

RBS – Retail Banking MIR Response to Supplemental Notice of Possible Remedies

INTRODUCTION

This submission sets out the views of The Royal Bank of Scotland Group plc (“**RBS**”) in response to the Supplementary Notice of Possible Remedies (“**SNPR**”) issued by the Competition and Markets Authority (“**CMA**”) on 7 March 2016 as part of its market investigation into the supply of personal current accounts (“**PCAs**”) and of banking services to small and medium-sized enterprises (“**SME banking**”) (the “**Market Investigation**” or “**MIR**”). This response should be read in conjunction with RBS’s comments in its 20 November 2015 response to the Provisional Findings Report (the “**PFs**”) and the Notice of Possible Remedies (the “**NPR**”), issued by the CMA on 22 October 2015.

Part A of this response provides RBS’s general comments on the overall package proposed in the SNPR. Part B sets out more specific comments on each of the additional remedies.

Part A: General Comments

1 Summary

RBS welcomes the CMA’s additional focus on mitigating adverse effects on PCA customers who exceed their available funds or agreed credit lines and thus incur unauthorised overdraft (“**UOD**”) charges. The CMA’s approach appears broadly consistent with that proposed by RBS, namely to ensure better customer awareness of overdraft charges generally and to adopt remedies that will allow customers to make more informed choices. RBS supports, in particular, the aspects of the remedies aimed at increasing transparency on overdrafts generally and at ensuring the protection of vulnerable customers in relation to UOD.

However, RBS’s “opt-in” proposal – requiring that customers explicitly consent to exposure to UOD charges, should they become overdrawn – was not simply an opt-in for opt-in’s sake. Rather, RBS’s proposal was premised as follows:

- **Informed choice on unauthorised overdrafts requires that consumers first understand arranged overdrafts.** First, RBS’s proposal is to encourage banks to engage proactively with customers about overdraft usage and primarily to ensure that critical differences between authorised (i.e. arranged overdraft (“**AOD**”)) facilities and UOD are clearly understood by customers. This was intended to enable customers to make a clear and informed decision on what is best for them in terms of their (potential) overdraft usage vis-a-vis their current or proposed PCA provider. In this regard, it is critical to note that UOD should not be seen as a “credit product” in the same way as AOD.
- **The exercise of informed consumer choice is likely to lead to reduced incidence of UOD charges in favour of AOD.** Second, RBS would expect the vast majority of customers who are eligible for an AOD to consider themselves better off choosing to use AOD rather than UOD and would expect the exercise of informed (rational) choice to lead to a shift away from customer reliance on UOD (which lacks the credit limit certainty and lower charging structure of AOD).
- **Competition on AOD between banks for informed customers will further stimulate welfare improvements.** Third, RBS considers that once customers are

more aware of their overdraft options, they can then shop around on an informed basis which will lead to increased competition on AOD credit limits and charges which will be both beneficial and sits well with the CMA's main remedies package, such as the PCW. However, both conceptually and practically, RBS considers that it would defeat the premise of informed consumer choice if customers were to remain in a UOD-centric environment premised on shopping around, but only for lower UOD charges or better UOD key performance indicators (“KPIs”).

RBS is therefore surprised that the SNPR has not focused on AOD facilities as part of its additional overdraft remedies proposal and in particular in relation to Overdraft Remedy 2 (informed choice), which focuses on UOD to the exclusion of AOD.

This issue may be exacerbated by the potential framing effects of Overdraft Remedy 4 (maximum monthly charges (“MMC”)) and the development of Remedy 5 (UOD KPIs) which could be misread as stimulants for greater take-up of UOD as a remedial goal in its own right. Absent a refocus of Overdraft Remedy 2, RBS therefore considers these remedies create a risk of working against informed consumer choice. They could have the unintended consequence of creating customer confusion between AOD facilities and UOD charges, and produce disadvantages disproportionate to the aim if implemented in current form. RBS's concerns are set out in further detail in Section 4 below.

RBS therefore believes that Overdraft Remedies 1-3 should be refocused on AOD facilities as the best route to explaining to customers the important differences between AOD facilities and UOD charges. In relation to Overdraft Remedies 4 and 5, RBS considers that these are not necessary if the changes envisaged in this paper are reflected in Overdraft Remedies 1-3. However, if the CMA is minded to proceed, RBS would welcome clarification from the CMA that the goal is to improve transparency on aspects of UODs, with a particular focus on protection of vulnerable customers (who may either not be eligible for AODs or are most likely to exceed AOD credit limits where given). As noted, these remedies should not, in RBS's view, imply price (MMC) and non-price (KPI) competition on UOD as the predominant goal of the SNPR.

2 Implicit characterisation of unarranged overdrafts as a credit product, rather than a PCA product feature

In RBS's view, it is important that the CMA's final analysis and remedies reflect an important point of fact: UOD charges are qualitatively different from forms of credit, most notably AOD facilities, but also credit cards and other forms of loan. The CMA's SNPR, at least implicitly, treats UOD as simply another credit product. RBS considers that this is not the case.

UODs are a feature of the PCA product which is provided by banks for some (although not all) customers whose payments would otherwise have been declined. They are not intended to be treated as a committed source of credit on which the customer should rely. Rather, they are a fall-back mechanism intended to cover short-term cash flow issues. UODs exist because of a political and industry premise that, despite their “unauthorised” status, they are necessary, or better than the perceived alternative, because they mitigate or avoid the adverse consequences of declined payments (whether cheques, standing orders or direct debits), which can have disruptive financial and non-financial implications on consumers.

The behavioural signals associated with repeated use of UOD are very different from, and significantly more negative in terms of credit risk than, those arising from the use of a pre-arranged AOD. As a result, UOD is necessarily a more expensive service for banks to provide, and thus a more expensive facility for the customer. Notwithstanding that UODs are included in banks' PCA terms and conditions, and banks engage with customers to ensure that these are understood, it is undeniable that consumers incurring UOD charges frequently find the topic of overdrafts confusing, and often find UOD charges to be an unpleasant surprise.

By contrast, credit products serve a conscious customer need where customers actively engage with, understand and choose to purchase a product. This choice is made, ideally, on the basis of effective competition between sellers of that credit product (and between one form of credit product, and another). Whilst UODs are provided to eligible customers, pursuant to agreed terms and conditions which banks are required to help customers understand, it is clear that, viewed objectively and rationally, the majority of customers will be better off if they do not make use of their UOD. Instead actively choosing to use an AOD (or other credit facility) will result in better customer outcomes. It is worth noting that the 'personal finance' pages of the media have, for decades, been advising and encouraging bank customers to agree an AOD facility rather than rely on UOD.

The CMA's overdraft remedies in current proposed form could have unintended consequences for consumers whereby they misunderstand UOD, in isolation, as the "right" product for them. The remedies in current form explain and require a choice regarding UOD usage, without explaining the differences compared to the AOD product. This risks encouraging increased use and reliance on UOD. This is exacerbated by implementing remedies which encourage competition on UODs. Given that UODs are (rightly given the credit risks) more expensive than AOD, this is detrimental to consumer welfare, especially for vulnerable customers. Encouraging competition on, and therefore greater "use" of UOD would likely lead to an overall increase in the cost of borrowing for everyone, given the increased capital banks would have to hold to cover the consequential rise in unpredictable borrowing.

That said, an increased focus on educating customers about products which are likely to lead to better consumer welfare outcomes than UOD, does not prevent efforts by the industry to address the problems that UODs create, especially for customers that are habitual users and thus incur these higher charges. For its part, RBS has sought to reduce the incidence and scope of UODs (and the resultant charges) which apply to its own customer base (as explained in earlier submissions and below).¹

3 Overdraft Remedy 2 should be clearer about credit alternatives to UOD and the exercise of consumer choice

Overdraft Remedy 2 in current form lacks any concrete mention of: (i) AOD, as the most obvious (but not only) alternative to UOD; and (ii) how in practice customer engagement with their existing bank might work for the significant subset of PCA customers who find themselves at risk of falling below a zero PCA balance. Instead of actively encouraging engagement with overdraft options, Overdraft Remedy 2 focuses only on mitigating the effects of UOD reliance.

¹ For example, please see the description of Overdraft Control in the first RBS response to PCA overdraft information request dated 11 February 2016, page 5.

From RBS's viewpoint, key principles of Overdraft Remedy 2 should include the following.

3.1 Reducing confusion between AOD products and UOD charges

UOD charges, and how and when they arise are not necessarily well understood by customers (despite efforts by banks to ensure that they are). It is evident from some of the comments made by heavy overdraft users recorded in the Optimisa Research² that those exposed to unauthorised charges would benefit from further explanation of the (quite radical) differences between AOD credit and UOD charges.

The CMA's Overdraft Remedy 2 may give customers only a partial view, with engagement centred around UOD to the exclusion of AOD. Customers who have AOD available to them, should be given a chance to understand all of their overdraft options when considering whether to opt in to UOD or not. As noted above, this is in itself likely to stimulate customers' engagement with their overdraft facilities, facilitating greater competition. This may also help improve understanding from a vulnerable customer perspective.

In RBS's view, any effort to explain overdrafts to customers can only sensibly be done if the bank explains this in the context of existing credit products that are available to a customer, and that may be purchased in lieu of exposure to UOD charges. In practice, the starting point is primarily AOD.

3.2 Stimulating competition between banks on AOD products

As the CMA is aware, RBS considers that the MIR provides the opportunity to increase competition through enhanced transparency and switching between AOD providers. This is appropriate since these are credit products. RBS's proposed remedy regarding opt-in was not simply to require opt-in to UOD, but also to encourage greater engagement regarding AOD. A customer that chooses AOD in lieu of defaulting into UOD will benefit from the CMA's remedies package generally, in particular on PCA price comparison and AOD eligibility. The remedies package will also benefit customers who do not choose an AOD facility, particularly if Overdraft Remedy 2 is adapted to reflect RBS's comments above.

3.3 Tackling issues within UOD charges

If the principles laid out in this paper are implemented, UOD charges should only accrue for customers that have actively chosen to have such payments processed if they exceed their AOD limit (or if other credit solutions had been utilised to the full extent). However, this does not rule out the residual need for certain controls to be built around UOD charges to ensure protection of customers who are unable to obtain AOD and/or alternative credit products that are sufficient to cover their credit needs. See further RBS's more detailed comments below.

4 Risk of internal tension within the overall remedies package from Overdraft Remedy 4 and developed Remedy 5

Overdraft Remedies 1-3 all work towards informing customers so as to reduce the incidence and impact of UOD charges. Accordingly, they are proposals which, subject to the comments on refocusing on AOD above, RBS supports and believes work together coherently. They are also consistent with RBS's own ongoing efforts on the issue of UOD

² See pages 34-36.

charges including RBS's Act Now alerts, overdraft control products, fee refunds, enhanced website information, reduced fee levels and overall simplification.³

However, RBS is concerned that Overdraft Remedy 4 (MMC) and developed Remedy 5 (the KPI proposal) appear to encourage "competition" on UOD MMC levels and non-price KPIs. Specifically:

- MMC may facilitate the customer misconception that UOD is a credit product on which they should shop around for the best deal, as opposed to considering UOD against alternatives that are likely (on the rational exercise of choice) to be a much better deal than UOD (even notionally "competitively-priced" UOD); and
- The KPI proposal may be seen to treat UOD as a credit product on which "sales" or UOD take-up should increase as transparency drives switching which drives competition to deliver lower prices or better non-price outcomes.

By treating UOD as a product on which banks should compete, Remedies 4 and 5 may indicate to customers that comparison, switching and take-up or default into UOD is equivalent to using other types of agreed credit facility. By definition, this is not correct. RBS considers that an important goal of the remedies process should be to alleviate persistent consumer confusion on this point. That is not to say that consumers should not continue to have transparency regarding UOD fees and charges or non-price factors (such as complaint levels). However, the context would be critical, and at the moment RBS believes that context is insufficiently apparent in the SNPR.

The issue of charges for UODs should be part of the conversation between banks and customers about the relative merits of AOD facilities and the consequences of UODs. If the customer knows the credit limit for an AOD, they can choose to consider how much weight to place on the monthly charge figure should they exceed the AOD credit limit, or decline an AOD facility and opt-in to immediate exposure to UOD charges should they become overdrawn. Overdraft competition between banks would then focus on AOD credit limits and charges, but with transparency on what UOD charges (possibly including the MMC if the CMA is minded to proceed) would apply should the credit limit be exceeded.

³ [confidential]

Part B: Specific comments on the additional remedies in the SNPR

1 Overdraft Remedy 1: prompts and alerts on imminent and actual overdraft usage and charges

1.1 General comments

RBS is broadly supportive of this remedy, with many aspects already offered by RBS and NatWest (“**NW**”), which are leaders in the field in relation to overdraft alerts, as demonstrated by the Act Now alerts and both front and back book auto-enrolment strategy. As discussed in its response to the Statement of Issues, RBS has previously sought to increase awareness of overdraft charges by developing annual summaries as well as enhanced monthly statements to highlight overdraft fees on PCAs.⁴ In addition, RBS also offers weekly balance alerts and gives customers the option to set minimum balance alerts. These help customers keep track of their balance and the likelihood of needing to use their AOD.⁵ As outlined previously, RBS has already made a substantive decision to auto-enrol the NW/RBS PCA book in Act Now alerts, reflecting our position that as a provider of overdrafts, we should look to assist and provide customers with the tools to enable them to manage their PCA in a way which helps them avoid UOD charges.

RBS would not, however, advocate AOD prompts as envisaged in this remedy. It believes that there is a risk that a requirement to send high volumes of mandatory AOD alerts telling customers when they have used their AOD facility would cause customer disengagement and could potentially threaten the success of this particular remedy. RBS considers that it would be more appropriate for this remedy to focus on providing AOD customers with the alert tools through which they can engage and manage their facility on their own terms. AOD products and UOD charges are fundamentally different in terms of legitimacy, and the urgency with which a customer needs to take action, and thus require different communication strategies.

The CMA should ensure that any eventual remedy is designed so that banks, such as RBS, that already offer significant value-add to their customers in the area of overdraft alerts are not required to undertake significant revision to existing features (in which the bank has already invested). Other banks may of course be required to consider how they would need to revise account functionality features to deliver these objectives.

1.2 Scope of remedy

RBS believes that a number of aspects of this remedy would need to be trialled in order to determine its exact parameters. RBS would be happy to assist the CMA in conducting trials and to provide further information about its experience of offering its Act Now alerts.

OFCOM have previously engaged with the industry on communication strategies and RBS would support engagement with them on the alert remedies and the cumulative impact of alerts on consumers.

Application to AOD

Considering that, as RBS believes, the CMA's focus should be to encourage customers to choose to set up an AOD facility, rather than rely on exposure to UOD charges, any call to

⁴ RBS response to the Statement of Issues dated 12 November 2014, page 11.

⁵ [confidential]

action for AOD customers should be focused on “nudging” customers to consider their options (i.e. consider arranging a facility in advance, rather than by default).

In line with RBS’s experience and strategy in relation to Act Now alerts, we see less value in alerting customers that they are about to enter AOD product usage, and consider that requiring such prompts is unnecessary and disproportionate. Given the large number of alerts envisaged by the CMA, including alerts for a customer using a credit product they have chosen may frustrate customers. Customers may take exception at being told to take action with regard to the AOD product when they have actively chosen to have this facility with their bank. For instance, customers would not expect to receive an alert every time they use their credit card. The industry has observed disengagement from land-line telephones over the past decade, as a direct result of overuse.

Instead of issuing alerts in relation to AOD usage, RBS would favour giving the customer the option to decide on the level and scope of the alert management tools. This would put the customer in control and ensure that the level of communication is set by them, which would reduce the risk of customer disengagement. RBS considers that the greater the control PCA providers offer their customers regarding overdraft alerts they receive (both with regard to AOD products and UOD charges), the more likely that engagement will increase because the customer determines what items would be most useful to them. RBS does, however, note that the greater the level of customisation and customer control, the greater the likely development cost and timeframe and this should be reflected in the final remedies package.

Alert content

In paragraph 56 of the SNPR, the CMA queries whether to include a “high charge” warning. RBS does not believe that this is helpful terminology as “high” is a relative term which does not take into account the level of charges customers may incur if their payment is declined. The fee from, say, their telecoms provider for the missed payment may be higher than the UOD fee incurred. “High” could also be construed by the customer as a sign that banks are overcharging them leading to a misconception of poor service. RBS believes that the wording should be left to banks to determine.

Available funds

RBS is supportive of the identification of available funds as being an area for improvement across the industry. However, RBS disagrees with the CMA’s proposed prohibition of display of available funds (i.e. to include any AOD limit). Available funds is, for many customers, key information as it provides factual information about the total funding available to the customer. RBS believes that there remains a place for this provided that the difference between available funds and the customer’s account balance is made clear. Having access to available funds information supports customers in managing unexpected financial needs. The absence of this would likely confuse customers. However, RBS is supportive of a remedy ensuring that this information is presented clearly alongside other linked information such as balance, as well as improving awareness and increasing prominence of definitions.

Auto-enrolment

RBS believes Act Now auto enrolment should be included as a minimum in this set of alerts, with trials undertaken to establish the most effective of the proposed alerts on

driving engagement. As previously indicated to the CMA, RBS would be happy to assist the CMA with the roll out of such trialling.

In terms of determining how take-up of the services could be best promoted (if customers are not auto-enrolled), RBS considers that it would be best to promote the opt-in elements of its services through the sales process and signposting through standard communications sent to customers when they use overdraft facilities.

Firms are already strongly incentivised to collect relevant customer contact information, either at the account opening stage or more generally, particularly since the growth of internet and mobile based banking. RBS does not believe that it is necessary to impose specific obligations on PCA providers to collect relevant customer contact information.

Delivery method

The medium of delivery will be critical to ensure effective implementation of this remedy and, therefore, RBS considers that the remedy should specify delivery channels. RBS believes text and email are the most useful for active engagement in a timely manner⁶ but it must be recognised that banks will never have a database of customers' mobile numbers which is 100% accurate. Furthermore, RBS considers that the timing of alerts should be limited to charging cycles and upon entering UOD usage. As noted above, RBS believes that trials would be worthwhile to determine optimum timing for receipt of an alert.

Length of alerts

In RBS's experience, the length of messages is key to consumer engagement and **[confidential]**⁷ The information shared with customers aims to be engaging, clear and informative, but providing all the information that a customer needs is too complex for a text. Therefore, in RBS's view, a text alert should be used as the signpost to point the customer to more detailed information such as charging information. Digital/mobile banking is a vital complementary service to ensure customers can access this further information. As outlined in previous responses, RBS has enhanced its websites to encourage comparison of borrowing options, calculation of overdraft costs and easy comparison of fees and charges.⁸

1.3 Cost / impact

RBS is broadly supportive of this remedy, however, it does consider that the remedy will almost certainly entail a significant programme of work and cost, even despite the fact that RBS is currently a leader in this area. RBS expects this work would include:

- standardising alerts across all PCA franchises, **[confidential]**;
- a full review of alerts with introduction of several new alerts on an opt-out basis, as well as the introduction of new functionality on optional alerts. While RBS currently offers alerts on UOD there are additional default alerts proposed by the CMA which would need to be developed;

⁶ Please also see the FCA paper "Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour" dated March 2015, which discusses the impact of text alerts and mobile banking apps. In particular, the report discusses how the strong impact of text alerts and mobile banking apps together shows the benefit of receiving timely information through automatic triggers, without having to actively acquire it.

⁷ RBS has shared its current suite of alerts with the CMA, Second RBS response to PCA overdraft information request dated 11 February 2016, page 5 and Annex 1. These vary in tone and direction depending on the reason for sending.

⁸ For example see RBS response to the Statement of Issues dated 12 November 2014, pages 4 and 9.

- [confidential]

[confidential]

2 Overdraft Remedy 2: measures to encourage PCA customers to make an informed choice on their overdraft options

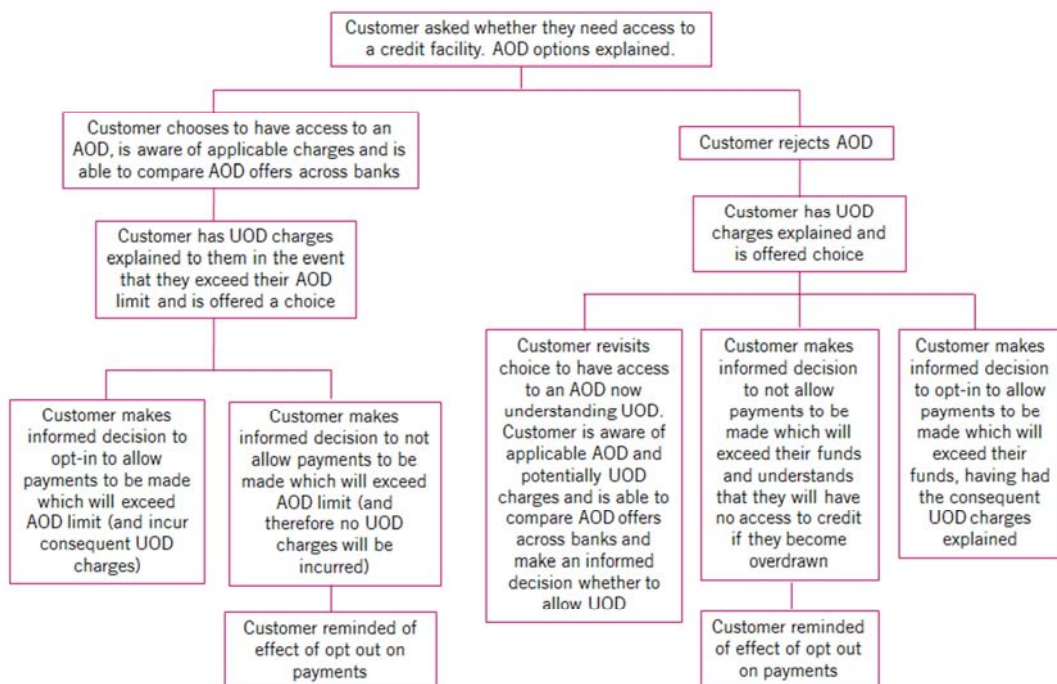
2.1 General comments

RBS is broadly supportive of this remedy, but as set out in Part A above, has fundamental concerns regarding the lack of focus on ensuring that customers understand the nuances of AOD facilities in comparison to UODs. Key to the success of this remedy will be to ensure that customers can make well informed decisions about their overdraft options generally, covering both AOD and UOD. The effect of Overdraft Remedy 2, if implemented correctly, should be to encourage customers to make an active choice as to whether to arrange a facility, or to rely on UOD. RBS considers that the CMA's proposal would benefit from an additional step to ensure this “nudge” to consider AOD.

2.2 Scope of remedy

RBS sees the pathway for engagement with new customers as set out in the below diagram. This includes the additional suggested focus on AOD.

RBS overdraft proposal for new to bank



Practical issues, particularly around opt-outs for certain types of transactions, will need to be considered. For example, the CMA's proposal that a customer can opt out of UOD charges for instant payments, but not direct debits, will be extremely complex to implement and maintain. It is also important to note that there are certain types of transactions that banks are not able to stop such as offline transactions, pay at the pump petrol station purchases, cheques below a certain value etc. These limitations are reflected in RBS's current Overdraft Control products and RBS believes that they would need to be considered by the CMA in any final remedy proposal.

RBS also has concerns regarding the ease with which customers will understand and remain aware of which transactions will be paid (and therefore incur UOD charges) and which will be refused. Instead, RBS would envisage that when a customer opts out of a UOD, the bank should be able to decline payment on all transactions (subject to the systems limitations outlined above).

2.3 Cost / impact

The estimated impact of this remedy is [confidential]. That said, RBS remains supportive of this remedy and its aim to educate consumers (and the expected relevant customer benefits which would arise from this) regarding the negative aspects of customer reliance on UOD.

As regards implementation of the remedy, RBS is concerned about the timescale for opt-out for the existing customer base that the CMA appears to be suggesting (as likely to fall in 2017). [confidential]. A longer time frame post development of the technical solution would allow more time for banks to contact existing customers leading to greater engagement regarding overdrafts and a higher proportion of customers determining whether to opt-out. In RBS's experience, more than one communication to customers is likely to generate better results than a single communication followed by default implementation. RBS also has particular concerns [confidential].

The CMA highlights that it does not wish customers to be adversely impacted by opting out and specifically mentions that it would be concerned if customers were moved to accounts where there is a loss of rewards, payment functionality (i.e. contactless) and an impact on fees. However, developing an opt-out across multiple accounts will impact development time and cost. RBS currently has an opt-out option on one specific PCA product (Select account). As such, customers wishing to opt-out of UOD currently have to change to a controlled current account type i.e. Platinum to a Select product. [confidential]. Based on RBS's experience a remedy with this flexibility would be faster to market than if customers were able to opt-out of any product. A more flexible approach would require more extensive technology development and added cost to develop.

3 Overdraft Remedy 3: suspension periods for unarranged overdrafts

3.1 General Comments

RBS is broadly supportive of this remedy, as evidenced by the Act Now alerts that RBS already offers. These notify customers of the available grace periods⁹ in which action is required to avoid “overdraft unpaid” and “over limit” charges. RBS currently uses a combination of grace periods and buffers to give customers flexibility in relation to payments. Therefore, Act Now alerts help customers to understand the impact of imminent transactions on their current balance and credit limit. The early warning provided by the Act Now alert gives the customer the majority of the day to take action to avoid using an unarranged facility and thus incurring a fee. In addition to the suspension period, RBS has a minimum buffer in place on all accounts such that “over limit” charges will not be incurred on balances under £10 in excess of the limit.

As demonstrated, RBS is very supportive of giving customers flexibility, however any extension of grace periods beyond intra-day would be very complex and costly for firms and may lead to complexity for consumers. Importantly, RBS would also question the desirability of moving beyond a same day alert since this may dilute the sense of urgency that is currently conveyed to the customer. This may lead to customer confusion as a result of increasing the range and variance in cut-off times, which could lead to a greater number of customers getting charged.

Accordingly, RBS would support a remedy that gives banks flexibility to offer customers grace periods with the overall goal of helping customers avoid incurring UOD charges, but without taking an overly prescriptive approach to the length of the grace periods or the precise mechanics by which banks implement grace periods.

As with Overdraft Remedy 1, the CMA should ensure that any eventual remedy is designed so that banks, such as RBS, that already offer significant value-add to their customers which already address the CMA’s concerns – here in relation to grace periods and buffers – are not required to undertake significant revision to existing features which they already offer customers.

3.2 Cost / impact

As explained in the response to the PCA overdraft information request,¹⁰ the complexity of an alert solution increases significantly as the “imminence” period extends (i.e. beyond intra-day). The move to any type of future day processing function would have a material impact on the complexity, volume and cost of daily payment processing and is expected to require significant systems investment to safely accommodate the additional data streaming capacity.¹¹

The grace period currently offered by RBS is as close to a full business day as possible: the Act Now alert is issued around 8am and “over-limit” charges reconciled after close of business. This gives customers the majority of the day to take action. The grace periods which RBS offer are driven by the constraints of internal and external payment processing systems, and thus there will be significant difficulty in changing such complex systems.

⁹ RBS adopts the CMA’s definition of grace period in paragraph 108 of the SNPR, namely, “periods during which customers may take action to avoid paid item charges and daily or interest charges”.

¹⁰ First RBS response to PCA overdraft information request dated 11 February 2016.

¹¹ Please see the first RBS response to PCA overdraft information request dated 11 February 2016, page 3.

4 Overdraft remedy 4: monthly maximum charge for using an unarranged overdraft

4.1 General Comments

As set out in Part A above, RBS questions whether a remedy mandating publication of an MMC is necessary in order to address the AEC. It also has significant concerns about this remedy because it could lead customers to consider price competition on UODs as a key comparator between banks. RBS considers that in the vast majority of cases, consumers will be better off choosing an alternative source of credit, such as an AOD, rather than choosing the “cheapest” UOD.

As highlighted in Section A, RBS is not against the underlying transparency premise of remedies 4 and 5 *per se*, but on the framing effects of these proposals in circumstances particularly where Overdraft Remedy 2 is UOD-centric. Overdraft remedies 4 and 5 have the potential to perpetuate a UOD-centric paradigm to the detriment of consumers. The price (i.e. the MMC) and non-price elements of banks’ UOD terms and conditions can (and should) be made clear to customers. However, this should take place in the context of banks competing for informed consumers on an overdraft package that consists primarily of an AOD product, where UOD charges are a fall-back should AOD limit be exceeded.

MMC

As to the MMC in the form of a price cap, RBS agrees with the CMA’s view that a regulated upper MMC limit would not drive good outcomes. Therefore, in the event that the CMA does choose to progress this remedy, RBS considers that option 1 (requiring PCA providers to specify the MMC, but without any constraint on the level of the MMC) is significantly preferable to an imposed price limit. RBS already caps its UOD daily fees but does not consider that encouraging active competition on such a cap with other banks is responsible behaviour.

RBS would also refer to the fact that the effect of a regulated cap imposed in the context of credit cards¹² created a *de facto* charge which was levied by all credit card companies. Far from stimulating competition on charges (which as explained above is not, in any event, a desirable outcome in relation to UOD), the overall effect on the market in that case was to eliminate any form of price competition on charges.

4.2 Scope of remedy

If the CMA is minded to proceed with an MMC, RBS considers that the charges that should be included are:

- Debit interest;
- Paid fee;
- Unpaid Fee;
- Daily Fee;
- Any related monthly Fee (pro-rata);

¹² 2006 Office of Fair Trading decision on the principles credit card issuers should follow in setting default charges in their standard contracts with consumers in order to meet the test of fairness set out in the Unfair Terms in Consumer Contracts Regulations 1999.

- Any fee specifically applied to negate unarranged charging i.e. annual fee add-on;
- Sweep fees; and
- Facility arrangement fees (where as a direct result of UOD).

RBS notes that footnote 32 to the SNPR appears to allow exclusion of interest charges that do not exceed a PCA's AOD interest rate in the calculation of the MMC. The MMC should be a true reflection of all charges resulting from being in UOD, including any debit interest incurred, irrespective of whether the rate is the same as the AOD product or not. RBS appreciates the difficulty in calculating this, however firm specific monitoring of average overdrawn balance could be a way of ensuring that customers could undertake like for like comparison of the true cost of being in the unarranged position. As noted above, there are significant differences in the credit risk profiles of UOD users compared to AOD users and, for this reason, it is appropriate that there is a price differential between AOD and UOD use. Any remedy which would tend to force an equalisation of price would be inappropriate and would tend to increase customer confusion as to the important differences between AOD and UOD as set out above.

In the event that the CMA decided to pursue the secondary option of a cap on the MMC, notwithstanding RBS's serious concerns around such a decision, RBS considers that the MMC cap should be provided per product (and not as an average across all products offered by a provider). This is because some accounts (e.g. Foundation / Basic Bank Accounts) do not attract UOD charges at all. Publicising an average MMC of say £150 on a Foundation Account would be incorrect and would mislead customers. In addition, there should be provision for banks to display the MMC for customers that have opted out of UODs as set out in Overdraft Remedy 2 (i.e. MMC with opt-out = £0).

Any MMC arising from entering a UOD position should be aligned with existing statement cycles to avoid confusion and allow use of existing bank systems to notify customers.

4.3 Cost / impact

Depending on the level of any regulated cap, [confidential].

5 Remedy 5: addition of overdraft KPIs

The CMA has suggested that as part of Remedy 5 (requiring PCA providers to disclose indicators of service quality), PCA providers may be required to publish KPIs relating to UODs. RBS has significant concerns regarding this development, as set out in Part A above. This treats UODs as a product where increased "sales" at lower prices would be a good outcome for customers, rather than recognising that UODs are only one feature of the PCA product and that for the vast majority of customers are not welfare-enhancing. Indeed, RBS considers the term "KPI" to be an unhelpful label in framing the issue. That is not to say that RBS opposes the idea of including certain non-price metrics on UOD that allow consumers to compare the overall overdraft offer of banks, provided that they do not convey a "competition on product" message.

If the CMA is minded to proceed with this remedy, RBS would encourage it to consider carefully its proposal to include firm net promoter scores ("**NPS**") as this will not be directly relevant for overdrafts, or a fair comparison across the varied customer segments i.e. near-prime versus prime. NPS for larger entities such as RBS, Sainsbury's, Tesco is likely to be affected by either "halo" or "reverse halo" effects from the wider business franchises – this does not necessarily translate into the PCA experience. RBS would welcome further work with the CMA and other relevant parties such as Defaqto to help define the best metrics on which to compare products. RBS also notes that the success of any KPI remedy depends on customer knowledge and awareness of the relevant KPIs. RBS would urge the CMA to focus the remedies package on addressing customer knowledge and awareness, which is likely to reduce the overall pool of customers who use UODs as customers become better able to assess their credit options.

6 NI Order

As more fully set out in RBS's previous submissions,¹³ RBS considers that significant market and regulatory developments have contributed to a different landscape for PCAs in Northern Ireland (and indeed the UK) than existed at the time that the Northern Ireland PCA Order (the "Order") was implemented, such that it would not be appropriate to extend the Order, or any part of it, to the rest of the UK. Nor would it be appropriate for the Order, or any part of it, to be retained in Northern Ireland alone alongside the broader package of remedies proposed by the CMA.

In 2007, the Competition Commission found that, for customers in Northern Ireland, the complexity of PCA charging structures and pricing made it difficult for customers to predict charges and interest and to make comparisons between banks. In particular, the *"lack of pre-notification makes it difficult for customers to take appropriate action to ensure that sufficient funds (or an appropriate overdraft facility) are available to pay for the charges, or to confirm that the charges are correct, prior to their being debited."*¹⁴ Article 6 of the Order was introduced as part of the attempt to remedy these issues.¹⁵

¹³ In particular, to Q24 of the Second RBS Response To Personal Current Accounts Overdraft Information Request dated 23 February 2016, and also Ulster Bank's responses dated 11 June 2015 and 18 September 2015 to the CMA's consultation on the Order.

¹⁴ Paragraph 4.122(d) of the Competition Commission's report *Personal current account banking services in Northern Ireland market investigation*.

¹⁵ Article 6 of the Order imposes a duty on banks in Northern Ireland to notify a customer before deducting overdraft charges and debit interest.

In the time that has elapsed since the introduction of the Order, RBS considers that there have been a number of developments across the UK (not just Northern Ireland) that have enhanced the tools available to customers to make them aware of their account balance, which in turn helps them to take action to avoid going overdrawn. Online and mobile banking are widely used, so customers have account information "at their fingertips". In addition, a number of banks already offer text alerts (such as RBS's Act Now alerts).

Indeed, the CMA acknowledges in paragraph 53 of the SNPR that with Overdraft Remedy 1 it is seeking to improve the measures already taken by some PCA providers, which includes RBS, (such as alert services and summaries) and make them more widespread. In RBS's view, such measures will supersede/duplicate some of the requirements of Article 6 which would therefore deem it unnecessary to retain or extend this provision across Great Britain. Instead a holistic UK wide approach advocated by Overdraft Remedy 1 would ensure important consistency for both customers and providers. This would also reflect and be consistent with more recent analysis seen indicating the preference customers have shown for the types of prompts and alerts which Overdraft Remedy 1 looks to build on.¹⁶

Furthermore, RBS favours a remedies package that is designed, at the outset, to be harmonised across the UK, [confidential].

7 Relationship with existing remedies package

At paragraphs 29 to 39 of the SNPR the CMA sets out high level comments regarding Remedies 1, 3, 5 and 7 of the original remedies package. RBS would welcome further detail from the CMA on the specific changes it envisages making to the remedies package, but in response to these preliminary comments has the following points.

Remedy 1

In relation to Remedy 1, (customer prompts to review their PCAs and consider a change), RBS would reiterate its comments made in response to the NPR,¹⁷ specifically that an excess of alerts or prompts may in fact lead to customer fatigue and fail to have the desired effect. Accordingly, it will be important to ensure that any prompt trigger is sufficiently infrequent and targeted such that customers are likely to respond. The exact parameters of Overdraft Remedy 1 therefore need to be carefully considered and trialled to ensure they do not exacerbate such fatigue. In principle however, RBS agrees that there is merit in ensuring the Remedy 1 prompts include encouraging customers to consider their alternatives to UOD, including whether an AOD may be more appropriate (ensuring that such prompts are integrated seamlessly with Remedy 1 to ensure there is no unnecessary duplication).

Remedy 5

In relation to Remedy 5 (comparisons based on service quality), RBS agrees that it would be appropriate to incorporate indicators relating to overdrafts. However, as set out above, RBS has certain reservations regarding comparison of UOD to the extent this contributes

¹⁶ As shown in the FCA's occasional paper No.10 "Message received? The impact of annual statements, text alerts and mobile apps on consumer banking behaviour" where the FCA broadly outlined that their findings suggest that consumers exert more control over their accounts after signing up to the mobile banking app and text alerts. The increased control is also evidenced by lower average current account balances while reducing the amount of unarranged overdraft charges incurred.

¹⁷ Please see Annex 2 of the RBS response to the NPR dated 20 November 2015, page 4.

to misperception of UOD as just another credit product with references to “KPIs”. Instead, RBS considers it is more appropriate to encourage competition on KPIs on AOD facility terms and conditions, with UOD as an alternative for those customers that choose it via opt-in, or exceed AOD limits (in which case, if framed correctly, data as to MMC and complaints statistics are relevant to them).

Remedy 7

In relation to Remedy 7 (making it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider – made more widely accessible on comparison sites), RBS would reiterate its position in the response to the NPR. Namely, RBS supports the implementation of a remedy requiring providers to create a tool which provides customers with an indicative quote in relation to the cost of overdraft facilities, however, RBS considers that there is a risk of customers relying on the quotes and feeling disappointed if the final offer is not in line with the original quote.