

Rachel Reeves MP
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From: Alasdair Smith
Inquiry Chair, Retail
Banking Market
Investigation

By email only
cc. Sarah McKenzie, FCA

10 June 2016

Dear Ms Reeves

Retail Banking Market Investigation

Thank you for your letter of 25 May. It is important for our inquiry to hear a wide range of views on our Provisional Decision on Remedies (PDR).

The FCA will no doubt respond to you separately. In the meantime, I thought it would be helpful if I, as chair of the CMA Retail Banking investigation, also respond on some of the points you raise. I have sent a copy of this letter to the FCA.

I would like to emphasise that we share your concerns about the detriment experienced by unarranged overdraft users and agree that those in financial hardship who are most in need should be protected. It is critical that banks behave responsibly and that customers in vulnerable circumstances (a number of whom may be heavy overdraft users) are treated appropriately for example through the waiver of charges and/or implementation of reasonable repayment programmes and debt support where necessary. Regulations exist to hold banks to these expectations – in particular the FCA Consumer Credit regime, and major banks voluntarily also subscribe to an industry Lending Code.

We have put forward our proposed remedies within the context of these wider regulatory developments. Our proposed monthly maximum charge (MMC) is but one element of our proposed package of remedies directed at overdraft users. It is by increasing transparency in banks charges and crucially by changing customer engagement and enabling better usage of unarranged overdraft facilities that we can

best protect customers. In particular, we are proposing to require banks to alert customers of their overdraft use and inform them of their grace periods which will allow customers to reduce their overdraft usage and charges. Further our proposed MMC will limit the total monthly unarranged overdraft charges that customers will pay. These overdraft-specific remedies supplement other measures aimed at increasing customer engagement and making switching easier. These include our proposals to require banks to develop open application program interfaces (APIs) which will not only help customers to more easily identify the current accounts that are best suited to their specific circumstances (including their patterns of overdraft use) but will stimulate competition and enable the development of alternative products to overdraft borrowing.

I understand your criticism that we are not proposing to set the level of the MMC or to adopt the proposal by Which? to equalise arranged and unarranged overdraft fees. We have set out in our provisional decision on remedies (see paragraphs 5.173 to 5.185) the reasons why we are not minded to impose a capped MMC or broader price controls such as that proposed by Which?.

Subject to the ongoing consultation, our view is that our remedy proposals will achieve a clear step change in increasing transparency, and comparability, reducing unarranged overdraft usage and improving best practice across the market and will impose a much more significant constraint on unarranged overdraft fees than is currently applied. We believe that requiring banks to publicly and in a transparent way account for their charges without potentially reducing the availability of credit is the appropriate way forward. Such an approach also reflects our belief that open APIs will have a significant impact on competition in retail banking including creating new opportunities for consumer lending that could substitute for overdrafts. Such market developments, alongside our provisional remedies aimed at stimulating competition, will improve the outcomes for customers without the need for overly intrusive regulatory intervention.

We are clearly both of the same view that unarranged overdraft customers face particular issues that require remedying. I believe that our proposed package of remedies, including those not specifically targeted at overdraft users, will be effective in addressing these concerns and will improve outcomes for all customers including unarranged overdraft users. We are also fully supportive of the FCA's work to protect vulnerable customers and our proposed recommendation to the FCA to undertake work to assess the ongoing effectiveness of the MMC will ensure that the FCA has the ability to take whatever action it considers appropriate in this area following the end of this investigation.

We will continue to refine our package of remedies in light of responses in the remaining months of the investigation and I look forward to discussing our proposals at the Treasury Select Committee on 5 July.

Yours sincerely

Alasdair Smith
Inquiry Chair