



## **CMA Market Investigation Reference Consultation**

### **Personal Current Accounts**

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Author: Fraser Sutherland

Citizens Advice Scotland (CAS) welcomes the opportunity to set out some of the common problems clients have brought to our service regarding personal current accounts (PCA). We have also reviewed the cases of clients we assisted regarding small and medium enterprise (SME) bank accounts. While we have helped self-employed and other clients who have had problems or have debts relating to their accounts, we do not feel our evidence is sufficient to allow us to comment on the SME account market. Therefore our response will focus on individual consumers' experiences of the PCA market.

### **Summary**

- CAS support the decision to refer the personal current account market for a full investigation by the CMA
- CAS is concerned that Scotland is the least competitive part of the UK for personal current accounts
- We reject the view that accounts receiving less than £500 a month can be classed as inactive as this ignores people on very low incomes which can be as low as £230/month
- Our figures support the findings that there has been a slight increase in complaints regarding current accounts in the last six months
- The need for access to branches is highly important to consumers but also a barrier for new firms' entry into the market. The development of local 'banking centres' or utilisation of the post office network may provide a solution for rural areas
- Problems with opening accounts presents the biggest demand for advice at Scottish CAB within personal current account issues
- While advice on debt relating to overdrafts has fallen this year, issues with default charges relating to overdrafts have risen
- The current market makes it impossible for consumers to shop around based on the best deal for overdrafts, a new simplified one fee rate should be brought in for all accounts to allow easy comparison

## Market Share

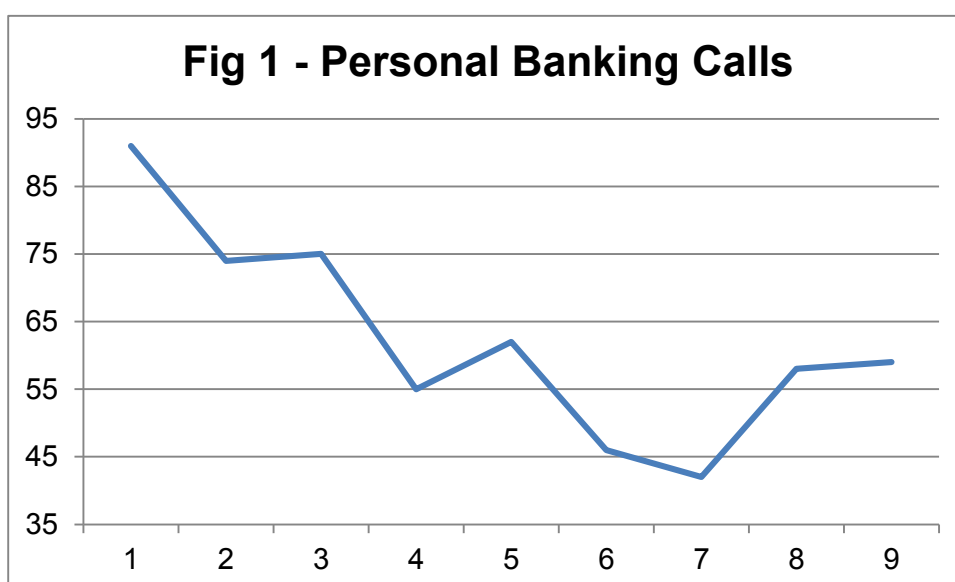
We recognise the work done by the CMA in establishing the share of the PCA market in the UK as part of the market study update. Given our specific geographical remit we are particularly concerned with the CMA's finding that competition in the PCA market in Scotland is the lowest of all areas of the UK (Figure 2.4, HHI by region, PCA market study report, 2014). In terms of the first test applied by the CMA on whether to make a market investigation reference (MIR), that the banking sector has persistent level of concentration, we believe the CMA's findings are robust and cause concern especially for Scottish consumers.

However, CAS is concerned about the 'active account' measure used by the CMA to gauge the share of market PCA's. We understand why counting dormant accounts may distort the market but we do not believe that counting only accounts that have a £500 deposit once a month is a reasonable measure. This will exclude very low income groups and while it is difficult to gauge the level of those in work who will have a monthly pay of less than £500 a week we do know that over 1 million out of work people in the UK claim Job Seekers Allowance (JSA) (UK Labour Market Statistics, August 2014, Office for National Statistics). The rate of JSA is substantially less than £500 a month sitting currently at either £289.60 or £229.40 a month depending on the claimant's age. This also does not take into account those on benefits who have been sanctioned who could be on less than even this figure. We do accept that low income groups are more likely to be unbanked than others, indeed many will operate in a cash economy or use Post Office Card Accounts (The Best of British Banking, Consumer Focus, 2012), however we feel that using such a measure as £500 will exclude a small but important part of the current account market. We believe that using either the total number of accounts or account with deposits of more than £200 a month would be a better measure. It is frustrating that such a measure had been promoted by the banking industry fuelling our concern that the industry is either unaware or more worryingly dismissive of people on very low incomes. This has been played out in the actions of firms with some still failing to make significant moves on the provision of basic banking services.

With regard to concentration of the market being accepted as persistent, CAS, along with other consumer organisations, has been frustrated at the lack of progress made by the banking industry to promote competition in the PCA market. In the last three years we have had three 'reviews' or 'investigations' into the PCA market (Vickers report, 2011; Parliamentary commission, 2013 & FSA/Bank of England, 2013) however little has changed on competition as a result. We therefore believe that the industry is not showing enough effort to make the substantial change that is needed to promote healthy competition that would benefit consumers and therefore a MIR would be welcomed. We do however expect that the result of an MIR needs to consider concrete actions to ensure change, CAS will comment on some remedies that the CMA may wish to consider later in this response.

## Barriers to entry

CAS is aware that there are significant barriers to entry into the PCA market for new providers. The CMA's study highlights numerous structural issues as well as a number of consumer demand problems. Consumers' failure to 'shop around' is highlighted as a barrier and is a significant problem in this market. However, rather than appearing to be satisfied with the service provided by the bank, many consumers are dissatisfied with the service provided by their PCA provider. Indeed complaints have increased regarding personal current accounts in the last six months despite a previous fall (CMA PCA Market study, 2014). This is supported by our figures from advice given to clients regarding personal current accounts. Our consumer helpline service has seen a small increase in calls regarding personal banking facilities in the last two quarters after a downward trend over the previous six quarters (figure 1). In Citizens Advice Bureaux (CAB) similar rises in issues with complaints resolution have risen 13.5% in 2013/2014 and poor administration problems 12.5% (figure 2).



CAS believes that the key barrier for new entrants is the need for a branch network. It is clear that consumers, despite the improvements in online and mobile banking, still require access to counter services. The Mintel research given in the CMA's market study shows that 9 in 10 consumers access counter services at least once a year, and almost half of consumers use them once a month. This research shows that more 18-24 year olds are using branch services than a year ago, debunking the myth that branches are no longer needed for a modern bank to be competitive.

CAS is strongly of the belief that bank branch access for consumers in their local community is not only a vital service for them but also for the local economy. However many rural areas have seen a decline in provision of bank branches especially in Scotland. In some rural areas of Scotland this has allowed a monopoly on branch provision to emerge thus reducing the consumer's ability to shop around. We are concerned that, given that the majority of consumers are choosing a bank near to their home, there is a large number of consumers in rural Scotland that face

no choice in who to bank with. We do not believe that offering digital services has altered this in any respect and indeed, from the CMA's own findings, it suggests that while digital provision may reduce visits to a branch it does not do away with the need to use a branch. We would encourage the CMA to consider how the delivery of branch access is given in the UK, especially rural areas, either by starting a one-stop shop banking centre where multiple firms' products are available or by opening access to banking through local post-offices or other local outlets including community facilities given the decline of post offices in some areas.

We reject the argument from some quarters that free banking may need to come to an end as current accounts are loss making and need to be cross-subsidised. The amount of foregone credit by consumers can be made to cover the costs of running a current account service as some firms already manage to do. If, as predicted, interest rates do rise it would be expected that firms would benefit even more from foregone credit than they do at present. CAS would be supportive of continuing the low or zero rates of interest paid on current accounts if it continues to mean access is free for all.

### **Demand side issues**

In addition to the CMA finding that consumers do not feel that different firms in the market really offer sufficient competition, we are aware of a lack of competition on the part of banks to offer free basic bank accounts. This is particularly acute for those in poor financial situations or bad credit histories who are often turned away from banks. In 2013/14 CAB across Scotland assisted with 1,795 issues with opening bank accounts - a rise on the 1,481 issues during the previous year. Alongside that we assisted with 201 issues regarding being denied a bank account in 2013/14 a rise of 16% (figure 2).

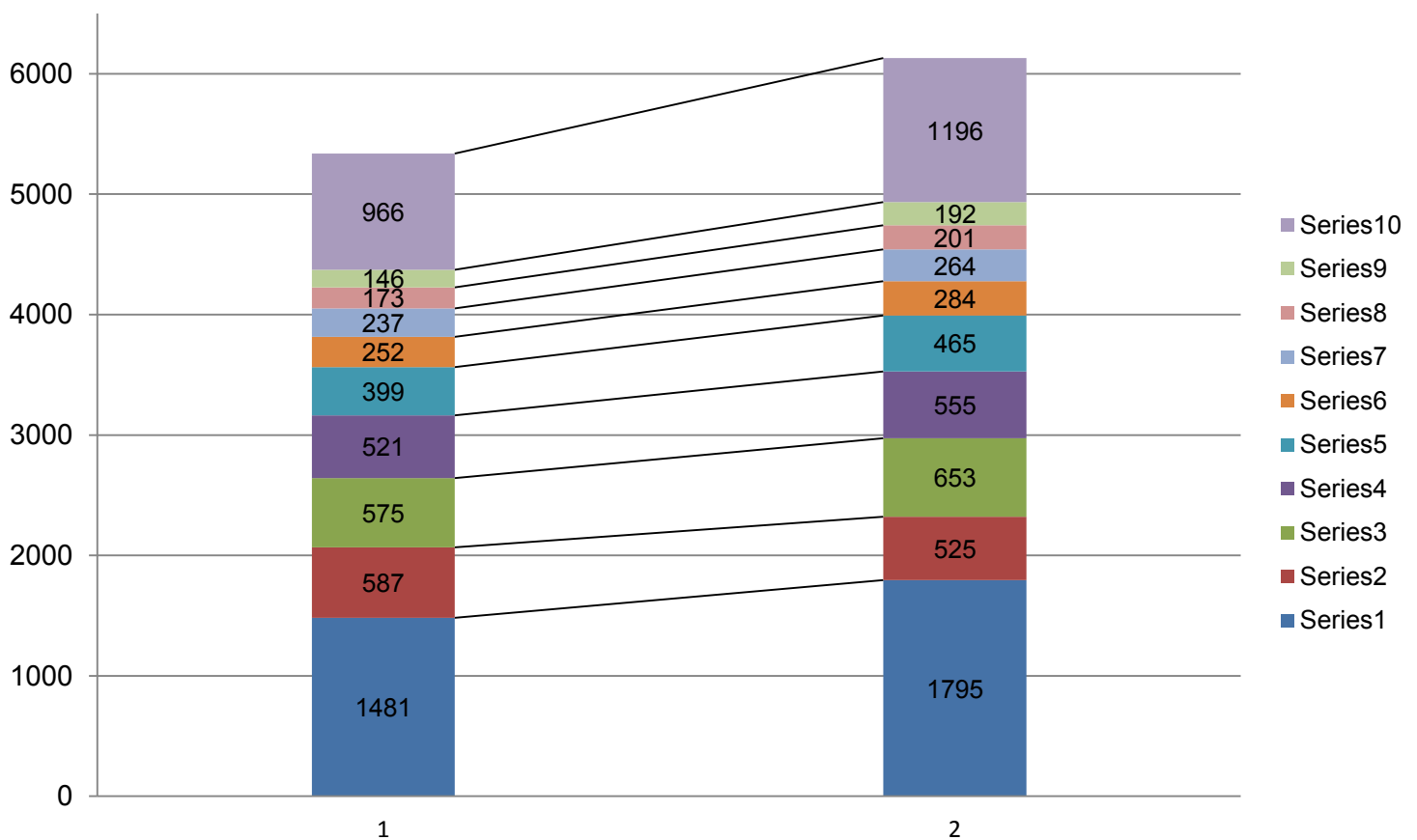
The case examples below show problems that are presented to CAB on the difficulties of opening an account.

- ▶ A South of Scotland CAB reports of a client who opened a basic bank account with a local bank, telling them that he was considering sequestration. The bank allowed the account to be opened but froze his bank account ten days later and forced him to close it, claiming that they had 'changed their policy'. The client was left with no access to funds even though the account was in credit. His wages were paid into that account, the direct debit for his Council Tax payment bounced, and he was left with only £3 to last him a week. The bank gave no warning, did not advise of the change of policy, and left the client stranded.
- ▶ A South of Scotland CAB reports of a client with high debt levels and struggling to get a basic bank account. After advice he tried to open an account at another bank but was refused there too. His only option appears to be a Post Office Card Account which has no Direct Debit facility.
- ▶ An East of Scotland CAB reports of a client who has been refused by all the banks in the local town due to him being sequestrated five years ago. He is now attempting to be added as a joint account holder with his wife as

he is unable to open even a basic bank account with anyone in his own name.

- ▶ A North of Scotland CAB reports of a client who is trying to open a bank account with a high street bank but they are refusing to open the account without further proof of identity. He does not have a UK photo driving licence, an identity card or a current UK Passport. He has given the bank as much information as he can but they are adamant he needs proof of identity. The bank call centres staff suggested that a letter from his doctor might be sufficient proof of identity for the bank but it is at the discretion of the branch whether they decide to open the account or not.
- ▶ An East of Scotland CAB reports of a client who was in the process of becoming bankrupt and needed to open a basic bank account. The client had approached a number of high street banks all with no luck. She cannot open an account with particular banks as they will close the client's account as soon as she was declared bankrupt. The CAB advised that she should try opening an account with another bank in a town 15 miles away as they were the only bank known to the CAB that would offer bank accounts to bankrupt people.

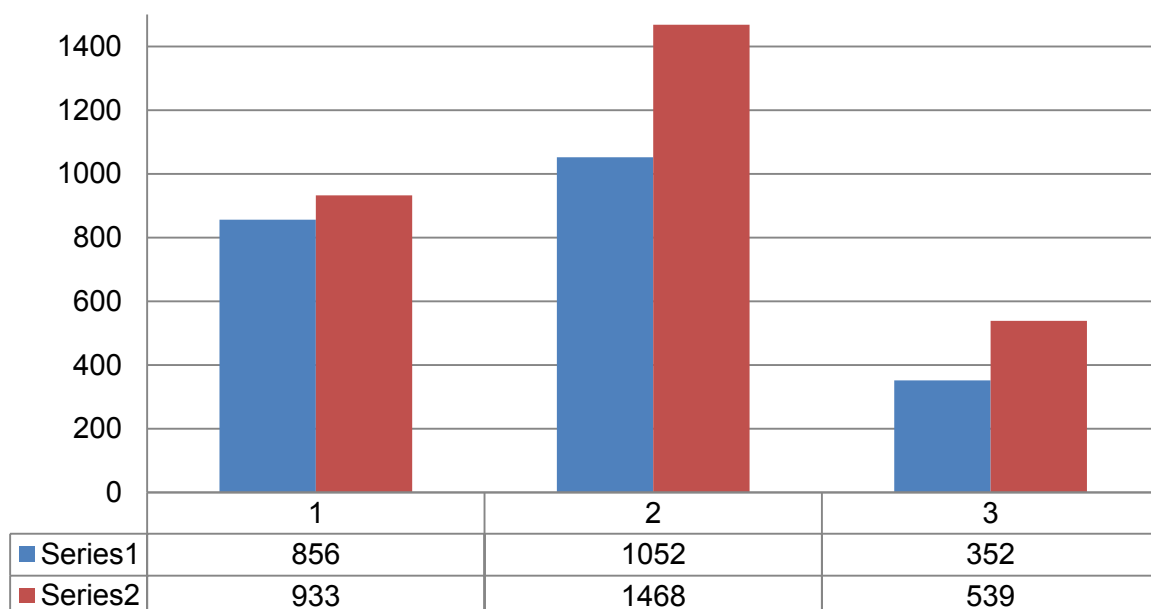
**Fig 2 - Personal current account advice at CAB**



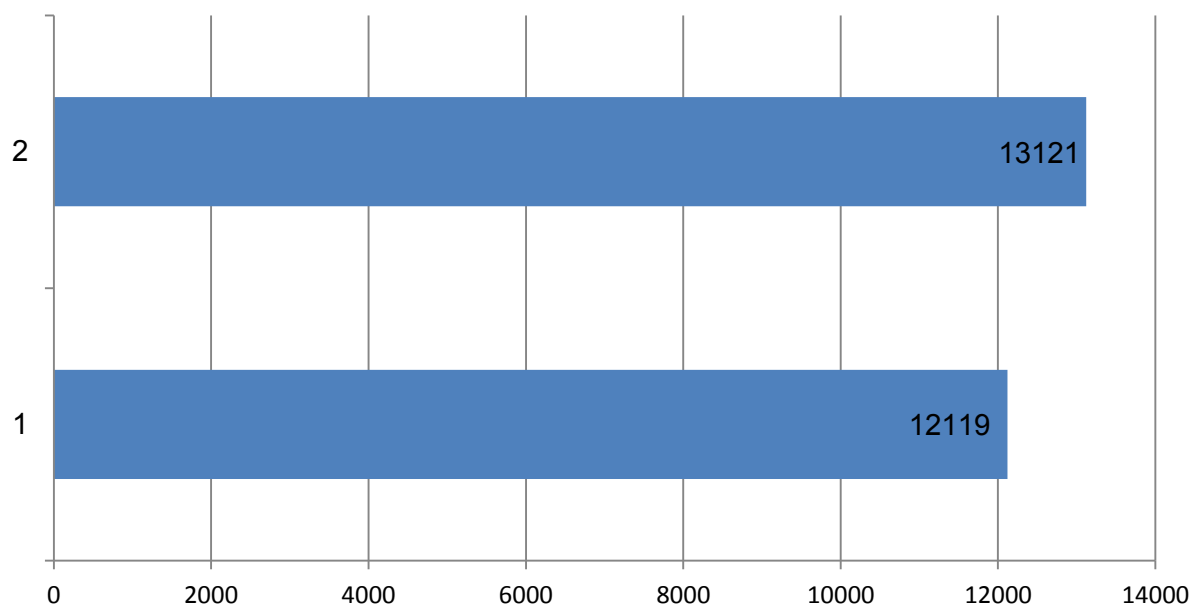
## Lack of transparency in charging structures

CAS continues to be concerned with the wide range and confusing nature of overdraft charges in the current account market. Issues regarding default charges related to overdrafts at CAB in Scotland have increased by 9% in 2013/14 compared with 2012/13. This means that despite the industries' attempts to improve this issue is still causing consumer detriment (figure 3). This is surprising given that the number of overdraft debtors bureaux have assisted has dropped by 7.5% in the same period (figure 4). This would suggest that while less people are getting into overdraft debts that they are unable to pay than before, the amount of people being faced with default charges is increasing. Our figures show that consumers appear to be in dispute increasingly over these charges with a 40% increase on the previous year in people coming to CAB disputing liability. Enforcement action to recover overdrafts has also increased in the last year supporting the CMA's assumption that firms are more reliant on overdraft charges than they may have been before.

**Fig 3: Overdraft charging issues**



**Fig 4: Overdraft debts**



It is clear through CAB evidence that some clients struggle to control spending and some may benefit from opting out of overdrafts on their account as it may cost them less. However, the CMA have found that only two out of the ten major firms in the PCA market have allowed opt-outs from arranged overdrafts on fee free accounts. This is despite the OFT in 2013 requesting that firms do more to ensure such opt-outs are available. CAS would support that it be made mandatory that all banks must provide an opt-out of unauthorised overdrafts. We believe that for this to be of any relative success it would need to be published in a wide and transparent manner. The following cases highlight some of the problems seen by CAB advisers regarding overdraft charges:

- ▶ A West of Scotland CAB reports of a client who had to be referred to a foodbank after she was charged £105 in overdraft charges by her bank. The client is concerned that this will happen again next month and is very anxious about her situation. The CAB assisted the client looking at other account options that would avoid large overdraft fees.
- ▶ A West of Scotland CAB reports of a client who has been charged £25.00 per month for November, December and will also be charged again at the end of January a further £25.00. These charges are due to an unauthorised overdraft withdrawal in November. The client feels that the on-going costs are spiralling because his bank have been overcharging on his unauthorised overdraft as the original overdraft amount was for only £19.00.
- ▶ A North of Scotland CAB reports of a client who has received bank charges for being overdrawn on an account which does not have an overdraft facility. The client believed that he had sufficient funds in his account when the transaction was authorised, and that if there was insufficient funds the transaction would be declined. The client has recently applied for benefits and is worried about how he will pay the charges. He has received notification from his bank that they will be recovering approx. £65.00 in charges due to being overdrawn. The client is confused as to why the transaction was allowed when he does not have an overdraft facility with the account in question. The client informed the CAB that he is unable to make the payment and is worried about what will happen.
- ▶ A West of Scotland CAB reports of a client who had an issue with overdraft charges leaving her with no money. She thought she was being charged £1.00 a day overdraft charges, however she was also charged an additional £50.00 a month on top of the £1.00 daily charge. The client claims that she was never told about this £50.00 charge. Due to the bank taking all her money she has fallen into debt. The client has no money and asked for a food bank referral.
- ▶ A West of Scotland CAB reports of a debt client who they found was paying £12.50 a month in overdraft bank charges unknown to her when they completed a financial review for the client. The account had no overdraft facility but she was being charged unpaid item fees. The client reported she has tried to get a basic account but no bank will offer one without a monthly charge.



CAS has carried out an online review of the overdraft facilities of major personal current account providers in Scotland. This looked at the standard, no monthly charge account operated by Barclays, RBS, Santander, Clydesdale, HSBC, Bank of Scotland, TSB and Nationwide. Figure 5 sets to show the wide variation in the operation of fees and charges on these accounts.

| <b>Figure 5</b>                             | <b>Interest charged on overdraft</b> | <b>Fee charged on arranged overdraft</b> | <b>Fee charged for unarranged overdraft</b> | <b>Unpaid item fee</b> |
|---|--------------------------------------|--|---|------------------------|
| <b>Barclays (Bank Account)</b>              | No                                   | Yes (3 rates)                            | Yes (1 rate)                                | Yes                    |
| <b>RBS (Select Account)</b>                 | Yes (1 rate)                         | Yes (1 rate)                             | Yes (1 rate)                                | Yes                    |
| <b>Santander (Everyday Current Account)</b> | No                                   | Yes (1 rate)                             | Yes (1 rate)                                | Yes                    |
| <b>Clydesdale (Current Account Plus)*</b>   | Yes (2 rates)                        | No                                       | Yes (2 rates)                               | Yes                    |
| <b>HSBC (Bank Account)</b>                  | Yes (1 rate)                         | No                                       | Yes (1 rate)                                | No                     |
| <b>Bank of Scotland (Classic Account)</b>   | No                                   | Yes (1 rate)                             | Yes (2 rates)                               | Yes                    |
| <b>TSB (Classic Account)</b>                | Yes (1 rate)                         | Yes (1 rate)                             | Yes (2 rates)                               | Yes                    |
| <b>Nationwide (Flex Account)</b>            | Yes (1 rate)                         | No                                       | Yes (1 rate)                                | Yes                    |

\* Clydesdale have advertised their rates are changing in December 2014

We have found that the way in which overdraft fees and charges is applied is highly varied. Our research unveiled ambiguous terms and very confusing fee structures. For example we found examples of unclear language on consumer facing material:

*“The charges shown in this section do not normally apply to the accounts we offer to our current account customers. However, we sometimes allow accounts to be operated in a way which enables the customer to give instructions for a withdrawal or other payment which cannot be met from the funds in the account. If this happens, the charges listed below under the heading Unarranged overdrafts and unpaid transactions – charges will apply.”*

*“This fee is capped at seven days in each monthly charging period, so using your Emergency Borrowing will never cost you more than £35 per month. However, if you have an overdraft, you will be charged the highest daily fee that applies to your overdraft for the remainder of the monthly charging period.”*

*“An overdraft set up fee may be charged if we agree to your informal request. You will not be charged further overdraft set up fee(s) provided your account does not go any further overdrawn. However, if your account goes into credit, or the overdrawn balance on your account decreases, and you then make another informal request for an overdraft and we agree to such a request, we may charge you a further overdraft set up fee.”*

CAS believes that the current overdraft charging mechanisms are completely incomparable, confusing and leave consumers unable to shop around to find the best deal on overdraft charges.



CAS believes that the CMA should consider the way in which overdrafts are offered on accounts and determine if one simplified flat charge that allowed consumers to compare between accounts is needed. We are also concerned that fees for unpaid items are unfair on the basis that the charge well exceeds the real cost to the bank on that item going unpaid. This 'penalty' should be in line with the real costs to the bank.