

Briefing Document



CMA: Retail banking market investigation: Provisional decision on remedies

Comments from StepChange Debt Charity

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Introduction and summary

StepChange Debt Charity welcomes this opportunity to respond to the provisional decision on remedies as part of the CMA Retail banking market investigation.

StepChange Debt Charity is the largest specialist debt charity working across the UK. In 2015 over 500,000 people contacted our telephone helpline or on-line debt remedy tool for support and advice about problem debt. So we have significant experience in understanding the problems faced by financially vulnerable consumers.

We are responding to the proposed remedies regarding overdrafts. Overdrafts are a significant part of the consumer credit debt problems that StepChange Debt Charity clients face. Figures from 2015 show that:

- Over half (55.1%) of people seeking advice from StepChange Debt Charity had one or more overdraft debts.
- The average overdraft debt of our clients was just over £1,725.

We are concerned that the proposed remedies do not go far enough for the millions of overdraft users who are experiencing financial difficulties. Our research indicates that many households on tight budgets become locked in a cycle of using credit, including overdrafts, to keep up with essential expenses. In total, 6.5 million people used credit to cope after an income shock in the last year, and they were twenty times more likely to fall into severe problem debt than those who were able to adjust to their finances without credit.¹ A high proportion of people (40%) who relied on overdrafts as part of their coping strategy fell into problem debt.²

We welcome that the CMA has proposed additional remedies focused on tackling particularly unarranged overdraft users. However, we are concerned that these measures will not sufficiently tackle the consumer detriment caused by this market. We urge the CMA to consider strengthening their overdraft remedies in the final package.

In summary:

- We welcome the requirement for providers to auto-enrol all customers' into overdraft alerts and provide a grace period to enable them to, where possible, avoid or reduce charges. However, we note that this will not be possible for many heavy overdraft users as many will not have ready access to funds to avoid charges.
- We welcome the CMA proposal to involve the Financial Conduct Authority in the remedies package. We believe that the FCA should undertake work to set the level of the monthly maximum charge (MMC) as we do not believe PCA providers setting their own MMC will be effective.

¹ StepChange (2015) Navigating the New Normal

² Ibid

- We would urge the FCA to undertake further work to encourage providers to ensure there is more proactive support for persistent heavy overdraft users.

Overdraft alerts and grace period

We support the CMA's aim to increase customers' awareness of their overdraft usage and help them take more control of it. We welcome the CMA proposal to require all UK personal current account (PCA) providers to automatically enrol their customers into unarranged overdraft alerts to inform customers in a timely basis that they are at risk of exceeding their arranged overdraft limit that day. We also welcome that CMA will also be requiring all PCA providers to implement a grace period so that customers are given sufficient time to take action avoid or reduce charges.

We agree that the alert should increase customers' awareness of their overdraft usage and the grace period should help to give them more control of it by enabling them, where possible, to avoid charges. Some banks are already providing various forms of overdraft alerts to their customers. We note the CMA citing findings from the FCA that that signing up to text alerts alongside using mobile banking reduced the monthly unarranged overdraft charges incurred by customers by 24% on average (around £11 each year per customer). We support the need to require overdraft alerts and a grace period across all PCA providers as the CMA found only a few providers currently choose to auto enrol all customers into alerts. Mandating overdraft alerts and a grace period will be useful remedies to ensure all customers are able to expect this as a basic service from their provider.

However, although overdraft alerts and a grace period will mean unarranged overdraft users will be better informed and some will potentially be more in control of their usage, we are concerned that these remedies may not benefit all unarranged overdraft users. For some people, particularly the more financially vulnerable on tight household budgets, alerts and grace periods may not be particularly useful as they will not be able to take any action to avoid charges. These consumers, likely to be heavy overdraft users, would struggle to access the funds to avoid charges after they have been alerted that they are near their arranged overdraft limit; particularly where they are locked into a monthly cycle of overdraft use to make ends meet. Moreover, the grace period (likely to be one calendar day) will not give people who do not have the funds time to find them. Our clients are often aware of the cost of unarranged overdrafts but can struggle to avoid them when they are at their arranged overdraft limit and expenses on essentials are unavoidable. Our clients have told us about using credit/overdrafts in a crisis:

When you have a baby at home with nothing to give them to eat next things is to use your credit card or your overdraft.

If I needed it [to borrow money], waiting a week would not have been an option. How would I pay for travel to get to work, or food to eat, during that week?

Therefore the CMA need to ensure their remedies targeted particularly at heavy overdraft users are strengthened to ensure those who find charges unavoidable are not regularly paying high charges.

Monthly maximum charge (MMC):

We welcome the principle of the MMC and that the CMA has recommended that the FCA undertakes work to assess the ongoing effectiveness of the MMC. However, we have concerns about the CMA proposal for the level of the MMC to be set by each PCA provider themselves. We believe the MMC should be set with reference to an independent benchmark in order to effect any real change. We would suggest that the FCA would be best placed to set the level of the MMC.

We believe the MMC should be set with reference to an independent benchmark for these reasons:

- Firstly, we believe getting the PCA providers to set the level of the MMC themselves will have very little impact as all the major banks already operate a maximum limit on unarranged overdraft charges. For example, the 'big four' banks (that make up 77% of the PCA market) all set a monthly cap: Barclays at £35, RBS at £90, HSBC cap at £80 and Lloyds at £86. All these banks currently provide these details on their websites. It is difficult to see what significant impact having providers themselves setting the MMC limit when those banks which make up the vast majority of the market have already set a monthly limit.
- Secondly, the variation of the current caps set by different PCA providers does not suggest a clear objective appropriate level. The current daily charges can be very high and disproportionate to the amount owed with, in many cases, a customer only having to go a few pounds overdrawn to incur high charges. The charges can also be in excess of payday loan charges particularly now these are capped. Recent research has found that well-informed consumers have worked out that payday loans are generally a cheaper alternative over a few days than an overdraft.³ Other older research found that fear of and dissatisfaction with unarranged overdraft charges can lead to people turning to high cost credit like payday loans.⁴ The current situation where providers have set their own caps on monthly unarranged overdraft charges has not done enough to prevent the consumer detriment caused by these high fees penalising financially vulnerable customers.
- Thirdly, given the constraints and difficulties faced by financially vulnerable consumers, it is not clear how consumers facing high overdraft charges will exert any real competitive pressure on banks. Consumers pay £1.2 billion in unauthorised overdraft fees each year suggesting little incentive on banks to lower charges in the absence of some external pressure. Therefore, there needs to be an independent regulator to set a fair and proportionate MMC level.

Finally, we propose that the FCA is best placed to provide the independent scrutiny to set the MMC level. The FCA undertook extensive consumer research and market analysis to establish the high cost short-term credit price cap (from which unauthorised overdrafts were excluded). This was done with the aim of balancing preventing further consumer detriment with ensuring the market was able to continue to responsibly provide loans. We note the CMA's concern that a centrally regulated MMC could lead to a restriction on unarranged overdrafts for some customers. However, we would suggest the FCA have proven to be able to balance these competing priorities. Moreover, we would suggest in some cases

³ Rowlingson, K., Appleyard, L. and Gardner, J. Is there (still) a problem with payday lending? CHASM Briefing Paper 6-2015, University of Birmingham.

⁴ Consumer Focus (2010) Keeping the plates spinning Perceptions of payday loans in Great Britain

more restricted access to unarranged overdrafts for some heavy unarranged overdraft users, who are regularly going over their overdraft limits, is not necessarily a negative as banks should be looking at other options to support these particularly financially vulnerable customers (see section below).

In summary, we are very supportive of the principle of a MMC however, there needs to be an independent assessment of the level it should be set at. The CMA proposal to allow PCA providers to set their own MMC looks likely to be ineffective at reducing detriment for financially vulnerable customers.

What more the FCA could do

The CMA has recommended that the FCA identifies, researches, tests and, where appropriate, puts in place further measures to maximise customer engagement and help customers take control of their overdraft usage and avoid unnecessary charges.

We believe there is more that could be done for heavy overdraft users, those who are persistently going into their arranged overdraft or regularly facing unarranged overdraft charges. Overdrafts can lead to cycles of debt as repayments can take up large proportions of next month's income leading to a constant monthly cycle of 'dipping in and out the red'. Having a mandated MMC would go some way to reducing the amount of charges heavy unarranged overdraft users face. However, PCA providers could go further in identifying where people are struggling with both their unarranged and arranged overdrafts and provide support earlier in the debt cycle.

The CMA should ask the FCA to look into what providers can do to intervene to support heavy overdraft users (both arranged and unarranged). The FCA's credit card market study interim report included proposals for earlier forbearance; suggesting firms should identify and address potentially problematic debt (e.g. persistent debt) sooner and monitor signs where consumers are struggling to repay. The FCA proposed exploring options to give people better ways to pay down debts, and to provide lower cost alternative credit to those who appear to be building up longer term problem debt. We would suggest that similar work could be undertaken to tackle persistent debt with heavy overdraft users. For example, banks could identify where customers are struggling with their overdraft and:

- Separate the debt from the transactional banking facilities;
- Offer an affordable and sustainable way to pay down the debt, at low or zero interest where appropriate;
- Offer an appropriate transactional banking facility such as a fee-free basic bank account (with no overdraft facility).

The FCA have an important role to play to ensure that the CMA's proposals are taken further and greater support is provided to heavy overdraft users who are more financially vulnerable and at risk of persistent, problem debt.