



Consultation response

**CMA Retail Banking Market  
Investigation: Supplemental notice of  
possible remedies**

Response from the Money Advice Service  
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## About us

- 1.1. The Money Advice Service is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.
- 1.2. Our core statutory objectives are set out in the Financial Services Act 2010. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.
- 1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, third sector, government and regulators to develop The Financial Capability Strategy for the UK. This 10 year Strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.4. We are responding to this consultation in light of our statutory roles to enhance understanding and knowledge of members of the public about financial matters (including the UK financial system), and to enhance the ability of members of the public to manage their own financial affairs.
- 1.5. On 16 March 2016 the government announced its intention to replace the Money Advice Service with a new organisation from April 2018.

## Response to possible remedies

2. **Prompts and alerts to inform customers of imminent and actual overdraft usage and charges**
  - 2.1. We support the auto-enrolment of customers into overdraft alert services. The FCA has found that text alerts and mobile banking apps have a real impact on amount of unarranged overdraft charges incurred.<sup>1</sup> We would expect defaulting consumers into alerts would increase take-up. If customers are not auto-enrolled we would recommend testing the effectiveness of other behavioural techniques in messages to promote take-up. For example, people are more motivated to avoid losses than make gains;<sup>2</sup> CMA could harness aversion to losing money to unauthorised overdraft fees and charges to encourage take-up of alerts.

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<sup>1</sup> FCA (2015) Occasional Paper No.10: Message Received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour.

<sup>2</sup> Institute for Government and Cabinet Office (2010) Mindspace: influencing behaviour through public policy. P19

- 2.2. The set of overdraft alert services suggested by CMA appear appropriate as each would be triggered at a point consumers can take action either to avoid a charge or seek guidance relevant to their situation. Consumers may benefit from alerts that, alongside highlighting the immediate issue of overdraft use and charges and any immediate action to be taken, prompt them to access money management guidance that will assist them to take control of their finances.
- 2.3. For some consumers, who are not in financial difficulty but enter their overdraft because they manage a tight budget or incur unexpected expenses, guidance could help them avoid unnecessary fees and charges through:
- creating and sticking to a budget;
  - actively engaging with their account and use available functionality (For example using online or mobile banking to stay in control, understanding suspension periods and opting into additional alerts);
  - understanding how and when charges are levied;
  - where possible, putting a plan in place to repay overdrafts;
  - where possible, building a savings buffer;
  - considering whether they would be better off switching to another PCA provider.
- 2.4. For other consumers, unauthorised overdraft use may be a symptom of financial difficulty. Where this is the case, guidance can encourage consumers can take control of their situation by accessing free debt advice.
- 2.5. We suggest the proposed cumulative overdraft charges alert be sent shortly after an episode of overdraft usage rather than during it. During an episode of overdraft use the cumulative charge might act as a reference point against which further charges are assessed. This may impact the effectiveness of the message by causing further charges to appear insignificant. Further, research shows that when funds are scarce it affects consumers' cognitive ability causing them to continue along their current course of action or 'tunnel'.<sup>3</sup> Because of this, alerts highlighting how daily or monthly charges have accrued may be more effective when their account is back in credit and scarcity of funds is not so immediate.
- 2.6. CMA should be aware that using cumulative charges to prompt action may promote anxiety in recipients. To avoid this fear paralysing consumers from taking action, the message should be accompanied by an easy and specific action consumers can take to take control of their situation.<sup>4</sup>

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<sup>3</sup> Mullainathan and Shafir (2013) Scarcity: the true cost of not having enough. Pp108-121

<sup>4</sup> Institute for Government and Cabinet Office (2010) Mindspace: influencing behaviour through public policy. P26.

### *Flexibility of alerts*

2.7. We suggest that the CMA test a range of alerts and messages to test the impact of different approaches and use findings to set minimum requirements for the alerts. To allow for innovation and allow providers to tailor 'calls to action' to reflect options open to different consumers, for example extending arranged overdrafts, we suggest that PCA providers be allowed flexibility in how they provide alerts and the content of alerts beyond minimum requirements.

### *The inclusion of overdrafts in available funds*

2.8. We believe that it would be conducive to consumers' financial capability if they are able to understand how available funds are comprised.

## **3. Measures to encourage PCA customers to make an informed choice on their overdraft options**

3.1. Whether to allow your future-self access to an unauthorised overdraft is a complex decision. While opting out of an unarranged overdraft may avoid charges associated with this service it is also important to consider possible impacts on consumers' access credit at times of need.

- Opting out of access to an unarranged overdraft may limit consumers' access to short-term credit in an emergency.
- 30% of UK adults do not have any savings buffer to provide resilience to financial shocks.<sup>5</sup>
- Many consumers do not hold credit cards.

3.2. Recent changes in regulation, for example the high-cost short-term credit price cap, has led to an estimated reduction in the availability of high-cost short-term credit. The FCA estimates that around 70,000 people will no longer be able to access payday loans and that this will disproportionately affect those under 35 who make up 50% of payday loan customers.<sup>6</sup>

3.3. Where consumers opt out of an unarranged overdraft facility they may still incur penalty charges including returned item fees from their bank and late payment penalties from creditors. Missing regular payments for credit cards and utilities may have a negative impact on their credit rating. We therefore believe careful consideration should be given to whether this option is an appropriate response to the complex problem of encouraging greater engagement.

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<sup>5</sup> Money Advice Service (2015) UK Financial Capability Survey

<sup>6</sup> FCA (2014) Press Release: FCA confirms price cap rules for payday lenders

#### 4. Suspension periods for unarranged overdrafts

- 4.1. We welcome that many PCA providers offer periods during which charges for returned items and unauthorised overdrafts are suspended. Such periods can offer consumers who have unintentionally entered their overdraft a window of opportunity to resolve the situation without penalty. We do not favour one type of suspension period over another.
- 4.2. To benefit from suspension periods consumers need to know what will happen if they do not have money in their account to process a payment. This information should be communicated at the time the consumer is choosing their PCA but timely reminders of how suspension periods work at point of use are also needed.
- 4.3. Agreeing standard terminology and formatting to present different types of suspension period would increase clarity and comparability of PCA providers' offers. For example, by allowing consumers to compare the size of buffer or length of grace period offered. Standard presentation could also help consumers understanding of which arrangements apply to different payment types, e.g. a direct debit or standing order may benefit from a retry period but a debit card payment may not. The joint CML and Which? project to develop a standard "Tariff of mortgage charges" provides an example of how standard terminology has recently been agreed in the Mortgage market.<sup>7</sup>

#### 5. A monthly maximum charge for using an unarranged overdraft

- 5.1. While we do not have a view on whether a maximum monthly charge should be required, where a maximum monthly charge is in place, it may aid comparison and consumer understanding if a common definition is introduced. For example, it is not clear that all providers currently include returned item fees within charge caps.

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<sup>7</sup> CML (2015) Press Release: CML and Which? reveal new mortgage tariff to help consumers compare fees and charges

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