

CMA Retail Banking market investigation: Citizens Advice comment on additional remedies

Provisional findings

The provisional findings of the review of retail banking highlights four aspects of the personal current account market which had an 'adverse effect on competition':

- Barriers to accessing and assessing information on PCA charges and service quality
- Barriers to switching; low awareness of the CASS, uncertainty around overdrafts, a perception of difficulty
- Low levels of customer engagement: few customers search for better offers and the number of customers switching PCAs, in part or in full, remains very low.
- Incumbency advantages: customer acquisition costs are high because of lack of information and low customer engagement

Proposed remedies

In response to those findings, three remedies were proposed with the primary aim of prompting consumers to engage with the personal current account market and enabling them to make more informed decisions about the products they choose. They were:

1. Prompt customers to review their PCA provider at times when they may have a higher propensity to consider a change. The impact of the prompts would be tested regarding timing, content, the source and the medium of the message.
2. Increase public awareness of the potential savings or rewards that could be obtained by changing current account provider and of the benefits of using the Current Account Switch Service to do so in terms of security and convenience. That process would involve a promotional campaign which would need to be targeted, funded and managed to have the maximum impact.
3. Facilitate price comparisons between providers by making customer specific transaction data more easily available and usable. It was acknowledge that that would require improvements to the way data is currently shared and would likely require interim measures while that was being developed.

CMA's additional remedies

The CMA also highlighted further remedies in which it saw some merit, particularly for overdraft users who often incur unexpected fees and are less likely to switch:

- Prompts before overdraft charges
- Transparency and comparability of overdraft charges
- Easier to find out if an overdraft could be switched

The CMA's view is that while those remedies might contain some degree of merit, they would not address the issue of disproportionately high fees for unauthorised overdrafts.

Responses to the CMA's proposed remedies

In response, a wide range of organisations have criticised the extent to which those remedies will work reduce consumer detriment in the personal current account market and have proposed further necessary remedies. Those remedies focus on two aspects of consumer detriment - the inadequacy of the information available to consumers and the disproportionately costs of fees particularly around overdrafts

The following further remedies were suggested:

For improving the information available to consumers

- Tesco Bank suggested standard labelling for current accounts such as a traffic light system
- TSB called for 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. This would be more frequent than under the Payment Accounts Directive which requires annual communication
- TSB also suggested the creation of a credit passport so the credit risk and so availability of an overdraft or matched overdraft for potential switchers could be easily assessed.
- Virgin Money suggested that banks should be mandated to pay customers their credit interest so that the costs of personal current accounts could be passed on accurately to consumers.

For limiting the detriment of disproportionate charging structures

- Which focussed on overdraft charges suggesting 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.
- 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
- Lloyds highlighted possible variations of behavioural remedies where 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.
- RBS recommended that banks should be prohibited from providing unarranged overdrafts unless a customer had actively opted in to this.

Further possible remedies

The further remedies suggested, primarily by consumer groups and challenger banks, highlight two limitations of the CMA's initial proposals. The first is the current challenge for consumers of engaging with the market and, once they are, making informed decisions about what is best for them. The second is the lack of acknowledgement of the limited impact switching will have on consumer detriment i.

Citizens Advice agrees with the broad thrust of those responses; that improved switching will not go far enough to reducing the detriment of consumers - while for some consumers - it may even push up the price they pay for their current account.

In addition then to working to improve the switching service currently on offer through clarity around overdrafts, account number portability and more easily available access to cost data. Citizens Advice recommends the CMA bring forward remedies which both drastically improve the information available to consumers and crucially, limit the detriment currently being caused to consumers.

Remedies along those lines would respond to the ways consumers currently make decisions around financial products rather than designing a system around how they may or could behave. Consumers of financial products, as well as having limited financial capability, many of those who switch don't make the best decision for them, are overoptimism and cannot plan for unexpected events. Those aspects of consumer behaviour are disproportionately punished by the products on offer in the personal current account market.

In addition to the remedies proposed above, there are further remedies which could both improve the information available to consumers and limit the detriment they currently suffer in the personal current account market

Information

The recommendations for standardised pricing and information around charges would go some way to helping consumers make better decisions, as would more available information about the true costs of personal current accounts, such as by passing on pricing information, including foregone interest.

That provision of information should focus not just on what information is available, but how it is available. For instance, **banks could be mandated to provide up to date, or live, cost information on communications and on online and mobile services.** That cost act as a firm trigger to shop around and compare products, which could point to Midata and an improved switching service.

Limiting detriment

The proposals, particularly around standardising overdraft charging structures or rationalising the costs of authorised and 'unauthorised' overdrafts are a sensible addition to the behavioural remedies proposed by the FCA.

In addition to the recommendations highlighted above, the CMA could **mandate banks to ensure that existing customers are accessing the product, or are made aware of the product which would be best for them** that is offered by the bank - a banking best deal.

Summary

While the detail of which policies would be most effective needs further investigation, it is clear that there is a widespread agreement that more needs to be done to ensure that banks are providing accurate and transparent information around the costs of personal current accounts. Even with improved switching and greater information of the current products on offer, the current

level of detriment caused to large groups of consumers would remain. **The CMA should take the opportunity to develop further proposals around what and how banks should provide cost information to consumers, but more importantly, should take action to around the unclear and disproportionate pricing of current accounts.**