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Retail banking market investigation: summary of provisional decisions on remedies

We are writing to you on behalf of Christians Against Poverty (CAP) to provide feedback on the provisional decisions in the retail banking market investigation.

As a national debt counselling charity, CAP has 20 years of experience helping consumers who are in financial difficulty. We hope that our experience of how these consumers use personal current accounts (PCA), and in particular overdrafts, will be helpful to inform your decisions on the final remedies. We apologise that this feedback comes after 7 June, but we hope that our comments will still be of use.

Please note that our comments relate to the PCA market only, as our experience relates to retail banking services for personal customers.

CAP welcomes the CMA's investigation into the PCA market and agrees that there are problems with consumer engagement and response to price and service differences. The strong focus on overdraft users is particularly welcome. It is clear that these consumers have the most to gain from switching or amending their usage to reduce the financial cost of using an overdraft, especially if unarranged.

We are also pleased that the investigation will address wider issues related to the free-if-in-credit-model (FIIC), rather than abolishing the model itself. Many of the clients we work with, and undoubtedly many other consumers, would find it unaffordable to pay even a small fee for a PCA. In many cases they are already struggling to afford food and energy bills, and to require them to pay even a small amount for an account could increase the chance of financial exclusion for the poorest. It is essential that these remedies serve to reduce financial exclusion and do not push consumers in financial hardship further from retail banking services that meet their needs.

In light of this, it needs to be acknowledged that as well as the problems raised by this investigation, some consumers face other barriers, outside of the market, which limit their ability to act as they should in a competitive market. Four in ten of our clients report that they used their overdraft to try to keep up with other debts. Over the last 20 years we have observed the variety of difficult personal circumstances, such as ill-health and bereavement, which interact with the pressure debt puts on clients to inhibit their capacity to manage their finances and make good financial decisions. In addition, low financial capability or literacy also makes understanding the best product for them, how to avoid excess charges and taking action to switch providers, challenging for some consumers. The limitation this puts on the effectiveness of the remedies needs to be recognised and consideration given to how to safeguard consumers experiencing hardship.

Overall we accept that the provisional remedies are all positive steps and have good intentions, but we would question their effectiveness at addressing the problems in the PCA market and their cost-effectiveness. There is a general lack of trust of financial service providers amongst consumers. Without this trust being more extensively rebuilt, in our opinion, it is unlikely to result in consumers using and trusting the information and services provided by these remedies. That said, the proposed PCA overdraft measures in particular stand out as advantageous, but consideration should be given to how these will work in practice. Further comment is provided below.

We hope that this feedback will help to inform your decisions on the final remedies and help them to be implemented in the best way for consumers.

Yours sincerely,

Dawn Stobart
Director of External Affairs

David Maxfield
Head of Policy and Compliance

Further comments on the provisional remedy package:

Foundation measures

The API banking standard is an interesting proposal. There will be significant development costs involved to set up an API banking standard, and we would be concerned that its usefulness will be limited by consumers' reluctance to give permission for their data to be used in this way. There is value in tailored comparisons, but we do not think that CAP's clients will engage with this service. Therefore, the costs should be balanced carefully with the realistic potential benefits.

The other foundation measures are welcome, particularly that service quality is recognised as an important factor in choosing the best provider. Customer prompts have the potential to drive action, but we would suspect that where consumers are happy with the service they are receiving, perhaps appropriately, these prompts will do little to encourage them to switch. On the other hand, those who are unhappy with the service they are receiving will likely have already considered switching, and the effectiveness of these prompts will depend on how they are communicated and the confidence the consumer has in whether another provider will provide a significantly better service that justifies switching. We are concerned that providers will avoid communicating prompts in a direct and action-driving way. The FCA should consider how to best ensure that these prompts are effective and communicated well.

Current account switching measures

CAP commends the idea behind the current account switch service (CASS). The switch speed, accountability, redirection and protection offered as part of the service are all excellent features that promote consumers' interests. We support consumers being able to switch easily to an account that best suits their needs, and CASS has undoubtedly benefited consumers by improving the switching process.

We agree that a longer redirection period and potential for account number portability (ANP) in the future would be advantageous. However, we feel that CASS has been widely publicised, for example through television advertising, and therefore there will be other reasons aside from customer awareness of CASS that have kept switching rates low.

In addition, from an operational perspective, the actual consumer experience of the redirection service has not been smooth for consumers with outstanding overdraft debt. This needs to be rectified fully if overdraft users are to benefit from CASS. More details are provided below.

PCA overdraft measures

CAP strongly supports the proposal to alert consumers when they begin using their overdraft and complementing this with a grace period. We also broadly support the introduction of a monthly maximum charge (MMC). These remedies would offer protection to customers and a window to take control of their finances to avoid excess charges.

Monthly maximum charge (MMC)

If published and easily comparable, a MMC could also serve as an easily understood reference point for comparing overdraft facilities. This visibility could help consumers understand the cost of overdrafts compared to other credit products and choose the best product for them, including encouraging consumers to borrow from mainstream lenders rather than sources of high-cost short-term credit (HCST).

While on a whole CAP supports these remedies, we do have reservations about whether providers will be incentivised to block payments rather than letting accounts into unarranged overdrafts. For some consumers these missed payments could have more severe financial implications than incurring a charge.

In addition, for any MMC to stop financial hardship escalating it needs to be set at an appropriate level. As the amount charged in interest depends on the amount outstanding, if the MMC is set using a monetary value, our concern is that this would be set at such a high level to accommodate large overdraft balances that it would be ineffective at offering protection to consumers with smaller overdrafts. We would encourage MMCs to be set along the same lines as the cap on HCST credit products, although we acknowledge that a monetary figure would make comparisons of overdraft products easier for consumers.

Experience of overdraft users and CASS

As stated in the summary of provisional decisions, overdraft users have the most to gain from switching and therefore we feel it is essential that consumers in financial difficulty are not excluded from the benefits of CASS and are easily able to make repayments to any outstanding debts once they have switched.

Since its introduction, we have found that where clients have used CASS and had an outstanding overdraft on their old current account, the Bacs payments CAP has made towards the outstanding overdraft have been automatically redirected to the client's new bank account. This has caused problems whereby CAP has been unable to make repayments to these debts as part of the debt management plans CAP has negotiated for the client. Most banks affected by this problem have been able to provide a workaround for CAP to make payments on behalf of our clients either by cheque or to an suspense account, but there are a couple where this problem has still not be rectified two years on.