

PERSONAL CURRENT ACCOUNT MARKET NOT WORKING WELL FOR CONSUMERS, SAYS OFT

The market in personal current accounts is not working well for consumers, the OFT said today in its report '*Personal current accounts in the UK*' which looks at the £8 billion industry.

The report found that much of banks' revenue from current accounts is derived opaquely, with 81 per cent of income coming from two sources: insufficient funds charges (£2.6bn) and net credit interest income (£4.1bn). A significant number of customers do not know how much they actually pay in bank charges, either before or after they are incurred. Over three-quarters do not know the credit interest rate of their current account, and even those that do lack the means to calculate the interest they forgo.

The complexity and lack of transparency of personal current accounts makes it extremely difficult for individual customers to compare their bank account with other offers. There is thus little incentive for consumers to switch – especially as people generally believe that it is complex and risky to switch accounts. Also, when the switching process does go wrong consumers can find themselves bearing a significant proportion of the resulting costs. The result is that

only six per cent of customers we surveyed had switched in the last 12 months – one of the lowest switching rates in Europe.

A further result is that a minority of customers end up paying much more for their current account than others – for example, in 2006 we calculate that 1.4m people pay over £500 per year in charges. This can often mean potentially ‘vulnerable’, low income and low saving customers paying more as a result of incurring insufficient funds charges. The effect is not made any easier by a lack of simple mechanisms for consumers to control or opt out of an unarranged overdraft.

Overall, the report finds that the personal current account market may be stuck in an equilibrium that does not work well for consumers. Limited understanding of key account elements, combined with low confidence in switching, means that banks have less incentive to provide better offers on charges and interest. But without better offers from banks, consumers have little incentive to switch.

John Fingleton, OFT Chief Executive, said:

‘Personal current accounts are a vital gateway to effective participation in the economy. But this market is not serving consumers well.

‘Customers lack the information they need to choose the best deal, and this in turn weakens the banks’ incentives to compete. There is much the banks could do to improve how the market works, and we

hope this report will encourage them to take steps to do so in the near future.'

In the view of the OFT the status quo is not satisfactory. The OFT will spend the coming months engaging with banks and consumer groups to try to achieve greater clarity, transparency and consumer empowerment in this market, either through voluntary change or, if necessary, through other routes, potentially including greater regulatory intervention or a reference of the market to the Competition Commission.

Other findings from the study include¹:

- The aggregate revenue of banks from personal current accounts (PCAs) was approx £8.3bn - £152 per active account;
- Personal current accounts generate more revenue for banks than savings and credit cards combined;
- Insufficient fund charges have increased by an average of 17 per cent in real terms between 2003 and 2007;
- When banks were asked to calculate how much a hypothetical customer would have to pay in a given scenario (which included exceeding an agreed overdraft limit), the reported charges varied from £0 to £260;
- The average daily unarranged overdraft balance in 2006 was £680m. Paid item and maintenance fees totalled some £1.5bn – which would equate to a return of over 220 per cent on the average balance;
- There is significant potential for slight errors in financial management to result in hundreds of pounds of charges;

¹ Revenue data is for 2006

- Over 12.6 million accounts (23 per cent of active accounts) incurred at least one insufficient funds charge in 2006;
- Those consumers who incurred a charge were more likely to incur at least six charges than just one;
- Four million accounts incurred charges of over £200 in 2006, of which 1.4 million accounts incurred charges of over £500;
- In a survey conducted for the study over a fifth of consumers were unaware of the existence of charges until they had incurred one.

NOTES

1. The Full Report and Executive summary of the PCA Market Study, the Consultation Document and further background are available at www.oft.gov.uk/pca
2. The PCA Market Study was launched by the OFT in Spring 2007. It has been carried out alongside the formal Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs) investigation into terms providing for unarranged overdraft charges (UOD) so that it can inform the investigation.
3. The UTCCRs investigation began in 2007. The first phase of the test case was launched in the High Court in July 2007. In April 2008 Mr Justice Andrew Smith ruled that the UOD terms in banks' personal current account contracts can be assessed for fairness under the UTCCRs. In May 2008, the Judge gave the test case banks permission to appeal his finding. In July 2008 a hearing took place into whether UOD terms in the banks' historical and basic bank account (and certain other non-mainstream current accounts) can also be assessed for fairness under the UTCCRs, and whether they are capable of being penalties at common law. This judgment is yet to be handed down. The OFT is continuing to progress the investigation as quickly as possible and will shortly be writing to the banks with its initial views on fairness issues.
4. OFT Market Studies are carried out under section 5 of the Enterprise Act 2002 (EA02) which allows a market-wide consideration of both competition and consumer issues.

5. While the FSA is the lead regulator for UK banking the EA02 enables the OFT to assess wider competition issues in a way not open to the FSA.
6. The OFT will now consult about the issues raised by the Market Study with the banks and other interested stakeholders for a minimum of three months.

MEDIA enquiries: 020 7211 +

Corinne Gladstone **8899**

Jonathan Marciano **8898**

John Fearn **8708**

Kasia Reardon

Nnenna Oleforo

8901

8993

Out of hours: mobile: 07774 134814

fax messages: 020 7211 8961

<http://www.offt.gov.uk>

PUBLIC enquiries: 0845 7224499 enquiries@oft.gov.uk

OFT reports and consumer information leaflets are available free from: