

MARKET INVESTIGATION INTO PERSONAL CURRENT ACCOUNT BANKING SERVICES IN NORTHERN IRELAND

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Provisional decisions on remedies

06 March 2007

Summary

1. On 12 October 2006, the Competition Commission (CC) issued a notice of possible remedies (the Notice) which invited comments on the actions that might be taken by the CC, or recommended for implementation by others, to remedy, mitigate or prevent the adverse effect on competition (AEC) or resulting detrimental effect on customers, identified in its provisional findings of the same date in relation to the market for the supply of Personal Current Account (PCA) banking services in Northern Ireland. This paper sets out the Group's provisional decision on remedies, in the light of responses to the Notice and further analysis. This paper serves as a consultation on the Group's provisional decision on remedies. Any responses to this consultation should be submitted to the CC by 5pm on Tuesday 20 March 2007.
2. The Group has identified the following package of remedies that it considers would represent a comprehensive, reasonable and practicable set of remedies to remedy, mitigate or prevent the AEC or the resulting detrimental effect on customers it has found in the market for the supply of PCA banking services in Northern Ireland:¹
 - (a) remedy 1: easy-to-understand terminology and descriptions of PCA services;
 - (b) remedy 2: explanations of the levels of charges and interest rates and how and when they are applied;
 - (c) remedy 3: information on statements;
 - (d) remedy 4: summary and breakdown of charges and interest;
 - (e) remedy 5: advance notice of charges and debit interest incurred;
 - (f) remedy 8: regular 'rights reminder'; and
 - (g) remedy 10: changes to the switching process to hold the customer harmless in that process.

The Group's provisional view is that this package of remedies would be both effective and proportionate.
3. This package of remedies is consistent with the existing provisions of the Banking Code (the Code). It is also in line with the way in which the industry is likely to change as a result of the current review of the Code, and the new requirements under the Consumer Credit Act 2006 (Consumer Credit Act).²
4. The Group has also considered the other remedy options set out in the Notice, including: (a) remedy 6: provision of personal indicative 'quotes' for PCAs; (b) remedy 7: provision of 'typical customer' indicative quotes for PCAs; (c) remedy 9: publication of switching statistics; (d) remedy 10: changes to the switching process to make PCA numbers portable; and (e) direct regulation of PCA prices. Furthermore,

¹As set out in paragraph 23, the numbering of the remedies in this paper reflects the numbering in the Notice.

²The Consumer Credit Act 2006 amends the Consumer Credit Act 1974. The requirements relevant to these remedies will come into force in April 2008.

the Group has evaluated other remedies proposed by GCCNI, Which? and Advice NI following the publication of provisional findings and the Notice (see paragraphs 191 to 195). The Group has provisionally concluded that it is not necessary to include these remedies in the package in order effectively to remedy, mitigate or prevent the AEC or the resulting detrimental effect on customers it has found in the market for the supply of PCA banking services in Northern Ireland.

5. The Group has provisionally decided that its package of remedies should apply to all banks that have more than 10,000 PCAs with a customer postal address in Northern Ireland. The Group has also provisionally decided that the banks should implement the remedies package by April 2008. This is in line with the expected implementation date for changes following the Code review and the new requirements under the Consumer Credit Act.
6. Finally, in line with the principles of better regulation, the Group wishes to avoid duplicating existing structures and processes to monitor and enforce compliance of its remedies package. The Group has provisionally decided, therefore, that the Banking Code Standards Board (BCSB) should monitor compliance with the remedies package. The BCSB expressed its willingness to have a role in the implementation of the remedies. The BCSB will be required to work closely with the OFT which has a statutory responsibility for the monitoring and enforcement of remedies.

Introduction

7. The Notice was published on 12 October 2006. It set out various measures that the Group considered might be effective, alone or in combination, in remedying, mitigating or preventing the AEC and any resulting detrimental effect on customers it has found in the market for the supply of PCA banking services in Northern Ireland as set out in its provisional findings.
8. The Group looked in detail at the possible remedies identified. It received evidence from parties in response to the Notice and in remedies hearings. The Group welcomes many of the developments that are ongoing in the UK banking industry and will affect Northern Ireland. The Group has taken care to understand those developments and to consider how they might interact with any package of remedies. Specifically, the Group is aware that the independent review of the Code is considering changes to the Code that may help to address its concerns. The independent reviewer of the Code invited submissions by 12 February 2007. Any decisions on changes to the Code will not be known in advance of the Group's final report (which must be published by 25 May 2007). However, whilst recognizing that no decisions have yet been taken, the Group has worked closely with the BCSB. It has taken account of the possible changes to the Code that may result from the review in deciding what remedies to put in place and in deciding how its package of remedies should be implemented. The Group is also aware that the Consumer Credit Act, which comes into force in April 2008, will bring changes to the banking industry—many (but not all) of which are expected to be incorporated into the Code. It has also taken the effects of these changes, so far as they are known, into account in considering possible remedies.
9. Having considered all the evidence put to it, the Group is now in a position to take a provisional decision on an effective and proportionate package of remedies. It believes that this package of remedies would address the features of which lead to an AEC in the market for the supply of PCA banking services in Northern Ireland and/or any resulting detrimental effect on customers. The Group considers that its

chosen package of remedies will go to the heart of the AEC and will be effective in stimulating the emergence of a more competitive PCA market in Northern Ireland.

10. This paper sets out the provisional decision of the Group on remedies. It first considers the AEC to be addressed and the framework for the remedies review. It then sets out the details of each of the remedy options outlined in the Notice, including the costs associated with each option.³ Next it considers the scope of the remedies, issues of implementation and the monitoring and enforcement of remedies. Finally it discusses the package of remedies as a whole and the proportionality of that package in relation to the scale of the AEC, as well as relevant customer benefits.
11. Our investigation into the market for the supply of PCA banking services in Northern Ireland has been conducted under the Enterprise Act 2002 (the Act). As has been widely reported, the OFT is examining separately the application of the Unfair Terms in Consumer Contracts Regulations 1999 to the calculation of PCA charges in agreements with customers throughout the UK.

The adverse effect findings

12. This provisional decision on remedies addresses the AEC set out in the Group's provisional findings. Those findings are currently being reviewed and updated in the light of responses received and further developments. It is therefore possible that the Group's final decision on the AEC will be different from that in its provisional findings. If, in the light of any such changes or for any other reason, the Group materially revises its provisional decision on remedies, it will consult further on any significant changes.
13. In its provisional findings, the Group made the following findings in respect of the market for the supply of PCA banking services in Northern Ireland:
 - (a) There is a general lack of customer interest in PCAs and customers tend to view PCAs as 'all the same' (see provisional findings paragraphs 2.73 and 4.211).
 - (b) Customer perception is that switching PCAs is much more difficult and risky than it is in practice. Some problems do nevertheless arise, despite the success of the Code in relation to switching (see provisional findings paragraphs 4.206 to 4.210).
 - (c) In the present state of competition in the market, the financial incentives to switch are unlikely to outweigh the perceived risks for most customers (see provisional findings paragraph 4.212).
 - (d) A customer's decision to switch is more often prompted by dissatisfaction with their existing bank than the recognition of a better offer elsewhere. The single most important factor in the choice of new provider is access to a branch; personal recommendation and, to some extent, levels of interest and charges are also important (see provisional findings paragraphs 4.202 to 4.205).
 - (e) Annual rates of switching in the PCA market in Northern Ireland as a whole are between 1.5 and 4 per cent. There is a lack of responsiveness to changes in

³For each remedy that the Group is minded to pursue, the paper sets out a summary of the Group's provisional decision before the discussion of the parties' views on the remedy. The parties' views refer to the relevant remedy as set out in the Notice.

charges or interest rates in the market (see provisional findings paragraphs 2.78 to 2.92).

- (f) There is an inherent complexity in PCA charging structures, in part because PCAs service a wide variety of needs. However, even recognizing this, PCA charging structures and practices are unduly complex, particularly for authorized overdraft charges associated with traditional PCAs and for unauthorized overdraft charges levied on all PCAs. The incidence and frequency of charging on PCAs is not clear. There are often exceptions or discretionary items which are not visible to customers and add to complexity (see provisional findings paragraphs 4.122 to 4.127).
- (g) A bank is unusual in both providing a PCA service to the customer, and also having access to the customers' account which is used to pay for the service (see provisional findings paragraph 4.121).
- (h) The banks, particularly the Northern Ireland clearing banks (the clearers), describe their charges using terminology that is unclear and, in many cases, inconsistent between banks. This is particularly true of unauthorized overdraft charges and, to some extent, ancillary charges. In general, customers are not provided with the necessary information to enable them to have a sufficient understanding of the charges and interest rates that might apply to their PCA (see provisional findings paragraphs 4.128 to 4.134).
- (i) Charges and credit interest rates on traditional PCAs showed similarities in pricing that are unlikely to be explained by costs since, in most cases, banks do not know their costs of providing particular PCA services. Nor are they likely to be explained by high levels of competition in the market (see provisional findings paragraphs 4.164 to 4.166 and 4.178).
- (j) Unauthorized overdraft charges and debit interest rates showed considerable divergence between banks that are unlikely to be explained by costs. Charges and debit interest rates are likely to be above the levels that would apply in a well-functioning market (see provisional findings paragraphs 4.167 to 4.172 and 4.179).
- (k) Clearers have a greater focus on new-to-banking customers, and in particular students and graduates, than they do on switchers. This was particularly the case prior to the launch of the clearers' fee-free PCAs (see provisional findings paragraphs 4.181 to 4.186).
- (l) Clearers' customers pay more, on average, than non-clearers' customers to operate their PCA,⁴ as evidenced by the total revenues earned directly per active account (see provisional findings Table 3 and paragraphs 4.289 to 4.292).
- (m) There is a relative lack of competition, particularly among the clearers, on several non-price factors such as branch opening hours and the introduction of full-function Internet banking (see provisional findings paragraphs 4.187 to 4.199).

⁴The non-clearers are the banks that are not Northern Ireland clearing banks. The non-clearers can be divided into three sub-groups: current and former building societies, banks based in Great Britain that have launched PCAs in Northern Ireland since 2000, and banks that provide a remote service (see paragraph 2.13 of the provisional findings). The provisional findings' glossary sets out the terms that also apply to this paper.

- (n) Clearers, in particular, whilst monitoring their business at a broader level, and despite some recent improvements, have limited management and financial information specific to their PCA business in Northern Ireland. This includes limited information on numbers and destinations of switchers; incidence of particular charges; activity-based costings; costs of acquiring new customers; benchmarking of the efficiency of different products; and levels of cross-sales (see provisional findings paragraphs 2.66, 2.81 to 2.87, 4.116, 4.281 to 4.282, 4.302 to 4.304 and Appendix 4.3).
 - (o) Whilst we recognize the costs of an extensive branch network, clearers benefit from their networks, as well as their strong brands. They continue to attract a relatively high proportion of new-to-banking customers in relation to their share of flow of new accounts. Non-clearers are not looking to expand their branch networks in Northern Ireland in the foreseeable future (see provisional findings paragraphs 4.29 and 4.57 to 4.58).
 - (p) There was evidence of some prices moving in parallel in the past. However, the conditions for sustained coordination in the market are not met because of the low propensity of customers to switch between PCA providers (see provisional findings paragraphs 4.254 to 4.273).
 - (q) Any competition concerns are unlikely to have a local market focus (see provisional findings paragraphs 4.274 to 4.277).
14. The Group reached the view that the following features of the market, either alone or in combination with each other, prevent, restrict or distort competition in the supply of PCA banking services in Northern Ireland:
- (a) banks have unduly complex charging structures and practices;
 - (b) banks do not fully or sufficiently explain their charging structures and practices; and
 - (c) customers generally do not actively search for alternative PCAs or switch provider.

Framework for the assessment of remedies

15. Having identified in its provisional findings a number of features of the market for the supply of PCA banking services in Northern Ireland that have an AEC, the CC is required to decide the following additional questions under section 134 (4) of the Act:
- (a) whether action should be taken by it for the purpose of remedying, mitigating or preventing the AEC concerned or any detrimental effect on customers so far as it has resulted from, or may be expected to result from the AEC;
 - (b) whether it should recommend the taking of action by others for the purpose outlined in (a) above; and
 - (c) in either case, if action should be taken, what action should be taken and what is to be remedied, mitigated or prevented.

16. In choosing appropriate remedial action, the CC has a statutory obligation to achieve as comprehensive a solution as is reasonable and practicable to the AEC and any detrimental effect on customers so far as resulting from the AEC.⁵
17. As noted in its Guidance (CC3 paragraph 4.9), the CC will consider the effectiveness of different remedies and their associated costs and will have regard to the principle of proportionality when deciding on appropriate remedies. The CC has made several general observations about factors relevant to its consideration of effectiveness (CC3 paragraph 4.13 and following). First, an effective remedy will make clear the persons to whom it is directed and any other persons who might be interested in it. Secondly, in considering its effectiveness, the CC will consider the prospects of a particular remedy being implemented and complied with. A third relevant consideration is the time period within which the remedy will be effective. Other factors may also be relevant to the CC's consideration of effectiveness, depending on the facts of the case.
18. In considering whether a remedy is reasonable and practicable, the CC will consider the cost associated with implementing the remedy (CC3 paragraph 4.10). The CC will endeavour to minimize any ongoing compliance costs to the parties, provided the effectiveness of the remedy is not reduced (CC3 paragraph 4.12). However, the CC will balance those costs against the benefit to the UK economy and to customers in particular.
19. The CC will also seek to implement remedies or a package of remedies which are not disproportionate in relation to the AEC and any resulting detrimental effect on customers. If it is choosing between two remedies or packages of remedies which it considers would be equally effective, it will choose that which imposes the least cost or that is the least restrictive (CC3 paragraph 4.10).
20. The CC will also have regard to the effects of any remedial action on any relevant customer benefits within the meaning of section 134 (8) of the Act arising from the adverse feature or features of the market concerned. Such benefits comprise lower prices, higher quality or greater choice of goods or services or greater innovation in relation to such goods and services. To qualify within the meaning of section 134(8), the CC must believe that the benefit would be unlikely to accrue without the relevant feature or features.
21. In general, the CC will seek to implement (or recommend) remedies that address the AEC, though it may also choose to address the detrimental effect on customers in addition or as an alternative (CC3 paragraph 4.6).⁶ The CC has said that it is unlikely that, having decided that there is an AEC, it will decide that there is no case for remedial action, at least before it has given attention to any relevant customer benefits that may accrue from the market features.

Assessment of remedy options

22. This section of the paper discusses each of the remedy options set out in the Notice and further options put to the Group since publication of the Notice. It presents the Group's evaluation and conclusions on the effectiveness of each remedy, were it to

⁵Section 134 (6) of the Act.

⁶The CC has said (CC3 paragraph 4.22) that it 'will first look for a remedy that would be effective in dealing with the adverse effects on competition of the market features rather than seeking to deal with any detrimental effect on customers'. However, the CC is prevented from taking action to address future (rather than existing) detrimental effect on customers if it is not also remedying the AEC (section 138(6) of the Act).

be implemented on its own or in combination with others. Issues of proportionality are discussed in paragraphs 223 to 235.

23. The numbering of the remedy options in this paper follows the numbering of the remedies included in the Notice. This means that the numbering of the remedies is not sequential, as some are included in the section dealing with remedies that the Group is minded to pursue, while others are included in the section dealing with remedies that the Group is minded not to pursue.
24. Broadly, remedies 1 to 5 listed in the Notice deal with the quality, clarity and timeliness of the information provided to customers to enable them to take informed decisions. Remedies 6 to 10 listed in the Notice are aimed at addressing the difficulties perceived or experienced by customers in switching and/or prompting customers to consider whether switching would be appropriate. However, the Group notes that those remedies that improve the quality, clarity and timeliness of information provided to customers may also help to address some of the difficulties customers perceive or experience in switching, if these result from a lack of understanding of how their own PCA, or those of other banks, might work.
25. The Group considers that customers should have information that is sufficiently complete, clear and timely for them to make appropriate decisions. This might be particularly relevant, for example, when opening or switching PCAs or when in unauthorized overdraft. A key aim of the Group in deciding on these informational remedies is to enable customers to take informed decisions. This could influence the way in which they operate their PCA or enable them to decide to switch their PCA. The other four remedies that the Group is proposing in relation to the switching process are intended to address customers' experience or perception of the switching process as being risky or burdensome. Taken together, this package of remedies therefore, helps address the features the Group has identified that:
 - (i) banks have unduly complex charging structures and practices;
 - (ii) banks do not fully or sufficiently explain their charging structures and practices; and
 - (iii) customers generally do not actively search for alternative PCAs or switch provider.

They will address these features by creating the conditions for customers easily to search for or switch PCA.

26. However, in addition to action by the banks, customers must themselves actively engage with and act on this if they are to benefit from the emergence of a more competitive market for PCAs. They must use the additional information that these remedies will provide to understand better the cost of running their PCAs, to manage their PCAs better, and actively to consider whether they might benefit from switching their PCA. Consumer bodies also have an important role to play in influencing and empowering customers to choose and switch to the PCA that best suits their needs.
27. The Group asked the banks to provide estimates of the costs of implementing remedies 1, 2, 3, 4, 5 and 8 as set out in the Notice. Eight banks provided cost estimates. Based on these estimates, the Group calculated average one-off implementation costs for each remedy and applied this to all banks which would be required to implement the remedies in order to estimate the total one-off

implementation cost.⁷ Based on information from two banks, the Group also estimated the average annual cost per remedy (from year 2 onwards) and used this to estimate the total annual cost for each remedy.⁸

28. Many of the banks said that the implementation of the remedies that the Group decides to pursue should take into account the timing and outcome of the current Code review. The banks also said that they consider that the BCSB should have an active role in the implementation of some of the remedies, given its expertise in monitoring compliance with the Code. The BCSB expressed its willingness to have a role in the implementation of the remedies if this was deemed appropriate by the Group.
29. The Group is sympathetic to the banks' suggestions and has taken into account the current Code requirements and the current review of the Code in considering the proposed remedies, including their design and expected results, the time required for their implementation, and appropriate monitoring arrangements. Also, in line with the principles of better regulation, the Group is mindful of the need to avoid duplicating existing processes, and intends to make use of existing institutions and mechanisms wherever possible.

Assessment of individual remedies

Remedies the Group has provisionally decided to pursue

Remedy 1: Easy-to-understand terminology and descriptions of PCA services

Banks operating in Northern Ireland must satisfy the BCSB that all their customer communications in relation to PCAs are easy for customers to understand. The banks must ensure that all their written communications with customers with respect to the charges and interest rates that apply to PCAs are either:

- certified by an independent organization specializing in plain English; or
- otherwise tested with customers and found to be easily understandable.

This obligation will apply to all written communications with customers, whether in hard copy or electronic form, including all pre-contractual, contractual and post-contractual information in relation to PCAs.

30. The Group found that banks have unduly complex charging structures and practices and that they do not fully or sufficiently explain their charging structures and practices. These features make it more difficult for customers to understand the charges applied to their PCA by their current provider. They also contribute to the difficulties customers perceive and experience in searching and hence in switching PCAs.
31. To address these features the Group proposed in the Notice that banks should be required to provide an easy-to-understand description for each technical term used (such as 'referral fee'). This would describe the specific service offered and/or activity performed by either the bank or the customer, and the related charges and interest

⁷Paragraph 206(d) sets out the ten banking groups which would be required to implement remedies according to the Group's provisional decision.

⁸See paragraph 224 for further details.

rates. Taking into account the evidence received, the Group has considered the following in particular:

- (a) how best to ensure that the language used is genuinely easy for all customers to understand;
- (b) whether it would be reasonable or desirable to require banks to adopt terminology which is standard for all banks to describe the services offered or the activities performed, and the charges and interest rates applied;
- (c) how best to ensure that customers have ready access to these descriptions of services, charges and interest; and
- (d) how best to ensure that such a remedy is monitored and enforced.

The views of the parties

32. Overall, parties expressed support for the provision of clear and easy-to-understand information written in plain English. However, two banks ([REDACTED]) pointed out that these requirements are already required by the Code and it was [REDACTED] view that the remedy would duplicate existing requirements.
33. One bank ([REDACTED]) said that, despite many attempts to phrase wording clearly, many customers do not read banking information. GCCNI considered that easy-to-understand terminology could be achieved by requiring banks to provide evidence that they had consulted with user groups and had taken into account average literacy and numeracy levels of customers as well as legibility factors for the written information. GCCNI also suggested that banks might involve organizations such as the Word Centre, the Plain English Campaign and the Educational Guidance Service for Adults to improve their written communication to customers. This suggestion was echoed by others ([REDACTED]) who said that banks could seek certification from third parties such as the Plain English Campaign to ensure that their written customer communications were clear.
34. Some parties said that they supported the standardization of certain 'core terms' and a minority of parties supported the standardization of all technical terms used by banks. However, most parties were against the standardization of terminology on the basis that it could be very costly and time-consuming. It would involve banks in Northern Ireland agreeing on a standard terminology whenever they developed a new service or changed some elements of an existing PCA service. Parties also argued that standardization of terminology would stifle innovation, acting as an impediment to the development and launch of new PCAs and services. In this way, they argued that standardization of terminology might be anti-competitive. One bank ([REDACTED]) noted that a number of publicly available sources such as the FSA's consumer website, the Code, and commercial websites (eg moneyfacts.co.uk) contain explanations of key financial terms.
35. Most parties indicated that they regarded the Code and the BCSB as the most appropriate tool and forum to support the implementation of this remedy. [REDACTED], for example, said that the BCSB should play an important part in the implementation and monitoring of this remedy because of its experience in monitoring banks' compliance with the Code requirement for plain language.
36. The Group asked the banks to give an indication of the costs of implementing this remedy, together with remedy 2 (explanations of the levels of charges and interest rates applied to PCAs and how they are applied). Estimates of the one-off costs of

implementation varied greatly. One bank's estimates ([§]) suggested that there would be no one-off cost associated with these remedies. Four banks ([§]) suggested one-off costs of between £15,000 and £35,000. The other three banks which provided estimates ([§]) suggested one-off implementation costs of between £115,000 and £350,000. Together the responses from the eight banks suggested a one-off implementation cost of around £800,000. Taking the average one-off cost per bank and using this to estimate the total for all banks⁹ suggests a total one-off implementation cost of around £1 million.

37. Based on estimates provided by two banks, and on the Group's own assumptions,¹⁰ the estimated annual cost per bank was around £50,000. This suggests an annual cost of implementing these remedies for all banks of around £500,000.

The views of the Group

38. The Group considered the evidence it received both in respect of the effectiveness of this remedy and its costs. The Group noted that the Code already requires banks to give clear information to customers in 'plain language.' This requirement has been in place for some time and the Group received evidence in the remedies hearings that many banks review their customer literature to improve its clarity. The Group noted that, notwithstanding this, there is evidence that customers still do not understand the charges and interest rates that apply to PCAs. The Group therefore found that there was still scope for improvement in this area.
39. The Group also considered whether to require the standardization of at least certain key terms used to describe charges and interest rates in relation to PCAs. The Group thought that standardization could make it easier for customers to compare different PCAs. However, the Group believed that, provided the charges and interest rates that apply to different PCAs are described in language that is easy to understand, customers should be able to make comparisons without terms being standardized. In addition, the Group has some sympathy with the argument that standardization of the terms used to describe PCAs may result in standardization of the services offered, thereby reducing the scope for competition and innovation. The Group is therefore of the view that it is neither necessary nor desirable to require the standardisation of descriptions of certain key terms.
40. However, the Group has identified a number of key terms, which it considers are important for customers' understanding of PCAs. The banks should therefore be required to pay particular attention to the clarity of description of authorized and unauthorized overdraft services and charges and should ensure that they do not use terms which, while they may be understood by the banks, may not be readily understood by customers. These might include, for example, terms indicating charges levied when the bank makes a payment which creates or extends an unauthorized overdraft (ie paid fee or item, paid referral, referral fee); terms used to indicate charges levied by the bank for returning cheques unpaid, or declining to make a payment that, if paid, would create or extend an unauthorized overdraft (ie unpaid fee or item, failed item); BACS; and CHAPS.

⁹This is calculated on the basis that a threshold would be applied so that only banks with more than 10,000 PCA customers in Northern Ireland would apply the remedies. This would mean that currently ten banking groups would apply the remedies. This is discussed in more detail in paragraphs 196 to 206. Calculations of the costs of implementing each remedy across the banks as a whole have all been undertaken on this basis.

¹⁰In estimating the annual cost, the Group has taken into account the requirements for banks to finance additional resources needed for monitoring these remedies.

41. The Group has considered how best to ensure that descriptions of the charges and interest rates that apply to PCAs are in language that is genuinely easy for customers to understand. The Group notes that at least one bank ([X]) is already working with organizations to ensure that its written communications are easily understood. But the Group is aware that other banks have not always found working with such organizations to be satisfactory. The Group does not wish to be overly prescriptive in how each bank should achieve the aim of ensuring clarity in its written communications with customers. However, the Group is keen that these communications should be subjected to testing with customers or with bodies from outside the banking community.
42. The Group has noted the cost estimates provided by the banks for the implementation of this remedy together with remedy 2. The Group did not request separate cost estimates for the two remedies, but it understands from the banks' responses that the costs associated with implementing this remedy would account for a relatively small proportion of the combined costs. In particular, the Group notes that the cost of life corporate membership of the Plain English Society, which would provide services such as document editing to a standard of 'plain English,' costs £15,000 a year including VAT.
43. The Group notes that the costs of implementation would be lower if banks are not required to use standard terminology. The Group also considers that the costs of implementing this remedy would be mitigated by building on the existing arrangements for monitoring compliance with the 'plain language' requirement of the Code by the BCSB. The Group further notes that recommendations have been made to the Code review (eg by the OFT) that the Code should be amended to encourage banks to do more to make their communications with customers easy to understand. The industry may therefore move in the direction suggested by this remedy in any case, so that if adopted as part of the Code in the form stipulated by these remedies, there would be no incremental costs directly associated with these two remedies.
44. The Group considered an improved level of customer understanding of PCAs to be an important element of any package of remedies that would be effective in addressing the AEC in this market. It considered it fundamental that banks ensure that their communications in relation to PCAs are easy to understand.
45. The Group has therefore provisionally concluded that a remedy that required the banks to ensure that written communications with customers are easy to understand would address the features of the market that:

- (a) the banks have unduly complex charging structures and practices; and
- (b) they do not fully or sufficiently explain their charging structures and practices,

The Group has therefore provisionally decided that the banks should satisfy the BCSB that all written communications with customers, whether in hard copy or electronic form, including all pre-contractual, contractual and post contractual information in relation to PCAs should easily be understood. The banks must ensure that all communications are either:

- (i) certified by an independent organization specializing in plain English; or
- (ii) otherwise tested with customers (eg by means of focus groups or customer surveys) and found to be easily understandable.

46. It will not be sufficient for compliance for banks to demonstrate that they have their written communications certified by an independent organization specializing in plain English or otherwise to test them on customers. The BCSB must also be satisfied that all their written communications are clear. However, the Group would expect the BCSB to take account of such certification or other testing in reaching its view on whether a bank's written communications were easy to understand.
47. The Group has provisionally decided that the requirement on banks to satisfy the BCSB that all bank communications with customers in relation to PCAs are easy for customers to understand would apply to all its other remedy options.
48. The Group has considered how best to monitor and enforce this remedy as part of its package of remedies. These issues are discussed in paragraphs 211 to 215.

Remedy 2—Explanations of the levels of charges and interest rates and how and when they are applied

Banks must explain to customers the levels of all charges and interest rates, and the circumstances in which and the frequency with which they are levied or paid. The banks must provide to customers explanations of the levels of the following charges and interest rates:

- (a) Credit interest rate applicable to relevant balance limits.
- (b) Current account charge.
- (c) Charges for standard account services (eg charges for setting up direct debit or standing orders).
- (d) Authorized overdraft debit interest rate.
- (e) Authorized overdraft charges.
- (f) Unauthorized overdraft debit interest rate.
- (g) Unauthorized overdraft charges (including maintenance charges, paid and unpaid items charges and transaction charges).

The banks must make this information freely available to customers before they open a PCA and they must provide it when the customer opens a PCA. The banks must also provide this information on statements (as stipulated by remedy 3) and with any pre-notification of charges that is not sent together with a statement (as stipulated by remedy 5).

This information may be provided in hard copy or electronic form. Information provided to a customer after account opening should be provided in the same form (hard copy or electronic) as the customer receives their statement.

49. The Group considered that the undue complexity in the charging structures and practices of PCAs contributed to the difficulties perceived and experienced by customers in understanding their own PCA and in searching for and evaluating alternative PCAs. The Group, therefore, considered whether the banks should make available to customers information on the level of charges and interest rates, the circumstances in which the customer would incur these charges and/or receive interest, and the way in which, and when, these charges and interest rates would be applied.

The views of the parties

50. Most parties were supportive of this remedy and some parties noted that most of the information is already provided to customers in various leaflets. The BCSB said that the best way to implement this remedy would be through the introduction of summary boxes on marketing and pre-sale material for PCAs. It provided the Group with the example of a summary box that it had prepared in the context of the independent review of the Code in 2004 and which is attached to this paper for illustrative purposes (see Annex A).
51. In reviewing this remedy option with the parties, the Group explored, in particular, whether it should require banks to disclose information on buffers,¹¹ fee caps and pencil limits¹² which are applied at the discretion of the bank. The exercise of discretion takes into account various elements including the customer's credit status and past usage of the PCA and the bank's approach to risk management. The Group considered that there were two aspects to this issue: the existence of the discretionary policies; and the nature of those policies and the way in which they are applied.
52. Most of the parties did not support the disclosure of the banks' discretionary policies on buffers, fee caps and pencil limits. They argued that such policies benefit customers by allowing banks that operate them to be flexible in their approach, taking account of a customer's individual circumstances. They said that the disclosure of these policies would remove the banks' ability to exercise discretion. The way in which these policies operated would in effect become codified, effectively establishing the new limits at which customers would expect to be able to operate their PCAs. These policies might then lose their purpose and the banks might cease to use them, to the detriment of customers.
53. As noted in paragraphs 36 and 37, the Group received estimates of the costs involved in implementing remedies 1 and 2. Based on these figures, the Group estimated the one-off implementation cost of remedies 1 and 2 to be around £1 million and the annual cost for all the banks required to implement remedies 1 and 2 to be around £500,000. The Group understands that the bulk of these costs is likely to relate to this remedy, rather than to remedy 1.

The views of the Group

54. The Group considered that it was important for customers to have information on the level of charges and interest that may be applied to their PCA and when those charges and interest payments may be applied. The Group considered that the key charges and interest payments of which customers should be aware comprised:
 - (a) Credit interest rate applicable to relevant balance limits.
 - (b) Current account charge.
 - (c) Charges for standard account services (eg charges for setting up direct debit or standing orders).
 - (d) Authorized overdraft debit interest rate.

¹¹A buffer is the amount by which a customer may become overdrawn without the overdraft being regarded as unauthorized.

¹²A pencil limit is the amount above which a payment will be returned unpaid by the bank.

- (e) Authorized overdraft charges.
 - (f) Unauthorized overdraft debit interest rate.
 - (g) Unauthorized overdraft charges (including maintenance charges, paid and unpaid items charges and transaction charges).
55. The Group found that the discretion exercised in relation to the application of charges and interest rates contributed to a lack of clarity among customers about their PCAs. However, the Group found that the banks' discretion also benefited customers in that it gave banks the scope to take into account individual circumstances. The Group therefore formed the view that requiring banks to disclose their discretionary policies on the implementation of buffers, fee caps and pencil limits could disadvantage customers if it effectively removed the banks' scope for the exercise of discretion or caused banks to withdraw these policies which benefited customers. The Group, therefore, is not currently minded to pursue a mandatory disclosure of such policies.
56. The Group considered whether customers should be aware of whether a bank has scope to exercise discretion in the application of a charge or interest rate. The Group discussed this with the BCSB who said that the fact that banks may exercise discretion in respect of some charges should be revealed to the customer as this is part of the PCA offer the customer receives from the bank. However, the BCSB said that this disclosure would need to be done in such a way as to avoid leaving customers with a false impression of the way in which charges would be levied. The Group acknowledged that it would be important to ensure that the disclosure of the existence of discretionary policies did not mislead customers.
57. The Group noted the cost estimates provided by the banks for the implementation of this remedy (together with remedy 1). It considered that in order to address the AEC in this market it would be necessary for customers to have a better understanding of the costs of operating a PCA. The Group identified the undue complexity of banks' charging structures and practices as a feature of the market that has an AEC. The Group has provisionally decided that banks must provide comprehensive explanations to customers of the level of charges and interest that may be applied to their PCA and the circumstances under which and the frequency with which they may be applied to their PCAs.
58. As with remedy 1 (see paragraph 43), the Group noted that some of the recommendations to the Code review suggest that the industry as a whole should do more to ensure visibility of charges and interest rates. Thus, the Group considered that not all the costs associated with implementing this remedy may be incremental. The Group also noted that there are likely to be synergies between the implementation of this remedy and remedies 3 (information on statements) and 4 (annual summary and breakdown of interest and charges).
59. The Group considered that the features of the market that banks have unduly complex charging structures and practices and they do not fully or sufficiently explain their charging structures and practices could be addressed by requiring banks operating in Northern Ireland to ensure that their Northern Ireland customers receive explanations of the charges and interest rates that can be applied to their PCAs. In particular, the Group found that banks should take particular care to explain the circumstances in which charges can be incurred and the frequency with which they can be levied or paid in order to ensure that the remedy is effective. Particular care should be taken to ensure that it is clear where a single transaction can trigger more than one charge (eg, that a cheque that takes a customer into unauthorized overdraft may trigger both an unauthorized overdraft maintenance fee and a paid item charge).

In this respect, the use of examples on the way charges are applied could be useful. The Group also believed that banks should make clear to customers which charges and interest rates are subject to the discretion of the bank, even though they need not disclose the way in which the bank would exercise that discretion.

60. The Group has given particular consideration to the question of when customers should be given information explaining the charges and interest rates that could be applied to their PCAs. The Group was keen to avoid both 'information overload' for customers and unnecessary cost for the banks. However, it was also mindful of the need to ensure that customers have information about charges and interest rates at those times when they are likely to be receptive to such information, and likely to use it. The Group has provisionally decided that in order to be effective in addressing the features of the market it has identified, the information set out in paragraph 54 would need to be available to customers when they were choosing between PCAs so that they could compare the likely costs of running a PCA with different operators. The Group has also provisionally decided that this information should be made available to the customer at the time a PCA is opened to ensure that the customer is fully aware of the interest rates and charges that will apply to the PCA.
61. The Group has also provisionally decided that customers should receive this information on their statement, as discussed in remedy 3. In addition, the Group has provisionally decided that customers should receive this information when they are pre-notified of charges and interest payments to be deducted from their PCAs. This is discussed in more detail in relation to remedy 5. The Group noted that where customers are pre-notified together with a statement, customers would receive this information as part of the statement. However, where customers are pre-notified without a statement, the Group has provisionally decided that the banks must provide this information on the pre-notification communication.
62. The Group noted that the Code requires banks to ensure that customers have a copy of the terms and conditions that apply to their PCA when the PCA is opened and thereafter to ensure that any changes to those terms and conditions are communicated to the customer in a way that allows customers to understand the changes made. The Group noted that the way in which customers are informed of changes to their terms and conditions varies between banks. The Group considered whether to require that the customer should receive a complete set of terms and conditions each time a change is made to them. The Group believed that this might result in customers receiving several copies of their terms and conditions each year. This might also make it more difficult for the customer to see the changes that have been made. The Group also noted the additional cost that such a requirement may entail. On balance, the Group reached the view that banks should not be required to send a complete set of new terms and conditions to customers every time a change is made. However, the Group regarded it as important that, in order to ensure that customers have clear information, any change in terms and conditions should be accompanied by sufficient explanation and context so that customers can understand the implication of the change for them.
63. The Group's view is that this remedy would help to ensure that customers have information on the charges and interest rates that can be applied to their PCAs, and the circumstances in which they may be applied. This remedy is complemented by remedy 1, which will ensure that this information (together with any other written communication supplied to customers by banks) is easy for customers to understand. Together, the Group considers that these two remedies would be effective in addressing the features that banks have unduly complex charging structures and practices and banks do not fully or sufficiently explain their charging structures and practices.

64. The Group is aware that one of the key commitments to customers set out in the Code is to provide clear information about how an account or service chosen by a customer works, its terms and conditions and the interest rate which apply to it. The Group considers that remedies 1 and 2 reinforce and extend the Code requirements by putting emphasis on the clarity and completeness of the information to be given to customers about PCA services, interest rates and charges and their application.
65. The Group has considered how best to monitor and enforce this remedy as part of its package of remedies. These issues are discussed in paragraphs 211 to 215.

Remedy 3—Information on statements

Banks must provide customers with key account information, as part of their PCA statements.¹³ The information should be provided to each PCA customer, in the same form as a customer receives their statement. It may be provided on the front or the back of the statement, on a separate sheet on 'statement paper', or as part of an electronic communication, provided the information is clearly part of the statement.

66. In the Notice, the Group proposed a requirement that banks should provide information on each PCA statement on the levels of charges and interest rates, and how and when they are applied, together with other information on switching and on the key terms and conditions of the PCA.
67. The proposed remedy seeks to address the following features identified in the provisional findings that banks have unduly complex charging structures and practices and banks do not fully or sufficiently explain their charging structures and practices.
68. The Group considered the following:
- (a) what information should be displayed on PCA statements;
 - (b) how such information should be displayed;
 - (c) how often the information should be included on the statement;
 - (d) how best any such remedy might be implemented; and
 - (e) the extent to which the summary box considered by the BCSB following the previous Code review might provide a basis for this remedy (see Annex A for illustrative example).

The views of the parties

69. Although all parties agreed that a certain amount of information on charges and interest rates should be included on statements, most parties said that they already provide this information to customers. They expressed concern that additional information on statements might become excessive and repetitive and result in customers becoming confused or impervious to the information.

¹³The term 'statement' is used to refer to a communication from a bank to a PCA customer setting out the transactions that occurred on that customer's account in a given period.

70. The Group noted that, in the context of the last review of the Code in 2004, the BCSB consulted on the inclusion on statements of summary boxes containing key account information. The BCSB prepared a sample of such a summary box, which is attached to this paper at Annex A for illustrative purposes. The Group discussed this with the BCSB. The BCSB noted that, while the detailed content might need to be revisited, it saw no reason why such a summary box should not be included on statements.
71. Many parties said that this remedy would overlap with the evaluation and possible introduction of summary boxes for PCAs currently being conducted by the British Bankers' Association (BBA) as a result of a recommendation by the independent reviewer at the last Code review. The parties said that they would prefer any change to statements to be implemented in a consistent manner and only once. [redacted] also noted that the survey commissioned by the BBA on summary boxes indicated that customers have less interest in post-sale summary boxes (ie, summary boxes on statements) than pre-sale summary boxes (ie on marketing material) which are seen as more useful.
72. Some banks ([redacted]) said that the remedy would be easier to implement, and in their view more effective, if the information were provided on a separate leaflet rather than on statements.
73. With regard to the key account information that should be included on statements, one bank ([redacted]) said that the following information should be shown on statements: interest rates (debit and credit), unauthorized overdraft charges and transaction charges. Which? said that information on authorized and unauthorized overdraft charges and interest should be shown clearly on statements. GCCNI suggested that the following information should also be shown on statements:
- Website address and telephone helpline number for further information on charges and the operation of the account.
 - Where to seek advice if in financial difficulties.
 - The FSA consumer website address and telephone helpline.
 - The complaints process.
- GCCNI said that it recognized that summary boxes may be introduced by the Code, but it felt that they should be required of the clearers prior to March 2008. Lastly, Advice NI said that in addition to information on interest rates and charges, statements should contain information for customers on how to challenge the charges applied to their account.
74. The Group wished to ensure that information provided to customers did not result in information overload. However, customers who want information on interest rates and charges that apply to their PCAs currently need to request it from the bank. Alternatively they would need to refer to documents given to them when they opened the PCA or at the time of the latest changes in charges, which could mean referring back to documents received months or years before.
75. The Group asked the banks to provide estimates of the cost of implementing this remedy. The estimates varied, with the extent of the variation depending at least in part on the banks' statement systems and the information already provided. The banks' estimates suggested a range of one-off costs of implementing the remedy (assuming that information could be located on the front or the back of the statement) from around £25,000 ([redacted]) to £1.5 million ([redacted]). Taken together the banks' estimates

suggest a total one-off implementation cost in the range of £5.8 million to £9.4 million. The two estimates of the annual cost of this remedy were zero ([~~£~~]) and £100,000 ([~~£~~]). The Group estimated the annual costs of the banks that did not provide cost estimates as £100,000. This suggests an annual implementation cost for all banks of around £900,000.

The views of the Group

76. The Group formed the view that the availability of information on statements on PCA key terms would enhance customers' ability to understand the services provided by a bank, and the charges and interest rates applied, on their own PCA. It would thereby make it easier for them to compare the PCAs offered by other banks. The Group considered it essential that information on key terms was provided on the statement itself to ensure that customers could make sense of the transaction information on their statement and relate this to their behaviour. The Group considered this to be important in effectively addressing the features of the market that banks have unduly complex charging structures and practices and they do not fully or sufficiently explain their charging structures and practices. The Group considered this remedy to be important in ensuring that customers have a sufficient understanding of the way in which their PCA operates, and therefore in ensuring that customers have the information they need in order to make informed choices about the best PCA for them.
77. The Group has provisionally decided that banks should provide as part of the statement (whether provided in hard copy or electronically), explanations of the level and application of at least the following:
- (a) Credit interest rate applicable to relevant balance limits.
 - (b) Current account charges.
 - (c) Charges for standard account services (eg charges for setting up direct debit or standing orders).
 - (d) Authorized overdraft debit interest rate.
 - (e) Authorized overdraft charges.
 - (f) Unauthorized overdraft debit interest rate.
 - (g) Unauthorized overdraft charges (including maintenance charges, paid and unpaid items charges and transaction charges).

The Group considered that the illustrative BCSB summary box (see Annex A) represented an excellent starting point for the banks' consideration of how best to provide information on statements in line with this remedy provided it included the information presented in paragraph 77.

78. The Group considered whether this information should include ancillary charges (such as charges for money transfers or for copies of statements). However, the Group did not consider that the additional value to customers of including this information on statements would be sufficient to merit requiring its inclusion. Because ancillary services are only provided on request, the level of ancillary charges and how they will be deducted from accounts would generally be made clear to customers by banks at the time of the request.

79. The Group has considered whether to specify that the information should all be provided on either the front or the back of the statement, or alternatively split between the two, or otherwise provided on a separate sheet but still as an integral part of the statement. The Group did not consider that a requirement to provide such information on the front of the statement would be of clear benefit to customers. Such a requirement could make the front of the statement crowded, could lessen the impact of the information on transactions and might reduce the likelihood of a customer reading the statement. The Group considered that its aim of ensuring that customers would be able to understand what charges and interest appeared on their statement without having to refer to other sources should be achievable without prescribing the precise location of the information on the statement. In addition, there are significant differences between banks in the way in which statements are created. Some banks would find it much easier to print additional information on the front of statements than to print it on the back and vice versa. The cost estimates provided by the banks also suggest that some banks would find a requirement to provide information on the front of statements significantly more expensive than being able to provide the information elsewhere as part of the statement. Taking all this into account, the Group has provisionally decided not to prescribe the location of information on statements.
80. There is a link between this remedy and remedy 2. Remedy 2 requires the banks to provide comprehensive information on the PCA services available, the level of charges and interest and how charges and interest are applied to the PCA. This remedy requires that information be provided as part of a customer's statement.
81. Beyond those charges and interest rates listed in paragraph 77, banks may also wish to include additional information on statements. Although the Group has provisionally decided not to require the provision of other information in relation to ancillary charges on statements, banks may, for example, wish to include information on the statement telling the customer where such information is available. Similarly, they may wish to include other information such as the clearing cycle (ie, when money deposited in the PCA starts earning interest and when money paid into the PCA is available).
82. The Group noted that many banks already provide other information on their PCA statements such as website addresses and telephone helpline numbers for customer enquiries; where to seek advice if in financial difficulties; the FSA consumer website address and telephone helpline; and the complaints process. While such information may well be helpful to customers, the Group has provisionally decided not to require its provision on statements (or elsewhere) as it would not directly address the AEC, or any detrimental effect on customers, arising from the features of the market it has identified.
83. One bank ([~~redacted~~]) said that the Consumer Credit Act will, from April 2008, require banks to include information on credit interest rates and debit interest rates applying both to authorized and unauthorized overdrafts on statements. This would suggest that banks might therefore be implementing changes to the information provided on statements irrespective of Group's package of remedies. The Group believed that the incremental cost that the banks would incur in complying with this remedy, over and above the costs that they would incur in complying with the Consumer Credit Act, may be significantly lower than those cost estimates provided to it.
84. The Group has considered how best to monitor and enforce this remedy as part of its package of remedies. These issues are discussed in paragraphs 211 to 215.

Remedy 4—Summary and breakdown of charges and interest

Banks operating in Northern Ireland must provide PCA customers with an annual summary of the charges and interest payments incurred on their PCA, as well as a breakdown of this total by category of charge or interest payment (eg account charge, direct debit charge, unauthorized overdraft charge). These summaries are to be provided to each customer in the same form (hard copy or electronic) as that customer receives their statement. The summaries must include any ancillary charges (eg a charge for a copy of a cheque) deducted from the customer's PCA in the period covered by the summary. The summaries must also include an explanation of the charges incurred. This may be done by providing the same information as the banks make available under remedy 2.

85. In the Notice, the Group proposed that banks should provide on statements an easy-to-understand analysis of the charges and interest rates that have been applied to each PCA (a) in the period covered by the statement and (b) in the previous 12 months (including the period covered by the statement). This would allow customers to see the amount of charges and interest they have paid in the last year, both as a total and by category of charges and interest.
86. This seeks to address the features that banks have unduly complex charging structures and practices and do not fully or sufficiently explain their charging structures and practices. It also seeks to address the feature of the market that customers generally do not actively search for alternative PCAs or switch provider. This is because seeing the cumulative total cost of operating a PCA and the interest received would be likely to prompt some customers to search for, or switch to, an alternative PCA.
87. The Group sought the parties' views on:
- (a) what information could usefully be included in any breakdown of charges and interest in order to maximize their usefulness to customers (eg, the amount of each individual charge or interest rate; how many times during the period the charge or interest rate had been applied to the customer's PCA; the total amount of each charge or type of interest the customer had paid in the period; the total amount of all charges in the period);
 - (b) how any such breakdown should be presented in order to maximize its impact;
 - (c) how often it should be provided (eg once a year or each month); and
 - (d) whether the period covered by the summary should be a period other than the last 12 months, and if so, whether it should be accompanied by a rolling total covering the previous 12 months.

The views of the parties

88. None of the banks that responded to the Notice supported this remedy. They said that historical information was of very limited use to PCA holders, that a summary or rolling total of charges and interest would create confusion for customers, and that there was no customer demand for more information on charges and interest on statements. One bank ([REDACTED]) considered the remedy to be duplicative, expensive and, in any event, disproportionate due to the fact that it had only [REDACTED] branches in Northern Ireland. Another bank ([REDACTED]) said that the majority of customers do not pay charges. Many banks said that this remedy would be particularly costly for them to

implement. Not all banks keep cumulative totals for the different types of charges and interest payments applied to PCAs. Where this information exists, some banks argued that this remedy would require them to design new software, or adapting existing software to bring the information together before a written communication could be prepared for the customer. ([§]) suggested that an annual statement or leaflet with a breakdown of charges and interest incurred during the tax year (to coincide with interest statements) would be a simpler and clearer solution for customers. ([§]) said that if the Group were minded to pursue this remedy, such summaries should be annual rather than monthly and should be provided as a standalone document that could be sent with the statement rather than appearing on the statement.

89. The BCSB said that this remedy risked creating information overload, particularly if rolling totals were provided, and considered that there was a risk that the cost of the remedy would outweigh its benefits. Which? echoed the BCSB's concern about the risk of information overload although in principle it was broadly supportive of the remedy.
90. GCCNI and Advice NI expressed support for this remedy. Advice NI said that the breakdown of charges and interest should be provided to customers on a monthly and six monthly basis. GCCNI said that the market average for each charge should be included on the annual summary. It also proposed that a breakdown of the following information should be included on each statement, for both the period of the statement and the preceding year:

- the charges incurred;
- the amount borrowed by authorized overdraft;
- the unauthorized amount borrowed;
- the number of days in unauthorized overdraft;
- the interest deducted; and
- the interest earned.

GCCNI said that the provision of the summary of charges for the month and the year should be additional to the normal breakdown of charges that is given in a statement. It also recommended that a statement of customers' rights in relation to charges incurred is included on every statement, together with information on how to make a complaint.

The views of the Group

91. The Group believed that a customer should know the cost of their PCA in a similar way to knowing the cost of other financial services products, such as a mortgage or insurance. It also believed that the cost should be broken down by category, such as monthly account charges, direct debit charges, credit interest, debit interest (separately for authorized and unauthorized overdrafts), and overdraft charges (separately for authorized and unauthorized overdrafts). The Group considered that the annual summary and breakdown should also include ancillary charges, in order to give customers a complete picture of the cost of operating their PCA in a given year. The Group considered that providing customers with a regular breakdown of all charges and interest incurred would increase their awareness of these charges. The

annual cost to customers would help them to realize that there may be gains from looking for a more suitable PCA to meet their needs.

92. Banks already inform customers, either on statements or through separate communications of the amount borrowed by authorized overdraft, the amount of unauthorized overdraft and the number of days in unauthorized overdraft. Although providing summaries of this information may go some way to increasing awareness of those charges and interest payments, the Group considered that banks' current practice did not go far enough. It considered that a clear annual summary and breakdown by category would have greater impact. It would clarify the cost to customers of running the PCA. In addition, a 12-month total would be a larger figure than a monthly total and could therefore be more effective in stimulating switching.
93. The Group also considered whether the remedy would be more effective if it required the banks to provide the information on a different basis more frequently. Specifically, it considered whether banks should be required to provide, the total charges and interest payments that had been deducted from the PCA over the last 12 months, (ie a 12-month rolling total) each month or quarter. The parties argued that providing customers with a rolling total of charges rather than an annual accumulation would be likely to create confusion as rolling totals are not commonly used in current financial customer information. The Group considered that quarterly or monthly rolling totals or year to date accumulations may provide information that some customers would find helpful. However, the Group also took into account other factors including the possible adverse consequences in terms of information overload and the additional cost that would be associated with such a requirement. The Group has therefore provisionally decided not to require summaries and breakdowns more than once a year.
94. The Group received estimates of the costs of implementing this remedy from seven banks.¹⁴ These estimates suggested that the one-off costs to the banks of implementing this remedy would range from £40,000 (£) to £4 million (£). The total one-off implementation costs for the banks that provided estimates were between £6 million and £10 million, suggesting a range for all banks of between £8 million and £14.5 million. These estimates suggest that the annual cost of implementing this remedy may be around £80,000 per bank, or £800,000 for all banks required to implement the remedy. The Group recognizes that the banks' estimates did not include the provision of ancillary charges on the annual summary and breakdown and will consider any further relevant cost estimates provided by the banks.
95. The banks said that this remedy would be difficult to implement because it would require them to bring together information that is currently held in different places and on different systems. They argued that the complexity of this task underlies the relatively high cost of implementing this remedy compared with the other remedies that the Group wishes to pursue.
96. However, the Group's view is that this remedy is essential for its package of remedies to be effective in addressing the AEC. In general, the Group formed the view that Northern Ireland PCA customers should be provided with information that makes the cost of their PCA clear to them, in the same way as the costs of other financial services products such as mortgages, are made clear. The Group considered that this remedy would help to address all three of the features of the market it has identified as resulting in the AEC, making it a particularly powerful

¹⁴These estimates did not reflect a requirement to include ancillary charges in the summary.

element of the package. This remedy would effectively—in conjunction with remedies 1, 2, and 3 above—help to address the features of the market that banks have unduly complex charging structures and practices and do not fully or sufficiently explain their charging structures and practices. Furthermore, the Group considered that this remedy would help to address this feature by presenting customers with the total cost of operating their PCA over a year, thereby increasing the likelihood that they would actively consider different providers. The Group is aware that for customers who remain in credit the total cost of operating a PCA (not taking account of credit interest foregone) over a year may be very low. However, it noted that it is not necessary for *all* PCA customers actively to search for alternatives to make the market more competitive, and for some customers—notably those who have incurred unauthorized overdraft charges—the cost of operating a PCA over a year may be considerable. In conjunction with remedy 8 (the ‘rights reminder’) and remedy 10 (changes to the switching process), the Group considered that this remedy would be key to the effectiveness of its package, despite the relatively high costs of implementation.

97. The Group also noted that this remedy has been designed in such a way as to mitigate its costs. In particular, the remedy does not stipulate when the summary should be provided. Although there might have been some value in all customers receiving these summaries and breakdowns at more or less the same time, to create a ‘switching season’, the Group has left this decision to the banks. It is open to the banks to choose a date to fit in with their business cycles. They may also choose not to send the annual summaries and breakdowns to all their customers at the same time, possibly staggering them over the year.
98. The Group has, therefore, provisionally decided that banks should be required each year to provide an annual total of the charges, credit interest payments and debit interest payments, and ancillary charges, that have been deducted by the bank from the PCA over a specified 12-month period (eg, 1 January to 31 December or the tax year). This should be provided either on a statement or on an additional document included in the same envelope or as part of the same electronic communication as the statement.
99. The Group has also provisionally decided that, in order to be effective, this information should be broken down to show the total of each individual type of charge or interest payment made over the relevant period. The charges and interest payments that should be covered in the summary include the following:
 - (a) any regular account charge (eg monthly charge for maintaining the PCA) payable when the PCA is in credit;
 - (b) any transaction charges (eg for setting up a standing order) payable when the PCA is in credit;
 - (c) credit interest;¹⁵
 - (d) authorized overdraft:
 - (i) debit interest;
 - (ii) annual or monthly maintenance charges;

¹⁵Banks must show credit interest and debit interest separately. They will not be permitted to provide a single figure comprising debit interest minus credit interest.

- (iii) other relevant charges;
- (e) unauthorized overdraft:
 - (i) debit interest;
 - (ii) maintenance charges;
 - (iii) transaction charges (eg, referral or unpaid charges);
 - (iv) other relevant associated charges (eg, letter to customers); and
- (f) ancillary charges (eg charges for money transfers or for copies of cheques).

100. The Group has considered how best to monitor and enforce this remedy as part of its package of remedies. These issues are discussed in paragraphs 211 to 215.

Remedy 5—Advance notice of charges and debit interest incurred

Banks must pre-notify customers of all authorized and unauthorized overdraft charges. Pre-notification may be sent together with a statement or in advance of a statement. However, the banks must not deduct a pre-notified charge from a customer's PCA until at least 14 days after the date of the statement. If the pre-notification is not sent together with a statement the bank must provide the key account information that is required under remedy 2 on the pre-notification communication.

Banks must not allow charges and interest to accumulate to a PCA for more than one month before the customer is pre-notified of the bank's intention to deduct the charge or interest from the PCA. The bank must send the customer a statement at the end of any month in which authorized or unauthorized overdraft charges are incurred.

The pre-notification should be sent to the customer in the same form (hard copy or electronically) as the customer receives their statement.

101. In the Notice the Group considered the requirement for banks to provide customers with advance notice of charges and debit interest before they are debited to their PCA. This would improve the transparency of PCA charges.

102. In particular, the Group considered:

- (a) the notice period banks should be required to provide to customers (eg 14 days, 30 days or some other period) before an amount is deducted from their PCA; and
- (b) whether such notice should be provided on customers' statements or by means of a separate communication.

The views of the parties

103. The majority of responses to the Notice supported this remedy. Many parties noted that it would be in line with the current Code requirement for banks to give customers 14 days' notice of the application of charges for standard account charges that accumulate on the PCA and are charged at the end of the billing period. Some

parties ([REDACTED]) said that they already exceed the Code requirements and pre-notified customers of unauthorized overdraft charges.

104. One bank ([REDACTED]) said that the Consumer Credit Act will introduce the requirement for banks to pre-notify customers of charges for exceeding their authorized overdraft (known as 'default sums'). The BCSB said that the independent directors had recommended that the Code should be amended to require all banks to pre-notify default charges in their submission to the current review of the Code.
105. [REDACTED] and [REDACTED] did not support this remedy. [REDACTED] said that it pre-notifies customers of debit interest on authorized and unauthorized overdrafts and it contacts customers when their PCA goes into unauthorized overdraft. [REDACTED] also said that in its view the implementation costs of this remedy would be disproportionate to the benefits it was likely to achieve, since the majority of customers did not pay these charges. [REDACTED] argued that in order for a bank to pre-advise unauthorized borrowing charges it would be likely to have to accumulate charges and apply them once a month. [REDACTED] noted that this could result in a time delay of five to six weeks between the activity that gave rise to the charge and the actual application of the charge and customers would need to keep sufficient funds to pay for the accumulated charges in the following month.
106. [REDACTED] argued that this remedy would mean that it was not able to charge customers for charges incurred immediately, and that this would increase the credit risk associated with the customer. This could result in [REDACTED] applying a more stringent credit assessment and lending policy with more unauthorized transactions being rejected.
107. GCCNI recommended a 30-day pre-notification period while Advice NI said that the length of the pre-notification should be tailored to the amount to be charged: the higher the amount the longer the pre-notification.
108. Advice NI and GCCNI recommended that charges and interest are pre-notified on statements rather than on a separate communication. Advice NI also suggested that advance notice of charges and interest could be included on statements obtained from ATMs (mini-statements). One bank ([REDACTED]) which provides advance notice of charges to be collected on statements, echoed this recommendation adding that a requirement to provide this information by means of a separate communication would be unnecessary, increase costs and reduce customers' interest in statements.
109. The banks provided the Group with two estimates of the cost of implementing this remedy. The first estimate was based on there being no requirement to link pre-notification and the sending of a statement. The second required pre-notification on a statement.¹⁶ The one-off costs of implementing the remedy, without any link between pre-notification and statements, ranged from £0 ([REDACTED]) to £4 million ([REDACTED]), with the total for the eight banks who responded being in the range of £6 million to £10.5 million. This suggests a one-off implementation cost for all banks in the range of £8.5 million to around £15 million. The estimates for the annual costs provided by one bank ([REDACTED]) indicate that the total annual costs of implementing this remedy for all the banks affected may be around £150,000.
110. The banks' estimates suggested that if they were required to pre-notify on statements, the costs of implementing the remedy would be greater than it would have been without requiring a link between pre-notification and statements. The one-off implementation costs for all banks would be in the range of £10 million to

¹⁶The Group is aware that neither of these forms precisely conforms to this remedy as expressed here. However, it considered that the cost estimates for this remedy were likely to fall within the same range.

£19 million. The annual cost of implementing the remedy for all banks could be around £3.5 million.

The views of the Group

111. The Group noted that the Code (Section 5.4 and 5.5) already requires banks to give customers at least 14 days' notice of any charge and interest that accumulates to the PCA. Examples of charges where 14 days' prior notification is already required are set out in the Code as follows:
- (a) usage fees for authorized overdrafts;
 - (b) debit interest; and
 - (c) charges for standard account services such as processing cheques, standing orders, direct debits and UK debit card transactions.
112. The Group noted that there was currently no requirement to pre-notify:
- (a) charges for services that are debited at the time the service is provided and where the customer has been notified in advance (eg in the price lists or terms and conditions). These include, for example, charges and additional interest payable for authorized or unauthorized borrowing; and
 - (b) charges for services that are debited at the time the service is provided and where the customer is informed at the time the service is provided, for example charges for stopped cheques or a money transfer.
113. The Group also noted that pre-notification practices varied considerably between banks. Some banks pre-notify customers of unauthorized overdraft charges a number of days before these charges are taken from the PCA. Other banks contact customers to alert them that their PCA is in unauthorized overdraft and charges are being levied, or apply the unauthorized overdraft charges to customers PCAs on the day they are incurred, without any communication to customers except the account statement that is sent to them every quarter.
114. In the case of those banks that do not pre-notify certain charges, it is possible that customers would be unaware of a charge until it had already been taken from their PCA. The Group believes that this makes it difficult for these customers to take appropriate action to ensure that sufficient funds (or an authorized facility) are available to pay for charges. The Group also believes that it makes it difficult for these customers to understand the link between their behaviour and the charges and interest deducted from their PCA.
115. The Group noted that some banks, such as [X], routinely contact customers who have incurred charges to discuss their situation. The Group welcomes this and considers that its remedy should not preclude banks from taking a pro-active approach to raising customers' awareness of the link between their behaviour and the charges and interest payments deducted from their PCA.
116. Given the limits of the current requirements on pre-notification and the different practices of the banks, the Group considered that there was scope to improve pre-notification, and that this would help to address the feature that banks do not fully or sufficiently explain their charging structures and practices which leads to difficulties in customers making informed choices. The Group noted that this remedy would be consistent with the banks' responsible lending requirement, and would facilitate

discussion between the banks and their customers about how best to manage their finances.

117. The Group noted that the Consumer Credit Act will require banks to give the customer notice when a sum becomes payable due to a breach of the PCA agreement (default sum). Examples of such a sum include charges imposed for entering into unauthorized overdraft. The term default sum does not apply to interest, and therefore this provision would not apply to differential interest rates applied to unauthorized overdrafts.
118. The bank can only enforce the agreement (and therefore take the charge) once it has given notice. The Consumer Credit Act does not, however, provide for a particular notice period before the imposition of the default sum. The bank may only require the customer to pay interest in connection with a default sum 28 days after the day the notice was given. The notice may be issued separately or incorporated in a statement or another notice that is required under the Consumer Credit Act.¹⁷
119. The Group found that a remedy requiring banks to pre-notify charges (excluding ancillary charges) and interest is important in order to increase the transparency of the banks' charging structures and practices for customers. The Group believes that, by increasing customers' understanding of the banks' charging structures and practices, customers would be more aware of the need to look for the most appropriate PCA to meet their needs. The pre-notification requirement would cover all authorized and unauthorized overdraft charges, including any that do not accrue to the PCA. Ancillary charges are not included in the scope of this remedy. The customer will be advised of these charges when they request the service and should therefore understand why the charge has been deducted from their PCA.
120. The Group considered that it was important for customers to be provided with a statement, covering the month in which the charges were incurred, before the charges are deducted from their PCA. The information in the statement would allow the customer to understand the link between their behaviour and the charge incurred. In addition, the Group considered that the account information provided on the statement—in particular the account balance and the transactions on the account—would ensure that the customer had sufficient information to consider what action to take before the charge was deducted from their account. The information on the statement would also allow the customer to challenge the charge if, for example, it was levied as a result of some error on the account. In order for the customer to make use of this information, the Group considered that the customer should receive it in good time before the charge was deducted from the PCA. The Group has therefore provisionally decided that banks must not deduct a pre-notified charge or interest payment from a PCA until at least 14 days after the date of the statement. The Group considered that this should allow the statement to be prepared, posted and received by the customer in time for any appropriate action to be taken.
121. The Group considers that the bank should ensure that the customer receives a clear and easily understandable explanation of the level of the charges and interest they have incurred and why they have been incurred with the pre-notification. This will ensure that the customer can understand the link between their behaviour and the charge or interest payable. If pre-notification takes place with a statement, this information can be the information required on statements in line with remedy 3. However, if pre-notification does not take place with a statement, this information must be provided additionally.

¹⁷This includes any notices or statements required under either the 1974 or 2006 Consumer Credit Act.

122. Similarly, in order that the customer can link the charge or interest payable with their behaviour, the Group considers that it is important to ensure that charges and interest do not accumulate over a long period of time before the customer is notified of them and before they are deducted from the PCA. For this reason, the Group has provisionally decided that banks should not allow charges and interest to accumulate to a PCA for more than one month before the customer is pre-notified of the bank's intention to deduct the charge or interest. The bank must send the customer a statement at the end of any month in which authorized or unauthorized overdraft charges are incurred.
123. The Group is aware that not all PCA customers in Northern Ireland receive monthly statements. Some banks (such as [X] and [X]) generally send statements quarterly. Some banks allow their customers to choose when to receive statements, with the proviso that they must receive at least one statement annually. The Group does not wish to preclude this from happening. However, the Group considers it important not only that customers receive a statement at around the same time as they are pre-notified of charges, but also that customers can relate the charge to particular transactions. Thus, the Group has provisionally decided that, if in a particular month a customer incurs a charge, the bank must send a statement covering the month in which the charge was incurred and must do so no later than five days after the end of that month.
124. The Group considered when customers should be pre-notified. The Group believed that customers should have sufficient time to take action so that they did not incur additional unauthorized overdraft charges. However, it was equally important that the period that elapsed between incurring the charge and taking the charge from a customer's PCA was not too long. The longer the period, the more difficult it would be for the customer to manage their PCA. The Group did not believe that the length of time between incurring and deducting the charges should be dependent on the level of the charges. The Group understood that customers might like to have longer to ensure that sufficient funds were in their PCA to pay for a larger charge. But it considered that varying the period for pre-notification according to the level of the charge could lead to customer confusion. The Group considered that a reasonable balance would be struck by requiring banks to pre-notify customers of charges or interest to be deducted from the PCA at least 14 days before they are deducted from the PCA.¹⁸
125. Given the requirements of the Consumer Credit Act, and the changes to the Code that are being considered, the Group is not persuaded that the costs attributed by the banks to the implementation of a pre-notification remedy will be stand-alone.
126. The Group also considered the argument made by one bank ([X]) that this remedy would increase the credit risk associated with the customer. The Group recognizes that the implementation of this remedy would result in changes to the current charging processes of banks and in a time delay between the activity giving rise to the charge and the actual application of the charge. The Group does not consider that this remedy would increase a bank's credit risk to the extent that it would lead to banks significantly reconsidering their current lending approach. It notes that it did not receive any evidence showing that the lending practices of banks that currently pre-notify customers of unauthorized overdraft charges are different or more restrictive than those of the banks that do not pre-notify these charges.

¹⁸Assuming that the bank deducted the charge from the PCA 14 days after the date of the statement, a charge could be taken from a customer's PCA up to six weeks after it had been incurred.

127. The Group noted the additional costs estimated by the banks as resulting from a requirement to pre-notify on statements. However, the Group considers that, if this remedy is to be effective in empowering customers to take appropriate action to manage their PCA, it is vital that customers have relevant account information to hand when, or shortly after, they receive pre-notification of charges to be deducted from their PCA. The Group therefore considered that it should mandate a link between pre-notification and statements. The Group considered whether it should require banks to pre-notify together with a statement. However, it noted the argument put forward by one bank ([X]) that a separate pre-notification letter may have more impact than the statement itself. It has therefore provisionally decided that banks should be permitted either to pre-notify with a statement or at a time before the statement is sent. However, the Group has provisionally decided that, whether pre-notification occurs with a statement or in advance of a statement, the bank must not deduct the pre-notified charge from the PCA until at least 14 days from the date of the statement.
128. The Group considered whether requiring the banks to provide the account balance on the pre-notification, or information on the ways a customer could access the account balance, would be sufficient to allow the customer to take appropriate action. However, because the account balance would not provide any indication of the transactions that would be likely to occur on the PCA before the charge or interest was deducted, the Group did not consider that account balance information alone would be sufficient and was not an adequate substitute for a statement.
129. The Group's remedy mirrors the requirement being recommended by the BCSB's independent directors to extend pre-notification to cover default charges (see paragraph 104), but goes further by ensuring that customers have a recent statement available when they receive the pre-notification. Since the Code already includes a requirement for pre-notification, and since this may be extended following the review, the Group considers that the BCSB would be well placed to monitor compliance with this remedy. This is discussed in more detail in paragraphs 211 to 215.

Remedy 8—Regular 'rights reminder'¹⁹

Banks must provide wording that makes clear that a customer can choose to close their PCA with that bank and seek to obtain PCA services from a different provider, and where they can find further information on how to do this. This must be provided as part of the same communication as the annual summary and breakdown of charges and interest (see remedy 4). It must be accompanied by a general communication developed by the banks and the BBA which explains the switching process, the fact that it is easy to switch using the banks' switching services, and that customers are not charged for switching. This communication may be in electronic form or hard copy but must be sent to customers in the same form as they receive their summary and breakdown of charges and interest.

130. The Group has found that some customers regard having a PCA to be a 'privilege' and it considers that this constitutes a barrier to switching. The Group has therefore considered whether banks should be required, to remind customers regularly, prominently and clearly that they have a right to terminate the agreement under which their PCA is provided by their existing bank and to switch PCA provider. This

¹⁹Remedy 6 (personal indicative quotes) and remedy 7 (typical customer quotes) are remedies that the Group has provisionally decided not to pursue. These are discussed in a separate section, with other remedies that the Group has provisionally decided not to pursue, below.

remedy would address the feature that customers generally do not actively search for alternative PCAs or switch provider.

The views of the parties

131. The views of the parties on this remedy were mixed. Some parties did not consider that such a reminder was necessary. They considered that such a reminder would be intrusive, run contrary to the normal business objectives of banks and risk creating information overload. One bank ([REDACTED]) said that the remedy would not address any of the features of the market identified in provisional findings as the CC had not found evidence of a lack of knowledge on the part of customers that they have the right to switch PCA provider.
132. Other parties expressed support for this remedy but they considered that the most effective way to implement it would be for the reminder to refer to the switching process. In particular, [REDACTED] and [REDACTED] said that they believed that a standard industry leaflet should be developed which includes a message on the customer's ability to switch PCA provider and the detail of the switching service available to them. It was suggested ([REDACTED]) that a standard industry leaflet, as opposed to bank-specific material might also have more authority and credibility with customers.
133. Ulster said that it used to include the following text in its 'switcher brochure':
- We're confident you'll never have a reason to leave. At Ulster Bank we believe in making life easy for you. We'll endeavour to give you excellent banking service and hope that you will never have any reason to leave us. But should you ever decide that you want to leave we will:*
- *Provide your new bank with a list of your direct debits and standing orders by close of business on the third working day following your request*
 - *Cancel your direct debits and standing orders on the second day following your request*
 - *Transfer your account balance by the third working day, if you want us to*
 - *Close your account within 4 working days, once we have enough funds to clear any overdraft you have (including interest and costs).*
134. Ulster said that it would not object to reintroducing such text in its marketing literature.²⁰ However, it said that it would not support a requirement for it to remind existing customers of the switching process and their right to switch away as this would be counter-productive to developing a long-term relationship with the customers. It argued that such a message would be better conveyed by means of a standard leaflet produced by the BBA.
135. The Group asked the banks to provide estimates of the costs of implementing its 'rights reminder' remedy, including the distribution to customers of a leaflet setting out the switching process. Six banks provided estimates of one-off costs; these varied considerably, ranging from £15,000 ([REDACTED]) to £210,000 ([REDACTED]). The total one-off costs of implementing this remedy for all banks would be around £700,000. The

²⁰The text was removed when the literature was relaunched in October 2006.

Group used the banks' estimates to estimate the ongoing annual costs of implementing this remedy to be an average of around £25,000 per bank, suggesting a total annual cost for the implementation of this remedy of around £250,000.

The views of the Group

136. The Group believed that a regular reminder to customers of their ability to switch, the availability of switching services, and the ease of switching, would be important in addressing the feature that customers do not actively search for alternative PCAs or switch provider. In the Group's view, this remedy complements remedy 4, the annual summary and breakdown of charges and interest. Together, they would ensure that customers were aware of how much their PCA had cost them in the last year, and, remind customers that they could switch provider.
137. The Group noted that the banks are reluctant to include a reminder that they can switch to alternative providers in their communications with existing customers.. However, the Group does not consider that it would be sufficient to include such a message only on marketing communications. Although customers may be aware of marketing communications when they open a PCA, customers with existing PCAs—many of which will have been opened some time ago—will not necessarily be aware of their bank's current marketing materials. An important element in the value of this remedy comes from its effect in stimulating customers, and because of this it may well be more important for customers who have held their PCA for a long time.
138. The Group also noted that—as demonstrated by the Ulster example—it is possible for banks to word such a reminder in a way that presents a positive message to the customer. The Group does not consider that being required to include such a reminder with the annual summary of charges and interest should necessarily damage the banks' customer relationships. Indeed it could be portrayed as a statement reflecting confidence in the services provided by the bank and an awareness of the choices that customers can make in a competitive market.
139. The Group has therefore provisionally decided that a remedy that required banks to include wording that makes it clear that the customer can close their PCA with that bank on the annual summary of charges and interest would play an important part in addressing the feature of the market that customers generally do not actively search for alternative PCAs or switch provider. The Group has also provisionally decided that this communication should be accompanied by a leaflet or electronic communication, developed by the banks and the BBA, which explains the switching process, the fact that it is easy to switch using the banks' switching services, and that customers are not charged for switching. The Group considered that the inclusion of such a leaflet or electronic communication would help to ensure that customers know how to switch and would help to address the perception that switching is difficult.
140. In the Group's view the additional costs for the banks of including 'rights reminder' wording on the annual summary and breakdown of interest and charges and providing a leaflet or electronic communication explaining the switching process would be negligible.
141. As for remedies 1, 2, 3, 4 and 5 the Group considers that the BCSB would be best placed to monitor compliance with this remedy. Monitoring and enforcement is discussed in more detail in paragraphs 211 to 215.

Remedy 10—Changes to the switching process

For each Northern Ireland customer who uses the switching service to open a new PCA, banks must offer an interest and charge free overdraft facility, the amount of which is commensurate with the expected transactions on the PCA, for a minimum of three months after the PCA is opened.

Where a customer is not eligible for such an overdraft or does not wish to have one, banks must guarantee to refund the customer any charges and interest incurred as a result of a failure in the switching process within a minimum period of three months after the PCA is opened (regardless of whether the charges and interest were incurred as a result of an error by the new bank).

Banks operating in Northern Ireland must inform customers of these ‘hold harmless’ provisions using all their usual marketing channels.

In addition, the Group is minded to recommend that BACS review the switching process, with a view to identifying and addressing any impediments to switching.

142. This remedy would address the feature that customers generally do not actively search for alternative PCAs or switch provider, by addressing both actual and perceived difficulties in the switching process. The Group considered in particular how best to improve customers’ perception of the ease of switching and reduce barriers to switching, as well as mitigating the problems that can occur in the switching process.
143. The Group consulted on whether it would be possible to devise a remedy which makes PCA numbers portable²¹ within Northern Ireland allowing customers to switch PCAs between banks without changing their account number. The Group noted that a similar solution had been implemented in the Netherlands and wished to explore whether it would be possible in Northern Ireland, and what might be involved. Paragraph 185 sets out the Group’s views on this remedy. However, as the Group discussed possible changes to the switching process with the various parties to the investigation, it began to consider other ways of improving the switching process and customer perception of it. In particular, the Group began to focus on ways to hold the customer harmless from any errors that might occur during the switching process.
144. The Group noted that most of the problems that occur on switching PCAs between banks related to the transfer of direct debits, direct credits and standing orders. Although there are relatively few problems the fact that difficulties do sometimes occur, and the risk that an individual customer will face them, reinforces the perception that switching is difficult and risky. The Group therefore, in further consultation with the banks, explored whether there was scope to improve the process by which direct debits, direct credits and standing orders were transferred between PCAs held with different banks.

The views of the parties

145. Some banks ([REDACTED]) provided anecdotal evidence that certain originators of direct debits, direct credits and standing orders are often late in transferring transactions to

²¹The concept of ‘number portability’ has been applied in the telecom industry as a regulated facility which enables subscribers of publicly available telephone services (including mobile services) to change their service provider whilst keeping their existing telephone number.

the new PCA. However, the data provided on actual failures showed them to be relatively few. In particular, [X] provided the results of a study that it had conducted in summer 2006 of non-compliance with the process they are required to follow when a customer switches from one PCA provider to another by originators of direct debits. This showed that the lowest level of compliance by any individual originator was 98.99 per cent.

146. From discussions with the banks, the Group identified three reasons underlying most of the failures to transfer direct debits, direct credits and standing orders in good time:
 - (a) the customer does not confirm the transfer of the direct debit, direct credit or standing order;
 - (b) the originator will not accept the instruction of the new bank to transfer the direct debit, direct credit, or standing order requiring direct communication from the customer; and
 - (c) at least one of the participants in the process does not use a fully automated system for the transfer of direct debits, direct debits and standing orders. This results in details being transferred manually, creating scope for human error.
147. When a customer uses the switching service to switch PCAs, they are given a list of direct debits, direct credits and standing orders by their new provider and are asked to confirm which they wish to transfer to the new PCA. The Group noted that it would not be possible to eliminate all possibility of error from this part of the process.
148. BACS said that there is a greater likelihood of an error in the transfer of a direct debit, direct credit or standing order where one of the banks involved does not use a fully automated system for such transfers. BACS noted that the fully automated system (known as TODDASO4) is not currently available to banks that access the BACS system through agency arrangements with settlement members, and the Group is aware that two of the clearers ([X]) do not use the fully automated system. BACS said that it was likely to be costly to move to a fully automated version of the system. However, it said that it was currently working with the banks to try to increase the use of automated systems, especially among agency banks, in order to improve the BACS processes. The Group welcomes this, and is minded to recommend that BACS should continue this work.
149. In further consultation with the banks the Group considered the extent to which the customer's experience of the switching process could be improved without changing the switching process itself. The Group looked at whether the customer could be held harmless against any problems arising as a result of the switching process. This would provide reassurance to those thinking of switching that the process was not as risky as they might have thought and would ensure that those who did decide to switch would not suffer as a result of any failures in the process.
150. The Group consulted on a proposal to require banks to offer customers an interest and charge free overdraft facility for a limited period after switching to them. One bank ([X]) said that interest-free overdraft facilities for new account holders are routinely offered by some banks as a means of competing for new customers. [X] also pointed out that some customers have personal, ethical or religious objections to overdrafts so that compulsory provision of an overdraft on switching might deter these customers from switching. Others, such as [X] and [X], said that the Code currently requires banks to lend responsibly. Paragraph 13.1 of the Code requires banks to assess the customer's ability to repay credit before offering it (with the

implication that customers who are unable to repay should not be offered credit). They said that a mandatory requirement to extend an overdraft to all customers switching to them would place them in breach of the Code. One bank ([X]) also said that some customers may misuse overdraft facilities, increasing the risk of fraud.

151. One bank ([X]) proposed an alternative remedy, which it said would address any negative customer perception of the switching process. It suggested that banks could be required automatically to refund any costs incurred by customers within a defined period as a direct result of a failure in the switching process. Paragraph 7.4 of the Code already requires banks to cancel any bank charges the customer incurs where the bank is at fault, and to refund any charges already taken from a customer's PCA where an error by the bank has been identified. However, this suggestion extends the scope of the refund to cover any charges incurred as a result of a direct failure in the switching process, through the fault of the new bank, direct debit or direct credit originators. [X] said that any such requirement should be accompanied by a statement recognizing that there are parties outside the control of the new PCA provider who must discharge their obligations if the switching process is to complete in a successful and timely manner. [X] noted that this included direct debit and direct credit originators, as well as customers themselves.

The views of the Group

152. The Group considered that requiring banks to offer overdrafts, without any obligation on customers to accept the offer would address the concerns of some customers about overdrafts. However, the Group accepts that a requirement on banks to offer an overdraft to any customer that requested it might be in breach of the banks' requirement for responsible lending. The Group has considered [X]'s proposal and notes that this would go a long way to addressing the actual and perceived difficulties associated with the switching process. However, the Group notes that it would not fully address the concern that major payments, such as a mortgage, rental or hire purchase payments, would not be paid if salary or benefits were not transferred sufficiently quickly.
153. The Group therefore considered that a remedy which held customers harmless for mistakes or failures in the switching process would help to address the feature that customers generally do not actively search for alternative PCAs or switch provider. It would address both actual and perceived difficulties in the switching process, thereby adjusting the balance between the 'costs' and the 'benefits' from switching. The remedy could require banks to offer an interest and charge free overdraft facility only to those customers who are eligible for such an overdraft and who would like to have one.
154. The Group considered that it would be important to ensure that the size of the overdraft facility provided the customer with meaningful protection against deficits in the switching process. For example, a customer who pays in a monthly salary of £1,500 and who has a monthly mortgage payment of £600 would require a greater overdraft than a customer with a monthly salary payment of £700 and a monthly mortgage payment of £300. The size of the overdraft should therefore reflect the customer's usual level of transactions. It should be consistent with the bank's credit scoring policy.
155. Where a customer is not eligible for such an overdraft or does not wish to have one, the Group considered that the banks could instead be required automatically to refund any costs incurred by the customers within a defined period as a direct result of a failure in the switching process. This would not provide the same level of protection as an overdraft facility, since a bank may still decline an important

payment if the salary or benefit has not been paid into the PCA. But it would provide those customers for whom an overdraft is not an option with reassurance that they would not incur costs as a result of any problem with the switching process.

156. The Group has considered the period during which customers should be 'held harmless'. The Group notes that the Code currently suggests that a switch should be completed within 14 days. Given that most key transactions on a PCA happen no less frequently than monthly, the Group noted that it could be six weeks before a problem in the switching process became visible. The 'hold harmless' period must allow sufficient time for any problem to be resolved. Given the importance of this remedy in addressing negative customer perceptions of the switching process, the Group's current view is that the customer should be 'held harmless' for a period of three months from the start of the switching process.
157. The Group does not consider the cost associated with any additional credit risk in relation to the 'hold harmless' remedy to be significant. On the basis that the switching process generally operates smoothly, it would not expect a requirement to refund charges resulting from errors in the process to be significant either. However, the Group will consider any further estimates that the banks submit of the cost of implementing this remedy.
158. The Group has therefore provisionally decided that, for each Northern Ireland customer who uses the switching service to open a new PCA, banks must offer an interest and charge-free overdraft facility, the amount of which is commensurate with the expected transactions on the PCA, for a minimum of three months after the PCA is opened. Where a customer is not eligible for such an overdraft or does not wish to have one, banks must guarantee to refund the customer any charges and interest incurred as a result of a failure in the switching process within a minimum period of three months after the PCA is opened (regardless of whether the charges and interest were incurred as a result of an error by the new bank). The Group considers that its remedy would represent a significant change to the switching process. However, in order to address negative customer perceptions about switching, this change would need to be communicated effectively. The Group considers that banks would need to publicise the 'hold harmless' provision through all their usual marketing channels.

Remedies that the Group is minded not to pursue

Remedy 6—Provision of personal indicative 'quotes' for PCAs

159. The Group found that customers generally do not actively search for alternative PCAs or switch bank, due to the fact that customers perceive and experience difficulties in searching for PCAs. The Group noted that customers considering switching bank must research the charges and interest rates offered by other banks and then calculate the way in which these may be expected to apply to them given their PCA usage. The Group noted that comparison websites, such as U-Switch and moneysupermarket, require the customer to collect and input a substantial amount of information and do not compare all aspects of PCAs, for example charges for unauthorized overdrafts.
160. In the Notice, the Group proposed a remedy under which a bank would be required to provide a prospective customer with personalized information on the charges and interest rates that might apply to their new PCA. This would be based on their existing PCA usage over a certain period. The Group considered that the provision of such personal indicative quotes would make it easier for customers to compare

PCAs and support switching, thereby making it more likely that customers would actively consider switching.

The views of the parties

161. In their responses to the Notice, most banks said that this remedy would be very expensive to implement because of the information technology resources required to build a model for the development of the provisional quotes and the additional staff required to provide these quotes to potential customers.
162. Some parties also expressed strong concerns that the quotes might be misleading as customers' past behaviour would not necessarily be an indication of their future behaviour. The BCSB said that banks would need to surround such quotes with caveats to avoid liability to compensation where PCA usage differed in practice from that assumed in the quote, or where the bank exercised its right to vary its charging structure. Such caveats, in its view, could undermine customers' trust in the quotes, thereby reducing their benefit.
163. Which? and [redacted] said that this remedy could increase customers' search costs. They said that in order to get comparative information sufficient to inform a switching decision, customers would need to get personal indicative quotes from a number of different banks. Rather than personal indicative quotes reducing the inconvenience of switching, they could therefore make the process more arduous.

The views of the Group

164. The Group is not persuaded that the provision of personal indicative quotes need impose a significant burden on customers. However, the Group has some sympathy with the arguments that personal indicative quotes may mislead customers, since the way in which customers used their PCA in the past may not be a good guide to future usage. This may be particularly true since a large part of the cost of running a PCA can be associated with going into unauthorized overdraft, which is likely to be unpredictable. Furthermore, customers may be reluctant to admit that they will go into unauthorized overdraft, at least with any frequency or persistence. The Group has in any event, reached the view that, if remedies were implemented that had the effect of making information on the interest and charges applied to PCAs more easily understandable, customers would find it easier to compare the cost to them of operating a PCA with different banks. This would reduce the need for additional measures to address this. The Group has also noted the apparently high implementation costs of this remedy. On balance, the Group has provisionally decided not to pursue a remedy based on personal indicative quotes.

Remedy 7—Provision of 'typical customer' indicative quotes for PCAs

165. As an alternative or an adjunct to the provision of personal indicative quotes, the Group considered whether banks should be required to provide indicative quotes based on a number of 'typical customer' profiles. This remedy would address the feature that customers generally do not actively search for alternative PCAs or switch provider by reducing search costs. The information provided would allow customers to identify which 'typical customer' they most closely resembled, and then to see quickly and easily what sort of charges and interest they would expect to pay in operating their PCA with different banks.

The views of the parties

166. Generally, parties considered this remedy to be more feasible and less costly than a remedy based on personal indicative quotes.
167. Many parties said that, if the Group were minded to pursue this remedy, the number of 'typical customer profiles' should be limited. Some parties suggested a maximum of three profiles:
- (a) Customers who are always in credit.
 - (b) Customers who operate in credit or within an authorized overdraft.
 - (c) Customers who go overdrawn without permission or exceed an authorized overdraft.
168. In contrast, GCCNI recommended developing indicative quotes for the following six customer profiles:
- (a) Customers regularly in unauthorized overdraft.
 - (b) Customers occasionally in unauthorized overdraft.
 - (c) Customers regularly in authorized overdraft.
 - (d) Customers occasionally in authorized overdraft.
 - (e) Customers always in credit.
 - (f) Customers with large credit balance.
169. GCCNI also suggested that the Financial Services Authority (FSA) could play a role in collecting the information on typical profiles and in publicizing them through the media and on its website. This was echoed by [X] who said that the implementation of this remedy should be facilitated by an independent third party such as the FSA who would work with the banks to define the typical quotes. [X] argued that the involvement of the FSA would also help to increase the credibility of the typical quotes.
170. Many parties nevertheless expressed strong reservations about the provision of 'typical customer' indicative quotes for PCAs. Many parties questioned whether it would be possible to establish realistic customer profiles and therefore provide customers with a reasonable estimate of the costs of running a PCA. One bank ([X]) noted that the quotes would need to contain so many caveats that they would be difficult for customers to use. Other banks ([X]) were similarly sceptical. They said that standardized profiles for each customer type would need to be created in order to make it easy for customers to compare products across banks. However, this could lead to account 'engineering' as banks might adjust the design of their PCA to ensure that the quotes were as advantageous as possible. [X] and [X] also believed that typical customer quotes would fail to show other unique account attributes and/or banks' service levels and in this way they could reduce banks' incentives to innovate.
171. Which? said that customers might not be sufficiently aware of the existence of the typical quotes for this remedy to be effective. As an alternative it proposed a requirement for banks to send customers an annual document comparing the costs

of PCAs offered by all banks. The FSA noted that typical quotes for PCAs were not straightforward, as the gains depended on individual customer usage. It questioned the extent to which typical quotes would add value to what was already publicly available. It said that the priority should be to increase customer awareness of existing opportunities for customers to compare PCAs (for example using organizations such as money supermarket or U-switch) rather than developing new opportunities. The FSA added that it had considered establishing comparative tables for PCAs, but it had identified other priority areas.

The views of the Group

172. The Group considered that it would be difficult to define typical customer profiles which could give the majority of PCA customers a reliable estimate of the benefits and costs of various PCAs. Assumptions would need to be made in order to define the 'typical customer' profiles. These would include the amount credited to the PCA each month, the amount of authorized overdraft, the amount of unauthorized overdraft, the frequency by which the PCA goes into unauthorized overdraft during a year, the number of paid transactions and the number of unpaid transactions. Furthermore, the profiles would require frequent updating to reflect changes in interest rates and charges, changes in the structure of charges and the introduction of new PCAs. Unless a customer's PCA usage largely conformed to the assumptions underlying the profiles—and it is unlikely that many would—they would find it difficult to use the typical quotes to get a reasonable view of what it might cost them to run different PCAs. Indeed, the typical quotes might mislead customers as to the actual costs they would face in running a PCA, and this could work against some of the remedies aimed at ensuring customers have clearer information about PCA interest and charges.
173. The Group has therefore come to the view that a remedy based on typical customer quotes would be of limited value. In view of its concerns about the effectiveness of a remedy based on typical customer quotes, the Group has provisionally decided not to pursue this remedy.

Remedy 9—Switching statistics

174. The Group considered whether each bank should be required regularly to publish statistics on the number of customers that have switched from and to it in a given period. This would address the feature that customers generally do not actively search for alternative PCAs or switch provider. The Group explored the idea that, if these statistics were publicized, they would raise customers' awareness of their ability to switch bank and also encourage banks operating in Northern Ireland to compete in attracting customers. The Group also considered whether, as an alternative to the publication of switching statistics, an industry-funded advertising campaign on the switching process and switching services would be more effective in raising customers' awareness of the possibility and the ease of switching bank.

The views of the parties

175. Most banks expressed concerns about a remedy mandating the publication of switching statistics of individual banks. They argued that its implementation could be hindered by practical considerations such as how to deal with statistics for customers who open new PCAs but do not close their old ones or who may run two or more PCAs in parallel for some considerable time. Generally, the banks felt that it would be

difficult to devise statistics that would give a complete and accurate representation of the actual level of switching in the market.

176. Several banks ([REDACTED]) expressed doubts about whether the publication of switching statistics would be effective in raising customers' awareness of the switching process and in changing their perception of it. One bank ([REDACTED]) said that a requirement for banks to publish statistics on their performance against certain defined industry benchmarks would be a more effective way to reassure potential switchers that any application to switch would be dealt with in a timely and professional manner. Which? said that it might be difficult for customers to interpret statistics accurately. It pointed out that switching in itself did not guarantee that a customer would benefit.
177. In contrast, GCCNI and Advice NI supported the publication of switching statistics. GCCNI suggested that the FSA could collate and publish the statistics, which should be published annually. It suggested the publication of both statistics on the number of complaints about the switching process received by each bank and on the number of complaints that had to be passed on to the Financial Ombudsman.

The views of the Group

178. The Group identified the following types of switching statistics that banks could collect relatively easily and make available for publication:
- (a) Number of customers that have switched from and to each of the banks during a year and have used the switching services.
 - (b) Data on banks' shares of the PCA market provided by third parties (eg MORI).

The Group accepted that these data would not capture customers who switched by opening a new PCA without closing their old PCA, nor would they capture customers who switched PCA without using the switching service. However, the Group considered that this would not necessarily render the publication of the statistics valueless, since the statistics could still raise awareness of the possibility of switching PCA and of using the switching service.

179. However, the Group noted that the effectiveness of this remedy would depend critically on media interest in these statistics; if the statistics were not widely reported, they would not raise awareness of switching. The Group reached the view that the generally low level of interest in PCAs among customers makes it unlikely that the statistics would attract sufficient media attention. Furthermore, there would be a risk that, if the number of switchers was relatively low, the statistics might reinforce a view that switching PCAs was burdensome or risky. The Group therefore provisionally decided not to pursue this remedy.
180. The Group considered GCCNI's suggestion to publish statistics on the number of complaints about the switching process received by each bank. However, the Group thought that the publication of numbers of complaints would be beset by similar difficulties as the publication of switching statistics, for example in relation to the accuracy and interpretation of data. Furthermore, the Group did not believe that, even if implemented successfully, this would address the feature that customers generally do not actively search for alternative PCAs or switch provider. The Group therefore concluded that the remedy mandating the publication of switching statistics should not be pursued further.
181. The Group noted the argument made by some banks ([REDACTED]) which argued against a remedy involving an industry-sponsored advertising campaign to raise awareness of

the possibility of switching, and the ease of switching. Although the Group considered that an industry-sponsored advertising campaign might in theory raise awareness of switching and the ease of switching, much would depend on the way in which the campaign was devised and implemented. The Group saw no merit in being overly prescriptive about the content of such a campaign. However, it was concerned that the banks would have little incentive to promote switching generally as opposed to switching to their PCAs. Overall, the Group considered that its package of remedies should be sufficient to encourage banks to promote switching as part of their own advertising in a more competitive market.

182. The Group has therefore provisionally decided not to pursue a remedy that would require the banks to fund an industry-wide campaign in relation to switching.

Remedy 10—Changes to the switching process: number portability

183. In the Notice the Group consulted on whether it would be possible to devise a remedy to make PCA numbers portable²² within Northern Ireland allowing customers to switch PCAs between banks without changing their account number. The Group noted that a similar solution had been implemented in the Netherlands and wished to explore whether it would be possible in Northern Ireland, and what might be involved.

The views of the parties

184. All parties viewed a ‘number portability’ remedy as very expensive, cumbersome to implement, and disproportionate. Most parties pointed out that PCA number portability could not be implemented on the current UK clearing infrastructure. The current infrastructure operates on the basis of a unique bank/branch identifier number (sort code) which is part of the PCA number. The remedy, therefore, would require changing the use of sort code and account number across the whole of the UK clearing system. [X] also said that a portable account number would not make switching easier, because:

- (a) customers would need to close their old PCA before opening a new one (as it would be impossible to run two PCAs with the same number with different banks) and customers would be unable to have more than one PCA;
- (b) banks would still need to carry out money laundering checks on new customers;
- (c) branded products such as debit card and chequebooks would still need to be re-issued by the new bank, and debit cards would need to be re-issued in any case because they carry the International bank identifier number;
- (d) account portability would remove the one to one relationship between a bank and a sort code, which is important, for example to identify which branch a cheque needs to be sent; and

Advice NI and [X] added that a ‘number portability’ remedy would increase the risk of fraud. The Group understood that this would be as a result of a PCA number moving as the customer changed bank.

²²The concept of ‘number portability’ has been applied in the telecom industry as a regulated facility which enables subscribers of publicly available telephone services (including mobile services) to change their service provider whilst keeping their existing telephone number.

The views of the Group

185. The Group reached the view that the introduction of bank account number portability in Northern Ireland would not be practicable. It also noted that when number portability had been introduced in the Netherlands it had been as part of a fundamental redesign of the clearing system as a whole. The Group has therefore provisionally decided not to pursue further the idea of improving the switching process by introducing number portability.

Direct regulation of PCA prices

186. The Group found it likely that, as a result of the AEC of the features it identified, the charges and debit interest paid by customers for PCAs in Northern Ireland are higher, and the levels of credit interest lower, than they might be in a well-functioning market. The Group therefore considered whether it would be appropriate to include in its package of proposed remedies a remedy or remedies to regulate prices directly. The Group set out its view in the Notice that the aim of increasing competition would be better addressed by the proposed package of remedies than price regulation.

187. The CC has stated in its guidance²³ that in considering remedies it will first look for a remedy that would be effective in dealing with the adverse effects on competition of the market features rather than seeking to deal with any detrimental effect on customers. The Group has sought remedies that would stimulate and facilitate the emergence of a more competitive market for PCAs in Northern Ireland, in preference to remedies that would deal only with the symptoms of a lack of effective competition.

188. Furthermore, the Group noted that PCAs are complex multi-functional products that consist of a number of different components. It is therefore not clear which prices would need to be controlled adequately to address the AEC or any resulting detrimental effect on customers or how they could effectively be measured. The Group also considered that there was a risk that price controls in this market could result in a 'waterbed effect' whereby controls on some elements of the PCA could see banks raise the prices of other elements to maintain revenues overall. The Group also noted that it would have been necessary not only to control the prices of PCAs but also the terms and conditions of those PCAs and the standards of service, to ensure that the banks did not adjust these other aspects of the PCA to compensate for controls on prices.

189. In response to the Notice, none of the parties argued that price regulation would address the AEC findings.

190. Taking all these factors into account, the Group has provisionally decided at this stage not to pursue further any remedy based on price regulation.

Additional remedies proposed by third parties

191. GCCNI, Which?, and Advice NI proposed additional remedies to those set out in the Notice.

192. GCCNI suggested that the CC:

²³CC 3, *Market investigation references*, paragraph 4.22.

- (a) Require the banks to adhere to the law and set their penalty charges accordingly.
 - (b) Require the banks in Northern Ireland to comply with the Unfair Commercial Practices Directive.
 - (c) Establish a minimum competency standard for bank staff offering information on PCAs.
193. GCCNI said that remedy (a) and (b) above would address the Group's concern that banks might be charging disproportionately (see provisional findings paragraph 4.170), and that its third proposed remedy (remedy (c) above), would address the complexity of charges and cost structures applied by banks. After discussion, however, GCCNI agreed that, since there was no clear link between the Group's findings and GCCNI's proposed remedies, it would not be appropriate for the Group to pursue its suggested additional remedies.
194. Which? said that it considered access to branches to be an important feature of the market. It therefore suggested that the Group consider a remedy requiring banks to share branches to facilitate entry and expansion for parties that have limited branch presence. Advice NI said that PCAs should be made accessible through Post Offices to increase access to banking for vulnerable and financially excluded customers. It also said that banks should include links to advice centres on their websites so that customers have information on where to go if they get into financial difficulties.
195. Although the Group has made a finding in relation to branch networks, it does not consider that access to the branch network is a feature of the market that has an AEC. It is not apparent, therefore, that a remedy aimed at branch networks would facilitate switching or otherwise address the features the Group has identified. The Group has therefore provisionally decided not to pursue a remedy requiring banks to share branches or to make their PCAs accessible through Post Offices. Similarly, since the Group did not identify lack of information on assistance available to customers in financial difficulty as a feature of the market that prevents, restricts or distorts competition; therefore, it does not consider it appropriate to pursue the second additional remedy suggested by Advice NI.

Scope of remedies

196. The Group has found features that apply across the market for PCAs in Northern Ireland which prevent, restrict or distort competition and therefore resulting in an AEC. The Group notes that most of its package (in particular remedies 1, 2, 3, 4, and 5) is designed to ensure that customers have good quality information about their PCA in order to take well-informed decisions at appropriate times.²⁴ As far as possible, any customer in Northern Ireland should have access to this information.
197. However, the Group considered whether every bank providing PCAs in Northern Ireland should fall within the scope of its remedies or whether, for reasons of practicality or proportionality, the scope of its remedies should be limited in some way by introducing a threshold below which banks would not be required to implement the remedies package. It notes that there are a number of banks with a very small presence in Northern Ireland. These include some of the Great Britain-based clearing banks (such as Lloyds TSB) which have no branch presence in Northern Ireland and

²⁴Remedies 1 and 2 are also aimed at ensuring provision of good quality information for customers before opening a PCA.

only a small number of PCA customers with addresses in Northern Ireland. The Group further notes that applying its remedies to all banks with PCA customers in Northern Ireland could lead to a bank falling within the scope of the remedies simply as a result of some of its customers from Great Britain moving (perhaps only temporarily) to Northern Ireland.

198. The banks said that much of the estimated cost of implementing the proposed remedies was fixed and therefore did not vary significantly according to the number of PCA customers. Many banks said that it would be difficult for them to implement the remedies in Northern Ireland alone, as changes would be required to systems that operate across a wider geographical area (for example, the UK as a whole). One bank ([REDACTED]) said that any remedies package should be applied across the UK as a whole. The Group noted that the Terms of Reference of the investigation related to the market for the supply of PCA banking services in Northern Ireland. However, whilst the Group could not mandate that remedies were applied more widely, banks might choose to implement the remedies across a wider geographical area, to the benefit of all their customers. These costs are considered in more detail in the discussion of proportionality (see paragraphs 223 to 235).
199. The Group considered what form any threshold might take. The Group thought it important that its remedies should cover the vast majority of PCAs in Northern Ireland. It considered whether the threshold might be expressed in terms of market share or number of PCA customers. Market shares can vary from year to year. More importantly, banks cannot easily control or predict their market share, since market shares are dependent, in part, on the actions of other banks. The Group, therefore, believed that market shares would not be an appropriate basis for any threshold.
200. By contrast the absolute number of PCAs that any bank has where the customers have a Northern Irish address will be known to each bank. The Group recognized that basing the threshold on the number of PCAs may result in one customer being counted more than once if they held multiple PCAs with the same bank. However, on the basis of the information provided by the banks for our investigation, the number of PCAs held by customers with a postal address in Northern Ireland was likely to be easier for the banks to determine than the number of customers they have in Northern Ireland. The Group therefore considered that any threshold should be based on the number of PCAs that a bank has for which it has customers with postal addresses in Northern Ireland.
201. The Group considered whether accounts held by different bank 'brands' within the same corporate group should be counted together for the purpose of these calculations. The Group noted that banks within the same corporate group have the same sort code and, often, the same systems. The Group also noted that it would be undesirable if, by creating new 'brands', banks could evade the scope of the remedies and thereby undermine their effectiveness. The Group therefore considered that PCAs held by banks within the same corporate group (such as Abbey, Cahoot and Cater Allen) should be counted together for the purpose of the threshold calculations.²⁵
202. The Group considered the absolute level of any threshold and found that removing those banks with fewer than 10,000 PCAs in Northern Ireland would result in the application of the remedies to well over 99 per cent of PCAs in Northern Ireland.²⁶ It also noted that there is a significant difference between the number of Northern

²⁵This approach is consistent with the general principle in competition law that companies within the same corporate group are generally considered as forming part of the same 'undertaking'.

²⁶It was estimated that such a threshold would result in the application of remedies to 99.7 per cent of PCAs in Northern Ireland.

Ireland PCAs served by the bank with the smallest number of PCAs above the proposed threshold and the bank with the largest number of PCAs which fell below the threshold. [REDACTED]

203. The Group considered that a threshold at this level would safeguard the ongoing effectiveness of its remedies. With a threshold of 10,000 PCAs it seemed likely, for example, that, even were there to be a high level of market entry or expansion, the vast majority of PCAs in Northern Ireland would be covered by these remedies.
204. To assess the reasonableness of a 10,000 PCA threshold, the Group considered whether the threshold might be higher. Taking into account current PCA numbers, it examined the effect of applying its remedies only to those banks with more than 30,000 PCAs.²⁷ The use of a 30,000 threshold would reduce the current coverage of the Group's remedies from more than 99 per cent of Northern Irish PCAs to just over 98 Per cent. The Group noted that 30,000 customers represents more than 2 per cent of the total number of PCAs in Northern Ireland. This higher threshold therefore has the potential to exclude a relatively large absolute number of PCAs from the scope of the remedies. If there were significant market entry or expansion, a substantial proportion of PCAs might be excluded from the scope of the remedies. The Group therefore considers that a threshold at this level might unreasonably weaken the effectiveness of its remedies over time.
205. The Group was mindful of the need to ensure that determining the threshold should not become overly burdensome. It was therefore keen to establish a threshold that would provide a clear basis for the application of the remedies without entailing significant additional cost for the banks. The Group therefore provisionally decided that the banks should be assessed on their numbers of PCAs with customers with a postal address in Northern Ireland on a specified date each year (the specified date). A bank that has 10,000 PCAs with postal addresses in Northern Ireland on that date will be considered as being covered by the remedies for that year. The date specified will depend on the date of implementation of the remedies order.²⁸
206. Taking into account the practicalities and proportionality of the application of its remedies, the Group has provisionally decided the following:
- (a) it would be appropriate to establish a threshold. Banks with very few PCAs in Northern Ireland would therefore not fall within the scope of its remedies;
 - (b) this threshold should be based on the absolute number of a bank's PCAs, for which the customer has a postal address in Northern Ireland;
 - (c) the threshold should be 10,000 PCAs in Northern Ireland; and
 - (d) the following banks or banking groups would be required to implement the remedies package: Ulster, First Trust, Northern, BoI, Halifax/Intelligent Finance/St James's Place, Abbey/cahoot/Cater Allen, Nationwide, A&L, Barclays, HSBC/first direct.

²⁷The difference in the number of PCAs between [REDACTED] and [REDACTED] means that any threshold between 10,000 customers and 20,000 customers would result in the remedies having the same coverage.

²⁸By way of example, if the date of implementation of the remedies is 30 April 2008, the specified date might be 30 September 2007 (and likewise 30 September in subsequent years) to provide time for the banks to know in advance whether the threshold would apply to them and to make appropriate changes to their systems.

Implementation of remedies

207. Seven banks ([REDACTED]) provided the Group with estimates of the time it would take them to implement the remedies included in the Group's package.²⁹ The implementation time varies between the different remedy options driven largely by the systems changes a particular bank would need to make to implement each of the remedies.
208. Some banks ([REDACTED]) provided dates by which they expected to be able to implement the remedies. One bank ([REDACTED]) suggested that it could implement the remedies by January 2009. Another ([REDACTED]) suggested that it could implement remedies 4 and 5 from the third quarter of 2008 and remedies 1, 2, and 3 from the third quarter of 2009. The other banks indicated the number of months they would take to implement the remedies. Remedies 1 and 2 would, they said, typically take up to six months to implement. Remedy 3 would typically take six to nine months, although one bank ([REDACTED]) said it would take it 12 to 18 months to implement. One bank ([REDACTED]) thought that remedy 4 would take it three to six months to implement and others ([REDACTED]) thought it would take them 12 to 18 months. One bank ([REDACTED]) thought that remedy 4 would take it between 24 to 36 months to implement. Two banks ([REDACTED]) thought that remedy 5 would take between 9 to 12 months to implement. One bank ([REDACTED]) thought that remedy 5 would take 12 to 18 months to implement, another ([REDACTED]) that it would take 18 to 24 months to implement and yet another ([REDACTED]) that it would take 24 to 36 months to implement.
209. As discussed in relation to the individual remedy options, the Group considered that many of its remedy options build on existing requirements under the Code, and also that they are in line with many of the views on the desirable changes or additions to the Code submitted in the course of the current review. Others will be required under the Consumer Credit Act. The Group understood that the BBA is likely to indicate in autumn 2007 what changes will be made to the Code, and that these changes, whether resulting from the Code review or from the Consumer Credit Act, are expected to be implemented from April 2008. These changes will require banks to make changes to their systems irrespective of the remedies package set out in this paper. In this respect, it should be helpful that the Group's final report, containing its final decision on remedies, will be published in May 2007. The remedies package will be well-known to the banks when they are considering the implications of the Code review and the Consumer Credit Act.
210. The Group has therefore provisionally decided to require the implementation of its package of remedies by April 2008.

Monitoring and enforcement of remedies

211. The CC considers that monitoring arrangements are important in ensuring the effectiveness of its remedy package. The OFT has a statutory role in relation to the monitoring³⁰ and enforcement³¹ of remedies. However, in line with the principles of better regulation, the Group has no wish to impose any unnecessary additional regulatory structure on an already highly regulated industry, provided it is satisfied that existing regulatory structures and processes could be used to monitor and enforce compliance effectively.

²⁹With the exception of remedy 10: changes to the switching process to hold the customer harmless.

³⁰Section 92 of the Act.

³¹Section 94(6) of the Act. The CC also has a role in respect of enforcing remedies under Section 94(7) of the Act.

212. Most of the Group's package of remedies—in particular remedies 1, 2, 3, 4 and 5—relate to the provision of information by banks to customers in Northern Ireland. The Code already places requirements on banks to provide certain information to customers, and the BCSB monitors compliance with the Code. The Group also noted that remedy 10, which requires banks to 'hold harmless' customers during the first three months of the switching process, could be seen as an extension of the existing requirement of the Code (section 7.4) on a bank to waive any charges that a customer incurs as a result of an error by it during the switching process. The Group therefore believed that the BCSB would be well placed effectively to monitor compliance with these remedies alongside its monitoring of compliance with the Code.
213. Some elements of the Group's package of remedies dovetail with new requirements under the Consumer Credit Act; in particular the requirement to extend existing pre-notification requirements to cover unauthorized overdraft charges. The BBA said that the next set of revisions to the Code will include changes that take account of the new requirements under the Consumer Credit Act. The Group considered that this strengthened the case for the involvement of the BCSB in monitoring its remedies because it affords the opportunity to bring together monitoring of the banks' compliance with the Code, with the Consumer Credit Act and its remedies.
214. The BCSB monitors compliance with the Code across the UK and said that it allocates resources using a risk-based approach. The Group noted that the BCSB monitoring team is relatively small (just five or six people) and that this could mean that only a relatively small part of its monitoring resource is focused on Northern Ireland. The Group therefore explored with the BCSB the possibility that the banks could be required to fund additional resource for the BCSB that would be dedicated to monitoring compliance with its remedies in Northern Ireland. The BCSB said that it was not clear to it at this stage what additional work it would need to do in order to monitor compliance with the Group's remedies. It said that it would support a requirement on the banks to fund such additional resource as it reasonably required in order to fulfill any additional role. It would be difficult for it to be more specific at this stage about whether and what additional resourcing it would need before knowing the overall requirements of each of our investigation, the Code review and the Consumer Credit Act.
215. The Group has therefore provisionally decided that the BCSB should monitor compliance with its remedies. The Group believes that the banks should fund additional resource for the BCSB sufficient to enable it effectively to monitor compliance with the remedies package.
216. However, the OFT has a statutory role in relation to compliance monitoring and that the BCSB will need to work closely with the OFT in order to ensure that the BCSB is effective in its monitoring work. In addition to its statutory responsibilities, the Group considers that the OFT's involvement in this way would alleviate any concerns that might exist about the independence of the BCSB from the banks that it would be monitoring. This is not to doubt the independence of the BCSB, whose board is comprised of seven independent directors and three representative directors of banking industry stakeholders. The participation of the OFT will, however, provide reassurance on the effectiveness of the BCSB's role. In this regard, the Group considers that the BCSB should provide the OFT with regular written reports to the OFT's specification. At a minimum, it is likely that the OFT would require the reports to set out what the BCSB has done to monitor compliance, whether it has found any instances of non-compliance and, if so, whether it has managed to secure compliance. The OFT's and the CC's powers under the Act to enforce the remedies would be unaffected by the nature of these monitoring arrangements.

The Group's chosen package of remedies: effectiveness and proportionality

217. On the basis of the above consideration of different remedy options the Group provisionally decided to pursue the following package of remedies:
- (a) Remedy 1: Easy-to-understand terminology and descriptions of PCA services.
 - (b) Remedy 2: Explanations of levels of charges and interest and when they are applied to the account.
 - (c) Remedy 3: Information on statements.
 - (d) Remedy 4: An annual summary and breakdown of charges and interest.
 - (e) Remedy 5: Pre-notification of interest and charges, linked to statements.
 - (f) Remedy 8: A regular 'rights reminder'.
 - (g) Remedy 10: Changes to the switching process to hold the customer harmless.

The least cost, least intrusive package of effective remedies

218. The Group noted that in the CC's guidance it is stated that:

The Commission must have regard to the reasonableness of any remedy and will aim to ensure that no remedy is disproportionate in relation to the adverse effect on competition and any adverse effects on customers. Part of its consideration will include an assessment of the costs of implementing a remedy ...; and the costs of complying with a remedy, for example, providing the OFT with periodic information on prices or margins. However, the Commission must consider the wider picture. Adverse effects on competition are likely to result in a cost or disadvantage to the UK economy in general and customers in particular. Where significant, these costs might usually be expected to outweigh the costs incurred by any person on whom remedies are imposed. If the Commission is choosing between two remedies which it considers would be equally effective, it will choose the remedy that imposes the least cost or that is least restrictive.³²

219. As part of its consideration of each of the remedy options, the Group considered the costs of implementation. It ensured that each individual remedy was no more intrusive or costly than required to remedy, mitigate or prevent the AEC or any resulting detrimental effect on customers. The Group considered whether its package of remedies was more costly or intrusive than was necessary in this respect. The Group also noted its statutory obligation to have regard to the need to achieve as comprehensive a solution as is reasonable and practicable to the AEC and any resulting detrimental effect on customers.
220. It is the Group's view that each element of this package of remedies is needed effectively to address the features of the market that it identified in its provisional findings as preventing, restricting or distorting competition thus resulting in an AEC.

³²CC3, paragraph 4.10.

The Group considers that, in order for the PCA market in Northern Ireland to become more competitive, customers should: have a better understanding of the costs of running their existing PCA; understand that there may be gains from considering alternative PCAs; have a better appreciation of alternative PCA offers and be able to compare them with their own; know how to switch PCA; and understand that switching PCA is not particularly difficult or risky. The Group considers that this is not currently the case. As set out in its provisional findings, this is because of the following three features: banks' charging structures and practices are unduly complex, banks do not fully or sufficiently explain those charging structures and customers do not actively search for alternative PCAs or switch provider. The Group believes that its chosen package of remedies has the potential to change this.

221. Remedies 1, 2, 3, 4 and 5 will significantly improve customers' understanding of PCAs. Together, they will ensure that each PCA customer has access to the information they need to understand the cost of running their account. Remedy 5 will also empower customers to manage their account better and to avoid unnecessary charges. Remedies 1 and 2 together will ensure that customers have access to information to assess the cost of operating a PCA with an alternative provider.
222. Remedy 4 and remedy 8 together will help to stimulate customers, ensuring that they are aware of the cost of running their PCA over the year, and at the same time reminding them that they are able to close their PCA. Remedy 8 will also remind customers of the availability of switching services to facilitate the switching process. The 'hold harmless' provision in remedy 10 will address the perception that switching is risky, and the banks will be required to inform customers of this safeguard.

Proportionality to the scale of the AEC

223. In addition to considering whether the package represents the least cost, least intrusive package of remedies that would be effective in addressing the AEC, the Group also considered whether this package of remedies is proportionate to the scale of the AEC.
224. Eight banks provided estimates of the costs of implementing remedy options 1 and 2; seven provided estimates of the costs of implementing remedy options 3, 4 and 5; and six provided estimates of the costs of implementing remedy 8. Two banks provided estimates of the annual costs for remedies 1, 2, 3 and 4, and one bank provided an estimate of annual costs for remedies 5 and 8.³³ The Group did not request estimates of the costs of implementing changes to the switching process (option 10) and the inclusion of ancillary charges in the annual summary and breakdown of interest and charges (option 4). Using the estimates provided by individual banks, the Group estimated the total costs that all banks would face in the first year of implementation, including one-off costs, and the annual costs. Applying a threshold of 10,000 PCAs would result in ten banking groups being required to implement these remedies. These calculations suggest that the cost of implementing the package of remedies in the first year, including one-off costs, would be in the range £31 million to £51 million. The annual cost of implementing the package of remedies thereafter would be around £6 million.

³³[§] provided estimates of one-off implementation costs for remedies 1, 2, 3, 4,5 and 8; [§] provided estimates of one-off implementation costs for remedies 1, 2, 3, 4 and 5; and [§] provided estimates of one-off implementation costs for remedies 1, 2 and 8. [§] provided estimates of annual cost for remedies 1, 2, 3, 4, 5 and 8, and [§] provided estimates of annual cost for remedies 1, 2, 3 and 4.

225. The Group was not able to verify the banks' cost estimates by undertaking a detailed assessment of the changes required to the banks' IT systems and business practices. It recognized that this lack of verification was a potential shortcoming in its assessment of the proportionality of the remedies package. Nevertheless, it also believed that there were other more significant factors which enabled it to make a reasoned judgement on proportionality. These factors are:
- (a) the banks only provided high level estimates of implementation costs, and the Group considered it likely that these would be cautious estimates;
 - (b) it would be misleading to arrive at a total cost for the remedies package by aggregating the costs of each individual remedy on a standalone basis. Significant synergies might reasonably be expected from implementing the different remedy options as a package; and
 - (c) the assessment of cost proportionality should take account only of costs which would be incurred incrementally as a result of the implementation of this remedies package. The assessment should therefore exclude any costs which could be expected to arise from either the Code review or the implementation of the Consumer Credit Act.
226. There are two further important factors which the Group has not formally taken into account in assessing proportionality but which should be mentioned. The first, and most important, is that practically all of the costs relate to the provision of information which the Group believes any bank customer might reasonably require, and expect to be provided with, as a matter of course, for there to be a balanced commercial relationship between a bank and its customers. Second, there is the question of the legacy costs associated with an inefficient market. The Group considers that it would be unfortunate if, as a matter of principle, the nature and extent of remedies intended to benefit customers and consumers more generally were to be attenuated by virtue of a high cost of implementation which was attributable to a prolonged period of market inefficiency.
227. One bank ([REDACTED]) has noted that, as a bank operating across the UK, the additional costs it would incur as a result of implementing these remedies in Northern Ireland would place it at a competitive disadvantage in competing for customers in the market in Great Britain. The Group has noted that it will be competing in Great Britain with banks that do not have PCAs in Northern Ireland and which will therefore not incur the costs associated with implementing this remedy package. [REDACTED] did not provide estimates for the costs of implementing those elements of the package of remedies beyond remedies 1 and 2 (easy to understand explanations of PCA services and explanations of the level and application of charges) and remedy 8 (regular 'rights reminder'). The CC estimated the first year costs of implementing these remedies for [REDACTED] to be in the range £1.5 million to £2.5 million and its annual costs thereafter to be in the region of £200,000. The Group notes that the position of [REDACTED] is not unique and that the remedies would apply to several other banks that similarly operate in Great Britain. Overall, therefore, the Group considered that the costs of implementing its package of remedies in Northern Ireland would not affect these banks' ability to compete in the rest of the UK.
228. In reaching its provisional decision on proportionality, the Group also took into account the estimated size of the consumer detriment resulting from the features of the market that it identified in its provisional findings. It found that prices for PCAs are higher, and the quality, choice and innovation in PCA services are lower than would otherwise have been the case. The Group has therefore considered the size of the customer detriment resulting from these features of the market. It recognized that

there was no precise way in which this might be done and therefore made some reasonable estimates.

229. Banks charge customers for providing a PCA in a variety of ways and there is no single 'price'. Costs and revenues flows between banks and customers in three forms: charges, interest on credit balances and interest on debit (overdraft) balances.
230. Table 1 presents estimates of the customer detriment on the basis of two sets of assumptions. The Group's approach looks at the market as a whole using 2005 figures as the starting point. The first set of assumptions was that total charges and debit interest paid by customers might be 5 per cent higher, and credit interest might be 5 per cent lower than it might otherwise be in a more competitive market. The Group has recognized that the choice of 5 per cent is arbitrary but, given the range of charges and interest rates in the market, the Group considered that this might represent a reasonable lower bound estimate of the detriment.
231. The second set of assumptions was to look at charges on an absolute basis and consider implications of total charges per account being £55, compared with the average across the banks in 2005 of £63. Similarly, it considered the implications of average credit interest being 0.5 per cent compared with a 2005 average across the banks of 0.29 per cent, and average debit interest being 9 per cent compared with a 2005 average across the banks of 9.81 per cent. The Group thought it was more realistic to consider the impact of raising average credit interest to 0.5 per cent rather than raising it by 5 per cent (which equates to an average increase from 0.29 per cent to only 0.30 per cent). The values generated using these assumptions were in each case within the range of average charges per account, average credit interest rate and average debit interest rate exhibited by the eight banks.
232. The Group recognized that such calculations could only provide an indication of the scale of the customer detriment that might result from the lack of competition in the market. These two sets of assumptions produce estimates of possible customer detriment ranging from £4 million to £20 million a year. Whilst the Group accepts that the assumptions are not based on any observable outcome from a more competitive market, the estimate range of figures does not seem unreasonable.

TABLE 1 **Estimate of customer detriment**

	<i>Lower bound</i>	<i>Upper bound</i>
Assume that detriment equals	5% of total charges paid by customers (£3.3m)	Reduction in average charge per account by £8 per year to £55 per year (£7.9m)
	5% of credit interest paid to customers (£0.3m)	Increase in average credit interest by 0.21 percentage points to 0.5% (£10.4m)
	5% of debit interest paid by customers (£0.8m)	Decrease in average debit interest rate by 0.81 percentage points to 9% (£1.2m)
Annual detriment (£m)	4.3	19.6

Source: CC calculations based on banks response to financial questionnaire.

233. As in noted in paragraph 224, the estimates of costs that the CC has calculated based wholly on the estimates that banks have provided suggest first year implementation cost in the range of £31 million to £51 million and an annual running cost of around £6 million. The Group would expect its remedies to remain in place over time, and/or to be replaced or supplemented by further improvements in the banks' normal practices and terms and conditions as the market becomes more competitive. The benefits to customers will therefore continue to accrue over a prolonged period. Taking a timescale of, say, ten years, the gain to customers could be in the range of £40 million to £200 million. The cost estimates provided by the

banks suggest that the costs to the banks of implementing the remedies over a ten-year period would be in the range of £80 million to £100 million.

234. On the basis of these figures alone, the Group's provisional view was that over time, the benefits from the remedies could reasonably be expected to exceed the costs by a substantial margin and that in the context of the scale of the AEC the remedies are therefore proportionate.
235. However, for the reasons set out in paragraphs 225 and 226, it is likely that the true incremental costs of implementing our proposed package of remedies will be significantly lower than the estimates provided by the banks, and that the banks' estimates of costs may, in some cases, reflect a lack of effective competition in the PCA market in Northern Ireland. Overall, therefore, the Group has provisionally concluded that the remedies package is the most reasonable and practicable means of addressing the adverse effects on competition, or any detrimental effect on customers, arising from the features of the market that it has identified.

Relevant customer benefits

Framework for assessment of relevant customer benefits

236. In deciding the question of remedies the CC may 'in particular have regard to the effect of any action on any relevant customer benefits of the feature or features of the market concerned'.³⁴ As the Act makes clear, the CC will be concerned with the effect of any remedy on relevant customer benefits; it will not seek to weigh the adverse effect of the feature or features of the market concerned against any resulting relevant customer benefits in deciding whether remedies are appropriate.³⁵
237. Relevant customer benefits are limited to benefits to relevant customers in the form of:
- (a) lower prices, higher quality or greater choice of goods or services in any market in the United Kingdom (whether or not the market to which the feature or features concerned relate); or
 - (b) greater innovation in relation to such goods or services.³⁶
238. A benefit is only a relevant customer benefit if the CC believes that:
- (a) the benefit has accrued as a result (whether wholly or partly) of the feature or features concerned or may be expected to accrue within a reasonable period of time as a result (whether wholly or partly) of that feature or those features; and
 - (b) the benefit was, or is, unlikely to accrue without the feature or features concerned.³⁷
239. If the CC is satisfied that there are relevant customer benefits deriving from a market feature that also has adverse effects on competition, it will consider whether to modify the remedy that it might otherwise have imposed or recommended. When deciding whether to modify a remedy, the CC will consider a number of factors,

³⁴Section 134(7) of the Act.

³⁵The CC's approach to the assessment of relevant customer benefits is discussed in more detail in *CC3, Market Investigation References*, paragraph 4.26 and following.

³⁶Section 134(8) of the Act.

³⁷Section 134(8) of the Act.

including the size and nature of the expected benefit, how long the benefit is to be sustained, and the impact of the benefit on different customers. It is possible that the CC will decide that the benefits are of such significance compared with the effects of the market feature(s) on competition that no remedy is called for. However, such cases are likely to be rare.

Assessment of relevant customer benefits

240. None of the parties said that there are relevant customer benefits deriving from any of the features of the market for the supply of PCA banking services in Northern Ireland as identified in the provisional findings. The Group has not identified any relevant customer benefits on which the proposed remedies, alone or in combination, would have an effect, so that the Group does not currently need to consider relevant customer benefits further.

The Group's provisional decision on remedies

241. On the basis of the analysis set out above, the Group has provisionally decided that the following package of remedies would represent a comprehensive, reasonable and practical solution to the AEC and any resulting detrimental effect on customers that it identified in its provisional findings:

- (a) Remedy 1: Easy-to-understand terminology and descriptions of PCA services. Banks operating in Northern Ireland must satisfy the BCSB that all their customer communications in relation to PCAs are easy for customers to understand. The banks must ensure that all their written communications with customers with respect to the charges and interest rates that apply to PCAs are either:
- (i) certified by an independent organization specializing in plain English; or
 - (ii) otherwise tested with customers and found to be easily understandable.

This obligation will apply to all written communications with customers, whether in hard copy or electronic form, including all pre-contractual, contractual and post-contractual information in relation to PCAs.

- (b) Remedy 2: Explanations of the levels of charges and interest rates and how and when they are applied. Banks must explain to customers the levels of all charges and interest rates, and the circumstances in which and the frequency with which they are levied or paid. The banks must provide to customers explanations of the levels of the following charges and interest rates:
- (i) Credit interest rate applicable to relevant balance limits.
 - (ii) Current account charge.
 - (iii) Charges for standard account services (eg, charges for setting up direct debit or standing orders).
 - (iv) Authorized overdraft debit interest rate.
 - (v) Authorized overdraft charges.
 - (vi) Unauthorized overdraft debit interest rate.

- (vii) Unauthorized overdraft charges (including maintenance charges, paid and unpaid items charges and transaction charges).

The banks must make this information freely available to customers before they open a PCA and they must provide it when the customer opens a PCA. The banks must also provide this information on statements (as stipulated by remedy 3) and with any pre-notification of charges that is not sent together with a statement (as stipulated by remedy 5).

- (c) Remedy 3: information on statements. Banks must provide customers with key account information, as part of their PCA statements. The information should be provided to each PCA customer, in the same form as a customer receives their statement. It may be provided on the front or the back of the statement, on a separate sheet on 'statement paper', or as part of an electronic communication, provided the information is clearly part of the statement.
- (d) Remedy 4: summary and breakdown of charges and interest. Banks operating in Northern Ireland must provide PCA customers with an annual summary of the charges and interest payments incurred on their PCA, as well as a breakdown of this total by category of charge or interest payment (eg account charge, direct debit charge, unauthorized overdraft charge). These summaries are to be provided to each PCA customer in the same form (hard copy or electronic) as that customer receives their statement. The summaries must include any ancillary charges (eg a charge for a copy of a cheque) deducted from the customer's PCA in the period covered by the summary. The summaries must also include an explanation of the charges incurred. This may be done by providing the same information as the banks make available under remedy 2.
- (e) Remedy 5: advance notice of charges and debit interest incurred. Banks must pre-notify customers of all authorized and unauthorized overdraft charges. Pre-notification may be sent together with a statement or in advance of a statement. However, the banks must not deduct a pre-notified charge from a customer's PCA until at least 14 days after the date of the statement. If the pre-notification is not sent together with a statement the bank must provide the key account information that is required under remedy 2 on the pre-notification communication.

Banks must not allow charges and interest to accumulate to a PCA for more than one month before the customer is pre-notified of the bank's intention to deduct the charge or interest from the PCA. The bank must send the customer a statement at the end of any month in which authorized or unauthorized overdraft charges are incurred.

- (f) Remedy 8: regular 'rights reminder'. Banks must provide wording that makes clear that a customer can choose to close their PCA with that bank and seek to obtain PCA services from a different provider, and where they can find further information on how to do this. This must be provided as part of the same communication as the annual summary and breakdown of charges and interest (see remedy 4). It must be accompanied by a general communication developed by the banks and the BBA which explains the switching process, the fact that it is easy to switch using the banks' switching services and that customers are not charged for switching. This communication may be in electronic form or hard copy but must be sent to customers in the same form as they receive their summary and breakdown of charges and interest.

- (g) Remedy 10: changes to the switching process to hold the customer harmless. For each Northern Ireland customer who uses the switching service to open a new PCA, banks must offer an interest and charge free overdraft facility, the amount of which is commensurate with the expected transactions on the PCA, for a minimum of three months after the PCA is opened.

Where a customer is not eligible for such an overdraft or does not wish to have one, banks must guarantee to refund the customer any charges and interest incurred as a result of a failure in the switching process within a minimum period of three months after the PCA is opened (regardless of whether the charges and interest were incurred as a result of an error by the new bank).

Banks operating in Northern Ireland must inform customers of these 'hold harmless' provisions using all their usual marketing channels.

In addition, the Group is minded to recommend that BACS review the switching process, with a view to identifying and addressing any impediments to switching.

242. The Group provisionally decided that it would be appropriate to establish a threshold for the application of its package of remedies. Banks with fewer than 10,000 PCAs in Northern Ireland would therefore not fall within the scope of its remedies. The Group provisionally decided that this threshold should be based on the absolute number of a bank's PCAs for which the customer has a postal address in Northern Ireland. Banks or banking groups that would be required to implement the remedies package are Ulster, First Trust, Northern, Bol, Halifax/Intelligent Finance/St James's Place, Abbey/cahoot/Cater Allen, Nationwide, A&L, Barclays and HSBC/first direct.
243. The Group has provisionally decided to require the implementation of its package of remedies by April 2008. This date would be in line with the date by which the changes as a result of the Consumer Credit Act would be implemented, and also the date by which the changes as a result of the Code review are likely to have been implemented.
244. The CC considers that effective monitoring arrangements are important in ensuring the effectiveness of its remedy package. The OFT has a statutory role in relation to the monitoring and enforcement of remedies. However, in line with the principles of better regulation, the Group has no wish to impose unnecessary additional regulatory structure on an already highly regulated industry. The Group provisionally decided that the BCSB should monitor compliance with its remedies. The banks should fund additional resource for the BCSB sufficient to enable it effectively to monitor compliance with the remedies package. The BCSB should provide the OFT with regular written reports to the OFT's specification.
245. With regard to proportionality, the Group considers that over time, the benefits from the remedies could reasonably be expected to exceed the costs by a substantial margin and that the remedies are therefore proportionate. The Group also believes that a comparison based on the banks' estimates of the costs of implementing individual remedies introduces significant bias in favour of the banks. Overall, therefore, the Group has provisionally decided that the remedies are proportionate.
246. None of the parties said that there are relevant customer benefits deriving from any of the features of the market for the supply of PCA banking services in Northern Ireland as identified in the provisional findings. The Group has not identified any relevant customer benefit on which the proposed remedies, alone or in combination, would have an effect, so that the Group does not currently need to consider relevant customer benefits further.

**Illustrative PCA summary box
(produced by BCSB, for market research exercise in April 2004)**

SUMMARY BOX: YOUR CURRENT ACCOUNT							
The information in this box summarises key product features and is not intended to replace out Terms and Conditions							
Interest rates	<p>We will pay interest of 0.1% gross (0.079% after deduction of tax at the standard rate) per annum on your cleared credit balances. Interest is paid annually on 1 January</p> <p>We will start to pay you interest as follows:</p> <table border="0"> <tr> <td>Cash</td> <td>The same day as you pay in</td> </tr> <tr> <td>Cheques</td> <td>Three days after they are paid in</td> </tr> <tr> <td>BACS credits</td> <td>The same day as they are received</td> </tr> </table>	Cash	The same day as you pay in	Cheques	Three days after they are paid in	BACS credits	The same day as they are received
Cash	The same day as you pay in						
Cheques	Three days after they are paid in						
BACS credits	The same day as they are received						
Minimum balance	There is no minimum balance required						
Borrowing	<p>Your account should not go overdrawn without first making arrangements with us.</p> <p>Authorised borrowing is charged at 1% per month (EAR* 12.8%) When you are overdrawn beyond your agreed limit, if any, by more than £20, we will charge a monthly usage fee of £20 and a monthly interest rate of 2.05% (EAR* 27.5%)</p>						
Statements	We will send you a statement every month						
When you can withdraw your money	<p>You can take your money out as follows:</p> <p>If you have paid in cash: on the same day If you have paid in cheques: four days afterwards If you have received BACS credits: on the same day</p>						
How you can withdraw cash	You can take it out by card or cheque across our branch counters or through any UK cash machine						
Charges and penalties	<p>If you pay in a cheque which 'bounces', we will charge you £25 If you do not have enough money on your account for us to pay a cheque or a direct debit, we will charge you £25 for each one If you ask us to 'stop' one of your cheques, we will charge you £10 If you ask for a duplicate statement, we will charge you £5 Other charges are detailed in our Terms and Conditions</p>						
Who can open an account?	Up to three individuals, including young people Clubs, associations and trusts						
What is needed to open an account?	Evidence of who you are and where you live. For instance a passport and a utility bill						
How long will it take to open an account?	Usually about three days						

*EAR is Equivalent Annual Rate.

Note: The last three sections in gray are intended for use on promotional material, ie before someone becomes a customer.