

Trends in charges and interest rates

Introduction

1. This appendix compares trends in transaction charges, account maintenance charges, and some other charges (direct debit and standing order set-up and cancellation charges, and card replacement charges) on traditional PCAs among the clearers over time.
2. We have looked particularly at how charges and interest rates have evolved over time on traditional PCAs because of the nature of the charges applicable to these accounts in overdraft which are not applied on other PCAs, and because traditional PCAs accounted for the majority of Northern Ireland PCA customers through much of the period considered (although we recognize that the clearers have offered accounts with different charging structures and some have or will move away from traditional accounts—see paragraph 5). We also look at interest rates on packaged accounts introduced by the clearers.
3. The appendix then compares credit interest rates among the clearers and some of the non-clearers. It also looks at the development of unauthorized overdraft charges and interest rates over time.

Transaction charges

4. Transaction charges are levied on traditional PCAs when the PCA is overdrawn. In addition to transaction charges, maintenance charges are incurred on overdrawn traditional PCAs. These charges apply even for authorized overdrafts except for where a buffer operates (eg Bol's Clear accounts have some buffer facilities).

5. Northern launched Current Account Plus in February 2005 which removed these transaction charges.¹ It also launched a new range of PCAs in April 2006 which do not carry transaction charges. However, many of its customers remain on its traditional PCA. Ulster eliminated these charges on all its PCAs in November 2005. BoI has announced its intention to remove transaction and maintenance charges on traditional accounts from November 2006. First Trust told us that it was considering moving to a fee-free PCA charging structure.
6. Transaction charges in recent years have been split into two categories: automated transactions (eg debit card payments, Internet instructions, ATM withdrawals); and manual transactions (eg cheques). The latter category has higher charges than the former. During the period examined, the only different transaction charge was for Ulster PCAs; it varied the level it charged for debit card transactions from other automated transactions. We compared transaction charges over time from June 2001 to August 2006, using the data provided by the banks in response to our market questionnaire and our own observation of published charges. None of the non-clearers applied any transaction charges or authorized overdraft charges.²
7. Figure 1 compares automated debit transaction charges. The clearers maintained similar prices throughout the period from June 2001 to October 2005. Northern raised its prices on three occasions. After each price rise, BoI appears to have matched Northern's within a four-month lag. Ulster increased its price after Northern's price rise, but until the end of 2002 maintained a 1p differential. However, Ulster closed the gap with Northern after the second and third price rise. First Trust priced slightly lower than the other three banks until September 2004, but the price difference was no greater than 3p. Between September 2004 and October 2005 all the clearers

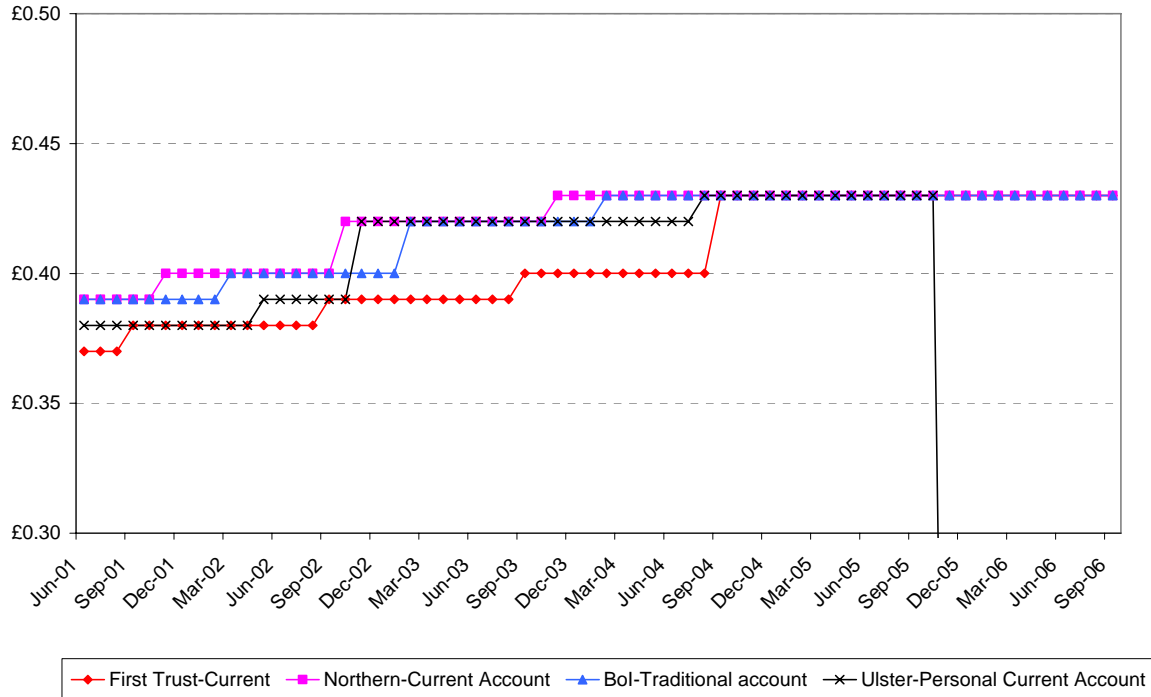
¹Northern had already introduced some PCAs which did not carry transaction charges such as its student account and ChequeMaster, which instead has a fixed monthly charge where an account is overdrawn.

²The only exception is A&L's Current Account which has a fixed monthly charge when in overdraft.

charged equally. Ulster removed this transaction charge from its PCAs in November 2005.

FIGURE 1

Automated transaction charges

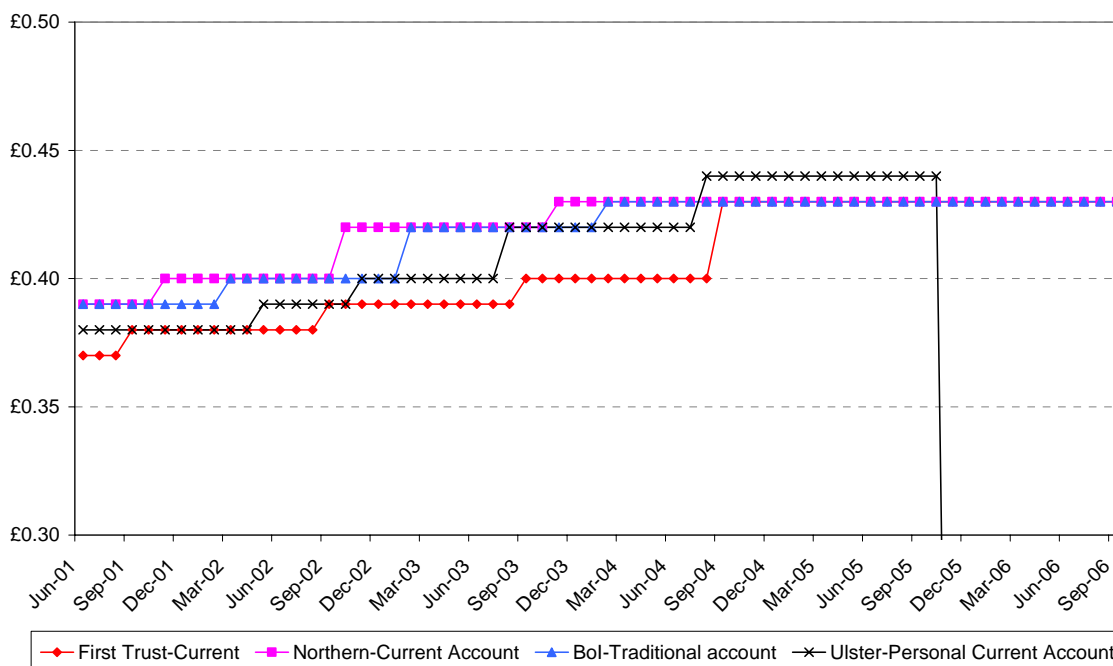


Source: CC analysis of bank data.

- Figure 2 compares debit card transaction charges; Ulster has a different debit card charge from those for other automated transactions. Again the banks' charges appear to move in parallel with one another and do not diverge by more than 3p until the end of 2005. Unlike the automated transaction charges, Ulster maintained a lower switch price in late 2002 and into 2003 before it followed Northern's and Bol's charges. In August 2004, it increased its prices but rather than following the level set by Northern and Bol, it set a price 1p higher and maintained this until it removed all transaction charges in November 2005.

FIGURE 2

Debit card transaction charges

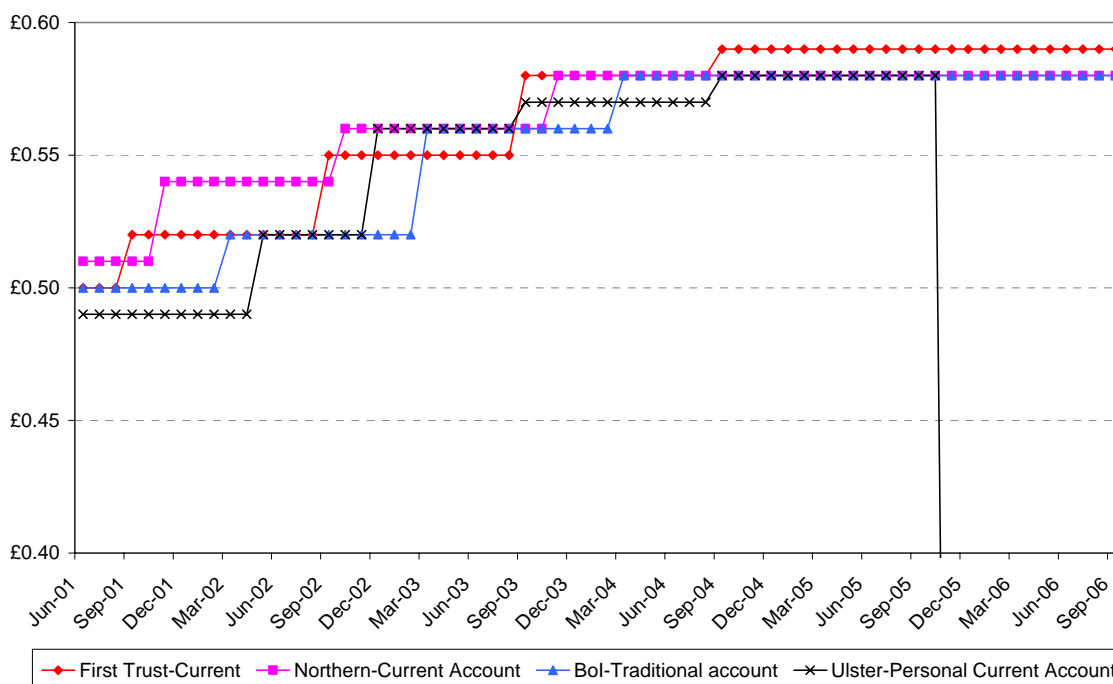


Source: CC analysis of bank data.

- Figure 3 compares manual transaction charges. Again there are similarities in the level of charges and the timing of price increases, although there has been a slightly wider dispersion of prices at times (up to 5p). In this case, each increase seems to have been initiated by First Trust rather than Northern, although Northern followed the increases one to two months later. Ulster responded after another time lag and Bol later still. Prices have not all converged on exactly the same level, although after each step they are very closely grouped. Again Ulster removed these charges in November 2005.

FIGURE 3

Manual transaction charges

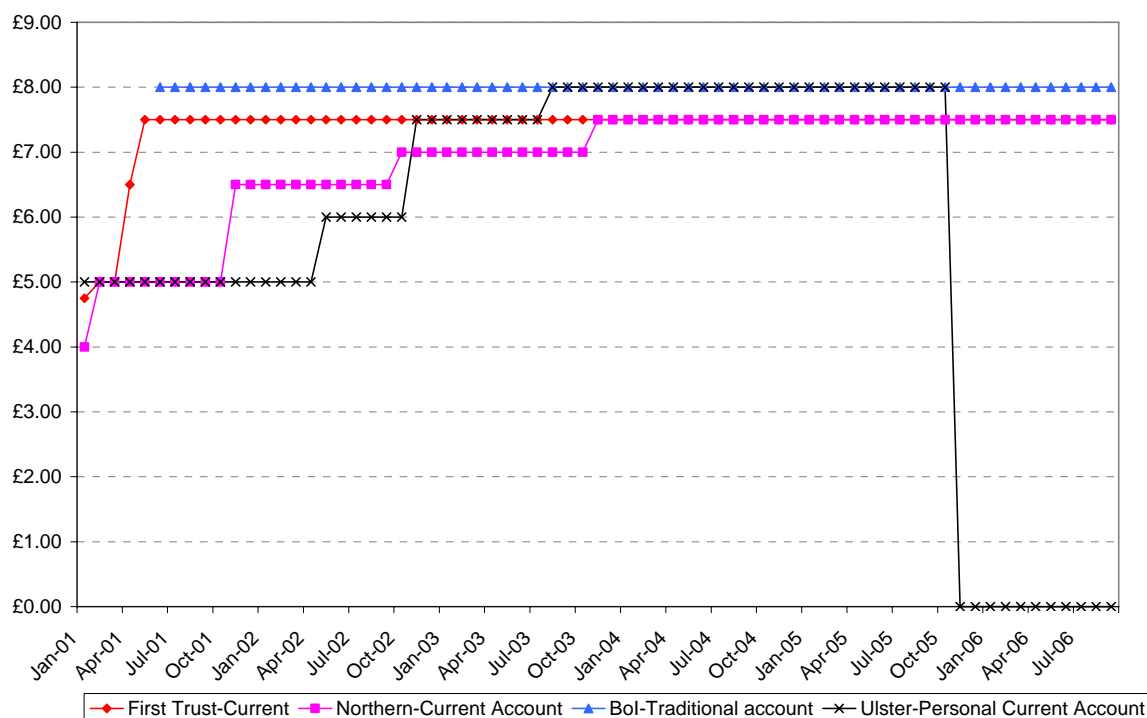


Source: CC analysis of bank data.

- Figure 4 shows maintenance charges levied quarterly when traditional PCAs are overdrawn. Bol has charged the highest price throughout the period (£8.00). First Trust increased its charge in May 2001, but since then has maintained its price at £7.50. Northern increased its price four times, and Ulster three times, from January 2001 to November 2003. Over the last two years, two of the clearers, Bol and Ulster, maintained their prices in line at £8.00 a quarter, until Ulster eliminated these charges. The other two clearers have been pricing slightly lower (£7.50). Where these maintenance charges are still applicable, prices have converged on similar levels for all providers since mid- to late-2003.

FIGURE 4

Maintenance charges (per quarter)



Source: CC analysis of bank data.

Other charges

11. Our comparison of other charges over time focused on three items:

- direct debit set-up charges;
- standing orders set-up charges; and
- card replacement charges.

12. We compared charges for these items levelled by the clearers on customers on their traditional PCAs. None of the non-clearers we examined charged for any of these, although they apply a variety of ancillary charges in common with the clearers.

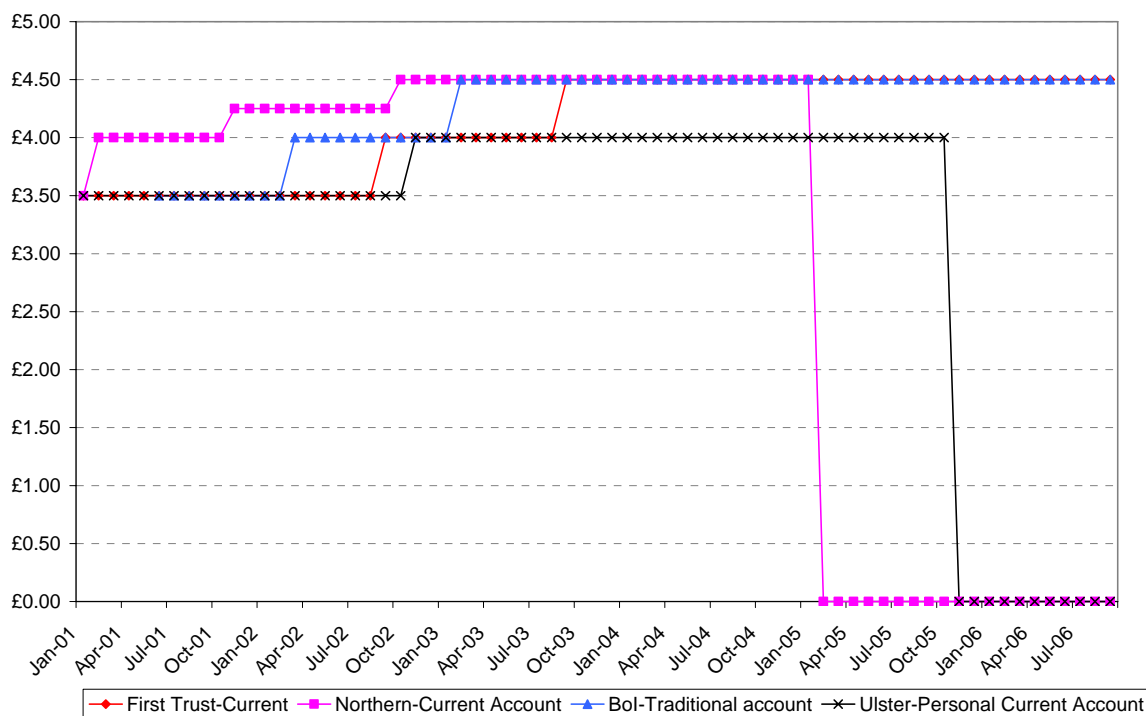
13. Figure 5 shows direct debit set-up charges on traditional PCAs. All the clearers levied this charge in the period from January 2001 to January 2005.³ Northern again seems

³Northern removed direct debit and standing order set-up charges for students, graduates and retirees in 2002/03.

to have been the first to change prices over this period, with other banks also revising their prices upwards. BoI increased its price to Northern's level in February 2003 and First Trust did the same in September 2003. The three banks charged equally from September 2003 to January 2005, when Northern removed this charge on all its PCAs. Ulster did not adjust its price after either the first or the second price rise, but revised its charge upwards shortly after the third one. It maintained its charge at £4.00, 12 per cent lower than the other clearers' price, until November 2005 when it too eliminated this charge.

FIGURE 5

Direct debit set-up charges



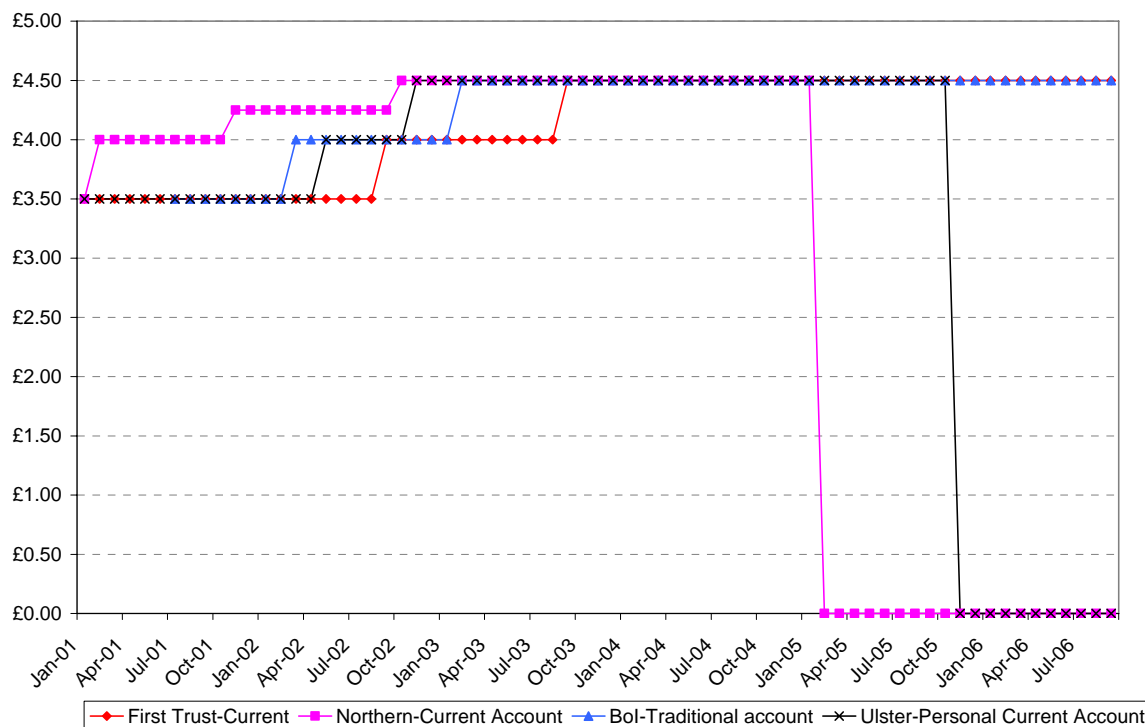
Source: CC analysis of bank data.

14. First Trust does not apply any direct debit set-up charges to customers on their packaged account, while Ulster has levelled the same charges (now zero) on U-first and U-Gold as on their standard PCAs.
15. Figure 6 shows standing order set-up charges for the clearers' traditional accounts; they all charged for this service in the period from January 2001 to January 2005.

Northern again appears to have been the first to increase charges over this period. Other banks also revised their prices upwards after each of three price increases, but with variable time lags. By September 2003 all banks charged at £4.50 and they maintained that level until January 2005 when Northern stopped charging for setting-up standing orders, followed by Ulster in November 2005.

FIGURE 6

Standing order set-up charges

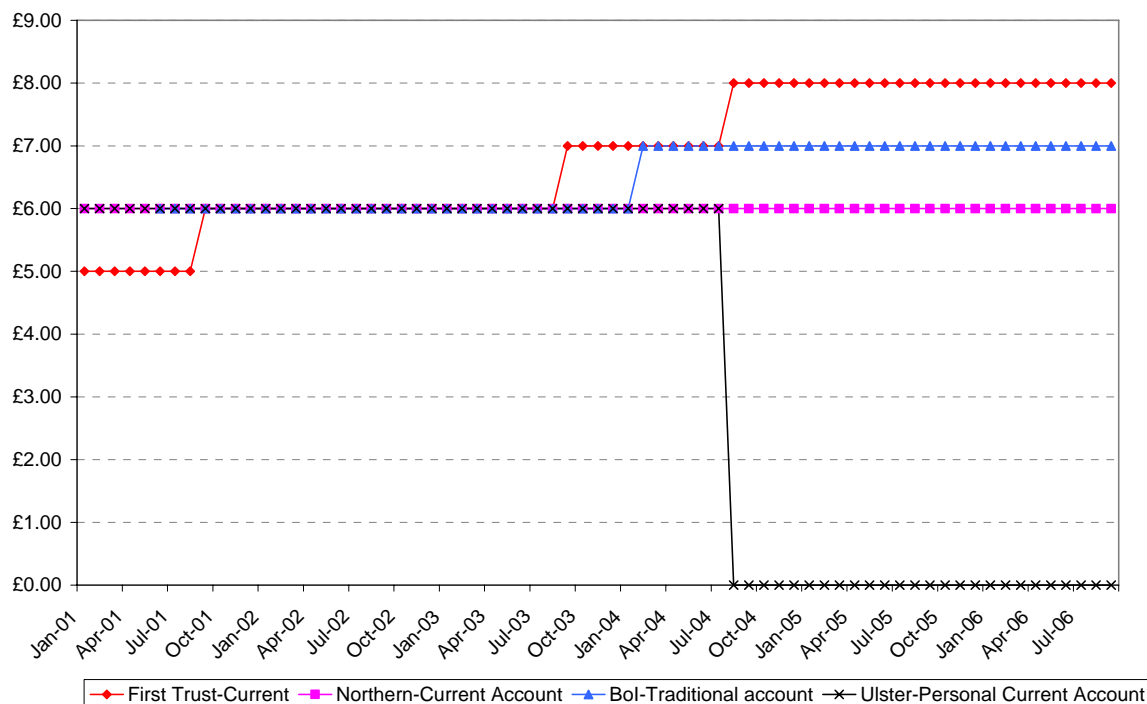


Source: CC analysis of bank data.

16. Figure 7 shows card replacement charges for the clearers' traditional PCAs; all charged for card replacement from January 2001 to July 2004. They charged equally for nearly two years, from September 2001 to August 2003. In September 2003 First Trust increased its charge; Bol also increased charges shortly after, whilst the other two banks did not move. In July 2004, Ulster dropped its charge to zero. First Trust revised its price upwards once more in August 2004, but none of the other clearers appeared to react with a price increase.

FIGURE 7

Card replacement charges



Source: CC analysis of bank data.

Credit interest rates

17. Most of the clearers' PCAs pay either a very low interest rate (0.1 per cent) or no interest on credit balances. Rates applying in August 2006 for a variety of PCAs offered by the eight largest banks are shown in Table 1. The clearers' offers are in line with some other providers' including some of the large banks based in Great Britain. However, some of the non-clearers offer much higher rates of interest on credit balances, although there may be conditions such as minimum funding, use of remote banking channels, or a time limit, attached to the better offers.

18. Credit interest rates on PCAs declined in the 1990s as market interest rates fell. We were told that a margin against market interest rates is required to fund the operation of PCAs. As market rates fell, the rate offered on PCAs declined to zero, or a token amount. Nonetheless, the clearers are not competing between themselves on credit

interest rates, whereas some of the other providers are attempting to highlight their credit interest rates.

TABLE 1 Credit interest rates offered on selected PCAs in Northern Ireland, August 2006

<i>Provider</i>	<i>Account name</i>	<i>Charging structure</i>	<i>Interest rate (AER)] %</i>
First Trust	Current Extra	Traditional	0.1
	Current	Traditional	0
Northern	Current Account	Traditional	0
	ChequeMaster	Fixed monthly overdraft charge	0.1
Bol	Current Account Plus	Fee-free	0.1
	Choice	Fee-free	2.02
	'Traditional' current account	Traditional	0
	Advantage Interest Paying	Traditional	0.1
	Clear Account Level 1 and 2	Traditional	0
Ulster	Clear Account Level 3	Traditional	0.1
	Current Plus	Fee-free	0.1
Nationwide	Personal current account	Fee-free	0
	Flex account	Fee-free	0.25–4.25*
A&L	Premier direct	Fee-free	3.75†
	Premier	Fee-free	1.5†
Abbey	Current Account	Fee-free	0
	Preferred overdraft/ preferred in-credit	Fee-free	0.1–2.5‡
Halifax	Moneyback Current Account	Fee-free	0.5
	Current Account	Fee-free	0.1–2.53§
	High Interest Current Account	Fee-free	0.1–5.12§

Source: CC analysis of bank data.

*Depending on amount paid in.

†Minimum funding requirements apply, and rates only available on first £2,500 of credit balance. Assumes that introductory interest rates have expired.

‡Minimum funding requirements apply, 2.5 per cent available to those customers that opt for the preferred in-credit option. Assumes that introductory interest rates have expired.

§Minimum funding requirements apply, and rates only available on first £2,500 of credit balance.

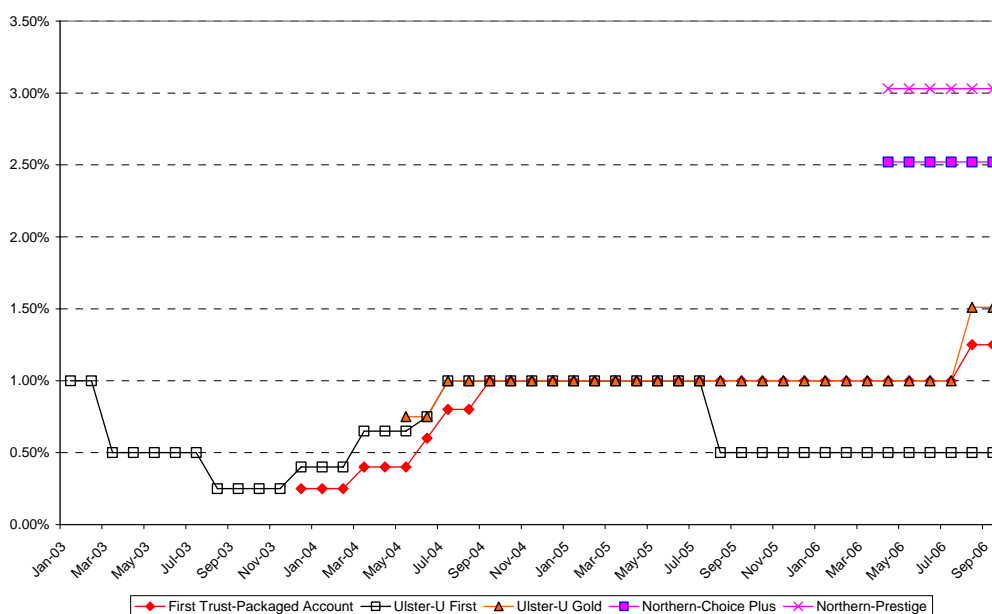
19. Most new non-packaged PCAs launched by the clearers during recent years have continued to bear either a low or zero credit interest rate. The exception to this is Northern; its accounts launched in April 2006 offered markedly higher rates of interest, for example Choice pays 2 per cent gross. Choice Plus pays 2.5 per cent gross and Prestige 3 per cent gross, but as these carry a quarterly fee we classify these as packaged accounts.

20. Ulster currently sells two packaged accounts: U-First packaged account, which was launched in June 2001, and U-Gold packaged account launched in May 2004. First Trust launched its packaged account in December 2003. The packaged accounts'

price structure is characterized by higher credit interest rates, no transaction charges on an agreed overdraft and a monthly charge. We consider here the interest rates payable on the lowest tier; these accounts tend to offer higher rates on deposits over a certain value, currently £2,000 for First Trust and £5,000 for Ulster. Ulster's and First Trust's interest rates on packaged accounts up to September 2006 are shown in Figure 8. The interest rate for the U-First packaged account declined over the two years after its launch in June 2001. First Trust launched its packaged account in December 2003 offering a similar interest rate to U-First's. From December 2003 to September 2004, Ulster revised its credit interest upwards three times (March 2004, June 2004 and July 2004). First Trust increased its rate similarly upwards with a time lag of two to three months. Ulster launched a premium packaged account, U-Gold, in mid-2004, and its interest rate was increased almost immediately after launch to 1 per cent. For a period of 11 months from September 2004 to July 2005, all the packaged accounts were offering the same interest rate of 1 per cent although U-First's rate was then halved. In early August 2006, First Trust increased the rate on amounts below £2,000 to 1.25 per cent, and Ulster increased the rate on U-First Gold to 1.5 per cent in mid-August.

FIGURE 8

Interest rates offered by clearers on packaged accounts



Source: CC analysis of bank data.

Note: These accounts, other than Northern's, have tiered interest rates offering higher rates on higher credit balances.

Unauthorized overdraft charges

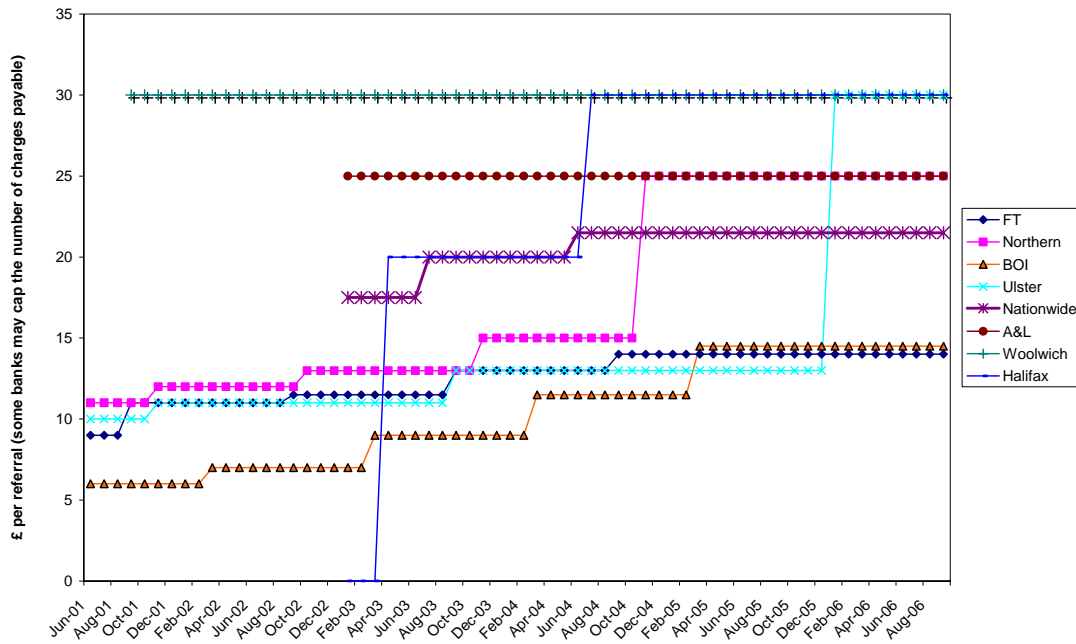
21. We examined unauthorized overdraft charges since 2001 for the clearers, and since 2003 for the four largest non-clearers. We considered referral charges, unpaid charges, and unauthorized overdraft interest rates. Interest rates can differ between accounts but banks apply the same referral and unpaid charges on all their accounts, thus we are not considering just traditional PCAs in the case of the clearers.

22. Several charges may be applicable to unauthorized overdraft use, there may be differences in how frequently the charges are applied, and there may be differences in exemptions between banks. Thus these comparisons do not necessarily reflect the total cost to customers.

23. Paid referral charges and unpaid charges are shown in Figures 9 and 10.

FIGURE 9

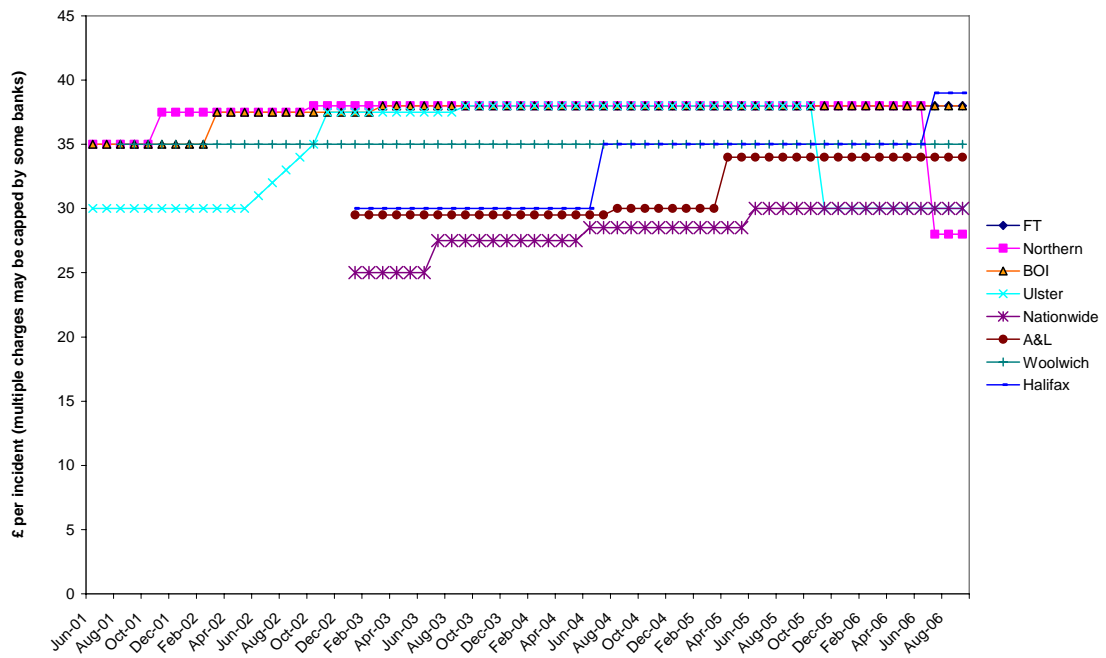
Paid referral charges



Source: CC analysis of bank data.

FIGURE 10

Unpaid charges

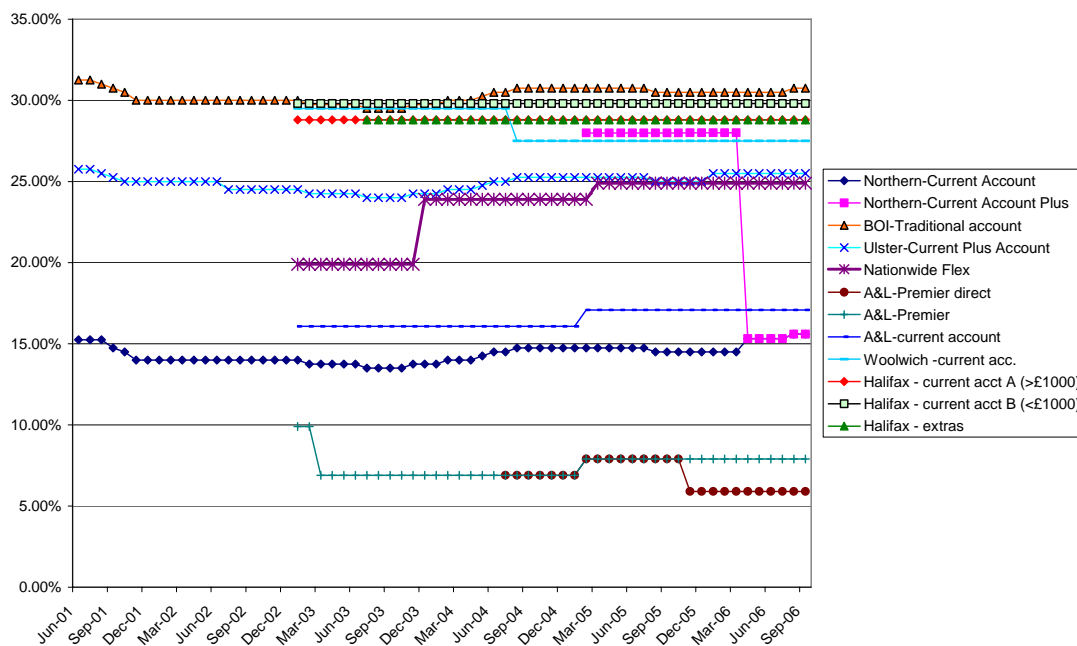


Source: CC analysis of bank data.

24. On unauthorized overdraft charges, in contrast to transaction charges of traditional PCAs, there is considerable divergence of the level of specific charges between providers. Charges do not seem to fall cleanly into a clearers and a non-clearers group.

FIGURE 11

Unauthorized overdraft rates



Source: CC analysis of bank data.

25. On unauthorized overdraft interest rates (see Figure 11) there is a considerable spread of rates between accounts and between banks. Some banks actively promote low authorized and unauthorized overdraft rates on some of their accounts. In the past, unauthorized overdraft rates have been negotiable on First Trust PCAs, and some Northern and Ulster PCAs, therefore these are not shown.