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31 October 2008

Dear Sir/Madam

## **Personal Current Accounts Market Study**

This is the Financial Services Consumer Panel's response to the Office of Fair Trading (OFT) consultation on the personal current accounts market. The Panel welcomes this consultation and its accompanying market study as an excellent opportunity to reshape the UK personal current accounts landscape. The banks are already able to implement much of what we suggest but have shown little interest to date in promoting our recommendations in a way which would benefit their customers and society. OFT must now compel them to do so.

The findings of the OFT's market study are damning. The Panel is of the opinion that the banks have shown themselves consistently unwilling to voluntarily end charging practices which prey on vulnerable consumers and to treat all their customers fairly. We would like to see this market brought under the direct regulation of the FSA, as we believe the behaviour highlighted in the OFT market study would not withstand its TCF test.

## **General Comments**

We would urge the OFT to focus sufficient attention on the benefit of having fewer indebted consumers as a result of more transparent and fairer charging to both individual consumers and society. There would also be the benefit to the financial services industry as a whole of consumers gaining greater trust in the industry as a result of the introduction of some or all of the measures we explore below.

We are concerned about the time this process is likely to take, especially if the OFT refers the market to the Competition Commission. Such a decision would effectively put on hold any potential improvements on the current position for another three years. In light of the findings of the OFT's study and the impact on consumers of recent market events this would constitute an unacceptable delay. We would contend that there has already been enough information compiled and studies completed of varying degree to be able to make recommendations on the way forward now. These include, in particular, the Cruickshank Report of 2001, the recommendations of past reviewers of the Banking Code and most recently the Competition Commission Remedies for Northern Ireland.

The Panel is also concerned by what the Market Study noted as a lack of innovation in the personal current account market. This, it was argued, was a result of the high set up costs needed for new providers to enter the market. We would hope that the recent Tesco announcement that it is considering entering this market may help to prompt providers to rethink their attitude to innovation.

## **Transparency**

The Panel is aware that some providers of personal current accounts have questioned the value of disclosing information on average balances and interest paid, foregone and earned because they believe consumers would not understand it or be overloaded by such information. This opinion puts undue emphasis on the possibility or likelihood of consumers misunderstanding information and the potential detrimental impact this could have on firms. It is far too easy to treat consumers as one homogenous group when making considerations in this regard, giving justification to an approach which argues against openness. We believe that providers should recognise the diversity of the consumer population and tailor their approach to disclosure accordingly. Information which helps consumers better identify the most appropriate firms or products for them should stimulate rather than impede the market. If the information is presented in a clear format then appropriate third parties (financial advisers, debt counsellors and the media) can also help to work out whether consumers have the best account for their needs.

A further point arises in connection with point 6 of the Remedies for Northern Ireland. We would urge the OFT to consider extending this obligation to notify consumers that they can switch current account to a product offered by another bank. The panel believes there should also be an obligation for providers to notify customers when the latter would be better off financially by switching instead to another personal current account product offered by their existing provider.

## **Charging**

In the interests of treating customers fairly we believe that there should be a requirement for banks to develop and notify any customers who have incurred unauthorised overdraft or failed item charges of the steps they could take to prevent incurring such charges in the future. It should not be difficult to alert customers when they are about to go overdrawn - via a mobile phone text alert, for example. This would allow customers time to put sufficient money into their account to avoid items being bounced or charges applied. We further believe that such services should be offered free to holders of basic bank accounts. We would also like to see customers being offered the opportunity to opt to have their debit cards declined if their acceptance would mean an account breaching an authorised overdraft limit.

The Panel is aware that some UK banks offer what is known as a sweeps account facility – whereupon there is an automatic transfer of sums from one account to another once a particular trigger is reached. We would like to see notification of such an account facility included in any communication sent to customers when they have incurred charges for unauthorised borrowing. The Panel further believes that the argument of personal current account providers that there is little point promoting or developing sweeps facilities for lower income groups, as these customers do not have sufficient funds to save, does

not stand up to scrutiny. As of the end of September 2007 (the most recent figures available) Credit Unions in the UK had £333 million in deposit accounts and there are many millions more in Christmas savings clubs. This suggests that even low income consumers would have sufficient savings to enable them to take advantage of a sweeping option which allowed them to avoid unauthorised charges.

We would further contend that given the current market conditions, developing and/or promoting any account facility which encouraged customers, by way of avoiding charges, to save with the same institution with which they hold their main current account would represent sensible business practice for any bank looking to rebuild, or grow, its deposit base.

We hope you find these points helpful and look forward to seeing the output of the consultation in due course.

Yours faithfully,

A handwritten signature in black ink that reads "David L. Lipsey" followed by a long, horizontal flourish.

David Lipsey  
Chairman