

# **High-Cost Credit Review: Overdrafts consultation paper and policy statement**

**Consultation Paper**

CP18/42\*\*\*

December 2018



## How to respond

We are asking for comments on this Consultation Paper (CP) by 18 March 2019.

You can send them to us using the form on our website at: [www.fca.org.uk/cp18-42-response-form](http://www.fca.org.uk/cp18-42-response-form).

### Or in writing to:

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### How to navigate this document onscreen



returns you to the contents list



takes you to helpful abbreviations

## Contents

<b>1</b>	Executive summary	3
<b>2</b>	The wider context	8
<b>3</b>	The harm we are trying to reduce	14
<b>4</b>	Pricing interventions	25
<b>5</b>	Repeat use	43
<b>6</b>	Possible wider effects of this consultation and other remedies considered	48
<b>7</b>	Competition remedies: policy statement	52
<b>8</b>	Proposals to amend our competition remedy rules	78
<b>Annex 1</b>		
	Questions in this paper	79
<b>Annex 2</b>		
	Cost benefit analysis	81
<b>Annex 3</b>		
	Compatibility statement	139
<b>Annex 4</b>		
	List of non-confidential respondents	145
<b>Annex 5</b>		
	Technical Annex	147
<b>Annex 6</b>		
	Abbreviations in this document	148
<b>Appendix 1</b>		
	Made rules (Legal instrument)	
<b>Appendix 2</b>		
	Draft Handbook Text	
<b>Appendix 3</b>		
	Proposed Amendments to the Finalised Guidance: Payment Services and Electronic Money – Our Approach	

# 1 Executive summary

## Fundamental change is needed in the overdraft market

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- 1.1** We see harm to consumers – particularly to vulnerable consumers – from the disproportionate burden of high charges and the repeat use of overdrafts. In 2016, more than 50% of firms' unarranged overdraft fees came from just 1.5% of customers. People living in deprived areas are more likely to incur these fees and in some cases unarranged overdraft fees can be more than 10 times as high as fees for payday loans.
- 1.2** So we are proposing reforms to the way banks charge for overdrafts, including tackling high charges for unarranged overdrafts.

## We propose simpler and fairer pricing

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- 1.3** We are consulting on proposals to simplify the pricing of all overdrafts and end higher prices for unarranged overdrafts by:
- stopping firms from charging higher prices when customers use an unarranged overdraft, because the difference in costs for providing unarranged and arranged overdrafts does not fully account for the difference in pricing
  - banning fixed fees for borrowing through an overdraft (other than fees for refusing a payment due to lack of funds ('refused payment fees'), which firms are entitled to charge for under the Payment Services Regulations 2017)
  - ensuring the price for each overdraft will be a simple, single interest rate – no fixed daily or monthly charges
  - requiring firms to advertise arranged overdraft prices in a standard way, including an Annual Percentage Rate (APR) to help customers compare them against other products
  - issuing new guidance to reiterate that refused payment fees should reasonably correspond to the costs of refusing payments, and explain the costs that may be included, and
  - telling banks to do more to identify overdraft customers who are showing signs of financial strain or are in financial difficulty, and to help them to reduce their overdraft use

## We are not proposing a simple price cap now as this would not fix the problems

- 1.4** We think there are risks to a price cap in this market – signalling that prices at, or about, the cap are acceptable. It could prompt providers with low, or no, charges to raise prices. It could discourage consumers from trying to understand their overdrafts and prevent more effective competition developing. We believe that our proposals can deliver better outcomes for consumers than a price cap.
- 1.5** But we will monitor the market and keep firms' overdraft pricing under review. If we see signs that prices are becoming harmful we will consider introducing a price cap.

### Proposed package of remedies to address harm in the overdraft market

Harm	Prices too high for consumers			
Drivers of harm	Complex price structure 	High level of fees 	Repeat use 	Lack of awareness /engagement 
Remedies	Ban fixed fees for borrowing through an overdraft Pricing by single interest rate APRs in advertising	Alignment of arranged and unarranged overdraft prices	Early identification strategies Targeted intervention	Alerts Online eligibility tool Online charges calculator Clear information at account opening Banning inclusion of overdraft in available funds Prompts

■ Policy Statement  
■ Consultation Paper  
■ Industry agreement

## Our proposals are designed to benefit vulnerable consumers

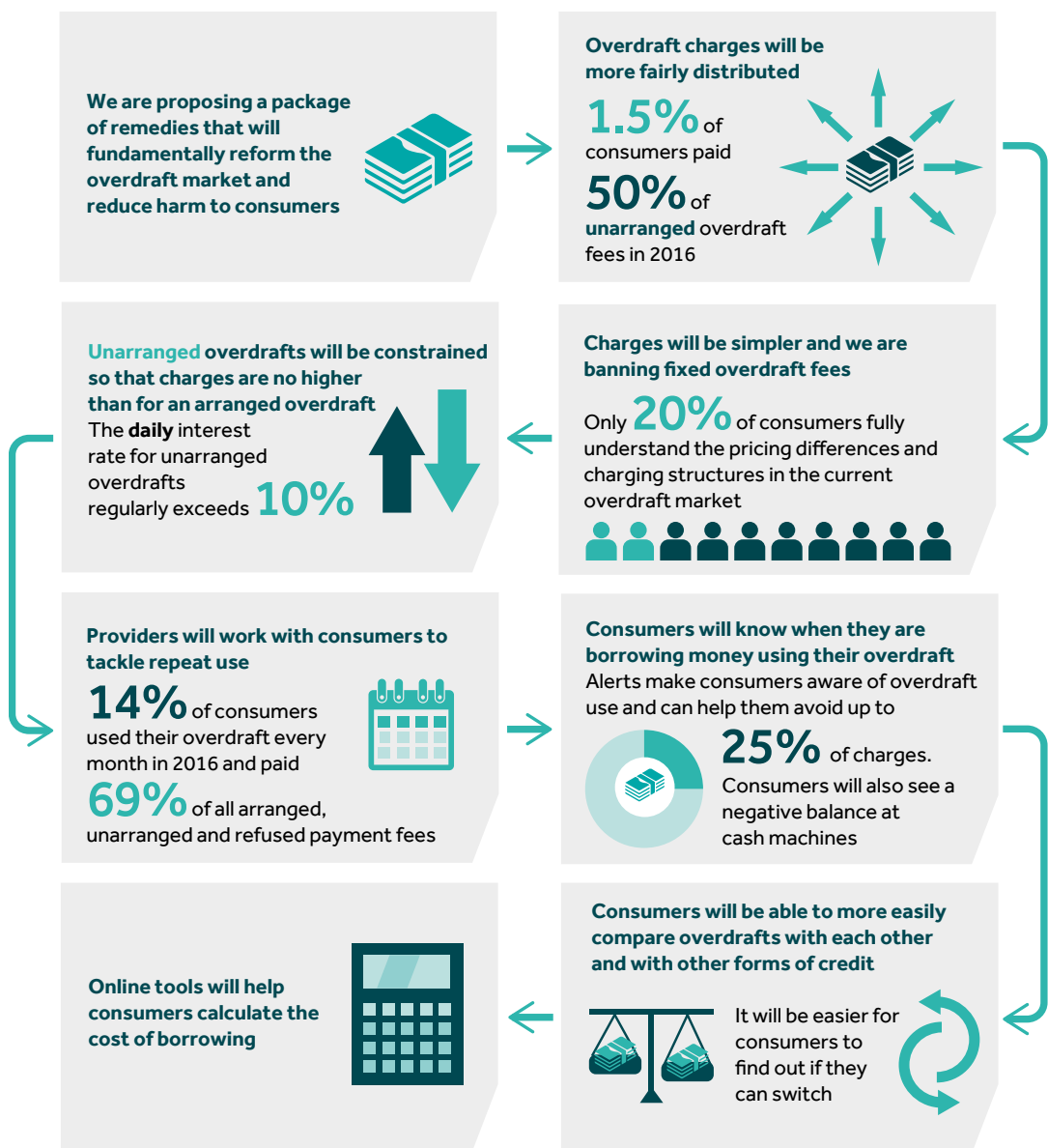
- 1.6** Unarranged overdraft charges are causing harm to more vulnerable customers. People living in deprived areas are more likely to pay unarranged overdraft charges and refused payment fees than others, and they pay around twice as much in fees and charges as those in less deprived areas. We want overdrafts to be simpler, fairer and easier to manage. We expect our package of changes to reduce charges for unarranged overdrafts significantly. This will disproportionately benefit those vulnerable consumers currently paying the most.
- 1.7** We expect our proposals to significantly lower charges for overdrafts for those currently paying the highest prices. Overdraft users will be better able to understand the costs, compare prices and get the best deal for them. Our proposed changes would bring overdraft charges well below the level of the current daily cap on high-cost short-term credit lenders ('payday lenders').
- 1.8** We are also implementing reforms to help all consumers better engage with and understand their overdrafts, for example through providing digital eligibility tools,

cost calculators and alerts to address unexpected overdraft use. Customers will see a negative balance at cash machines if they use an overdraft.

## We are acting to protect consumers on our detailed understanding of the market

1.9 These changes are informed by our comprehensive analysis of banks' business models, and how these are changing.

### Impacts of our proposals





## Navigating this document

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- 1.10** In Chapter 2 we set out the wider context to our proposals and explain how they help us to meet our objectives.
- 1.11** In Chapter 3 we present our analysis of the harm we are trying to reduce.
- 1.12** In Chapter 4 we present our proposals to address the harm we see which is driven by the complexity of overdrafts and the high level of charges. These proposals are:
- **aligning prices of unarranged overdrafts with arranged overdrafts** – stopping firms from charging higher prices when customers use an unarranged overdraft
  - **simplifying overdraft pricing** – arranged overdrafts should be priced using a single interest rate on each account
  - **standardising the presentation of arranged overdraft prices** to make them easier to compare and to position overdrafts as borrowing – requiring a representative annual percentage rate (APR) in certain advertising for arranged overdrafts
  - issuing new guidance to help firms comply with existing rules – **refused payment fees** should reasonably correspond to the costs of refusing payments
- 1.13** In Chapter 5 we explain our proposals to **address the harm from repeat use of overdrafts**. We propose firms should:
- develop a **strategy to reduce repeat use**
  - **provide us with their strategy** when the rules start to apply, and after any substantial changes
  - implement their strategy for reducing repeat use, and monitor their progress
  - report on the outcome of their **monitoring** after 6 and 12 months
- 1.14** These proposals are broadly similar to our approach for addressing persistent credit card debt (and the early intervention remedies) (PS18/04), with some changes to reflect the nature of the overdraft market.
- 1.15** In Chapter 6 we discuss the possible wider effects of our proposals and the other remedies we have considered.
- 1.16** Chapter 7 contains a policy statement (PS) for the competition remedy rules we have made to address low awareness and engagement in this market. We consulted on these draft rules in CP18/13 and they require:
- firms to provide tools, online or within their banking apps, that **assess eligibility for overdrafts** to reduce barriers for consumers who are considering switching and searching for a PCA with an overdraft
  - improvements to visibility and content of **key general information about overdrafts** – in particular, when opening a PCA. This will include an **online calculator** so

customers can check the costs of overdrafts in pounds and pence for different patterns of use. It will help consumers understand how overdrafts work

- firms to send consumers **text messages or push notification alerts** to address unexpected overdraft use
- a **ban on the inclusion of overdrafts in available funds**, and other similar expressions, so that consumers using an overdraft will see a negative balance and better understand that their overdraft is debt

**1.17** In Chapter 8 we consult on proposals to amend the competition remedy rules set out in Chapter 7. These changes would be required as a result of proposals in Chapter 4.

**1.18** Feedback received on [CP18/13](#) is covered in Chapters 4-7.

**1.19** Our cost benefit analysis is set out in Annex 2.

## Next steps

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### Let us know what you think

**1.20** Please read the parts of the paper that matter to you.

**1.21** We suggest that you read the whole of this document if you are a bank or building society offering overdrafts or a trade body representing these firms.

**1.22** If you are a provider offering products marketed to consumers as having the same function as an overdraft you should read the section in Chapter 4 on applying our proposals and timelines for implementation, but you may want to read the full document.

**1.23** Payment Service Providers offering payment accounts that charge for refused payments should read relevant sections of Chapter 4.

**1.24** You can then respond to this consultation by 18 March 2019 by answering the questions listed at Annex 1 using our online response form or by emailing [cp18-42@fca.org.uk](mailto:cp18-42@fca.org.uk).

### What we will do

**1.25** We will consider your responses and publish any final rules in early June 2019. After this, we propose firms would have 6 months to comply with any rules on pricing and repeat use, meaning they would be in force by early December 2019.

**1.26** Once any rules are made, we will monitor the market and keep overdraft pricing under review.

**1.27** The rules we are making in Chapter 7 come into force on 18 December 2019. However, we are consulting in Chapter 8 on proposals to bring this forward to early December 2019. This is so that implementation is aligned with the possible implementation of rules proposed in this CP.



## 2 The wider context

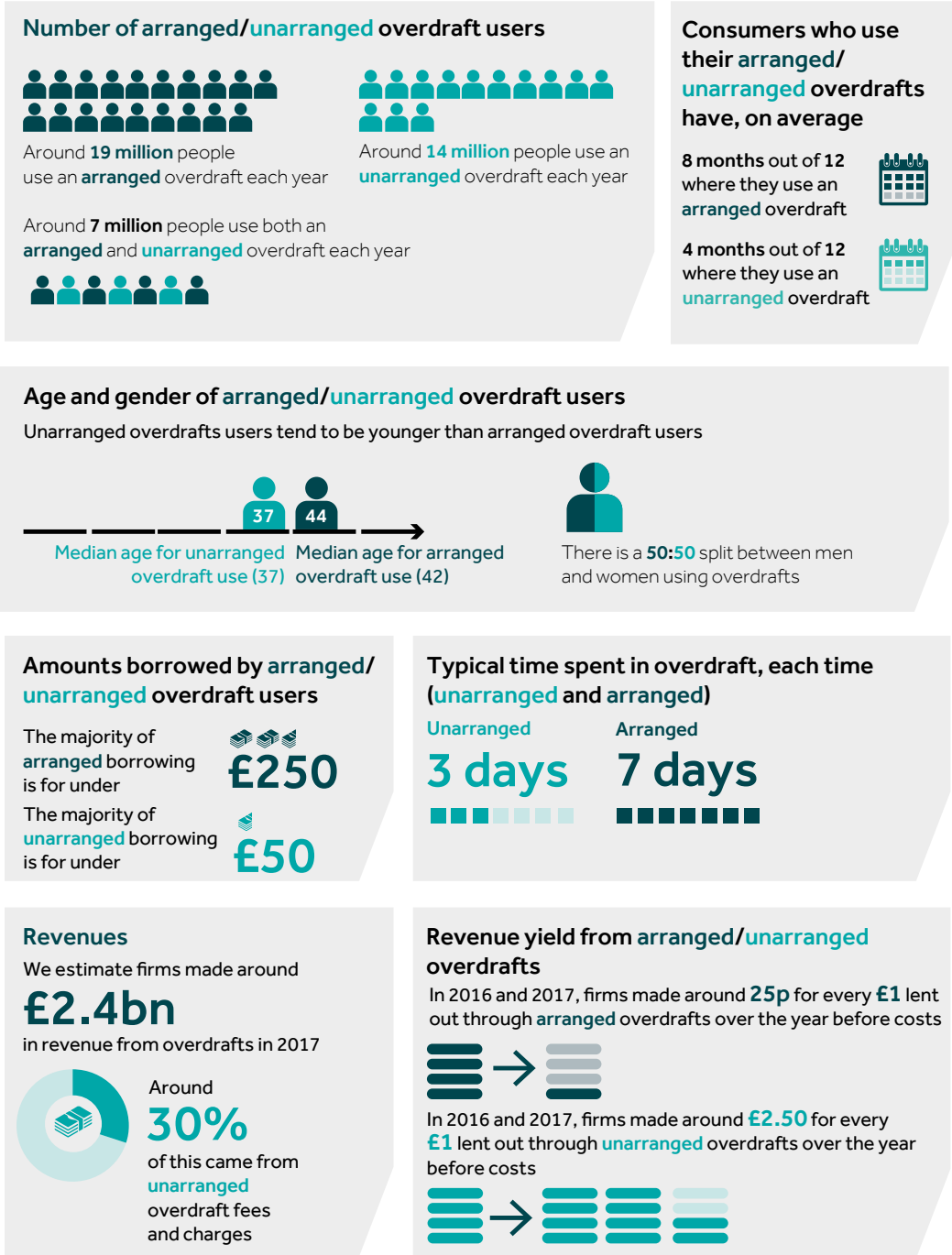
### Background context

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- 2.1** In May 2018, we published CP18/13 which included proposed rules and guidance to address low awareness and engagement in the overdraft market. We said the complexity of pricing structures and the high level of fees and charges we see in the overdraft market are harmful and we discussed potential remedies.
- 2.2** Since publishing CP18/13 we have developed our theory of harm (see Chapter 3), completed our Strategic Review of Retail Banking (Strategic Review), which is being published at the same time as this consultation, and we have modelled the possible impacts of a range of possible remedies. We have also considered responses to the consultation and [discussion paper](#) (DP).
- 2.3** We believe there is a strong case for intervention around overdrafts. In the UK, 52 million people have a personal current account (PCA). We estimate that 36% use an arranged overdraft and 26% use an unarranged overdraft each year. In 2017, firms made an estimated £2.4bn in revenue from overdrafts. Around 30% of this was from unarranged overdrafts. The difference in pricing between arranged and unarranged overdrafts is sizeable. Unarranged overdrafts represented 26% of total overdraft income between 2014 and 2017, but only 4% of total overdraft lending assets.
- 2.4** Despite overdrafts being widely used, our research shows that consumers find the fees and charges on their accounts complicated and difficult to understand. Most fees and charges are paid by a small number of users.
- 2.5** Overdrafts are primarily intended to provide short-term credit. But our research shows that many consumers use arranged overdrafts regularly over long periods, and so incur charges for prolonged periods. For these customers, an overdraft may not be the best way of borrowing.



## The UK overdraft market and its users



**2.6** We have established a strong, positive correlation between vulnerability of consumers and unarranged overdraft charges. Consumers who live in more deprived areas pay more in unarranged overdraft charges, and even more so for refused payment fees. We have assessed deprivation using the index of multiple deprivation in England 2015, the official measure of relative deprivation for small areas in England.



- 2.7** In May 2018, we said that charges for overdrafts are too high either due to the level of the fees and charges or from the accumulation of charges over time through repeat use. We identified several drivers of this harm which require different approaches to reduce harm:
- high prices
  - complex pricing structures and weak competition
  - lack of awareness/engagement
  - repeat use
- 2.8** We consulted on a range of competition remedies to address the low awareness and engagement of consumers in the overdraft market (see Chapter 7). But these remedies do not address all the harm we see from high and complex fees.
- 2.9** To address the complexity of overdrafts and the high level of fees, we set out in CP18/13 for discussion a potential package of remedies we planned to model. Here, we update our analysis and present results of this modelling and consult on proposed rules.

## What we are doing

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- 2.10** We are:
- consulting on a range of remedies around the high level of fees and complex pricing structures (Chapter 4)
  - consulting on potential remedies aimed at tackling harm from repeat use of overdrafts (Chapter 5)
  - publishing final rules which aim to improve levels of awareness and engagement around overdrafts through our competition remedies (Chapter 7)
- 2.11** We have developed the remedies we are consulting on to address harm that will remain in the market after we implement our competition remedies (which we already consulted on and are finalising here – see Chapter 7). These proposals complement and work alongside the competition remedies. And we have considered other recent regulatory changes in the market designed to encourage competition. This includes changes introduced by the Competition and Markets Authority (CMA) (including Open Banking and the Monthly Maximum Charge (MMC)), the second Payment Services Directive (PSD2) and the New Bank Start-up Unit.<sup>1</sup>
- 2.12** Increased competition and innovation in retail banking, facilitated by Open Banking and PSD2, could bring substantial benefits for consumers. We considered not acting on our concerns about overdrafts until we have seen how these initiatives develop. But the

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<sup>1</sup> The joint New Bank Start-up Unit helps new banks to enter the market and through the early days of authorisation. It draws staff from the PRA and the FCA and provides new banks with the information and materials they need to navigate the process to become a new bank, as well as with focused supervisory resource during the early years of authorisation. An ex post evaluation of this initiative is due to be published soon.

harm we see suggests that we need to act now to protect consumers from high prices. The remedies we are proposing may help to open the market to new entrants.

**2.13** Each of our proposed remedies is required now because:

- not all consumers are likely to be influenced by information remedies.<sup>2</sup> Not all consumers will be able to act to reduce or avoid overdraft charges following an alert. Our analysis has shown that alerts mainly reduce overdraft charges for occasional users, ie people who can rectify a mistaken use of overdraft
- for those who are not able to act to avoid overdraft use, our pricing interventions should reduce the price they pay for unarranged overdrafts
- they will help firms to ensure refused payment fees reasonably correspond to their actual costs
- they may result in higher prices for arranged overdrafts. However, price simplification will ensure prices for borrowing are proportionate to the amount borrowed and the length of borrowing, and pricing through a single interest rate and APR disclosure will enhance price competition, which we expect will lead to better outcomes for consumers in the long run
- our repeat use remedy protects heavier arranged overdraft users who would be most affected by any increase in arranged overdraft charges

**2.14** Our package of pricing proposals deliberately seeks to protect more vulnerable consumers. We expect the overall impact of the changes to result in a more even distribution of charges, with vulnerable consumers benefitting relatively more in terms of lower fees and charges than other consumers. We indicatively estimate that the 30% of PCA consumers living in the most deprived areas in the UK could see an aggregate reduction in overdraft charges of around £101m per year, and pricing through a single interest rate and APR disclosure will enhance price competition which we expect will lead to better outcomes for consumers in the long run.

## How this work links to our objectives

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### Consumer protection

**2.15** One of our operational objectives is to secure appropriate protection for consumers. We are implementing measures to protect consumers from unexpected charges and are consulting on proposals to reduce harm from high prices. The measures will particularly help some of the most vulnerable consumers who incur high overdraft charges, both in absolute terms but also especially in relation to their income.

**2.16** We are consulting on proposals to make the pricing of unarranged overdrafts fairer. Our aim is to protect consumers by ensuring they no longer incur unjustifiable charges for small amounts of borrowing.

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<sup>2</sup> The CMA has also recently introduced related information remedies designed to influence consumer behaviour, as part of its retail banking market investigation <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk>



**2.17** We are also consulting on proposals to tackle consumers accumulating significant charges from repeat use of what is primarily intended as a short-term credit product. As a significant proportion of overdraft revenues are linked to repeat use, we are concerned that firms' incentives may not be aligned to their customers' needs.

**2.18** Many consumers are unaware they are using their overdrafts and can build up significant charges without realising. While not all can avoid using overdrafts, many will have other options. Our final rules on overdraft alerts aim to protect consumers from incurring charges unexpectedly and give them greater control over their borrowing.

### **Competition**

**2.19** Our competition objective requires us to promote effective competition in consumers' interests. Our final rules (Chapter 7) seek to enhance competition in the retail banking market by addressing low levels of transparency and engagement. They will do this by reducing barriers to switching, helping consumers understand how overdrafts work and addressing the unintended use of overdrafts.

**2.20** We are also consulting on proposals to directly address the complex range of pricing structures for overdrafts across different firms, which hinder competition. We want consumers to be able to easily compare different overdraft providers and other forms of credit, particularly 'revolving' credit such as credit cards. We want firms to compete actively on their overdraft prices, as this will help to improve outcomes for consumers.

**2.21** Subject to these constraints, and our proposal to align prices of unarranged overdrafts with arranged overdrafts, firms will remain free to set their overdraft prices.

### **Equality and diversity considerations**

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**2.22** We have considered the equality and diversity issues that may arise from our proposals. Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010. The proposals are expected to be beneficial to those who use unarranged overdrafts more and incur refused payment fees more. This includes younger adults. Our modelling also shows people living in deprived areas, who are typically more likely to be from black and minority ethnic groups or disabled, are more likely to benefit from our proposals than people from less deprived areas.

**2.23** We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them before publishing any final rules. In the meantime, we welcome input on this.

### **EU Withdrawal**

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**2.24** We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. In March 2018, the UK and the EU agreed the terms of an implementation period that will apply following the UK's withdrawal from the European Union which was included in the draft withdrawal agreement. During this period, set to start on 29 March 2019 and last until at least 31 December 2020, EU law will continue to apply in the UK. The proposals in this Consultation Paper are therefore

put forward on the basis that EU law, including the framework for provision of financial services in the UK by inward passporting European Economic Area (EEA) based firms, will apply at the time the proposed rules come into force.

**2.25** However, the implementation period is subject to finalisation and ratification. We therefore continue to work to ensure the UK's legal and regulatory framework functions in all scenarios. In the event that, when we make the rules currently being consulted on, EU law is no longer applicable, we may need to make minor amendments to the draft rules to ensure our rules continue to function as intended. In particular, we may need to make amendments to the rules to ensure they apply to EEA-based firms currently exercising passporting rights in the UK and that continue to provide services in the UK after 29 March 2019, for example under the temporary permission regime consulted on in CP18/29.

**2.26** We will not re-consult on such amendments to the draft rules.



## 3 The harm we are trying to reduce

- 3.1** In this chapter, we update our analysis of the harm we see from high prices, the complexity of charging structures, repeat use and low awareness and engagement.
- 3.2** In CP18/13 we set out evidence that complex pricing structures and the high level of fees and charges in the overdraft market are harmful. We presented a range of potential measures that could address this harm.
- 3.3** We have further developed our theory of harm, completed our analysis, concluded our Strategic Review, and modelled the possible impacts of a range of remedies designed to address the harms we see.

### Feedback received on our approach to harm following CP18/13

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- 3.4** Most respondents agreed with our approach to harm but there were mixed views on how to address this. Firms and their representatives suggested we should wait longer to see how recent interventions such as alerts, prompts, Open Banking, and UK Finance work on repeat use impact the market. They felt that competition could drive the improvements we want. They presented some evidence that alerts had reduced complaints, that most customers wanted a price structure that allowed them to know how much they would pay in advance, and that interest rates were difficult to understand. Respondents also noted that constraints on overdraft pricing might lead to firms reducing access to arranged overdrafts. This could be a driver of harm to consumers.
- 3.5** Consumer representatives felt that urgent action was required, as the case for harm had been made. They said overdraft users were a captive market, and could suffer distress and psychological harm. One organisation presented evidence to suggest that levels of debt could be higher than those quoted in our CP.
- 3.6** There was common ground between one bank and one consumer group, saying we need to consider in more depth how people make decisions, rather than focus on the economic harm. Individuals had mixed views on whether financial difficulty was the responsibility of the firm or the consumer.
- 3.7** Most respondents agreed that we should address harm from repeat overdraft use. One individual did not. Several firms did not see anything wrong with repeat use in principle, and wanted us to focus on helping those already in financial difficulty.

### Summary of our theory of harm

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#### High prices

- 3.8** When we refer to prices being too high, our evidence shows harm in 2 areas:
- high levels of charges for unarranged overdrafts

- high levels of cumulative charges for consumers who repeatedly use their overdraft

**3.9** We have clear evidence that prices for unarranged overdrafts are too high:

- Charges are high in an absolute sense. For unarranged overdrafts, the price regularly exceeds the equivalent of an interest rate of 10% per day and, for 15% of users, over 20% per day. In Chapter 4 we set out remedies to address the harm caused by **high charges**.
- Charges are highly concentrated. Only 14% of consumers incurred unarranged overdraft charges and 50% of total overdraft fee revenue came from 1.5% of customers. Some consumers pay over 20% a day. Consumers in more deprived areas are 70% more likely to use an unarranged overdraft and pay these higher charges, than other consumers. These consumers tend to have lower incomes. They tend to be from Black, Asian and minority ethnic (BAME) communities, and are more likely to be vulnerable due to poor health or a disability.
- We see limited differences in the cost of providing arranged and unarranged overdrafts. Those differences in cost that the banks have quantified do not justify the much higher prices for unarranged over arranged overdrafts.

**3.10** Charges for unarranged borrowing and for refused payments are unevenly distributed. While arranged overdraft charges are also concentrated (around 3.5% of arranged overdraft users pay half of all arranged overdraft fees), this is to a lesser degree than in unarranged overdraft charges or refused payment fees. Importantly, these charges generally depend on the amount that consumers borrow and we do not believe this is necessarily unfair. But we are concerned that consumers can be charged high prices for small amounts of borrowing and we see steep increases in charges for small changes in behaviour. For example, customers going over cost-free buffers by a small amount can be charged for the total borrowing. They can also receive multiple monthly charges for overdraft use that straddles 2 monthly charging cycles.

**3.11** We also found high levels of cumulative charges for consumers who repeatedly use their overdraft. Around 14% of customers used an overdraft every month in 2016. This group borrowed 81% of all overdraft lending and paid 69% of all arranged, unarranged, and refused payment fees. In Chapter 5 we set out proposals to address the harm arising from **repeat use** of overdrafts and the cumulative build-up of charges that can follow.

**3.12** We see potential for harm from refused payment fees if they are too high, especially as they are highly concentrated on vulnerable consumers. We would need to see further evidence to enable us to conclude that refused payment fees reasonably correspond to firms' actual costs.

### **The harm from high prices, complex pricing structures and weak competition**

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**3.13** Overdrafts sit as part of a wider PCA offering. Firms generate income from PCAs through a funding benefit on deposits and through a variety of fees and charges, eg for arranged and unarranged overdrafts, foreign exchange transactions and refused payments. Firms may charge an account maintenance fee or accounts can be free-



if-in-credit – consumers incur no direct charges if they use the account for domestic day-to-day transactions as long as the account remains in credit.

**3.14** Our analysis shows that **prices are too high** for consumers in the overdraft market. As set out in our Mission, we see ‘prices being too high, or quality too low’ as a form of harm. In this section, we discuss the harm we see from:

- high levels of charges for unarranged overdrafts
- high charges that fall disproportionately on vulnerable consumers

**3.15** We also discuss how we propose to address harm resulting from **complex pricing structures**, low levels of consumer engagement and competition.

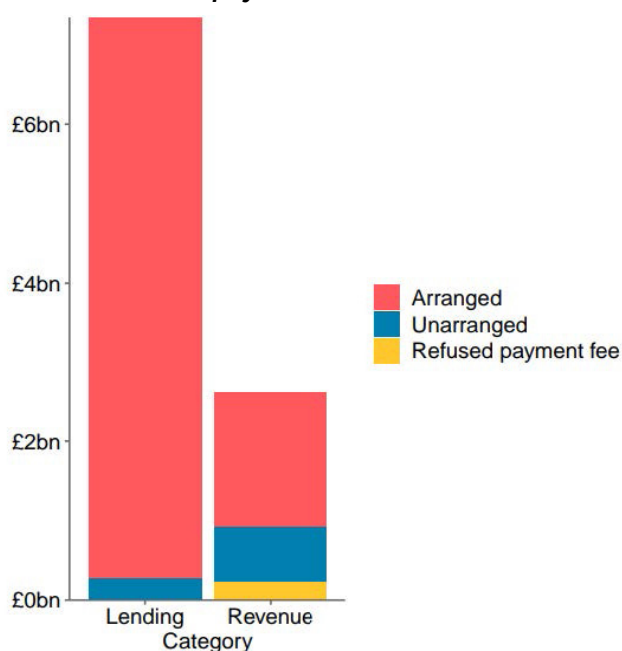
**We have clear evidence of this harm**

**3.16** We have found that charges are high in an absolute sense and that they are highly concentrated. We see a harmful distribution and structuring of prices and we believe that the complexity of pricing structures is both a symptom and a cause of weak competition in the market.

**Charges for unarranged overdrafts are high and are highly concentrated**

**3.17** As discussed in CP18/13 on average firms make over 10 times more in revenue from unarranged lending for each pound lent than for arranged overdraft lending. While there may be small differences in the cost of providing an unarranged overdraft in comparison to an arranged overdraft, we have not seen evidence to justify the significantly higher prices.

**Figure 3.1: 2017 split of lending balances and revenues between arranged and unarranged overdrafts and refused payment fees**



**3.18** Firms sometimes refuse to make a payment because a customer has insufficient funds to complete the transaction (typically a direct debit or standing order). The Payment Services Regulations 2017 (PSRs) allow firms to charge customers if they refuse a payment. Charges must reasonably correspond to the payment service provider’s



actual costs (Payment Services Regulations 2017 section 66(1)(c)). So called actual costs is not a precisely defined term, and so we would need to see further evidence to enable us to conclude that this is the case.

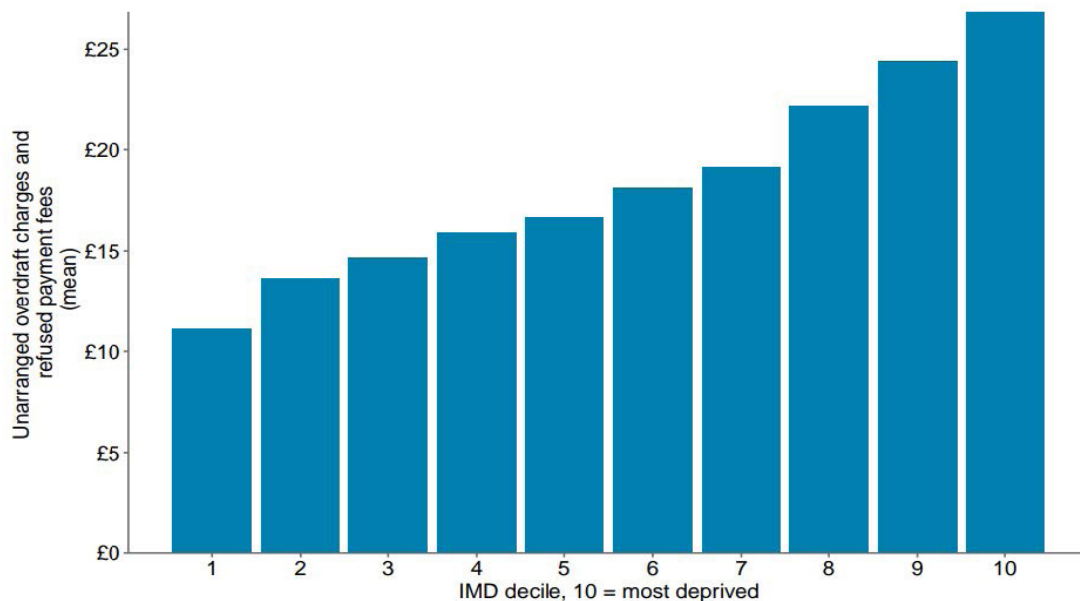
**3.19** Our analysis and the range of prices we see in the market suggests firms may not be interpreting this rule consistently.

**The distribution of charges is highly skewed**

**3.20** For arranged borrowing, customers can be charged high prices for small amounts of borrowing and we see steep increases in charges for small changes in behaviour. Across unarranged overdraft users, we do not see any clear relationship between the level of charges and the amount people use an unarranged overdraft (in terms of pounds borrowed over time).

**3.21** Our analysis has established that vulnerable consumers – defined here as people living in deprived areas and hard-pressed communities, who have low incomes,<sup>3</sup> are paying more in unarranged overdraft charges and even more in refused payment fees than the general population.

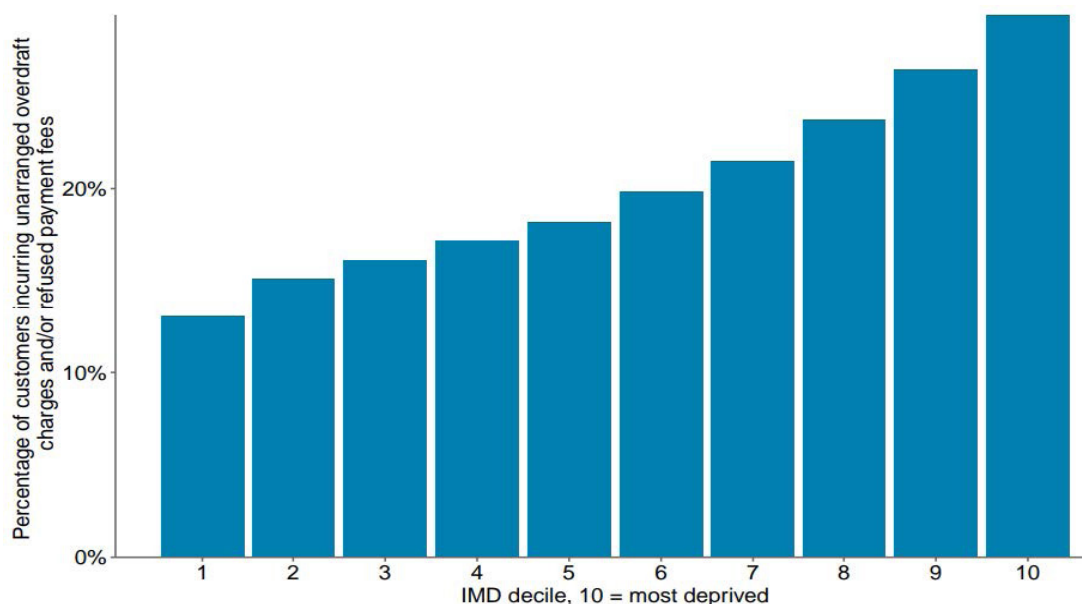
**Figure 3.2: Unarranged and refused payment fees – mean charges by index of multiple deprivation decile.**



**3.22** The relationship in Figure 3.2 is a result of the fact that people in more deprived areas are more likely to incur unarranged overdraft charges and refused payment fees than those in less deprived areas, and they are more likely to incur large amounts of these charges. Figure 3.3 shows that the percentage of consumers paying fees in the most deprived areas is around twice the percentage paying fees and charges in the least deprived areas.

<sup>3</sup> In the sense of being more likely to qualify for income support benefits

**Figure 3.3: Unarranged and refused payment fees – percentage of customers incurring fees by index of multiple deprivation decile.**



Read more about our analysis on the distribution of prices in the [Technical Annex](#).

**Pricing structures are complex and competition is weak**

**3.23** Consumers cannot easily compare prices between different providers of overdrafts or compare overdrafts against other forms of credit. So there is limited competitive pressure on prices.

**3.24** This results in 2 problems:

- First, pricing structures are complex so consumers are unable to work out how much their overdraft costs.
- Second, even where there isn't this type of complexity (but especially when there is) consumers find it difficult to compare differently structured prices, for example, when comparing their provider to other providers' overdrafts or another, potentially cheaper, credit product such as a loan or a credit card.

**3.25** These complexities may accentuate consumers' behavioural biases, like inertia, leading to poor outcomes as consumers do not choose and use products in the best way.

**3.26** For example, we find that over 20% of unarranged overdrafts could be avoided using either cash or savings, and half of all unarranged overdrafts could be avoided using cash, savings or the limit available in existing credit cards or arranged overdraft lines with the same provider. This shows that consumers often use overdrafts even though cheaper alternatives are available to them.

**3.27** Our consumer research (research into overdraft price presentation and APR) shows that the current mix of charging structures make it difficult for consumers to compare overdrafts, with only 20% of people able to readily understand the pricing differences and choose the best deal.

**3.28** Our earlier research (Atticus qualitative research to explore consumer use, experience and understanding of overdrafts) found that charges displayed only in pounds and pence:

- result in consumers not realising that an overdraft is expensive compared to other forms of credit
- contribute to consumers not considering overdrafts as debt in the same way they recognise credit cards to be debt

**3.29** While consumers say they find interest rates and representative APRs harder to understand than charges in pounds and pence, pricing this way has advantages:

- our research showed consumers recognise when one interest rate or representative APR is higher than another and can identify the cheaper deal
- they can compare representative APRs for overdrafts with other products
- overdraft calculators and pounds and pence examples can help consumers to translate interest rates to understand them in pounds and pence
- interest rates avoid steep increases in charges for small changes in behaviour

Read more about our research into overdraft price presentation and APR in the [Technical Annex](#).

**3.30** Consumers find it difficult to work out how expensive their borrowing could be over time, especially when compared with alternatives that might be available. They cannot anticipate their usage and they do not consider the longer-term impacts. Certain pricing structures can take advantage of this, attracting consumers with low incremental costs. We have seen that when shown the true costs incurred over time, and comparisons (both APR and pounds and pence examples) with the cost of other credit products (overdrafts and credit cards), consumers expressed concerns about feeling misled by price presentations that show a 'low' daily charge but are revealed to translate to a 'high' representative APR.

Read more about our consumer research on overdrafts and focus groups informing our overdraft pricing research in the [Technical Annex](#).

**3.31** Complexity contributes to existing low customer engagement found by the CMA in its investigation. Complexity is a barrier to switching to either another current account or another lending product, eg a credit card or a personal loan. Consumers stay with their existing provider and may miss out on better deals.

**3.32** Weak competition for overdrafts coupled with behavioural biases can compound the complexity of charges. A high concentration of providers<sup>4</sup> and overdraft users' low propensity to switch reduce the competitive pressure on firms to reduce prices. Overdraft users are to a large extent an inert group. They do not engage with their

<sup>4</sup> We estimate that the largest 6 personal current account providers make up 90% of the market.



overdraft use and may suffer from overconfidence and may underestimate their future overdraft use (present bias). This can give firms more pricing power, and the ability to take advantage of behavioural distortions in the market by making pricing complex.

**3.33** Allowing consumers to easily compare overdrafts to other credit products could significantly increase competition faced by overdraft providers. For example, we find significant scope for competition between overdrafts and credit cards. From a product perspective, credit cards are competitively priced with overdrafts, both arranged and unarranged, and often have many of the same features. We find that about 70% of overdraft users could finance their overdraft with a credit card, and over 80% could finance at least half of their overdraft balance with it.

Read more about our analysis on the availability of alternatives in the [Technical Annex](#).

**3.34** In Chapter 4, we set out remedies to address the harm arising from complex pricing structures.

### **The harm from repeat overdraft use – expensive borrowing could lead to problem debt**

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**3.35** Overdrafts are intended for short-term or emergency borrowing, but some consumers use them repeatedly over a long period of time. This repeat overdraft use can harm consumers because it can be an expensive way to borrow, and they can build up problem debt over time.

**3.36** These consumers bear a significant burden of the costs charged by firms, and are often unaware of the high cumulative costs or alternatives. Repeat overdraft users may have a deteriorating financial position, and many of them go on to use an unarranged overdraft or incur refused payment fees.

**3.37** Some consumers could clear their debt – and avoid having to use their overdraft in the next month – if they made a one-off payment or reduced their spending. Others could reduce their costs if they were offered cheaper longer-term alternatives, eg loans, or credit cards. Consumers sometimes feel that firms could do more to help.

#### **Drivers of this harm**

**3.38** Overdrafts can be a quick and convenient form of credit, with funds – particularly cash – being immediately available without a further application process. Overdraft use broadly falls into 4 categories:

- accidental use – by consumers who are not suitably monitoring their bank balance against their spend
- intentional occasional use – as typically described by provider firms, for short term emergencies such as an unexpected household repair bill
- habit – by consumers who may value convenience over cost
- necessity – by consumers who feel they have no other options

**3.39** Our competition remedies, such as alerts, are intended to help address lack of awareness and engagement by consumers, but have been shown to be less effective for heavy overdraft users.

**3.40** Similarly, our cost interventions deal with harm arising where the charges are high. These may reduce, but do not remove, the harm from repeat use. We need other interventions to address the cumulative impact of multiple charges over time.

**Evidence of the harm**

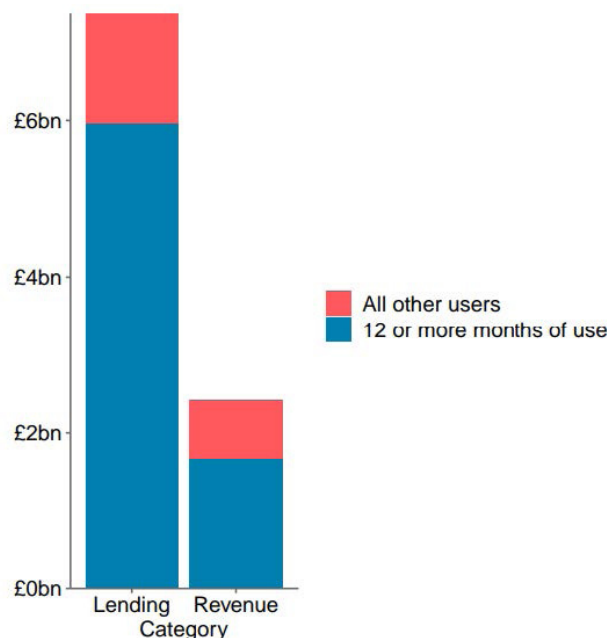
**3.41** We have conducted an analysis of repeat overdraft use by using data from:

- the transaction history of 1.5 million PCA customers over 2015 and 2016
- two specific data requests to firms, and individual discussions with firms
- consumer research on overdrafts

**3.42** We have been able to understand how often people use their overdraft, for how long each time and how much is borrowed. Here we set out our main findings.

**3.43** We have found that repeat overdraft users pay most costs (Figure 3.4). Around 14% of customers used an overdraft every month in 2016. These borrowed 81% of all overdraft lending and paid 69% of all arranged, unarranged, and refused payment fees.

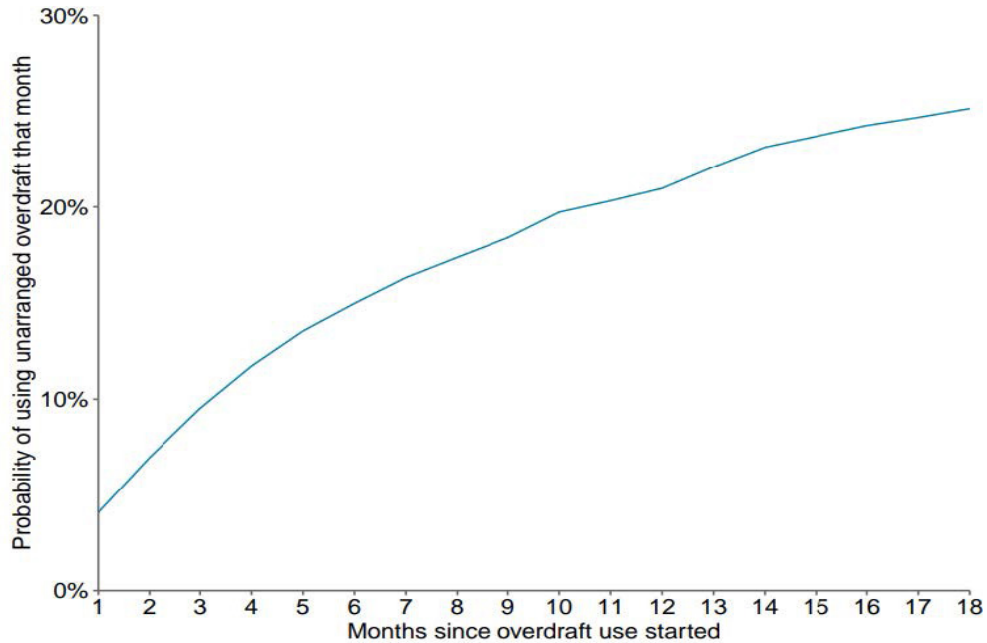
**Figure 3.4: Repeat use revenue and lending for those using overdrafts every month in 2016 vs all other users**



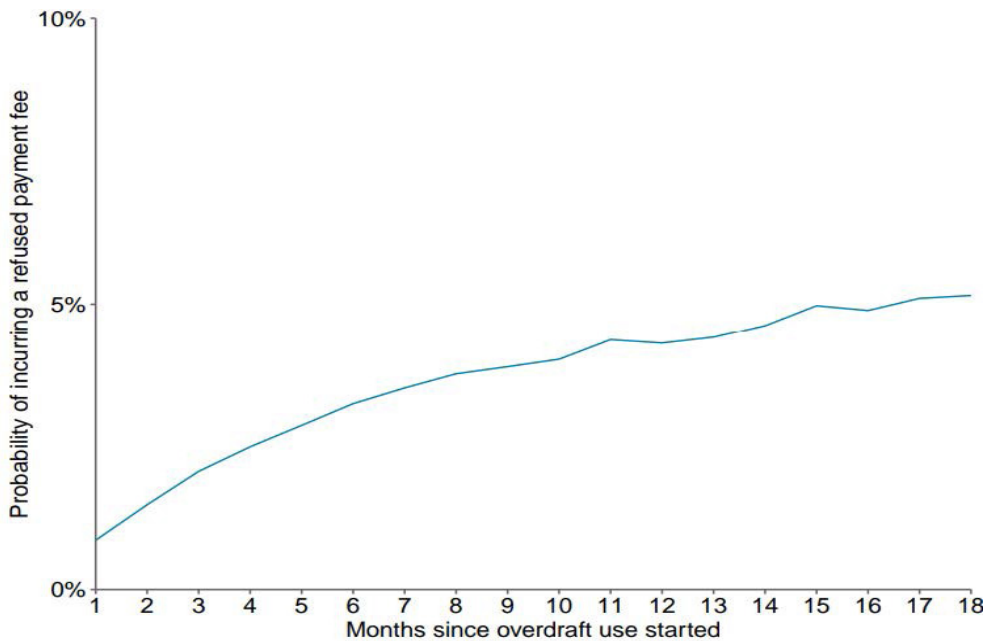
**3.44** We have also found that arranged overdraft use correlates with deteriorating financial position. In CP18/13 we showed that this use correlated with declining current account balance and rising credit card balance. Our further analysis shows that the probability of using unarranged overdrafts and/or incurring refused payment fees increases with the length of time an arranged overdraft is used.

**3.45** We estimated that the probability of unarranged usage increases from around 10% after 3 months to 15% after 6 months and to over 20% by 12 months (Figure 3.5). The chances of a customer receiving a refused payment fee increase from around 2% after 3 months to 3% after 6 months and to 4.5% by 12 months (Figure 3.6).

**Figure 3.5: Probability of using an unarranged overdraft given arranged overdraft use**

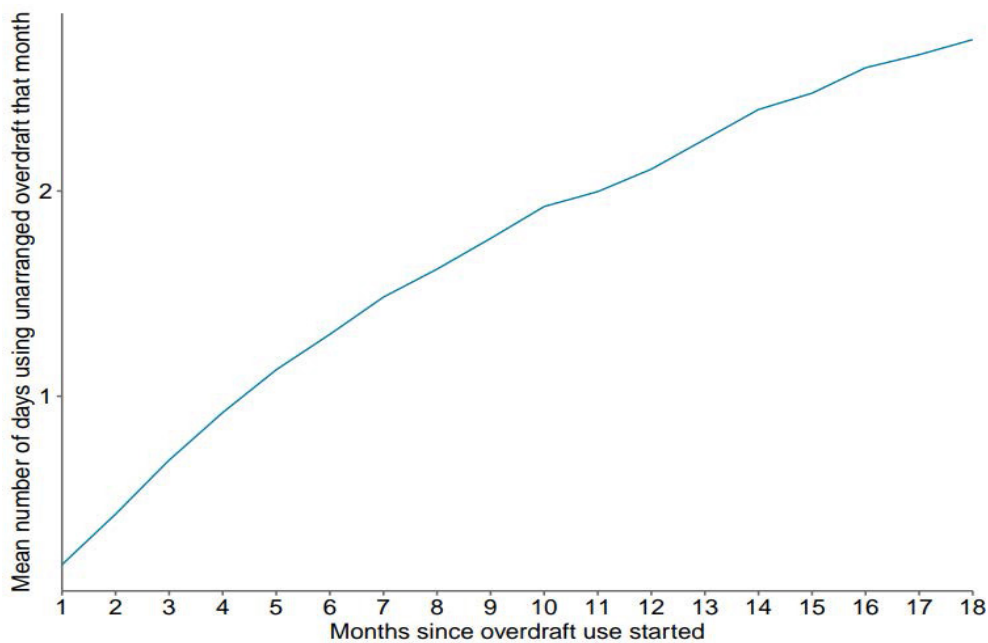


**Figure 3.6: Probability of incurring a refused payment fee given arranged overdraft use**



**3.46** We also found that the mean number of days of unarranged overdraft use increases with the number of months of arranged overdraft used, from 1 day for those using an arranged overdraft for around 4.5 months to 2 days at 12 months and it continues to increase beyond (Figure 3.7).

**Figure 3.7: Mean number of days in unarranged overdraft given arranged overdraft use**



**3.47** In Chapter 5 we set out remedies to address the harm arising from repeat use.

### **The harm from low customer awareness and engagement**

**3.48** The findings of the CMA's investigation into the retail banking market, and our own research (Atticus consumer research on overdrafts), show that many consumers are unaware they are using their overdraft or are not clear about some key features, including fees and charges. Customers are often hindered from switching because they do not know if they will be eligible for an overdraft with another provider.

**3.49** We are making rules to improve consumer engagement and transparency of information related to overdrafts. These rules will reduce barriers to switching by requiring firms to provide eligibility tools online or within banking apps. They will help consumers understand how overdrafts work as firms improve the visibility and content of key general information about overdrafts and provide an overdraft cost calculator. Requiring firms to automatically enrol consumers into alerts will improve consumer awareness and be a prompt to consider the borrowing. Our research shows that alerts make customers aware of how much they are using their overdraft and that they may be charged for it.

**3.50** Consumers who are engaged and aware of their overdraft use may not consider it 'debt' in the same way as a credit card. We address this with the rules we are making to provide better information about overdrafts at account opening, to display negative overdraft balances to customers at cash machines, and an industry agreement to prompt customers about their overdraft use. Requiring firms to include their arranged overdrafts APR in certain advertising would make it clearer this is debt.

**3.51** Consumers also struggle to understand both the daily and cumulative cost of their overdraft use and the charges themselves. Proposals to ban fixed daily fees and require a single interest rate could exacerbate this as consumers struggle to easily



calculate what percentages mean to them. However, our research has shown that where an interest rate is given alongside pounds and pence examples or an overdraft calculator (that allows consumers to easily calculate how much their overdraft will cost in pounds and pence) this was easier to understand (see [Technical Annex](#)).

- 3.52** Our pricing and competition remedies are designed to help consumers better understand the cumulative cost of using an overdraft. An industry agreement to prompt consumers (announced in CP 18/13) will ensure they are reminded of this.
- 3.53** Our new rules in Chapter 7 are designed to address harm from low customer awareness and engagement.



## 4 Pricing interventions

- 4.1 In this chapter, we respond to feedback we received to the proposals we discussed in May. We consult on proposals to intervene in the market to address the harm outlined in Chapter 3.

### Summary of our proposals on price

- **align prices of unarranged overdrafts with arranged overdrafts** so that they are no more expensive than arranged overdrafts
- **simplify overdraft pricing structures** requiring firms to charge a single interest rate for arranged and unarranged overdrafts on each customer account
- **standardise the presentation of arranged overdraft prices to make them easier to compare and to position overdrafts as borrowing**, through requiring a representative annual percentage rate (APR) in certain advertising for arranged overdrafts
- issue new guidance to help firms comply with existing rules **that refused payment fees should** reasonably correspond to the costs of refusing payments

### Aligning the prices for arranged and unarranged overdrafts

#### Background

- 4.2 In CP18/13 we said we were considering aligning the prices for arranged and unarranged overdrafts so firms could not charge any more for unarranged lending than for arranged, although they could charge less.
- 4.3 We explained we were collecting and analysing data to identify whether there are costs to firms that are specific to unarranged lending. We said if we found significant differences in costs for firms, then we could consider allowing a small, capped, difference between arranged and unarranged prices to avoid unarranged lending becoming unprofitable and potentially leading firms to reduce unarranged lending.
- 4.4 We explained that our proposals for alignment would leave firms to decide on their overdraft prices, although it would limit the extent to which they can place additional charges on unarranged users.
- #### Feedback received on alignment following CP18/13
- 4.5 Our proposals for alignment were supported by most consumer representatives and 1 firm. Respondents stressed there was a need to prevent firms targeting vulnerable consumers with disproportionately high charges.
- 4.6 Most firms raised concerns that FCA moves towards price regulation, including alignment, may stifle competition and innovation. Some argued that consumers value unarranged overdrafts and are willing to pay for them.



- 4.7** Firms acknowledged that decisions to provide an unarranged overdraft had become increasingly more automated, but argued that unarranged overdraft use means more action for them that can increase costs. Such actions include, for example, additional customer contact, collections activity, increased risk and impairment requirements. Some consumer representatives agreed that modestly higher charges for unarranged overdrafts may be acceptable if there is justification for the difference. One suggested a fair additional cost may act as an incentive to avoid unarranged use. Another considered differences in price can confuse customers. Some respondents considered the possible waterbed effect from restricting charges for unarranged overdraft use, highlighting that it would likely result in increased arranged overdraft prices.
- 4.8** While some consumer representatives recognised that our proposals for alignment would effectively reduce and constrain unarranged overdraft prices, meaning that a direct cap was not required, some recommended that we introduce a direct cap on unarranged (and in some cases arranged) overdraft prices. Respondents suggested it should sit at a level similar to the payday loan cap (daily cap of 0.8% with a total cost cap of 100%). They said any cap could take the form of the FCA setting a Monthly Maximum Charge (MMC) that includes refused payment fees as well as overdraft charges. Some respondents felt that the current MMCs set by firms were too high. One felt there was little correlation between the overall level of the MMC and the cost of unarranged overdrafts in a variety of different scenarios.
- 4.9** One firm did not support the offering of unarranged overdrafts. However, consumer representatives highlighted the comfort that access to an unarranged overdraft brings. Respondents asked us to consider whether our actions to restrict firms' ability to set prices for unarranged overdraft use could affect consumer access.

### Our response

Our consumer research found that consumers value unarranged overdrafts. We believe they have value as a customer service providing a tolerance zone for smaller payments.

Aligning unarranged overdraft prices with arranged overdraft prices is the best option available to us to restrict unarranged overdraft prices. We believe it necessary and proportionate to address the harm we see from high prices for unarranged overdrafts. Based on our evidence, we do not consider it necessary or proportionate to ban unarranged overdraft charges or to ban unarranged overdrafts.

### The cost of providing unarranged overdrafts

As shown in Figure 3.1, the difference in pricing between arranged and unarranged overdrafts is sizeable. Unarranged overdrafts represented 26% of total overdraft all-in income between 2014 and 2017, but only 4% of total overdraft lending assets.

Unarranged overdrafts have higher credit risk related costs. This is partly inherent, but is also driven by the accounting mechanisms of firms. In particular, some firms withdraw limits from impaired arranged overdrafts, converting them into unarranged lending balances. In turn, this overstates the risk of issuing new unarranged credit, and understates

the risk of issuing new arranged credit – especially as arranged lending balances are typically much larger than unarranged lending balances. Partly because of this practice, we found material and proportional differences in capital costs between arranged and unarranged overdrafts. Unarranged overdrafts demand a proportionally higher amount of regulatory capital driven by different credit risk weightings (risk-weighted assets (RWA)). But since unarranged lending balances represent only 4% of all overdraft balances, the monetary impact is still small.

We have found it difficult to obtain reliable or complete information from firms on the potential cost differences between issuing arranged and unarranged overdrafts. Firms themselves do not appear to know the differences in costs to provide them. One firm said there are no significant incremental costs to providing an unarranged overdraft. Other information suggests that requirements to hold additional regulatory capital (driven by RWA) and higher risk consumers (expressed by higher impairment rates) are key drivers of increased cost for unarranged overdrafts. We have considered this when looking at cost information.

Based on discussions with firms and our own consumer research, we believe firms offer the feature to customers, despite its higher risk, for quality of service and not only to receive direct interest or fee income. Declining payments is a negative experience for customers, which the firm and the customer would rather avoid. It can lead customers to contact the firm or make complaints, which results in other costs. Some firms have chosen not to charge for unarranged overdrafts or refused payments.

We do not see a convincing case for allowing firms to charge more for unarranged overdrafts than for arranged. Firms remain free to set prices so that neither arranged nor unarranged overdrafts become loss making. Allowing a higher price for unarranged overdrafts (uplift) would dilute our desired outcomes of simplifying charges and reducing the charges incurred by more vulnerable segments of consumers. Requiring firms to align prices of unarranged overdrafts with arranged overdrafts so that they are no more expensive than arranged overdrafts does not detract from the wider principle that pricing should reflect their assessment of the underlying risk.

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#### **Our proposals – aligning charges for arranged and unarranged overdrafts**

- 4.10** We propose that all firms make any charges for using an unarranged overdraft the same as (or less than) charges for using an arranged overdraft.
- 4.11** For accounts without arranged overdraft facilities, unarranged charges should be no more than charges for an arranged overdraft provided on a sufficiently comparable account.
- 4.12** We are proposing not to allow firms to apply any additional charges for an unarranged overdraft above those for an arranged overdraft. This will make it easier for consumers to understand charges and it will also reduce charges paid by some consumers, many of whom are vulnerable. We note that in setting arranged overdraft prices, firms may



consider the need to recover any additional costs they may incur from providing unarranged overdraft.

**4.13** If an unarranged overdraft charge is imposed in breach of our rules relating to alignment, we propose that the obligation to pay the charge is unenforceable against the customer and that, if the customer has paid the charge, they are entitled to reclaim it. A constraint on unarranged overdraft pricing that it cannot be higher than arranged pricing is an important step in advancing our consumer protection objective, which will benefit a large number of often vulnerable consumers, and non-compliance could create competitive distortions.

**Q1:** Do you agree with our proposal to align the charges for arranged and unarranged overdrafts?

**Q2:** Do you agree with our analysis that our rules on alignment should not allow firms to charge more for unarranged overdraft use (no uplift)? If you disagree with our analysis, please provide evidence outlining the additional costs an uplift is required to cover and the level of uplift required.

**Q3:** Do you agree with our proposal that charges for unarranged overdrafts should be unenforceable if their level exceeds the level of arranged charges?

## Simplifying pricing and APRs

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### Background

**4.14** In CP18/13 we set out proposals for standardising and simplifying overdraft pricing.

**4.15** We said that overdraft price structures should allow consumers to easily compare both different overdraft providers and other forms of credit. The current range of structures in the market does the opposite, requiring consumers to compare different types and combinations of pricing elements and requiring accurate prediction of future borrowing patterns.

### Feedback received on price simplification following CP18/13

**4.16** Response to the proposals discussed in CP18/13 was mixed.

**4.17** Respondents agreed transparency is important to empower customers. A consumer representative said that pricing structures in the market could be considered evidence of firms making prices complex and difficult for consumers to understand and compare. Firms and a trade body said the regulator should not prescribe how overdrafts must be charged. They argued doing so could stifle innovation, restrict competition and the availability of overdrafts.

**4.18** While some respondents supported the idea of a single interest rate, others argued that:

- fixed fee charging structures do not hinder comparison between overdraft providers

- consumers struggle to calculate interest rates but daily fees are transparent and easy for consumers to understand
- some firms price by daily charges to increase consumers' ability to understand their borrowing costs
- research showed that consumers prefer fee-based pricing structures to interest rates
- daily fees allow firms to recover fixed costs of borrowing from people who borrow small amounts in a way that interest rates cannot
- overdraft calculators and an industry-wide cost-comparison portal that could use Application Programming Interfaces (APIs) to compare charges across pricing structures would be enough to enable comparisons without requiring a single interest rate

**4.19** Others agreed that a move to require a single interest rate would benefit consumers as long as consumers have sufficient tools to help them understand what this means in pounds and pence. They said a ban on fixed fees would prevent firms charging excessive fees for small amounts of borrowing and this should be extended to include refused payment fees.

**4.20** One respondent highlighted the need to model the proposed changes to ensure the package benefits all overdraft users. They wanted vulnerable people in the most deprived areas to benefit the most.

**4.21** There was support for disclosing representative APRs amongst consumer representatives but not from overdraft providers. A consumer representative did however highlight that using the effective annual rate of interest (EAR) to communicate the annual interest rate for borrowing can confuse consumers. This respondent was not aware of there being the same formal requirements for calculating EAR as there are for APR.

**4.22** Firms raised concerns about calculating APR and how it portrays fee-free overdraft amounts. If APR is introduced, they requested FCA guidance on how it should be calculated. They said APR could be misleading as it is based on a high amount of borrowing over a year whereas overdrafts are typically used to borrow small amounts over short periods. They presented evidence that consumers do not understand APR, instead preferring to see the cost of borrowing in pounds and pence. Some said we should require a representative example showing the cost of borrowing a common amount for a common amount of time and this would be more relevant to customers than the existing representative example. For instance, firms could disclose the cost of borrowing £200 for 7 days in pounds and pence.

**4.23** Firms also disagreed with the suggestion that consumers might be encouraged to compare the cost of overdrafts with credit cards or loans as they consider the products are for different purposes. APR does not take into account the repayment profile and flexibility of overdrafts compared to loans. As consumers can use overdrafts to access cash, overdraft charges could be more comparable to the interest rate for a credit card cash advance than a credit card APR.



## Our response

Consumers do not typically spend much time thinking about overdraft charges so it is important charges are simple. Prices that are not linked to the level of use, or that contain significant jumps in price for small additional levels of borrowing, make it hard for consumers to apply simple rules of thumb to understand their overdraft charges.

Requiring overdrafts to be priced with a single interest rate would allow consumers to focus on a single, meaningful figure to compare overdrafts and encourage firms to compete on a headline price. This would require a ban on all other overdraft fees (other than fees for refused payments which are permitted under the PSRs).

If arranged and unarranged prices are aligned, unarranged overdrafts would be charged in the same way as arranged overdrafts resulting in a single interest rate across all overdraft borrowing.

In addition, a representative APR in certain advertising of arranged overdrafts, as currently required for other forms of consumer credit, should help consumers compare providers and overdrafts with other forms of lending such as credit cards.

### Single interest rates will reduce harm

We believe that requiring overdrafts to be charged by a single interest rate (where charges may vary by product or by customer) and requiring disclosure of a representative APR in certain financial promotions for arranged overdrafts will address harm by:

- reducing the complexity of pricing for arranged and unarranged overdrafts
- banning fixed daily fees which result in an unfair distribution and structuring of prices where prices are not proportional to the amount borrowed
- increasing transparency of comparative overdraft rates by requiring firms to publish their representative APR to allow consumers to easily compare offers from different lenders (including overdraft and credit card providers)<sup>5</sup>

We conducted qualitative and quantitative research (see [Technical Annex](#)) to compare consumers' ability to identify the cheapest overdraft in current market conditions and after implementing a single interest rate and representative APR.

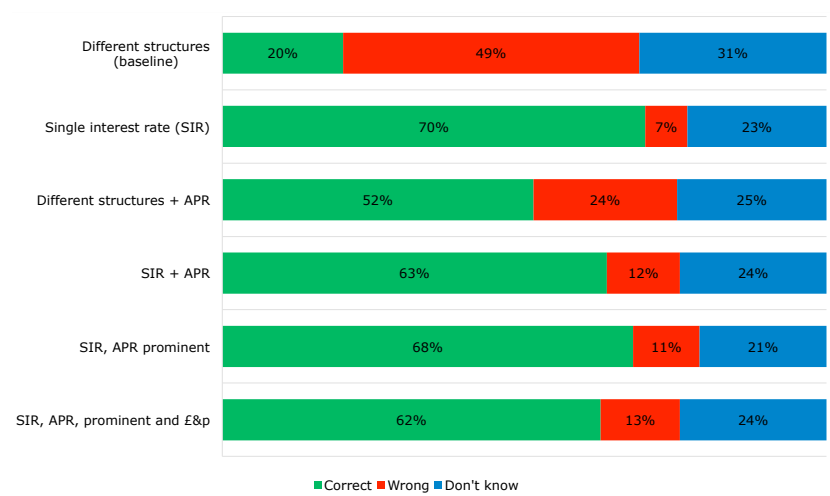
Consumers report finding charges easier to understand when they are displayed in pounds and pence. However, when asked to compare overdrafts priced in pounds against each other and those using an interest rate, only 20% of consumers could identify which overdraft was

5 There is a significant overlap between the credit card market and overdraft market: about 70% of overdraft consumers could use a credit card instead of an overdraft. This suggests that there is significant scope for competition between the two products. See [Technical Annex](#) for further details.

the least expensive. This compares to 63% of consumers being able to identify the cheapest overdraft where they were all priced using a single interest rate and displayed with an APR.

Our research suggests that consumers can use an APR to compare even if they do not fully understand what it means. 64% of consumers in our survey knew that an overdraft at 50% APR is more expensive than a credit card or loan. One in three said they 'would' use the APR to compare overdrafts if it were available, a further one in three 'might' use the APR to do this.

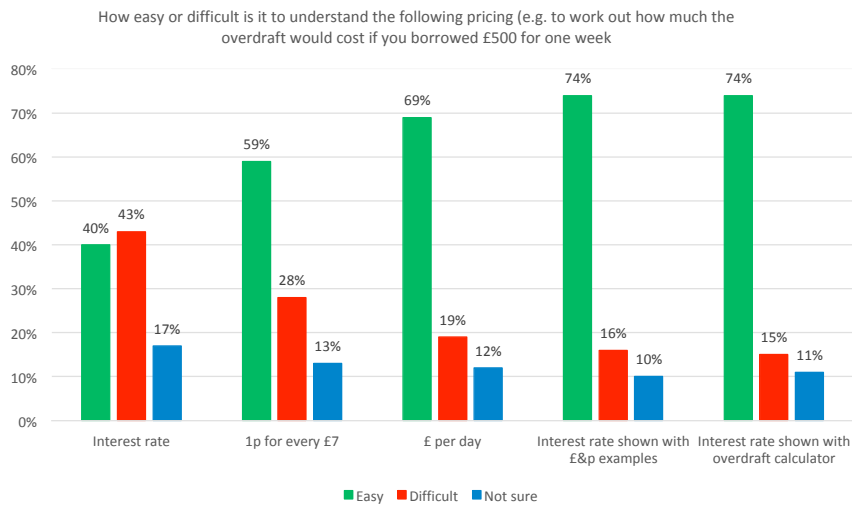
**Figure 4.1: Consumer ability to choose the cheapest deal**



Pricing via a single interest rate will remove charges that are disproportionate to the amount borrowed and help consumers to compare the cost of borrowing with other options. However, consumers may find it difficult to use interest rates to understand how much an overdraft will cost in real terms. Our rules require firms to provide online overdraft cost calculators which will help consumers to calculate the cost of their borrowing.

However, we recognise that not all consumers will have access to or will want to use the calculator. Our research also found that consumers found it easy to understand information about overdrafts if it included pounds and pence examples showing them the cost of borrowing a specified amount for 1 day, 1 week, 1 month and 1 year. Some supported the provision of pounds and pence examples and suggested a common example could be developed.

**Figure 4.2: Consumer understanding of pricing**



## Our proposals to simplify overdraft pricing

### A single interest rate and a ban on tiered pricing

- 4.24** We propose requiring firms to charge overdrafts via an interest rate. An interest rate is a percentage charged on the total amount borrowed.
- 4.25** We also propose to ban tiered pricing. This means that (except for interest free amounts) firms must charge the same interest rate regardless of the amount borrowed. Our proposals allow firms to provide an interest free 'buffer' or other interest-free amount. But in order to avoid steep increases in cost for small changes in behaviour ie where balances go slightly over the buffer, this amount must remain interest free if the customer exceeds it.
- 4.26** Our proposals allow for a single interest rate to be charged on each individual account offered. This could vary for different account types, or even different customers holding the same account (allowing for risk based pricing). However, providers could not have different tiers within a single account nor different prices for different types of arranged overdraft within the same account – such as different charges for arranged overdraft and agreed emergency borrowing facilities.
- 4.27** Price simplification would effectively ban all fees for borrowing under an arranged overdraft. Firms will also have to charge for unarranged overdrafts the same way they charge for arranged overdrafts. This prohibits monthly usage fees and allowed payment fees. However, our proposals would allow firms to charge less, or nothing, for the use of unarranged overdrafts and we are not banning refused payment fees, which firms are allowed to charge under the PSRs.
- 4.28** Firms can keep charging an account maintenance fee which is charged whether an overdraft is used or not.
- 4.29** We have considered whether certain daily pricing structures could also deliver the outcomes we are looking for in terms of consumer understanding and comparability



and have concluded they do not. Interest based overdraft charging structures are more easily comparable, particularly where customers are not presented with an APR. Firms are not required to provide existing customers with an APR when they vary overdraft prices. Nor can this be compelled due to constraints under the Consumer Credit Directive. However, different from new fixed daily charges, existing customers would still be more readily able to use new interest rates to compare the price of their overdraft with other overdrafts or other credit products.

**Q4: Do you agree that firms should be required to charge for overdrafts by a single interest rate?**

**Disclosing the representative APR**

- 4.30** We propose that firms disclose, in advertising, the representative APR for their arranged overdraft wherever the requirement to include the representative example is triggered in CONC (Consumer Credit sourcebook). This will allow consumers to compare easily and for firms to compete on a meaningful headline price.
- 4.31** Our consumer research shows that consumers are familiar with APRs as a measure of the cost of borrowing. Many can judge that a representative APR of 50% is more expensive than the APR they would expect to see for a credit card or loan. A third of consumers said they would use representative APR if it were available, to compare the cost of overdrafts and other credit products. A further third said they might do this.
- 4.32** If firms charge different interest rates to different customers (risk based pricing), the representative APR in advertising reflects the rate firms reasonably expect a majority of consumers responding to the advert to be offered.
- 4.33** Overdrafts are exempt from the requirement to include an APR in pre-contract credit information and in overdraft agreements (under the Consumer Credit Act).
- 4.34** Currently, firms do not have to include a representative APR (as well as an annual interest rate) in a representative example. But we propose removing this exemption because the changes we are proposing to overdraft pricing make a representative APR a reliable comparator.
- 4.35** We can do this under the Consumer Credit Directive (CCD) which allows member states to decide whether to require overdraft providers to disclose an APR in the representative example. If we require firms to charge for overdrafts by a single interest rate we believe it would no longer be appropriate to exempt overdraft providers. If overdraft charging is simplified, an APR would be effective as a quick and simple tool for comparison. If a consumer sees two overdrafts with two different APRs, the lower of the two APRs corresponds to the cheaper provider. Because of the way that APRs are calculated this would not be true if other charges, such as fixed fees, are included as part of the price structure.
- 4.36** Removing the current exemption from including a representative APR in representative examples for overdrafts means that firms would be required to include a representative APR in financial promotions:
- where the promotion indicates an interest rate or an amount relating to the cost of the credit (whether expressed as a sum of money or a percentage)



- that state or imply that credit is available to individuals who might otherwise consider their access to credit restricted
- that include a favourable comparison relating to the credit, whether express or implied, with another person, product or service
- that include an incentive to apply for credit or to enter into an agreement under which credit is provided

### Calculating the APR

**4.37** For the APR remedy to be effective, firms must have a common understanding of how to calculate it.

**4.38** In their feedback to CP18/13, firms asked how to calculate an APR for arranged overdrafts. We believe most of the questions raised, for example the treatment of compounding interest, are covered in CONC APP 1.2.6R, which gives details of how to calculate the APR and the assumptions to use where necessary. This derives from CCD.

**4.39** We propose to add further guidance outlining how firms should calculate a representative APR for arranged overdrafts which offer unconditional interest free amounts. The representative APR should reflect the cost to the customer of borrowing the representative amount. Where charges only apply to any borrowing above an interest-free amount, this reduces the representative APR. For example:

Overdraft limit £1,200	Overdraft limit £1,200
Interest-free amount £200	No interest-free amount
Any borrowing above the interest free amount is charged at 10% EAR	Any borrowing is charged at 10% EAR
The representative APR for this overdraft would be 8.3%	The representative APR for this overdraft would be 10%

**4.40** We also propose to add guidance on how personal current account maintenance fees should be treated when calculating the APR for overdrafts. If a customer cannot obtain an overdraft on the same terms without incurring a fee, the fee should be included in the APR calculation.

### Displaying the APR

**4.41** Disclosing a representative APR is intended to help consumers to compare the cost of credit between different overdraft providers and other products such as credit cards. In addition, we want this disclosure (alongside our competition remedies) to help reposition overdraft use as debt. So it must be displayed as prominently as the rest of the representative example.

**4.42** Our existing rules (CONC 3.5.5R) require the representative example (which we propose should include the representative APR in the case of arranged overdrafts) to be clear, concise and prominent. CONC 3.5.7R also requires that the representative APR be prominent.

**4.43** Each item of information within the representative example must be given equal prominence. The representative example must be given no less prominence than

other information about the cost of credit or any other representative APR trigger in the financial promotion.

**4.44** Some providers' representative examples are not shown prominently. We expect firms to review their current overdraft financial promotions and ensure that representative examples are displayed prominently. This means both the example must be prominent within the promotion, and it must be no less prominent than other cost information.

**4.45** Consumers are not used to seeing an APR for their overdraft and often do not consider overdrafts as debt. To make it clear, we propose firms would include the title 'How does our overdraft compare?' and explain that the APR allows customers to compare the cost of the overdraft with other providers or with other types of borrowing.

**Reporting on APRs**

**4.46** We want firms to tell us each year by email, for each of their PCAs, the representative APR they have used in financial promotions. Where firms advertise different interest rates, for different customers or at different times, we propose to require them to tell us the highest, lowest and median representative APR they have used in a financial promotion. We may publish this information on our website.

**4.47** While interest rates help consumers compare between products and providers, we know that consumers also like to understand exactly how much their overdraft will cost them in pounds and pence.

**4.48** We have made rules that require providers to make an online or banking app overdraft calculator available so that consumers can easily work out the cost of an overdraft in pounds and pence. We encourage firms to include the calculator in financial promotions on their website.

For more information about our rules requiring provision of an overdraft calculator see Chapter 7.

**4.49** In addition, during the consultation period we will work with firms via UK Finance to pursue an industry agreement on pounds and pence disclosure. In our research, we found that consumers understood an example similar to the box below.

**Can you give me an example in pounds and pence?**  
You can use our calculator to work out what our overdraft charges mean you will pay in pounds and pence for other levels of borrowing or periods of time.  
As an example if you borrow £500 it will cost you:

£0.25 for 1 day	£1.75 for 1 week	£7.77 for 1 month	£93.24 for 1 year
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**Q5: Do you agree that we should require firms to disclose the representative APR in advertising where the representative example or representative APR is triggered?**

**Q6: Do you agree with our proposed guidance to help firms to calculate APR consistently?**



- Q7:** Do you agree that in addition to existing rules in CONC regarding the disclosure and prominence of the representative example and representative APR, we should require firms to include the title 'how does our overdraft compare' and explain that representative APR can help consumers compare the overdraft?
- Q8:** Do you agree that firms should report to the FCA information about their representative APR and that we should publish this information?
- Q9:** Do you agree that it would be helpful for firms to give consumers a clear example showing what an overdraft might cost in pounds and pence if they borrowed money for a period of a day, a week, a month or a year?

### The impact of our proposals on the market

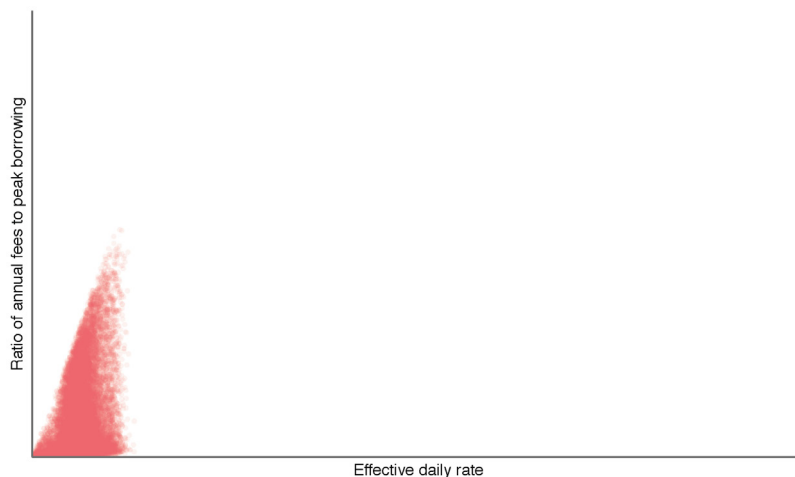
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- 4.50** As illustrated in Figure 4.3, in 2016, consumers experienced a wide range of effective rates of charge on their overdraft borrowing. Some consumers' overdraft charges were above an effective daily rate of 0.8% or total charges were above 100% of peak borrowing (the 'payday cap').
- 4.51** We expect our proposed remedies to lead to a significant reduction in maximum daily rates and in the maximum ratio of charges to peak borrowing. Very high effective daily rates, and so high ratios of charges relative to amounts borrowed, are largely driven by fixed fee structures used by many banks, especially for unarranged overdrafts.
- 4.52** Under the proportional charging models that we are proposing, and with unarranged overdrafts priced no higher than arranged overdrafts, we do not believe these very high effective rates would exist (Figure 4.4). This is based on modelling which assumes firms adapt to a compliant pricing model and recover 2016 revenues (Scenario 1 in the Policy Analysis Annex).
- 4.53** We have omitted the scales from both graphs to avoid us influencing firms' pricing decisions and to reduce the risk of individual firms being identified.

**Figure 4.3: The overdraft market in 2016**



**Figure 4.4: The overdraft market post-intervention**



### Considering a direct cap on overdraft prices

**4.54** We have considered responses to the discussion element of CP18/13 that suggest we should directly cap overdraft prices as well as (or instead of) requiring them to be aligned. Our modelling suggests that alignment will result in better outcomes for consumers than a direct cap. Alignment is essentially a market-based mechanism for constraining unarranged overdraft prices. Our modelling shows that combined with a single interest rate, alignment will:

- Eliminate all current instances of very high effective daily rates for unarranged and arranged overdraft prices. Prices at or above the existing daily interest cap for High-cost Short Term Credit of 0.8% or annual charges of more than the principal amount borrowed would be unlikely.



- Ensure that competitive constraints that affect arranged overdraft pricing will also in the future affect unarranged overdraft pricing. While we agree with respondents to our DP that arranged overdraft prices may rise because of alignment (waterbed effect) this outcome would also be possible if we were to directly cap unarranged overdraft prices. We believe that the level of competitive pressure that exists in the market for arranged overdrafts is enough to curtail this and we expect levels of competition for arranged overdrafts to further increase because of our proposals.
- Redistribute revenue so that it is more proportional to use. Our modelling shows that gains for consumers in deprived areas will on average be larger than gains for consumers in less deprived areas, and losses will on average be smaller than losses for consumers in less deprived areas.

**4.55** We believe that at present it would not be proportionate to require a direct price cap in this market. We consider alignment, through competitive pressure, can address the harm we see in the market. In addition, we believe there are risks to introducing a direct cap on prices now. It could signal that prices at or approaching the cap are acceptable. It might anchor expectations and contribute to upward price changes amongst providers who currently have low or no charges for unarranged overdraft use. We believe that alignment can deliver cheaper prices for consumers than a price cap. A cap could also could discourage consumers from engaging with overdrafts and prevent more effective competition developing.

**4.56** We will monitor this market and keep overdraft pricing under review. Although our analysis suggests that our remedies address the current harm, we will consider introducing a price cap in this market if rates increase significantly above our expectations.

**4.57** We will regularly request simple information from firms to facilitate this. We expect this will include information on numbers of accounts, numbers of active overdraft users (arranged and unarranged), overdraft charges, total overdraft lending balances, total overdraft income, average overdraft balances, and average overdraft charges.

## Guidance on refused payment fees

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### Background

**4.58** In CP18/13 we discussed potential guidance to make clear exactly which costs providers should consider, to ensure that their refused payment fees reasonably correspond to actual costs in line with the PSRs. We see potential for harm from refused payment fees if they are too high, especially as they are highly concentrated on vulnerable consumers.

### Feedback received on refused payment fees following CP18/13

**4.59** Responses to CP18/13 and a cost survey identified activities that were paid for by refused payment fees, but provided limited insight into the actual cost to providers.

**4.60** Responding providers associate the cost of refusing a payment with their payment infrastructure and customer contact such as sending letters, automated text alert systems and time spent with customer services in branches, on the telephone or through digital channels. They also cited costs associated with collection and recoveries.

- 4.61** Providers argued that the costs of declining a transaction should include a portion of technology and infrastructure costs associated with administering a PCA.
- 4.62** Consumer groups were concerned about the harm from high refused payment fees and agreed that such fees should reflect providers' actual costs. There was concern that providers would seek to recover losses on unarranged overdraft revenue from refused payment fees.
- 4.63** One consumer group felt that if providers are permitted to recover reasonable costs, they would also be more likely to continue offering unarranged overdraft facilities, which they argued were important to consumers. Furthermore, if unarranged overdrafts were removed consumers could still be harmed by high refused payment fees. It was also suggested that refused payment fees and unarranged overdraft charges should both be capped at 100% of the amount borrowed.

### Our response

We found clear links between consumers incurring fees for unarranged overdrafts and refused payments. A move in the market away from offering unarranged overdrafts could result in more declined transactions. We said we would be concerned if providers looked to do more than recover legitimate costs using refused payment fees.

The PSRs make clear that providers are entitled to charge refused payment fees, but these should 'reasonably correspond to the payment service provider's actual costs' (Payment Services Regulation 2017, section 66(1)(c)). We would need to see more clarity from firms in the evidence they provide to enable us to conclude that this is the case.

We are consulting on new guidance to ensure that the existing regulations are clear including the extent to which a reasonable allocation of infrastructure costs may be taken into account when setting the level of refused payment fees.

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### Our proposals for guidance

- 4.64** We propose that providers should set these fees to recover only those costs that can be reasonably attributed using the firm's costing approach.
- 4.65** Relevant costs include:
- incremental payment system cost incurred in the process of refusing a payment
  - providing alerts and notifications: including text messages, emails and letters in respect of a refused payment
  - customer service contact initiated by the customer over the phone, through digital channels and in branches as a result of a refused payment
  - the cost of handling a complaint arising out of a refused payment



- certain infrastructure costs, as long as these can be reasonably allocated to the activity of refusing payments according to an appropriate accounting methodology

**4.66** Refused payment fees should reasonably correspond to the actual cost of refusing payments in each product line.

**4.67** We propose that the costs associated with operating and maintaining a personal current account are **not** included in the cost calculation. These costs would cover items such as:

- costs of refusing payments that fall outside the scope of the Payment Services Regulations
- fraud detection and prevention
- collection, recoveries and impairments
- costs associated with advice to customers who need help to deal with their debts
- bank statements
- Financial Services Compensation Scheme levies
- Financial Ombudsman Service general levy
- Marketing

**4.68** Full details of our proposed changes to Finalised Guidance: Payment Services and Electronic Money – Our Approach are in Appendix 3.

**Q10: Do you agree with our proposals for guidance for recovering costs via refused payment fees? If you disagree, please set out which costs should be excluded and why, and which costs should be included and why.**

### **Application of our proposals and timelines for implementation**

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**4.69** We propose that the rules described in Chapters 4 and 5 of this consultation will apply to banks and building societies offering payment accounts within the meaning of the Payment Accounts Regulations 2015 from an establishment maintained in the UK, with the following exceptions:

- private banks and credit unions are excluded
- current account mortgages are excluded
- firms would not be required to comply with the rules for accounts where there are certain limitations on the ability of a customer to go overdrawn or incur overdraft-related charges



- 4.70** The proposed guidance for recovering costs via refused payment fees would apply to all relevant payment service providers.
- 4.71** We propose to allow firms 6 months to comply with the rules and guidance proposed in this chapter. We believe this is enough time for firms to amend pricing models, implement technology changes and communicate any changes in account terms and conditions to their customers as required by contractual and regulatory provisions. It reflects the urgency of addressing the harm we see in the market.
- 4.72** We propose to exclude credit unions as very few offer overdrafts or the types of payment that may incur a refused payment fee. They are already subject to a legislative cap on interest rates. They are excluded from the requirement that refused payment fees need to reasonably correspond to firms' actual costs. Where credit unions charge consumers for refused payments, we expect them to ensure they are treating their customers fairly and in line with the objectives of their credit union.
- 4.73** The rules will apply to protect consumers who hold PCAs.
- 4.74** Where a firm makes significant changes to its pricing structure in response to our proposed rules, our proposed rules require the firm to consider the impact of these changes on existing customers, including those with large arranged overdraft balances, and where appropriate, treat such customers with forbearance and due consideration.
- 4.75** This review has concentrated on PCAs and we have not analysed similar or alternative products. So we do not propose to apply these rules to Business Current Accounts (BCAs) and business overdrafts at this time. For the same reason, we do not propose to apply the rules to products that are marketed to consumers as having the same function as an overdraft but that are not provided by banks and building societies as part of a current account package. An example would be rolling account credit products marketed alongside pre-paid cards.
- 4.76** We seek feedback from consumer representatives and participants in the market on whether overdrafts provided to micro-business customers or products marketed to consumers as having the same function as an overdraft should be subject to rules like those proposed in this CP or any other additional consumer protection mechanisms.

**Q11: Do you agree with our proposed application of the rules?**

**Q12: Do you agree that firms should be given 6 months to comply with the proposed rules?**

**Q13: Do you have comments, observations or evidence on whether overdrafts provided to micro-business customers or products marketed to consumers as having the same function as an overdraft should be subject to similar rules to those proposed in this CP?**

### Next steps for pricing interventions

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- 4.77** We will consider responses to this consultation and intend to publish a PS in June 2019 and propose that our rules come into force in early December 2019.



- 4.78** We will evaluate the impact of our proposals. As outcomes will take time to develop, we would not expect to start the evaluation until at least 12 months after implementing the full package of remedies.
  
- 4.79** We will engage with large firms before publishing the policy statement in June 2019, to discuss what data they will need to record to enable us to carry out a robust evaluation of the proposals.

## 5 Repeat use

- 5.1 In this chapter, we respond to the feedback we received and update our analysis of the harm we see from repeat use. We consult on proposals to intervene in the market.

### Summary of our proposals to address repeat use

We propose firms should:

- **develop a strategy to reduce repeat use**
- **provide us with their strategy** when the rules start to apply, and after any substantial changes
- **implement** their strategy for reducing repeat use, and **monitor** their progress
- **report** on the outcome of their **monitoring** after 6 and 12 months

### Background

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- 5.2 In CP18/13 we discussed a range of options so that firms monitor customers more closely and have more regular communication with them, to make sure their overdraft remains a good way of borrowing for them and to stop them getting into financial difficulties. These included:
- an explicit obligation on firms to have adequate systems and policies when providing overdrafts that allow them to assess whether customers are in, or at risk of, financial difficulties; take appropriate action; and deal with customers showing signs of actual or possible financial difficulties
  - interventions by firms at prescribed intervals, for example, a prompt to a consumer to consider changing their behaviour, followed by a reminder, and later, offering a repayment plan possibly combined with restricting further credit limit increases and/or suspending the facility
  - a voluntary industry agreement on prompts to tackle repeat use
  - reducing what firms can charge over time to remove incentives to let customers use repeatedly
  - removing an overdraft facility to stop customers getting further in debt, either after a certain number of months, or using a certain cumulative value

### Firms' current approaches to helping consumers

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- 5.3 We asked some of the largest overdraft providers to tell us how they monitor and help their customers who might be in financial difficulties.



**5.4** Firms generally rely on a mix of automated triggers and staff to identify customers who might be having difficulties. Triage processes are then used to decide whether the customer receives any further contact. This can result in a range of actions including:

- letters or other prompts to the customer encouraging them to make changes
- allowing the customer time to resolve their difficulties themselves
- giving customers extra time to repay
- accepting a reduced one-off payment
- consolidating debts into a loan
- reducing the overdraft limit
- suspending or removing the overdraft
- opening a new account without an overdraft facility (eg a basic bank account)
- referring to debt advice charities
- writing off the debt, or selling on to third parties

**5.5** Our analysis indicated some areas of concern:

- a lack of early intervention, with problems being entrenched by the time firms discuss with customers, for example, customers struggling to repay when given extra time to do so, or needing referrals to debt advice charities<sup>6</sup>
- delays to customers receiving effective help, due to firms' reliance on the customer resolving their difficulties themselves, or ineffective communications or messages that are not easily seen or salient
- wide variation in firms approaches – for example, in triggers used<sup>7</sup>

### **Feedback received on the need to address repeat overdraft use and our potential remedies**

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**5.6** Some firms noted that the explicit obligation to monitor and help consumers overlapped with existing obligations. Some considered that this remedy should not apply in the special circumstances for private banks and students. Firms generally disagreed with cost-reducing remedies, suggesting that they could lead to heavier use by consumers. They highlighted that consumers could have other debts outside

6 The average unsecured debt of a Stepchange client is £13,280. Around half of its clients have overdraft debt, averaging around £1,607, and will have been using their overdraft for 11 out of the last 12 months. Around 24% of Money Advice Trust clients have overdraft debt, averaging £960. Overdrafts are the third most common type of debt reported to it after credit cards and council tax. Money Advice Trust (2018) CP18/13 response, May 2017 figures.

7 The Standards of Lending Practice replaced The Lending Code, which used to specify in more detail the triggers that firms should consider. CONC 7 provides some guidance.

their remit that might impact on the help offered. Several firms and a trade association suggested a willingness to develop an industry approach to addressing repeat use.

- 5.7** Most respondents who commented on mandated reduction or removal of overdrafts disagreed with it due to the potential impact on the consumer. They saw a role for more debt advice signposting. One consumer body said that lenders should be more proactive in notifying customers of options to reduce and remove their overdraft.
- 5.8** We asked questions about whether we should intervene for repeat use, and if so, how.
- 5.9** One firm suggested that it might be useful to have one set of rules across all credit products. Consumer representatives suggested a range of other remedies including:
- improved communications – adapting existing prompts and alerts
  - enhanced controls – such as an opt-in for overdrafts, periodic reassessment of affordability, a stepped limit reduction, or converting to a loan if the customer requests this
  - cost reductions – in fees generally, by capping, and by freezing interest and charges
  - formal guidance/standards for firms on treatment of customers

### Our response

Our remedy is intended to promote earlier intervention, and prevention, similar to our approach for addressing persistent credit card debt (and the early intervention remedies). Focusing only on those already in financial difficulties would not be a significant change from current practice. We have revised our proposal to include relevant guidance for firms, in addition to rules (see Appendix 2).

The level of harm we have identified has prompted the need to remind firms more explicitly of our expectations in this area. We welcome the current engagement with UK Finance and members on their proposals which are compatible with our interventions and should not delay their implementation.

We have revised our final proposals to exclude credit unions, private banks and other currently excluded accounts. We do not propose any mandated reduction or removal of the facility or charges due to the risk to consumers (see Chapter 6 for a discussion on restricting access to credit). We believe that our current rules on signposting to debt advice are adequate, targeting help for those who are most likely to make use of these services, at the time they may require them.

Our proposals allow for and expect firms to adapt their existing communications. Chapter 7 describes rules that oblige a firm to tell a customer how it can reduce or remove an arranged overdraft, if possible. We are not able to mandate reassessment of affordability (in the absence of a significant increase in the credit limit relating to an arranged overdraft) as this is restricted by the Consumer Credit



Directive. Changes to overdraft costing are covered by our other overdraft proposals (see Chapter 4). We agree that guidance is useful and have incorporated this into our proposals below.

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## Our proposals

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**5.10** We have adapted our suggested approach in light of feedback received. We propose requiring firms to:

- **develop a strategy to reduce repeat use** – considering the harm that our proposals are seeking to redress, we have defined 'repeat use' in the rules as 'a pattern of overdraft use where the frequency and depth of use may result in high cumulative charges that are harmful to the customer or indicate that the customer is experiencing or at risk of financial difficulties'
- **incorporate, within their strategy:**
  - **policies, procedures and systems to monitor** customers' overdraft use, **identify repeat users**, and **sub-divide** the latter into two categories:
    - (a) those in respect of whom there are signs of actual or potential financial difficulties, and
    - (b) all other repeat users
  - **indicators** of actual or potential financial difficulties, relevant for customers in category (a) above (and we have given examples of such indicators in the guidance to the rules)
  - **interventions** for the firm to undertake, dependent on whether a customer is in category (a) or (b)
    - if the customer is in category (a) (financial difficulties), the firm must seek dialogue with the customer, and present options for reducing use (the guidance to the rules gives examples of options), explaining that if the issue continues, suspension or removal of the overdraft may occur (unless that would worsen the customer's financial position)
    - if the customer is in category (b), the firm must communicate with the customer, highlighting the customer's pattern of use and indicating that this may be resulting in high avoidable costs; the firm must continue to monitor the customer, and if the pattern of use continues, the firm must send a similar communication after a reasonable period, and then at least annually
- **provide us with their strategy** when the rules start to apply, and after any substantial changes
- **implement their strategy** from when the rules start to apply, and then **monitor the effectiveness of their strategy**, and update or adjust it as appropriate

- **report** to the FCA on the outcome of their monitoring after 6 and 12 months – including details of any change to the total number of repeat users, the total size of their overdraft balances and any other relevant background information

**5.11** We believe that this adapted approach brings several benefits:

- the level of intervention reflects the harm from the consumer's situation
- those in most financial difficulty can get bespoke help quickly, and catered to their individual situation
- it is better targeted, reducing the risk of people being forced into help when they are not in financial difficulty (false positives)
- it minimises costs to industry by enabling them to adapt their current approaches, and to include any agreement with UK Finance in due course
- firms will not be required to restrict access to credit, but can still choose to do so if they think appropriate provided this does not adversely affect the consumer's financial position
- it is consistent with the remedies we introduced following our Credit Card Market Study, and our approach to creditworthiness, by setting out principles and desired outcomes and giving firms flexibility on how to meet them

**Q14: Do you agree with our final proposals for addressing the harm from repeat use of overdrafts?**

### **Application of our proposals and timelines for implementation**

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**5.12** Paragraphs 4.69-4.79 also apply to the repeat use proposals set out in this chapter.

### **Next steps for repeat use remedies**

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**5.13** We will consider responses to this consultation and intend to publish a PS in June 2019, with our rules and guidance in force by early December 2019 and submission by firms of initial reports by June 2020.

**5.14** As with the pricing proposals discussed in Chapter 4, we will evaluate the impact of our proposals. As outcomes will take time to develop, we would not expect to start the evaluation until at least 12 months after implementation of the full package of remedies.

**5.15** We will engage with large firms prior to the policy statement in June 2019 to discuss the changes they will be making, how they will implement those changes and what data they will need to record to enable a robust evaluation of the proposals. This could involve controlled randomisation, similar to that outlined as part of the credit card market study.

## 6 Possible wider effects of this consultation and other remedies considered

### Possible wider effects of this consultation

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#### Loss of access

- 6.1** While we do not consider it likely, we recognise that our proposed interventions on pricing and repeat use could reduce overdraft availability in 3 ways:
- firms remove access to unarranged overdrafts to some consumers
  - firms reduce arranged overdraft lending to riskier consumers and/or consumers with high balances
  - some consumers face higher prices for arranged overdrafts and are unable to afford it
- 6.2** We do not expect our interventions to significantly reduce access to unarranged overdrafts for consumers. Given its profitability, there is limited incentive for firms to significantly reduce access, even if they reduce unarranged overdraft prices. Some current business models already provide access to unarranged overdrafts at the price of arranged overdrafts or even less. Firms have also highlighted how customers see unarranged overdrafts as a quality of service feature as much as a credit product. We expect firms to be reluctant to remove this feature.
- 6.3** We also believe that a widespread loss of access resulting from an increase in arranged overdraft pricing is unlikely. This is because our proposals will increase competition between overdraft providers and between overdrafts and other credit products, ensuring prices stay at competitive levels. However, it is possible that access would be reduced for some consumers, especially for unarranged overdrafts users and for consumers with high balances.
- 6.4** So we looked at whether overdraft users would have alternative sources of credit were they to lose (even partially) access to overdrafts. Our analysis indicates that most would have an alternative. Over 25% of overdrafts (both arranged and unarranged) could have been avoided by consumers using other cash and savings, and around 70% of overdraft consumers could move their existing overdraft balance onto a credit card, either an existing one or one they would qualify for.
- 6.5** We have also looked at whether overdraft users with large balances would find it more difficult to obtain enough credit to finance their existing overdraft with a credit card. As expected, the percentage of consumers able to do so decreases as the amount of overdraft increases. But the reduction is slow: 64% of consumers with balances greater than £500 would be able to finance their overdraft with credit cards, and 55% of those with balance over £1,000 would be able to do so.



- 6.6** This shows that most overdraft users have access to alternative and often cheaper forms of credit. We conclude that if an unlikely loss or restriction of access to overdraft was to happen, the vast majority of consumers could use alternative sources of credit.

#### **Unlikely to increase the use of unarranged overdrafts**

- 6.7** Our proposed pricing interventions are unlikely to result in an increased use of unarranged overdrafts. Our evidence suggests that firms will continue to offer broadly similar unarranged overdraft facilities. Consumers will be reluctant to use more unarranged facilities because of refused payment fees and the risk of payments being declined at the checkout or elsewhere.
- 6.8** We will continue to monitor the impact of our proposals on access to credit, and potentially through an evaluation review.

Read more on our analysis of alternatives to overdraft use, including the methodology used, in the [Technical Annex](#).

#### **Waterbed effect**

- 6.9** Overdrafts sit as one part of a wider PCA offering. So any reduction in revenue in one part of the PCA could lead to an increase in prices elsewhere. As our proposals would constrain prices for unarranged overdrafts, we expect firms will seek to recover the lost revenue, in particular through arranged overdraft pricing. This view is based on engagement with firms in the High-cost Credit Review and the Strategic Review.
- 6.10** We recognise that the remedies we are proposing could potentially have unintended consequences (waterbed effect). So we analysed the potential impact on the wider PCA model and found:
- Firms would generally seek to recover lost overdraft revenue from within their overdraft offering, rather than other components of the PCA or their wider banking business.
  - If firms were to increase arranged overdraft charges to offset reductions in unarranged charges and refused payment fees, this would still achieve our objectives. This is because the burden of unarranged overdraft charges and refused payment fees falls more heavily on vulnerable consumers, but arranged overdraft charges do not.
  - We also investigated the potential impact on banks' business models. If our proposals increase competitive pressure on overdrafts and reduce revenue from the overdraft product overall – either by reducing prices, decreasing usage, or switching balances to other products – we do not expect this to have a major impact on retail bank business models.



- For more detail on our analysis of the possible impact of these price structure changes and waterbed effects on firms' profitability, see the [Technical Annex](#).
- For more detail on our analysis of the impact on customers see the [Technical Annex](#).

## Other remedies suggested and considered

### Background

**6.11** In CP18/13 we asked if there were other remedies that could address high overdraft fees or the complexity of price structures.

### Feedback received on other remedies following CP18/13

**6.12** Respondents suggested that:

- overdrafts should be subject to better creditworthiness and affordability assessments; overdraft limits should move with a customer's financial circumstances
- overdrafts should not be used regularly, so firms should be restricted as to the maximum limit that could be provided to a customer, with the maximum being related to a set percentage of a customer's regular income
- we should require charges to be applied daily so it is clearer to customers what they are paying so they are encouraged to reduce their use
- consumers should be able to choose when charges are applied so they can avoid times when their balance is low when charges might result in further overdraft use or refused payments
- we should decouple arranged and unarranged overdrafts from PCAs so they are a separate contract or opt-in facility; this would give customers the opportunity to decline the facility or approach other providers
- electronic money institutions should be able to offer their customers overdrafts
- firms should act on customer requests to reduce or remove an arranged overdraft limit

### Our response

We have carefully considered all the alternative options presented to us.

In PS18/19 we set out our expectations on assessing **creditworthiness** (including affordability) in consumer credit. The rules and guidance we set came into effect on 1 November 2018. Firms must make a reasonable assessment, not just of whether the customer will repay, but also of their ability to repay affordably and without this significantly affecting their overall financial situation. For overdrafts and other

running-account credit, we set out assumptions that firms must use when assessing affordability, and these must also be used when setting a credit limit. But we have avoided being unduly prescriptive on how the assessment should be made, or what metrics should be used, as this could be disproportionate and impact adversely on cost and access to credit.

We have considered suggestions that we make rules setting out **when** charges must be applied. We do not propose to do this as we see benefits and drawbacks to both daily and monthly pricing. Where charges are applied daily consumers can clearly see what they are paying each day for their overdraft use. However, daily charges compound and can result consumers losing sight of the cumulative cost. Where charges are applied monthly consumers may not see the growing cost of their overdraft use until after the fact when they are charged.

We announced in CP18/13 an industry agreement that will see firms tell consumers who use their overdraft of the cumulative cost of their overdraft use and when the charges will be taken. Given our proposals to address high overdraft prices, we do not consider it proportionate to, additionally, require firms to allow consumers to choose when charges are applied.

We do not plan to decouple overdrafts from PCAs or to require that they are an opt-in product. PCAs are available without arranged overdrafts and we have seen that consumers value the ability to overdraw their PCA without prior arrangement. There are already other forms of credit available in the market that can be alternatives to a PCA overdraft facility. For example, credit cards or running account credit income smoothing products designed to function similarly to an overdraft. We have seen that some electronic money institutions partner with consumer credit providers to market running account credit products alongside prepaid cards. We have introduced remedies designed to improve consumers engagement with overdraft use (see Chapter 7 for more information) and we are proposing to require firms to include representative APR in overdraft financial promotions to encourage consumers to compare the cost of using an overdraft with other credit products (see Chapter 4 for more information)

The rules we are making in Chapter 7 require that firms provide an easy, efficient and prompt process to allow customers to request to remove or reduce their arranged overdraft limit. While they are not required to approve all requests, we expect them to treat customers fairly. Our guidance suggests to firms that in many circumstances it would be unfair to require a customer to retain an unwanted facility.

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## 7 Competition remedies: policy statement

### Overview

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- 7.1** We are publishing rules to tackle one of the drivers of harm we identified in the overdraft market – low levels of awareness and engagement around overdrafts. They require providers of PCAs to:
- Provide online, or within a banking app, **tools that indicate eligibility** for overdrafts. This will reduce barriers to consumers when considering switching and searching for a PCA with an overdraft.
  - Improve the **visibility and content of key general information about overdrafts** and clearly present overdrafts as a form of debt – particularly when opening a new PCA or requesting a new overdraft. Firms must provide a calculator to allow customers to check the costs of overdrafts for different patterns of use. This will help consumers understand how overdrafts work.
  - Automatically enrol their customers into a set of **overdraft alerts** to address unexpected overdraft use. These alerts will generally be text message or banking app push notification alerts warning consumers of overdraft use that may result in charges.
  - Remove any available overdraft from the description of a customer's **available funds**.
- 7.2** We hope to stimulate competition for PCAs with overdrafts, and in the wider PCA market, by making it clear to consumers how overdrafts work, what they cost, and how much consumers are using them. This will lead to consumers being more engaged, and making more informed decisions. Increased competition between firms may reduce prices and increase service quality.
- 7.3** We aim to secure greater protection for consumers using overdrafts. We want to ensure that charges are not unexpected and make consumers feel in control of their borrowing.
- 7.4** The rules we are making are designed to work with the proposals in Chapters 4 and 5 to address the harm we see of high overdraft prices and repeat overdraft use.

### Measuring success

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- 7.5** We will look at the overall use of overdrafts and any changes in the level and distribution of fees and charges.

- 7.6** Our view of success will depend upon the final package of measures we adopt following this consultation around pricing interventions and repeat overdraft use. For further information see Chapters 4 and 5.

### Summary of feedback on our competition remedy proposals and our response

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- 7.7** We received 41 written responses to the CP, including from consumer representative groups, banks and building societies, individuals and trade bodies. A list of non-confidential respondents is at Annex 4.
- 7.8** Overall, respondents supported the approach and aims of our consultation proposals. Firms asked for closed and niche current account brands to be exempt from the rules, as well as private banks.
- 7.9** There was agreement that clear information about overdrafts, particularly when a PCA is opened or an overdraft application is made, could help consumers understand how they work. Most respondents said firms should provide online tools so customers can calculate the cost of their overdraft and check their eligibility. There was broad agreement that firms should send consumers overdraft alerts which could help some to avoid unexpected overdraft and charges.
- 7.10** There was widespread support from consumer representatives for our proposals to ban including arranged overdraft in available funds. We proposed requiring firms to show a negative balance if an overdraft is used. The response from firms was mixed. Some disagreed and suggested consumers could be harmed by not understanding what arranged overdraft they have available.
- 7.11** Consumer representatives raised concerns that these consultation proposals did not go far enough. While better information can help some consumers, it will not solve the issue of high overdraft prices for others including the most vulnerable. Some providers already give their consumers clear information, alerts and tools like the overdraft calculator.
- 7.12** Firms requested more than 12 months to implement some of the proposals, given other regulatory and legislative demands. They suggested a phased implementation.
- 7.13** Firms noted the interaction of our competition remedies, particularly rules for overdraft alerts and the overdraft calculator, with possible overdraft pricing remedies discussed in CP18/13. They suggested that any future rules to simplify overdraft pricing should be reflected in our overdraft alert rules which contain rules on how to alert customers where there is tiered overdraft pricing.
- 7.14** This feedback has shaped our final rules, which are in Appendix 1. The main changes to the rules consulted on in CP18/13 are:
- We have amended our definition of private bank so it takes into consideration only the proportion of high net worth PCA customers within the brand.
  - We have amended our rules requiring overdraft eligibility tools. This means that firms do not have to provide an indication of eligibility for overdraft limits above £5,000, or



for more than the largest credit limit the firm is willing to offer to a customer if that is less than £5,000.

- We have clarified that firms may use information provided to pre-populate an application form with the customer's consent. Firms may also use data collected in the tool to monitor, prevent or detect financial crime.
- We have amended the rules to clarify that where existing customers agree an arranged overdraft for the first time and the firm has their mobile number they should automatically get arranged overdraft alerts within 3 working days of the agreement. Where a firm does not have a customer's mobile number they should try to obtain it within a reasonable time. When requesting the number firms are not required by our rules to explain how alerts can help the customer to manage their overdraft. They must give this information at account opening. They should consider data protection requirements.
- Under our rules for arranged overdraft alerts triggered by scheduled payments we require firms to send alerts by midday rather than 10am.
- Firms must send alerts to customers even if they will not be charged for their overdraft use. However, they only have to warn customers who are due to incur charges that they may be charged for overdraft use. We provide guidance on how firms may communicate that a customer may be charged where there is an interest-free buffer or amount. For arranged overdrafts, firms are not required to tell consumers they can avoid using the overdraft by transferring money into the account.
- We will allow (rather than require) firms to offer consumers the ability to opt out of unarranged alerts separately to refused payment alerts. Firms may allow consumers to opt out of refused payment alerts but they are not required to allow this.

**7.15** We have considered whether these rules will need to be amended if we implement our proposals on overdraft pricing (discussed in Chapter 4) and have identified appropriate changes. We are consulting on making the implementation dates of the rules in this chapter the same as those for the proposed rules to simplify overdraft pricing. This is discussed in Chapter 8.

**7.16** While we have made several changes to the rules, none of them result in the policy significantly differing from the proposals outlined in CP18/13.

## Next steps

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**7.17** We proposed to require firms to comply with the rules in this chapter within 12 months, and our made rules reflect this. However, we are now consulting on bringing the implementation date of these rules forward to early December 2019 so that it is the same as rules that may be made to simplify overdraft pricing.

## Feedback received to our consultation questions and our final rules

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### Applying our rules and timescales for implementation

- 7.18** In this section, we respond to the feedback on our proposed application and implementation period for rules to:
- require overdraft eligibility tools
  - provide improved information about overdrafts, including overdraft calculators
  - send overdraft alerts
  - ban including available overdrafts in descriptions of available funds
- 7.19** In CP18/13 we proposed that all the above rules should apply to firms (except credit unions) offering PCAs defined as payment accounts within the meaning of the Payment Account Regulations 2015. We proposed that they should not apply to current account mortgages. We also said firms would not be required to comply with the rules if their accounts did not allow arranged overdrafts and unarranged overdrafts and did not charge customers for refused payments.
- 7.20** Due to the costs associated with implementing the proposed rules on overdraft eligibility tools and alerts, we proposed that only bank and building society brands with 70,000 or more PCAs should have to comply with these rules.
- 7.21** Where the rules apply, we proposed to allow firms 12 months to comply.
- We asked:
- Q1:** *Do you agree that the threshold for application of the overdraft eligibility and overdraft alerts rules should be set at bank and building society brands (excluding private banks) with 70,000 or more PCAs?*
- 7.22** We received a mixed response. Some respondents supported our proposal for the threshold. Others argued against it, wanting to see a more consistent application of remedies and the protection they provide to consumers across all the providers in the market.
- 7.23** Some suggested that newer entrants in the PCA market offering overdrafts should have to comply with the rules before they have 70,000 PCAs. However, we should review existing small providers to tackle concerns about the cost of implementation. An alternative idea was to encourage new entrants to provide the facilities, particularly where they are experiencing a rapid growth in their PCA numbers, and we should monitor this.
- 7.24** Firms wanted us to allow for exemptions similar to the exemption criteria in section 5 of the CMA Order. This allows niche and closed brands and private banks to apply to be exempt from the rules.
- 7.25** There was agreement that private banks should be excluded from requirements to provide overdraft calculators, overdraft eligibility tools and alerts. Some firms considered that private banks should be excluded from all our rules, including rules



on account opening information and including available overdraft amounts when communicating available funds.

- 7.26** Some firms suggested changes to our proposed definition of 'private bank'. They felt that the definition should be based on the service customers receive rather than the proportion of customers who are 'high net worth individuals'. Another suggestion was that the definition should only take PCA customers into consideration, rather than all banking customers.
- 7.27** One respondent suggested that our rules should apply to current account mortgages.

### Our response

We note the arguments requesting we remove the threshold for alerts and eligibility tools so application is consistent across all the remedies. But we believe that our threshold of 70,000 or more PCAs within a brand catches a wide range of account providers. This range includes challenger banks who can lead to a better provision of services and increased competition in the interest of customers.

For alerts, we believe that the cost of implementing alert systems would be disproportionate for some small and niche providers. We encourage all providers to offer alerts so their customers are informed of overdraft use and refused payments but we do not intend to remove the threshold. We are aware that new challengers entering the market offer notification services as a core part of their proposition.

For overdraft eligibility, we are also retaining the threshold of 70,000 or more PCAs within a brand. We believe that smaller firms under the threshold will provide eligibility tools if they want to compete and attract overdraft switchers.

We have decided not to expand our rules to cover current account mortgages. Our package of remedies is designed to target areas of harm within current account overdrafts. So our rules are not relevant for the mortgage industry.

We have considered feedback on our definition of private bank. In BCOBS 8 this has been amended so that it takes into consideration only the proportion of high net worth PCA customers within the brand. As a result, the definition of private bank in BCOBS 8 differs from that in BCOBS 7. We intend to consult on revising the definition of private bank in BCOBS 7 when a suitable consultation vehicle allows.

We have considered requests to exempt more firms from our rules to align them with the CMA's Order. We are not proposing any further changes as the harm we are seeking to address applies equally to consumers of those firms.



We asked:

**Q2:** *Do you agree that firms should be given 12 months to comply with the proposed rules?*

- 7.28** Responses to our proposal for a 12-month implementation period were mixed. One firm and many consumer representatives supported the proposal. Consumer group responses suggested we should explore whether some of our proposals could be implemented faster. It was suggested that more urgency could be given to requiring firms to give overdraft alerts as firms already hold customers mobile numbers. We were asked by a firm to avoid implementing overdraft alerts around busy payments periods such as Black Friday or Christmas.
- 7.29** Most firms and a trade body asked us to phase implementation over 18 months to 2 years. They suggested less complex aspects could be implemented within 6 months. But they need more time to change systems to deliver changes related to available funds and some aspects of our overdraft eligibility tool proposals.
- 7.30** One firm voiced reservations about introducing additional requirements now. They suggested we wait until the competition remedies introduced by the CMA and PSD2 and our service information rules had been given time to increase competition. Other firms highlighted the importance of considering any other changes that may be made to the overdraft market because of pricing and repeat use remedies in Chapters 4 and 5 of this document. In particular, they said implementing the cost calculator should be tied to implementation of any pricing remedies. They also emphasised the impacts of potential pricing changes on the content of overdraft alerts.

### Our response

We had proposed to require firms to comply with the rules in this chapter within 12 months, and our made rules reflect this. But we are now consulting, in Chapter 8, on bringing this implementation date forward to early December so that it is the same as any rules that may be made to simplify overdraft pricing.

We consider this implementation time will allow firms enough time to change their systems and communicate changes to their customers.

We consider that there are benefits to the rules having the same implementation date as any rules introduced following our consultation on proposals to simplify overdraft pricing.

We note that a firm requested we avoid implementation dates that are busy payments days. The implementation date is a deadline, firms may choose to comply with the rules earlier to avoid systems changes at the busiest times.

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## Overdraft eligibility tools

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- 7.31** In this section, we summarise and respond to the feedback received to our proposal to require firms to offer an online overdraft eligibility tool.
- 7.32** In CP18/13 we proposed that bank and building society brands (excluding private banks) with 70,000 or more PCAs should provide a prominent, easily accessible overdraft eligibility tool on their website or their mobile banking app.
- 7.33** We will not prescribe the precise information a firm should require from a consumer during the search process or how it should arrive at its eligibility result. But we have prescribed some aspects of the tool. We proposed that customers should be able to select how much overdraft they want, and the information requested by the firm must be easily accessible and proportionate. The tool must not leave any imprints on the customer's credit file that are visible to lenders. The tool must also give the customer a reasonably accurate estimate of their chance of being approved based on the information provided.

We asked:

**Q3:** *Do you agree with our draft rules to require firms to offer an online overdraft eligibility tool which indicates the likelihood of a consumer being eligible for an overdraft facility?*

- 7.34** Most respondents agreed with our proposal to require firms to offer online overdraft eligibility tools. Respondents noted that such tools would be beneficial to customers' understanding of overdrafts, and allow them to make more informed choices. The tools would also help reduce barriers to switching. One respondent told us that their research showed a strong support for an eligibility tool, but it would only be effective if it is easy to use.
- 7.35** A trade body suggested that only customers switching an overdraft facility from another provider should be able to check their eligibility for a specific overdraft limit. Customers opening an account without switching an overdraft facility should not be assessed for a specific limit. They highlighted that credit card comparison tools rarely publish available limits.
- 7.36** As discussed at paragraph 7.28, a few respondents had concerns about the timescale and requested a longer period of implementation. One provider said building a tool would be possible within 12 months but determining overdraft limits would add complexity, requiring investigation of feasibility and delivery timescales.
- 7.37** Respondents asked us to allow flexibility to explore innovative approaches, such as showing eligibility for other lending options. They suggested this and other tools could be enhanced with insights from behavioural science.
- 7.38** One consumer representative felt we should require firms to show eligibility in a standardised way so it is easy to compare across providers. Some consumer representatives said the tool should include information about charges and should remind consumers that overdrafts are debt intended to be used as a short-term safety net.

- 7.39** One respondent also noted that BCOBS 8.3.7R might be too restrictive for cases where the firm wishes to use information from the tool – for example, to prevent customers having to re-provide information if they move to a full application. They noted the rules should allow the data to be used to identify and control fraud.
- 7.40** We were asked to give firms the option to allow a decision to be referred, for instance, where very large overdraft limits are requested.
- 7.41** Some consumer representatives suggested that this tool should be available offline for vulnerable groups of customers who cannot or do not want to use an online tool. Consumers who do not use the internet should be made aware of the tools. One provider mentioned the availability of their credit card and loans tool used by customer facing colleagues in branch and contact centres.

### Our response

We have amended our rules in places in response to feedback.

Overdraft eligibility tools are intended to help all overdraft customers assess the likelihood they will be eligible for an overdraft. To allow existing overdraft users to check if they can switch their overdraft, they must be able to check overdrafts for a specific limit. Customers who are not switching will also want to see how much overdraft they might be eligible for. Firms may offer different limits to customers that do not plan to switch (opening a secondary account) compared to customers that are considering switching. So our rules allow them to request this information from the customer.

We have amended the rules so that firms' tools are not required to assess eligibility for limits over £5,000, or if lower, limits higher than the firm is willing to offer to any customer. Firms can decide how they communicate this to customers when displaying the result from the tool. We do not require firms to provide these customers with a likelihood of eligibility. But we would expect firms to tell consumers how they can discuss the likelihood of obtaining an overdraft of that size with the firm.

The tool enables consumers to check whether they are likely to be eligible for an overdraft. We do not consider it necessary to standardise how results are displayed as long as firms communicate them in a way that is fair, clear and not misleading. We consider that our proposals to require firms to provide an overdraft charges calculator and better information about overdrafts in direct offer financial promotions and at account opening will result in consumers getting sufficient, clear information about overdrafts.

We have amended our rules to allow, with the customer's consent, their data to be used to pre-populate e-forms if the customer goes straight on to apply for an overdraft. The revised rules allow firms to use information entered into the tool to monitor financial crime. Firms should be mindful of their data protection duties.



Our rules do not prevent the development of innovative approaches, such as showing eligibility for credit cards alongside overdrafts. They do not prevent firms building tools that allow customers or third parties to assess eligibility by sharing their transaction history or other information via API. This is discussed further at question 4.

We encourage firms to cater for consumers who do not have access to digital channels to use the eligibility tool. This could be with help from telephone banking and branch staff. Our rules require firms to tell customers about the availability of the eligibility calculator in direct offer financial promotions and at account opening.

We can confirm that firms who are not offering new arranged overdrafts to new or existing customers are not required to provide an overdraft eligibility tool.

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We asked:

**Q4:** *Should we require firms to design tools in a way that could be provided through APIs to third-party providers so that the same comparison can be run for a consumer across different banks?*

- 7.42** Some respondents welcomed this idea. They said allowing third-party providers to run comparisons across different providers would make it easier for consumers to carry out searches by completing the information just once.
- 7.43** Others disagreed, noting this should be a commercial decision for individual firms. One said providing access to third-party providers via APIs would take time and money. If there is enough competitive force in the market, firms will start using third-party sites which would eventually become a feature of the market. Another was concerned that it might be possible to expose a firm's risk appetite via reverse engineering tools which could pose a risk to competition.
- 7.44** One respondent suggested the use of a Credit Passport, which would include a customer's full transaction history, lending limits and non-transaction data such as missed payments. They suggested that this would make it more likely that providers could match a new customer's existing overdraft limit at the point of application or enquiry.

### Our response

We do not currently see intermediaries focusing on overdraft users. But we agree that allowing third-party providers access to overdraft eligibility tools via APIs could bring greater benefits to customers than individual tools on each provider's website. It would enable price comparison websites and account information service providers to build an assessment of eligibility into their comparisons.

We agree that it is not feasible to require eligibility tools to be made open to third parties within our implementation period for these rules. Further

work is needed to ensure that such access can be provided without risking commercially sensitive lending criteria and other data being leaked. So we will not mandate that firms must provide access to their overdraft eligibility tools via APIs at this time.

We are aware that UK Finance have formed part of an industry working group with other trade bodies to explore eligibility tools for mortgages. We understand that this is exploring ideas such as tools allowing lenders to connect with intermediaries via APIs. This is at an early stage of development. In relation to credit cards, UK Finance and the Finance and Leasing Association continue to develop their work to further examine quotation search tools.

Over the next year, as providers implement their eligibility tools, we expect them both individually and collectively with UK Finance to explore how to deliver third-party access to eligibility tools. We expect them to engage in cross-sector conversations to consider possible industry solutions for eligibility tools open to third parties, for example through APIs.

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## Improving information about overdrafts at account opening

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**7.45** In this section, we respond to the feedback on our proposal to require firms to improve the visibility and content of key information about overdrafts, in particular when a PCA is opened.

**7.46** In CP18/13 we proposed changes to the way information about overdrafts is presented to a consumer before they open an account to help them understand how overdrafts work and to improve the visibility and content of key general information about overdrafts. Our proposal included firms providing an overdraft cost calculator, which several firms already provide, to allow easier comparison of different overdraft products.

We asked:

**Q5:** *Do you agree with our draft rules to require firms to provide clear, easy-to-read, prominent information about overdrafts to their customers before they apply for an overdraft?*

**7.47** There was broad support from both industry and consumer groups and the proposals were judged to be sensible and proportionate. Some firms said private banks should be excluded from the proposed account opening information.

**7.48** Some wanted the scope of the proposed rules to be extended further, suggesting they should apply to the account opening process and whenever an overdraft becomes available. One firm also suggested trigger points in the PCA product cycle, such as first overdraft use, to refer customers to relevant information.



- 7.49** A few respondents, including some consumer groups, warned that too much information at account opening may lead to information overload and discourage consumers from understanding their overdraft. Some banks suggested that additional information would lengthen the account opening process.
- 7.50** Some firms queried how the proposed rules interacted with existing rules about pre-contract disclosure in CONC, the Consumer Credit Act regime, and other regulations. One asked us to clarify whether BCOBS 4.4.8 operates to allow a derogation where an overdraft, as opposed to a PCA, is applied for by phone.
- 7.51** An application for an overdraft can happen separately, after an application for a PCA. If these two application processes are consecutive, there would be no need to duplicate information. Similarly, firms asked what would happen when an existing customer applies for an overdraft. They suggested that unless an arranged overdraft is applied for when opening a PCA, they should only provide unarranged overdraft information.
- 7.52** Firms questioned the requirement to tell customers about the impact overdraft use would have on their credit file. They suggested firms should be able to meet this by explaining that account information will be shared with credit reference agencies and that customers' level of debt and payment history may affect their ability to get credit in the future.
- 7.53** A consumer representative said we should require a standard risk warning that overdrafts are debt and intended for short-term use.

### Our response

We are encouraged by the broad positive response to our proposals and are proceeding with the proposals as set out in the CP.

We note concerns that potential increased volume of information about overdrafts at account opening may risk overloading consumers. The rules are intended to change the way general information about overdrafts is presented to consumers so it is clear and prominent – we think repositioned and additional information will help consumers.

We have considered feedback on the interaction of our rules with other parts of the Handbook (CONC) and the Consumer Credit Act and Distance marketing regimes. We consider the general information we will require is different and does not unnecessarily duplicate other requirements.

The information is separate from and additional to specific pre-contract disclosure requirements under the Consumer Credit Act and CONC (i.e. specific to the individual overdraft agreement). For clarity, we have added guidance to BCOBS 2 and BCOBS 4 to remind firms that additional requirements apply in relation to *consumer credit lending*, including overdraft agreements (for example, under CONC 4 Pre-contractual requirements).

We agree that ongoing information about overdrafts may help consumers. The industry agreement on current account prompts

announced in CP18/13 provides an opportunity for firms to give customers information on overdrafts when they use their overdraft facility.

We agree that firms should communicate information about overdrafts that is relevant to the account the customer is applying for. BCOBS 4.4.3R contains a provision to this effect. BCOBS 4.4.5R sets out what information is not relevant if a customer does not apply for an arranged overdraft at the same time as a PCA.

We explain what information firms are expected to communicate if a customer with an existing PCA later applies for an arranged overdraft in our existing rules (BCOBS 4.4.6R). If a consumer recently opened the account and was given some of the required information, firms do not have to provide this information again. This only applies if firms are satisfied that it was communicated sufficiently recently to meet the requirement of having been provided at a 'point during the application at which the information will be most relevant'.

BCOBS 4.4.8R with 4.4.6R does provide a derogation like that for customers applying for a PCA, for customers subsequently applying to add an overdraft by phone.

Firms must explain to customers how using an overdraft might affect their credit file. We agree they could do this by telling customers that account information will be shared with credit reference agencies. They can tell customers that their levels of debt and payment history may affect their ability to obtain credit in the future.

Our rules require firms to provide an explanation that an overdraft is a borrowing or credit facility and a general description of the nature and principal features of arranged and unarranged overdrafts, for example that they are intended for short-term use. We have considered whether to require a standard risk warning but do not currently consider this proportionate.

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We asked:

**Q6:** *Do you agree with our draft rules that online calculators should be made available to show consumers how much they will be charged for their overdraft and allow consumers to calculate their costs?*

**7.54** We asked providers to make an online or banking app calculator available. This would allow consumers to work out the cost of an overdraft based on their expected usage, or under different scenarios. The calculator would let consumers calculate their likely overdraft costs when they apply for or compare accounts. It would also be available to help existing customers understand the cost of their overdraft facility.

**7.55** We received broad support from industry and consumer groups that an online calculator will help customers to better understand the cost of their overdraft.



- 7.56** There were also comments that this proposal could go further. We could require firms to provide an automated cost calculation of an overdraft based on the customer's transaction history. Another firm suggested the calculator should include refused payment fees. There was support from consumer groups for this tool. But they doubted that on its own it would have a significant impact on consumers' overdraft use. Current and future overdraft use may be different or consumers may be overly optimistic.
- 7.57** Respondents said a link to the calculator should be made available to customers who receive an overdraft charge. The calculator should be promoted and accessible to customers who do not have access to the internet. This could be through call centre or branch employees taking customers through the calculator. Some consumer representatives felt that in addition to the tool, customers should be supported to understand fees and charges for a range of scenarios, including long-term use.
- 7.58** One firm argued that if we introduced pricing remedies, implementation dates for delivering the calculator should be tied to those rules.

### Our response

We welcome the broad support for our proposals to require online overdraft charge calculators and are proceeding with the proposals set out in CP18/13.

We agree there would be benefits to implementing the charge calculator at the same time as any changes we may make to overdraft pricing. We are consulting on this in Chapter 8.

Private banks are required to comply with rules requiring better information at account opening. These rules simply seek to ensure that information provided is clear and prominent. We consider this would benefit all consumers. Our rules requiring the calculator exclude private banks because they are designed to facilitate understanding and comparison of overdraft charges. Customers of private banks do not require the same help to calculate the cost of their overdraft. Our rules will apply to closed or niche brands as we consider these consumers are equally affected by the harm our rules seek to address.

We note suggestions that a link to the calculator should be included in overdraft alerts (discussed later in this chapter). We do not consider this appropriate due to concerns raised about possible fraud (phishing). However, firms could choose to include a link to the calculator in push notifications, which are more secure. Firms could also tell customers about the calculator in overdraft charge prompts they agreed to send in an industry agreement announced in CP18/13.

We agree that firms can enhance the tools they provide as long as this does not detract from the core purpose of the tool. Firms may enable features such as automated cost calculation of an overdraft based on a customer's transaction history. But such features are not a substitute for our rules, and should be in addition to the customer inputs our rules require. This is to ensure that consumers who do not wish to share



their data or allow the tool access to their transaction history are not prevented from using it.

We have considered suggestions that the calculator should include refused payment fees. But while firms may decide to include refused payment fees in their calculator, our rules will not require this. This is because consumers are unlikely to be able to estimate the number of refused payments they will incur. In Chapter 4 we consult on new guidance to help firms comply with existing rules that refused payment fees should reasonably correspond to the costs of refusing payments.

As noted in CP18/13 we encourage firms to make provisions for consumers who do not have access to digital channels to use the overdraft calculator, for example, with help from telephone banking and branch staff. Our rules require firms to tell customers about the availability of the calculator in direct offer financial promotions and at account opening.

We recognise that not all customers will want to use the tool and that pounds and pence examples showing the cost of using an overdraft in specific scenarios would be useful to some. As discussed in Chapter 4, we plan to work with firms via UK Finance to pursue an industry agreement on pounds and pence disclosure.

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## Overdraft alerts

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- 7.59** In this section, we respond to feedback on our proposal to require firms to automatically enrol customers into a set of overdraft alerts.
- 7.60** In CP18/13 we proposed that bank and building society brands (excluding private banks) with 70,000 or more PCAs should automatically enrol consumers into text messages or push notifications in mobile banking applications to let them know:
- they have entered an arranged overdraft (or the firm can predict they will enter based on known transitions)
  - they have entered an unarranged overdraft, either by exceeding their overdraft limit or, where there is no overdraft facility, the funds in their PCA (or the firm can predict they will enter based on known transactions)
  - they have had a payment refused due to lack of funds or the firm can predict they will do so based on known transactions
- 7.61** The CMA already requires firms with 150,000 active PCAs across GB and NI to enrol their customers into 2 of these alerts (unarranged overdraft and refused payment alerts). We proposed to apply our rules to firms with 70,000 or more PCAs.



We asked:

**Q7:** *Do you agree that rules requiring consumers to be automatically enrolled into unarranged overdraft and refused payment alerts should be included in the FCA Handbook?*

- 7.62** All respondents supported this. Firms encouraged the CMA to revoke part 6 of the CMA Order to avoid duplication and potential inconsistencies between regulatory compliance requirements. This contains rules requiring unarranged and refused payment alerts. A sunset provision for reporting requirements to the CMA would also be required.
- 7.63** Some firms identified differences in wording between the draft FCA rules and the existing CMA Order. They asked us to clarify where discrepancies or additional obligations exist. Others asked us to take the opportunity to amend the rules for example, to clarify whether consumers should be able to opt out of refused payment alerts. Firms also wanted us to recognise circumstances when alerts may not be sent due to technical issues outside firms' control, or because they need to carry out system maintenance.
- 7.64** Firms highlighted that Article 5 of the CMA Order had enabled brands closed to new customers as well as niche and private banking brands to apply from an exemption to rules requiring alerts.
- 7.65** Some noted that the proposals would only benefit consumers with access to a mobile phone and funds to increase the balance of their account when alerted.

### Our response

We welcome the broad support received for our proposals and we will require firms with 70,000 or more PCAs to automatically enrol consumers into unarranged overdraft and refused payment alerts.

Our research found consumers overwhelmingly found overdraft alerts helpful. They allow consumers who can receive alerts and can increase their account balance, to avoid or reduce their overdraft charges. Alerts can also contribute to increasing awareness of borrowing amongst these consumers. However, we recognise that they cannot address all the harm we see from high prices in the overdraft market. To address this harm, we set out proposals for more direct intervention on overdraft pricing and repeat use in Chapters 4 and 5.

As discussed in CP18/13, the wording of our rules may differ to the CMA's Order. We intend that the rules we are making for unarranged overdraft and refused payment alerts are broadly consistent with those already required by the CMA, except for in scope. Our rules will apply to banks and building societies with 70,000 or more PCAs unless they are excluded by our definition of a private bank. This includes brands closed to new customers. We discuss the feedback received regarding scope at question one.

To avoid dual regulation, the CMA has confirmed that it expects to review its Order and, if it finds there has been a change in circumstances such that parts of their Order can be varied or revoked, it will consult on changes required to avoid unnecessary duplication for those firms subject to both the CMA's Order and our rules.

We received a range of feedback on the draft rules themselves for automatic enrolment, how consumers may opt-out, scheduling of alerts, grace periods and alert content. We respond to this feedback with our response at questions 8 and 9.

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We asked:

**Q8:** *Do you agree with our draft rules to require firms to automatically enrol their customers into arranged overdraft, unarranged overdraft and refused payment alerts?*

- 7.66** All respondents supported our proposals to require firms to automatically enrol consumers into arranged overdraft, unarranged overdraft and refused payment alerts.
- 7.67** One consumer representative said it would be preferable to require firms to implement low balance and near-limit alerts. Some firms remain concerned about alert fatigue, particularly amongst consumers who have accounts with multiple banks. They urged us to consider the risk that consumers could become desensitised to alerts about overdraft use and fraud.
- 7.68** Feedback from firms suggested that we reconsider some of the detailed operation of the rules.
- 7.69** They asked us to clarify the timing of automatic enrolment for existing customers and specify the period within which an existing customer who arranges an overdraft should be automatically enrolled to receive alerts. They asked us to remove the requirement for firms to obtain mobile phone numbers from customers 'as soon as possible' to ensure rules are consistent with the existing CMA Order.
- 7.70** Firms also asked if they can treat consumers who have already opted out of receiving unarranged and refused payment alerts as having indicated that they do not want to receive arranged overdraft alerts. One firm requested flexibility to not send overdraft alerts to customers who are in a collections process.
- 7.71** One firm queried whether consumers should be able to opt out of refused payment alerts since firms are required to communicate notice of refused payments to consumers by the Payment Services Regulations. Firms asked us to reconsider the requirement that firms must allow customers to opt-out of unarranged and refused payment alerts separately as this requirement is in addition to the existing CMA rules. It adds complexity and it is unclear whether it adds value to consumers.
- 7.72** One firm asked us to reconsider requirements to explain alerts during the account opening process when gathering mobile information. They considered this may increase opt-outs. They suggested this explanation should only be required where the customer has not offered a mobile number and was at risk of not getting alerts.



**7.73** As discussed in feedback to question 7, one firm asked us to clarify that firms need not send alerts if they have technical issues outside their control or need to carry out system maintenance.

### Our response

We welcome the broad support for our proposals and have amended our rules in places in response to feedback.

We recognise concerns about alert fatigue, and consumers ignoring alerts because they receive too many they do not find useful. However, our alert trials found no evidence of this. We do expect firms to consider the risk of alert fatigue when designing alerts to comply with BCOBS 8. We discuss the scheduling and content of alerts further in response to question 9.

We have amended the rules to clarify that existing customers who agree a new arranged overdraft should be automatically enrolled into arranged overdraft alerts within 3 working days of the new overdraft being agreed. This time period mirrors that for new current account customers.

We have retained rules to ensure that firms take steps to obtain customers' mobile phone numbers to allow them to automatically enrol their customers in alerts. However, we have replaced the requirement to do this 'as soon as possible' with a requirement that firms do so 'within a reasonable time'. Firms can use opportunities presented by customer contact and scheduled communications to request details.

Our rules to require better information about overdrafts at account opening include requirements to provide information about the alerts the customer will or can choose to receive, how alerts can help manage overdraft use and how they can customise them (BCOBS 4.4.4). This is important information about how the overdraft will work and the information they will receive about their overdraft use. In response to feedback, we will remove an additional requirement that firms provide similar information when complying with requirements to obtain or confirm a customer's mobile telephone number or automatically enrol consumers in overdraft alerts. But firms must warn customers that they will not receive alerts if they have not provided a mobile phone number. Removing this rule does not affect firms' obligations under data protection laws.

We have considered our rules on the process for consumers opting out of alerts. Firms are required by the PSRs 82(1) to notify consumers of refused payments and alerts are a way to meet this requirement. So we have amended our rules so that firms are not required to allow customers to opt out of refused payment alerts. If a firm chooses to allow consumers to opt out of refused payment alerts they must meet their obligations to notify consumers of refused payments in another way. A firm that relies on alerts as its primary method of compliance may need another way to meet the requirement.

We have amended our rules to allow (rather than require) firms to offer consumers the ability to opt out of unarranged alerts separately to refused payment alerts. Firms may comply with our rules by having an opt out that covers both unarranged and refused payment alerts. But they must let consumers opt out of arranged overdraft alerts separately to unarranged and refused payment alerts.

We agree that a decision to opt-out of the alerts required by the CMA would indicate that the customer does not want to receive overdraft and refused payment alerts, including arranged overdraft alerts. But we encourage firms to make customers aware that these alerts are available as agreed in the current account prompts industry agreement announced in CP18/13.

One firm requested flexibility not to send overdraft alerts to customers who are in their debt collections process or are otherwise vulnerable. We have added guidance to clarify that firms can discuss with these customers whether they wish to opt out of receiving alerts. We do not think alerts should be automatically switched off for all consumers in collections.

We have considered feedback that alerts should not be triggered where the customer will not incur a charge because a facility is free to use or because of a fee free buffer. While alerts may help consumers avoid charges, they are also intended to create better customer engagement with their overdraft use and refused payments. So we see benefits to consumers receiving alerts when they will not incur charges. We respond to feedback regarding the content of alerts where there is no charge in response to question 9.

Technical difficulties and requirements to conduct system maintenance do not remove a firm's duty to send alerts. Where firms experience such incidents, they are expected to proactively raise them with the FCA through their usual supervisory channels. We expect firms to consider whether the customer would have taken action had they received the alert. This might require the firm to highlight the effect on customers.

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We asked:

**Q9:** *Do you agree with our draft rules regarding alert channel, content, scheduling and grace periods?*

**7.74** While all respondents supported in principle our draft rules, we received feedback suggesting amendments.

**7.75** **Alert content:** As discussed at question 8, some firms wanted the flexibility to exclude information about charges where consumers will not be charged. One firm asked us to remove the requirement to include a call to action to pay down an arranged overdraft. A consumer representative asked if firms would be expected to tailor alerts for customers who repeatedly incur overdraft charges. They suggested that signposts to



debt advice or the Money Advice Service would be effective for customers most at risk and further testing of this was needed.

- 7.76 Alert channel:** A firm asked for the rules to allow them to choose the channel they use to send alerts to their customers. Some consumer representatives suggested that rules on channel should consider consumers who do not use mobile phones; one suggested alerts should be sent by multiple channels. There were concerns that it may be too easy for consumers to opt-out of push notifications as mobile users commonly switch notifications off across all applications. Another argued it must be easy to opt-out as messages are not universally beneficial and may cause distress to some people. One consumer representative was concerned about data privacy and raised concerns that alerts may be intrusive for people who share mobile phones.
- 7.77 Scheduling:** Firms asked us to be clear whether rules require scheduled alerts to be sent or initiated before 10am. They highlighted that technical difficulties beyond their control may prevent this. They questioned whether our definition of scheduled payment differed to that in the CMA Order.
- 7.78** Some firms recommended that the new arranged overdraft alerts should have a later deadline than existing unarranged overdraft and refused payment alerts. They explained that requiring all alerts triggered by scheduled payments to be initiated by 10am could place unnecessary pressure on customer services. One suggested the deadline should be moved to midday. Another said different timings should be set based on how long consumers have to take action with a later deadline for consumers who will not incur any charge.
- 7.79** Some said firms should only be required to send a single alert at the point payment takes an account into an overdrawn position. They highlighted risks associated with more regular alerts (e.g. daily alerts). One firm suggested we should limit the number of arranged alerts sent in any charging period.
- 7.80 Grace periods:** A consumer representative recommended that we set rules to ensure universal application of acceptable grace periods. Another suggested grace periods should consider time required for shift workers to act. An academic said that we should require real time alerts and a 24-hour grace period.
- 7.81** A firm raised concerns that the draft guidance suggested firms should set and communicate multiple grace period cut-off times depending on payment channel.
- 7.82 Interaction with pricing remedies proposed in Chapter 4.** Firms highlighted the necessity to ensure that our rules for alerts are future-proofed. This is so they work for customers in any new pricing models that could be imposed on firms. In particular they queried provisions relating to tiered pricing since proposals discussed in CP18/13 considered banning this.

### Our response

We have considered feedback received in response to this question and in places have amended our rules in response.

### Alert content

As discussed at question 8, we will require firms to send alerts even when there is no charge to the customer. In response to feedback, we have amended our rules to clarify that firms are not required to tell customers about charges if using the overdraft or the refused payment is free. If a customer has entered an overdraft but will not be charged because they are within their fee-free amount but may later be charged if their use of the overdraft increases, we expect firms to communicate this in a way that is not misleading. This could be by either telling customers in the original message that there will be a charge if they exceed the buffer or by sending a further message when the customer exceeds the buffer.

We have considered whether to require firms to tailor alerts to communicate with consumers who repeatedly incur overdraft charges. Our [online experiment](#) found that the most effective alerts requested a defined and immediate action, e.g. 'to avoid fees transfer funds by 11pm'. These messages were expected to be more effective than messages informing consumers of regular overdraft use and prompting them to discuss it with their bank. Since alerts are very short, it may be difficult to use this channel to explain why repeat users should contact their bank to discuss their overdraft use. We discuss proposals regarding repeat use at Chapter 5.

### Alert channel

Our research and randomised controlled trials found text messages to be an effective channel for alerts. Where enabled, push notifications are a good substitute for text messages. They are secure and directly linked to firms' mobile banking apps. However, they are reliant on consumers using a mobile banking app and enabling the notifications. Our research found other channels for alerts such as email were unlikely to be as effective, although they may benefit consumers who are unable or unwilling to receive mobile phone alerts. Our rules do not prevent firms from offering consumers the option to receive alerts by channels other than mobile phone alerts.

We have considered feedback that it is too easy for consumers to inadvertently switch off alerts because they have turned off push notifications. Where customers do this, firms must still warn them of the risks of turning off alerts. We have added guidance that firms are expected to monitor customers 'opting out' by turning off push notifications.

### Scheduling

To send an alert, the firm must complete all the steps necessary to initiate sending it (BCOBS 8.4.8R). So if technical difficulties outside the firm's control prevent the alert being delivered, the firm will still have complied with our rules. This is not the case if the technical problem prevents the firm from completing the steps necessary to initiate sending. In any case, we would expect firms to treat customers fairly when applying charges incurred because they were not alerted.

Having considered feedback, we have not amended the definition of scheduled payment for the alert rules. We think it has the same effect



as the equivalent requirement in the CMA Order. We intend to keep the requirement to send refused payment and unarranged overdraft alerts triggered by a scheduled payment by 10am. But in response to feedback, we have amended the rules for arranged overdraft alerts triggered by scheduled payments. These must be sent by midday. This additional time will help firms schedule alerts in a way that reduces the burden on their systems and contact centres without overly delaying receipt for consumers.

We are not requiring firms to send daily alerts to consumers about overdraft use. Firms need only send an alert when a customer enters an arranged overdraft, an unarranged overdraft or has a payment refused. In situations where a customer's balance fluctuates and moves in and out of an overdrawn position during a charging period, they should continue to be alerted to their overdraft use (see BCOBS 8.4.17R). We added to BCOBS 8.4.17R so that includes provisions not to repeat alerts required by BCOBS 8.4.16R. This corrects an omission from the draft rules.

We will not require alerts to be sent in real time. Our randomised controlled trials and natural experiments have shown batched alerts to be effective. We do not consider it proportionate to require real time alerts.

### **Grace periods**

We do not intend to set universally applicable grace periods for the reasons discussed in CP18/13. Our analysis shows that current grace periods offered by firms are giving consumers time to respond to alerts.

We have clarified guidance regarding the communication of grace periods at BCOBS 8.4.14G following feedback from firms. One firm felt the draft guidance required them to communicate different grace periods to consumers depending on payment method. This is not the intention. The guidance seeks to remind firms that where regulation 89 of the PSRs applies, firms must give value for a payment made on the same business day (as defined in the PSRs) no matter how late in the business day the payment is credited to the firm's account. While we expect firms to keep in mind and reflect the requirements of regulation 89 in their unarranged overdraft alerts, this does not mean that alerts need to explain how the firm meets these requirements. The content of alerts should use plain and simple language to tell customers what they need to do by when to avoid or reduce charges.

The industry agreement which sees firms offering a refused payment retry period is functioning well. We have not seen enough evidence of additional benefits to including it in our rules and guidance. As explained in CP18/13 we expect all firms required to automatically enrol customers into refused payment alerts to participate in the industry refused payment retry period agreement. If we see evidence that the industry agreement is not working we will consider consulting on rules to ensure the retry service is provided.



### Interaction with proposals to simplify and align pricing at Chapter 4

We have considered how the rules we are making interact with proposals discussed in Chapters 4 and 5 to simplify and align pricing of arranged and unarranged overdrafts and address repeat use. We have included this consideration when consulting on changes in Chapter 8.

### Data protection

We recognise the data privacy concerns raised regarding shared mobile phones and have informed the Information Commissioners Office of the rules we are making. Consumers concerned about privacy can opt out of receiving alerts to their mobile phone.

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## Available funds

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- 7.83** In this section, we respond to feedback on our proposal to ban use of the terms 'balance', 'available balance', 'available funds' or similar terms to refer to available arranged overdraft.
- 7.84** In CP18/13 we proposed that if available arranged overdraft is presented to a customer it should be shown separately to the customer's own money. This would help highlight overdraft use to customers. We proposed the rule should apply anywhere firms display or refer to available funds, e.g. in overdraft alerts, at cash machines, on bank statements, internet banking, banking apps or telephone banking.

We asked:

**Q10:** *Do you agree with our draft rules to require that if a firm refers to 'balance', 'available funds', or 'available balance', this must exclude any arranged overdraft available to the customer?*

- 7.85** Response was mixed.
- 7.86** Consumer bodies and some firms considered that firms should display a consumer's credit balance separately from their available overdraft. They said the proposals would help customers understand that an overdraft is borrowing. Setting a clear distinction between available funds and available overdraft can help change the culture around overdrafts. This in turn may affect customers' use of overdrafts, and may contribute to improvements in financial wellbeing.
- 7.87** A few respondents suggested that we consider behavioural science and research and test the best way to present information to consumers.
- 7.88** One respondent submitted research which found people with experience of mental health problems find it difficult to keep track of their balance. The way their overdraft is presented within available funds can cause significant confusion. In some cases, this may lead to unplanned overspending, financial difficulty and distress. 88% of respondents to their survey said that clearer information about how much money is in their account would be helpful or very helpful. People were particularly keen for this information to be available on cash machine screens, as well as in statements, in



banking apps and through online banking. Some consumers taking part in the research were also keen that they should be able to access information about their available overdraft easily, particularly on cash machine screens. Not having this information to hand may cause worry and distress when funds are low.

**'Clearly displaying actual balance rather than including overdraft would be very helpful as it's easy to glance at total available funds and think it's all your own money (I believe the banks do this intentionally so people accidentally spend into their overdrafts).'**

*Quote from customer with experience of mental health problems*

- 7.89** One consumer representative suggested that we go further and consider requiring banks to provide consumers with a 'safe to spend' or 'smart balance' information that lists and excludes regular payments.
- 7.90** A trade body and some firms warned that the proposals would be a significant change both technologically and for consumers. There may be unintended consequences in changing established practices. A significant consumer education and awareness programme would be required. We should also consider the impact on vulnerable consumers with numeracy or literacy difficulties. They raised concerns that consumers may make mistakes because they do not know they have an arranged overdraft available or how much overdraft is available. They asked for more time to implement our proposals.
- 7.91** Firms who disagreed with our proposals highlighted the importance to consumers of seeing their available funds – a figure that includes pending payments and gives an accurate view of how much money is currently available to them. One said they could show their customers their balance as well as separate available overdraft and available funds figures in most places where they display balance information (e.g. in mobile banking and online banking). However, they cannot do this on cash machines without making changes to LINK network.

### Our response

We note the mixed response to our proposals. We have decided to proceed with rules to require that available arranged overdraft is excluded from available funds.

We recognise that some firms asked for more time to adapt their systems and communicate changes to available funds to customers. Our rules will require firms to make the changes by 18 December 2019 and we are consulting on bringing forward this date to early December 2019 (see question 2 of this chapter and Chapter 8 for further details). Firms concerned about this deadline are encouraged to engage with us through usual supervisory channels.

Our consumer research identified that some firms' presentation of available funds reinforces customers' perception that overdraft funds are their money rather than a line of credit (Consumer credit qualitative research: credit cards & unauthorised overdrafts (2014) and Atticus – Consumer research on overdrafts (2018)). Responses to

our consultation from consumer groups and firms who do not include available overdraft in balance information supported this finding.

We are banning the use of the terms 'balance', 'available balance', 'available funds' and similar terms to refer to available arranged overdraft. This will help ensure that overdraft is positioned as a line of credit rather than the customer's own money. It will address confusion that may lead to consumers dipping into their overdraft in error. This does not prevent firms from displaying overdraft use as a negative account balance.

We recognise that this change may result in some short-term confusion amongst consumers. Firms will need to consider how to communicate the change to their customers. However, we consider that any short-term disruption to consumers will be offset by the longer-term benefits of showing a negative account balance where an overdraft is in use. This will contribute towards repositioning overdraft use as debt and help consumers engage with their overdraft use.

We agree that consumers benefit from seeing available funds – a figure that includes pending payments and gives an accurate view of how much money is currently available to them. Our proposals do not prevent firms from displaying this information to their customers if available overdraft funds are excluded from the figure displayed. Nor do our proposals prevent firms from informing their customers of their arranged overdraft limit alongside their account balance.

We note that changes to the LINK network may be needed to display additional information (such as arranged overdraft limit) alongside account balance and available funds (excluding overdraft) to consumers at cash machines. However, firms can already make this information available to consumers online, on mobile apps and telephone banking. We consider the risk to consumers of mistakes made because they are not made aware of their arranged overdraft limit at cash machines is low. Some firms already exclude available arranged overdraft from balance information. Additionally, alerts will tell consumers of unexpected unarranged overdraft use or potential refused payments. Firms may send their customers low balance or near arranged overdraft limit alerts. Potential changes to overdraft pricing that may arise following proposals in Chapter 4 of this document would further limit the impact of unexpected unarranged overdraft use.

We agree that showing consumers a 'safe to spend' or 'smart balance' that lists and excludes (future) regular payments and pending payments may help with budgeting. We note that there are challenger banks and Account Information Service Providers (AISPs) in the market providing consumers with 'left to spend' estimates in mobile apps. As this market is developing we do not consider it proportionate to require all firms to provide this service.

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## Competition remedies cost benefit analysis and equality impact assessment

- 7.92** In this section, we respond to feedback on our cost benefit analysis for the competition remedy rules we are making now. These are rules requiring overdraft alerts, overdraft eligibility tools, cost calculators, better information at account opening and changes to available funds. We also summarise views received on the outcome of our equality impact assessment for these rules.
- 7.93** One respondent queried the estimated cost range we quoted for our overdraft alerts proposal, which was lower than the estimated range they provided for our CBA. Another respondent provided us with a revised cost figure for our available funds proposal which was higher than the estimate they provided for the CBA. One respondent was concerned we may have excluded smaller firms from our CBA.
- 7.94** A few respondents expected us to revisit the CBA if we decide to require firms to simplify pricing to check for incremental impact. Providers said they may incur significant additional cost, particularly if work to introduce the competition remedies has become well advanced before the FCA decides on any pricing interventions. For example, online overdraft calculators might need to be extensively redesigned.
- 7.95** We received limited feedback on our Equality Impact Assessment. Firms and their trade body expressed their commitment to supporting vulnerable consumers. Some respondents agreed that technology-led solutions can only help consumers who have access to the internet. However, no new suggestions to support these consumers were provided. Some firms noted that we encouraged them to ensure consumers who are not online are able to access eligibility tools and overdraft calculators. Some responses to our EIA related to discussion elements of the paper regarding possible pricing interventions. We have considered that feedback in relation to those proposals.

### Our response

The CBA for the overdraft competition remedy rules we are making now was published in CP18/13.

We have published a separate new CBA for changes we are proposing in Chapters 4 and 5 to simplify overdraft pricing and address repeat use. It is included at Annex 2 of this document and it considers the impact of our competition remedy rules.

Possible future changes to overdraft pricing discussed in Chapter 4 do not impact our CBA for the competition remedy rules. This is because these changes are subject to consultation and may not be made. We consider that our proposed implementation timeframe allows firms to wait to develop their overdraft cost calculator until we confirm whether the rules consulted on in Chapters 4 will be made. We are consulting at Chapter 8 on aligning implementation periods.

In our CP18/13 CBA, we provided an estimate for how much we expected consumer's overdraft charges to be reduced because of our arranged overdraft alert proposals. Since publication of our CP we published an [Occasional Paper on the impact of arranged overdraft alerts \(OP40\)](#). That paper revised our estimate of impact for the

arranged overdraft alerts. As a result, we now estimate that consumers could save between £58.6m and £158.4m a year in reduced overdraft fees and charges because of our arranged overdraft alert proposals (previously estimated at £67.3 and £138.9m). Overall, we expect our package of alerts proposals could benefit consumers by reducing the overdraft fees and charges they incur between a range of £59.3 and £160m a year (previously estimated as a range of £68 and £140.5m a year).

We have considered the impact of the higher estimate provided by one firm for implementation of our proposals related to available funds. We have concluded that it does not bring about a substantial change to our existing CBA estimates. We now estimate our package of competition remedy proposals to have total one-off incremental costs of between £45.4m and £51.2m compared to £42.1m and £48m. Our estimate of ongoing costs has not altered from between £19.7m and £21.1m.

For our CP18/13 CBA we received cost survey responses from several large and small firms. Most of the firms provided us with a single cost figure and only a few gave us a range. We used the average of firms' range for our CBA calculations. This was done to not overestimate the cost figures by using the larger range, nor to underestimate the cost by using the smaller range. We carried out various methods of research to identify all the PCA providers in the market offering an overdraft facility. Analysis for our CBA included impacts on large players, challengers and also smaller niche providers.

We have considered feedback received on our EIA. We encourage firms to cater for consumers who do not have access to digital channels to use the eligibility tool and the overdraft charge calculator. This could be with help from telephone banking and branch staff.

While firms are required to automatically enrol customers into text message or push notification alerts, this does not prevent them alerting customers who do not use a mobile phone via another channel.

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## 8 Proposals to amend our competition remedy rules

**8.1** In this chapter, we propose to align the implementation date of our competition remedy rules (discussed in Chapter 7) with any rules we make to simplify overdraft pricing (discussed in Chapter 4). We also consider whether any changes to the rules are required as a result of proposals in Chapter 4 and 5.

### Our proposals

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**8.2** We propose to bring forward the implementation date for rules made in Chapter 7 (related to alerts, overdraft eligibility tools, overdraft calculators, better information at account opening and communication of available funds) so that it is the same as for rules proposed to simplify overdraft pricing – early December 2019. We consider that aligning these implementation dates will:

- ensure that if firms are required to simplify prices, they can introduce tools based on their new pricing
- allow firms to communicate overdraft changes to customers as a package

**8.3** An implementation date in early December 2019 will give firms sufficient time to implement the rules.

**8.4** We will need to make some amendments to BCOBS 8 if the rules we propose in Chapters 4 and 5 are made.

**8.5** For example, if rules to simplify overdraft pricing (Chapter 4) are made, tiered overdraft pricing will be banned. BCOBS 8.4.16R (which currently provides for alerts in circumstances where there are multiple arranged overdraft limits) and related rules at BCOBS 8.4.17R (6) and (7) specifically relate to tiered overdraft pricing. So we propose removing these provisions, and amending other provisions that cross refer to them. As firms will be permitted to provide fee-free buffers or fee-free arranged overdraft amounts, we would keep guidance regarding the treatment of such amounts for alerts at BCOBS 8.4.19G(4).

**Q15: Do you agree with the changes proposed in this chapter?**

## Annex 1

### Questions in this paper

- Q1:** Do you agree with our proposal to align the charges for arranged and unarranged overdrafts?
- Q2:** Do you agree with our analysis that our rules on alignment should not allow firms to charge more for unarranged overdraft use (no uplift)? If you disagree with our analysis, please provide evidence outlining the additional costs an uplift is required to cover and the level of uplift required.
- Q3:** Do you agree with our proposal that charges for unarranged overdrafts should be unenforceable if their level exceeds the level of arranged charges?
- Q4:** Do you agree that firms should be required to charge for overdraft by a single interest rate?
- Q5:** Do you agree that we should require firms to disclose the representative APR in advertising where the representative example or representative APR is triggered?
- Q6:** Do you agree with our proposed guidance to help firms to calculate APR consistently?
- Q7:** Do you agree that in addition to existing rules in CONC regarding the disclosure and prominence of the representative example and representative APR, we should require firms to include the title 'how does our overdraft compare' and explain that representative APR can help consumers compare the overdraft?
- Q8:** Do you agree that firms should report to the FCA information about their representative APR and that we should publish this information?
- Q9:** Do you agree that it would be helpful for firms to give consumers a clear example showing what an overdraft might cost in pounds and pence if they borrowed money for a period of a day, a week, a month or a year?
- Q10:** Do you agree with our proposals for guidance for recovering costs via refused payment fees? If you disagree, please set out which costs should be excluded and why, and which costs should be included and why.
- Q11:** Do you agree with our proposed application of the rules?



- Q12:** Do you agree that firms should be given 6 months to comply with the proposed rules?
- Q13:** Do you have comments, observations or evidence on whether overdrafts provided to micro-business customers or products marketed to consumers as having the same function as an overdraft should be subject to similar rules to those proposed in this CP?
- Q14:** Do you agree with our final proposals for addressing the harm from repeat use of overdrafts?
- Q15:** Do you agree with the changes proposed in this chapter? (Chapter 8)
- Q16:** Do you agree with our cost-benefit analysis?



## Annex 2

# Cost benefit analysis

### Introduction

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1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
2. This analysis presents estimates of the significant impacts of our proposals. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee and with due regard to our competition objective.

### Our analytical approach

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3. To understand the impact of our proposals on the market, this CBA considers:
  - the likely costs to firms
  - the likely benefits to consumers (including distributional impacts between different types of consumers)
  - any wider impacts or unintended consequences, such as costs to consumers or benefits to firms
4. The analysis presented below has been produced using evidence from the following sources:
  - survey responses from 15 personal current account (PCA) providers active in the overdraft market that may incur costs because of our proposals
  - analysis of account level data taken from a random sample of PCAs from large PCA providers representing around 90% of the PCA market by number of consumers<sup>8</sup>
  - evidence sourced from the six largest PCA providers
  - analysis undertaken as part of the Strategic Review of Retail Banking Business Models<sup>9</sup>

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8 See Technical Annex: Data; Technical Annex: The UK market for overdrafts; Technical Annex: Policy analysis; Technical Annex: Vulnerability; Technical Annex: Availability of alternatives.

9 See Technical Annex: Profitability; Strategic Review of Retail Banking Business Models Final Report, Annex 2 – PCA distributional analysis; Strategic Review of Retail Banking Business Models Final Report, Annex 3 – Analysis of switchers' characteristics.



- consumer research commissioned from an independent external agency, which gathered evidence on consumer understanding of overdraft pricing<sup>10</sup>

## Problem and rationale for intervention

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### The harm

5. In CP18/13, we found that, due to several drivers of harm, there was an overarching harm of prices being too high for consumers.<sup>11</sup>
6. We have refined the harm following further analysis. We consider that consumer harms in the overdraft market are as follows:
  - based on the evidence we have seen, prices for unarranged overdrafts are generally high when compared to firms' costs of providing this service (both in absolute terms and relative to arranged overdrafts). The distribution of charges is highly concentrated on a minority of consumers and notably vulnerable consumers
  - arranged overdraft charges can become harmful if used repeatedly

### Evidence of harm

7. Our analysis of the various data sources (see paragraph 4) provides evidence on the harm that we have identified in this market. The evidence of harm shows:
  - prices appear to be high for unarranged overdrafts
  - high incidence of unarranged overdrafts charges and refused payment fees on vulnerable consumers<sup>12</sup>
  - repeat use of arranged overdrafts results in high cumulative charges

### *Prices appear to be high for unarranged overdrafts*

8. In the UK, 52 million people have a PCA. Overdrafts are a facility usually provided as part of a PCA. We estimate that 36% of these consumers use<sup>13</sup> an arranged overdraft and 26% of them use an unarranged overdraft each year. In 2017, firms made an estimated £2.4bn in revenues from overdrafts, of which around 30% was from unarranged overdrafts.<sup>14</sup>
9. Table 1 below sets out the number and proportion of overdraft users who either pay high fees or are repeat overdraft users. The proportion is relative to the total number of UK overdraft users (ie 52 million). This shows the potential scale, in terms of number of consumers, of harm.

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10 See Technical Annex: Consumer research.

11 FCA, 2017, *Our Mission 2017: How we regulate financial markets*; FCA, 2016, *Occasional Paper 13: Economics for Effective Regulation*.

12 The FCA defines vulnerable consumers as 'someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care'. See *FCA Mission: Approach to consumers*.

13 We refer to 'use' here as using an overdraft facility once in a given 12 month period.

14 See Technical Annex: The UK market for overdrafts.

**Table 1: The number and proportion of overdraft users paying fees above 0.8% per day or using overdrafts repeatedly**

Type of consumers	Number of consumers (millions)	Proportion of all overdraft users
Consumers incurring fees above 0.8% per day <sup>15</sup>	5.2	10%
Consumers using an arranged overdraft each month of the year	6.7	13%
Consumers using an unarranged overdraft each month of the year	0.8	1.6%
Consumers using some form of overdraft each month of the year	7.2	14%

Source: PCA data, CMA (2016) Retail Banking Market Investigation, FCA analysis

10. Overdraft prices are high in absolute and relative terms.
- for arranged overdrafts, we see an uneven distribution and structuring of prices, with those borrowing small amounts potentially being charged higher prices
  - for unarranged overdrafts, the price is significantly higher than arranged overdrafts and regularly exceeds the equivalent of an interest rate of 10% per day and, for 15% of users, over 20% per day

11. These daily interest rates are:
- significantly higher than comparable forms of unsecured lending such as credit cards
  - in excess of the direct costs of providing the service.<sup>16</sup> There are limited differences in the cost of providing unarranged overdrafts compared to providing arranged overdrafts, with the most material differences being impairment and capital costs. Unarranged overdrafts are more profitable than arranged overdrafts even when adjusting for these costs<sup>17</sup>
  - part of a pricing structure which heavily penalises short-term use, which is precisely what the product is intended for. Currently, a small amount of overdraft usage is relatively very expensive (ie a disproportionately high charge relative to the small amount of money borrowed)

**High incidence of unarranged overdrafts charges and refused payment fees on vulnerable consumers**

12. Charges are highly concentrated among a small group of consumers. Table 2 shows that half of the charges incurred for each category presented a fall on a small group of consumers.

15 This benchmark for fees is taken from the High Cost Short Term Credit (HCSTC) price cap which applies an initial cost cap of 0.8% per day ie interest and fees charged must not exceed 0.8% per day of the amount borrowed. See <https://www.fca.org.uk/firms/price-cap-high-cost-short-term-credit>.

16 Although the contribution from overdrafts needs to contribute to the broader costs of providing personal current accounts (eg branches, IT).

17 This is based on a ratio of risk-adjusted all-in income / credit risk weighted assets. Incorporating direct and semi-direct costs to estimate a ROE still points towards a higher profitability of unarranged overdraft when compared to arranged overdrafts. As such, unarranged overdrafts generate a proportionally higher contribution to banks' fixed and common costs than arranged overdrafts. See Technical Annex: Profitability.



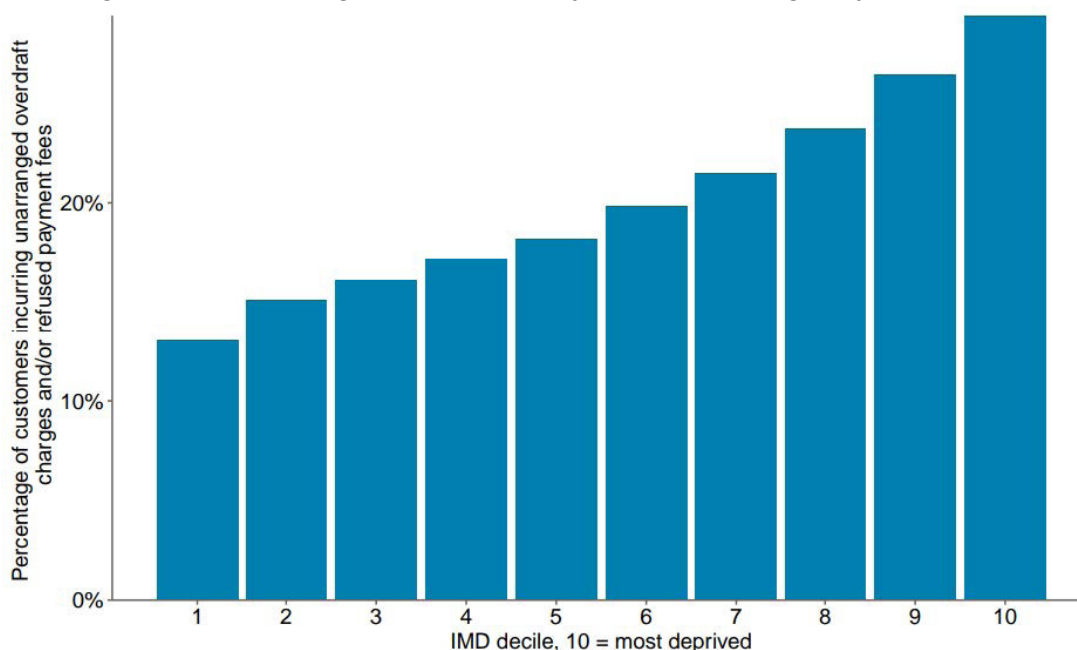
**Table 2: The proportion of consumers that pay half of charges/fees**

Charge/fee type	Percentage of consumers that pay 50% of these charges/fees
Arranged overdraft	3.5%
Unarranged overdraft	1.5%
Refused payment fees	1.3%

Source: PCA data, FCA analysis. Note: the percentages are relative to all customers meeting a minimum activity threshold

13. The evidence<sup>18</sup> suggests a link between deprivation,<sup>19</sup> very low income, living in certain areas and paying more in unarranged charges. This is shown in Figure 1 and Figure 2.

**Figure 1: Relationship between deprivation and the probability of incurring unarranged overdraft charges and refused payment fees during the year**

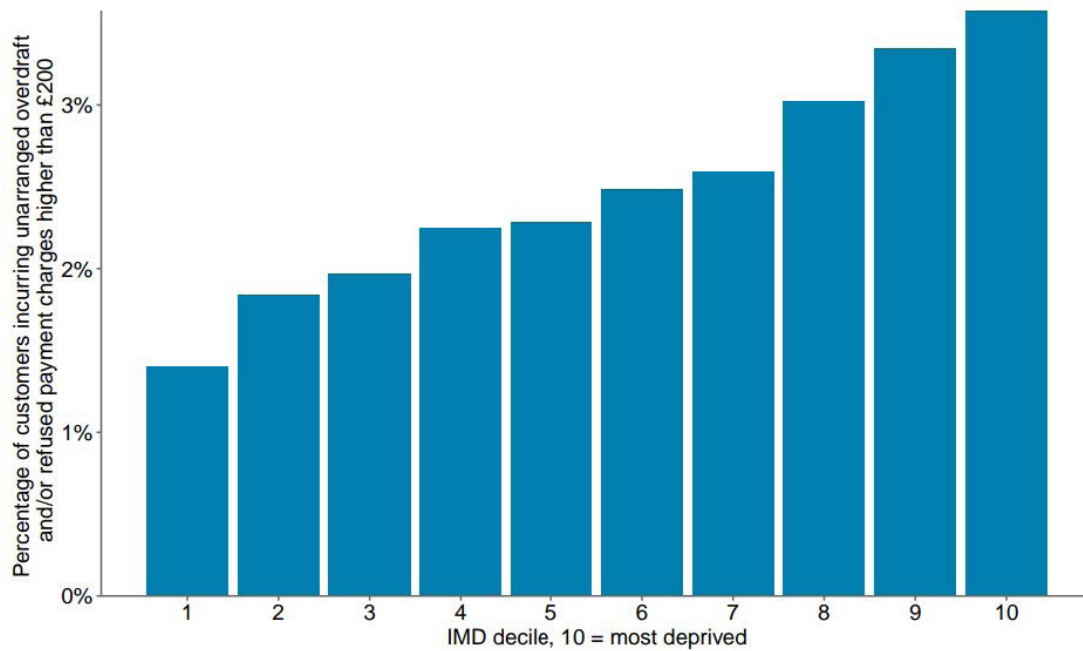


Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

18 Technical Annex: Vulnerability.

19 The Index of Multiple Deprivation (IMD) produced by the Ministry of Housing Communities and Local Government (MHCLG) measures local area deprivation across several domains including income, employment, health, and education. This data is available for all lower layer super output areas (LSOAs) in England. The index measures deprivation with those in decile 1 being the least deprived and those in decile 10 being the most deprived. This index is our preferred measure of vulnerability and the one used throughout this CBA where we refer to vulnerability in terms of deprivation. See Technical Annex: Vulnerability for further information.

**Figure 2: Relationship between deprivation and the probability of incurring unarranged overdraft charges and refused payment fees higher than £200 during the year**



Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

14. Table 3 below shows that annual unarranged overdraft charges as a proportion of average daily unarranged overdraft balance is generally highest for the most deprived consumers.

**Table 3: Relationship between deprivation and average (mean) daily unarranged overdraft charges and average (mean) daily unarranged overdraft balances**

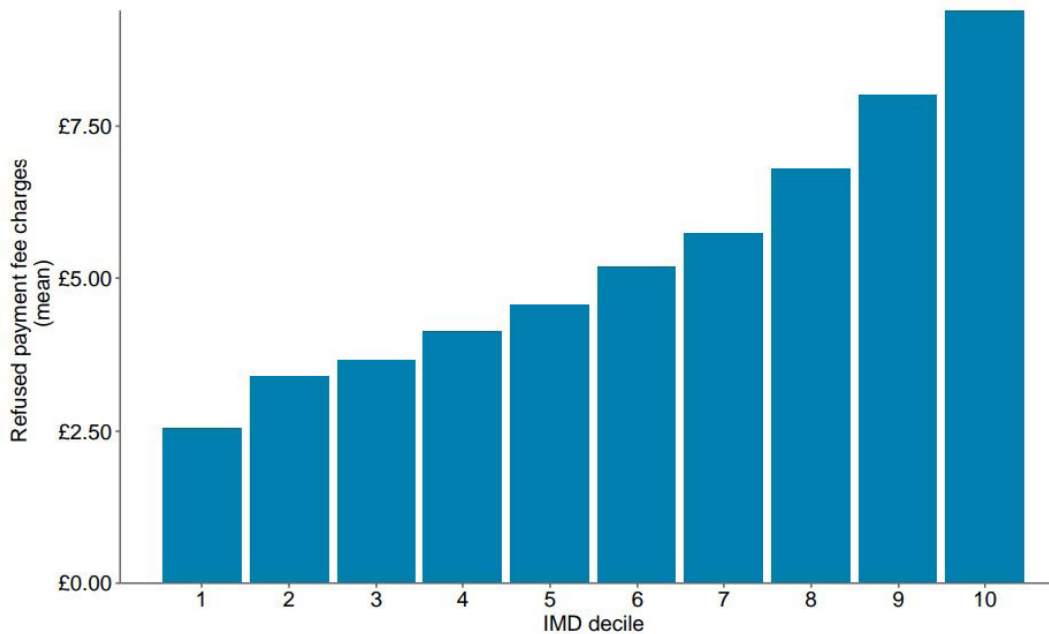
Deciles of IMD – from least deprived (1st decile) to most deprived (10th decile)	Average daily unarranged overdraft charge (£)	Average daily unarranged overdraft balance (£)	Average daily charges as a proportion of daily unarranged overdraft balance (%)
1	£0.02	£3.50	0.67%
2	£0.03	£4.00	0.70%
3	£0.03	£4.47	0.67%
4	£0.03	£4.47	0.72%
5	£0.03	£5.04	0.66%
6	£0.04	£4.99	0.71%
7	£0.04	£5.63	0.65%
8	£0.04	£6.46	0.65%
9	£0.04	£5.89	0.76%
10	£0.05	£6.49	0.74%

Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis



15. Figure 3 shows that average incurred refused payment fees tend to be highest for those who are more deprived.<sup>20</sup>

**Figure 3: Relationship between deprivation and annual average (mean) refused payment fees**



Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

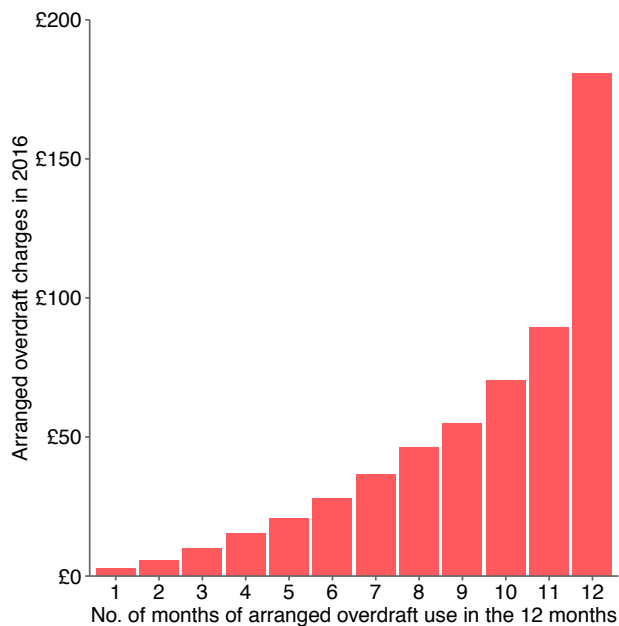
16. **Repeat use of arranged overdrafts results in high cumulative charges**  
Repeat overdraft use leads to a very high total cost of credit that might be in excess of the cost of alternative forms of credit. The evidence suggests that causes of this include consumers not knowing when or how to switch and their behavioural biases (set out below). Additionally, previously conducted research shows that consumers see overdrafts as their own money rather than a line of credit.<sup>21</sup> Figure 4 shows overdraft charges by number of months' usage for arranged overdrafts. The average cost of arranged overdrafts charges increases as the number of months of use increases, with a greater increase between 11 and 12 months of usage. Unlike other credit products such as credit cards, there is no obligation to make a minimum repayment / service the overdraft borrowing. This, along with the high proportion of lending balances being loaned out to regular users,<sup>22</sup> contributes to the high cumulative cost of using arranged overdrafts as source of long-term borrowing.

20 The actual mean charge for consumers who incur refused payment fees will be higher than shown on the chart. This is because the analysis in the chart includes consumers who do not incur refused payments and therefore, correctly, do not incur refused payment fees (ie their refused payment fee is £0). The increasing mean in refused payment fees as vulnerability increases is driven by both: i) a greater proportion of consumers in each decile incurring charges; and ii) an increasing proportion of consumers who are incurring very high charges.

21 Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.

22 Technical Annex: Repeat Use.

**Figure 4: Relationship between repeat use and annual average (mean) arranged overdraft charges<sup>23</sup>**



Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

17. The evidence also shows that repeat use is associated with a deteriorating financial position, in particular: <sup>24</sup>
- the increased likelihood of using unarranged overdrafts the longer a consumer uses an arranged overdraft
  - an increase in the median number of days a consumer is overdrawn
  - a declining median current account balance
  - an increasing credit card balance
18. Consumer research indicates that, for some types of consumers, going into debt can cause stress and anxiety.<sup>25</sup> These consumers are more reluctant to engage with financial information.<sup>26</sup>

### Market failure analysis / drivers of harm

19. We consider that the harm, and the evidence of it, in the overdraft market is a result of a number of market failures.<sup>27</sup> These are:
- complexity of information for consumers<sup>28</sup>

23 Analysis shows the number of months of repeat use of an arranged overdraft. This use may not be continuous eg 9 months of total usage during the year could be 3 months usage in a row, with a break of 3 months in-between and then another 6 months of usage.

24 See FCA, May 2018, CP18/13 High-cost Credit Review: Overdrafts

25 Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.

26 Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.

27 For further detail on market failure and market failure analysis see: FCA, March 2016, Occasional Paper 13: Economics for Effective Regulation.

28 This a specific element of the market failure of asymmetric information between firms and consumers which is discussed in Occasional Paper 13: Economics for Effective Regulation.



- behavioural distortions which affect how consumers make decisions
- lack of competition in the retail banking sector

**20.** We describe each of these market failures in turn and how they contribute to causing harm. These market failures are consistent with those that we set out in CP18/13.

**21.** The interaction between all the market failures means that we find that:

- consumers cannot easily compare prices between different providers and therefore there is little competitive pressure on prices
- the current fixed charge structure means that very small amounts of increased borrowing can lead to significantly large increases in prices

### **Complexity of information for consumers**

**22.** Consumers often do not have access to clear information about overdrafts and their associated charges, or their eligibility to obtain overdrafts from alternative providers. This means it is difficult for consumers to understand:

- how overdrafts work and the charges linked to them
- how their usage impacts on the charges they incur and what action they can take to reduce these charges
- whether they would be eligible to switch to cheaper overdrafts

**23.** The way information about overdrafts, including overdraft charges, is presented can be confusing. Overdrafts usually have many components to the price including interest, fixed fees and daily or monthly charges. The presentation of multiple charges or different components of charges can make it difficult for consumers to understand and further relate charges to their overdraft use. Fixed fee and tiered pricing structures result in consumers paying a wide range of effective interest rates for similar amounts of borrowing in terms of £-days, even within the same product.<sup>29</sup> This interacts with behavioural distortions, which we discuss below.

**24.** The evidence<sup>30</sup> indicates that seemingly simple charging structures (eg £1 a day flat fee) can lead to consumers not necessarily realising how much they might end up paying for using their overdraft. Our consumer research shows that only 20% of consumers could identify which of three current market pricing structures was least expensive.<sup>31</sup>

**25.** The complexity of information about overdrafts and the structure of charges acts as a barrier to consumers making informed decisions about when and how to use their overdraft. Consumers find it difficult to compare between different pricing structures and are significantly less likely to be able to choose the best deal when presented with different pricing structures.<sup>32</sup> They tend to underestimate the expense of fixed fees when comparing interest rates. They see daily fees in isolation and do not think about

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29 For example, a consumer may incur a specific fixed fee that another would not because they use their overdraft for more days.

30 See Technical Annex: Consumer research.

31 See Technical Annex: Consumer research.

32 See Technical Annex: Consumer research.



how they can accumulate if incurred regularly. They tend to focus on only one part of the pricing structure when it has several elements.

26. As an example of complexity, Table 4 sets out firms' pricing structures. This shows a wide range of differences in fee structures between providers. This range results in different fees and charges, which depend on a consumer's actual lending profile (ie the balance and the time period).

**Table 4: Examples of firms' pricing structures<sup>33</sup>**

	Arranged			Unarranged					
	Daily fee (£)	Monthly fee (£)	Interest, EAR (%)	Daily fee (£)	Monthly fee (£)	Allowed payment fee (£)	Interest, EAR (%)	Refused payment fee (£)	MMC (£)
Range	0.50–3	6–12	11–67	5–10	10–25	5–15	15–19	5–25	60–95
Barclays <sup>34</sup>	✓			✓				✓	67
HSBC			✓	✓					80
LBG <sup>35</sup>	✓								N/A
Nationwide			✓	✓		✓	✓	✓	50
RBS		✓	✓	✓				✓	80
Santander <sup>36</sup>	✓			✓				✓	50
Co-op			✓	✓	✓		✓		N/A
Metro			✓				✓	✓	60
Northern		✓	✓	✓ <sup>37</sup>	✓			✓	75
Triodos			✓				✓		N/A
Starling			✓				✓		N/A

Source: FCA Analysis

27. Research conducted previously has also found that consumers faced specific barriers to accessing information and making judgements about PCA charges, making it difficult for overdraft users to search and switch for better overdraft deals.<sup>38</sup>

### Behavioural distortions

28. Academic research in psychology and behavioural economics shows that consumers can be subject to behavioural distortions which can leave them unable to accurately anticipate or control their overdraft usage (especially in the case of unarranged

33 This table is based on overdraft pricing structures which are correct as at time of publication.

34 For the purposes of our analysis, we have classified Barclays's 'Emergency Borrowing' as a form of unarranged overdraft. We recognise that Barclays's emergency borrowing is an arranged facility but we have classified it as unarranged since its economic effect is similar to unarranged overdrafts.

35 Lloyds Banking Group uses a daily fee as its pricing structure, this fee (1p per £7 borrowed) is also dependent on the amount borrowed and so bears some similarity to an interest charge. We are aware that Lloyds Banking Group has recently announced changes to this pricing structure to introduce a stepped charging structure based on the level of balance borrowed.

36 As of July 2018 Santander removed unarranged overdraft fees for certain accounts with monthly account fees.

37 Alongside a £25 monthly unarranged overdraft usage fee, Northern Bank apply a daily paid transaction fee of £25 for each day items are paid resulting in an unarranged overdraft balance.

38 CMA, 2016, Retail Banking Market Investigation Final Report, ppxv-xvi.



overdrafts).<sup>39</sup> These may cause consumers to use overdrafts in a way that means they incur high charges. These distortions can include:

- **Overconfidence:** Consumers may wrongly believe that they will never use their overdrafts for a variety of reasons.<sup>40</sup> They may expect to spend less or earn more in the future, or simply believe that they will be more careful in managing their money.<sup>41</sup> This can result in consumers incurring overdraft charges that they did not expect when they made decisions about where to bank, what type of account to use, or whether to request (or accept) an overdraft facility.
- **Present bias:** Consumers can value the present over the future. This can lead to them making decisions which affect them negatively in the long-run. For example, consumers using overdrafts in the short-term to gain immediate gratification can come at the cost of longer-term over-borrowing and cumulative charges. There can also be longer-term psychological costs associated with this too.
- **Inertia:** Many PCA consumers do not engage or act when presented with new information, preferring instead to stick with the status quo.<sup>42</sup> For example, the median account tenure for a PCA is 9.5 years and was still around 8.8 years for those customers who used CASS. For the highest percentile of tenure, the median tenure was 31 years.<sup>43</sup> Whilst some of these consumers may stay because they are happy with the service they are being provided with, others may not be and could benefit from switching. In similar terms, inert consumers who regularly use overdrafts may continue to use a relatively costly overdraft from their current PCA provider as opposed to either switching to a PCA provider with a less-costly overdraft offering or to an alternative form of credit.
- **Framing, salience and limited attention:** Consumers have limited attention and interpret information based on how it is framed and what is made most salient. As such, they may find complex or poorly-presented information difficult to understand, focusing instead just on specific elements that attract their attention. For example, consumers may focus on the pound per day element of a fixed fee overdraft rather than the relative cumulative costs of borrowing under that pricing structure.<sup>44</sup> Similarly, consumers can be confused by the difference between arranged and unarranged overdrafts, and which facility they are using.<sup>45</sup>

### Market Power

- 29.** The overall level of consumers' engagement with PCAs remains low. This is demonstrated by the low levels of switching despite potentially substantial gains if consumers were to switch PCAs.<sup>46</sup>
- 30.** Low levels of consumer engagement have meant the competitive pressure applied by consumers on PCA providers through switching and the threat of switching is weak.

39 For further discussion on behavioural biases see: FCA, April 2013, [Occasional Paper 1: Applying behavioural economics at the Financial Conduct Authority](#).

40 In 2016, the CMA found that half of consumers who had used an unarranged overdraft were unaware that they had done so.

41 [Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.](#)

42 [FCA Occasional Paper No.36, May 2018, Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts; Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.](#)

43 See Strategic Review of Retail Banking Business Models Final Report, Annex 3 – Analysis of switchers' characteristics.

44 [Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.](#)

45 [Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.](#)

46 The CMA found that overdraft users have potentially the most to gain from switching, with GB consumers in overdraft for 8 to 14 days a month having the potential to gain approximately £180 per year. GB consumers who use unarranged overdrafts for 8 or more days a month and do not use any arranged overdrafts could gain by switching by between £540 and £564 per year.

This weakens firms' incentives to compete to gain new and retain existing consumers. In particular, there is a lack of competitive pressure<sup>47</sup> surrounding overdraft charges, especially unarranged overdraft charges. In its 2016 retail banking market investigation findings, the CMA found that competition in PCA markets is not working as well as it could be.<sup>48</sup>

## Baseline and key assumptions

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### Baseline

- 31.** This section sets out the baseline for the CBA. We consider that without our intervention, firms' behaviour and pricing structure for overdrafts would remain unchanged.
- 32.** The main areas that we address in this section are:
- the interventions set out in Chapter 7 of this CP
  - the CMA's alerts for unarranged overdrafts and refused payments alongside the introduction of a Maximum Monthly Charge (MMC)
  - other (proposed) interventions in consumer credit markets
  - the advent and adoption of relevant technological innovations
- The interventions set out in Chapter 7 of this CP**
- 33.** In Chapter 7 of this CP, we have made rules aimed at improving consumer engagement and awareness of overdrafts. These rules include:
- the automatic enrolment of customers into overdraft alerts<sup>49</sup>
  - overdraft eligibility tools
  - improved information about overdrafts at account opening
  - overdraft charges calculators
  - banning inclusion of available overdrafts in descriptions of available balance or available funds
- 34.** The rules in Chapter 7 of this CP, by increasing consumer awareness and engagement with overdrafts, are aimed at helping consumers take action to reduce their overdraft charges. Our CBA on these rules estimated that consumers could save between £59m and £160m as a result of the enrolment of PCA customers into overdraft alerts.<sup>50</sup>

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47 Our ex post impact evaluation of Lowering barriers to entry and expansion in retail banking shows that our intervention in March 2013 has helped to encourage new entry into the market.

48 CMA, 2016, Retail banking market investigation Final report, pxxviii.

49 This includes arranged overdraft alerts for all firms with more than 70,000 PCAs and an extension of the CMA's order on unarranged overdraft and refused payment alerts to firms with more than 70,000 PCAs who were not previously covered.

50 See Chapter 7 of this CP.



35. We have considered whether these rules and their estimated benefits require us to modify the baseline for the proposals in this CP. We do not consider this is necessary because the interventions are likely to affect broadly different groups of consumers.
36. Our rules set out in Chapter 7 of this CP rely on increased consumer engagement with overdrafts to reduce fees. The benefits of these proposals will therefore flow to consumers who utilise our interventions to act. For example, some consumers who accidentally or only occasionally fall into their arranged overdraft and would previously have incurred fees will, following an alert, act to avoid a charge. Similarly, some consumers may engage proactively with the online calculator, eligibility checker and additional account opening information in order to actively choose a more appropriate PCA or to reassess their overdraft usage. For consumers who are not able to act or choose not to engage, the impact of the remedies set out in Chapter 7 of this CP are likely to be more limited. This group may disproportionately include vulnerable consumers.
37. Our rules in Chapter 7 of this CP also do not target other drivers of harm in the market for overdrafts. They do not remedy the complexity of the pricing structure and the high level of charges for unarranged overdrafts.<sup>51</sup> Our proposed pricing interventions are explicitly targeted at reducing the harms caused by these drivers which are likely to affect a largely different range of consumers than our rules in Chapter 7 of this CP.
38. Similarly repeat users of overdrafts, those who use out of habit or necessity, are less likely to be able to respond to our rules in Chapter 7 of this CP and act to reduce their overdraft charges. We consider that specific interventions focused on this group of consumers are required to deal with the harm that comes from repeat use.
39. Whilst the proposals in this CP may alter the distribution of benefits of our alerts rules amongst consumers, we do not think our estimate of total benefits set out in Chapter 7 of this CP will be materially affected in magnitude in the short run as firms reprice in such a way that the increase in benefits for some impacted consumers will be offset by a reduction in benefits for other impacted consumers.<sup>52</sup>
40. In addition, a simpler pricing structure may be complemented by our rules around account information, online charge calculators and overdraft eligibility in improving consumer engagement with their overdrafts. For example, consumers struggle to understand both the daily and cumulative cost of their overdraft use and the charges themselves. It is possible that our single interest pricing proposals<sup>53</sup> might not fully remedy this if consumers still struggle to calculate what interest rates or flat charges will end up costing them when considering their usage. Requirements to provide an overdraft calculator will mitigate this by giving consumers a means to easily calculate how much their overdraft will cost in pounds and pence based on a particular balance.

#### **The CMA's unarranged overdraft alerts, refused payment alerts and MMC**

41. The CMA introduced alerts for unarranged overdrafts and refused payments following its Retail Banking Investigation. These alerts provide consumers a grace period to avoid a charge. In addition, the CMA mandated that firms must specify for each PCA

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51 The overdraft costs calculator is intended to reduce the level of complexity faced by consumers around overdraft pricing but this intervention alone will have a marginal impact which will not fully remedy the harm by itself.

52 In the longer run the benefits of these alerts could increase or decrease depending on firms' responses in terms of pricing to the rules proposed in this CP and the corresponding demand effects of consumers.

53 These proposals require firms to simplify their charging structures by using in relation to a particular PCA: i) interest rates in respect of that account's overdrafts; and ii) interest rates that do not vary depending on the amount of borrowing.

product they offer, the maximum relevant charges that could accrue in relation to that PCA in any month as a result of exceeding or attempting to exceed a pre-agreed credit limit on the PCA. This is the MMC.

42. We expect that the proposals in this consultation paper should reduce consumers' unarranged overdraft charges directly (eg lower prices for unarranged overdraft consumers and some arranged overdraft consumers, clearer and more transparent information leading to consumers being in a better position to manage their finances) and indirectly (eg greater engagement with overdrafts resulting in increased competitive pressure on firms).
43. The CMA's alerts intervention and the proposed pricing interventions here are complementary in terms of their impact on consumer behaviour:
- a consumer might avoid receiving a text alert because they better manage their finances. This might happen because of our proposed interventions reducing pricing complexity
  - on the other hand, a text alert might mean that a consumer does not fall into their unarranged overdraft by a small amount because they act immediately. Had they not acted, our proposed pricing interventions should still reduce the price paid in doing this (ie replacing daily/fixed fees with interest rate charges)
44. Analysis undertaken for CP18/13 found that only 1% of consumers with the most common current accounts have hit the MMC each month since it was introduced.<sup>54</sup> Of these, heavy users of unarranged overdrafts were estimated to be paying around £5.45 less on average per month. Medium and low unarranged users were estimated to pay around £1 less per month.<sup>55</sup> We expect our proposed pricing interventions to impact a wider group of consumers than were impacted by the MMC and to have a greater impact on the average fees paid for those who benefit.<sup>56</sup>
45. Our baseline is based on overdraft usage figures and consumer behaviour from before the CMA's intervention had taken effect (because the interventions had yet to be implemented). Judging whether and how to adjust the baseline for the benefits and costs is not straightforward. The effects above mean that the benefits of these proposals may be lower (if consumers change their behaviour due to the CMA's intervention and reduce their use of overdrafts correspondingly).<sup>57</sup>
46. Given the uncertainty of this effect and the interaction between the two proposals, attempting to adjust for the CMA's intervention would not provide a baseline that would allow us to reasonably practicably estimate the impact of our proposals reliably or accurately. However, we do not expect that the effects of the CMA's interventions will materially impact the conclusions of this CBA.

#### **Other (proposed) interventions in consumer credit markets**

47. Our baseline also does not account for the broader context surrounding the markets for high cost credit. The FCA has been, and is, taking significant action across several

54 FCA, May 2018, CP18/13 High-cost Credit Review: Overdrafts, Annex 3

55 FCA, May 2018, CP18/13 High-cost Credit Review: Overdrafts, Annex 3

56 Assuming this saving for heavy users is replicated for all months in a year this would indicate annual savings to impacted consumers of around £65. This saving is significantly lower than the average £450 in fees incurred by individuals in the 1.5% of consumers who we estimate pay 50% of all unarranged overdraft charges.

57 Although small in size, we note that the variable costs to firms of this proposal would be reduced if there is less overdraft usage. In addition, firms are likely to save costs in the forms of text alerts they would no longer need to send.



of the largest high cost credit markets. An example of this is introducing a persistent debt rule in the credit cards market.<sup>58</sup> When considering the potential consumer response to our overdraft proposals (eg some consumers switching to using credit cards instead of overdrafts), we have not included an assessment of how our other high cost credit proposals may impact these consumers in this CBA.<sup>59</sup> As with the interventions set out in Chapter 7 of this CP, some of these other interventions are still in the process of implementation and their effects on overdraft usage are uncertain.

48. Although we have not undertaken an assessment in this CBA of how these other proposals may impact consumers who switch to other forms of credit, the interventions (or proposed interventions) are aimed at mitigating harms in these other markets where they are present. We do not expect that the effects of those other interventions will materially impact the conclusions of this CBA.

#### **The advent and adoption of relevant technological innovations**

49. The analysis in this CBA does not make any explicit assumptions about future firm entry and exit.<sup>60</sup> However, we note that factors such as Open Banking, the CMA's other Foundation Remedies and second Payment Services Directive, among others, may help to increase competition and open the market to new entrants in the future. Our ex post impact evaluation of our intervention to reducing entry and expansion barriers in retail banking has highlighted that increasing competition can also come about from encouraging expansion of existing firms in a market.
50. We acknowledge that the market continues to develop with the advent and greater adoption of new technology – and has continued to do so after collecting the data that we requested on consumer usage. Relevant developments that might affect overdraft usage include the increasing use of mobile banking, new account information and payment initiation services and changing contactless payment limits. These changes might have opposite effects on overdraft usage (for the former, potentially increasing awareness of balances but, for the latter, increasing use of expenditure without consumers being aware of the impact on their balance), making it difficult to adjust these data in any reliable manner.

#### **CBA assumptions**

51. For the purposes of this CBA, we have made the following assumptions:
- unless stated otherwise, all references to 'average' in this CBA are the mean
  - all price estimates are in nominal terms
  - we assume 100% compliance with the new policy we implement
  - we assume an implementation period for firms of 6 months from the date of publication of any Policy Statement<sup>61</sup>

58 FCA, February 2018, PS18/4: Credit card market study; persistent debt and earlier intervention.

59 Whilst not explicitly reflected in CBA estimates, the broader regulatory context and how the proposed remedies will work in conjunction with other remedies and interventions has been considered in our regulatory judgements.

60 For the purposes of our analysis, we have also not considered the impact of any proposed mergers or takeovers on our findings.

61 The implementation period is the time between the FCA publishing its final rules in a Policy Statement and the date on which those rules come into effect for firms.

## Overview of interventions

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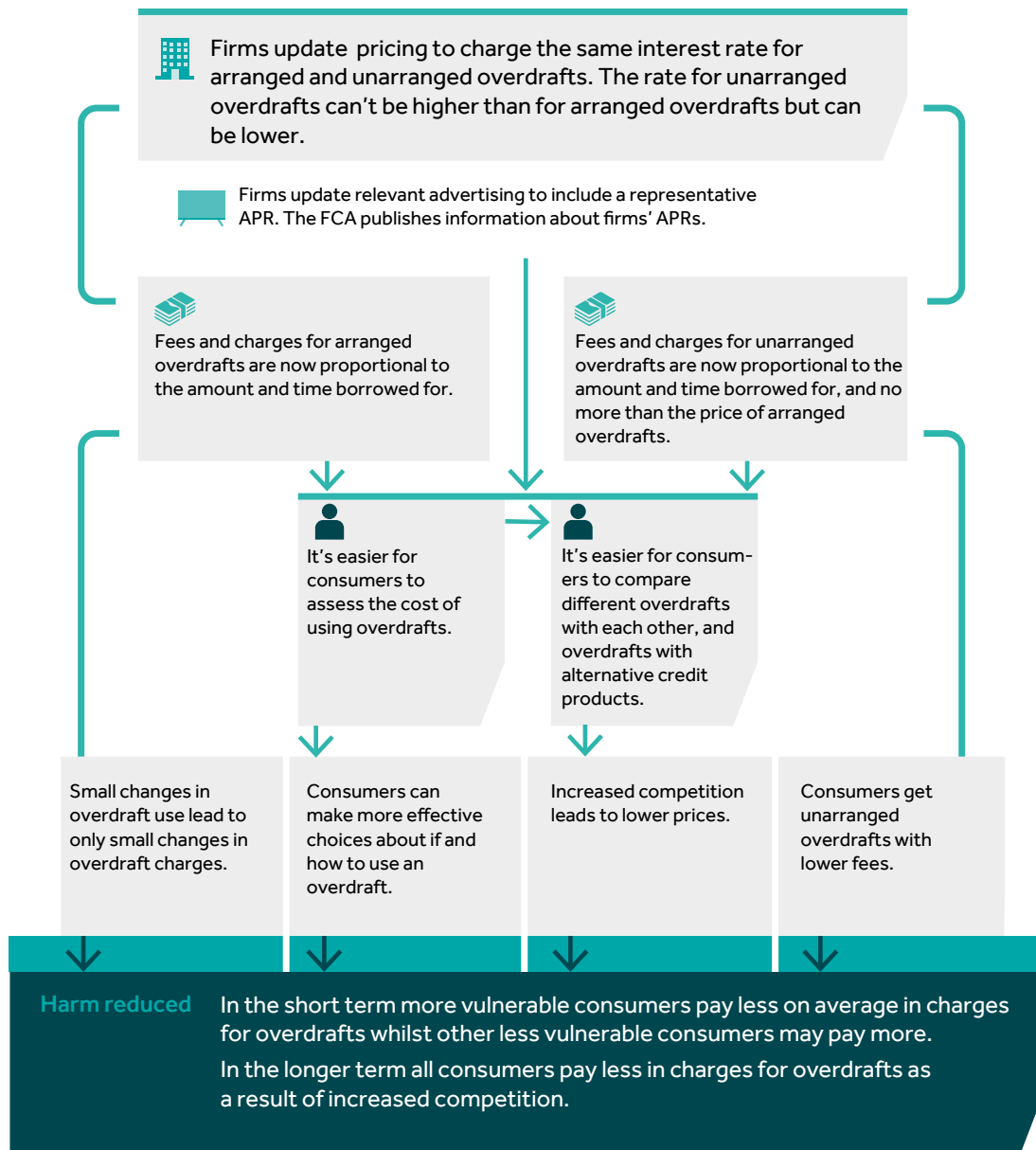
### Pricing interventions

- 52.** As outlined in Chapter 4 of this CP our proposals seek to address the harm associated with the complexity of overdrafts and the high level of fees, by simplifying overdraft pricing structures, in particular:
- requiring firms to charge a single interest rate for each of arranged and unarranged overdrafts<sup>62</sup>
  - requiring the rate for unarranged overdrafts to be no higher than that for arranged overdrafts
  - standardising how prices are represented, through requiring a representative annual percentage rate (APR) in certain advertising for arranged overdrafts
- 53.** We are consulting on new guidance to help firms comply with existing rules that refused payment fees should reasonably correspond to the costs of refusing payments.
- 54.** Figure 5 details the causal chain associated with our pricing interventions. This causal chain outlines the process through which we expect our interventions to ultimately reduce the identified harm.

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62 This is referred to as single interest pricing in the rest of this CBA.

**Figure 5: Pricing interventions causal chain**



Source: FCA

### Repeat use interventions

55. As outlined in Chapter 5 of this CP, to address the harm identified by repeat use of overdrafts,<sup>63</sup> our interventions require firms to:

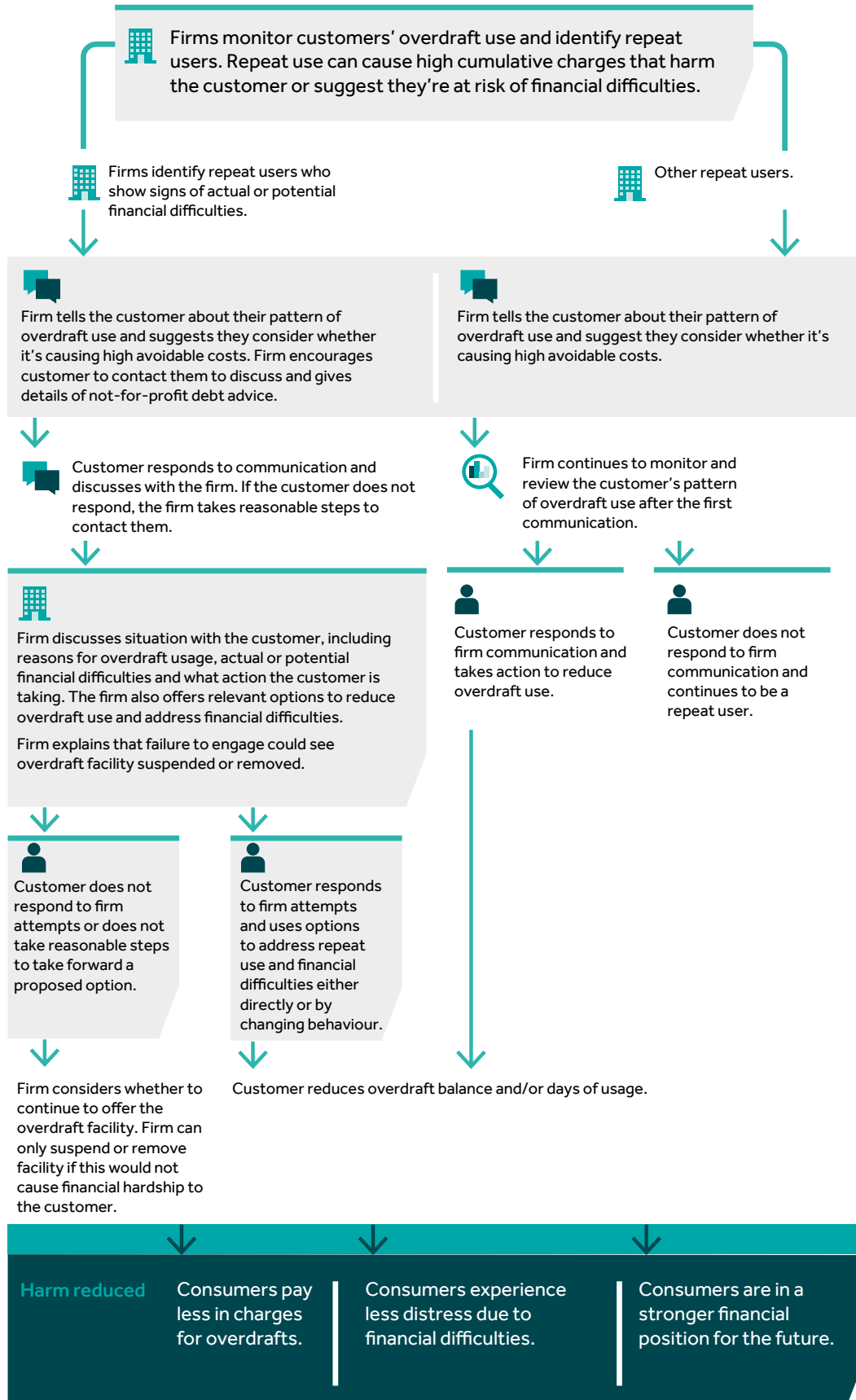
- Develop a strategy for reducing repeat use where we have defined "repeat use" in the rules as "a pattern of overdraft use where the frequency and depth of use may result in high cumulative charges that are harmful to the customer or indicate that the customer is experiencing or at risk of financial difficulties".

<sup>63</sup> Repeat use is defined as a pattern of overdraft use where the frequency and depth of use may result in high cumulative charges that are harmful to the customer or indicate that the customer is experiencing or at risk of financial difficulties.



- Incorporate, within their strategy policies, procedures and systems to monitor customers' overdraft use, identify repeat users, and sub-divide the latter into two categories based on indicators of actual or potential financial difficulties:
    - (a) Those in respect of whom there are signs of actual or potential financial difficulties, and
    - (b) all other repeat users
  - Incorporate, within their strategy interventions for the firm to take, dependent on whether a customer is in category (a) or (b):
    - If the customer is in category (a) (financial difficulties), the firm must seek dialogue with the customer, and present options for reducing use (the guidance to the rules gives examples of options), explaining that if the issue continues, suspension or removal of the overdraft may occur (unless that would worsen the customer's financial position).
    - If the customer is in category (b), the firm must communicate with the customer, highlighting the customer's pattern of use and indicating that this may be resulting in high avoidable costs; the firm must continue to monitor the customer, and if the pattern of use continues, the firm must send a similar communication after a reasonable period, and then at least annually.
- 56.** Firms will implement their strategy from when the rules start to apply, and then monitor the effectiveness of their strategy, and update or adjust it as appropriate.
- 57.** To evaluate the impact of these interventions we will require firms to provide the FCA with their strategy when the rules start to apply, and after any substantial changes. Firms will also be required to report on the outcome of their monitoring after 6 and 12 months, including details of any change to the total number of repeat users, the total size of their overdraft balances and any other relevant background information.
- 58.** Figure 6 details the causal chain associated with our repeat use interventions.

**Figure 6: Repeat use interventions causal chain**



Source: FCA

## Summary of costs and benefits

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59. This section summarises the aggregate costs and benefits of our pricing interventions and repeat use interventions.

60. Table 5 provides a high-level summary of all the costs and benefits which are analysed as part of this CBA. For further detail on each of these please see the relevant sections below.

### Pricing interventions

61. We estimate that the total one-off costs of our pricing interventions to the industry will be £105.7m with an ongoing cost of £6.2m. One-off costs are primarily driven by communication costs (49% of one off costs) and IT development costs (28% of one-off costs). Ongoing costs were viewed as negligible by most firms except for one firm which estimated a significant increase in inbound customer engagement costs.

62. Our pricing interventions have deliberately sought to protect the more vulnerable consumers in society. We expect the overall impact of these changes to result in a more even distribution of charges, with vulnerable consumers benefitting relatively more in terms of lower fees and charges than other consumers.

63. Based on the evidence we have seen, we expect our interventions to directly result in lower costs for unarranged overdraft charges and for consumers using overdrafts with a small balance. As such we indicatively estimate that the 30% of PCA consumers living in the most deprived areas in the UK, as measured by the IMD, could see an aggregate reduction in overdraft charges of around £101m per year as a result of our pricing interventions.

64. In response to our interventions we expect that firms will adjust their pricing structures in order to recover any potential loss in revenue. Although it is difficult to predict exactly what these new pricing structures will be, we anticipate that firms will seek to realign pricing, for instance by increasing arranged overdraft prices, such that there are no large transfers from firms to consumers in aggregate ie when looking across all consumers there is a net neutral impact on total overdraft revenue. Where such waterbed effects do take place, we do not expect any increased charges to the affected products or, if firms choose, to other areas of the PCA to disproportionately impact more vulnerable consumers.

65. In the longer term, we expect the pricing interventions to work in conjunction with the remedies outlined in Chapter 7 of this CP to improve competition in the market for overdrafts. We do not think it is reasonably practicable to estimate these benefits robustly due to the dynamic nature and long-term impacts of competition. However, we expect this enhanced competition to ultimately lead to better pricing, greater product quality and potential innovation in the provision of overdrafts or substitutes. Such impacts would result in a net positive outcome for consumers following our pricing interventions.

### Repeat use interventions

66. We estimate that the total one-off costs of our repeat use interventions to the industry will be £34.9m with an ongoing cost of £5.7m. This total includes both the fixed costs of setting up and maintaining a system to implement the proposals and the variable costs of consumer intervention, 36% and 74% of total one-off and ongoing costs respectively.



- 67.** Fixed costs are primarily driven by IT development costs and communication costs. Variable costs are primarily driven by a combination of communication costs, inbound consumer engagement costs and other, unspecified costs.
- 68.** We expect our proposals to reduce the number of repeat users of overdrafts as well as to reduce their levels of balances, fees and charges as a result of interventions for those consumers identified as repeat users. In addition to the financial benefits to consumers we expect our proposals to result in reduced levels of psychological distress which is associated with financial distress and improvements in consumers' financial position for the future.
- 69.** We estimate that 4 million consumers will be impacted by our proposals in the first year of intervention. Subsequently we estimate a further 1.3 million such consumers per year will be impacted. Given the compliance costs to firms of these proposals we estimate an impacted consumer would on average need to save £3 in fees and charges as a result of our proposals in order for the policy to breakeven.

**Table 5: Summary table of costs and benefits**

		Firms	Consumers
Pricing intervention	Costs	Familiarisation and gap analysis costs	Waterbed effect on charges or prices other than overdrafts
		Intervention implementation and compliance costs	Potential loss of access to overdraft credit
	Benefits	Reduced costs of dealing with complaints	Direct benefits including reduced fees for unarranged overdrafts and low balance overdrafts
		Reduced credit losses and associated costs of administration	Distributional benefits from more evenly distributed charges with lower average costs for more vulnerable consumers
			Indirect benefits of better pricing as a result of improved competition
	Repeat use	Costs	Familiarisation and GAP analysis costs
Intervention implementation and compliance costs			Potential loss of access to overdraft credit
			Time costs for consumers
			Cost to consumers of being identified as a 'false positive'
		Potential negative impact on credit score	
Benefits		Reduced costs of dealing with complaints	Reductions in the number of repeat users and the balances, fees and charges for such consumers
		Reduced credit losses and associated costs of administration	Reduced emotional and psychological costs of financial difficulties
		Improved financial position for impacted consumers	

Source: FCA

## Costs to firms

- 70.** The PCA market is relatively mature with relatively low growth and a high market concentration amongst the biggest 6 PCA providers. The rest of the market is served by a combination of smaller retail banks, building societies and new challenger banks whose business models focus on the use of new technology and distribution channels. In Table 6, we categorise these firms into different groups based on their market shares and business model.

**Table 6: Categorisation of PCA providers**

PCA provider category	Definition
Large PCA Providers	Engaged in full-service banking on a significant scale, with UK-wide reach. Their model includes multi-channel distribution through branches, phone, online and intermediaries. Together, they hold a significant share of the PCA market.
Smaller retail banks	Engaged in full-service banking on a smaller scale than the largest providers, targeting key micro-markets or with a regional focus. Typically, their model includes multi-channel distribution. Taken together, their market share is the second largest after large PCA providers although individually their market shares are generally low.
Smaller building societies	Primarily engaged in savings and mortgage lending, with a minimal presence in the PCA market. Their model includes multi-channel distribution with a focus on small regional branch networks and intermediaries. They have low market shares in PCA.
New challenger PCA providers	New entrants of a relatively small size receiving significant attention for their means of driving innovation and improving consumer service in the market. Product breadth is usually limited with distribution through mobile or online only. They have low market shares although are growing quickly from a small base.

Source: FCA

- 71.** There are also a number of new entrants seeking to gain authorisation with new product offerings, such as an unbundled overdraft alternative.<sup>64</sup> This highlights that there are alternative ways that overdrafts can be provided (ie not only as part of a PCA, such as running account credit). We have not included these alternatives in our analysis.
- 72.** Table 7 summarises the number of providers within each category the largest 6 PCA providers have a 90% share of the market by number of PCA consumers. New challenger PCA providers currently have less than 1%. The remaining market share is divided amongst the smaller retail banks and smaller building societies.

<sup>64</sup> This is a credit product with overdraft-like features offered by a provider separate to a PCA ie it is not bundled into the PCA package. It may provide automatic drawdown when there is a lack of credit in either a PCA with another provider, or an e-money account, and automatic repayment as/when funds are credited to the associated account). Safety Net Credit is an example.

**Table 7: Number of PCA providers<sup>65</sup>**

PCA provider category	Number of PCA providers
Large PCA providers	6
Smaller retail banks <sup>66</sup>	21
Smaller building societies	2
New challenger PCA providers	3

Source: FCA

- 73.** In this section, we estimate the direct costs to firms of complying with our proposals.
- 74.** Familiarisation costs and legal review costs of both proposals are estimated jointly using standard FCA assumptions.<sup>67</sup> Other costs due to our proposals are estimated separately for pricing and repeat use interventions based on responses to a firm cost survey.
- 75.** In August 2018, we sent a questionnaire to 17 firms seeking their feedback on the incremental one-off and on-going costs of complying with our pricing and repeat use proposals. The questionnaire asked for cost estimates split by cost category<sup>68</sup> for each proposed intervention and asked firms to outline any interdependency in costs between different proposals.<sup>69</sup> Based on firm responses and the intended impact of our proposals, we have grouped costs into either pricing interventions or repeat use interventions.
- 76.** Firms provided the cost estimates based on an assumed 6-month implementation period.
- 77.** We use a stratified sampling approach (ie we group firms into different size categories) to estimate costs to firms. We use this approach because the cost per firm varies significantly by firms' size and business model. Stratifying our sample helps us to more accurately extrapolate costs outside our sample of firms, where we do not have the full population category.

65 This table seeks to capture all firms in the UK who currently offer a PCA with the option of a bundled overdraft facility. It does not include private banks, credit unions or providers of PCAs who do not publicly offer bundled overdraft facilities.

66 This group can be further split into those firms who provide information on service metrics under our rules (see FCA, December 2017, [PS17/26: Information about current account services](#)) and those who do not but were identified as providing PCAs with overdrafts as part of our CBA for CP18/13. The average firm in the latter group is significantly smaller in scale than the average firm in the former group.

67 The assumptions used to estimate these costs have been derived from a research project on compliance costs that involved consultation with firms and trade bodies, discussions with vendors, a review of previous CBAs, internal FCA consultation, and desk-based research. To put a cost on time, we have sourced salary information for a range of occupations in financial services. Figures for large and medium firms are based on the 2016 Willis Towers Watson UK Financial Services Report. Small firm salaries were sourced from a systematic review of adverts on the website of Reed, cross-referenced with other publicly available sources. We add an allowance for overheads of 30% to all time costs to account for non-wage labour costs, as advocated by the HM Treasury Green Book. Our estimates account for the bank size mix within each PCA provider category as assessed via their fee income ranking. See [FCA, How we analyse the costs and benefits of our policies, July 2018](#).

68 The main cost categories we asked for included: communication costs; IT development costs; training, costs; governance costs; inbound consumer engagement costs; consumer transaction and sales costs; and other costs which we asked respondents to specify.

69 By interdependency we mean that the cost of implementing one proposal may overlap with, reinforce or mitigate the costs for other proposals if they were implemented together.

78. Table 8 summarises the number of PCA providers that offer overdrafts and responded to our cost questionnaire.<sup>70</sup> In total, the firms that responded to our survey account for well over 90% of PCA consumers in the UK PCA market.

**Table 8: Total number of PCA providers and the number responding to our cost survey questionnaire**

PCA provider category	Number of PCA providers responding to survey	Total number of PCA providers	Percentage of population that responded
Large PCA providers	6	6	100%
Smaller retail banks	5	21	24%
Smaller building societies	2	2	100%
New challenger PCA providers	2	3	67%

Source: FCA

79. In the following section, when we estimate costs using data from the firm questionnaire, we produce totals by:

- Summing total costs across all cost categories for categories of PCA providers where we have the full population (ie large PCAs providers).
- Applying the average (mean) values of the cost estimates provided by firms in our sample to the remaining out of sample firms for those firms where we only have a sample (ie smaller retail banks and new challenger banks segments). For each category of firms, we multiply this per firm cost by the number of firms outside of our sample. We add this to the actual cost estimates provided by firms in our sample. Our qualitative analysis indicates that the expected one-off impacts of our interventions differ for these two categories of firms.<sup>71</sup>
- We summarise the qualitative survey responses from smaller building societies to show similarities and differences to other types of firms who provided quantitative responses.
- We adjust firms' cost estimates to account for interdependencies across the proposed package of interventions. We do this based on each firm's individual view on the extent of interdependencies.

80. Our cost estimates are set out as both a per-firm range and an aggregate figure for each firm category. The per-firm range summarises the range of responses provided by firms within each category in the survey, while the total figure has been generated

70 Responses were both qualitative and quantitative in format. In total, 11 out of the 17 firms we originally surveyed provided us with quantitative responses with cost estimates. A further 4 firms provided qualitative responses only. 2 firms declined to participate in the survey.

71 For smaller retail banks, we have two groups of firms, those subject to service metrics rules and those not subject to service metrics rules. For firms subject to service metrics remedies we extrapolate by applying the average cost for smaller retail banks to firms not providing us with information. For firms not subject to service metrics rules, who are on average far smaller than other smaller retail banks, we scale the average cost to the estimated size of firms by active PCA size. This reduces costs to around 6% of that for smaller retail banks subject to service metrics rules. Where firms have highlighted interdependencies in proposals, we have removed any costs which would double-count the incremental cost of implementation. For example, if communication costs are shared across two interventions, we would only count the costs for one intervention.



using the methodology described above. This provides an indication of the range of costs that firms might incur within each category, as well as the range of costs across different firm categories. The total costs for the market is, then, calculated as the sum of the total cost figures for each firm category.<sup>72</sup>

### Familiarisation costs

- 81.** We expect firms affected by our intervention will read relevant changes put forward as part of the proposals in this consultation paper and will familiarise themselves with the detailed requirements of the new rules and guidance.
- 82.** We have estimated the costs of this to firms using assumptions on the time taken to read the document, which is around 70 pages long. We assume that there are 300 words per page and reading speed is 100 words per minute. This means that the document would take 3.5 hours to read. We convert this into a monetary value by applying an estimate of the cost of time to firms, as set out in Table 9.
- 83.** Table 9 outlines the main assumptions used to estimate these costs based on firm size.

**Table 9: Familiarisation cost staff numbers and hourly salaries assumptions**

PCA provider category	Number of compliance staff required to read the document	Hourly compliance staff salary (£)
Large PCA providers	20	£55
Smaller retail banks	9	£57
Smaller building societies	13	£57
New challenger PCA providers	3	£58

Source: FCA commissioned compliance cost research project, 2016 Willis Towers Watson UK Financial Services Report

- 84.** Table 10 sets out the total familiarisations costs by firm type under the assumptions outlined above. In total, we estimate that the one-off industry cost of familiarisation would be around £68,000.

**Table 10: Total familiarisation costs**

PCA provider category	Total familiarisation cost (£) <sup>73</sup>
Large PCA providers	£24,000
Smaller retail banks	£38,000
Smaller building societies	£5,000
New challenger PCA providers	£2,000
<b>Total industry</b>	<b>£68,000</b>

Source: FCA commissioned compliance cost research project, 2016 Willis Towers Watson UK Financial Services Report, FCA analysis

<sup>72</sup> Where we have used an average cost to scale an aggregate market cost, we note that these are simply indicative costs for scaling purposes, as opposed to our expected cost to the average firm in that category. Our qualitative analysis reinforces our view that the precise costs for different firms will vary based on the precise size of firms, and the pattern of overdraft usage by consumers at that firm.

<sup>73</sup> Costs rounded to nearest £1,000.



### Legal review costs

85. Following familiarisation with the proposals, we expect firms to conduct a legal review of the proposals and an accompanying gap analysis to check their current practices against expectations.
86. We have estimated this cost to firms of reading around 25 pages of legal text<sup>74</sup> to review. Table 11 sets out the main assumptions used to estimate these costs based on firm size.

**Table 11: Legal review cost staff numbers and hourly salaries assumptions**

PCA provider category	Number of legal staff required to perform the review	Hours per team member to review 25 pages of legal text	Hourly compliance staff salary (£)
Large PCA providers	4	28	£64
Smaller retail banks	2	14	£60
Smaller building societies	3	7	£64
New challenger PCA providers	1	7	£55

Source: FCA commissioned compliance cost research project; 2016 Willis Towers Watson UK Financial Services Report

87. Table 12 outlines the total legal review costs by firm type under the assumptions outlined above. In total, the one-off industry cost of legal review is estimated to be £67,000.

**Table 12: Total legal review costs**

PCA provider category	Total legal review cost (£)
Large PCA providers	£22,000
Smaller retail banks	£38,000
Smaller building societies	£5,000
New challenger PCA providers	£2,000
<b>Total industry</b>	<b>£67,000</b>

Source: FCA commissioned compliance cost research project, 2016 Willis Towers Watson UK Financial Services Report, FCA analysis

### Pricing interventions

88. This section outlines the one-off and ongoing costs to firms for the following proposed pricing interventions:
- requiring firms to charge a single price interest rate for each of arranged and unarranged overdrafts requiring the rate for unarranged overdrafts to be no higher than that for arranged overdrafts
  - standardising how prices are represented, through requiring a representative annual percentage rate (APR) in certain advertising for arranged overdrafts
  - new guidance to help firms comply with existing rules that refused payment fees should reasonably correspond to the costs of refusing payments

74 The length of the draft rules and guidance in the annex of the CP.



- 89.** The section does not separately estimate costs associated with our guidance to allow for firms to provide an interest free 'buffer' or other interest-free amount but require that such an amount remains interest free if the customer exceeds it. We are not aware of this being a significant feature of the overdraft offer for most PCA providers and so do not consider that the number of firms impacted would be significant. As such we do not consider this element of the proposals will have a material impact on the compliance costs estimated below.
- 90.** In addition, the section does not separately estimate costs to firms associated with reporting requirements on representative APRs, including guidance on the approach to be taken to buffers and account maintenance fees when calculating APRs. We expect such costs would include: IT development costs in developing a system to gather the data and governance costs in reviewing this data and sending it to the FCA. Given our proposal that firms provide a representative APR in certain advertising for arranged overdrafts we expect that the IT development costs for gathering such information would likely be included as part of these costs. We do not expect the incremental costs of collating this information and sending it to the FCA will have a material impact on the compliance costs estimated below.
- 91.** Finally, this section does not separately estimate costs in relation to rules and guidance dealing with the treatment of consumers where there are changes to charging structures. These actions include identifying such consumers including those with large arranged overdraft balances, and, where appropriate, treating such customers with forbearance and due consideration. For firms, this may result in one-off or ongoing<sup>75</sup> costs including: IT development costs to identify such consumers, communication costs to contact them, training and governance costs to ensure they are effectively dealt with and inbound consumer engagement costs generated by any actions. It may also, where forbearance occurs, result in lost revenue to firms.<sup>76</sup> It is not reasonably practicable for us to estimate these costs as it is unclear how many consumers may end up in such a position and what policies firms already have in place to deal with such situations under their general requirements to Treat Customers Fairly.

### One-off costs

- 92.** In total, we estimate that the one-off industry cost of our pricing intervention would be approximately £105.7m.<sup>77</sup>
- 93.** We consider that the direct one-off costs to firms from our pricing intervention would come from, primarily, changes to:
- IT systems (28% of one-off costs)
  - communication costs associated with notifying consumers of the changes being made (49% of one-off costs)

<sup>75</sup> Any ongoing costs would not be in perpetuity but would be limited to the time of transition.

<sup>76</sup> Any such reduction in revenues are likely to be offset by waterbed effects (see section on Waterbed effect on charges or prices other than overdrafts).

<sup>77</sup> These costs include estimates provided by Lloyds Banking Group on the costs of changes they have previously made to their overdrafts pricing structure. With respect to these costs, as they have already taken place they can be considered to be sunk costs i.e. introducing elements of pricing interventions will not generate future expenditure for this firm as the costs have already been incurred. We have also analysed the costs of our proposals removing the sunk cost estimates provided by Lloyds Banking Group. Combining this with other analysis in this CBA, the conclusions we come to remain consistent with the analysis presented in this CBA.

- 94.** This would be the case particularly for firms with legacy IT systems. These firms may require more substantial IT systems changes and are likely to have a larger consumer base to communicate these changes to.
- 95.** We also anticipate that firms would incur some training costs in ensuring that staff are aware of the changes made to PCA pricing practices.
- 96.** Some firms indicated they may incur relatively minor governance costs, which might come from: gaining internal sign-off on changes to pricing structures; and putting in place new governance structures for other, more substantial changes.
- 97.** The qualitative responses received from smaller building societies also suggest that IT system changes would have a material cost impact on their business model. The movement from a system based on fixed fees towards one that charges fees proportionate to the amount borrowed would require communication to consumers. These firms, however, expect training costs to be insignificant due to the size of their resources being smaller than that of other firms.
- 98.** Our proposals on single interest pricing account for the majority of the one-off costs, particularly for the large PCA providers.
- 99.** There was significant variation in firms' response to our proposals to provide guidance on refused payment fees. This appears to be driven by: i) whether firms currently implement refused payment fees; and ii) the level at which refused payment fees are set (if a firm has one in place). The responses to ii) indicated that there are, currently, a wide range of refused payment fees being charged both across and within firm categories. We consider that this means that the impact of our proposal here will be firm-specific.
- 100.** Additionally, smaller building societies provided a positive response to the proposed guidance on refused payment fees. These firms appear to use fewer automated systems than larger firms. They consider that they would be able to make any necessary changes in a more timely manner. These firms indicated that the main costs would come from transaction processing, labour (for manual processes) and developing internal infrastructure.
- 101.** Firms also noted there are significant shared implementation costs across the proposed interventions. The most common shared costs arise from: changes to IT systems; and communication costs associated with informing consumers of any changes. An example of this is firms' indication that they would, typically, look to inform consumers of changes in one communication.
- 102.** As a result, we have accounted for these shared costs of implementation when aggregating the total costs of our intervention by reducing costs to account for synergies in the costs of implementation when interventions are implemented simultaneously.
- 103.** Table 13 summarises the total one-off costs by firm type for the pricing interventions.<sup>78</sup>

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<sup>78</sup> In some cases, firms indicated that their current pricing structures were already either in line with our proposed interventions, or would require relatively small changes to implement. In these cases, the reported incremental costs to firms of our interventions were either 0 or very small (thousands, rather than millions, of pounds).

**Table 13: Total one-off costs to firms of the pricing interventions**

PCA provider category	Pricing interventions one-off costs range per firm (£m)	Total pricing interventions one-off industry costs (£m)
Large PCA providers	5.3 – 37.4	86.4
Smaller retail banks	0.6 – 3.8	19.3
Smaller building societies <sup>79</sup>	–	–
New challenger PCA providers	0.0 – 0.0 <sup>80</sup>	0.0 <sup>81</sup>
<b>Total industry</b>	<b>0.0 – 37.4</b>	<b>105.7</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

### Ongoing costs

- 104.** In total, we estimate that the ongoing industry cost would be approximately £6.2m per annum.
- 105.** We consider that inbound consumer engagement costs<sup>82</sup> would be the largest type of ongoing cost to firms from our proposed pricing interventions (97% of ongoing costs). These costs appear to fall exclusively on one of the largest PCA providers. This firm may have a specific business model which differs from others in the group who reported minimal ongoing costs from the proposals and may explain the higher level of costs.
- 106.** Many firms reported zero or minimal ongoing costs of implementing the proposed pricing interventions. Firms considered that the majority of activity after the initial implementation would be captured in their 'business as usual' costs.
- 107.** Table 14 sets out the total ongoing costs by firm type for the pricing interventions.

79 Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.

80 Figure less than 0.1 million but greater than 0.

81 Figure less than 0.1 million but greater than 0.

82 The incremental costs to firms of responding to increased inbound communications from consumers eg employee time for staff speaking to consumers, relevant hardware etc.

**Table 14: Total ongoing costs to firms of the pricing interventions**

PCA provider category	Pricing interventions ongoing costs range per firm (£m)	Total pricing interventions ongoing industry costs (£m)
Large PCA providers	0.0 – 5.7	6.2
Smaller retail banks	0.0 – 0.0	0.0
Smaller building societies <sup>83</sup>	–	–
New challenger PCA providers	0.0 – 0.0 <sup>84</sup>	0.0 <sup>85</sup>
<b>Total industry</b>	<b>0.0 – 5.7</b>	<b>6.2</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

**108.** In addition to the costs to the PCA providers who offer overdrafts outlined above, the refused payment fee guidance that we propose may also result in costs to other Payment Service Providers (PSPs) who charge refused payment fees.<sup>86</sup> We estimate there are up to 128 PSPs in addition to the PCA providers for whom we have already estimated costs who could be impacted by the relevant proposals.<sup>87</sup> We would expect these firms to review the relevant sections of the CP and to perform a legal review to understand what, if any, action they would need to take to implement the guidance. Using standard FCA assumptions,<sup>88</sup> we estimate that the combined familiarisation and legal review costs for these 128 firms will be £20,000.<sup>89</sup>

**109.** As outlined earlier in this section, there was significant variation in firms' responses to our cost survey on the scale of costs to implement the refused payment fee guidance element of our pricing interventions. Therefore, we considered that the impact of our proposal was firm-specific. We believe the same would apply to the additional firms identified here. Where firms do incur costs, we would expect the one-off costs of implementation to mainly consist of communication costs, IT development costs and governance costs. There may also be some smaller training or other costs. The scale of these costs would vary by firm depending on their current processes and systems. We would expect ongoing costs to be limited.<sup>90</sup> We do not consider that the costs incurred by these additional firms will have a material impact on the compliance costs estimated for our pricing interventions.

### Repeat use interventions

**110.** This section outlines the one off and ongoing costs to firms of the repeat use interventions. These costs cover firms:

- 83 Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.
- 84 Figure less than 0.1 million but greater than 0.
- 85 Figure less than 0.1 million but greater than 0.
- 86 We do not expect other elements of the pricing interventions to impact these firms as they do not apply to them because they do not offer overdrafts.
- 87 These 128 firms were identified using a combination of FCA supervisory data and desktop research. They are made up of 75 electronic money providers, 13 private banks and 40 building societies. For electronic money providers, we identified a total of 165 such firms. From a sample of 11 of these firms we found 5 which charged refused payment fees. Scaling the 165 firms in the population by the proportion in our sample which charge refused payment fees gives us a total of 75 impacted electronic money firms. For private banks and building societies we have assumed all firms in the identified populations could be impacted. This is likely to be an overestimate of the potential costs as it is unlikely all such firms will be impacted.
- 88 For more detail on these assumptions please refer to the earlier sections where we estimate familiarisation and legal review costs for PCA providers who offer overdrafts. As only the refused payment fee guidance element of our pricing interventions is relevant for these firms we estimate the relevant page count numbers for familiarisation and legal review costs to be 24 and 2 respectively.
- 89 Costs rounded to nearest £1,000.
- 90 We expect that such one-off and ongoing costs would be broadly consistent with responses on the costs of our refused payment fee guidance provided by PCA providers responding to our cost survey.



- developing and implementing a strategy to identify two groups of repeat users (those who are in financial difficulties, and those who are not)
- targeting proportionate action for these consumers

**111.** This section does not separately estimate the costs to firms of providing by electronic mail:

- a detailed description of the policies, procedures and systems the firm establishes to comply with our repeat use interventions, which must be supplied by the date they come into effect
- a report 6 and 12 months after implementation outlining the number of repeat users and their total overdraft balances at the start and end of the reporting period alongside accompanying commentary or background on these figures

**112.** We do not consider that these additional requirements will materially increase the estimated costs provided below which we note should already include the costs of designing the firms' response to the repeat use interventions along with some level of ongoing monitoring.

**113.** We have split costs into two types. These are 'fixed' costs and 'variable' costs. Variable costs in the context of these proposals are those costs which vary depending on the number of customers for which banks need to make interventions and for which there is a non-negligible marginal cost for dealing with that consumer eg the cost of phoning a consumer to prompt them regarding overdraft usage (see paragraph 129). Fixed costs, on the other hand, do not directly vary by the number of consumers which require interventions (eg the incremental cost associated with updating or maintaining updated IT systems).

#### **One-off fixed costs**

**114.** In total, we estimate that the one-off industry fixed cost would be approximately £22.5m.

**115.** We expect that the one-off fixed costs of our repeat use intervention would cover a range of different types of costs. Similar to our pricing interventions, we anticipate a large proportion of the one-off costs to come from:

- IT development costs (63% of fixed one-off costs)
- communication costs (23% of fixed one-off costs)

**116.** Firms highlighted that the costs would depend on the nature and specific details of the repeat use interventions that we propose.

**117.** Smaller building societies that offered PCAs did not provide us with quantitative estimates but informed us that their IT systems are currently reactive. These systems aim to identify consumers once they are considered to be in financial distress. These firms would incur costs in switching to a more proactive system, partly because their current systems are not particularly sophisticated.

**118.** Training and governance also appeared to be areas where firms anticipated incurring costs, though these are proportionately smaller types of costs.

- 119.** Firms across all categories also reported notable 'other' costs due to this intervention. Typically, these costs include business transformation activities and set-up costs. For the larger PCA providers, 'other' costs can account for up to a quarter of their total estimated costs.
- 120.** The impact varies across firm category. It appears that the larger PCA providers would incur significant costs from the proposed intervention. However, some of the smaller retail banks and challenger PCA providers noted that they would not incur incremental costs. This was primarily attributed to them having smaller numbers of PCAs and/or different customer demographics and overdraft usage. This was true particularly for new challenger banks as they have not had as much time to accumulate PCA consumers (or offer PCA products). As a result, the scale of repeat use is far lower. This is reflected in the range of per-firm impact in Table 15.
- 121.** In general, for firms that do not currently have processes already in place for taking action with consumers showing signs of potential or actual financial difficulties, the scale of change required is estimated to be significant. These are the firms who provided us with the highest cost estimates relative to their size.
- 122.** Table 15 summarises the total fixed one-off costs by firm type for the repeat use interventions.

**Table 15: Total fixed one-off costs to firms of the repeat use interventions**

PCA provider category	Repeat use interventions fixed one-off costs range per firm (£m)	Total repeat use interventions fixed one-off industry costs (£m)
Large PCA providers	0.9–8.7	17.1
Smaller retail banks	0.0–1.2	5.0
Smaller building societies <sup>91</sup>	–	–
New challenger PCA providers	0.0–0.2	0.4
<b>Total industry</b>	<b>0.0–8.7</b>	<b>22.5</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

### Ongoing fixed costs

- 123.** In total, we estimate that the ongoing fixed industry cost would be approximately £1.5m per annum.
- 124.** As with the pricing interventions these costs appear to fall almost exclusively on one of the largest PCA providers. This firm may have a specific business model which differs from others in the group who reported minimal ongoing costs from the proposals and may explain the higher level of costs.
- 125.** Smaller firms and challenger PCA providers reported no ongoing fixed costs. This is due to the low number of repeat users at new challenger PCA providers (as above for one-off fixed costs). Smaller firms indicated that the ongoing costs of the intervention would be absorbed into business as usual activity following the one-off systems changes.

<sup>91</sup> Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.



- 126.** The large PCA providers expect to incur costs from ongoing IT development, changes to governance (eg increased monitoring and reporting for individuals in danger of repeat-use), and additional staff and communication costs (eg expected increased contact with PCA users). These costs vary from firm-to-firm, and are, typically, a function of the specific internal structure and business model of the large PCA providers.
- 127.** Table 16 outlines the total fixed ongoing costs by firm type for the repeat use interventions.

**Table 16: Total fixed ongoing costs to firms of the repeat use interventions**

PCA provider category	Repeat use interventions fixed ongoing costs range per firm (£m)	Total repeat use interventions fixed ongoing industry costs (£m)
Large PCA providers	0.0–1.0	1.5
Smaller retail banks	0.0–0.0	0.0
Smaller building societies <sup>92</sup>	–	–
New challenger PCA providers	0.0–0.0	0.0
<b>Total industry</b>	<b>0.0–1.0</b>	<b>1.5</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

#### Variable intervention costs

- 128.** As a result of the repeat use interventions firms will incur costs related to taking proportionate action for consumers flagged as repeat users. This may include communicating a warning or prompt to the consumer or contacting the consumers to discuss strategies for dealing with their debt and how to reduce their balance. These contacts may generate further inbound consumer contact. These costs will vary depending on the total number of flagged consumers a firm has.
- 129.** The number of consumers flagged for intervention are likely to fall into two categories which we define as the 'stock' and the 'flow'. PCA providers may currently have a group of consumers for which intervention is already required. As a result, in the first year of the intervention coming into effect there will be a higher than usual number of consumers requiring intervention, the 'stock'. In subsequent years, particularly given more active early intervention, firms will have a lower number of consumers which will require an intervention each year, the 'flow'. To account for this we have estimated one-off and ongoing variable cost figures for the difference in size between these groups.
- 130.** Since the size of the costs would depend on the nature of the interventions, our cost survey to firms provided them with an indicative 4 stage process to help them estimate the costs. The types of interventions required at each stage are outlined in Table 17.

<sup>92</sup> Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.



**Table 17: Indicative steps for dealing with repeat users<sup>93</sup>**

Type	Consumer use assessment or action	Intervention required by the firm
1	The consumer's pattern of use (based on, for example, in/outflows, high/low balance levels, etc) indicates that the consumer is not in a deteriorating financial position, but is likely to use their arranged overdraft repetitively in the near future unless their usage pattern changes.	Firms could send a message by SMS or mobile banking push notification messages or by other channels that the firm typically uses to communicate with a consumer.
2	Firms re-assess the consumer's pattern of use in the period after this message, and find the consumer's pattern of use is unchanged following a type 1 intervention.	Repeat of the message or warning from a type 1 intervention.
3	The consumer's pattern of use indicates that they are in a deteriorating financial position. Firms would be expected to consider the number of days used per month, the amounts borrowed per month relative to inflows, the extent of charges per month, use of unarranged overdraft on top of arranged overdraft, etc as potential indicators of a deteriorating financial position. Firms may have other indicators and use credit reference agency data to inform their assessments.	Firm should contact the consumer directly to offer a plan to the consumer that enables the consumer to bring down their overdraft use. Firms will determine what they consider appropriate strategies to be in discussion with the consumer, provided these are consistent with the principle that it is not generally appropriate for consumers to use overdrafts repetitively without time limitations.
4	The consumer declines to agree a plan.	The firm should provide debt advice agency details, and reassess whether the overdraft facility should continue to be offered.

Source: FCA

**131.** Firm responses to our cost survey estimated the number of repeat users identified and the costs of undertaking any interventions based on the descriptions outlined in Table 17. However, our final repeat use proposals do not require firms to follow the process exactly as outlined in Table 17. It requires firms to identify consumers who show patterns of repeat use.<sup>94</sup> Firms are then required to separate these consumers into two groups:

- consumers in respect of whom there are signs of actual or potential financial difficulties
- all other consumers who show a pattern of repeat use

**132.** For each group of consumers firms will initiate a communication with the consumer and take appropriate action in the form of interventions. The intensity of these interventions depends on the group which the consumer falls into, with the first group likely to receive more intensive interventions.

**133.** For the purposes of the CBA we have interpreted responses from the cost survey as follows:

- consumers in the first group who show signs of actual or potential financial difficulties may receive a combination of the intervention types outlined in Table

<sup>93</sup> This table differs slightly from the guidance table sent to firms as part of the data request.

<sup>94</sup> Repeat use is defined as a pattern of overdraft use where the frequency and depth of use may result in high cumulative charges that are harmful to the customer or indicate that the customer is experiencing or at risk of financial difficulties.



17, depending on their pattern of usage or other related factors. For those most at risk of or in actual financial difficulty they are likely to receive a type 3 or type 4 intervention

- consumers in the second group are likely to receive a type 1 or type 2 intervention only

- 134.** As such for the remainder of this CBA when discussing the impacts of different types of interventions, we group and refer to type 1 and type 2 interventions as 'less intensive interventions' and type 3 and type 4 interventions as 'more intensive interventions'.
- 135.** We do not expect that the form of our final proposals materially impacts the cost estimates provided by firms through the cost survey. Costs may in fact be lower if firms are able to apply the proportionate action when dealing with impacted consumers more flexibly, building on the processes they already undertake.
- 136.** Based on firms' qualitative responses, the interventions' variable costs appear to comprise mainly of:
- communicating with consumers in danger of/currently experiencing repeat use.
  - the cost of engaging with new inbound consumers to make them aware of the procedures to avoid repeat use
- 137.** All interventions involve consumer communication, with the amount of input from firms rising depending on the consumer's degree of financial difficulty and the corresponding intensity of the intervention.
- 138.** Similar to fixed costs, ongoing variable cost estimates varied based on whether PCA providers already have pre-existing processes in place. Apart from the large PCA providers, only one firm (a smaller retail bank) provided quantitative estimates of ongoing variable costs. The cost of inbound consumer engagement was the most significant area of ongoing variable cost.
- 139.** The costs of less intensive interventions were generally lower than for more intensive interventions. This is likely due to the greater employee time firms would be required to spend in order to engage with consumers requiring such an intervention. Some firms noted that no accounts would be affected for the stock (one-off) costs by a more intensive intervention.
- 140.** Table 18 and Table 19 set out the total variable one-off and ongoing costs, respectively by firm type for the repeat use interventions. In total, we estimate that the one-off

variable cost would be approximately £12.4m and the ongoing variable industry would be approximately £4.2m per annum.<sup>95</sup>

**Table 18: Total variable one-off costs to firms of the repeat use interventions**

PCA provider category	Repeat use interventions variable one-off costs range (£m)	Total repeat use interventions variable one-off costs (£m)
Large PCA providers	0.1 – 2.3	7.1
Smaller retail banks	0.0 – 0.6	5.3
Smaller building societies <sup>96</sup>	-	-
New challenger PCA providers <sup>97</sup>	0.0 – 0.0	0.0
<b>Total industry</b>	<b>0.0 – 2.3</b>	<b>12.4</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

**Table 19: Total variable ongoing costs to firms of the repeat use interventions**

PCA provider category	Repeat use interventions variable one-off costs range (£m)	Total repeat use interventions variable ongoing costs (£m)
Large PCA providers	0.2 – 0.5	2.7
Smaller retail banks	0.1 – 0.2	1.5
Smaller building societies <sup>98</sup>	-	-
New challenger PCA providers <sup>99</sup>	0.0 – 0.0	0.0
<b>Total industry</b>	<b>0.0 – 0.5</b>	<b>4.2</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

95 We use the following information to calculate the variable costs of the repeat use intervention: the number of PCAs affected by each type of intervention; the number of active PCAs held by a firm; and the cost of each type of intervention. Our calculation approach is as follows:

- We calculate the average cost per account by each intervention type for a given firm, and the proportion of the total PCAs a firm has that would be affected by each type.
- We use a combination of sources including previous cost survey returns and submissions by firms to the Strategic Review of Retail Banking Business Models to identify the number of active PCAs for out of sample firms and the largest PCA providers. For the 12 smaller retail banks, not subject to our service metrics rules we assume an upper bound of 70,000 PCAs per firm and then apply an adjustment for the proportion of active accounts based on smaller retail banks for which we have this information. This is likely to be a conservative approach as 70,000 is the maximum number of PCAs such a firm could have before being subject to service metrics rules. These firms will likely have less than 70,000 PCAs on average.
- We then take the average proportion of PCAs affected, by each type of intervention for each category of firm, to calculate an implied number of accounts affected for firms out of sample.
- We then multiply this by the average cost per account and add across all types of intervention to produce an estimated cost per firm.
- We aggregate this cost by category of firm and add to the costs provided by firms in our survey sample to produce the total repeat use variable costs.

96 Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.

97 One new challenger PCA provider did not provide estimates of costs but indicated that the proposals could result in increased FTE for several teams including: Customer Services, Collections teams, and Credit Risk analytics. Another new challenger PCA provider indicated costs would not be material.

98 Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.

99 One new challenger PCA provider did not provide estimates of costs but indicated that the proposals could result in increased FTE for several teams including: Customer Services, Collections teams, and Credit Risk analytics. Another new challenger PCA provider indicated costs would not be material.



## Costs to consumers

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**141.** This section covers the potential costs to consumers of our proposals. These are wider impacts and are potentially features of either or both of our pricing and repeat use interventions. These include:

- waterbed effect on charges or prices other than overdrafts
- potential loss of access to overdraft credit
- time costs for consumers
- costs to consumers being identified as a 'false positive'
- potential negative impact on credit score

### **Waterbed effect on charges or prices other than overdrafts**

**142.** As set out in the benefits section for the pricing and repeat use interventions, our proposals could lead to firms losing revenue either directly as a result of the interventions or indirectly as consumers change how they use overdrafts.

**143.** To maintain revenues and profit margins, firms could look to offset any revenue loss from one product by raising prices for other products sold to consumers. In aggregate, consumers end up paying the same total price for the complete suite of products. This is known as a 'waterbed effect'.

**144.** Our analysis of benefits, below, implicitly accounts for if, and how, firms may do this across unarranged overdrafts, arranged overdrafts and refused payment fees, based on firms' current and proposed pricing models. As such, the benefits analysis presented are inclusive (or net) of these waterbed effects.

**145.** However, firms could look to offset any revenues lost from overdrafts through raising prices elsewhere. This could happen through, for example:

- increasing fees for other non-overdraft components of the PCA (eg foreign exchange fees)
- introducing fees for providing a consumer with a PCA
- reducing interest rates offered on reward PCAs
- increasing interest rates or charges on other forms of lending (eg personal loans, mortgages), or reducing the interest rate on other forms of deposit taking<sup>100</sup>

**146.** We used our work on the financial analysis to generate insights on the possible impact of our remedy proposals on the profitability of retail banks. We provide a summary of this work below.<sup>101</sup>

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<sup>100</sup> We consider this a particularly unlikely response by firms.

<sup>101</sup> See Technical Annex: Profitability.

- 147.** We looked at firms' responses to changes in overdraft pricing in the past to identify potential waterbed effects in pricing that could emerge in response to our remedy proposals. We found:
- no adjustment of refused payment fees
  - no rebalancing in pricing at the PCA level (eg through other charges on accounts)
- 148.** Having also discussed with firms, we concluded that firms would generally seek to recover as much revenue as possible from within their overdraft offering, rather than other components of the PCA or their wider retail banking business.
- 149.** Our expectation is therefore that the impact of our remedy would be revenue-neutral within overdrafts. However, we also sought to understand the impact of a short run decrease in overdraft-related revenues on retail bank profitability, in the event that banks do not rebalance arranged and unarranged overdraft pricing in the way that we expect. To do this, we applied a 20% decrease in overdraft-related revenue to a 'stylised bank'.<sup>102</sup> This 20% figure is approximately twice the maximum absolute overdraft revenue move anticipated by some firms in their internal pricing documents, so we are likely to be over-estimating any such impact if it were to occur.
- 150.** We considered 3 scenarios:
- if the stylised bank is unable to implement mitigating measures, so had to absorb the 20% decrease in revenues: the firm ROE would decrease by 92 basis points and there would be potential overdraft customer savings of an average of £32 per active overdraft account per year<sup>103</sup>
  - if the stylised bank implements cost-cutting measures matching the 20% decrease in overdraft revenues: profitability would not be impacted but the potential overdraft customer savings would still exist
  - if the stylised bank increases PCA fees to offset the decrease in overdraft revenues: profitability would not be impacted but all PCA customers would have to pay £8 more per year yet overdraft customers still make a net saving. This would be a waterbed effect and the impact would go beyond the overdraft product
- 151.** For any waterbed effect to other existing PCA fees we expect that the distribution of charges will not disproportionately affect vulnerable consumers to make them worse off than under the current status quo.<sup>104</sup>

#### **Potential loss of access to overdraft credit**

- 152.** The following section covers the potential impact of our interventions on consumers' access to overdraft credit by outlining:
- how consumers could face a reduction in overdraft credit availability
  - consumers' access to alternative credit sources

<sup>102</sup> Our model is linear: a 10% decrease in overdraft-related revenues can be calculated by halving our figures.

<sup>103</sup> From a customer perspective, a decrease in the bank's overdraft revenues translates to a decrease in overdraft fees when holding the number of active overdraft accounts constant.

<sup>104</sup> For further information see Section 3 of Strategic Review of Retail Banking Business Models Final Report, Annex 2 – PCA distributional analysis.



- the impact on consumers of reduced overdraft credit availability

***How consumers could face a reduction in overdraft credit availability***

- 153.** There are three potential mechanisms through which we believe consumers could face a reduction in overdraft credit availability following our interventions.
- reduced arranged overdraft lending by firms to riskier consumers and those with high balances
  - the increased price of arranged overdrafts reducing the ability of consumers to utilise it as a viable form of credit
  - firms removing access to unarranged overdrafts for certain consumers
- 154.** In response to our pricing and repeat use interventions, firms may decide to change their arranged overdraft lending decisions and reduce lending to riskier consumers and/or those with large balances. These consumers are more likely to fall into the repeat use interventions. As an indirect result of the interventions, these riskier consumers might find that they have a lower amount of accessible overdraft credit available to them.
- 155.** Similarly, those with higher arranged overdraft balances might experience a loss of access as a result of higher prices for higher levels of arranged overdrafts. In this scenario, this form of borrowing becomes unaffordable for such consumers following our interventions (ie if firms change their lending decisions and how they price).<sup>105</sup>
- 156.** Firms may also respond to our interventions by effectively removing an unarranged overdraft product without replacing it with an extended arranged overdraft if it is perceived as uneconomic. As such for some consumers who cannot cover unarranged overdraft spending with other sources of funding, this may present a potential cost in the form of increased prevalence of refused payments and any associated psychological harm that maybe associated with this (eg stress at the checkout when purchases can't be made, problems with paying bills that otherwise would have been paid off had the limit/option not been removed etc).
- 157.** We do not expect our interventions to result in a significant reduction in access to unarranged overdrafts for consumers. Given the current profitability of overdrafts, we expect that providing overdrafts will remain profitable following the impact of our pricing interventions.<sup>106</sup> As such there is limited incentive for firms to significantly reduce access to this product. We are already aware of current business models which provide access to unarranged overdrafts at, or less than, the price of their arranged overdrafts. For example, as outlined in Table 4 there is one firm (Lloyds) which provides but does not charge for an unarranged overdraft under their current pricing structures.<sup>107</sup> In addition, there are a further three firms (Metro Bank, Triodos and Starling Bank) which already currently price arranged and unarranged overdrafts at the same levels.

<sup>105</sup> Consumers may also lose access to credit in general if they are referred to a credit reference agency (CRA) as a result of action taken by firms following our repeat use intervention. For further discussion on this see the Potential negative impact on credit score section of this CBA.

<sup>106</sup> For further information see Chapter 2 of Technical Annex: Profitability.

<sup>107</sup> Santander does not charge a fee for unarranged overdrafts on certain accounts with monthly account fees.

**158.** In the case of any reduction in access to unarranged overdrafts, our interventions contain elements aimed at mitigating these potential costs. For instance our guidance on refused payment fees to help firms comply with existing rules that refused payment fees should reasonably correspond to the costs of refusing payments.

***Consumers' access to alternative credit sources***

**159.** Reduced access to overdraft credit, whether that be through any of the mechanisms outlined above for arranged or unarranged overdrafts, is of particular concern if consumers do not have alternative funding sources to their overdrafts. To analyse the potential impact of this we analysed data from PCA and CRA datasets to estimate the number of overdraft days that consumers could have avoided by using cash, savings, available credit card funds and/or unused arranged overdraft limit (the last, for unarranged overdraft usage only where consumers have other accounts with an arranged overdraft)<sup>108</sup> This analysis indicated that 50% of days of unarranged overdraft usage and 60% of days of arranged overdraft usage could have been avoided using a combination of these sources.<sup>109</sup> As such a large proportion of consumers would have been able to fund their spending through alternative readily available means, if they had faced reduced access to overdraft borrowing.

**160.** We also estimated the additional credit card limit that overdraft users could have reasonably obtained had they applied for credit limit extensions or new credit cards. We did this by comparing them to people with similar characteristics who obtained more than the average amount of credit card limit over a three months period (we look at the 80th, 90th and 95th percentiles).<sup>110</sup> Adding the estimated additional credit to the observed unused credit allowed us to estimate the total available credit card limit that each overdraft consumer could have reasonably obtained. We then estimated the proportion of overdraft users who could finance their existing overdraft entirely through credit cards, either through any existing unused limit or any new limit they could obtain. For the 80th percentile of credit limits, this corresponds to 61% of overdraft users, for the 90th percentile 69% and for the 95th percentile, 75%.<sup>111</sup> This again indicates that a large proportion of overdraft users could substitute their overdraft borrowing for other forms of credit if they faced reduced access to overdrafts.

**161.** We also looked at whether overdraft users with large overdraft balances would find it more difficult to obtain enough credit to move their existing overdraft on to a credit card. As expected, the percentage of consumers who would be able to move their overdraft decreases as the amount of overdraft increases. However, the reduction is gradual: under the 90th percentile model, 64% of consumers with balances greater than £500 would be able to finance their overdraft with credit cards, whilst 55% of those with balances over £1,000 would be able to.<sup>112</sup> This latter group of consumers accounted for around 32% of overdraft users, over 2 million people, as of January 2017.

108 See Technical Annex: Availability of alternatives.

109 See Technical Annex: Availability of alternatives.

110 Since consumers do not necessarily apply for the maximum amount of credit they would be eligible for, we use a quantile regression approach to estimate additional credit: instead of estimating the average amount of additional credit obtained by people with similar characteristics, we estimate the upper end of the distribution of the amount of credit people with similar characteristics obtained. See Technical Annex: Availability of alternatives.

111 The percentile models can be interpreted as follows:

- 80th percentile: 1 in 5 applicants with similar characteristics got more additional credit than this amount.
- 90th percentile: 1 in 10 applicants with similar characteristics got more additional credit than this amount.
- 95th percentile: 1 in 20 applicants with similar characteristics got more additional credit than this amount.

Further information on the analysis can be found in the Technical Annex: Availability of alternatives.

112 The estimates for 80th and 95th percentile models can be found in the Technical Annex: Availability of alternatives.



**162.** The analysis above suggests that although consumers may face a risk of reduced access to overdraft credit, a large subset of these consumers could potentially still fund their spending through alternative forms of credit or the use of cash and savings. This suggests the risks to consumers from reduced overdraft lending is to some extent mitigated, although less so for those with larger overdraft balances and who may be repeat users.

***The impact on consumers of reduced overdraft credit availability***

**163.** For those consumers who can avoid overdraft use due to having unused or other forms of credit available to them, the extent of any saving depends on the difference between the overdraft rate and the cost of using other forms of credit.<sup>113</sup>

**164.** Where consumers can switch to a cheaper product or one that is more suited to long-term borrowing, they should make a saving. However, if consumers choose, or are forced, to borrow from more expensive products, because of reduced lending by banks, this would lead to higher consumer costs.

**165.** The evidence suggests that, as of January 2017, some groups of overdraft users were unable to avoid using an overdraft. For example: under the 90th percentile model, 32% of overdraft users<sup>114</sup> were unable to finance their overdraft with a credit card; while for overdraft users with an overdraft balance in excess of £1,000 this goes up to 45%.<sup>115</sup> Such consumers without a credit card alternative have on average lower income and a lower credit score than those who would be able to access alternative forms of credit. We find that overdraft consumers who would not be able to finance their overdraft through credit cards have, on average, 60 to 64 point lower credit scores and 31-37% lower incomes than those who would be able to finance their overdraft through credit cards.<sup>116</sup>

**166.** Consumers who cannot switch their overdraft usage to credit card usage may need to seek other credit alternatives. In some cases, these alternatives may be a cheaper source of credit than that provided through their current overdraft, especially in the case of unarranged overdrafts. This would result in a saving for the consumer. In other cases, it may be that these sources are more expensive than their current overdraft. If so it would place additional borrowing costs on the consumer.

**167.** Alternatively, consumers might end up bearing the additional costs of higher arranged overdraft charges following our proposed interventions. In the short term we would expect the cost of this to be somewhat mitigated by firms' responsibilities under our proposed rules dealing with the treatment of customers where there are changes to charging structures. Where these consumers are repeat users of overdrafts, we would expect the potential impact of our repeat use interventions to reduce costs and any associated harm for such consumers in the longer run.

**168.** We have considered whether we can estimate the impact of lost access to credit for the subset of consumers that might be affected. For consumers without alternative sources of credit or who could not afford to utilise higher priced arranged overdrafts, these consumers may lose access to funding for their consumption. The cost of this

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113 When using savings or cash to fund expenditure instead the cost of this funding would be represented by the opportunity cost on the lost interest they would otherwise have received. Given the current low levels of interest rates on easy access savings and current accounts this cost is highly unlikely to be greater than the cost of using an overdraft.

114 Defined as those who had an overdraft balance as of January 2017.

115 See Technical Annex: Availability of alternatives.

116 Estimates refer to the population of overdraft users who we estimate could not entirely finance their overdraft with credit cards under different models. See Technical Annex: Availability of alternatives.



lost access is therefore the consumer's foregone consumption (ie consumers are no longer able to make purchases which they previously wished to make).

**169.** To monetise this cost, we would need to know:

- the value of foregone consumption (ie what the consumer would have purchased had the credit been available to them)
- the number of consumers who could potentially see credit lines reduced because of pre-emptive action by firms, as an indirect result of the repeat use or pricing interventions

**170.** We do not think it is reasonably practicable to place a monetary estimate on the potential cost of lost access to overdraft credit, as it would require knowledge of consumers' valuation of future consumption decisions, as well as modelling of firms' potential response to the interventions in terms of credit extension to various consumer groups.

#### **Time costs for consumers**

**171.** In the case of our repeat use interventions, some consumers will face a time cost caused by firms' additional actions, due to our interventions, of putting in place measures to help consumers. This is an opportunity cost, as consumers' time could have been used elsewhere. The extent of this cost will vary by:

- the type of consumer intervention
- the time lost by a consumer due to our intervention
- the value of the consumer's time (ie how much, in monetary terms, do we value a consumer using their time elsewhere)

**172.** We value an individual's leisure time based on the Department for Transport's analysis and modelling.<sup>117</sup> This provides an hourly value of £5.70 per hour (2018 prices). Based on the number of consumers who would currently require intervention which involves direct contact with a PCA provider,<sup>118</sup> and the average time spent on each intervention as estimated using firm cost survey responses,<sup>119</sup> we can approximate the total time spent by consumers on each intervention. This is a conservative assumption, as it suggests consumers spend as much time engaging with the intervention as firms. Multiplying this by our average wage estimate provides an estimate of the time cost for each intervention.

**173.** We look at the variable one-off and variable ongoing costs for consumers in the table below. Our calculations focus on three main elements:

- the value of consumer time
- total impacted accounts for a more intensive intervention

<sup>117</sup> <https://www.gov.uk/government/publications/webtag-tag-data-book-may-2018>, A.1.3.1.

<sup>118</sup> This is classified as the group of consumers undergoing a type 3 or type 4 intervention as outlined in Table 17.

<sup>119</sup> This estimate was calculated by dividing the average cost of dealing with an individual consumer in a type 3 or type 4 intervention by the average hourly salary of a customer representative agent to find the implied time spent engaging with the consumer. This is likely an overestimate as it does not incorporate other fixed costs which may have been included in firm estimates. The average cost per account to firms differs between large PCA provider and smaller retail banks.

- time estimate for a more intensive intervention

**174.** Scaling our estimates by the total number of impacted consumers we estimate that the total one-off time cost for consumers is £0.5m whilst the ongoing time cost for consumers is £0.2m. Details of our cost estimates are outlined in Table 20 and Table 21.

**Table 20: Total one-off time cost for consumers**

	Large PCA Provider	Smaller retail banks
Value of consumer time (£ per hour)	£5.70	£5.70
Total impacted accounts – more intensive intervention (millions)	0.3	0.2 <sup>120</sup>
Time estimate for a more intensive intervention (hours)	0.2	0.1
Time cost for consumer (£m)	£0.4m	£0.2m

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, Value of consumer time from DFT WebTAG, FCA analysis

**Table 21: Total ongoing time cost for consumers**

	Large PCA Provider	Smaller retail banks
Value of consumer time (£ per hour)	£5.70	£5.70
Total impacted accounts – more intensive intervention (m)	0.1	0.0 <sup>121</sup>
Time estimate for a more intensive intervention (hours)	0.2	0.3
Time cost for consumer (£m)	£0.1m	£0.0m <sup>122</sup>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, Value of consumer time from DFT WebTAG, FCA analysis

### Cost to consumers of being identified as a 'false positive'

**175.** This is a consumer cost which results from our repeat use interventions. No statistical model is perfect. There is always a margin of error, particularly when it comes to predictions. As such, in certain instances, consumers might be incorrectly identified by firms as at-risk of, or in financial distress. This might lead to these consumers receiving interventions incorrectly. For example, a consumer might be flagged, incorrectly, as at-risk of financial difficulties through an early intervention mechanism and, as such, the firm would proceed to apply their repeat use intervention(s). The firm's systems would have flagged this person as a 'false positive' (ie someone who appears like they might be at-risk but, in practice, is not).

120 Figure less than 0.1 million but greater than 0.

121 Figure less than 0.1 million but greater than 0.

122 Figure less than 0.1 million but greater than 0.

- 176.** Being flagged as at-risk of, or in, financial difficulty when a consumer is, in fact, not, leads to consumer costs without any corresponding benefits. These costs could arise from multiple sources:
- additional time costs associated with engaging with the firm (which is quantified above)
  - reduction in credit/liquidity availability
  - psychological costs (eg stress) associated with dealing with the firm's intervention

**177.** The size of this cost will depend both on the effectiveness of the monitoring systems used by firms, as well as the subsequent intervention used. It is very difficult to accurately estimate how a consumer's situation would have played out without the intervention (ie the counterfactual). As such, we do not believe it is reasonably practicable to estimate this cost.

**178.** However, we expect this cost to be reasonably small as it is in the firm's interest (eg maintain revenue and repeat business from the consumer) to avoid applying interventions unless deemed necessary.

**179.** Furthermore, the potential scale of this cost should fall over time as firms adjust their systems and processes for new data and account for errors in their previous approach. This should lead to more accurate models and a lower likelihood of identifying a false positive.

#### **Potential negative impact on credit score**

**180.** In certain cases, proportionate action applied to consumers may lead to a reference to a Credit Reference Agency (CRA). For example, a firm may choose to use forbearance to a consumer in a deteriorating financial position. This might require them to report the issue to a CRA.

**181.** This, in turn, could lead to a negative impact on the consumer's credit score. This proportionate action, therefore, could lead, indirectly, to reduced future availability of credit.

**182.** It is not reasonably practicable to monetise this cost as determining the counterfactual (ie the amount of credit a consumer would have used without the reduction in credit score) is not possible to model accurately. We can, however, attempt to size the maximum number of individuals affected by this issue.

**183.** We expect that the group of consumers which could potentially be affected are those receiving the most intensive interventions.<sup>123</sup> We estimate that the potential number of consumers affected is 0.2 million in the first year of our intervention and 0.1 million for future years.<sup>124</sup> These figures represent a potential upper bound on the number of consumers who may have a negative impact on their credit score because of potential forbearance, consolidation etc as a result of our proposals. This is because only some of these consumers could be referred to a CRA.

<sup>123</sup> We consider this to be proxied by consumers receiving a type 4 intervention as outlined in Table 17.

<sup>124</sup> See Benefits to consumer – Repeat use intervention section for details on how we arrive at these estimates.



- 184.** In practice, we consider only a subset of the consumers outlined above may have a negative credit score impact. In addition, it is unclear whether this would have happened but for the intervention, just at a different point in time. As such it is difficult to accurately estimate how many consumers would be affected by a negative credit score impact as a result of our intervention.

## Costs to the FCA

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- 185.** We do not consider that the proposed interventions will lead to additional material costs for the FCA beyond the opportunity cost of supervisor's time.<sup>125</sup> Any additional work in terms of supervising the new regime and assessing firms' monitoring of their repeat use interventions will be met through currently planned resources.

## Benefits to firms

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- 186.** This section covers the potential benefits to firms that arise from the wider impact of our proposals. These wider impacts are potentially features of either or both of our pricing and repeat use interventions. These benefits include:

- reduced costs of dealing with complaints
- reduced credit losses and associated costs of administration

### Reduced costs of dealing with complaints

- 187.** In 2017 PCA providers received 97,830 complaints relating to overdrafts.<sup>126</sup> For firms, dealing with complaints involves substantial cost including communication, inbound consumer engagement and, potentially, redress.

- 188.** As a result of our proposals, clearer pricing may result in consumers being less aggrieved by overdraft charges, leading to a reduction in complaint volumes and, ultimately, lower costs for firms. Qualitative evidence from some PCA providers has indicated that simpler and more proportionate overdraft pricing is associated with a reduction in complaint volumes and costs.

- 189.** Alternatively, firms may see a rise in complaints in the case of rising prices (for instance for arranged overdrafts) and/or if consumers are more aware, confident and willing to complain about something they had not previously understood due to its complexity. In this case complaint volumes could increase along with the costs of dealing with complaints and any potential redress.

- 190.** Given the uncertainty around the potential response by consumers to our interventions in relation to complaint volumes, we do not believe it is reasonably practicable to estimate the potential benefit (or cost) to firms.

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<sup>125</sup> By opportunity cost we mean the cost to supervisors in terms of other work they could be undertaking.

<sup>126</sup> See <https://www.fca.org.uk/data/complaints-data/aggregate-complaints-data>.

### Reduced credit losses and associated costs of administration

- 191.** Firms may choose to reduce lending to riskier consumers due to either our pricing or repeat use interventions. The effects of this are:
- lower lending, in absolute terms, leading to reduced lending to consumers who may eventually default
  - increases in the relative proportion of lending going to higher-quality borrowers who are less likely to default
  - more effective interventions for repeat use consumers that reduce credit losses
- 192.** Firms may, therefore, benefit from saving costs associated with consumers that default. These savings might come in the form of lower impairment charges and reduced costs of dealing with the administrative procedure of default.
- 193.** These benefits might take time to manifest. Firms, initially, may face the costs of dealing with debt deferment or forbearance due to the repeat use intervention. This may mean an increase in defaults initially. However, in the longer term, these costs could fall.
- 194.** We believe that it is not reasonably practicable to quantify the benefits for firms from reduced credit losses, as it is unclear the extent to which lending will be lowered (if at all) or the extent to which firms may focus on higher quality consumers.

### Benefits to consumers

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- 195.** This section sets out the benefits to consumers due to our interventions. For our pricing interventions and repeat use interventions, respectively, we:
- provide a qualitative assessment of the direct and indirect benefits to consumers
  - provide an estimate of the distributional impacts or direct benefits to consumers
- 196.** Where reasonably practicable, we have looked to estimate the benefits, in monetary terms, of our proposals. Details on our estimates are set out in the relevant sub-sections below.
- #### Pricing interventions
- 197.** The package of pricing proposals that we are consulting on work together to reduce harm in the market. To reflect this, we have analysed benefits to consumers from these proposals in total, as opposed to analysing the impact of each individual component.
- 198.** Our package of pricing proposals deliberately seeks to protect the more vulnerable consumers in society. As such we expect the overall impact of these changes to result in a more even distribution of charges, with vulnerable consumers benefitting relatively more in terms of lower fees and charges than other consumers.
- 199.** Our intervention's impacts will come through direct and indirect effects. The causal chain outlines the process by which we expect our proposals to reduce harm in the



market. The primary direct benefit for unarranged overdraft consumers comes from lower prices relative to the status quo. The primary direct benefit for arranged overdraft consumers is due to a 'smoothing' of charges, such that those who borrow a small amount would incur lower charges.

- 200.** As a result of our pricing interventions we indicatively estimate that the 30% of PCA consumers living in the most deprived areas in the UK, as measured by the IMD, could see an aggregate reduction in overdraft charges of around £101m per year as a result of our pricing interventions.
- 201.** In response to our interventions we expect that firms will adjust their pricing structures in order to recover any potential loss in revenue. These are most likely to come about within the affected products (ie higher prices for arranged overdraft charges) or, less probably, through increases in charges for other aspects of the PCA bundle (see earlier consumer cost section on waterbed effect on charges or prices other than overdrafts). Although it is difficult to predict exactly what these new pricing structures will be, we anticipate that firms will seek to realign pricing such that there are no large transfers from firms to consumers in aggregate ie when looking across all consumers there is a net neutral impact on total overdraft revenue once firms realign their pricing structures.
- 202.** Whilst at a market level we do not expect significant transfers between firms and consumers, our interventions will result in changes to the levels of fees and charges paid by individual consumers. For some consumers, our interventions will result in lower fees and charges; other consumers may potentially pay more in fees. In addition, where waterbed effects do take place we expect any increased charges to the affected products or other areas of the PCA to be more evenly split across all consumers of PCAs eg increases in existing monthly fees would likely be paid by everyone evenly rather than falling disproportionately on vulnerable consumers as unarranged overdraft charges do currently.<sup>127</sup> This means that overall, accounting for potential waterbed effects, we expect vulnerable consumers will be better off as a result of our intervention.
- 203.** In the longer term, we expect the pricing interventions to work in conjunction with the remedies outlined in Chapter 7 of this CP to improve competition in the market for overdrafts. We expect this enhanced competition to ultimately lead to better pricing, greater product quality and potential innovation in the provision of overdrafts or substitutes. Such impacts would result in a net positive outcome for consumers following our pricing interventions.

#### **Direct benefits**

- 204.** The benefits of our interventions fall into several categories in terms of how they might happen. Based on evidence we have seen, these include:
- consumers paying lower charges for unarranged overdrafts
  - a reduction in the relative costs for consumers borrowing small amounts of money
  - consumers having the information to make a more informed decision regarding their overdraft usage

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<sup>127</sup> See Strategic Review of Retail Banking Business Models Final Report, Annex 2 – PCA distributional analysis for further discussion and analysis of how free if in credit (FIIC) accounts are paid for including analysis of vulnerable consumers.

- reduced stress / greater peace of mind

- 205.** Consumers are likely to pay lower charges for unarranged overdrafts due to our proposals. The price of unarranged overdrafts is, currently, significantly higher than for arranged overdrafts albeit the total revenues are lower because there is a small volume of unarranged overdraft lending. By requiring that unarranged overdraft prices must be no greater than arranged overdraft prices, overdraft providers should reduce prices of unarranged overdrafts to reflect the lower prices for arranged overdrafts. We expect that this would result, directly, in lower unarranged overdraft prices for consumers using the product, though arranged overdraft prices might increase.
- 206.** Refused payment fees currently range from £0 to £25. The Payment Services Regulation (PSR) permit firms to charge refused payment fees provided they reasonably correspond to firms' actual costs. The fee that may permissibly be charged by a particular firm depends on a detailed and complex analysis of the particular firm's costs at a particular time. It would not be reasonably practicable for us to carry out such an analysis in respect of every firm for the purposes of the CBA, and we have not done so. However, the level of refused payment fees is an element of our modelling of the impacts of our overall package of remedies. It is necessary therefore, for us to make an assumption on a market wide basis about what the level of refused payment fees may be in the future. An overall reduction in such fees would be consistent with the evidence currently available to us.
- 207.** We expect the relative costs of borrowing for consumers using small amounts of their overdrafts to fall with our proposals. We expect this to be driven, principally, by a combination of our single interest pricing and alignment proposals. Currently, the cost of borrowing small amounts under a fixed fee charging structure results in very high prices (given the amount borrowed). For example, a fee structure of £1 charged per day of lending for a balance of £200 would imply an interest rate of 0.5% per day and an APR of 183%. Single interest pricing would result in prices reflecting the balances borrowed, reducing the price paid by consumers directly for small balance overdrafts.
- 208.** The single interest pricing and APR advertising proposals should provide consumers with clearer and more comparable information. This information should help consumers to make more informed choices about whether to use an overdraft. More effective product choices could result in lower overdraft charges for consumers directly if they reduce their overdraft usage, either by reducing consumption or switching to other, cheaper sources of funding.
- 209.** Our interventions should result in increased peace of mind and reduced personal distress for consumers who, previously, incurred high ongoing unarranged overdraft charges or may have been charged relatively high fees for a small amount of borrowing. This borrowing may or may not have been intended. For certain consumers, particularly those on lower incomes or classified as vulnerable, such charges could cause significant distress, especially if they are unexpected. Linking the overdraft charge to be more closely reflective of the balance borrowed should lead to lower prices when the amount borrowed is small. This should make any charges relatively easier for consumers to absorb psychologically as well as financially. Greater clarity on these charges will also help consumers to plan their spending better, thereby potentially reducing the distress associated with uncertain finances.



### The distributional impact of our proposed pricing interventions on consumer outcomes

- 210.** The primary benefit of our interventions is their impact on the distribution of fees/charges between different consumer types. While the analysis above describes the impacts at an aggregate level, the consumer impacts differ depending on a consumer's usage of arranged overdrafts and unarranged overdrafts, as well as how much they incur refused payment fees.
- 211.** Our analysis in this sub-section considers the impact of our interventions on different consumers by looking at what deprivation decile they fall into.
- 212.** In summary, our analysis of the proposed interventions in this sub-section indicates that:
- consumers living in more deprived areas are more likely to benefit from the proposed pricing interventions
  - but the opposite is not true for those who pay more – these consumers tend to be fairly evenly distributed (across deprivation decile)
  - the gains for consumers living in deprived areas are, on average, larger and the losses are, on average, smaller
- 213.** Figure 7 shows the proportion of people, by deprivation decile, who are affected positively, negatively or neutrally by our pricing interventions, assuming the baseline and the higher APR scenario.<sup>128</sup> Figure 8 differs only in that it uses a different scenario (baseline and the lower APR scenario).<sup>129,130</sup>
- 214.** The charts show that the proportion of consumers affected positively among each group increases as the level of deprivation increases.
- In Figure 7, this proportion moves from 11.0% for those with the lowest deprivation to 26.1% for those with the highest deprivation.
  - In Figure 8, this proportion moves from 14.2% for those with the lowest deprivation to 29.8% for those with the highest deprivation.
- 215.** The proportion of consumers negatively affected, meanwhile, is relatively stable across each group at between 11.6% and 9.8% in Figure 7 and 7.8% and 5.8% in Figure 8.

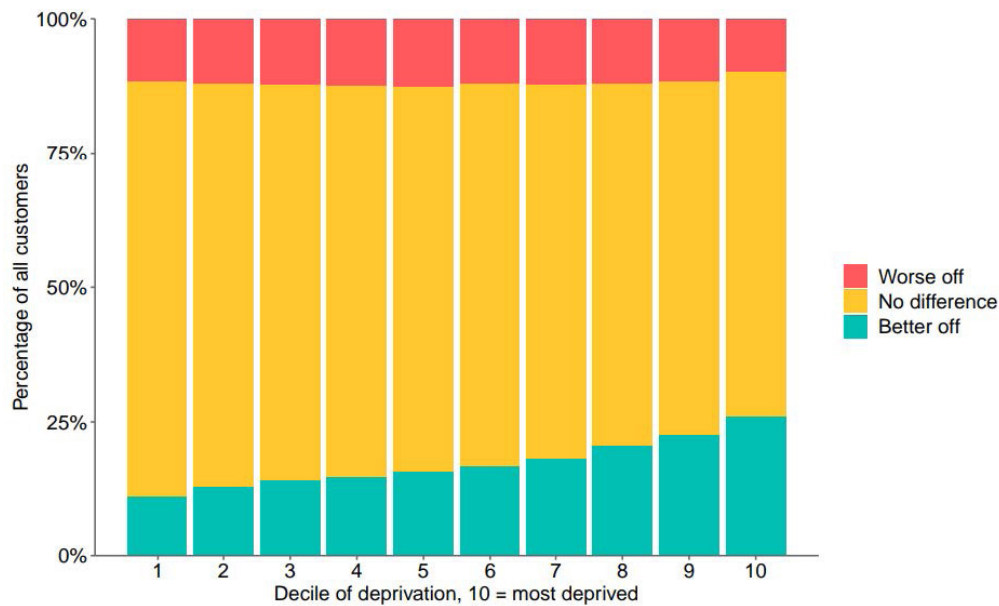
128 Consumers who we predict would be 'positively affected' by our proposed interventions are those who see their charges fall by more than £10 over a given year. Consumers who we predict would be 'negatively affected' by our proposed interventions are those who see their charges rise by more than £10 over a given year. Those consumers who we predict would be 'neutrally affected' by our proposed interventions see changes to their fees of less than £10 per year in absolute terms (ie rise or fall).

129 For further descriptions of the scenarios see Technical Annex: Policy analysis.

130 The true revenue neutral scenario for APR sits between the lower APR scenario and the higher APR scenario.

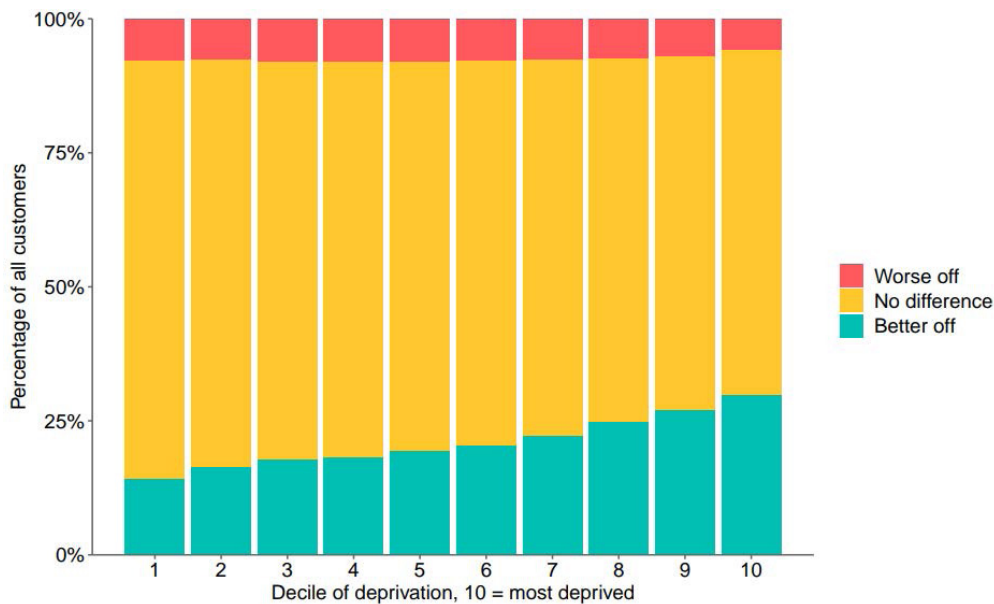


**Figure 7: The proportion of consumers affected by our proposed pricing interventions, by impact type (Scenario: Baseline and higher APR)**



Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

**Figure 8: The proportion of consumers affected by our proposed pricing interventions, by impact type (Scenario: Baseline and lower APR)**



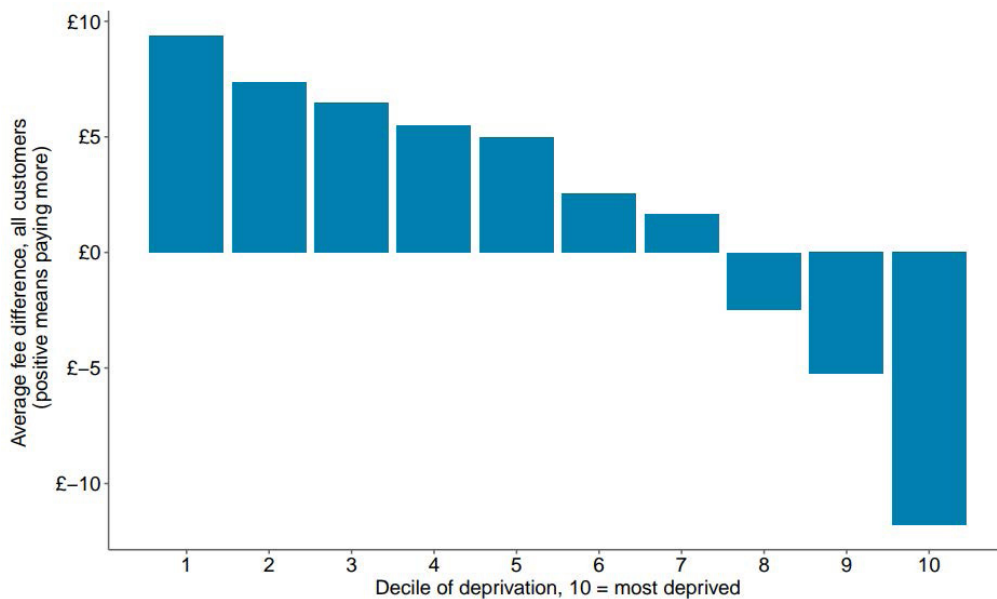
Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

- 216.** The net impact of our proposals within each decile is a function of: i) the proportion of consumers who gain or pay more; and ii) the amounts by which they gain or pay more.
- 217.** This net impact is set out in Figure 9 and Figure 10 below. A positive figure means that, on average, consumers in the decile are paying more when compared to the scenario of no change. For the higher APR scenario in Figure 9, the consumers in the 3 most deprived deciles end up paying less on average, with all other consumer deciles paying more on average. By contrast, the lower APR scenario in Figure 10 leads to all consumers paying less on average.



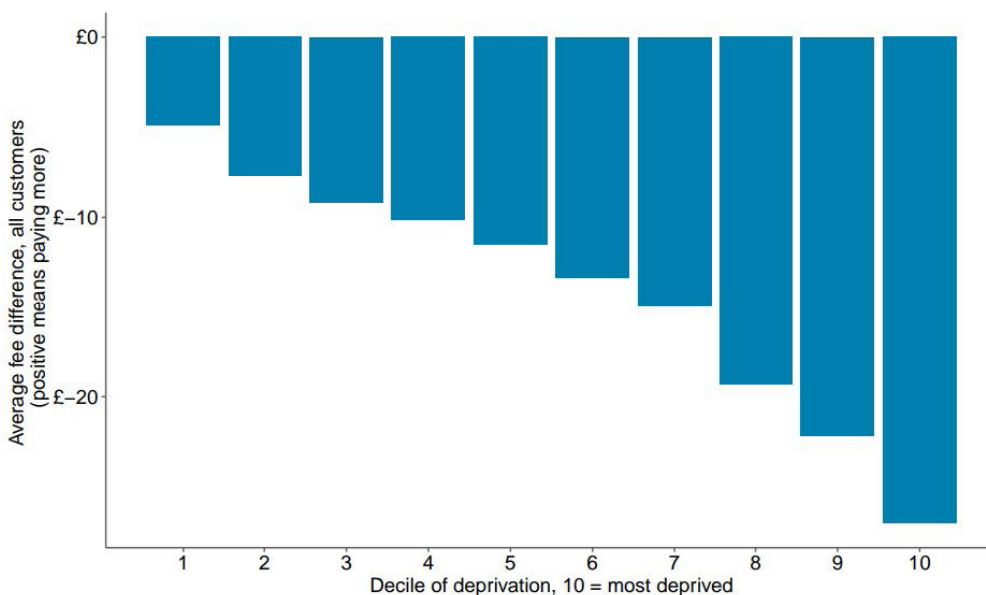
218. Those consumers who we expect to pay more after our proposed interventions may choose to switch to alternative products or providers where the costs of credit are lower. However, where this represents a repeat use consumer, who may not have alternative options, the effect of our repeat use interventions may reduce the potential for increased charges for these consumers. This is covered in the relevant consumer costs section of this CBA, but it is not included in these estimates. These estimates also do not account for subsequent behaviour change by consumers beyond an immediate response in the volume of lending to the change in prices.

**Figure 9: The average (mean) change in overdraft charges for consumers as a result of our proposed pricing interventions (Scenario: Baseline and higher APR)**



Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

**Figure 10: The average (mean) change in overdraft charges for consumers as a result of our proposed pricing interventions (Scenario: Baseline and lower APR)**



Source: PCA data, MHCLG data on IMD, ONS data, FCA analysis

- 219.** Scaling the estimates from Figure 9 for the total number of consumers in each decile, we indicatively estimate that PCA consumers in the 3 most deprived deciles ie the 30% of PCA consumers living in the most deprived areas in the UK could see an aggregate reduction in overdraft charges of around £101m per year as a result of our pricing interventions. Such savings would be higher under the lower APR scenario outlined in Figure 10 and would extend to consumers in other deprivation deciles.
- 220.** HM Treasury's Green Book outlines that when assessing the costs and benefits of a policy intervention "it may be necessary or desirable to "weigh" these costs and benefits, depending on which groups in society they fall on."<sup>131</sup> This is known as a welfare weight – it is where we weigh the value of a pound more highly to one group of consumers than to another. For example, we could weigh the value of a pound more highly to lower income households than to higher income households.<sup>132</sup>
- 221.** Welfare weights are, inherently, subjective. They depend on the benchmark against which other groups are compared (in our case, this is the median group calculated as the average of decile 5 and decile 6). To try and control for this subjective nature, we have taken an alternative approach of estimating what the additional benefit to consumers from an extra pound in income (the elasticity of the marginal utility of income) would need to be for our proposals to break-even in terms of the direct consumer benefits assuming firms realign prices in a revenue neutral way and after accounting for firms' one-off and ongoing compliance costs, but before considering any indirect benefits.
- 222.** Table 22 outlines the average income for each decile of deprivation.<sup>133</sup> Using information on the changes in the level of fees for each decile of deprivation for both those who are worse off and those who are better off, we estimate the implied welfare weights for each decile required for the policy to breakeven with one-off compliance costs and ongoing compliance costs.<sup>134,135</sup>

131 HM Treasury, 2018, *The Green Book: Central Government Guidance on Appraisal and Evaluation*, p77

132 As outlined in the Green Book (p78), "The basis for distributional weights is the economic principle of the diminishing marginal utility of income. It states that the value of an additional pound of income is higher for a low-income recipient and lower for a high-income recipient. Broadly a value of 1 for the marginal utility of income would indicate that the utility of an additional pound is inversely proportional to the income of the recipient. An additional £1 of consumption received by someone earning £20,000 per year would be worth twice as much than to a person earning £40,000. Higher estimates of the marginal utility of income will mean the value of an additional pound declines more quickly relative to increases in income"

133 Due to data restrictions, the average income per decile number presented here were generated based on middle layer super output areas (MLSOA) rather than lower layer super output areas (LLSOA). This is likely to result in a smoother and more linear distribution of income than is actually the case.

134 Our methodology for calculating welfare weights is based on that described in the DCLG appraisal guide (see DCLG, 2016, *The DCLG Appraisal Guide*, P92-95). First, we define a utility function of consumption ie the benefit a consumer receives from consuming goods and services  $U(\text{Consumption}) = \log(\text{Consumption})$ . This gives us a marginal utility of consumption ie the benefit from spending £1 more of  $U'(\text{Consumption}) = 1/(\text{Consumption})$ . Treating consumption as equal to a consumers' income, we can derive the welfare weights for each vulnerability decile as  $\text{Welfare Weight}_i = (\text{Median income}/\text{Average income in vulnerability decile } i)^a$ . The variable 'a' in this calculation is the elasticity of the marginal utility of consumption ie the rate at which the marginal utility changes as consumption increases. The Green Book indicates that, based on the academic literature, it should take the value 1.3. In our calculations, we set this number to the value which, based on the average decrease or increase in overdraft fees for each decile resulting from our pricing interventions as based on the higher APR scenario will generate a per consumer benefit which is equal to the per consumer total one-off or ongoing costs to firms of our pricing intervention proposals. As the benefits are ongoing ie incurred annually rather than just once, the implied welfare weights to breakeven on the interventions in total will lie somewhere between those estimated for one-off and ongoing costs alone.

135 The analysis of changes to average charges which are used as an input in the calculations for the estimates outlined in Table 22 include data from Lloyds Banking Group. This data is from 2016. Lloyds Banking Group subsequently changed their overdrafts pricing structure. As such the modelled impacts of our pricing interventions may reflect changes which in the case of Lloyds Banking Group customers have already occurred in practice. We have also conducted the analysis of changes to average charges removing Lloyds Banking Group customers. Combining this with other analysis in this CBA, the conclusions we come to remain consistent with the analysis presented in this CBA.

**Table 22: Average income levels and implied welfare weights**

Decile of deprivation (1 least deprived and 10 most deprived)	Net annual household income after housing costs (equivalised) for decile of deprivation (£) <sup>136</sup>	Implied welfare weight for breakeven with one-off compliance costs	Implied welfare weight for breakeven with ongoing compliance costs
1	£35,682	0.959	0.998
2	£33,042	0.974	0.999
3	£31,453	0.983	0.999
4	£30,450	0.989	0.999
5	£29,506	0.995	1.000
6	£28,057	1.005	1.000
7	£26,585	1.016	1.001
8	£25,094	1.027	1.001
9	£23,142	1.043	1.002
10	£20,169	1.071	1.004

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, PCA data, MHCLG data on IMD, ONS data, FCA analysis

- 223.** The welfare weights presented in Table 22 show the different value put on an additional £1 of consumption<sup>137</sup> for individuals with different levels of income compared to the median income. As an example, the numbers in column 3 suggest that an individual in the most deprived decile values an additional £1 of consumption at 1.071 times the median individual. Alternatively, someone in the least deprived decile values an additional £1 of consumption at 0.959 times the median individual.
- 224.** These weights were calculated based on an elasticity of the marginal rate of utility which, given the average increase or decrease in overdraft fees by deprivation decile due to our pricing interventions, results in aggregate welfare weighted benefits equal to the compliance costs to firms of complying with our pricing interventions. This tells us by how much more consumers with higher levels of deprivation need to value an additional £1 compared to consumers with lower levels of deprivation in order for the distributional impacts of our pricing interventions to breakeven with compliance costs.<sup>138</sup>
- 225.** The outcome of this approach suggests that the elasticity of the marginal utility of consumption required to compute the welfare weights would need to be 0.19 for one-off costs and 0.01 for ongoing costs for the policy to breakeven with compliance costs in welfare weighted terms. This is significantly lower than the elasticity of the marginal utility of consumption of 1.3 which the Green Book<sup>139</sup> advises using in calculations.<sup>140</sup> As such, it suggests that those on lower incomes in more deprived deciles would only need to value an additional pound by a small amount more, relative to other deprivation deciles, for the proposals to break-even after considering compliance costs to

136 We use net annual household income after housing costs (equivalised) for our calculations as this representation of income is closest to disposable income. We also produced our calculations using grosser values of income including total annual household income, net annual household income and net annual household income before housing costs (equivalised). In all cases the results of our analysis were consistent with the figures presented here.

137 We use the term consumption interchangeably with income as our calculations imply the two are equal.

138 Using the higher APR scenario.

139 HM Treasury, 2018, *The Green Book: Central Government Guidance on Appraisal and Evaluation*, p80

140 Using the elasticity of the marginal utility of income advised by the Green Book would yield larger welfare weights and therefore would indicate larger benefits in welfare weight terms.

firms. As the benefits are ongoing ie incurred annually rather than just once, the implied welfare weights to breakeven on the interventions in total will lie somewhere between those estimated for one-off and ongoing costs alone. In addition, there are competition benefits, as discussed in the next section, that mean our interventions are likely to lead to a net positive impact overall without needing to consider welfare weights.

### **Competition**

- 226.** The above section sets out only the direct benefits and distributional impacts of our proposals. In the longer term, we would expect significant additional benefits to arise because of our interventions' impact in enhancing competition.
- 227.** The pricing interventions contain many features which have the potential to improve competition in the overdraft market. This includes the following:
- single interest pricing should help consumers to compare the cost of an overdraft between different PCA providers more easily, thereby increasing the transparency of this element of a PCA package
  - similarly, single interest pricing should make comparison between overdrafts and other credit products, which might be, for some consumers, potentially cheaper to use (eg credit cards), easier than before (ie though our intervention does not affect the information of other credit products, it does make overdrafts easier to understand relative to them than before)
  - use of an APR in certain arranged overdrafts advertising should complement single interest pricing by giving consumers clearer information to compare prices
- 228.** A combination of improved pricing transparency and resulting higher threat of switching should lead to greater competitive pressure between providers of overdrafts. This effect might be higher still if consumers view an overdraft as one of many potential forms of credit (ie other forms of credit provide an additional competitive constraint on overdraft providers).
- 229.** We expect these interventions are likely to work in conjunction with the remedies outlined in Chapter 7 of this CP to improve competition. These include, for example, improving information at account opening on overdrafts including the provision of cost calculators, overdraft alerts and overdraft eligibility checkers. Ultimately, the impacts on competition should lead to better pricing for all consumers in the longer-term.<sup>141</sup> They may also lead to improved product quality and could stimulate greater innovation in the provision of overdrafts as a result of greater competitive pressure. This is already happening among new entrants to the market.<sup>142</sup> Such impacts would result in a net positive outcome for consumers following our pricing interventions.
- 230.** It is not reasonably practicable to estimate these benefits robustly due to the dynamic nature and long-term impacts of competition. Any impact is also likely to be linked to other factors which may improve the competitive dynamics in the market place such

141 It may be the case that in realigning their pricing structures firms choose to reposition their overdraft offering in such a way that absolute prices could increase, for instance if they chose to offer overdrafts as a more subprime credit product. Alternatively, if firms continued to target the same types of consumers as currently this may result in lower absolute prices. In either case increased competitive pressure should ensure that prices will be more reflective of the costs of provision, resulting in better pricing.

142 Qualitative evidence from several recent and prospective entrants to the overdraft market indicates that our proposals will not impose new barriers to entry on prospective entrants.



as PSD2, Open Banking and general improvements in technology. It is not practicable to separate the additional benefits to competition generated by the interventions presented in this CP with these other factors and the remedies outlined in Chapter 7 of this CP.

### ***Repeat use interventions***

- 231.** Firms are already required to monitor a customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties.<sup>143</sup> Through issuing guidance on the factors firms would be expected to consider in monitoring and assessing consumers' usage and relevant information they hold, we would expect firms to identify problematic use earlier. This might have a particular impact, for example, on consumers who are failing to pay down long-term recurring overdraft balances and those showing increasing patterns of overdraft drawdowns.
- 232.** As highlighted earlier, the systems used by PCA providers to identify and help those who are at risk of, or are undergoing, financial difficulty differ from firm to firm. Typically, firms tend to rely on a system that generates an automated flag. This is, then, triaged by a staff member as to whether to act and, if so, the firm contacts the consumer. Following this, there is a range of potential options, such as self-cure (ie leaving the consumer to resolve the problem themselves) through to debt write off. The choice of which option to use depends on, among other factors, the scale of the problem.
- 233.** Our interventions, applied through a principles-based approach, look to improve firm practice in this area whilst also providing firms with the flexibility to adapt their current approaches.
- 234.** In the rest of this section, we set out the direct benefits of this approach and estimate their impacts.

### ***Direct benefits***

- 235.** Following the introduction of our interventions, we would expect firms to assess and make improvements to their active monitoring of consumers. This should lead to firms being able to identify repeat use patterns and to identify repeat users showing signs of actual or potential financial difficulty more accurately. Earlier and more accurate identification should also lead to firms taking relevant and appropriate action, the intensity of which will be based on whether a repeat use consumer shows signs of actual or potential financial difficulties or not.
- 236.** For repeat users not showing signs of actual or potential financial difficulties, these consumers will receive less intensive interventions. The actual form of these interventions will vary by firm but will involve a communication with the consumer followed by active monitoring and further potential communications depending on the consumer's usage patterns and other factors. Ultimately these interventions should lead to a change in consumers' usage patterns resulting in less days of use and /or lower overdraft balances. Therefore, the main benefit from this intervention is the fees and charges saved by consumers on arranged overdrafts, unarranged overdrafts and refused payments, owing to the change in consumer behaviour triggered by the

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143 CONC 6.7.2R

intervention. This could be driven by consumers choosing to fully or partially reduce their repeat usage behaviour.<sup>144</sup>

**237.** For repeat users showing signs of actual or potential financial difficulty, these consumers will receive more intensive interventions. As with other repeat users the exact form of these interventions will involve an initial communication with the consumer and active monitoring. However, if following the initial communication consumers continue to follow a pattern of repeat use, then firms must take reasonable steps to contact the consumer to discuss their situation. In this discussion firms must:

- explore the reasons for the consumer's pattern of behaviour, the reasons for the consumer's actual or potential financial difficulties and the consumer's intended actions
- if appropriate, identify and set out suitable options to help consumers reduce their usage and address their actual or potential financial difficulties, without adversely affecting the consumer's financial situation. These options may include:
  - advice on budgeting and financial planning options
  - providing details for not-for-profit debt advice bodies or other relevant bodies
  - provision by the firm of alternative credit on more favourable terms
  - forbearance such as reducing or waiving interest and other charges or allowing additional time to pay
  - a reduction in the overdraft limit or the suspension of the overdraft facility
- outline that if the consumer does not take appropriate action one possible action maybe for the firm to suspend or remove the overdraft facility or reduce the credit limit (which firms may also choose to do if a consumer declines to be contacted).

**238.** Similar to consumers impacted by the less intensive interventions, the main financial benefits to consumers impacted by the more intensive interventions will be the reduced fees and charges associated with partially or fully reducing their repeat use behaviour. However, these financial benefits may also come in the form of direct action from firms where forbearance or cheaper alternative credit is offered as an option.

**239.** In addition to financial benefits there are psychological benefits for consumers. Financial difficulty tends to be associated with psychological harm and personal distress.<sup>145</sup> A reduction in financial difficulty arising from our repeat use interventions should help to reduce this psychological harm. This is particularly the case for consumers with other debts to service who are likely to be in greater financial distress.

**240.** In the longer-term, all impacted consumers should be in a stronger financial position, with reduced use of credit balances and a lower chance of arrears / default. This leads to two consumer benefits. First, it allows consumers to plan their finances and their

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<sup>144</sup> Our pricing interventions could result in higher prices for consumers with large arranged overdraft balances, which will include repeat use consumers. In response consumers may reduce usage of their arranged overdraft, potentially transferring to alternative sources of credit. To the extent that repeat users are able or choose to do this, this may reduce the impact of our repeat use intervention compared to a counterfactual where no pricing interventions were to take place.

<sup>145</sup> Atticus, Consumer research on overdrafts: a report prepared for the Financial Conduct Authority, March 2018.





expenditure over their life more effectively. Secondly, it frees up more money (from saved overdraft fees) to act as a buffer for any unforeseen expenses. This should help lead to consumers improving their credit score and holding a greater ability to borrow in the future.

### **Estimation of benefits**

- 241.** Table 23 and Table 24 outline the total number of consumers in millions,<sup>146</sup> who are estimated to be impacted by interventions as a result of our repeat use proposals.
- 242.** Using firm survey submissions and calculations to extrapolate these results to the full market, we estimate that 4.0m consumers will be impacted in the first year. This is equivalent to 60% of consumers using an arranged overdraft each month of the year in 2016.<sup>147</sup> In subsequent years we estimate that 1.3m consumers a year will be impacted on an ongoing basis.<sup>148</sup>
- 243.** The highest volume of consumers impacted are those consumers receiving less intensive interventions. These consumers are more likely to not be showing signs of actual or potential financial distress. Although the financial and psychological benefits from our interventions are likely to be lower at an individual level the number of consumers impacted means the total benefits could be relatively large for this group of consumers.
- 244.** There is a much smaller volume of consumers requiring more intensive interventions. However, these consumers are repeat users showing signs of potential or actual financial difficulty. Whilst the aggregate benefits to these consumers may be lower than for the higher number of consumers subject to less intensive interventions, the impact of the more intensive interventions in terms of reversing a financially distressed position are likely to have a more significant impact on that individual, helping to reduce the potential psychological harm of financial distress as well as lowering balances and reducing future fees and charges.

146 To estimate total impacted consumers, we assume one consumer per account. This may result in an overestimate where one person has multiple accounts or underestimate where multiple people have one joint account. We also treat one consumer intervention as impacting a unique consumer. This may result in an overestimate if one unique consumer was to receive multiple different types of interventions in a given year.

147 Firm definitions of who is impacted by repeat use interventions may differ from the definition of use of an overdraft facility in every month of the year.

148 We use the following information to calculate the number of consumers impacted by the repeat use intervention: the number of PCAs affected by each type of intervention and the number of active PCAs held by a firm. Our calculation approach is as follows:

- We calculate the average proportion of PCAs affected by each type of intervention as a proportion of the total number of active PCAs held by a firm
- We use a combination of sources including previous cost survey returns and submissions by firms to the Strategic Review of Retail Banking Business Models to identify the number of active PCAs for out of sample firms and the largest PCA providers. For the 12 smaller retail banks, not subject to our service metrics rules we assume an upper bound of 70,000 PCAs per firm and then apply an adjustment for the proportion of active accounts based on smaller retail banks for which we have this information. This is likely to be a conservative approach as 70,000 is the maximum number of PCAs such a firm could have before being subject to service metrics rules. These firms will likely have less than 70,000 PCAs on average.
- We then take the average proportion of PCAs affected, by each type of interventions for each category of firm, to calculate an implied number of accounts affected for firms out of sample.



**Table 23: Total consumers impacted by the repeat use interventions in year 1**

Total consumers impacted (m)					
Stage	Large PCA Provider	Smaller retail banks	Smaller building societies <sup>149</sup>	New Challenger PCA providers <sup>150</sup>	Total impacted consumers by intervention intensity
Consumers receiving less intensive interventions	2.6	1.0	-	0.0	3.6
Consumers receiving more intensive interventions	0.3	0.2	-	0.0	0.5
<b>Total impacted consumers</b>	<b>2.9</b>	<b>1.2</b>	<b>-</b>	<b>0.0</b>	<b>4.0</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

149 Smaller building societies only provided us with qualitative evidence on the impacts of the repeat use interventions. As such no impacted consumer estimate is provided. We expect that, given the size of these firms and business models, the number of consumers impacted will not be significant.

150 One new challenger PCA provider did not provide estimates of the volume of consumers impacted. Another new challenger PCA provider indicated the number of impacted PCAs would be 0.

**Table 24: Total consumers impacted by the repeat use interventions in subsequent years**

Total consumers impacted (m)					
Consumer	Large PCA Provider	Smaller retail banks	Smaller building societies <sup>151</sup>	New Challenger PCA providers <sup>152</sup>	Total impacted consumers by intervention intensity
Consumers receiving less intensive interventions	0.8	0.3	-	0.0	1.1
Consumers receiving more intensive interventions	0.1	0.0 <sup>153</sup>	-	0.0	0.2
<b>Total impacted consumers</b>	<b>1.0</b>	<b>0.3</b>	<b>-</b>	<b>0.0</b>	<b>1.3</b>

Source: Firm cost survey responses, PCA numbers from firm data requests for CP18/13 and Strategic Review/HCCR, FCA analysis

**245.** We do not believe it is reasonably practicable to provide a monetary estimate of the impact of our repeat use interventions. The principles based approach to the intervention means that each firm will take a different approach. As such it is unclear what impact the improved monitoring and intervention will have and over what time period. To ensure that firms are making appropriate efforts to reduce the number of repeat users and the level of their balances in a way that does not adversely affect consumers' financial situations we will be reviewing firm strategies and the monitoring work they undertake to ensure the intervention is having the desired impact.

**246.** Although we have not produced a monetisation our analysis of costs and the number of impacted consumers above suggest that in order for the benefits of the proposals to breakeven with the variable costs of compliance impacted consumers will, on average, need to save around just £3 in overdraft fees and charges as a result of our intervention.<sup>154</sup>

**Q16: Do you agree with our cost-benefit analysis?**

151 Smaller building societies only provided us with qualitative evidence on the types of costs. As such no cost estimate is provided. We expect that, given the size of these firms and business models, these costs will not be significant.

152 One new challenger PCA provider did not provide estimates of the volume of consumers impacted. Another new challenger PCA provider indicated the number of impacted PCAs would be 0.

153 Figure less than 0.1 million but greater than 0.

154 This is estimated by dividing the one-off variable and ongoing variable costs of repeat use interventions by the total number estimated consumers who would be subject to interventions. In both cases this number is approximately £3.

## Annex 3

# Compatibility statement

### Compliance with legal requirements

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1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation. It includes an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA.
3. The FCA is also required by section 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

### The FCA's objectives and regulatory principles: Compatibility statement

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7. The proposals set out in this consultation are intended to advance the FCA's operational objective to secure an appropriate degree of protection for consumers by:
  - Reducing the high level of fees in the unarranged overdraft market, by aligning prices for arranged and unarranged overdrafts



- Requiring that overdrafts are priced by a single interest rate, with alignment, will end the high concentration of charges we see in the market where a minority of consumers (who are more likely to be from deprived areas) pay at least half of the charges
- Introducing guidance to assist firms to ensure that refused payment fees reasonably correspond to actual costs
- Implementing remedies to address repeat use in the overdraft market

8. The proposals set out in this consultation are also intended to advance the FCA's operational objective to promote effective competition in the interests of consumers by:

- Introducing a single pricing mechanism for overdrafts to addressing the complex range of pricing structures for overdrafts across different firms, which hinder consumers ability to compare products and may result in sub-optimal choice and use of overdrafts.
- Requiring firms to include a representative APR in financial promotions so that consumers can better compare overdrafts offered by different providers and with other forms of credit, particularly 'revolving' credit such as credit cards. This will encourage firms to compete actively on overdraft prices.
- Requiring firms to align unarranged overdraft prices with arranged overdraft prices will increase competitive pressure to the pricing of unarranged overdrafts.

9. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well. They seek to address complex price structures, unfair distribution of charges and repeat use which we have identified as drivers of harm (high prices) in this market.

10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA.

#### **The need to use our resources in the most efficient and economic way**

11. We limit the burden on FCA resources by ensuring that our work is co-ordinated. Implementing these proposals will require us to introduce new rules and guidance. These rules will require supervision and enforcement, but we have assessed they would not require additional FCA resourcing. We believe requiring firms to report to us their strategies for repeat use the most efficient way of supervising compliance with our proposed rules.

#### **The principle that a burden or restriction should be proportionate to the benefits**

12. Our proposals are proportionate to address the significant harms we see in the overdraft market. Charges for unarranged overdraft use are high and concentrated among vulnerable customers. Our proposal for alignment seeks to use existing competitive pressure on arranged overdraft prices to cap unarranged prices at market rates. Consumers are currently unable to effectively compare overdrafts impacting competition. We have considered various options to improve comparability and consider it necessary to intervene to require firms to price their overdraft by a single interest rate. We are not proposing to introduce rules where we believe the desired

outcome can be achieved through other means. For example, we are pursuing a voluntary industry agreement on pounds and pence examples.

### **The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term**

13. Our proposals should increase competition in the current account market. More comparable charges should enable consumers to make informed and effective comparisons and choices, and drive providers, both incumbents and challengers, to compete. This will support sustainable growth in the retail banking sector.

### **The general principle that consumers should take responsibility for their decisions**

14. We are taking action to remove the harm of very high prices in the market. Our proposals seek to reduce complexity to encourage and equip consumers to make informed comparisons and choices. Research has found some consumers are unaware of the cost of using an overdraft or that switching overdraft provider or using another product could be lower cost. This can result in poor outcomes as customers continue using products that are no longer the best for their needs. We believe introducing new rules and guidance to simplify overdraft charges is justified. Our proposals will empower consumers to take responsibility for their own financial wellbeing.

### **The responsibilities of senior management**

15. Senior managers will need to ensure compliance with our new proposed rules in the same ways as they do for other rules in our Handbook.

### **The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation**

16. We recognise that firms have different business models. We believe that our proposals should be applied consistently and have taken account of the need to ensure that this takes place in our draft rules and guidance.
17. Our proposals will not apply to most building societies as few provide current accounts with overdrafts. Because of identified differences in the nature of, and objectives of, credit unions compared to banks and building societies, our proposals do not apply to them. We discuss the expected effect of our proposals on mutual societies further in paragraphs 21 to 24.

### **The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information**

18. Our proposals are compatible with this principle.

### **The principle that we should exercise our functions as transparently as possible**

19. In developing these proposals, we have updated stakeholders on several occasions and sought views. In November 2016, we called for input on high-cost credit, and we published a feedback statement in July 2017 (FS17/2). This was followed by an update in January 2018. We then issued a consultation and discussion paper in May 2018 (CP18/13), seeking views. We are now consulting on our draft rules.
20. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).



## Expected effect on mutual societies

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21. Our proposals will not apply to most building societies as few provide current accounts with overdrafts. Where our proposals do apply, we do not expect them to have a significantly different impact.
22. We consider that applying these proposals to all banks and building societies that offer overdrafts is justified to ensure a consistent experience for consumers and to enable a level playing field for all PCA providers.
23. We propose to exclude credit unions from the rules as few credit unions offer large numbers of current accounts with an overdraft. The interest credit unions can charge is limited by the Credit Unions Act and Credit Unions Northern Ireland Order. Our assessment is that credit union customers do not require additional protection from high charges for arranged and unarranged overdrafts. Our rules do not prevent credit unions from voluntarily implementing our proposals if they want to.
24. Our guidance on the PSRs to improve understanding of the cost reflectivity requirement does not apply to Credit Unions as they are exempt from the underlying statutory requirement. We understand very few credit unions offer transactional accounts directly or charge these fees. Because of this we do not consider it proportionate to make new rules to cap refused payment fees for credit unions. Where credit unions charge consumers for refused payments, we expect them to ensure they are treating their customers fairly and in line with the objects of their credit union.

## Equality and diversity

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25. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.
26. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. Our proposals are not intended to discriminate between consumers and we do not consider they will adversely affect people with protected characteristics.
27. Our proposals seek to secure greater protection for consumers using overdrafts. They are designed to address concerns that prices for unarranged overdrafts are too high and that charges are highly concentrated.
28. Since young people are more likely to use an overdraft than older people, our proposals are more likely to benefit younger people. Consumers in the most deprived areas are likely to pay more in unarranged overdraft prices. We have modelled the likely impact of our package of proposals and expect consumers in the most deprived areas to be more likely to gain from our proposals than consumers in the least deprived areas. Since consumers in the most deprived areas are more likely to be from BAME communities and to be disabled we expect that consumers in these protected groups are more likely to benefit from our proposals.

29. We have considered who may be adversely affected by our proposals and have not identified negative impacts on the above protected groups. We expect charges for unarranged overdrafts to fall significantly as a direct result of our proposed interventions. In particular, vulnerable customers, who often borrow small amounts and use unarranged overdrafts, will benefit.
30. When considering interventions around pricing or repeat use of overdrafts, we recognise that this could lead to a loss of access to credit, firms reducing the amount of available overdraft, or reducing or removing charge free buffers for some consumers. If access to unarranged overdraft were to be reduced, groups more likely to use unarranged overdrafts including BAME people, young people and people with disabilities would likely be impacted. We are seeking a solution that enables firms to continue to offer different overdraft products, where this is in consumers' interests, while competing meaningfully on price. Our analysis indicates that our proposals to intervene in overdraft pricing should not result in inappropriate loss of access. It also indicates that most consumers have access to alternatives. However, we will continue to evaluate the risks from any potential loss of access and the subsequent impact on consumers.

For more information please see the Technical Annex to this CP.

### Legislative and Regulatory Reform Act 2006 (LRRRA)

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31. We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are:
- **Transparent:** We are following an established consultation process in making these rules
  - **Accountable:** We are seeking feedback from this CP on whether stakeholders agree with our proposed approach
  - **Proportionate:** We have carefully deliberated our approach and believe our proposals are proportionate. We have sought wherever possible to minimise costs while enabling consumers to benefit
  - **Consistent:** Our proposed approach applies in a consistent way
  - **Targeted:** Proposals are targeted only at cases in which action is needed, as outlined in this CP, we believe that there is a strong case for the introduction of these proposals given the harm we have seen.
32. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. We believe that the proposals will be effective in helping firms understand and meet regulatory requirements more easily, in a manner that leads to improved outcomes for consumers and addresses issues identified in this market.



## Treasury recommendations about economic policy

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- 33.** In developing our proposals, we have had regard to HM Treasury's recommendations to us about aspects of the Government's economic policy the FCA should have regard to when discharging its functions. In particular, our proposals should increase competition and innovation in the retail banking market, improving outcomes for consumers.



## Annex 4

# List of non-confidential respondents

Advice Ni

Carnegie UK Trust

Centre for Responsible Credit

Chartered Institute of Credit Management

Christians Against Poverty

Citizens Advice

Citizens Advice Scotland

Citizens Advice Swansea Neath Port Talbot

Coventry Building Society

Danske Bank

Essex Law School

Financial Services Consumer Panel

Halton Housing

Lending Standards Board

Marks Sattin

Money Advice Service

Money Advice Trust

Money and Mental Health Policy Institute

Money Saving Expert

New Payment System Operator

Step Change



The Fairbanking Foundation

The Financial Inclusion Centre

Which?



## Annex 5 Technical Annex

The Technical Annex is provided as a separate document:

[www.fca.org.uk/publication/consultation/cp18-42-annexes.pdf](http://www.fca.org.uk/publication/consultation/cp18-42-annexes.pdf)



## Annex 6

### Abbreviations in this document

<b>API</b>	Application program interface
<b>APR</b>	annual percentage rate
<b>BAME</b>	black, Asian and minority ethnic
<b>BCOBS</b>	the Banking: Conduct of Business sourcebook (FCA Handbook)
<b>CASS</b>	Current Account Switch Service
<b>CBA</b>	Cost Benefit Analysis
<b>CCA</b>	Consumer Credit Act 1974
<b>CCD</b>	Consumer Credit Directive 2008/48/EC
<b>CMA</b>	Competition and Markets Authority
<b>CONC</b>	the Consumer Credit sourcebook (FCA Handbook)
<b>CP</b>	Consultation Paper
<b>CP18/13</b>	our May 2018 consultation paper on the overdraft market
<b>CRA</b>	Credit Reference Agency
<b>DCLG</b>	Department for Communities and Local Government
<b>DP</b>	Discussion Paper
<b>EAR</b>	effective annual rate of interest
<b>EEA</b>	European Economic Area
<b>EIA</b>	Equality Impact Assessment
<b>FCA</b>	Financial Conduct Authority
<b>FSMA</b>	Financial Services and Markets Act 2000
<b>FTE</b>	full time employee

<b>HCCR</b>	High-Cost Credit Review
<b>HCSTC</b>	High-Cost Short Term Credit
<b>IMD</b>	Index of Multiple Deprivation
<b>LRRRA</b>	Legislative and Regulatory Reform Act 2006
<b>MHCLG</b>	Ministry of Housing Communities and Local Government
<b>MMC</b>	the Maximum Monthly Charge
<b>ONS</b>	Office for National Statistics
<b>PCA</b>	personal current account
<b>PRA</b>	Prudential Regulation Authority
<b>PS</b>	Policy Statement
<b>PSD2</b>	the second Payment Services Directive (Directive (EU) 2015/2366)
<b>PSRs</b>	Payment Services Regulations 2017
<b>ROE</b>	Return on equity
<b>RPF</b>	refused payment fee
<b>RWA</b>	risk-weighted assets

As set out at the end of Chapter 2, we have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from [www.fca.org.uk](http://www.fca.org.uk). If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: [publications\\_graphics@fca.org.uk](mailto:publications_graphics@fca.org.uk) or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN



# Appendix 1

## Made rules (Legal instrument)

**PERSONAL CURRENT ACCOUNTS AND OVERDRAFTS (INFORMATION AND TOOLS FOR CUSTOMERS) INSTRUMENT 2018**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the “Act”):
- (1) section 137A (General rule-making power);
  - (2) section 137R (Financial promotion rules);
  - (3) section 137T (General supplementary powers); and
  - (4) section 139A (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 18 December 2019.

**Amendments to the Handbook**

- D. The Banking: Conduct of Business sourcebook (BCOBS) is amended in accordance with Annex A to this instrument.
- E. The Consumer Credit sourcebook (CONC) is amended in accordance with Annex B to this instrument.

**Notes**

- F. In this instrument, notes shown as “**Note:**” are intended for the convenience of the reader and do not form part of the legislative text.

**Citation**

- G. This instrument may be cited as the Personal Current Accounts and Overdrafts (Information and Tools for Customers) Instrument 2018.

By order of the Board  
15 November 2018

## Annex A

### Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### 1 Application

##### 1.1 General application

...

Limitations on the general application rule

...

1.1.4 R (1) Chapters 2, 2A, 5 and 6 of *BCOBS* (except for *BCOBS* 5.1.10AR to *BCOBS* 5.1.19 R) and *BCOBS* 4.3 and 4.4 apply to payment services where Parts 6 and 7 of the Payment Services Regulations apply.

...

...

1.1.5 R *BCOBS* 2.2A, *BCOBS* 2.2B, *BCOBS* 4.1.2G(2A) to (2E), (3A), (6A) and (6B), *BCOBS* 4.1.4AG(2)(a), *BCOBS* 4.4, *BCOBS* 5.1.3AG, *BCOBS* 5.1.3BG, *BCOBS* 5.1.5AR, *BCOBS* 5.1.5BG, *BCOBS* 5.1.13R, ~~and *BCOBS* 7~~ (except as applied by *BCOBS* 7.1.4R) and *BCOBS* 8 do not apply to a *credit union*.

...

#### 2 Communications with banking customers and financial promotions

...

##### 2.2 The fair, clear and not misleading rule

...

2.2.6 G A communication or a *financial promotion* that refers to sums available by way of an *authorised non-business overdraft agreement* should make clear that such sums constitute borrowing or credit.

...



After BCOBS 2.2A (Summary box for savings accounts) insert the following new section, BCOBS 2.2B. The text is not underlined.

**2.2B General information about overdrafts for personal current accounts**

- 2.2B.1 R (1) A *firm* must ensure that a *direct offer financial promotion* includes the information set out in *BCOBS 2.2B.2R* if:
- (a) it relates to an account, other than a current account mortgage which:
    - (i) is a payment account within the meaning of the *Payment Accounts Regulations*; and
    - (ii) does not fall within paragraph (2); and
  - (b) it is made in writing.
- (2) An account falls within this paragraph if it is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *banking customer* to overdraw on the account cannot arise; and
  - (b) either:
    - (i) the account cannot become overdrawn without prior arrangement; or
    - (ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and
  - (c) no charge is payable where the *firm* refuses a payment due to lack of funds.
- (3) In the case only of a *direct offer financial promotion* on paper, it is sufficient for the purposes of (1) if the *direct offer financial promotion* is accompanied by the required information on a separate sheet.
- 2.2B.2 R The information required by this *rule* is:
- (1) general information about overdrafts consisting of, so far as is relevant to the account or accounts that are the subject of the *direct offer financial promotion*:
    - (a) an explanation that an overdraft is a borrowing or credit facility;

- (b) a general description of the nature and principal features of arranged and unarranged overdrafts associated with the personal current accounts offered by the *firm*;
  - (c) a general explanation of the principal risks associated with:
    - (i) overdrawing without prior arrangement; and
    - (ii) opting out of an unarranged overdraft facility (if the *firm's* terms and conditions permit this).
  - (d) a general explanation of what may happen when a customer attempts to exceed an arranged overdraft limit or to overdraw in the absence of an arranged overdraft;
  - (e) a general explanation of how the use of an arranged or unarranged overdraft might impact a *banking customer's* credit file;
- (2) information about the availability of the following tools and how a *banking customer* can access them:
- (a) the overdraft cost calculator required by *BCOBS* 8.2; and
  - (b) (if *BCOBS* 8.3 applies to the *firm* in relation to the personal current account) the overdraft eligibility tool required by *BCOBS* 8.3.
- 2.2B.3 R (1) The information required to be included under *BCOBS* 2.2B.2R must be:
- (a) concise;
  - (b) in clear, simple language; and
  - (c) presented prominently.
- (2) The information required to be included under *BCOBS* 2.2B.2R must be presented together.
- 2.2B.4 G (1) A *firm* may consider including the following in the information included to comply with *BCOBS* 2.2B.2R(1):
- (a) that overdrafts are primarily intended for short-term borrowing and are not generally suitable for longer-term borrowing;
  - (b) an explanation of what an arranged overdraft is and how to request one;
  - (c) an explanation of what an unarranged overdraft is and how it might arise;

- (d) that use of an overdraft will or may give rise to interest or other charges (as applicable) and how a *banking customer* can find out more; and
  - (e) that attempting to exceed a credit limit or become overdrawn without a pre-arranged overdraft may result in items not being paid and that this will or may incur charges.
- (2) Where the nature and features of arranged and unarranged overdraft facilities associated with the accounts that are the subject of the *direct offer financial promotion* differ significantly between accounts, the *firm* should set out the ways in which they differ.
  - (3) The information provided under this chapter should be general in nature, but a *firm* may indicate where additional or more detailed information can be found.
  - (4) Information will not be treated as included prominently unless it is presented, having regard to other content it is presented alongside, in such a way that it is likely that the attention of the average *banking customer* would be drawn to it.
  - (5) The effect of *BCOBS 2.2B.1R(1)* is that the information must be incorporated in the *direct offer financial promotion* itself. It is not sufficient, for example, to include in a *direct offer financial promotion* that appears on a website a link to a separate page containing the information. *BCOBS 2.2B.1R(3)* provides a limited exception to this where a *direct offer financial promotion* is on paper, in which case the information may accompany the *direct offer financial promotion* as a separate document.

2.2B.5 G *Firms* are reminded that they will also need to comply with the *rules* in *CONC 3* (Financial promotions and communications with customers) where those *rules* apply.

After *BCOBS 2.3.9G* insert the following new provisions. The text is not underlined.

## 2.3 Other general requirements for communications and financial promotions

...

- 2.3.10 R (1) This *rule* applies to the communication of the balance of a payment account within the meaning of the *Payment Accounts Regulations*, other than a current account mortgage.
- (2) The communication must not include a figure described as “available funds”, “balance”, “available balance” or any similar expression that

includes both sums standing to the credit of the account and sums available under an *authorised non-business overdraft agreement* associated with the account.

- 2.3.11 G (1) *BCOBS 2.3.10R* does not prohibit a *firm* from disclosing sums available for drawdown under an *authorised non-business overdraft agreement* alongside a “balance”, “available funds” or “available balance” figure.
- (2) Where an account is overdrawn, *BCOBS 2.3.10R* does not prohibit a *firm* from describing as a “balance” a negative figure that represents the amount by which the account is overdrawn.

...

After *BCOBS 4.3* (Information to be provided by a non ring-fenced body to individual account holders) insert the following new section, *BCOBS 4.4*. The text is not underlined.

#### **4 Information to be communicated to banking customers**

...

#### **4.4 Further information to be provided about personal current accounts**

Application

- 4.4.1 R (1) The *rules* in this section apply to a *firm* that offers personal current accounts, unless all personal current accounts offered by the *firm* are excluded accounts.
- (2) In this section, a “personal current account” means an account, other than a current account mortgage, which is a payment account within the meaning of the *Payment Accounts Regulations* (see *BCOBS 4.4.2G(1)*).
- (3) In this section, an “excluded account” is a personal current account that is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *banking customer* to overdraw on the account cannot arise; and
  - (b) either:
    - (i) the account cannot become overdrawn without prior arrangement; or

(ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and

(c) no charge is payable where the *firm* refuses a payment due to lack of funds.

4.4.2 G (1) The definition of “personal current account” refers to the definition of a “payment account” under the *Payment Accounts Regulations*, that is: “an account held in the name of one or more consumers through which consumers are able to place funds, withdraw cash and execute and receive payment transactions to and from third parties, including the execution of credit transfers, but does not include any of the following types of account provided that the account is not used for day-to-day payment transactions: savings accounts; credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt; current account mortgages or e-money accounts”. The *FCA* has issued guidance on this definition: see ‘FG16/6 – Payment Accounts Regulations 2015’.

[**Note:** <https://www.fca.org.uk/publications/finalised-guidance/fg16-6-payment-accounts-regulations-2015-definition-payment-account>]

(2) The definition of “excluded account” captures personal current accounts where there cannot be a pre-arranged overdraft facility, there cannot be an unarranged overdraft to which interest or charges apply and charges for refusing a payment due to lack of funds cannot arise.

(3) *Firms* are reminded that additional requirements apply in relation to *consumer credit lending* under *CONC 4* (Pre-contractual requirements).

Further information to be communicated to applicants for a personal current account

4.4.3 R A *firm* that this section applies to must communicate to a *banking customer* who applies for a personal current account that is not an excluded account:

(1) general information about overdrafts consisting of, so far as relevant to the account applied for:

(a) an explanation that an overdraft is a borrowing or credit facility;

(b) a general description of the nature and principal features of arranged and unarranged overdrafts associated with the personal current accounts offered by the *firm*;

(c) a general explanation of the principal risks associated with:

- (i) overdrawing without prior arrangement; and
  - (ii) opting out of an unarranged overdraft facility (if the *firm's* terms and conditions permit this).
- (d) a general explanation of what may happen when a customer attempts to exceed an arranged overdraft limit or to overdraw in the absence of an arranged overdraft;
- (e) a general explanation of how the use of an arranged or unarranged overdraft might impact the *banking customer's* credit file;
- (2) information about the availability of the following tools and how the *banking customer* can access them:
- (a) the overdraft cost calculator required by *BCOBS* 8.2; and
  - (b) (if *BCOBS* 8.3 applies to the *firm* in relation to the personal current account) the overdraft eligibility tool required by *BCOBS* 8.3; and
- (3) general information about reductions in arranged overdraft limits including:
- (a) whether the *banking customer* can request the reduction or removal of their arranged overdraft facility after the personal current account has been opened;
  - (b) how the *banking customer* can do this; and
  - (c) any limitations or conditions on the *banking customer's* ability to do this.

4.4.4 R A *firm* that is required to provide alerts relating to the personal current account or chooses to do so must communicate to a *banking customer* who applies for a personal current account:

- (1) a description of any alerts that the *banking customer* will automatically receive, including any alerts required under the *rules* in *BCOBS* 8.4;
- (2) a description of any (or any additional) alerts the *banking customer* may choose to receive;
- (3) an explanation of how alerts can assist the *banking customer* to manage overdraft use and associated costs; and
- (4) information about the availability of any options to customise the alerts the *banking customer* receives to suit the *banking customer's* needs, and the methods available for doing so.

- 4.4.5 R Where the *banking customer* applies for a personal current account without at the same time applying for a pre-arranged overdraft, a *firm* need not communicate the information set out in *BCOBS* 4.4.3R(2)(b) and (3).
- 4.4.6 R A *firm* must communicate the information required by *BCOBS* 4.4.3R and *BCOBS* 4.4.4R to a *banking customer* who already holds a personal current account with a *firm* and who subsequently applies for a pre-arranged overdraft as though they were a *banking customer* applying for a personal current account.
- 4.4.7 G (1) A *firm* may consider including the following in the information communicated to comply with *BCOBS* 4.4.3R(1):
- (a) that overdrafts are primarily intended for short-term borrowing and are not generally suitable for longer-term borrowing;
  - (b) an explanation of what an arranged overdraft is and how to request one;
  - (c) an explanation of what an unarranged overdraft is and how it might arise;
  - (d) that use of an overdraft will or may give rise to interest or other charges (as applicable) and how the *banking customer* can find out more; and
  - (e) that attempting to exceed a credit limit or become overdrawn without a pre-arranged overdraft may result in items not being paid and that this will or may incur charges.
- (2) Where the nature and features of arranged and unarranged overdrafts associated with the personal current accounts offered by the *firm* differ significantly between accounts, the *firm* may either set out the ways in which they differ or communicate only the information specific to the type of account the *banking customer* has applied for or is eligible for (if known).
- (3) The information communicated under this section should be general in nature, but a *firm* may indicate where additional or more detailed information can be found.

#### Method and timing of communication

- 4.4.8 R (1) Except as otherwise provided in this *rule*, a *firm* must communicate the information required under *BCOBS* 4.4.3R to 4.4.6R by providing it to the *banking customer* before the conclusion of the agreement for the personal current account, except and in so far as the information has been made available to the *banking customer* in accordance with (2).

- (2) Information is made available to a *banking customer* in accordance with this paragraph if it is presented in such a way that it must have been viewed by the *banking customer* before making an application.
  - (3) A *firm* must consider the point during the application at which the information will be most relevant and useful to a *banking customer* and provide the information at that time where practicable.
  - (4) Where the personal current account is opened using a means of distance communication which prevents the *firm* from complying with (1), for example by voice telephony, a *firm* may instead provide the information as soon as practicable after the agreement for the personal current account is concluded.
- 4.4.9 G
- (1) The effect of *BCOBS* 4.4.8R is that all *banking customers* who open a personal current account other than an excluded account will receive the information required by *BCOBS* 4.4.3R to 4.4.6R either before, during or immediately after the account opening process.
  - (2) Where the *firm's* website or mobile application constitutes or includes a *direct offer financial promotion* in relation to the personal current account, the information required by *BCOBS* 4.4.3R(1) and (2) should have been included in this material in accordance with *BCOBS* 2.2A. If that material is published in such a way that a potential *banking customer* will view it before they commence their application, the *firm* need not communicate it again.
  - (3) The provision of an application form to a *banking customer* is an opportunity to provide the information required by this section. A *firm* that provides paper application forms for its personal current accounts to *banking customers* should consider whether to supply the information required by *BCOBS* 4.4.3R to 4.4.6R alongside the application form, or whether a more appropriate opportunity to supply some or all of it will arise before the account being opened.
  - (4) The following are examples of appropriately-timed disclosures during an application process:
    - (a) providing the information required by *BCOBS* 4.4.3R(2) (about available calculators) at an early stage in the process to allow the *banking customer* to assess the suitability of the personal current account before completing the application;
    - (b) where a *firm* allows a *banking customer* to customise alerts during the application process, providing the information in *BCOBS* 4.4.4R when offering that opportunity; and
    - (c) where a *firm* allows a *banking customer* to select whether to apply for an arranged overdraft during the application process,



providing the information in *BCOBS* 4.4.3R(3) when offering that opportunity.

- 4.4.10 R (1) The information required to be communicated under *BCOBS* 4.4.3R to 4.4.6R must be communicated in writing and be:
- (a) concise;
  - (b) in clear, simple language; and
  - (c) presented prominently.
- (2) The information required to be communicated under *BCOBS* 4.4.3R(1) must be presented together.
- 4.4.11 G (1) Information will not be treated as presented prominently unless it is presented, having regard to other content it is presented alongside, in such a way that it is likely that the attention of the average *banking customer* would be drawn to it.
- (2) When providing information electronically, information is unlikely to be presented prominently if all that is provided is a link to a separate webpage where it can be viewed, or the option to download and open a separate file containing it.
- (3) Although the information is required to be in writing, it is not required to be in a *durable medium*.

Information about overdrafts to be made generally available

- 4.4.12 R (1) A *firm* must make available general information about overdrafts covering the information required to be communicated under *BCOBS* 4.4.3R(1) for each of the trading names under which it offers personal current accounts other than excluded accounts in either or both of the following ways:
- (a) by publishing it in writing in an easily accessible place on the website of the brand; and
  - (b) by publishing it in writing in an easily accessible way through a mobile banking application associated with the brand.
- (2) A *firm* should choose how and where to make available the general information required under this *rule* so as to be consistent with how it ordinarily communicates with its *customers*. It should select a method most likely to come to the attention of its *customers* and potential *customers*.
- (3) A *firm* that makes the information required under this *rule* available only through a mobile telephone application must refer on the

website of the brand to the availability of such information through that application.

- (4) *BCOBS 4.4.7G*, *BCOBS 4.4.10R* and *BCOBS 4.4.11G(1)* apply to information required to be published under this *rule* as they apply to information required to be communicated under *BCOBS 4.4.3R(1)*.

- 4.4.13 G Where the *firm* is subject to *BCOBS 8.2* (Cost calculator) or *BCOBS 8.4* (Eligibility calculator) it will be required to make these tools available, or publish a reference to their availability, alongside the information required to be published under *BCOBS 4.4.12R* (see *BCOBS 8.2.3R* and *BCOBS 8.3.3R*).

After *BCOBS 7* (Information about current account services) insert the following new chapter, *BCOBS 8*. The text is not underlined.

## **8 Tools for personal current account customers**

### **8.1 General and application**

Special terms used in this chapter

- 8.1.1 R (1) A “personal current account” means an account, other than a current account mortgage, which is a payment account within the meaning of the *Payment Accounts Regulations* (see *BCOBS 8.1.2G(1)*);
- (2) A “private bank” is a *bank* or *building society* or an operationally distinct brand of such a *firm* over half of whose personal current account customers are eligible individuals within the meaning of article 9 of the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (SI 2014/1960) or meet the condition in paragraph (3) of that article (see *BCOBS 7.1.5G(2)*).
- (3) An “excluded account” is a personal current account that is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *banking customer* to overdraw on the account cannot arise; and
  - (b) either:
    - (i) the account cannot become overdrawn without prior arrangement; or
    - (ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and

- (c) no charge is payable where the *firm* refuses a payment due to lack of funds.
- (4) an “arranged overdraft” is the facility provided for in an *authorised non-business overdraft agreement* that is a *regulated credit agreement*.
- (5) an “unarranged overdraft” is a *regulated credit agreement* that arises as a result of:
  - (a) a personal current account becoming overdrawn in the absence of an arranged overdraft; or
  - (b) the *firm* making available to the *banking customer* funds which exceed the limit of an arranged overdraft.

- 8.1.2 G (1) The definition of “personal current account” refers to the definition of a “payment account” under the *Payment Accounts Regulations*, that is: “an account held in the name of one or more consumers through which consumers are able to place funds, withdraw cash and execute and receive payment transactions to and from third parties, including the execution of credit transfers, but does not include any of the following types of account provided that the account is not used for day-to-day payment transactions: savings accounts; credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt; current account mortgages or e-money accounts”. The *FCA* has issued guidance on this definition: see ‘FG16/6 – Payment Accounts Regulations 2015’.

[**Note:** <https://www.fca.org.uk/publications/finalised-guidance/fg16-6-payment-accounts-regulations-2015-definition-payment-account>]

- (2) The definition of “personal current account” for the purposes of this chapter is different to that used in *BCOBS 7*, because “premium service accounts” as defined in *BCOBS 7* are not excluded from the definition of a personal current account in this chapter.

#### Purpose

- 8.1.3 G This chapter requires a *firm* to:
- (1) make available a cost calculator tool on its website or mobile telephone application in accordance with *BCOBS 8.2*;
  - (2) make available an overdraft eligibility tool on its website or mobile telephone application in accordance with *BCOBS 8.3*; and
  - (3) provide alerts to personal current account *banking customers* about their personal current account usage in accordance with *BCOBS 8.4*.

#### Who and what?

- 8.1.4 R (1) This chapter applies to a *firm* that provides or offers to provide personal current accounts with respect to the provision of *retail banking services*, arranged overdrafts and unarranged overdrafts in connection with those accounts.
- (2) This chapter does not apply to a *firm* if all personal current accounts provided or offered by the *firm* are excluded accounts.
- (3) This chapter does not apply to a private bank.
- 8.1.5 G (1) In accordance with *BCOBS* 1.1.5R this chapter does not apply to a *credit union*.
- (2) *BCOBS* 8.3 (overdraft eligibility tool) applies:
- (a) to a *firm* in relation to a trading name if 70,000 or more personal current accounts are held with the *firm* under that trading name, unless all personal current accounts provided or offered by the *firm* under that trading name are excluded accounts; and
- (b) to any other *firm* to which this chapter applies and that chooses to offer an overdraft eligibility tool.
- (3) *BCOBS* 8.4 (Alerts) applies to a *firm* in relation to a trading name if 70,000 or more personal current accounts are held with the *firm* under that trading name.
- (4) *BCOBS* 8.4 (Alerts) continues to apply to a *firm* in relation to some personal current accounts if the number of personal current accounts held with the *firm* falls below 70,000 but the *firm* has previously informed *customers* they will receive alerts, in accordance with *BCOBS* 8.4.6R.

Where?

- 8.1.6 G *BCOBS* applies only to the activity of *accepting deposits* from *banking customers* carried on from an establishment maintained by a *firm* in the *United Kingdom*, and activities connected with that activity (see *BCOBS* 1.1.1R). This chapter does not therefore apply to activities carried on from *branches* outside the *United Kingdom*.

## 8.2 Cost calculator

Application

- 8.2.1 R This section applies to a *firm* that provides or offers to provide personal current accounts unless all personal current accounts provided or offered by the *firm* are excluded accounts.

8.2.2 G In accordance with *BCOBS* 1.1.5R this chapter does not apply to a *credit union*.

Requirement to provide a cost calculator tool

- 8.2.3 R (1) A *firm* must make publicly available a tool that enables a *banking customer* or potential *banking customer* to easily calculate the cost of overdrawing on personal current accounts other than excluded accounts offered by the *firm* (a “cost calculator”).
- (2) The cost calculator must be made available continuously on the website of each trading name under which the *firm* offers or provides personal current accounts other than excluded accounts in a prominent and easily accessible location, except in the circumstances provided for in (3).
- (3) A *firm* that offers personal current account opening services exclusively through a mobile telephone application may instead make the cost calculator required under this *rule* available through that mobile telephone application, but must refer prominently on its website to the availability of the tool through that application.
- (4) A *firm* should choose how and where to make the cost calculator available so as to be consistent with how it ordinarily communicates with its *customers* and select a method most likely to come to the attention of its *customers* and potential *customers*.
- (5) The cost calculator or the reference to it must be published on the *firm's* website alongside the information required to be published under *BCOBS* 4.4.12R.
- (6) The cost calculator for each trading name must cover the costs of overdrawing on:
- (a) each of the personal current account products offered under that trading name to *banking customers* seeking to open a new current account; and
  - (b) any other personal current accounts no longer offered under that trading name but that continue to be held by *banking customers* of the *firm* under that trading name.
- 8.2.4 R (1) The cost calculator must allow the *banking customer* to easily input or select from an appropriate and representative range:
- (a) an amount borrowed;
  - (b) a number of days for which the amount is to be borrowed; and
  - (c) (where the terms relating to different personal current accounts offered by the *firm* under a particular trading name would result

in different outputs from the cost calculator) the particular type of personal current account the *banking customer* wants to model.

- (2) The cost calculator must allow the *banking customer* to choose to:
  - (a) select whether the amount is to be borrowed under an *authorised non-business overdraft agreement* or without prior arrangement; and
  - (b) alternatively, input an arranged overdraft limit and input an amount borrowed that exceeds that limit.
- (3) The cost calculator must automatically output the following information:
  - (a) confirmation of the amount and duration of borrowing the calculation is based on;
  - (b) the total sum (rounded to the nearest £0.01) of interest and charges that the *banking customer* would incur if they overdraw by the amount selected for the duration selected; and
  - (c) (where the borrowing includes both borrowing under an *authorised non-business overdraft agreement* and borrowing without prior arrangement) the sum of the charges referred to in (b) that relate to borrowing under an unarranged overdraft (rounded to the nearest £0.01).
- (4) A *firm* must not require a *banking customer* to input information other than that set out in (1) and (2) to obtain an output from the cost calculator unless that additional information is necessary to enable the *firm* to calculate the outputs required by (3), having regard to the assumptions required to be made under *BCOBS 8.2.6R*.
- (5) A *firm* whose cost calculator requires additional information in accordance with (4) must provide clear explanations that are readily accessible from the cost calculator about how to ascertain the additional details required.

- 8.2.5 G
- (1) A *firm* should ensure that the range of inputs available to a *banking customer* for the amount borrowed and the length of borrowing is representative of the range of borrowing amounts and durations that arise in practice under arranged overdrafts and unarranged overdrafts on the personal current account product in question.
  - (2) The cost calculator should clearly communicate any limitations to the valid range of inputs.
  - (3) A *firm* is not required to provide a continuous range of inputs for either the amount borrowed or the length of borrowing. If a *firm* chooses not to provide a continuous range of inputs it should ensure

that it makes available sufficiently granular options that are representative of the borrowing amounts and durations that arise in practice under arranged overdrafts and unarranged overdrafts on the personal current account product in question.

- (4) A *firm* has flexibility as to the presentation of the cost calculator and the method or methods of input selected. When designing the cost calculator, a *firm* should have regard to the ease with which a *banking customer* can use the tool. For example, a sliding horizontal bar is likely to be more easily accessible than a drop-down menu holding a large number of options.
- (5) The outputs of the cost calculator should include the amounts of any interest or charges incurred in respect of the period even where those charges do not become due for payment until after the end of the period.
- (6) The outputs of the cost calculator should not include the amounts of any charges payable by the *banking customer* for the operation of the personal current account whether or not the *banking customer* is overdrawn.

#### Assumptions

- 8.2.6 R (1) For the purpose of arriving at the output of the cost calculator, a *firm* must assume that:
- (a) the amount borrowed is drawn down in full at noon on the date of calculation;
  - (b) the period specified by the user is a continuous period starting at noon on the date of calculation;
  - (c) at the time the borrowing is drawn down, the balance of the personal current account is £0.00;
  - (d) no credits will be made to the account during the period;
  - (e) any charges and interest relating to the borrowing being modelled will be debited from the account in accordance with the terms and conditions of the personal current account and will not be waived;
  - (f) no other debits will be made from the account during the period;
  - (g) the outstanding balance of capital, interest and other charges will be repaid in full at noon on the last day of the period;
  - (h) in the case of an *authorised non-business overdraft agreement* allowing variations in:

- (i) the rate of interest; or
- (ii) any other charge,

unless any variation can be quantified at the time of calculation, it must be assumed that these will remain unchanged during the period; and

- (i) (in so far as the terms of the personal current account allow for a monthly or other periodic charging period that will or may influence the charges required to be calculated):
  - (i) (where the start date of the period may vary between *banking customers*) that the cost calculator is being used on the first day of any such period; or
  - (ii) (in any other case) that the *banking customer* has not previously overdrawn the personal current account during that periodic charging period.
- (2) Where a *firm* determines the rate of interest or level of other charges that apply to an agreement with a *banking customer* on a case-by-case basis by reference to specific features of the individual application, the cost calculator tool is not required to collect or take into account all of the customer-specific information that the *firm* would need to make that determination.
- (3) If, in the circumstances described in (2), the cost calculator does not collect all of the information that the *firm* would need to determine the actual rate of interest or level of other charges that would apply:
  - (a) the *firm* may allow a *banking customer* who is an existing *customer* of the firm to select or input the actual interest rate or level of other charges that applies to their existing agreement if it is for a product that is the same or comparable to the one selected for the purpose of the calculation; and
  - (b) the *firm* must otherwise base the cost calculation on an interest rate or level of other charges that is no more favourable to the customer than the terms the *firm* reasonably expects to offer to 51% of *banking customers* applying for the relevant personal current account.

### 8.3 Eligibility tool

#### Application

- 8.3.1 R (1) This section, apart from *BCOBS* 8.3.2R, applies to a *firm* in relation to a trading name if:



- (a) 70,000 or more personal current accounts are held with the *firm* under that trading name; and
  - (b) the *firm* offers personal current accounts other than excluded accounts under that trading name.
- (2) *BCOBS* 8.3.2R applies to a *firm* that this chapter applies to: see *BCOBS* 8.1.4R, *BCOBS* 8.1.5G and *BCOBS* 8.1.6G.

8.3.2 R A *firm* must not publish a tool that purports to perform the function of an eligibility tool as described in *BCOBS* 8.3.3R(1) unless the *firm* complies with the *rules* in this section as though the *firm* were a *firm* to which this section (apart from this *rule*) applied in respect of that tool.

Publishing an eligibility tool for arranged overdrafts

- 8.3.3 R (1) A *firm* must make available a tool that enables a potential *banking customer* to obtain an indication tailored to the individual circumstances of that *banking customer* of the likelihood that the *firm* would offer an arranged overdraft of a particular amount to that *banking customer* if the *banking customer* opened a personal current account with the *firm* (“the eligibility tool”):
- (a) for each trading name to which this section applies; and
  - (b) beginning on the day one year after the first time 70,000 or more personal current accounts are held with the *firm* under that trading name.
- (2) A *firm* must make the eligibility tool available continuously and in an easily accessible location on the website for each trading name in respect of which this section applies except in the circumstances provided for in (3).
- (3) A *firm* that offers personal current account opening services exclusively through a mobile telephone application may instead make the eligibility tool required under this *rule* available through that mobile telephone application, but must refer prominently on its website to the availability of the tool through that application.
- (4) A *firm* should choose how and where to make the eligibility tool available so as to be consistent with how the *firm* ordinarily communicates with its *customers* and select a method most likely to come to the attention of its *customers* and potential *customers*.
- (5) The eligibility calculator or the reference to it must be published on the *firm’s* website alongside the information required to be published under *BCOBS* 4.4.12R.
- (6) A *firm* must either:

- (a) present the eligibility tool together with the cost calculator required under *BCOBS* 8.2; or
- (b) include in close proximity to the eligibility tool a prominent indication of the existence of the cost calculator required under *BCOBS* 8.2 and a link enabling a *banking customer* to access that cost calculator.

8.3.4 R The eligibility tool must be accompanied by a prominent statement that:

- (1) the output of the eligibility tool is dependent on the accuracy of the information input by the *banking customer*;
- (2) the output of the eligibility tool is indicative only and does not guarantee that the *banking customer* will be offered an arranged overdraft of the amount selected or at all;
- (3) any overdraft offered by the *firm* will depend upon a full eligibility assessment that may affect whether the *banking customer* is able to obtain an arranged overdraft and of what amount; and
- (4) use of the eligibility tool will not adversely affect the *banking customer's* credit file.

#### Inputs to the eligibility tool

- 8.3.5 R
- (1) The eligibility tool must allow the *banking customer* to input or select the level of arranged overdraft that the *banking customer* wants to obtain an indication of likelihood of eligibility for.
  - (2) The eligibility tool may require the *banking customer* to:
    - (a) input such personal details as the *firm* specifies; and
    - (b) consent to the *firm* conducting a *credit reference agency* search in respect of the *banking customer* of a kind that will not leave evidence of an application on the *banking customer's* credit file.
  - (3) The eligibility tool must enable a *banking customer* to assess eligibility for different overdraft amounts on the same occasion without re-entering other information.
  - (4) The eligibility tool may limit the amount that can be entered under
    - (1). Any limit imposed by the tool must be no lower than:
      - (a) £5,000; or
      - (b) (if lower) the largest credit limit that the *firm* is willing to offer to any *banking customer* by way of arranged overdraft associated with a personal current account.

- 8.3.6 G (1) A *firm* is not required to provide a continuous range of inputs for the level of arranged overdraft that the *banking customer* wants to obtain an indication of likelihood of eligibility for. If a *firm* chooses not to provide a continuous range of inputs it should ensure that it makes available sufficiently granular options that are representative of the levels of arranged overdraft that it offers in practice.
- (2) A *firm* that chooses to limit the amount that can be entered under BCOBS 8.3.5R(1) should make clear to *banking customers* whether that amount represents the maximum overdraft they may be eligible for and, if not, whether and how the *banking customer* can find out about their eligibility for a greater overdraft amount.

8.3.7 R A *firm* must not, without the *banking customer's* consent, use the information input into the eligibility tool by the *banking customer* for any purpose other than:

- (1) generating the output of the eligibility calculator;
- (2) monitoring the accuracy of the eligibility calculator; or
- (3) monitoring, preventing and detecting financial crime.

Outputs of the eligibility tool

8.3.8 R The output of the eligibility tool must be provided promptly and must:

- (1) represent a reasonable estimate by the *firm* of the probability that it would offer the *banking customer* an overdraft of the amount selected if the *banking customer* were to apply for it; and
- (2) be communicated in a clear, fair and not misleading way.

- 8.3.9 G (1) A *firm* may choose how to present the output of the eligibility tool, provided the format chosen is fair, clear and not misleading. For example, the output may be given as a percentage, a qualitative description or graphical representation.
- (2) The output should adequately represent the range of likelihood of approval. In particular any graphical representation suggesting a spectrum of likelihood of approval, such as a dial or an indicator along a bar, should represent the full range of likelihoods of approval ranging from certain refusal to certain acceptance, even if in practice no *banking customer* will fall at either extreme of the scale.
- (3) The probability of a *banking customer* being offered an overdraft should be assessed having regard to the proportion of *banking customers* who are similar to the *banking customer* by reference to the factors assessed by the eligibility tool whom the *firm* reasonably expects would be offered an arranged overdraft of the amount selected.

Design and monitoring of the eligibility tool

- 8.3.10 R (1) A *firm* must have regard to its process for approving an overdraft for a *banking customer* when selecting the factors considered and process used by the eligibility tool to produce its output, but it is not required to duplicate that process.
- (2) A *firm's* eligibility tool must use only factors that:
- (a) could have a significant impact on:
    - (i) the likelihood of the *firm* approving a *banking customer* for an arranged overdraft; or
    - (ii) the amount of arranged overdraft approved;
  - (b) can be assessed in an automatic manner; and
  - (c) can be assessed based on information that:
    - (i) is readily available to the *banking customer* and proportionate to require prior to a full application being made;
    - (ii) is readily available to the *firm*; or
    - (iii) the *firm* can readily obtain by conducting a *credit reference agency* search in respect of the *banking customer* of a kind that does not leave evidence of an application on the *banking customer's* credit file.
- (3) A *firm* should select the information it requires a *banking customer* to provide when using the eligibility tool, and the factors considered and process used by the eligibility tool to produce its output so as to achieve a proportionate balance between:
- (a) the accuracy of the output of the tool; and
  - (b) the amount of information a *banking customer* is required to input.
- (4) A *firm* is not required to verify the accuracy of any information input by the *banking customer* into the eligibility tool.
- 8.3.11 G (1) A *firm* should approach the task of designing the eligibility tool in a proportionate, balanced and practical way so as to maximise the eligibility tool's utility to the *banking customers* who use it. A *firm* is not required to analyse every possible factor to produce the output of the eligibility tool.
- (2) A *firm* should only seek information from the *banking customer* or a *credit reference agency* where this is likely to have a significant

impact on the likelihood of the *banking customer* being offered an arranged overdraft or on the amount of arranged overdraft offered to the *banking customer*.

- (3) A *firm* should have regard to the fact that the *banking customer* may be using the eligibility tool to compare a number of providers and should avoid, where practical, requesting detailed information to an extent that is likely to discourage a *banking customer* from using the eligibility tool. A *firm* should consider whether less comprehensive information would be more appropriate for the purposes of the eligibility tool. For example, a *banking customer* is likely to be able to readily confirm their employment status or total income, but requiring a detailed breakdown of income and expenditure is likely to be disproportionate.

- 8.3.12 R (1) A *firm* must establish a process for monitoring the accuracy of the output of the eligibility tool.
- (2) A *firm* must review the factors considered and process used by the eligibility tool to produce its output whenever:
- (a) there is a material change to the *firm's* policies or processes for approving an overdraft; or
  - (b) the *firm's* monitoring of the eligibility tool reveals that the eligibility tool's outputs deviate to a significant degree from those expected.

- 8.3.13 G Examples of processes a *firm* could use to comply with *BCOBS* 8.3.12R(1) include:
- (1) periodically comparing the outcomes of samples of actual overdraft decisions with the outputs the tool would have generated for those *banking customers*; and
  - (2) periodically sampling *banking customers* who used the tool and subsequently applied for a personal current account to assess whether approval decisions correspond to those expected if the tool was accurate.

## 8.4 Alerts

### Application

- 8.4.1 R (1) Subject to *BCOBS* 8.4.2R this section applies to a *firm* in relation to personal current accounts held with the *firm* under a trading name if 70,000 or more personal current accounts are held with the *firm* under that trading name.

(2) This section does not apply to excluded personal current accounts.

8.4.2 R Where a *firm* has notified a *banking customer* in accordance with *BCOBS* 8.4.6R that they will receive alerts under this section in respect of a personal current account, this section continues to apply to the *firm* in respect of that personal current account, even if it would not apply to the *firm* under *BCOBS* 8.4.1R, until:

- (1) the *firm* has notified the *banking customer* in writing that they will no longer receive the alerts they were previously notified of; and
- (2) 28 *days* have elapsed since the *firm* sent the notification.

Automatic enrolment

8.4.3 R (1) Except as otherwise provided for in *BCOBS* 8.4.5R, a *firm* must ensure that in relation to each personal current account held by a *banking customer*, the *banking customer* is, by the date specified in (2), enrolled to receive:

- (a) arranged overdraft alerts in accordance with *BCOBS* 8.4.12R;
- (b) unarranged overdraft alerts in accordance with *BCOBS* 8.4.13R;
- (c) attempt to overdraw without prior arrangement alerts in accordance with *BCOBS* 8.4.15R; and
- (d) where *BCOBS* 8.4.16R applies, the additional alerts required under that *rule*.

(2) A *banking customer* is enrolled to receive alerts in relation to a personal current account when:

- (a) the *firm* has put in place arrangements that enable it to comply with this section; and
- (b) those arrangements are operational in respect of that personal current account.

(3) Where a personal current account is held by two or more *banking customers* jointly, a *firm* must enrol each *banking customer* in the alerts required under this section.

(4) A *firm* must comply with (1) not later than whichever is the latest of:

- (a) the day one year after the first time that 70,000 or more personal current accounts are held with the *firm* under that trading name;
- (b) three working days after the agreement for the personal current account is concluded;

- (c) where *BCOBS* 8.4.4R(1) applies, ten working days after:
  - (i) the *firm* obtains a mobile telephone number from the *banking customer*; or
  - (ii) if the *firm* provides alerts by push notification from a mobile banking application, the *banking customer* is able to receive alerts in this way; and
- (d) where a personal current account had no arranged overdraft at the time it was opened (and *BCOBS* 8.4.5R(2) therefore applied at that time) and an arranged overdraft was subsequently agreed in relation to that personal current account, three working days after the agreement for the arranged overdraft is concluded.

8.4.4 R (1) Where a *firm* is required to enrol a *banking customer* in alerts under this section but the *firm*:

- (a) does not hold a mobile telephone number for the *banking customer*; or
- (b) has reasonable grounds to believe that the mobile telephone number held in respect of the *banking customer* is no longer used by the *banking customer*;

the *firm* must take reasonable steps to obtain a mobile telephone number to which alerts may be sent to that *banking customer* within a reasonable time.

- (2) Before opening a new personal current account, a *firm* must:
  - (a) take reasonable steps to obtain the *banking customer's* mobile telephone number for the purposes of enrolling them in alerts relating to that personal current account; or
  - (b) where the *firm* already holds a mobile telephone number for the *banking customer*, seek the *banking customer's* confirmation that the mobile telephone number held by the *firm* is the *banking customer's* preferred mobile telephone number for the purposes of receiving alerts relating to that personal current account.
- (3) Where a *banking customer* declines to provide or confirm a mobile telephone number when requested to do so under (1) or (2) the *firm* must warn the *banking customer* that they will not be able to receive alerts about their overdraft use and as a result may incur avoidable charges.
- (4) This *rule* does not apply if:

- (a) the *firm* provides alerts by push notification from a mobile banking application and the *banking customer* is able to receive alerts in this way; or
- (b) the *banking customer* has elected to receive alerts in respect of that personal current account by an alternative means in accordance with *BCOBS* 8.4.8R(3).

Exceptions to automatic enrolment

- 8.4.5 R
- (1) A *firm* is not required to enrol a *banking customer* to receive alerts under *BCOBS* 8.4.3R in the circumstances set out in (2) to (4).
  - (2) A *firm* is not required to enrol a *banking customer* to receive arranged overdraft alerts in accordance with *BCOBS* 8.4.12R in respect of a personal current account that has no arranged overdraft.
  - (3) A *firm* is not required to enrol a *banking customer* to receive a particular type of alert in respect of a personal current account if that *banking customer* already receives an alert or alerts that perform at least an equivalent function.
  - (4) A *firm* is not required to enrol a *banking customer* to receive a particular alert in respect of a personal current account if that *banking customer* has previously requested not to receive an alert or alerts that perform at least an equivalent function.
  - (5) For the purposes of (4), a *banking customer* is not to be treated as having requested not to receive an alert merely because it has been previously offered to them.

Notification of enrolment

- 8.4.6 R
- (1) A *firm* must notify a *banking customer* who has been (or will be) enrolled to receive alerts that they have been (or will be) so enrolled.
  - (2) When giving such notification the *firm* must also inform the *banking customer* of any options available to customise the alerts the *banking customer* receives to suit the *banking customer's* needs and the method or methods available for doing so.

- 8.4.7 G
- A *firm* that has complied with *BCOBS* 4.4.4R when opening the personal current account will have complied with *BCOBS* 8.4.6R and need not provide a further notification to the *banking customer*.

Method for delivering alerts

- 8.4.8 R
- A reference in this section to an alert being sent in respect of a personal current account is to the *firm* completing all steps necessary to initiate the sending of an alert:



- (1) by SMS text message to the *banking customer's* mobile telephone number;
- (2) by push notification from a mobile banking application; or
- (3) by an alternative method if:
  - (a) that method provides for secure and reliable receipt by the *banking customer* in a comparable timeframe from the point when the *firm* sends the alert to the methods provided for in (1) or (2); and
  - (b) the *banking customer* has expressly and freely opted to receive alerts by way of such delivery method instead of the methods provided for in (1) or (2).

8.4.9 G An 'opt-out' or pre-filled check box to receive alerts by an alternative method would not satisfy the requirement in *BCOBS* 8.4.8R(3)(b) for the *banking customer* to have expressly and freely opted to receive alerts by an alternative method.

#### Customising alerts

- 8.4.10 R
- (1) A *firm* must put in place arrangements that allow a *banking customer* to choose not to receive the alerts required by *BCOBS* 8.4.12R, *BCOBS* 8.4.13R and *BCOBS* 8.4.16R.
  - (2) A *firm* may restrict a *banking customer's* ability to choose not to receive the alerts required by *BCOBS* 8.4.13R so that the *banking customer* can choose not to receive those alerts only if they also choose not to receive alerts under *BCOBS* 8.4.15R.
  - (3) A *firm* must ensure that any arrangements put in place for *banking customers* to choose not to receive alerts, or to otherwise customise alerts, are easily accessible free of charge, clear and straightforward.
  - (4) A *firm* must warn a *banking customer* who chooses not to receive some or all alerts that they will not receive alerts about their overdraft use and as a result may incur avoidable charges.
- 8.4.11 G
- (1) *BCOBS* 8.4.10R does not prevent a *firm* from allowing a *banking customer* to customise alerts in additional ways to that required by that *rule*.
  - (2) The effect of *BCOBS* 8.4.10R(1) and (2) is that a *firm*:
    - (a) need not allow a *banking customer* to opt out of receiving attempt to overdraw without prior arrangement alerts; and

- (b) may offer a combined opt out for attempt to overdraw without prior arrangement alerts and unarranged overdraft alerts, and not offer an independent opt out for each of these alerts.

A *banking customer* should be able to opt out of arranged overdraft alerts, or any additional alerts required under *BCOBS* 8.4.16R, regardless of the other alerts the banking customer chooses to receive.

- (2) Nothing in this section prohibits a *firm* from offering alerts additional to those required by this section, such as alerts sent when:
  - (a) the balance of the personal current account is low;
  - (b) the personal current account approaches the applicable overdraft limit; or
  - (c) there are insufficient funds to process a transaction at a particular time but the *firm* will attempt to process the transaction again.
- (3) A *firm* that provides alerts by push notification from a mobile banking application should take reasonable steps to enable it to detect circumstances where a *banking customer* has disabled push notifications, including otherwise than through the banking application, so as to enable it to either:
  - (a) continue to provide alerts by an alternative permitted method; or
  - (b) comply with *BCOBS* 8.4.10R(4).
- (4) A *firm* should continue to send the alerts required by the *rules* in this section unless the *banking customer* chooses not to receive them. If the *firm* is dealing with a *banking customer* who is in financial difficulty, in default, or otherwise vulnerable the *firm* may discuss with the *banking customer* whether they wish to continue receiving alerts under the *rules* in this section, but the choice of whether to do so should remain with the *banking customer*.

#### Arranged overdraft alerts

- 8.4.12 R (1) A *firm* must send an alert to a *banking customer* if the *firm*:
- (a) knows based on information available to it that the *banking customer's* personal current account is making use of arranged overdraft; or
  - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the *banking customer's* personal current account will make use of arranged overdraft that *day* in the absence of:

- (i) action by the *banking customer*; or
  - (ii) a transaction other than those the *firm* is aware of.
- (2) The alert must communicate to the *banking customer* in plain simple language:
- (a) the reason why the alert has been sent;
  - (b) that the *banking customer* will or may incur charges if they become or remain overdrawn, if this is the case.

Unarranged overdraft alerts

- 8.4.13 R (1) A *firm* must send an alert to a *banking customer* if the *firm*:
- (a) knows based on information available to it that the *banking customer's* personal current account has entered unarranged overdraft;
  - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the *banking customer's* personal current account will enter unarranged overdraft in the absence of:
    - (i) action by the *banking customer*; or
    - (ii) a transaction other than those the *firm* is aware of.
- (2) The alert must communicate to the *banking customer* in plain simple language:
- (a) the reason why the alert has been sent;
  - (b) that the *banking customer* will or may incur charges if they enter or remain in unarranged overdraft, if this is the case; and
  - (c) that the *banking customer* has a period of time during which they have an opportunity to take action to avoid or reduce charges, and specify:
    - (i) the actions which may be taken; and
    - (ii) the time by which the *customer* must take such action to reduce or avoid the charge or charges.
- 8.4.14 G (1) The period communicated under *BCOBS* 8.2.13R(2)(c) should give the *banking customer* as good an opportunity to take action to avoid or reduce charges as possible, having regard to:
- (a) the time when the alert is required to be sent;

- (b) the terms and conditions applicable to the personal current account; and
  - (c) the *firm's* obligations under:
    - (i) the *Payment Services Regulations*; and
    - (ii) *BCOBS 5.1.1R*.
- (2) *Firms* should keep in mind regulation 89 of the *Payment Services Regulations* (Value date and availability of funds). Where it applies, the alert must reflect that, if a payment is made in response to an alert and credited to the *firm's* account, the *firm* must give value for the payment on the same business day (as defined in the *Payment Services Regulations*) no matter how late in the business day the payment is credited to the *firm's* account.

[**Note:** Guidance on the concept of a business day is available in the FCA's Approach to Payment Services and Electronic Money document: <https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf>]

Attempt to exceed alerts

- 8.4.15 R (1) A *firm* must send an alert to a *banking customer* if the *firm*:
- (a) knows based on information available to it that the *banking customer* has incurred a charge for attempting to enter unarranged overdraft but has not entered unarranged overdraft because the *firm* declined to process the transaction; or
  - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, a situation described in (a) will occur that *day* in the absence of:
    - (i) action by the *banking customer*; or
    - (ii) a transaction other than those the *firm* is aware of.
- (2) The alert must communicate to the *banking customer* in plain simple language:
- (a) the reason why the alert has been sent; and
  - (b) that the *banking customer* has incurred or may incur charges, if this is the case.

Additional alerts where there are multiple arranged overdraft limits

- 8.4.16 R (1) This *rule* applies to a *firm* in relation to an *authorised non-business overdraft agreement* where the terms of that agreement provide for very significantly different levels of charge for credit in respect of

different tiers of drawdown under the facility, other than where one of the tiers is free of charge.

- (2) Where this *rule* applies, the *firm* must send an alert to the *banking customer* if the *firm*:
  - (a) knows based on information available to it that the *banking customer's* personal current account has entered a different tier of drawdown under the facility where very significant additional costs are associated with that tier of drawdown; or
  - (b) is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the circumstances in (a) will occur that *day* in the absence of:
    - (i) action by the *banking customer*; or
    - (ii) a transaction other than those the *firm* is aware of.
- (3) The alert must communicate to the *banking customer* in plain simple language:
  - (a) the reason why the alert has been sent;
  - (b) that the *banking customer* has incurred or may incur charges; and
  - (c) that the *banking customer* has a period of time during which they have an opportunity to take action to avoid or reduce charges, and specify:
    - (i) the actions which may be taken; and
    - (ii) the time by which the *banking customer* must take such action to reduce or avoid the charge or charges.

General provisions about the timing and content of alerts

- 8.4.17 R Where a *firm* has sent an alert under *BCOBS* 8.4.12R to 8.4.16R it is not required to send a further alert in respect of the same personal current account under the same *rule* unless, since the last alert under that *rule* was sent:
- (1) in respect of alerts sent under *BCOBS* 8.4.12R(1)(a), any arranged overdrawing has been repaid;
  - (2) in respect of alerts sent under *BCOBS* 8.4.12R(1)(b), either:
    - (a) the personal current account did not enter arranged overdraft on the *day* the alert was sent; or

- (b) the personal current account entered arranged overdraft but any arranged overdrawing has been repaid;
  - (3) in respect of alerts sent under *BCOBS* 8.4.13R(1)(a), any unarranged overdrawing has been repaid;
  - (4) in respect of alerts sent under *BCOBS* 8.4.13R(1)(b), either:
    - (a) the personal current account did not enter unarranged overdraft on the *day* the alert was sent; or
    - (b) the personal current account entered unarranged overdraft but any unarranged overdrawing has been repaid; or
  - (5) in respect of alerts sent under *BCOBS* 8.4.15R, the obligation to send the alert arises because of a further attempt to enter unarranged overdraft;
  - (6) in respect of alerts sent under *BCOBS* 8.4.16R(2)(a), any arranged overdrawing within the tier of drawdown that significant additional costs are associated with has been repaid; and
  - (7) in respect of alerts sent under *BCOBS* 8.4.16R(2)(b), either:
    - (a) the personal current account did not enter the tier of drawdown that significant additional costs are associated with on the *day* the alert was sent; or
    - (b) the personal current account entered that tier of drawdown but any arranged overdrawing within that tier has been repaid.
- 8.4.18 R (1) Subject to (2) to (4), a *firm* must send an alert required by this section as soon as practicable after the circumstances giving rise to the obligation to send the alert arise.
- (2) Where the obligation to send an alert or alerts is brought about by one or more scheduled payments, the *firm* must:
- (a) where the alert is required under *BCOBS* 8.4.13R or *BCOBS* 8.4.15R, send an alert no later than 10:00 am on the day when the obligation to send the alert arises;
  - (b) where the alert is required under *BCOBS* 8.4.12R or *BCOBS* 8.4.16R, send an alert no later than 12:00 midday on the day when the obligation to send the alert arises; and
  - (c) treat all scheduled payments due to be debited from the personal current account on a single *day* as a single transaction for the purposes of (3).
- (3) Where a transaction would, apart from this paragraph, give rise to an obligation to send multiple alerts under different *rules* in this section,

a *firm* must only send the alert most relevant to the anticipated final balance of the personal current account after the transaction.

- (4) Where a series of transactions that the *firm* becomes aware of in rapid succession would, apart from this paragraph, give rise to an obligation to send multiple alerts under different *rules* in this section, a *firm* may treat them as a single transaction for the purposes of (3).
- (5) Nothing in this section requires a *firm* to send an alert where doing so would be a breach of another regulatory requirement applicable to the *firm*.
- (6) In this *rule*, a “scheduled payment” is a payment where the *firm* has knowledge of both the amount and date of the payment on the *day* before it is to be debited from the personal current account.

- 8.4.19      G      (1) The purpose of the alerts in this section is to give *banking customers* notice of potential and actual arranged and unarranged overdraft use to enable them to:
- (a) take informed decisions about their personal current account use; and
  - (b) where possible, take action to avoid such use if it is not in their interests.
- (2) The *rules* in this section leave scope for *firms* to customise alerts to suit the method used to send them, the *firm*’s products, brands and customers.
- (3) The content required by the *rules* in this section is minimum content and *firms* may choose to include additional content in the alerts including information about:
- (a) the balance of the personal current account;
  - (b) the *banking customer*’s pre-arranged overdraft limit; and
  - (c) the amounts of charges that the *banking customer* will or may incur.
- (4) Certain accounts provide for arranged or unarranged borrowing to be free of charge in limited circumstances, or for certain amounts. This is a situation where the customer ‘may be charged’ for their overdraft use. Where this is the case, a *firm* that is required under the *rules* in this section to inform a *banking customer* that they will or may be charged should take care that the alert is fair, clear, and not misleading. In particular where the borrowing does not give rise to a charge the *firm* may:
- (a) inform the *banking customer* that they may be charged;

- (b) inform the *banking customer* that they will not be charged in the circumstances that have triggered the alert and set out the circumstances in which the *banking customer* may be charged in the future; or
  - (c) where the *firm* has put in place arrangements to provide a further alert to the *banking customer* if a charge arises in the future:
    - (i) make no reference to charges in the alert; or
    - (ii) inform the *banking customer* that they will not be charged based on the usage that has triggered the alert.
- (5) *Firms* should have regard to available evidence about the content and presentation that is most effective at engaging *banking customers* when designing the content and presentation of alerts in compliance with these *rules*.
- (6) The requirement to send alerts as soon as practicable in *BCOBS* 8.4.18R(1) does not preclude a *firm* from grouping alerts due to be sent to *banking customers* in ‘batches’, provided that alerts are sent at reasonable intervals.

...



## Annex B

### Amendments to the Consumer Credit sourcebook (CONC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### **3 Financial promotions and communications with customers**

...

#### **3.3 The clear fair and not misleading rule and general requirements**

...

Guidance on misleading introductions

3.3.11 G ...

[**Note:** paragraph 3.9p (box) of *CBG*]

Non-business overdraft agreements

3.3.12 G *A communication or a financial promotion that refers to sums available by way of an authorised non-business overdraft agreement should make clear that such sums constitute borrowing or credit.*

...

#### **3.5 Financial promotions about credit agreements not secured on land**

...

Total charge for credit and APR

3.5.13 R ...

Promotions relating to non-business overdraft agreements

3.5.14 G *A direct offer financial promotion made in writing and relating to a non-business overdraft agreement will also need to comply with the rules in BCOBS 2.2B (General information about overdrafts for personal current accounts) where those rules apply.*

...

#### **4 Pre-contractual requirements**

...

**4.7 Information to be provided ~~on entering a~~ in relation to current account agreement agreements**

...

Information on entering into current account

**4.7.2 R ...**

Additional requirements in relation to certain current accounts

**4.7.3 G** In addition to the *rules* in this section, *BCOBS* contains *rules* about information and tools to be provided to *customers* which may apply to *firms* that engage in *consumer credit lending* in connection with overdrafts on current accounts. In particular:

- (1) *BCOBS* 4.4 (Further information to be provided about personal current accounts) contains *rules* requiring certain *firms* that offer personal current accounts to provide information about overdrafts and other matters to applicants for certain types of current account, and to publish such information; and
- (2) *BCOBS* 8 (Tools for personal current account customers) contains *rules* requiring certain *firms* to make available tools to enable *banking customers* to:
  - (a) calculate the cost of overdrawing on a current account; and
  - (b) obtain an indication of the likelihood they will be approved for an *authorised non-business overdraft agreement* of a particular amount.

...

**6 Post contractual requirements**

...

**6.7 Post contract: business practices**

...

**6.7.40 G ...**

Authorised non-business overdraft agreements: reductions in credit limits

**6.7.41 R** A *firm* must provide an easy, efficient and prompt process by which a *borrower* under an *authorised non-business overdraft agreement* may request:

- (1) a reduction in the *credit limit* under that agreement; or

- (2) to terminate the *authorised non-business overdraft agreement* but retain the current account that it is associated with, where the terms of the agreement permit this.

6.7.42

G A *firm* is not required to approve all requests from a *borrower* to reduce their *credit limit* or to terminate their *authorised non-business overdraft agreement*. When considering such a request, a *firm* should have regard to its obligation to treat *customers* fairly. In many circumstances it would be unfair to require a *borrower* to retain an unwanted facility. The following are examples of when it may be fair to refuse a request:

- (1) the current account that the *authorised non-business overdraft agreement* is associated with is offered on terms that it must be associated with an *authorised non-business overdraft agreement*, or with an *authorised non-business overdraft agreement* with a particular credit limit; or
- (2) the *borrower's* indebtedness exceeds the reduced *credit limit* requested; or
- (3) the *borrower* has requested termination of an *authorised non-business overdraft agreement* but there are sums outstanding under that agreement.



# Appendix 2

## Draft Handbook Text

## PERSONAL CURRENT ACCOUNTS AND OVERDRAFTS INSTRUMENT 2019

### Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
  - (2) section 137C (FCA general rules: cost of credit and duration of credit agreements);
  - (3) section 137R (Financial promotion rules);
  - (4) section 137T (General supplementary powers); and
  - (5) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

### Commencement

- C. This instrument comes into force on [*date*] December 2019.

### Amendments to the Handbook

- D. The Conduct of Business sourcebook (BCOBS) is amended in accordance with Annex A to this instrument.
- E. The Consumer Credit sourcebook (CONC) is amended in accordance with Annex B to this instrument.

### Notes

- F. In Annex B to this instrument, the notes (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

### Amendment to instrument

- G. The Personal Current Accounts and Overdrafts (Information and Tools for Customers) Instrument 2018 (FCA 2018/52, as amended by FCA 2018/62) is amended as follows: replace the text of paragraph C with the following: “This instrument comes into force on [*date*] December 2019”.

### Citation

- H. This instrument may be cited as the Personal Current Accounts and Overdrafts Instrument 2019.

By order of the Board  
[*date*]

## Annex A

### Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 8 Tools for personal current account customers

...

#### 8.4 Alerts

...

##### Customising alerts

...

#### 8.4.11 G ...

(2) The effect of *BCOBS* 8.4.10R(1) and (2) is that a *firm*:

- (a) need not allow a *banking customer* to opt out of receiving attempt to overdraw without prior arrangement alerts; and
- (b) may offer a combined opt out for attempt to overdraw without prior arrangement alerts and unarranged overdraft alerts, and not offer an independent opt out for each of these alerts.

A *banking customer* should be able to opt out of arranged overdraft alerts, ~~or any additional alerts required under *BCOBS* 8.4.16R,~~ regardless of the other alerts the banking customer chooses to receive.

...

...

##### ~~Additional alerts where there are multiple arranged overdraft limits~~

- 8.4.16 R (1) ~~This rule applies to a *firm* in relation to an *authorised non-business overdraft agreement* where the terms of that agreement provide for very significantly different levels of charge for credit in respect of different tiers of drawdown under the facility, other than where one of the tiers is free of charge.~~
- (2) ~~Where this rule applies, the *firm* must send an alert to the *banking customer* if the *firm*:~~

- (a) ~~knows based on information available to it that the *banking customer's* personal current account has entered a different tier of drawdown under the facility where very significant additional costs are associated with that tier of drawdown; or~~
- (b) ~~is reasonably able to determine that, taking into account information it has access to on transactions due to be settled, the circumstances in (a) will occur that *day* in the absence of:~~
  - (i) ~~action by the *banking customer*; or~~
  - (ii) ~~a transaction other than those the *firm* is aware of.~~
- (3) The alert must communicate to the *banking customer* in plain simple language:
  - (a) ~~the reason why the alert has been sent;~~
  - (b) ~~that the *banking customer* has incurred or may incur charges; and~~
  - (c) ~~that the *banking customer* has a period of time during which they have an opportunity to take action to avoid or reduce charges, and specify:~~
    - (i) ~~the actions which may be taken; and~~
    - (ii) ~~the time by which the *banking customer* must take such action to reduce or avoid the charge or charges. [deleted]~~

#### General provisions about the timing and content of alerts

- 8.4.17 R Where a *firm* has sent an alert under *BCOBS* 8.4.12R to ~~8.4.16R~~ 8.4.15R it is not required to send a further alert in respect of the same personal current account under the same *rule* unless, since the last alert under that *rule* was sent:
- ...
- (5) in respect of alerts sent under *BCOBS* 8.4.15R, the obligation to send the alert arises because of a further attempt to enter unarranged overdraft; ~~;~~
  - (6) ~~in respect of alerts sent under *BCOBS* 8.4.16R(2)(a), any arranged overdrawing within the tier of drawdown that significant additional costs are associated with has been repaid; and [deleted]~~
  - (7) ~~in respect of alerts sent under *BCOBS* 8.4.16R(2)(b), either:~~

- (a) ~~the personal current account did not enter the tier of drawdown that significant additional costs are associated with on the *day* the alert was sent; or~~
- (b) ~~the personal current account entered that tier of drawdown but any arranged overdrawing within that tier has been repaid.~~  
[deleted]



[*Editor's note*: the text in this Annex takes account of the changes proposed in Appendix 1 to CP18/35 'Rent-to-own and alternatives to high-cost credit – feedback on CP18/12 and consultation on a price cap' (November 2018) as if they were made.]

## Annex B

### Amendments to the Consumer Credit sourcebook (CONC)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless indicated otherwise.

#### 3 Financial promotions and communications with customers

...

##### 3.1 Application

...

- 3.1.8 G *CONC 3.1.7R(1)* does not enable detailed information to be given about *credit* available from the *firm*. *Firms* should note that the image advertising exclusion in *CONC 3.1.7R(1)* is subject to compliance with the *rules* specified in (2), including the *rules* which require the inclusion of a *representative APR* in specified circumstances (although the *rules* in *CONC 3.5.9R* about the wording that must accompany a *representative APR* do not apply to image advertising). A name or logo may trigger the requirement to include a *representative APR*. *Firms* should not include any information not referred to in *CONC 3.1.7R(1)* and should avoid the use of names, logos or addresses, for example, which attempt to convey additional product or cost-related information.

...

##### 3.5 Financial promotions about credit agreements not secured on land

- 3.5.5 R ...

(7) *A financial promotion* for an *authorised non-business overdraft agreement* provided by a *firm* of a type listed in *CONC 5C.1.2R(2)* is not required to include a *representative APR*.

[**Note:** regulation 5(5) of *CCAR 2010*]

...

- 3.5.6 G ...

(1C) (a) The *guidance* in this provision is relevant to the calculation of the *APR* for an *authorised non-business overdraft agreement*. It is, therefore, also relevant to the calculation of the *representative*

APR in a financial promotion for an authorised non-business overdraft agreement.

- (b) This guidance relates to a situation where the terms and conditions that apply to an authorised non-business overdraft agreement provide that no interest or other charges are payable in relation to a drawing (authorised in advance) up to a specified amount (including in circumstances where the drawdown exceeds the specified amount). This is sometimes referred to as a “fee-free amount”.
- (c) Firms are reminded that CONC 5C.2.1R(7) prohibits certain types of fee-free amounts in relation to overdrafts where the benefit of the fee-free amount is liable to be lost in certain circumstances.
- (d) (i) For the purposes of calculating the total charge for credit and the APR, CONC App 1.2.5R (Assumptions for calculation) sets out various assumptions. A number of these assumptions apply “where necessary” to deal in a consistent and comparable way with factors that are not certain at the time the total charge for credit or APR is calculated.
- (ii) Where, however, the terms of a permissible fee-free amount that apply to an authorised non-business overdraft agreement are known at the time the APR is calculated (and the incidence of the benefit of the fee-free amount is certain if the overdraft is used), the APR calculation should reflect those terms. In that situation, it is unlikely to be necessary to make the assumption that the fee-free amount does not exist under CONC App 1.2.5R.
- (1D) (a) (i) This guidance is relevant to whether to include account fees in the calculation of the APR for an authorised non-business overdraft agreement. The type of account fee this guidance is intended to address is a periodic charge a customer is required to pay in order to obtain and maintain access to a personal current account that has an overdraft facility.
- (ii) CONC App 1.2.3R (Total charge for credit) provides that the costs of maintaining an account recording both payment transactions and drawdowns are included in the total cost of credit to the borrower. There is an exception to this principle (see CONC App 1.2.3R(3)) where: “(a) the opening of the account is optional and the costs of the account have been clearly and separately shown in the regulated credit agreement or in any other agreement with the borrower; (b) in the case of an overdraft facility the costs do not relate to that facility.”

(iii) Whether an account fee is required to be included in the calculation of an *APR* depends on whether the *credit* under the associated *authorised non-business overdraft agreement* can be obtained on the same terms without incurring the account fee. If an *authorised non-business overdraft agreement* is not available on the same equally favourable terms without the imposition of the fee, that fee is likely to be considered to “relate” to the overdraft facility.

(b) The following are examples of situations where it is likely an account fee should be included in the calculation of the *total charge for credit* and the *APR* for an *authorised non-business overdraft agreement*.

(i) A personal current account that is subject to an account fee, one of the features of which is an arranged overdraft facility with more favourable terms (for example, a lower interest rate) than those offered on accounts that do not require the payment of an account fee.

(ii) A firm that offers personal current accounts with associated arranged overdraft facilities in respect of all of which there is an account fee.

(c) A firm may offer a “packaged bank account” that is a composite product with a number of constituent elements, one of which is an overdraft facility, but others of which are different services. If there is a fee for an optional non-overdraft element of the package that the *customer* can avoid by choosing not to have that element of the package, and the *customer* can still have the overdraft element of the package on the same terms, that avoidable fee should not be included in the *APR* calculation.

...

(7) Other than in the case of an *authorised non-business overdraft agreement* provided by a firm of a type listed in *CONC 5C.1.2R(2)*, where a *financial promotion* for an *authorised non-business overdraft agreement* is required to include a representative example, one of the items that must be comprised in the example is the *representative APR*.

...

3.5.7 R ...

(1A) A *financial promotion* which states that a cash sum is available for opening an account, other than a current account mortgage, which is a payment account within the meaning of the *Payment Accounts Regulations* and which does not refer to the availability of *credit* under an *authorised non-business overdraft agreement* in connection with that

account must not be regarded as including an incentive to apply for credit or to enter into an agreement under which credit is provided for the purposes of (1)(c).

...

(3) This rule does not apply to a *financial promotion*:

(a) for an *authorised non-business overdraft agreement* provided by a firm of a type listed in CONC 5C.1.2R(2); or

...

3.5.8 G ...

(6) CONC 3.5.7R applies to a firm with respect to a financial promotion for an authorised non-business overdraft agreement except a firm of a type listed in CONC 5C.1.2R(2).

...

3.5.9 R In a *financial promotion*:

...

(2) where an *APR* is subject to change it must be accompanied by the word “variable”; ~~and~~

(3) the *representative APR* must be accompanied by the word “representative”; and

(4) that is:

(a) in writing; and

(b) for an authorised non-business overdraft agreement,

the representative APR must be accompanied by the following information:

(c) a statement as follows:

“How does our overdraft compare?”

(d) wording, in plain and intelligible language, that explains to customers that the purpose of a representative APR is to enable customers to compare the costs associated with different credit products; and

this information must be given reasonable prominence and be in sufficiently close proximity to the representative APR to make it reasonably apparent to customers that the relevant wording relates to the representative APR.

[**Note:** regulation of *CCAR 2010*]

3.5.9A    G    CONC 3.5.9R(4) applies only to *financial promotions* that are in writing. In accordance with *GEN 2.2.14R*, this means *financial promotions* that are in legible form and capable of being reproduced on paper, irrespective of the medium used. The *rule* does not, therefore, apply to a *financial promotion* communicated by means of television or radio broadcast.

...

Reporting to FCA by overdraft providers of representative APRs

- 3.5.14    R    (1)    Where a *firm* has, in the preceding 12 month period ending on 31 December, *communicated* or *approved* the communication of a *financial promotion* for an *authorised non-business overdraft agreement* that was published and included a *representative APR* the *firm* is required to report the information in (2).
- (2)    The *firm* must provide the following information in respect of each of its personal current account products that was the subject of one or more *financial promotions* falling within (1):
- (a)    the highest (or only) *representative APR* included in any of those *financial promotions*;
- (b)    (if different) the lowest *representative APR* included in any of those *financial promotions*; and
- (c)    where there were three or more different *representative APRs* included in those *financial promotions* and:
- (i)    the median of those *representative APRs* is equal to one of the *representative APRs*, the median; or
- (ii)    the median of those *representative APRs* is not equal to one of the *representative APRs*, the *representative APR* immediately above the median.
- (3)    The report required by (2) must be provided on an annual basis and must cover the preceding 12 month period ending on 31 December. It must be submitted within one *month* of the end of that reporting period by electronic mail to the published e-mail address of the *FCA's Central Reporting team*.

After CONC 5B (Cost cap for rent-to-own agreements) insert the following two new chapters as Chapters 5C and 5D. The text is not underlined.

**5C Overdraft pricing****5C.1 Application and purpose**

## Purpose

5C.1.1 G The purpose of this chapter is to:

- (1) require *firms* to implement and maintain overdraft charging structures that are simple, transparent and capable of easy comparison; and
- (2) forbid *firms* from obliging a *customer* to pay a rate of interest for an unarranged overdraft which exceeds the rate of interest for an arranged overdraft that is relevant to that *customer*.

## Who and what?

5C.1.2 R (1) Subject to (2), this chapter applies to a *firm* with respect to *consumer credit lending* and connected activities in relation to arranged overdrafts and unarranged overdrafts associated with personal current accounts.

(2) This chapter does not apply to:

- (a) a *firm* if all personal current accounts provided or offered by the *firm* are excluded accounts;
- (b) a private bank; or
- (c) a *credit union*.

## Where?

5C.1.3 R This chapter applies to a *firm* with respect to activities carried on from an establishment maintained by it in the *United Kingdom*.

**5C.2 Charges for overdrafts to be interest rates**

5C.2.1 R (1) A *firm* must not:

- (a) enter into an agreement with a *customer* that provides for an arranged overdraft charge or an unarranged overdraft charge; or
- (b) impose on a *customer* an arranged overdraft charge or an unarranged overdraft charge,

unless the conditions in (2) to (7) are satisfied.

(2) The charge must be a rate of interest expressed as a percentage.

(3) The rate of interest that applies to any given balance of arranged overdraft relating to a personal current account must either be zero or the

same as the rate of interest that applies to any other balance of arranged overdraft in respect of that personal current account.

- (4) The rate of interest that applies to any given balance of unarranged overdraft relating to a personal current account must either be zero or the same as the rate of interest that applies to any other balance of unarranged overdraft in respect of that personal current account.
- (5) A *firm* must not require a *customer* to pay more than one arranged overdraft charge or more than one unarranged overdraft charge arising out of the same event.
- (6) Where a *customer* has an arranged overdraft, in relation to a personal current account, to which a rate of interest above zero applies, any unarranged overdraft charge imposed on the *customer* in relation to that personal current account must also consist of a rate of interest computed, structured and presented in an identical manner (although the level of the rate of interest that applies to the unarranged overdraft may be lower).
- (7) If, in relation to an overdraft, a *firm* indicates to a *customer* that no interest is payable on the overdraft balance, or a tranche of the overdraft balance up to a specified amount, the *firm* must not have a contractual right to impose interest referable to that overdraft balance or tranche of the balance if it is exceeded or depending on whether or not certain conditions are met.

- 5C.2.2 G
- (1) The purpose of *CONC* 5C.2.1R is to permit a *firm* to impose an arranged overdraft charge or an unarranged overdraft charge on a *customer* only if the charge takes the form of a rate of interest.
  - (2) *CONC* 5C.2.1R does not affect an arranged overdraft charge or an unarranged overdraft charge, liability for which accrued before the date on which *CONC* 5C.2.1R came into force. *CONC* 5C.2.1R does affect, however, an arranged overdraft charge and an unarranged overdraft charge that became due on or after the date on which *CONC* 5C.2.1R came into force, irrespective of whether the arranged overdraft facility was granted or the agreement for the personal current account was made before or after the date on which *CONC* 5C.2.1R came into force.
  - (3) There has to be a single, uniform contractual rate of interest in respect of an individual *customer* that applies to any amount of arranged overdraft balance (other than any part of the balance that is free). This means that a *firm* may not have a graduated overdraft charging structure, where different rates of interest apply to specified tiers or bands of arranged overdraft balance, even if a higher band or tier is described as being intended for occasional emergency borrowing, or where lower or higher rates are contingent on certain behaviour, such as making or maintaining certain amounts or frequencies of deposits. A *firm* should not, for instance, calculate an arranged overdraft charge using a rate of 3 per cent per annum if the *customer* borrows £100 by way of arranged overdraft but use a rate of 5 per cent per annum if the *customer* borrows £300. A

*firm* may, however, vary a rate of interest rate using a contractual power of variation if it is fair, valid and enforceable.

- (4) Similarly, there has to be a single, uniform contractual rate of interest in respect of an individual *customer* that applies to any amount of unarranged overdraft balance (other than any part of the balance that is free), although this rate of interest may be lower than that which applies to an arranged overdraft balance.
- (5) A *firm* is not prevented from providing in the terms and conditions of the overdraft that no interest is payable in respect of arranged overdraft balances or unarranged overdraft balances of up to specified amounts (sometimes described as fee-free amounts or buffer zones) where permitted by *CONC 5C.2.1R*. The purpose of *CONC 5C.2.1R(7)* is to prevent *firms* from offering fee-free amounts or buffer zones that are free only in certain circumstances. An example of a buffer zone that is not permitted is where no interest is payable if an unarranged overdraft balance does not exceed the upper threshold of the buffer zone, but where interest becomes payable in respect of the entire balance (including the part of the balance in the buffer zone) if the *customer* exceeds the threshold.
- (6) A *firm* is not prevented from waiving or reducing overdraft charges (in whole or in part) in appropriate circumstances (for example, where the *firm* is treating a *customer* with forbearance in line with other *rules* in this sourcebook).
- (7) *CONC 5C.2.1R* does not prohibit the level of the single, uniform contractual rate of interest from differing from *customer* to *customer* or between personal current accounts for the same *customer*.
- (8) The definitions of an arranged overdraft charge and an unarranged overdraft charge are broad. These definitions capture any charges that arise because a *customer* has used an overdraft or that are triggered or the size of which is affected by the fact that the personal current account has entered, remains in, or extended, a debit position. They are not limited to charges that are described as financial consideration for the provision of *credit* and could include, for example, a charge that is expressed as being referable to the execution of the payment transaction that results in the account being in an overdrawn position. They do not catch, however, charges payable in respect of the *customer's* personal current account irrespective of whether or how much the *customer* uses an arranged overdraft or unarranged overdraft connected to the account. A monthly account charge could be an example of such a charge.
- (9) For the avoidance of doubt, *CONC 5C.2* does not require a *firm* to use a specific method of calculating a rate of interest or compounding frequency provided that a *firm* does not take a different approach in relation to a *customer's* arranged overdraft and unarranged overdraft in respect of the same personal current account.



- (10) *Firms* are reminded of the obligation in *CONC 3.5.3R(1)* to include a representative example (including the *representative APR*) in a *financial promotion* that indicates a rate of interest or an amount relating to the *cost of credit*. *Firms* are also reminded of the obligation in *CONC 3.5.7R(1)* to include in a *financial promotion* a *representative APR* if the *financial promotion* states or includes certain matters.
- (11) In *CONC 5C.2.1R(1)(b)*, “impose” an arranged overdraft charge or an unarranged overdraft charge includes creating the contractual right to receive it, and relying on, or enforcing, the contractual right or purporting to do so.

### **5C.3 Interest rates for unarranged overdrafts to be no more than the interest rates for arranged overdrafts**

- 5C.3.1 R (1) A *firm* must not:
- (a) enter into an agreement with a *customer* that provides for payment by the *customer* of an unarranged overdraft charge; or
  - (b) impose on a *customer*, who enters into an unarranged overdraft, an unarranged overdraft charge,
- unless the charge satisfies the conditions in (2) or (3) (as applicable).
- (2) (a) This sub-paragraph applies where:
- (i) the *customer* concerned has an arranged overdraft in connection with the personal current account; and
  - (ii) interest can become payable on some or all of the balance of that arranged overdraft.
- (b) The rate of interest that applies to the unarranged overdraft must not exceed the rate of interest referred to in (a)(ii) that applies to the arranged overdraft.
- (3) (a) This sub-paragraph applies where 2(a) does not apply.
- (b) The *firm* must take reasonable steps to identify the type of personal current account provided by it (referred to in this sub-paragraph as the “comparable account”):
- (i) that bears closest resemblance to the personal current account held by the *customer*;
  - (ii) in connection with which an arranged overdraft can arise:
    - (A) of an amount equivalent to the amount of the unarranged overdraft; and

- (B) that can attract the payment of interest; and
  - (iii) that has been made available to a significant number of its *customers*.
  - (c) The rate of interest that applies to the unarranged overdraft must not exceed the relevant rate of interest identified in (d).
  - (d) The relevant rate of interest for the purposes of (c) is:
    - (i) where there is only one rate of interest that applies to arranged overdrafts connected to the comparable account, that rate; or
    - (ii) where there are two or more rates of interest that apply to arranged overdrafts connected to the comparable account, the highest of those rates that is imposed on a not insignificant number of the *customers* to whom the account has been made available.
- 5C.3.2 R If a *firm* imposes an unarranged overdraft charge in contravention of *CONC* 5C.3.1R(1)(b), the obligation to pay the charge is unenforceable against the *customer* and the *customer* is entitled to recover any sum paid by, or on behalf of, the *customer* under the obligation imposed.
- 5C.3.3 G
- (1) The purpose of *CONC* 5C.3.1R is to forbid *firms* from charging a *customer* who borrows a particular amount using an unarranged overdraft facility more than they would have had to pay (disregarding any fee-free amount) if they had borrowed an equivalent amount using their arranged overdraft facility (or, if they do not have an arranged overdraft facility, the highest amount that would have been payable (disregarding any fee-free amount) by a not insignificant number of other *customers* if they had borrowed an equivalent amount under an arranged overdraft facility connected with a comparable personal current account).
  - (2) In *CONC* 5C.3.1R(1)(b), *CONC* 5C.3.1R(3)(d)(ii) and *CONC* 5C.3.2R, “impose” an unarranged overdraft charge includes creating the contractual right to receive it, and relying on, or enforcing, the contractual right or purporting to do so (“imposes” and “imposed” should be read accordingly).
  - (3) *CONC* 5C.3.1R does not affect an unarranged overdraft charge, liability for which accrued before the date on which *CONC* 5C.3.1R came into force. *CONC* 5C.3.1R does affect, however, an unarranged overdraft charge that became due on or after the date on which *CONC* 5C.3.1R came into force, irrespective of whether the agreement was made before or after the date on which *CONC* 5C.3.1R came into force.
  - (4) A *firm* is not prevented by *CONC* 5C.3.1R from charging a *customer* who borrows using an unarranged overdraft less than it charges the

*customer* for using an arranged overdraft facility or from not charging for such borrowing.

- (5) The *rules* in *CONC 5C.3.1R* (other than *CONC 5C.3.1R(1)(a)*) and *CONC 5C.3.2R* are made pursuant to section 137C of the *Act*.

#### **5C.4 Impact of changes to charging structures**

- 5C.4.1 R Where a *firm* makes a change to its charging structure in response to the *rules* and *guidance* set out in *CONC 5C*, the *firm* must ensure it considers the impact of that change on existing *customers*, including those with large arranged overdraft balances, and, where appropriate, treats such *customers* with forbearance and due consideration.
- 5C.4.2 G (1) A *firm* that makes changes as described in *CONC 5C.4.1R* should, in accordance with *Principle 6*, have due regard to the interests of existing *customers* and treat them fairly.
- (2) *Firms* are reminded that the purpose of the *rules* in *CONC 5D* is to require *firms* to identify and provide appropriate assistance to *customers* (including existing *customers* at the time *CONC 5D* becomes applicable) with a pattern of repeat overdraft use.

#### **5C.5 Interpretation**

- 5C.5.1 R In this chapter:
- (1) An “arranged overdraft” is the running-account facility provided for in an *authorised non-business overdraft agreement* that is a *regulated credit agreement*.
- (2) An “arranged overdraft charge” is a charge (by way of interest or otherwise) that a *firm* is contractually entitled to levy and that would not be due but for the fact that the *customer* has borrowed, or borrowed further or continues to borrow, using an arranged overdraft.
- (3) An “excluded account” is a personal current account that is offered on terms that:
- (a) an agreement which provides authorisation in advance for the *customer* to overdraw on the account cannot arise; and
- (b) either:
- (i) the account cannot become overdrawn without prior arrangement; or
- (ii) no charge is payable (by way of interest or otherwise) if the account becomes overdrawn without prior arrangement; and

- (c) no charge is payable where the *firm* refuses a payment due to lack of funds.
- (4) A “personal current account” means an account, other than a current account mortgage, which is a payment account within the meaning of the *Payment Accounts Regulations* (see *CONC 5C.5.2G(1)*).
- (5) A “private bank” is a *bank* or *building society* or an operationally distinct brand of such a *firm* over half of whose customers who hold personal current accounts are eligible individuals within the meaning of article 9 of the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (SI 2014/1960) or meet the condition in paragraph (3) of that article.
- (6) An “unarranged overdraft” is a *regulated credit agreement* that arises as a result of:
- (a) a personal current account becoming overdrawn in the absence of an arranged overdraft; or
- (b) the *firm* making available to the *customer* funds which exceed the limit of an arranged overdraft.
- (7) An “unarranged overdraft charge” is a charge (by way of interest or otherwise) that a *firm* is contractually entitled to levy and that would not be due but for the fact that the *customer* has borrowed, borrowed further or continues to borrow, using an unarranged overdraft.
- 5C.5.2 G (1) The definition of “personal current account” refers to the definition of a “payment account” under the *Payment Accounts Regulations*, that is: “an account held in the name of one or more consumers through which consumers are able to place funds, withdraw cash and execute and receive payment transactions to and from third parties, including the execution of credit transfers, but does not include any of the following types of account provided that the account is not used for day-to-day payment transactions: savings accounts; credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt; current account mortgages or e-money accounts”. The *FCA* has issued guidance on this definition: see ‘FG16/6 – Payment Accounts Regulations 2015’.
- [**Note:** <https://www.fca.org.uk/publications/finalised-guidance/fg16-6-payment-accounts-regulations-2015-definition-payment-account>]
- (2) The definition of “excluded account” captures personal current accounts where there cannot be a pre-arranged overdraft facility, there cannot be an unarranged overdraft to which interest or charges apply and charges for refusing a payment due to lack of funds cannot arise.

## 5D Overdraft repeat use

**5D.1 Purpose and application**

## Purpose

- 5D.1.1 R (1) In this section, “repeat use” refers to a pattern of overdraft use where the frequency and depth of use may result in high cumulative charges that are harmful to the *customer* or indicate that the *customer* is experiencing or at risk of financial difficulties.
- (2) The expressions “arranged overdraft”, “excluded account”, “personal current account”, “private bank” and “unarranged overdraft” have the same meaning as set out at *CONC 5C*.

- 5D.1.2 G The purpose of this chapter is to require *firms* to:

- (1) monitor *customers*’ patterns of overdraft use;
- (2) identify *customers* with patterns of repeat use; and
- (3) take appropriate steps with the aim of changing such patterns of use.

## Who and what?

- 5D.1.3 R (1) Subject to (2), this chapter applies to a *firm* with respect to *consumer credit lending* and connected activities in relation to arranged overdrafts and unarranged overdrafts associated with personal current accounts.
- (2) This chapter does not apply to:
- (a) a *firm* if all personal current accounts provided or offered by the *firm* are excluded accounts;
  - (b) a private bank; or
  - (c) a *credit union*.

## Where?

- 5D.1.4 R This chapter applies to a *firm* with respect to activities carried on from an establishment maintained by it in the *United Kingdom*.

**5D.2 Obligation to identify and monitor repeat use of overdrafts**

- 5D.2.1 R A *firm* must establish, implement and maintain clear and effective policies, procedures and systems to:
- (1) monitor and review periodically the pattern of drawings and repayments of each of its *customers* under an arranged overdraft or an unarranged overdraft and other relevant information held by the *firm*; and

- (2) identify, by reference to an appropriate collection of factors, any *customers* in respect of whom there is a pattern of repeat use, and then sub-divide those *customers* into the following two categories:
  - (a) *customers* in respect of whom there are signs of actual or potential financial difficulties;
  - (b) all other *customers* who show a pattern of repeat use (that is, all *customers* within CONC 5D.2.1R(2) who do not fall into category (a)).

5D.2.2 R The *rules* in CONC 5D.2.1R(1) and (2) do not apply where the *firm* is already in the process of intervening in respect of the *customer's* overdraft use in accordance with CONC 5D.3.

- 5D.2.3 G
- (1) The policies, procedures and systems referred to in CONC 5D.2.1R should, having regard to the nature, scale and complexity of the *firm's* *consumer credit lending* activity in relation to overdrafts, enable the *firm*, at regular intervals, to pro-actively look back over an appropriate period at patterns of overdraft use.
  - (2) A *firm* may decide the frequency with which it reviews previous overdraft use, and the length of the preceding period of overdraft use that it considers when doing so, provided that the *firm* can demonstrate that its policies, procedures and systems are effective in identifying *customers* falling within CONC 5D.2.1R(2)(a) or (b).
  - (3) CONC 5D.2.1R does not specify the frequency, duration or amount of drawings that may constitute repeat use. *Firms* have discretion, therefore, to tailor the policies, procedures and systems required by CONC 5D.2.1R to their specific business circumstances. If a *customer* has become or remained overdrawn in every *month* over the preceding 12 *month* period, it is likely that the *customer* will fall within CONC 5D.2.1R(2)(a) or (b). It is also likely, however, that there will be other patterns of drawings in fewer numbers of *months* that are caught by CONC 5D.2.1R(2)(a) or (b). There need not necessarily be drawings under an overdraft in consecutive *months* in order for use to be properly treated as repeat use. Conversely, there may be small and temporary drawings, even in consecutive *months*, that are neither indicative of actual or potential financial difficulties nor the cause of high cumulative charges.
  - (4) When determining whether there is a high cumulative charge for overdraft use which may be harmful, the *firm* should consider the total amount of the combined charges both in absolute terms and relative to the *customer's* financial circumstances, where known.
  - (5) Where there is a pattern of repeat use of an overdraft associated with a personal current account, features of that use and other factors which may be a sign of actual or potential financial difficulties include:

- (a) one or more of the matters set out in *CONC* 1.3.1G(1) to (7) of which the *firm* is aware or ought reasonably to be aware from information in its possession;
  - (b) an upward trend in a *customer*'s use of the overdraft over time, having regard to one or both of the following:
    - (i) the number of *days* of use per *month*; and
    - (ii) the value of the *customer*'s borrowing.
  - (c) changes to the regular credits or debits to the personal current account, which may indicate a fall in disposable income or increased expenditure;
  - (d) use of other products which may indicate a fall in disposable income or growing indebtedness (for example, a reduction in the balance of a savings account, or an increase in the outstanding balance on another *credit* product) of which the *firm* is aware or ought reasonably to be aware from information in its possession;
  - (e) the use of an unarranged overdraft associated with the personal current account, especially if becoming larger, more sustained or more frequent over time;
  - (f) the incidence of refused payments in relation to the personal current account, especially if there is a rise in the number or frequency of refused payments over time;
  - (g) information provided by the *customer* that indicates the *customer* is in, or is likely to experience, financial difficulties.
- (6) A *customer* may in fact be in actual or potential financial difficulties even if none of the factors described above is present, so the *customer*'s response to the *firm*'s initial intervention will be important for determining the appropriate next steps.

### 5D.3 Interventions to be taken in the case of repeat users

- 5D.3.1 R (1) This *rule* applies where a *firm*:
- (a) identifies that a *customer* has a pattern of repeat use within the meaning of *CONC* 5D.2.1R(2)(b);
  - (b) assesses that the *customer* is likely to continue that pattern of use; and
  - (c) does not consider, acting reasonably, that the *customer* is one in respect of whom there are signs of actual or potential financial difficulties.

- (2) The *firm* must communicate with the *customer* (“the first communication”) in an appropriate medium (taking into account any preferences expressed by the *customer* about the medium of communication between the *firm* and the *customer*) highlighting the *customer*’s pattern of overdraft use and indicating that the *customer* should consider whether it is resulting or may result in high avoidable costs.
- (3) The *firm* must continue to monitor and review the *customer*’s pattern of overdraft use after the first communication, and if after a reasonable period the pattern of use continues to fall within *CONC* 5D.2.1R(2)(b), the *firm* must further communicate with the *customer* (“the second communication”), reminding the *customer* of the content of the first communication or reiterating that content.
- (4) The *firm* must continue to monitor and review the *customer*’s pattern of overdraft use after the second communication, and if the pattern of use continues to fall within *CONC* 5D.2.1R(2)(b), the *firm* must continue to communicate with the *customer* in similar terms or for a similar purpose at least annually until such time as the pattern of use ceases to fall within *CONC* 5D.2.1R(2)(b).

- 5D.3.2 R (1) This *rule* applies where a *firm* identifies that a *customer*:
- (a) has a pattern of repeat use within the meaning of *CONC* 5D.2.1R(2)(a); and
  - (b) is one in respect of whom there are signs of actual or potential financial difficulties.
- (2) The *firm* must communicate with the *customer* in an appropriate medium (taking into account any preferences expressed by the *customer* about the medium of communication between the *firm* and the *customer*) highlighting the *customer*’s pattern of overdraft use and indicating that the *customer* should consider whether it is resulting or may result in high avoidable costs. The *firm* must encourage the *customer* to contact the *firm* to discuss their situation and explain that doing nothing could make things worse. The *firm* must also provide contact details for *not-for-profit debt advice bodies*.
  - (3) If after a reasonable period the *customer* has not contacted the *firm* and the *customer*’s pattern of use continues to fall within *CONC* 5D.3.2R(1), the *firm* must take reasonable steps to contact the *customer* to discuss their situation.
  - (4) In discussions under (2) or (3) (which need not be on a single occasion), the *firm* must seek to explore the reasons for the *customer*’s pattern of overdraft use, as well as the reasons for the *customer*’s actual or potential financial difficulties, and what (if anything) the *customer* is doing, or intends to do, to address those issues.



- (5) If appropriate, in the light of the information gathered under (4), the *firm* must:
- (a) identify and set out suitable options designed to help the *customer*:
    - (i) to reduce their overdraft use over a reasonable period of time; and
    - (ii) to address their actual or potential financial difficulties, in such a way that does not adversely affect the *customer*'s financial situation; and
  - (b) explain that, if the *customer* fails to engage in the discussion or fails to take appropriate action to address the situation, one of the possible consequences is that the *firm* may need to consider the suspension or removal of the overdraft facility or a reduction in the credit limit.
- (6) If the *customer* declines to contact the *firm* in response to the communication in (2) and to respond to attempts by the *firm* to contact them under (3), or to take reasonable steps to take forward an appropriate option under (5) or to otherwise address the situation, the *firm* must after a reasonable period consider whether to continue to offer the overdraft facility and whether to reduce the credit limit.
- (7) Sub-paragraph (6) does not apply if the suspension or removal of the overdraft facility or a reduction in the credit limit would cause financial hardship to the *customer*.
- 5D.3.3 G (1) The purpose of *CONC* 5D.3 is to require a *firm* to intervene in an appropriate and proportionate manner where it detects repeat use of an overdraft with the aim of reducing that use and improving the *customer*'s financial situation. A *firm* should keep in mind, when doing so, the principle that an overdraft is not generally suitable for long-term use that results in a high total cost burden, as well as the need to pay due regard to the interests of its *customers* and treat them fairly in accordance with *Principle* 6.
- (2) *CONC* 5D.3 does not specify a particular form of words to be used in communications with repeat overdraft users, and *firms* have discretion to tailor the language and tone of those communications to the circumstances of the individual *customer*.
- (3) For the purposes of *CONC* 5D.3.2R(3), "reasonable period" is unlikely to be longer than one *month*.
- (4) Options that a *firm* could identify for the purposes of *CONC* 5D.3.2R(5)(a) may include, where assessed as appropriate for the *customer*:

- (a) advice on budgeting and financial planning options, for example adjusting payment dates or setting up alerts;
  - (b) providing contact details for *not-for-profit debt advice bodies* and other relevant bodies (for example, one providing budgeting or financial planning advice), and encouraging the *customer* to contact one of them;
  - (c) the provision by the *firm* to the *customer* of alternative *credit* on more favourable terms (for example a fixed-sum loan repayable by instalments), provided that, if this would be accompanied by suspension or removal of an existing *credit* facility, this would not cause financial hardship to the *customer*;
  - (d) forbearance, such as reducing or waiving interest and other charges or (where applicable) allowing additional time to pay, where this does not unduly delay further help to the *customer* or permit further deterioration of the *customer's* financial position; or
  - (e) a reduction in the credit limit or the suspension or removal of the overdraft facility (or reminding the *customer* that they can ask the *firm* to take these steps) provided that such reduction, suspension or removal would not cause financial hardship to the *customer*.
- (5) If an overdraft *customer* has already been identified by a *firm* as being in financial difficulties, and is already being treated with appropriate forbearance by the *firm*, the *rules* in this section do not require the *firm* to do anything which is inconsistent with the treatment that it has already adopted in respect of that *customer*.

#### **5D.4 Monitoring repeat use strategies**

- 5D.4.1 R A *firm* must monitor and periodically review the effectiveness of its policies, procedures and systems under *CONC* 5D.2.1R, and update or adjust them as appropriate.
- 5D.4.2 G In assessing and periodically reviewing the effectiveness of its policies, procedures and systems under *CONC* 5D.2.1R, a *firm* should have regard, amongst other matters, to the number of repeat users and size of their overdraft balances before putting in place the procedures required by these *rules*, compared with the number and size following implementation of those procedures. More generally, a *firm* should assess the extent to which it has been able to assist those *customers* who were showing a pattern of repeat use and who could benefit from assistance.

#### **5D.5 Reporting on repeat use of overdrafts**

- 5D.5.1 R (1) A *firm* must submit a document to the *FCA* by electronic mail to [xxx@fca.org.uk], containing a detailed description of the policies, procedures and systems it establishes to comply with:

- (a) *CONC 5D.2.1R*;
- (b) *CONC 5D.3.2R*; and
- (c) *CONC 5D.4.1R*

no later than the date on which the *firm* becomes subject to *CONC 5D*.

- (2) A *firm* must prepare two reports for the *FCA* describing the results of the monitoring required by *CONC 5D.4.1R*. The first report must be in respect of the six *month* reporting period beginning on the date on which the *firm* becomes subject to *CONC 5D*. The second report must be in respect of the six *month* reporting period that begins immediately after the end of the reporting period covered by the first report. Each report must be submitted to the *FCA* by electronic mail to [xxx@fca.org.uk] within one *month* following the end of the relevant six *month* reporting period and must include the following information:
  - (a) the number of repeat users and total size of their overdraft balances at the start of the reporting period;
  - (b) the number of repeat users and total size of their overdraft balances at the end of the reporting period; and
  - (c) any explanation, commentary or background on the figures in (a) and (b).
- (3) Where a *firm* proposes to update its policies, procedures and systems, it must submit a report to the *FCA* containing a description of any substantial changes.



## Appendix 3

# Proposed Amendments to the Finalised Guidance: Payment Services and Electronic Money – Our Approach

[After paragraph 8.250 add the following text, all text is new:]

8.250A Recital 77 of the Payment Services Directive states that, where a framework contract provides that the PSP may charge a fee for refusal, such a fee should be objectively justified and should be kept as low as possible. When setting the level of the fee the PSP should take an evidence based approach and:

- identify those actual costs that are reasonably referable to the refusal of payments,
- set its charge or charges in a manner calculated to reasonably correspond to those costs over an appropriate time period having regard to the number and type of charges it expects to levy, and
- not set their refused payment fees so as to derive a profit

8.250B The costs reasonably referable to the refusal of payments will include:

- costs that are directly attributable to the refusal of a particular payment and would be avoided if the payment was not refused
- costs that arise from the refusal of payments in general, including costs that would be wholly avoided if the PSP refused no payments

8.250C Costs that are directly attributable to the refusal of a particular payment may include items such as:

- incremental payment system costs incurred in the process of refusing a payment
- the cost of providing alerts and notifications, including text messages, emails and letters in respect of refusing a payment
- the costs of customer service contact initiated by the customer over the telephone, through digital channels and in branches as a result of refusing a payment
- the costs of handling a complaint arising out of refusing a payment

8.250D PSPs may take certain infrastructure costs into account when setting the levels of their refused payment fees. A PSP should set its fees so as to recover investments in infrastructure over the expected lifetime of the investment.

Infrastructure costs should not be recovered through the refused payment fee unless:

- those costs are wholly referable to refusal of payments (for example if a dedicated IT system is established to process notifications relating to refused payments); or
- the PSP can show a reasonable basis on which to apportion a share of those costs to the refusal of payments under normal accounting principles (for example where an IT system has functionality that is necessary to enable the processing of refused payments, but the same functionality is also utilised for other purposes)

8.250E Where a PSP is unable to fully segregate the costs incurred as a result of refusing payments from other costs, for example because the same staff handle customer complaints initiated as a result of a refused payment and other customer contact, the PSP should not include those costs on the calculation of refused payment fees unless it can demonstrate that it has made a fair and reasonable apportionment of the costs between those referable to refused payments and those not so referable.

8.250F PSPs should not take into account costs associated with the general operation of their business such as:

- costs of refusing payments that fall outside the scope of the Payment Services Regulations 2017, such as paper cheques
- fraud detection and prevention (except in so far as this forms part of the PSP's decision process in relation to refusal of payments)
- costs of complying with regulation (other than regulation in relation to refused payments)
- collection, recoveries and impairments
- the provision of statements of account
- FSCS levies and the FOS general levy (where applicable)
- general operational and staff expenditure, including the operation of branches or cash machines
- marketing

8.250G The accounting methods or principles used in estimating and apportioning costs should be consistent with those used by the PSP in its general approach to accounting or business planning.

8.250H A PSP may undertake the cost allocation exercise on a product-by-product basis, or across multiple product lines. Where an aggregated approach is taken, the PSP should be satisfied that the resulting fee continues to



reasonably correspond to the actual costs of refusing payments in each product line.

- 8.250I A PSP that chooses to set a fee below the cost reflective level for a particular product should not recover the costs incurred as a result of refusing payments by customers of that product from customers of other products, if this would result in a fee that no longer reasonably corresponds to the costs of refusing payments for that product.

