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Retail banking market investigation: Draft order for consultation

I am writing to you on behalf of Christians Against Poverty (CAP) to provide feedback on the draft orders put out for consultation on 23 November 2016 as part of 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 order. Please note that our comments relate to the PCA market only, as our experience is of retail banking services for personal customers.

General comments

The CMA's investigation into the PCA market has shone a light on relevant and important issues affecting PCA customers. We broadly welcome the remedies set out in the draft order, but urge for the resources put into these to be kept proportionate to the consumer gains. For instance, while the service quality and prompts remedy are welcome to correct market failure and consumer inaction, for a large part there is minimal benefit to consumers switching PCA when not using the overdraft facility, and therefore remedies should be targeted to those that stand to gain most.

As a result, the strong focus of many of the remedies 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.

As we identified in our response to the final report, some consumers face barriers outside of the market, which limit their ability to act as they should in a competitive market. Over the last 20 years we have observed a variety of difficult personal circumstances, such as ill-health and bereavement, which interact with the pressure debt puts on clients and inhibit their capacity to manage their finances and make good financial decisions. Four in ten of our clients report that they used their overdraft to try to keep up with other debts. In addition, low financial capability or literacy can also make understanding the best product for an individual challenging for some, such as how to avoid excess charges and taking action to switch providers. As a result, we particularly want to commend the overdraft alert and Maximum Monthly Charge remedies for introducing safeguards to protect consumers in vulnerable situations and making it easier for them to take actions to minimise the determent they face.

Below we have provided further comments on specific parts of the order.

Part 3: Service quality remedy

We welcome the obligation to publish service quality indicators to address the lack of consumer responsiveness to service differences. Consumers are unlikely to switch or seek information about other providers if they are happy with the service they are receiving, and while monetary incentives have been used heavily to incite switching this does not do enough to mitigate some consumers' concerns about a lower quality service. The information provided will be helpful for consumers to benchmark the service they are receiving and make informed decisions based on their price and service quality preferences.

The requirements around the information that needs to be provided, its prominence and presentation will make comparison simple and easy to understand. We particularly support the inclusion of the top five Brands in each category, with their logos, which means consumers do not have to search for the comparison themselves. This also provides important context which will incite consumers to take actions that their own providers score alone would not. The only amendment we would suggest to the example provided is that it would make intuitive sense for the overall service quality score to take more prominence then the other three measures. This would help those would find it difficult to take in all four measures to understand what the key take away is.

Our only concerns around this remedy is ensuring that the costs remain proportionate and whether providers will display the information with enough prominence for the remedy to have the desired effect. Inevitably as corporate organisations, and for the most part unavoidably, any excessive costs from the service quality remedy will be passed onto consumers. Therefore, it is important that the cost is proportionate to the consumer benefit it brings. Secondly, we would also encourage the CMA to consider how compliance with the remedy in terms of prominence of display will be monitored, especially in branch. To maximise the impact of the remedy, service quality should be available in a variety of channels. While there has been provision for this in the order, it could go further to ensure existing customers who do not have Internet access have access to the information in a durable format that they can take away and digest away form the branch to inform their decision.

Part 5: Current account switching package not provided in BACS undertakings

We support the provision of transaction histories at the point of account closure and agree that this should be on an opt-out basis. We also agree that providing this digitally is desirable and most practical for the majority. However, transaction histories should also be available in print if requested. 28% of those CAP helps do not have Internet access, with 20% not even able to access public Internet sources. Those digitally excluded should not be disadvantaged in benefiting from this remedy.

Part 6: Overdraft alert remedy

We highly commend the overdraft alert remedy, especially the inclusion of communicating actions that can be taken to limit charges or avoid further charges. We can see this remedy successfully driving the desired actions from consumers. However, where joint accounts are concerned it should be a requirement to send prompts to both account holders. In CAP's experience it is fairly common for one account holder to have hidden the extent of the financial difficulty from the other. Where it concerns charges and debt that both are liable for, communication should be sent to both account holders to encourage them to take action and seek help before financial crisis.

Furthermore, it is generally considered good customer service to offer a range of communication methods. While text alerts will work best for the vast majority and drive the quickest response, alternative communication methods should also be available for those for whom text would be unsuitable to ensure the widest consumer coverage.

Part 7: Monthly Maximum Charge (MMC) remedy

From our work helping those in financial difficulty, we know how valuable a MMC will be in stopping overdraft debts escalating out of control. However, we want to again state our concern that as providers will be able to set their own MMC, we will not see them set at sufficiently low level to offer enough protection to consumers. This variation in MMCs across the market will also create difficulty for consumers comparing products and monitoring where the MMC has been breached. In comparison, the price cap on high-cost short-term lending is very clear, that the total cost of credit cannot exceed more than 100% of the capital. We strongly urge the CMA and FCA to consider setting an industry-wide cap on MMC or at least setting a clear expectation of the maximum MMC they would deem to be appropriate.

We hope that this feedback will help to inform your decisions on the final remedies and aid implemented in the best way for consumers. Please do not hesitate to contact us to discuss anything further.

Yours sincerely,

Dawn Stobart
Director of External Affairs