Questions and answers for OFT’s report on unarranged overdrafts

Updated 16 March 2010

1. What have the banks committed to today?

The OFT has worked with the industry to agree a range of cross industry initiatives relating to unarranged overdraft charges (UOCs):

- the development of minimum standards to cover how consumers are offered the ability to opt out of unarranged overdraft facilities
- a new industry working group to explore ways to give consumers greater control and access to real-time information, and
- a new working group of industry and consumer representatives that will develop best practice for PCA providers in dealing with customers in (or at significant risk of being in) financial difficulty who incur UOCs.

The major PCA providers have also agreed to:

- respect the principle that PCA customers will have the ability to choose whether or not to use new facilities if these facilities limit the customer’s ability to control their use of unarranged overdrafts,
- continue to work with the OFT to ensure that customers remain able to make meaningful comparisons between providers and manage their PCA by ensuring that the transparency initiatives committed to in October 2009 remain relevant, and
- publish their policies for dealing with customers in financial difficulty who incur unarranged overdraft charges.
2. **How has the personal current account market changed since the market study and how does the OFT expect it to change in future?**

The OFT expects that significant developments will be implemented over the next two years that will give customers greater choice about whether or not to have an unarranged overdraft facility, and greater access to tools that will help customers keep track of their account balances. The cross industry initiatives that have been agreed today will support these developments.

Significant improvements have already agreed with PCA providers in the areas of switching and transparency ([OFT1123 Personal Current Accounts in the UK - a follow up report](#))

These developments build on significant changes seen in the market since the OFT started its study in 2007. In particular:

- the average level of unpaid item charges levied by the major PCA providers has fallen from approximately £34 in 2007 to £17 in 2010, and per transaction paid item charges for using an unarranged overdraft from approximately £30 to £22
- new charging structures have emerged, contrasting sharply with a lack of innovation for many years prior to 2007
- there is greater transparency in charging structures, and
- the vast majority of standing order and one-off payments are routed through 'Faster Payments'. These were non-existent in 2007.

3. **What will the OFT do to monitor whether these changes are taking place?**

The OFT will actively monitor the PCA market to ensure there is movement towards an equilibrium that works well for consumers. In particular, the OFT will look at:

- the choice of charging structures (or models) of PCAs available to customers
- the level of unarranged overdraft charges, especially the Unpaid Item Charge
- the options available for customers that do not want access to unarranged overdraft facilities, and
- with the FSA and the FOS as appropriate, the treatment of customers who find themselves in financial difficulty related to unarranged overdraft charges.

If over the next two years the types of initiatives that the OFT expects to see do not materialise then the OFT will reconsider whether further intervention, including legislation, is required. Unless further action appears appropriate sooner, the OFT expects to review the market, and the impact of the range of initiatives introduced following the 2008 market study, in around 2012.

4. **The OFT has said in the past that legislation is an option to tackle bank charges - why is the OFT not recommending legislation now?**

The OFT has considered carefully whether it would be appropriate to recommend the regulation of unarranged overdrafts. The changes in the PCA market since 2007 and the changes that the OFT expects banks to implement in the coming two years, along with the measures agreed with PCA providers in October 2009 and March 2010, will together lead to a substantial improvement in the way that the PCA market works. Given the significant improvements underway, the OFT considers that a market-based approach with banks competing to find the best way of addressing the needs of their customers is likely to be preferable to a regulatory 'one size fits all' approach. As a result the OFT is not recommending legislative change at the present time.

5. **Which banks have agreed to these initiatives?**

The seven largest PCA providers have agreed to the industry wide initiatives. These are Lloyds Banking Group plc, Santander UK plc Group, Royal Bank of Scotland (Natwest and RBS brands), Barclays PLC, HSBC Bank plc, National Australia Group Europe and Nationwide
Building Society. These PCA providers account for over 90% of the PCA market in the UK.

6. **What about those customers whose PCA is not with any of the main providers - will they still benefit?**

We expect all PCA customers to benefit from these industry wide initiatives. We shall be working with the smaller banks, through the British Bankers’ Association (BBA) and Building Societies Association (BSA) in the coming weeks to ensure that they are able to agree to these initiatives too.

7. **What’s happening in Northern Ireland?**

In Northern Ireland, the larger PCA providers are subject to provisions of the Northern Ireland Personal Current Account Banking Market Investigation Order 2008 (NI Order). The OFT is currently reviewing the NI Order. While the review is a separate and distinct project from the work that we have carried out into UOCs, we consider that there is a link between the two because the NI Order contains provisions relating to UOCs. While those banks have agreed to take part in cross industry initiatives, the NI Order means they start in a different position with regard to some of the identified concerns around the clarity and predictability of charges. The OFT will be engaging with PCA providers in Northern Ireland to discuss any remaining concerns, taking account of any overlaps with the NI Order and the developing position with respect to the review of the NI Order.

8. **You have announced a short review on barriers to entry/expansion in this market. What will this cover and how long will it take?**

The OFT will conduct a short review of the barriers to entry, expansion and exit in retail banking to consider whether there are any obstacles to entrants providing a competitive stimulus. It will focus on the PCA market but consider other aspects of retail banking and banking for SMEs as appropriate. The review is expected to take around six months.