers with an overdraft balance are still able to access the market, albeit a different route by opening a new current account, manually transferring the debit balance and the subsequent closure of old current account once the balance is nil. There is also value in building up credit history with a provider and is not necessarily a barrier to exit.

As stated by the CMA, it would be helpful if customers were aware if their existing overdraft facility was available from potential providers. However, this would only ever be an estimate, not a guarantee and always subject to a full credit risk assessment, as carried out during the current account application process, with the option for the customer to cancel the switch if the facility was not sufficient.

The suggestion to prohibit the use of unarranged overdrafts unless a customer has opted in would be difficult for the industry to operate. In the case of card payments, the card schemes do not always seek authorisation directly from the bank provider which would mean any checks to confirm if opted in would be bypassed.

2. Fee Structures

The additional remedy suggestions include conformity of pricing such as removing the unpaid item charge, daily cap of fees and a minimum level of credit interest.

It is important to recognise that providers have varying target markets. For example, the Co-operative Bank's new overdraft proposition introduced in April 2015 which was designed to help existing and new customers within the Bank's target market to take control of their finances and looks to minimise fees and charges for when small mistakes are made and customers occasionally slip into a debit position. This included the reduction of the informal fee and removed of the annual service and unpaid item fee.

Additionally, the values of fees are driven by multiple factors including the cost of processing, infrastructure and bank scale. Therefore, you would expect these to differ both by provider and fee type, as is the case for arranged and unarranged fees.

The suggestion by Which? to prohibit differentiation of arranged and unarranged overdraft fees does not take account of the varying costs required to process each of the services, for

example unarranged overdrafts, requires the assessment of the transaction and relevant account and individual customer circumstances before authorising the payment.

Furthermore, it is important for customers to understand the difference between arranged and unarranged overdrafts to avoid customers repeatedly falling into an unarranged position and instead to consider the option of an arranged overdraft solution to address their financial needs.

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