

Process of opening and switching PCAs

Introduction

1. This appendix describes the processes of opening and switching a PCA and the information provided at each step; it also describes information provided to customers during the account lifetime.
2. Section I describes the main steps involved in the opening of a PCA by a new-to-banking customer and the information provided by the banks. It also describes the differences arising when an overdraft facility is provided, compared with the opening of a PCA without an authorized overdraft facility. Section II presents the switching process and the relevant Banking Code (the Code) operation requirements. Section III sets out the information customers receive while running a PCA.

I. Opening a PCA

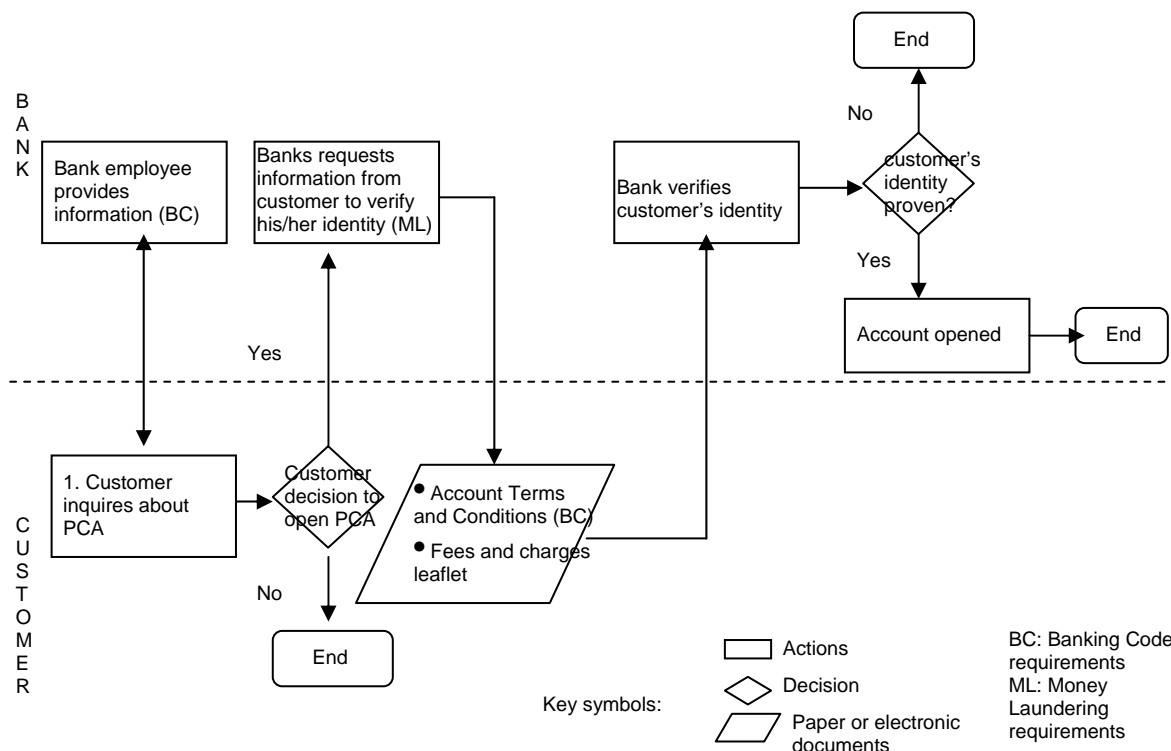
3. This section focuses on account opening for new-to-banking customers. Part of the process also applies when customers switch their PCAs; the switching process and its additional steps are covered in Section II.
4. Currently the majority of PCAs are opened in a branch. Regulations do not prohibit the opening of PCAs remotely (eg by post or over the Internet), although not all banks offer this facility.
5. When a customer opens a PCA in the branch, a member of the sales staff explains the features of the PCA, proves the identity of the customer and their credit status¹

¹Not all banks perform a credit check at this stage. If a credit check is performed, the customer is informed and his/her consent is requested. Banks are not bound to open an account and can reject a customer's request for a new PCA if the customer's credit record shows that the customer has a history of fraud or undischarged debts.

and opens the account.² The process is illustrated in Figure 1³ and is similar for all banks.

FIGURE 1

Account opening



Source: CC analysis.

6. Where an overdraft facility is requested by a customer opening a PCA, further credit checking and assessment is carried out. This is discussed in paragraphs 14 to 19.
7. The account-opening process and the information given to customers during the process is regulated by the Code⁴ which requires that a bank:
 - gives clear information explaining the key features of the services and products a customer tells them they are interested in; or

²Parties told us that the main reasons why they might refuse to open an account for a customer were if he/she was an undischarged bankrupt or if insufficient information had been provided to identify that customer.

³The process of opening an account over the Internet or over the phone is similar. However, before the account is opened the banks must carry out non-face-to-face verification of the customer identity in accordance with the procedures set out in the Joint Money Laundering Steering Group (JMLSG) Guidance Notes for the Financial Sector (see paragraph 12).

⁴See Appendix 2.2 for more details on the Code.

- gives information on a single product or service, if a customer has already made up their mind.
8. According to the Code guidance, information on the key features should include information on additional charges, including charges for unauthorized overdraft and unpaid items charges.
9. We asked all the banks to provide us with a list and a copy of the documents they give to customers at the account-opening stage. All provide, at a minimum, the following:

(a) Terms and Conditions⁵

The contract between the bank and the customer, including terms relating to: account holding and ownership, account closure, depositing and withdrawing money, applying interest, operating an overdraft facility, security and variation to the agreement.

(b) Details of interest rates and charges⁶

- Credit interest rates.
- Overdraft interest rates.
- Charges for specialist services (eg additional copies of statements).
- Fees for card and cheque use and availability of funds.⁷
- Other account charges (eg unauthorized overdraft charge).

(c) Code leaflet

- Key commitments to customers.
- How to make a complaint.

⁵Changes to Terms and Conditions must be notified to customers 30 days in advance of the changes taking place where the change is to the disadvantage of the customer. Otherwise the change may be made immediately and the customer told within 30 days.

⁶According to the Code, customers must be kept informed of changes to the interest rates on their accounts (section 4.4). This requirement can be fulfilled by telling customers personally within 30 days of the change, by updating the information on the phone helpline and the website, or by putting notices in branches and newspapers within three working days of the changes.

⁷For current accounts, the Code states that information should be given in writing to customers on 'how the clearing cycle works, for cheques and automated payments, including when the customer can withdraw money after paying cash or cheques into their account, and when the funds will start to earn interest' (The Banking Code, Guidance to subscribers, March 2005).

- How to request or where to find copies of the Code.
 - Contact details of the organization monitoring the application of the Code (BCSB).
10. By opening an account, a customer is bound by the Terms and Conditions which represent the customer's contract with the bank. As part of this contract, the customer agrees to ensure that funds are available in the account to meet payments arising from transactions (these funds will include any authorized overdraft). If the customer breaches this term of the contract (for example, by going into unauthorized overdraft), the bank reserves the right to refuse payment of the transactions and to levy charges and fees. The level of such charges and fees is set out in the tariff leaflet(s) which are given to the customer at the account-opening stage and are always available in branches, by telephone or on the Internet.
11. Customers have the right under the Code to cancel a PCA within 14 days of the day the contract is entered into or the day on which they receive the contract terms and conditions and other information, whichever is later. The 14-day cooling-off period equally applies to customers switching accounts.

Account-opening and money-laundering requirement

12. As part of the account-opening process, a bank must prove the identity of the customer, as explained by the Code guidance:
- under the Money Laundering Regulations 2003, all banks ... have had to put procedures in place to prevent money laundering. ... The procedures require institutions to verify a potential customer's identity and address, using separate checks. More checks are needed in the case of account

opening where the customer is not physically present, as for example, with telephone and internet banking.⁸

13. Some potential customers may have difficulty proving their identity to the sales people of the banks. This risk is recognized by the JMLSG Guidance Notes, the FSA and the Code. There is specific guidance on how to deal with these cases, the objective being to avoid denying access to financial services to the more vulnerable people in society.

Account-opening and credit history checking

14. Most banks check the credit record of a customer before granting an overdraft facility.⁹ In deciding whether to grant customers an overdraft, banks have to balance their appetite for risk with the obligation of 'responsible lending'. In other words, banks should lend to creditworthy customers in a way that is both prudent and sustainable, avoiding lending money that cannot or will not be repaid.
15. In order to assess the risk of lending, and reduce the risk of fraud, banks typically check customers' credit history through credit reference agencies. All banks are customers of at least one of the two main credit reference agencies: Equifax and Experian.
16. These agencies hold information on most adults in the UK. This information falls into three main categories:
 - *Public record information*: this includes the UK electoral roll (used for checking names and addresses), county court judgments (CCJs) and Scottish decrees (awarded against people who have defaulted on debts), and records of

⁸Detailed procedures are contained in the JMLSG Guidance Notes for the Financial Sector.

⁹Some banks rely on a customer's previous bank statements to assess customer creditworthiness.

bankruptcies, individual voluntary arrangements and administration or repossession orders.

- *Credit account information:* lenders share information about borrowers by submitting it to credit reference agencies. This information relates to the performance of individuals in meeting payment obligations on credit accounts and lenders can choose to contribute at either full level (ie information on account balance and credit limits) or at a default level (ie information on default events) only. Lenders may then check against this information when deciding whether or not to grant new credit.
- *Search information:* this includes records of credit checks carried out by lenders and whether there are a large number of applications made over a short period of time. This could be seen as an indication of overcommitment, or even fraud.

17. It is not mandatory for financial institutions to file customers' credit information with credit reference agencies. The supply of and access to consumer credit performance data, and the recording and sharing rules on credit search data, shared through the credit reference agencies (Experian, Equifax and Callcredit), are covered by The Principles of Reciprocity (The Principles).¹⁰
18. According to The Principles 'data are shared on the principle that subscribers receive the same credit performance level data that they contribute'.¹¹
19. Some major financial institutions have started sharing full credit account information (ie positive (white) data or information on a customer's general levels of debt, how long credit has been held and the mix of secured and unsecured debt and negative (black) data or information on arrears or events such as default notices and CCJs) on PCAs and it is likely that other financial institutions will follow. However, some

¹⁰Information Sharing Principles of Reciprocity, June 2006.

¹¹See footnote 9.

institutions will share information only on those accounts on which the individual has defaulted. Where full credit account information is shared on PCAs, it is not mandatory to share data on overdraft limits, and the sharing of information on overdraft debit balances is mandatory only in certain circumstances.

II. Switching a PCA

20. Customers can switch PCA providers in two ways: either by using the switching services¹² offered by the new bank, or by making their own arrangements to open another PCA with a different bank and arranging for their direct debits and credits and standing orders to be transferred from the old to the new account. We first discuss the switching process where customers use the bank's switching services. In paragraph 25 we describe the process where the customers make their own arrangements. When customers use the banks' switching services, the new bank takes responsibility for the switching process in accordance with the Code which covers:

- the information that the new bank must give the customer on the process;
- the actions the new bank has to perform as part of the switching process and their timing; and
- the obligations of the old bank vis-à-vis the requests for information from the new bank.

These requirements have been in place since May 2005.

21. Under the Code it is the responsibility of the new bank to inform customers of the details of the switching process. The Code states that if a customer wants to transfer their current account to another bank, the new bank will tell the customer:

- how the process for transferring the account will work and who is responsible for each step in the process;

¹²Switching services are the services offered by the acquiring bank to customers moving their PCAs to that bank.

- what information the customer's old bank will pass to the new bank;
 - what features the customer will be offered with the new account so that s/he can compare the new account features with the old account; and
 - how long the transfer is likely to take.
22. As part of the switching process, the new bank gives customers the same information and performs the same identity checks and credit status checks as they do when setting up a new PCA (see Section I).
23. Once a customer has decided to transfer the PCA to the new bank, the latter will make all the necessary arrangements to transfer direct debit and standing order (DDSO) instructions from the old to the new account, if this is requested by the customer. The Code requires that:
- the new bank requests the DDSO information from the old provider within three working days of receipt of the customer's written request;
 - the old bank replies to the request for information from the new provider within three working days of its receipt;
 - the new bank, at the request of the customer, notifies direct debit originators of the new account details¹³ on a timely basis;
 - the new bank gives the customer all that is needed to operate the account (ie the ability to pay into the PCA, eg a paying-in book, and make withdrawals, eg an ATM card and PIN) within ten working days of approving the application for the new PCA; and
 - the new bank cancels any charges the customer has to pay as a result of any mistake or unnecessary delay for which it is responsible.¹⁴

¹³As part of this requirement the new provider sends the DDSOs information received from the old provider to the customer so that the latter can check the accuracy of the information and ensure that only active DDSOs are transferred. When the customer has returned the list to the new provider, DDSOs are set up on the new account and a confirmation letter is sent to the customer. If the customer fails to respond within a reasonable period, the Code states that the new bank 'may assume that customers want all DDSOs to be transferred to their new account'.

24. All banks in Northern Ireland are subscribers to the Code and follow its rules and guidance when providing switching services to new customers.
25. This section has focused on the switching process as it applies when customers use the switching services of the new bank. If a customer chooses to open a PCA with a new bank without using the switching services, the new bank will open the PCA and follow the steps described in Section I, and the customer will take responsibility for transferring direct debits and credits and standing orders. Customers can decide to keep the old account open or to ask the bank to close it. When a customer switches to a new PCA with the same bank, the switching process might just consist of an update of the customer record in the bank's IT system.

Switching accounts and overdraft facilities

26. If the customer requests an overdraft facility, the new bank's decision on whether to grant the facility and for what amount depends on its assessment of the customer's overall creditworthiness which is informed by data on the customer's credit record (see paragraphs 15 to 19).
27. We received evidence in hearings and in the responses to our request for information that banks, given the lack of information on overdraft in the credit record (paragraph 19), ask customers requesting an overdraft facility to give proof of their existing overdraft arrangements. They also ask for the customer's bank statements for the last three months and/or for overdraft arrangements documents to know how customers have used their overdraft facilities in the recent past.

¹⁴The new provider would also advise the customer to switch direct credits (eg salary payments) to the new account and some providers arrange that at the customer's request. Also, at the time the old account can be closed, the new provider would either inform the customer that it is appropriate to do so or, if requested by the customer, it would proceed to close the account (section 7.2. of the Code).

28. Banks' decisions on the level of overdraft to grant customers depend not only on the customer's credit record but also on each bank's assessment of the customer credit risk. It is, therefore, possible in principle that customers switching to a new bank are not granted the same level of overdraft they had with the previous provider, even if the new bank has access to positive and negative data on the customer's overdrafts. In practice, however, we have been told that, in many cases, the new bank tends to grant the same level of overdraft as the old bank, where customers have been able to show the level of facility that they had previously.

III. Operating a PCA

29. Banks have to give PCA customers regular account statements (Code section 9.1). Customers can choose the frequency with which they receive a statement (eg fortnightly, monthly) but banks must provide a statement at least quarterly or yearly depending on the use of the account.¹⁵ If a customer is overdrawn, the Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006) requires statements to be sent at least every six months.

30. The guidance to the Code explains that:

The statement does not have to be in paper form. For example, in the case of internet-based accounts (or accounts with an internet banking facility where the customer has indicated that they are content to receive statements in non-paper form), customers could be e-mailed regularly to remind them to check their statement of account online, and encouraged to save it or print it off. If statements are only available online, customers should be told how long they will remain available.

¹⁵The Code requires banks to provide at least a quarterly statement when customers have cards that allow them to withdraw money from the account (eg debit card) and have used them.

31. The details shown on statements are:
- (a) transactions;
 - (b) credit interest earned;
 - (c) charges; and
 - (d) debit interest.
32. Where charges are levied and interest is debited to an account for standard account services (eg usage charge for arranged overdraft), the Code requires that banks give the customer at least 14 days' notice (section 5.5 of the Code). The Code does not require banks to pre-notify customers for unauthorized overdraft charges and interest, referral item charges and unpaid charges incurred as a result of the bank's decision on a payment which would create or extend an unauthorized overdraft.
33. Some banks have chosen to pre-notify unauthorized overdraft charges (eg [✂]) and some banks have ad hoc communication initiatives for customers who regularly use unauthorized overdraft. Halifax, for example, told us that the third time a customer goes into an unauthorized overdraft, the customer is invited to a review meeting with bank staff.