LLOYDS BANKING GROUP

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CMA RETAIL BANKING MARKET INVESTIGATION

Response to the CMA's 'supplemental notice of possible remedies'

22 MARCH 2016

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1. KEY CONSIDERATIONS FOR CMA'S SUPPLEMENTAL REMEDIES

1.1 From the start of this inquiry, LBG has supported the development of a holistic set of remedies to enhance customer engagement and drive greater customer choice, customer control and competition in the PCA sector. LBG has consistently expressed the view that any remedies that aim to change customer behaviour need to be tested and trialled to ensure that they are as effective as possible and do not lead to unintended consequences. LBG has carried out a series of tests and trials during the course of the investigation and shared the data with the CMA to show the CMA why testing and trialling matters in remedy design and to help build a solid base of evidence for any proposed remedies.

1.2 It is difficult to comment on the CMA's possible supplemental remedies in isolation because it is not clear:

(a) how these supplemental remedies combine with the CMA's originally proposed remedies, or with the additional remedies on which the CMA invited comments (on 18 December 2015), and whether these are complements or substitutes; and

(b) what the CMA's current view is on testing and trialling proposed remedies, given that many of the proposed remedies would clearly need testing and trialling to see whether they have the intended effect before implementing them.

What are the CMA's proposed overdraft remedies trying to achieve and what are the practical limitations given current customer behaviour and the use of different payment methods?

1.3 The CMA has set out a package of proposed remedies for PCA customers that aim to:

(a) increase engagement for all customers **by making it easier for customers to compare costs, shop around and switch**;

(b) **change customers' behaviour** by increasing customer understanding about the cost of their PCA and giving them prompts and tools to manage their usage and charges.

1.4 The two sets of proposed remedies issued after provisional findings ("Invitation to comment on additional remedy suggestions" of 18 December 2015 and the "Supplemental notice of possible remedies" of 7 March 2016) have a particular focus on the 45% of PCA customers who use overdrafts. There are specific proposed remedies to increase engagement for this group of customers (e.g. overdraft eligibility checker and maximum monthly charge "**MMC**") and to change overdraft behaviour (e.g. alerts and opt-outs).

1.5 As explained in LBG's previous submissions of 8 January and 12 February 2016, there may be constraints on what can be achieved to help customers change their overdraft usage. These constraints follow from: (a) the diverse range of payment mechanisms currently used by customers; and, (b) the significant innovation in payment mechanisms that is also underway that is changing customer demand for different payment mechanisms.

Payment mechanisms used to make regular payments

1.6 Customers use a range of payment mechanisms today to make regular payments to pay for household bills (e.g. Council tax, energy, mobile and broadband), other financial services products (e.g. insurance and settle credit card bills) and manage subscriptions to relatively new services such as PayTV (e.g. Netflix and AmazonPrime) and streaming services (e.g. Spotify and Tidal). These can broadly be divided into:

(a) services such as **direct debit** (and new payment providers that use this mechanism such as GoCardless) that are based on the Bacs scheme and rules;

(b) services that are based on the two main card schemes (Visa and MasterCard) and use a debit card and a Continuous Payment Authority ("**CPA**") (e.g. Stripe and AllPay); and

(c) payments that many customers choose to make individually, using cash, cheque, debit card or Faster Payments to pay their bills either through their bank (in branch or online), at a Post Office or using services like PayPoint.

1.7 There is also a range of existing non-PCA providers and new entrants using existing payment schemes to develop new and simpler ways for customers to pay regular bills and understand and control their expenditure. Some of these payment schemes (e.g. PayPal and Klarna) and merchants (e.g. Amazon) are also introducing credit products at the point of sale so that they are beginning to compete directly with overdrafts offered as part of the PCA bundle.

1.8 Each different option has advantages and disadvantages for customers. Direct debit is relatively simple to set up, requires minimal ongoing effort and is easy to cancel – customers can simply access a list of all of their monthly direct debits online through their PCA provider and cancel a direct debit online with a single click. It also provides important guarantees for customers in the event of fraud or error with immediate recourse for compensation to their current account provider. Many service providers offer discounts if customers choose to pay by direct debit (e.g. energy companies). But some service providers (e.g. mobile phone operators) have variable monthly direct debits so the customer is not able to control how much is paid each month. Direct debits also run on a batch process from Monday to Friday and therefore will not always be taken on the same date each month. If the date falls on a weekend or bank holiday the payment will come out on the next working day.

1.9 CPAs have many similar features, but because the mandate sits with the card schemes, it can be harder for customers to keep track of what commitments they have made, and there is no current functionality online for customers to identify all of their current CPAs. The FCA investigated CPAs in 2013 and found that they are relatively easy to set up but can be hard to cancel, causing problems for consumers trying to manage their finances. The FCA agreed with providers that they will ensure that when a customer asks for a recurring payment to end then that will be sufficient to cancel the arrangement. Providers also confirmed that should a payment go through by mistake following cancellation, the customer will be refunded immediately.

1.10 Many customers choose not to use regular payment mechanisms because they lose control of the timing of the payment, and suppliers can make errors (as the CMA will be aware from the energy market investigation) or vary the amount significantly and unexpectedly. Many customers therefore prefer other methods for paying suppliers. Customers may instead pay using debit cards or with cash at the Post Office or Paypoint, or through new mechanisms such as the 'Allpay' app.

1.11 Service providers and merchants can also choose which payment options to use, and many give customers a range of choices (see annex for examples). For utilities and other regular payments, direct debits are one payment mechanism used by customers. But some service providers have also chosen not to offer direct debits. Services such as Netflix, Spotify and Amazon Prime do not use direct debit, but instead use debit card based mechanisms such as a CPA, iTunes or Paypal, which can be more flexible for service providers. The price of different payment systems for merchants and service providers will vary by payment mechanism and the volume of payments and will be a factor in what providers choose to offer. Lloyds Bank charges SME customers (turnover less than £1m) up to 10p per transaction; Gocardless charges 1% (up to £2) per transaction (using the direct debit system), Stripe charges 1.4% + 20p and Paypal charges up to 3.4% + 20p.

1.12 These differences between payment mechanisms mean that no one approach dominates, and the landscape is changing as customers migrate to other services. Direct debit is the preferred payment method for only 66% of the UK bill paying population.[1] Around 42% of energy customers do not use direct debits, and the volume of energy direct debits has fallen by 18% since 2010.[2] The volume of direct debits for other important payments (e.g. mortgages, insurance and council tax) has similarly fallen by 21% in the same period. Other payment mechanisms have been growing. GoCardless started in 2011 and by 2015 was processing payments made to 10,000 SMEs. Payments of over £7.5 billion are made each year through CPAs - over one in ten UK households now subscribe to Netflix using a CPA.[3] Paypoint processes around 420 million transactions per year, including energy and household bill payments.[4]

Payment mechanisms for individual transactions and approaches to help manage overdraft usage given diversity of payment systems

1.13 For individual transactions, there are several options that customers can use to pay. At the point of sale in a physical location, customers can use cash, cheque, debit and credit cards. Increasingly, customers can also use online options, such as Paypal, which itself offers a choice of drawing funds from multiple PCAs, multiple credit cards, deposits held on the Paypal account, or an unsecured credit line. For online purchases, customers can still use debit and credit cards, as well as alternatives including Paypal and Gocardless (which uses direct debit system). Zapp which, if adopted, will use the Faster Payment network for in-store and online transactions direct from a PCA.

1.14 Some of these payment mechanisms allow payments to be made in real time, and some do not. For some, the value and timing can be controlled by the customer and their PCA provider (e.g. standing orders) and for others the service provider sets the value and timing (e.g. CPA or direct debit). This means that the balance in an account at any time is not a complete picture of the funds a customer has available for any discretionary spending, and so whether a customer will enter an unarranged overdraft either immediately or soon after they make a payment.

1.15 To help customers manage this uncertainty, providers have developed a range of tools to make it easier for customers to budget and control their monthly spend. Tools such as mobile banking and text alerts can help to give information on a customer's current balance. Providers are also innovating to give customers predictions of balances at the end of the month using data on regular payments and other transactions (e.g. Halifax Balance Extra) and Atom's planned 'telepathic' banking which can help to manage or avoid overdraft use over the whole month. These tools give customers flexibility in how to manage their spending, they work irrespective of the payment mechanisms used by each customer, and will adapt to the changes in payment choices underway.

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1 Bacs. www.bacs.co.uk/Services/bacsschemes/directdebit/Pages/Collecting.aspx.
2 Ofgem, "Retail Energy Markets in 2015", paragraph 2.4.
3 FCA press release, "FCA reminds banks of their obligations when cancelling Continuous Payment Authorities"; and The Telegraph, "Netflix signs up more than one in 10 British households", 11 August 2014.
4 Paypoint, "Half yearly financial report for the 6 months ended 30 September 2015".

1.16 An alternative approach to help customers budget and control their spending is to remove the ability to make payments using some or all payment mechanisms that would take a customer into an unarranged overdraft. This includes the current Control facility and the CMA's proposal for a partial opt-out for some transaction types (e.g. debit cards). It is not clear that this approach works as it takes away the flexibility to make important transactions from customers, and it risks exposing them to higher prices (if they cease to use direct debit), payment penalties (if they miss direct debit payments), negative impacts on their credit files (that can affect their access to and the price they pay for credit) and service interruption. A partial opt-out for debit cards does not work for those customers who use debit cards or cash for utilities and other services, and will become outdated as a result of continuing innovation in payment mechanisms towards systems based around debit cards, such as Paypal and CPAs.

1.17 There is already extensive innovation in relation to tools which help customers manage their PCAs. In developing its proposed remedies to change customers' overdraft behaviour, the CMA must avoid over-crowding this market unnecessarily. This is one of the most important ways that new entrants and existing providers can seek to differentiate themselves and drive competition for customers.

1.18 The CMA should also avoid the unintended consequences of more prescriptive regulation on products and pricing. This may result in lower overdraft charges, but much higher energy or other household bills, or negative impacts on customers' credit scores, if regular payments are missed.

The CMA needs to set out effective processes for behavioural research

1.19 LBG's understanding has been that the CMA agreed with the need to use testing and trialling where remedies aim to change behaviour to ensure they are effective and do not lead to these sorts of unintended consequences. LBG is concerned that the CMA may be moving away from this. There is still no clear process to undertake behavioural research. The CMA has now indicated behavioural testing would be "challenging" and "may not be necessary" in some instances. The CMA has also now published research, which LBG has previously commented on, that does not provide sufficiently robust insights given its hypothetical nature and lack of relevant context.[5]

1.20 There is no short-cut to using behavioural research for many of the CMA's proposed remedies. The CMA has been clear in the Energy Market investigation that "*a priori reasoning can provide useful insights into the sorts of interventions that may help, but rigorous evidence is needed to ensure that those interventions that are most likely to make a difference for given customers at a given point in time are implemented*".[6] There are many examples where the response of customers to communications is not intuitive:

(a) annual summaries were introduced by the OFT with a reasonable belief that providing information on charges would lead to customers taking action. However, the FCA found that annual summaries had no impact on behaviour. The investment to make these changes might have had more impact if they had been trialled with different variants;

(b) the CMA is considering remedies which could mean customers get more alerts on a more frequent basis. The combined effect of these alerts is uncertain, particularly for those heavy overdraft customers that are likely to receive many different alerts across different products. In LBG's trial of text alerts, heavy unplanned users were more likely to opt-out of the trial and so did not receive any alerts; and

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5 LBG's response to CMA remedies customer research, 14 March 2016.

6 CMA, "Energy Market Investigation: Summary of provisional decision on remedies", paragraph 126.

(c) the CMA is considering alerts and prompts containing information on balances, overdraft costs, planned limits, grace periods, MMC and switching. Customers can respond to multiple and complex messages by taking less action than if there are fewer and simpler messages. LBG home insurance renewal trials found that simple, short renewal notices were the most effective at driving more shopping around at renewal.

1.21 Trials are critical to ensuring that behavioural remedies are effective, but the process will require a detailed, transparent and iterative programme to identify what works. This does not mean that action has to be delayed. The CMA can take some actions quickly. For example, customers could be auto-enrolled into providers' existing overdraft text alerts. Trials can then be used to refine the design and messaging included in these alerts. LBG remains willing to support trials of the proposed remedies.

1.22 There will need to be a process, with effective governance, to direct these trials and iterate the design of proposed remedies until the behavioural evidence is strong enough to specify remedies for all providers to implement. In the energy market investigation, the CMA has made "*a recommendation to Ofgem to establish an ongoing programme to identify, test (through randomised controlled trials, where appropriate) and implement (for example, through appropriate changes to gas and electricity suppliers' standard licence conditions) measures to provide domestic customers with different or additional information with the aim of promoting engagement…including a recommendation to conduct randomised controlled trials concerning*" a shortlist of measures.[7]

1.23 If the time available for the CMA to conduct behavioural testing is limited, then this should be handed over to the FCA, which has the capability, with the same recommendation as in the energy market investigation. The FCA can then take forward many of the proposed remedies suggested by the CMA. This would ensure that the final set of remedies is as effective as it can be, and that any ineffective remedies do not slow down implementation and are removed before the investment to deliver them is made.

1.24 The PCA process can be joined up with other work, such as the FCA's market study of credit cards. Many of the customers that are most likely to be heavy users of overdrafts, and are potentially less engaged in the market, are also likely to have other unsecured debts – credit card customers with 'problem debt' hold over half of their unsecured lending with other products including overdrafts. There are two important implications for the CMA's proposed remedies in PCAs, and why these behavioural tests and trials should be joined up with the FCA.

(a) first, prompting customers about credit card and overdraft usage repeatedly in an uncoordinated way is likely to reduce engagement, cause customers in this group to opt-out, or take action in one product which costs more in the other product. The work to develop remedies in each product area needs to be coordinated to avoid these unintended consequences, and not undertaken in single product silos; and

(b) second, solutions for these customers should focus on the problem of their debt. Communication to this customer group should not be determined by the product, but should instead send messages and provide tools to help with debt, e.g. referral to StepChange (a leading debt charity).

Next steps for proposed remedies

1.25 In its response to the original Remedies Notice in November 2015, LBG set out its views on how the original proposed remedies can now be taken forward. This can now be

[7] CMA, "Energy Market Investigation: Provisional decision on remedies", paragraph 11.10a.

updated. Together with the supplemental remedies, these can broadly be split in to three groups:

(a) **proposed remedies where the immediate next step should be to move quickly to implementation.** This group largely relates to those proposed remedies that seek to make operational changes or require functional builds that third party providers can undertake or which already exist in some form. Delivering these proposed remedies quickly will also contribute towards the success of other proposed remedies intended to influence customer behaviour;

(b) **proposed remedies where trials are a necessary next step before any form of rollout**. This group largely relates to those proposed remedies that seek directly to influence customer behaviour; and

(c) **proposed remedies where the CMA must set out and design new governance arrangements**. This applies to the development of APIs, increasing awareness of CASS and a programme of trials. The current governance arrangements are unlikely to be effective at delivering the CMA's proposed remedies.

Figure 1 CMA proposed remedies grouped by suggested next steps

CMA PCA remedy	Trial / test	Implement	Governance
1. Prompts to customers to review PCA or BCA	✓		✓
2. Increase awareness of switching and CASS	✓		✓
3. Transaction data more easily available and usable		✓	✓
5. Service quality comparisons (including OD usage)		✓	✓
7. Overdraft eligibility checker	✓		✓
8. Extension to CASS redirection period		✓	
9. Retain and provide ex-customer transaction data		✓	
10. Transfer CPAs through CASS		✓	
11. Support the partial switching service	✓		✓
12. Changes to CASS governance			✓
OD1a. Alerts about overdraft usage and charges	✓		✓
OD1b. Auto-enrolment into overdraft alerts		✓	
OD2a. Active choice of unplanned OD for new customers		✓	
OD2b. Prompts about availability of unplanned OD opt-out	✓		✓
OD2c. Product and price regulation of opt-out products		✗	
OD3. Minimum grace periods		✓	
OD4. Publicise MMC to customers	✓		✓

1.26 A full assessment of each of the supplemental remedies is required. In the time available, LBG has not been able to do this. LBG has highlighted where it believes there may be issues with feasibility in the response below. However, this assessment may need to be revisited if LBG identifies issues or costs that are not yet apparent.

2. COMMENTS ON SPECIFIC SUPPLEMENTARY REMEDY PROPOSALS

2.1 This section comments on each of the proposed remedies set out in the Notice on Supplemental Remedies ("**Supplemental remedies**").

Overdraft remedy 2 and 4 - Measures to regulate prices

2.2 The CMA has proposed some remedies that would regulate prices or products. This includes unarranged overdraft charges (overdraft remedy 4), a capped MMC (overdraft remedy 4) and the price of unarranged overdraft opt-out products (overdraft remedy 2).

2.3 LBG agrees with the CMA that there would be unintended consequences of price control remedies for unplanned overdrafts. The Behavioural Insight Team responded to the CMA's energy market investigation that price controls can:

(a) create a strong "anchor" price, which "*might cut out some very high tariffs but that may also risk pulling other lower tariffs close to this margin up*"; and

(b) may reduce incentives for consumers to switch because "*they may think they don't need to switch because they are 'safeguarded'* ".[8]

2.4 Price controls would undermine the effectiveness of other proposed remedies aimed at increasing competition for overdraft users, reduce differentiation between providers, harm entry and expansion and are "*likely to reduce the credit risk that PCA providers are willing to take on and the amount of unarranged credit that they offer to all customers*".[9]

2.5 These serious risks of unintended consequences apply to price controls on unarranged overdrafts, as well as to caps on the MMC and prescriptive regulation of unarranged overdraft opt-out products. Such proposed remedies should not be pursued.

Overdraft remedy 2 - Measures to encourage PCA customers to make an informed choice on their overdraft options

Measures to prompt customers to make a choice

2.6 LBG already offers customers an active choice between products with and without unarranged overdrafts, and supports the CMA in ensuring this practice across the industry.

2.7 LBG also agrees that existing customers could be prompted about the availability of an opt-out, but these prompts will need to be trialled and targeted to ensure:

(a) the prompts are effective (e.g. that they are not seen as product marketing messages);

(b) the prompts do not reduce the effectiveness of other messages sent to customers; and

(c) customers understand the potential consequences and costs of missed payments and are able to manage appropriately if they opt-out, e.g. customers that opt-out do not incur costs of missed payment penalties, poorer credit ratings, and higher prices from not being able to use direct debits. Payment schemes such as Bacs may be best placed to help customers manage their regular payments if they opt-out, as described in paragraph 2.13 below.

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8 See "Behavioural Insights Team response to Energy market investigation: Notice of possible remedies".

9 Notice of Supplemental Remedies, paragraph 152.

2.8 The CMA should also consider prompts to customers to review their planned limit where they may be eligible for a limit or a higher limit. This could help customers to avoid unarranged overdraft charges. LBG trialled such a remedy and found that when a text alert was used to communicate this option to customers with an existing planned limit, there was a 42% uplift in customers changing their limit.

2.9 The reach of these proposed remedies, either for an opt-out or a planned limit increase, may also be limited if these prompts are deemed to be product marketing, as around half of customers have opted-out of marketing messages. The CMA will need to engage with the ICO and develop remedies that don't have limited reach if they are deemed to be marketing communications.

Measures to allow PCA customers to opt out of some types of transactions

2.10 The CMA proposes a remedy that would give customers the flexibility to opt-out of certain transaction types (e.g. debit cards) whilst allowing other payment (e.g. direct debits) to be made. The aim of this proposed remedy is to make an unarranged overdraft opt-out more attractive to customers by ensuring that important regular payments are still authorised.

2.11 This proposed remedy should not be pursued. The partial opt-out the CMA envisages will not work in practice given the different payment mechanisms that customers use today and will quickly be outdated as behaviour changes and as a result of the high level of innovation and competition in payment mechanisms (as described in section 1 above). A partial opt-out is likely to be less attractive than the existing full opt-out.

2.12 If the CMA decides to continue to pursue this potential remedy it needs to collect data from payment providers, card schemes and Bacs (for direct debits) to understand customer behaviour today, what is driving the trends in payment mechanisms and how much and why are customers and providers substituting between payment mechanisms now and in future.

2.13 After examining this data, the CMA should consider whether opt-out products can be made more attractive by giving customers better tools and more control over regular payments, rather than by introducing a partial opt-out. Such tools may be best delivered through payment systems, rather than PCA providers. This is because payment systems have relationships with both PCA providers and payment originators and can bring together regular payments for customers that multi-bank. If developed through API based technology it would then be open for PCA providers to embed these in their own online banking and mobile apps.

2.14 Bacs already has an app to help customers monitor and manager their direct debits and could use APIs to enhance this with automation about payments and by combining information from originators about the consequences of missed payments (which originators are required to provide as part of the scheme rules). For debit cards, Visa has recently announced the launch of its Consumer Transaction Controls in the USA which will enable customers to limit transaction size and set spending limits. Customers could use these tools directly, or they could be integrated into PCA providers' mobile banking or account aggregators (e.g. Money Dashboard) using APIs. These tools would also enhance CASS, as customers would have visibility of regular payments that have not been transferred, including CPAs (i.e. to help deliver the CMA's remedy 10).

2.15 A partial opt-out is likely to be less attractive to customers than a full opt-out and the benefits to customers would be difficult to explain:

(a) customers would still enter into an unarranged overdraft – LBG estimates a significant proportion of payments into unarranged overdraft use direct debit or cheque - and incur unarranged overdraft charges, whilst losing the flexibility to make certain payments;

(b) payments that the customer expects are not going to take them over a planned limit may still result in an unarranged overdraft position because of the timing of other payments;

(c) many customers do not use direct debits and/or use other payment mechanisms, which means some services would still be paid, but others would not, depending on the payment mechanism, without an apparent rationale for the customer; and

(d) there are other products available with greater flexibility and/or protection against charges including packaged accounts (with up to £300 interest and fee-free overdrafts), applying for or increasing a planned limit, basic bank accounts that are completely free, and the existing Control Facility.

2.16 All of these problems with a partial opt-out are likely to confuse customers about which payments will be made, which services are liable to be withdrawn, and whether unarranged overdrafts are being used.

2.17 The CMA is not well placed to prescribe the products that should be available in the market. Some providers may choose to offer a partial opt-out product if customers value it and if it is able to generate a contribution to fixed and common costs across the portfolio of customers that choose it. Such providers should be able to benefit from this innovation and differentiation.

2.18 The alternative approach to opt-outs is to help make customers more aware of their current balance and to predict their balance at the end of the month. Some of these tools are already available, and predictive tools are emerging. As the CMA's proposed remedies help customers to be more aware of unarranged overdraft charges and better able to compare and switch, then competition will focus on the development of tools and products for unarranged overdraft customers, as it has already for credit interest and rewards.

Measures to allow customers to opt-out of payment at point of sale

2.19 LBG agrees with the CMA's decision not to prescribe customer authorisation solutions for debit cards at the point of sale in a physical location, given the potential inconvenience and costs for customers and merchants. Overdraft alert services and mobile banking will give customers greater control over their use of an overdraft for these transactions.

2.20 However, there may be opportunities for the increasing number and value of online transactions and CPA payments to give customers other choices, rather than make a payment. This may mean the ability to opt-out of an online transaction, or to be given other options, such as paying in monthly instalments by direct debit for larger purchases (e.g. car insurance), or changing the payment date of a CPA.

2.21 The card schemes and payment schemes (such as PayPal) will be best placed to develop these technologies and the CMA should engage with Visa, MasterCard and Zapp to explore how such technologies could develop in future, and how they could be accelerated. The CMA should consider recommendations to the PSR to monitor these developments and ensure the right environment for them to emerge.

Measures to offer unarranged opt-out for free with any product

2.22 The CMA's supplemental remedies would require providers to offer an opt-out for no additional cost (such as a monthly fee or removing rewards) and to make the opt-out available for customers holding any product. These suggested remedies are not needed and would have serious unintended consequences for customers.

2.23 A PCA is a bundle of services including lending, transactions, deposit holding and the flexibility to make payments when funds are not available. Providers differentiate and compete on the type and level of charges for different aspects of this overall bundle of services offered. Customers each pay for these services in different amounts and in different ways – some customers pay more in credit interest, some in interchange and some through overdraft charges. Providers expect that the portfolio of customers holding each product will make a contribution to fixed and common costs over time.

2.24 Accounts with a Control Facility provide many of the normal features and services of PCAs, except use of an unarranged overdraft. These products have higher costs to manage, such as issuing a restricted use debit card and additional processes to avoid customers making payments that would take them into unarranged overdraft. Providers also forgo all unarranged overdraft fees compared with other products (except basic bank accounts).

2.25 Given these factors, it is reasonable for these products to charge an additional fee (such as a monthly charge or reduction in rewards). The decision over whether to do so and the level of any fees should be determined by the market, and providers take different approaches.

2.26 As the CMA's package of proposed remedies helps customers to engage with their product, including by reducing overdraft usage and costs, and facilitate more effective shopping around for PCAs, this will increase the pressure on providers to innovate and improve their overdraft products and quality of service in the same way they have with credit interest and rewards. Regulation to force all providers to do so would reduce the ability of these providers to differentiate and compete, such as by offering innovative overdraft products at lower prices, and the incentives for customers to shop around.

2.27 LBG already waives the control fee for some customers in financial difficulty. LBG has a policy to provide vulnerable customers that enter the collections process a free Control Facility on their account for six months. The purpose of the policy is to provide time for customers to improve their financial situation, and reassure them that they will not incur any further charges related to unarranged borrowing during this time. Eligible customers can also open a BBA for free to avoid using an unarranged overdraft.

Overdraft remedy 4 - a monthly maximum charge for using an unarranged overdraft

2.28 The CMA has suggested using an uncapped MMC to help increase the prominence to PCA customers of the cumulative effect of unarranged overdraft charges. LBG supports this idea in principle, which can build on the development of tools to help customers understand the cost of a PCA based on their actual usage. (See paragraph 2.2 above for comments on a capped MMC.)

2.29 The CMA's proposed remedy is for providers to publicise the MMC with customers. Whilst communicating the MMC could be an effective way to engage unarranged overdraft customers, this may not necessarily the case for all customers and there may be negative impacts. For many customers that do not use unarranged overdrafts, or are light users, the MMC may not be relevant. Even for heavy unarranged overdraft customers, the MMC could potentially confuse customers or lead them to ignore other information depending on how it is used. Using the MMC in some alerts may crowd out other messages from being received by customers.

2.30 The only way to find out how the MMC can be effective, and the extent of any negative impacts on customer understanding, is to use targeted trials and behavioural tests of different communications. For example, RCTs using variants of overdraft alerts that include the MMC, or tests of online application processes where the active choice of whether to have an unarranged overdraft is accompanied by information on the MMC.

2.31 The MMC as specified by the CMA is one simple value that could be used for these trials. However, the MMC hides the distribution of charges. It is possible to design pricing tariffs that have high average charges, but a low maximum (e.g. high daily charges or unpaid/paid items, but a low cap). The CMA could examine these effects in its pricing analysis and look at how actual overdraft charges (including RIFs and PIFs) based on real customer behaviour correlate with the ranking of the MMC and also the OFT overdraft charging scenarios. Alternative metrics could be included in a trial, such as using distributional information on overdraft charges (e.g. publicising the top decile value of unarranged overdraft charges actually incurred).

2.32 The CMA also envisages the MMC being disseminated by PCWs and consumer groups if it is useful in engaging customers. The CMA could work with a PCW to test the effectiveness of using a MMC in comparisons using behavioural testing, such as an online RCT, or using eye-tracking technology in a behavioural laboratory.

2.33 More useful information could be provided to PCWs as part of remedy 5 (e.g. distributional information on unarranged overdraft charges). This data could be provided to PCWs using APIs, along with other internal data on service quality. See comments on remedy 5 below.

Overdraft remedy 1 - Prompts and alerts to inform customers of imminent and actual overdraft usage and charges

Require PCA providers to automatically enrol customers into overdraft alert services

2.34 LBG has argued for a requirement to auto-enrol customers and believes that this could be done quickly with existing text alerts or new push alerts offered by providers. This would give the CMA early impetus to improve engagement for overdraft customers, whilst improvements to these messages are tested.

2.35 However, there are some issues and costs of auto-enrolment to consider. These include the following:

(a) there is a significant cost to deliver the bulk upload of mobile numbers for text alerts. Current systems have been built to allow individual customers to provide mobile numbers and activate alerts. LBG is instead investing in delivering push alert functionality which would be available for all mobile banking customers;

(b) providers do not have mobile numbers or email addresses for all customers. Providers may differ in the coverage of any auto-enrolment depending on their current information and effectiveness of prompting customers to provide mobile numbers;

(c) where providers do have a customer's mobile number or email address, they will be dependent on the customer to update them with their latest contact details should they change;

(d) terms and conditions need to be updated for all customers, although only 45% of customers use an overdraft. This will have a significant initial one-off cost; and

(e) there are some concerns relating to data protection, particularly for alerts that combine messages about other products (e.g. availability of an opt-out). The CMA can help to provide guidance on how customers that have opted out of marketing should be treated by working with the Information Commissioner’s Office.

2.36 The CMA should also speak to entrants in the market about the impact auto-enrolment could have on their ability to innovate and differentiate with new tools and services, such as by introducing push alerts for all customers.

Require providers to offer range of alerts

2.37 LBG does not currently offer all the alerts suggested by the CMA, but these could be developed and added to the current range. The CMA also suggests adding other messages to alerts, such as the MMC, ability to change planned limits, grace periods and charge notifications. Any new alerts or new messages should be trialled first to ensure they are effective.

2.38 The CMA proposes that the requirement should be technology neutral (e.g. text alerts, push messages, email or voice messages). LBG agrees that the question of technology should be left open, but this is not something that providers would be able to compete on. Following a programme of trials, the CMA will be able to identify which prompts, which messages and which channels are most effective at enhancing engagement. The CMA will then need to specify clearly how these prompts should be implemented so that each provider does so to the required standard.

2.39 It will be necessary for regulation to ensure that all providers meet these specifications. As with existing requirements for communicating information to customers, if providers fail to deliver the required prompts, then the regulator must have the power to enforce the relevant requirements. There is no effective alternative to having this prescriptive process in place.

2.40 ATM alerts should also be considered for customers without mobiles or for whom providers do not have email addresses or mobile phone numbers. However, ATM balance enquiries are a service provided by ATM operators (around 56% of machines are operated by non-banks and the provision of non-bank ATMs is highly concentrated) for which they earn an interchange fee that is high and increasing – from 14.9p/request in 2013 to 18.9p/request today and expected to rise significantly more - at a time when other technologies are reducing the cost of tracking balances. This makes ATM balance enquiries an increasingly costly service to provide to customers relative to low cost alternatives such as push alerts.

2.41 The CMA should recommend that the PSR study ATM interchange fees to ensure they give the right incentives today and in future to develop services to help customers manage their overdraft usage. This will require oversight and governance through LINK, and the flexibility for providers to opt-out if they can provide as or more effective prompts through other lower cost channels, e.g. push alerts through mobile.

Requiring PCA providers to send messages to their customers that succinctly describe the total charges incurred

2.42 LBG already extends to the rest of the UK the current NI Order that requires PCA providers to notify a customer before overdraft charges are deducted.

2.43 New messages about cumulative charges may help to enhance customer engagement and understanding. However, this is not necessarily the case as the cumulative effect of other messages and information that customers receive may reduce engagement. It is therefore important that further requirements to send messages to customers are tested to ensure their effectiveness.

Prohibiting PCA providers from including arranged overdrafts within the definition of 'available funds'

2.44 LBG supports the harmonisation of the definition of 'available funds' when balances are presented. However, the language used to help customers understand their balance position should be tested to identify what is most effective and avoid confusion (e.g. a customer believing they do not have available funds even if they have an agreed overdraft facility).

2.45 The presentation of balances on ATMs is a service provided by the ATM operator who earns an increasing interchange fee for this service. The CMA should speak to LINK about how the presentation of balances can be changed across the industry and about the potential cost of doing so. The CMA should also recommend that the PSR study the pricing mechanism to encourage greater use of ATMs for balance enquiries for customers without access to mobile banking without imposing excessive or inefficient costs on PCA providers and, ultimately, customers.

Overdraft remedy 3 – suspension periods for unarranged overdrafts

Require PCA providers to offer a minimum grace period or pre-defined cut-off time when customers can take action to avoid charges

2.46 LBG already offers a grace period (using the CMA's definition) up to midnight, which applies whichever transactions a customer makes to enter an arranged or unarranged overdraft. A cut-off time of midnight is what most customers would expect. Giving customers a flexible cut-off time (e.g. 24 hours after entering an unarranged overdraft) is not feasible given the different settlement times for different payment systems. The CMA should consider harmonising the cut-off time to midnight across the industry to make it simpler to communicate to customers, particularly those that multi-bank or who switch providers.

Require PCA providers to put in place measures to alert customers to the availability of grace and retry periods when they are in a position to benefit from them

2.47 LBG would support measures to alert customers to the availability of grace and retry periods in principle, and this information could be added to existing alerts. However, as with other overdraft alerts, including new messages about grace periods and retries should be trialled to ensure that they are effective and do not reduce the effectiveness or crowd out other alerts.

Remedy 5 – Service quality metrics

2.48 LBG provided extensive comments on Remedy 5 in its "response to information request on possible service quality metrics" of 25 February 2016. LBG explained the need for 'open data' on service quality metrics to be provided using APIs to comparison tools.

2.49 Service quality, like pricing, cannot be averaged across each provider. Quality of service will depend on a customer's preferred channels (i.e. digital, telephone banking or in-branch banking), to a certain extent (for heavy branch users) the customer's location, and how a customer uses their account including how they use unarranged overdrafts.

2.50 API-enabled comparison tools will be well placed to provide these personalised service comparisons, alongside personalised information on unarranged overdrafts, if they have access to comparable metrics for a comprehensive list of quality facets for relevant segments across all providers. In its response of 25 February, LBG considered that the CMA's suggested list of quality facets was not exhaustive and that it would need to be expanded to give comparison tools the ability to personalise service quality comparisons. Metrics on unarranged overdrafts, including those suggested by the CMA in the supplemental remedies could be included in this list.

2.51 The CMA does not need to prescribe specific metrics. The OBWG is the correct vehicle to deliver the data for service comparison, using the right mechanism (i.e. an API) and with the ability to evolve and develop the data requirements over time as providers innovate and new metrics emerge.

2.52 However, as LBG said in its 25 February response, the appropriate governance framework needs to be in place to deliver the OBWG's plan. The CMA needs to ensure that the needs of price comparison tools are represented in the OBWG and that providers are compelled to provide relevant and proportionate data on quality facets that may not yet be in the public domain, including unarranged overdraft usage. As with price comparison and sharing of credit information, the development of these APIs needs to be prioritised by the OBWG.

2.53 Some of the metrics suggested by the CMA, such as satisfaction metrics, do not require information from providers. PCWs and other consumer groups can commission their own surveys, or use existing information from market research firms. The CMA should, as a starting point, understand what external research and metrics are currently available, whether these are fit for purpose and what requirements comparison tools have that cannot be delivered through such a market-led approach.

2.54 Combining external research on unarranged overdraft tariffs and satisfaction of unarranged overdraft customers, with transaction data and open data on service quality and the distribution of unarranged overdraft charges, will create the ecosystem for financial technology firms and existing providers to develop PCA comparison and other tools that can be personalised for unarranged overdraft customers.

ANNEX:

PAYMENT OPTIONS OFFERED BY SERVICE PROVIDERS

Figure 1: Payment methods offered by Scottish Power

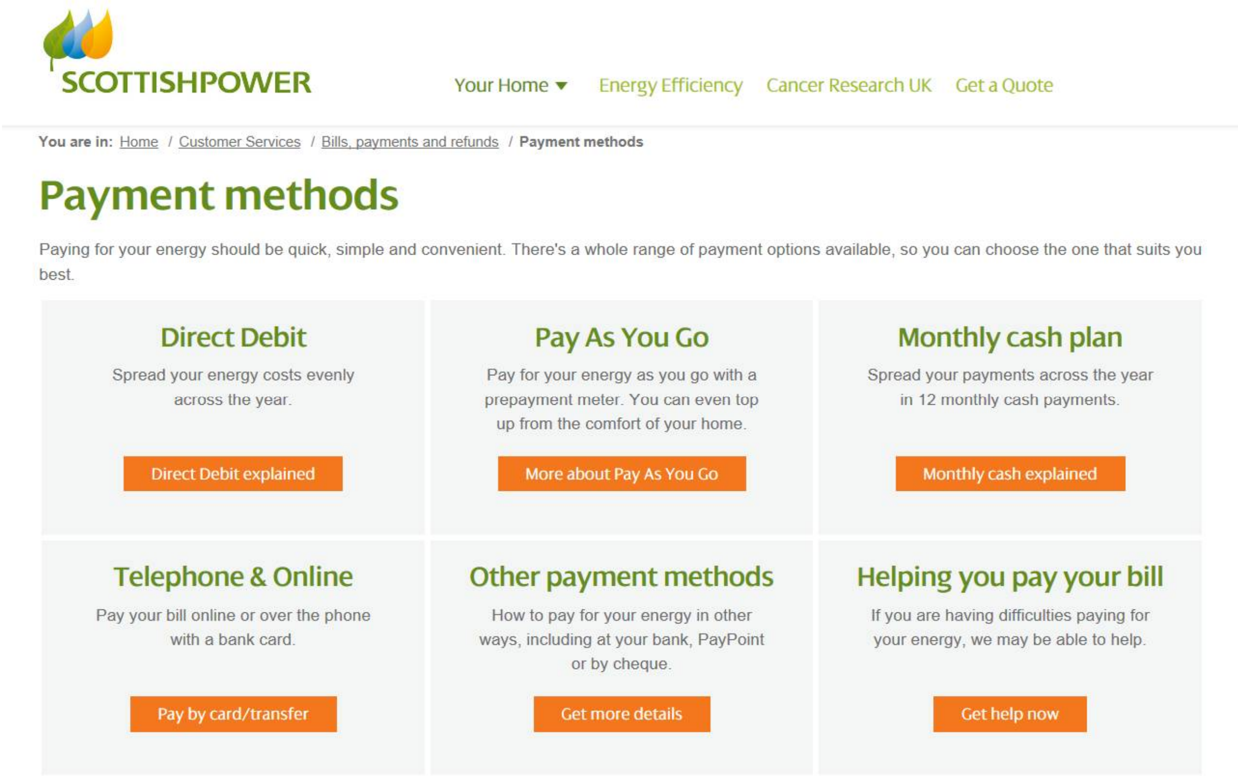
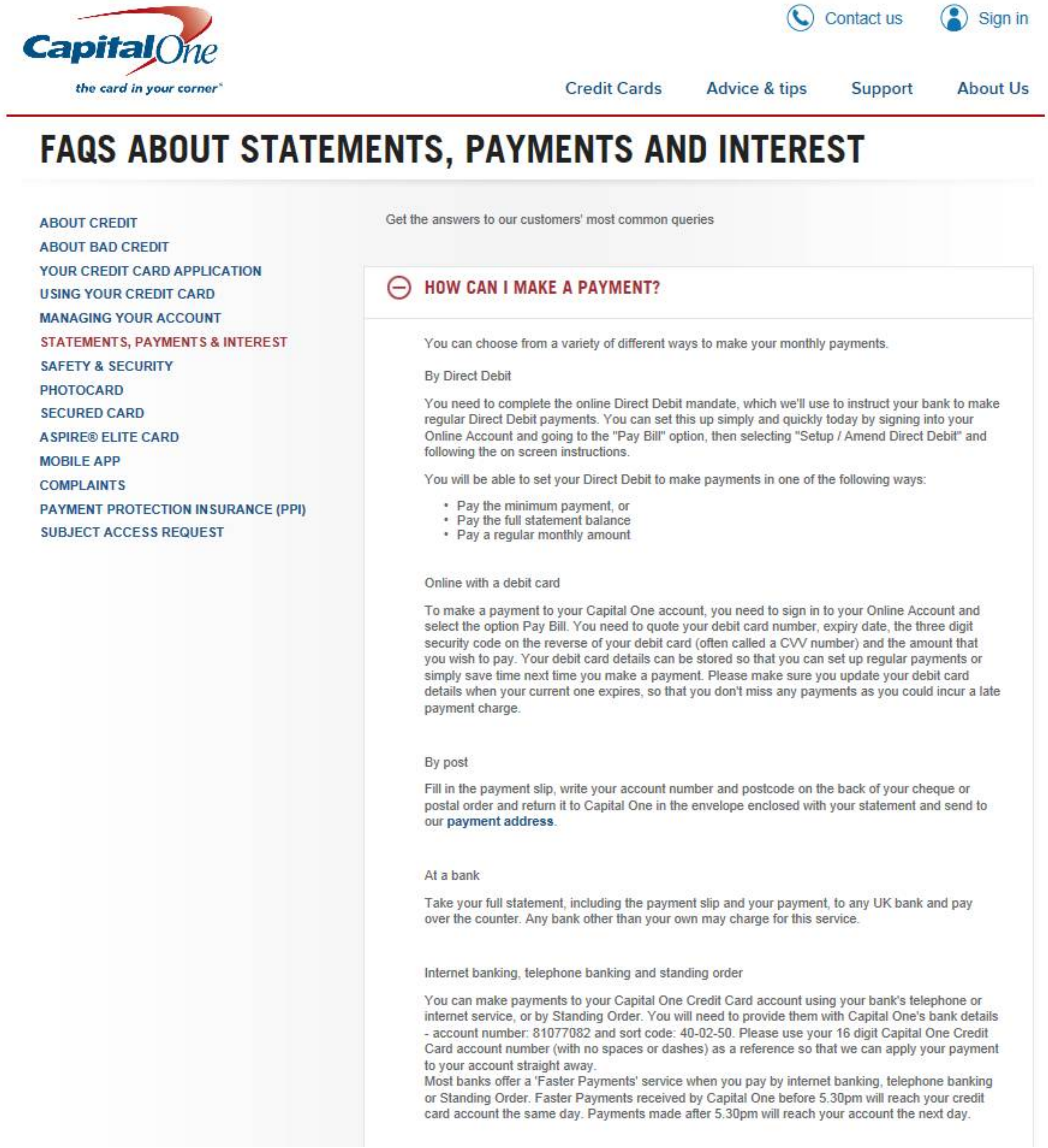


Figure 2 Payment methods offered by Capital One credit card



Capital One
the card in your corner

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FAQS ABOUT STATEMENTS, PAYMENTS AND INTEREST

- ABOUT CREDIT
- ABOUT BAD CREDIT
- YOUR CREDIT CARD APPLICATION
- USING YOUR CREDIT CARD
- MANAGING YOUR ACCOUNT
- STATEMENTS, PAYMENTS & INTEREST
- SAFETY & SECURITY
- PHOTOCARD
- SECURED CARD
- ASPIRE® ELITE CARD
- MOBILE APP
- COMPLAINTS
- PAYMENT PROTECTION INSURANCE (PPI)
- SUBJECT ACCESS REQUEST

Get the answers to our customers' most common queries

HOW CAN I MAKE A PAYMENT?

You can choose from a variety of different ways to make your monthly payments.

By Direct Debit

You need to complete the online Direct Debit mandate, which we'll use to instruct your bank to make regular Direct Debit payments. You can set this up simply and quickly today by signing into your Online Account and going to the "Pay Bill" option, then selecting "Setup / Amend Direct Debit" and following the on screen instructions.

You will be able to set your Direct Debit to make payments in one of the following ways:

- Pay the minimum payment, or
- Pay the full statement balance
- Pay a regular monthly amount

Online with a debit card

To make a payment to your Capital One account, you need to sign in to your Online Account and select the option Pay Bill. You need to quote your debit card number, expiry date, the three digit security code on the reverse of your debit card (often called a CVV number) and the amount that you wish to pay. Your debit card details can be stored so that you can set up regular payments or simply save time next time you make a payment. Please make sure you update your debit card details when your current one expires, so that you don't miss any payments as you could incur a late payment charge.

By post

Fill in the payment slip, write your account number and postcode on the back of your cheque or postal order and return it to Capital One in the envelope enclosed with your statement and send to our **payment address**.

At a bank

Take your full statement, including the payment slip and your payment, to any UK bank and pay over the counter. Any bank other than your own may charge for this service.

Internet banking, telephone banking and standing order

You can make payments to your Capital One Credit Card account using your bank's telephone or internet service, or by Standing Order. You will need to provide them with Capital One's bank details - account number: 81077082 and sort code: 40-02-50. Please use your 16 digit Capital One Credit Card account number (with no spaces or dashes) as a reference so that we can apply your payment to your account straight away.
Most banks offer a 'Faster Payments' service when you pay by internet banking, telephone banking or Standing Order. Faster Payments received by Capital One before 5.30pm will reach your credit card account the same day. Payments made after 5.30pm will reach your account the next day.

Figure 3 Payment methods for social housing rent

Notting Hill Housing

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- What we do
- Who we are +
- Our vision and values +
- Our history
- Our performance
- Our charitable work +
- Our developments
- News and media –
  - News
- Financial statements
- Investor relations
- Business with us
- Work for us +
- Contact us +

Pay your rent with the allpay App

25 September 2012

Paying your rent just got even easier thanks to the free allpay app, available from both Google Play (Android) and the Apple App Store (iPhone / iPad).

If you're a permanent rented housing (general needs) customer, the allpay app is a secure way to pay your rent quickly and easily, even when you are on the move.

Simply register to create an account and you'll be able to pay your rent with just a password or PIN number. You'll also have access to online payments through the allpay site or over the phone using your allpay payment card.

- Apple iTunes allpay app
- Google Play (Android) app

Don't have an allpay card?

Contact your housing officer about ordering a card or if you have any questions about using the allpay App.

Other ways to pay

There are many other ways you can pay your rent, including Direct Debit, debit or credit card or cheque. You can find more information on ways to pay your rent in the money sections of our site.