



Moneyfacts Group Response to

Consultation:
personal current accounts and banking
services to small and medium-sized
enterprises

Provisional decision on market investigation reference

Dated 16.9.2014

Moneyfacts Group Response to

Consultation: personal current accounts and banking services to small and medium-sized enterprises

Provisional decision on market investigation reference

Dated 16.9.2014

Given the nature of Moneyfacts Group business, this submission will concentrate on changes seen within the market and their effect on products, with a particular focus on the demand side issues and account operation. With regards to the regulation for authorising new banks, although the changes noted in the report are seen as positive, these factors are outside our submission. Finally, this report will concentrate on the PCA market with some reference to SME banking.

'Do you consider that the CMA's analysis of the suspected features of concern in the market for PCAs is correct?'

Moneyfacts Group (MFG) agrees that the lack of movement in the market despite low customer satisfaction is of concern and it is therefore correct for the CMA to review this area. MFG also considers that enabling new entrants to grow successfully could be a major motivator for the improvement of products, which in turn could help to dispel consumer apathy.

'Do you consider that the CMA's provisional analysis with respect to the exercise of its discretion to refer to the PCA market is correct?'

MFG agrees it is time for the CMA to exercise its discretion as attempts and timeframes for the market to make the necessary changes itself have resulted in little change. A current lack of direction may be adding to consumer uncertainty and a consumer's belief that there is little difference between one current account and another indicates that transparency measures, such as charging structures, are having minimal effect. No UILs were submitted for PCAs.

'Do you consider that a potential solution to any competition concerns identified may need to consider alterations to the structure of the markets in addition to (or in place of) remedies focused on increasing customer engagement?'

This is, as yet, uncertain. For instance, results of the recently divested banking brands are not yet complete. They are all fighting for market share but data reveals that much of the switching is between the divorcing banks and there is little evidence at the time of writing that supports significant change in the overdraft market. To date, it looks as though we are in line for a number of separately named institutions still showing legacy and therefore similar products. Until we see movement in the form of transparency and the perceived need by consumers for branch networks are addressed, it seems unlikely that these new separate brands will offer consumers any change.

Oddly, there seems to be a lack of competitiveness from established brands to attract new customers. Unfortunately, changes to product structures (predominantly related to overdrafts) do not always lead to financial improvements for consumers. This may be a significant reason for the low switching rates both before and even after CASS. More understanding is required of why consumers want branches, how they use them and when and what for. The answers to these questions may result in more individual solutions.

The expansion of new entrants into the current account market has produced a number of new and competitive products. However, innovation can also cause perplexity, especially in an industry which already markets varied and confusing (for many) charging structures. This confusion should be seen as contributing factor.

Transparency initiatives, such as those for unauthorised overdrafts, have helped, but were limited and based on set and sometimes wordy scenarios. The focus on unauthorised overdrafts seems to have been at the expense of authorised overdrafts and credit interest, viewing them incorrectly as a separate product rather than a feature of a product. This can only serve to confuse the consumer, making it harder to gauge the positive features of an account. The scenario below will demonstrate why authorised charges are equally important:

Clydesdale Bank, which shows the highest monthly cost for an unauthorised overdraft in figure 2.5 of the PCA market study update, actually offers one of the lowest authorised overdrafts charges overall for a standard free bank account. Meanwhile, at the other end of the scale, Halifax charges over seven times more with the difference between these two charges being £2.03 per month and £15.00 (when calculated on a £500 overdraft for 15 days).

Therefore, scenarios shown in isolation will not provide the consumer with enough information to make a choice on an overall product, even if being in debit was their focus.

The report also makes reference to changes in some charging structures being made "to reduce the number of customer complaints and reduce regulatory risk". It would therefore be fair to say that the movement towards new 'transparent' products has not always been motivated by a better deal for the customer or the need to compete.

In a market where rates would traditionally fluctuate by small amounts, an increase of 5% on an overdraft rate would seem very significant and be sure to attract negative media attention. However, the movement from charging monthly percentage rates to daily fees is having a much greater impact but the additional cost is lost in the surrounding confusion.

Recently, a provider changed from a rate to a daily fee. On a £100 overdraft for 15 days the amount the consumer would have to pay rose from 79p a month to £11.25. This is the equivalent of a rise from 19.3% EAR to 273.8% EAR. If such a move had been seen in other markets, this would be considered unacceptable. However, this provider is not alone and has followed the pattern of transparency led by other institutions. While a daily fee is easier for the consumer to calculate, when coupled with the desire for competition to make products better for the consumer, is it really a move in the right direction? Consumers can now pay much more for the same service (which brings into question whether the costs are representative). What is more, consumers are now unable to easily compare this new charging structure with the original and which the majority of the market still operates.

Providing an annual statement is a positive move. However, one of the problems with overdrafts is that for many, usage is erratic and two years may not be the same or even similar. Bearing this in mind, one year's use of an overdraft may not be a reliable indicator of what will happen the following year. The exception is that any rise in charging structures could be a fairly useful guide. But, in the case of the consumers moving from rates one year to fees the next, it's likely they would find limited use from their annual statement.

Buffer facilities from some accounts have been withdrawn and while this could be considered a backwards step, the size of the buffer was often small. It could be argued that buffers added another layer of confusion and made comparison of products harder. In addition, the differentiation between buffers and small 0% overdrafts was often not clear.

There has been a significant increase in the use of text alerts and mobile banking but, as noted, the changes have been made to make unauthorised overdrafts cheaper and authorised more expensive. Therefore, any initiative to warn customers that they may face unauthorised charges may have indirectly ensured that the same customer pays more in authorised overdraft fees. While this may have evened out some of the costs, it may not have benefited the consumer as there has been such a small drop in reported overdraft revenue.

While the splitting of brands has had some effect, this has been limited. TSB launched its account with credit interest, but the overdraft charging structure remains essentially the same as other comparable Lloyds' products, showing a lack of appetite for differentiation in this market. The lead in overdraft charges comes from new players such as Tesco Bank and M&S Bank, which do not have the benefit of the existing branch structure that TSB enjoys.

The Payment Accounts Directive has outlined that the standard charge information with standardised wording should be available to all customers, but we would argue that this should also include more features of the account.

Current accounts work as a multi-functional product and information about that product should cover all areas. Information about credit interest and authorised and unauthorised overdrafts in separate sections may reduce the confusion with the account fee (with regard to a range or benefits, or the more recent 'control' type offsetting fee). In addition, the information has to be comparable. The present structure of two summary-type boxes showing the same terminology for an arranged fee and a daily fee of £1 max 20 charges per month, compared with 19.99% EAR, will still not help a borrower to make an informed decision.

- The market appears to be moving away from 'excessive' charges such as those applied to paid and unpaid fees. If they were to continue, they may be better represented in addition to any APR in a similar way as currently used to inform credit card holders of late payment charges or exceeding a spending limit.
- These simple changes would also enable consumers to understand that while an unauthorised overdraft is more expensive, the authorised is cheaper or vice versa, and would allow them to consider the product as a whole or as separate entities, which they will be able to do based on their knowledge of their own spending habits.
- Bringing overdraft borrowing in line with other lending products may make it easier for consumers to compare. Personal loans show an APR (the rate including the fee payable to 'get' that product) and this has also been extended to payday loans even though the market argued that they were irrelevant and preferred a daily cost in pounds.
- APRs are shown on credit cards as a rate plus any fee to hold the card on a set balance (a balance and term for overdrafts could be agreed with the providers). Penalty fees sit outside of these and tend to be in a simple format of one error equals one fee, two equals two, which would fulfil the need for transparency.
- Further investigation could also be considered around the regulation and agreement of the size of penalty fees (as in the case of penalty fees on credit cards, where the majority of credit card providers now conform to the standardised £12, or loans where early repayment charges are based on a set calculation).
- Summary boxes seem to have worked well on credit cards, so there is an argument that they would work equally well on overdrafts. Current accounts are viewed as long-term products, despite the ease of switching, so long-term costs (overdraft APRs, account fees, penalty fees) should be shown alongside the introductory offers.
- The report notes that when choosing a new account, one of the deciding features, after branches and opening hours, is credit interest, not overdraft charges. This suggests consumers are moving on indicators they can easily compare, as the majority of providers show a simple AER (with the exception of Halifax). If credit interest was communicated as 20p a day capped at 20 days, or 2p a day with a £4.00 monthly bonus, or 3.00% AER, or a combination, which would be the equivalent of what an overdraft customer is currently dealing with, the consumer may find they do not easily understand it. And yet, this is just what overdraft customers are expected to understand.
- While this does not mean all providers will want to compete (some strategies are based around product features or they may operate with a market base which does not significantly use this part of the product), it still would allow the consumer to choose based on information with a standard comparable figure, such as that which operates in the credit interest market. For new entrants that are limited in other areas (branches/payment systems) this system could help to motivate a consumer base that places greater importance on these rates.

This will of course be much more complicated for SME banking. The PCA market benefits from the majority of day-to-day services being free of charge, while the majority of SME accounts are subject to charges on most services with

the overdraft rate comparison being a much smaller part of the picture. However, this market could still be improved by providers showing the actual charges and rates on products with a reduction in the number of charges that are 'negotiable' as this seems to be accepted in this market while in PCAs the main charges are given values. Also, business accounts can come with 'bundles' of transactions that are free of charge, followed by charges for transactions, which could lead to more confusion. The cost could then vary month-on-month depending on how the business operates, which may be outside its control. This lack of certainty on charges could be a significant influence on inertia.

The report suggests that branches are important to consumers, and in the market of online banking those brands with branches also tend to offer the same online services, if not more. Faced with older brands offering both branch and online, it becomes difficult for online brands and new entrants to have a distinguishing factor that cancels out consumer fondness for branches and this must equally affect competition.

There is, however, a need to look at why customers think branches are important. The need to talk to staff about products, query account transactions etc., would require a different solution to needing a branch just for paying in cheques and cash. This would have a knock-on effect on the efficiency of the regulatory remedy of compulsory access schemes for competitors. While movement is being made on cheques with image-based cheque clearing, being able to pay in cash is still something that will need a branch of some description.

Post Offices currently offer a number of banks limited counter services in their branches and there is the possibility of extending this if basic functions are the main concern. This could address some of the issues of new entrants; however, as the Post Office is now offering competitive accounts in its own right, this facility may need to strategically reduce rather than increase.

The question of churning or multiple banking could be addressed by brands sharing counter services or, if brands are reluctant to do this, an investigation into an updated version of the universal 'Giro Bank' system should be made.

Another factor that is important is customer services and while price transparency will not have a direct effect on this, being able to move account may indirectly as consumers consider the monetary gains and costs against better service. There is no indication that customers will not pay more for better service, but as the report indicates, there is confusion with charges, so incorporating this factor becomes more difficult. Customers do need to be able to 'see' the differences as a form of motivation.

Consumers view current accounts as long-term products and uncertainty over changes to overdraft charging structures could just as easily stifle account switching as encourage it. Overdrafts are complex and simple changes can create dramatic 'rate' rises (daily fees as opposed to percentage fees). This may be adding to consumer confusion, resulting in a situation where consumers become unlikely to move from the account that has changed from a rate to daily fee pricing to another rate-based account (even if it is cheaper) if they feel it is likely to change over the next month.

Remedies to the issue of transparency may require regulatory overview so that consumers are always able to compare the market and its products. Issues such as the requirement for providers to offer free opt-outs on overdrafts and the subsequent loss in revenue should be monitored so that the losses are not simply passed to consumers that responsibly manage their overdrafts. However, standardising paid and unpaid fees even though overdraft rates may be impacted does fulfil the need for transparency and could also lead to increased competition and therefore switching of accounts.