Consultation on a market investigation reference on personal current account banking in Northern Ireland

11 February 2005

OFT771b

OVERVIEW

1. The Office of Fair Trading (OFT) has decided to consult on a proposed reference to the Competition Commission (CC) to investigate the market for the supply of personal current account (PCA) banking in Northern Ireland. Personal current accounts provide the facility to hold deposits, receive and make payments (cheques and debit cards and ATM facilities) and to make regular payments (direct debits and standing orders).

2. This decision follows the OFT's consideration of the Which?/General Consumer Council for Northern Ireland (GCCNI) super-complaint about the market for PCAs in Northern Ireland.

3. It appears to the OFT that competition between the major suppliers of PCAs in Northern Ireland may be restricted. The market is highly concentrated and the big four appear not to compete on price or to actively promote switching or compete for switchers. There is apparent consumer inertia with low levels of switching between accounts and between banks. The importance to consumers of an extensive branch network may also be something of a barrier to entry and to expansion.

4. Under section 131 of the Enterprise Act 2002 (the Act), the OFT may make a market investigation reference to the CC where it has reasonable grounds for suspecting that any feature, or combination of features, of a market in the UK for goods or services prevents, restricts or distorts

competition in connection with the supply or acquisition of any goods or services in the UK or a part of the UK.

5. In guidance published in March 2003,[1] the OFT said that it would make references to the CC only when the reference test set out in section 131 of the Act and, in its view, each of the following criteria, have been met:

- it would not be more appropriate to deal with the competition issues identified by applying the Competition Act 1998 (CA98) or using other powers available to the OFT

- the scale of the suspected problem, in terms of its adverse effect on competition, is such that a reference would be an appropriate response to it; and

- there is a reasonable chance that appropriate remedies will be available.

6. The OFT believes that the test for a reference set out in section 131 of the Act is satisfied and that the additional criteria set out in its own guidance are also satisfied. We summarise below our view of the combination of features of the market that cause us to suspect that competition is prevented, restricted or distorted, and discuss how we believe the criteria set out in our guidance have been met.

7. The OFT's guidance says that in consulting on a reference a view should normally be expressed as to the possible definition of the market (or markets) affected. This is set out in Annexe A.

FEATURES OF THE MARKET WHICH PREVENT, RESTRICT OR DISTORT COMPETITION

8. The features of this market which we suspect result in a restriction of competition relate to the structure of the market, the conduct of suppliers, and the conduct of customers and are discussed in paragraphs 10 to 56 below. The concerns expressed relate to the four main banks in

[1] Market investigation references: Guidance about the making of references under Part 4 of the Enterprise Act (OFT 511) – see www.oft.gov.uk.

Northern Ireland, referred to in this consultation document as the 'big four' banks.[2]

9. As background to our assessment of competition in the market, we asked the big four to supply profitability data on PCAs. The response has been varied. One bank supplied three years' data when first asked, while another has provided none, on the grounds that it would be heavily reliant on estimation and therefore misleading. The remaining two have each supplied one year's worth of data. There are inevitably complex cost and capital allocation issues involved in estimating PCA profitability. Due to the limitations imposed by the lack of data and the complex issues involved, our findings on profitability are inconclusive. This does not contradict our overall conclusion that competition appears limited and our decision to consult on a market investigation reference to the CC is not dependent upon it.

Market structure

High level of concentration

10. There is a high level of concentration in the Northern Ireland PCA market. Estimates of market share provided by the banks indicate that the big four between them accounted for around 77 per cent of current accounts by volume in 2003. They claim that their market share has begun to be eroded, especially by the well established former building societies, particularly Halifax. The figures we have seen need to be treated with some reservation, since their 2004 figure is an estimate and the survey data for the big four on which they are based appear inconsistent with the banks' own accounts records.[3] Newer entrants such as direct banking providers have yet to make substantial inroads into the market.

11. The flow of new business compared with total stock appears to be fairly small, and the competition that takes place for new-to-banking customers

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[2] The big four banks (in alphabetical order) are Bank of Ireland, First Trust Bank, Northern Bank and Ulster Bank.

[3] Survey data is unavoidably subject to sampling error. The relative shares of the big four amongst themselves as indicated by the survey data can be compared with their relative shares derived from their own actual accounts figures. From this we have seen that the survey figures show widely differing levels and patterns for three of the four banks when compared with their own accounts data.

is aimed largely at the student market. It therefore has a limited impact on the inert standard PCA customer base. Furthermore, only a very small percentage of standard PCA customers have migrated to the newer more attractive PCAs, illustrating both inertia and the lack of competition.

Significant entry barriers based upon the importance of an extensive branch network

12. The primary entry barrier appears to be the requirement for an extensive branch network covering both rural and urban areas. The sunk costs inherent in establishing such a branch network are a disadvantage to entrants who need to cover these costs in their current prices, while the incumbents incurred these sunk entry costs in the past.

13. While the big four all told us that there were no barriers to entry to the Northern Ireland PCA market, they all highlighted the importance of a branch network and the relatively high density of branches per capita in Northern Ireland. The banks also cite research data which supports their view that customers value the presence of a wide and evenly distributed branch network which affords easy access in both the urban and rural areas of Northern Ireland.

14. In assessing the importance of a branch network as a feature of the market which restricts competition, it is important to note that the smaller market players such as Halifax, Abbey, Nationwide, and Alliance & Leicester have all built market share - although relatively small - with much smaller branch networks concentrated in mainly urban areas, resulting in higher numbers of customers per branch than the big four. Furthermore, direct providers such as Cahoot, Intelligent Finance, and First Direct have entered the market, as have other banks operating in Great Britain such as HSBC, although their market penetration has been limited.

15. The fact that the Link ATM network operates in Northern Ireland reduces the need for owning a branch network for cash withdrawal services and therefore lessens its importance as a barrier to entry.

16. The super-complaint asked us to examine the issue of the use of former bank premises following branch closures. We have received information

from the big four banks on their branch closures, and any restrictions on future use. Although there have been some branch closures, we found no evidence to suggest that restrictive covenants were operating in Northern Ireland so as to preventing potential entrants or rivals from either entering or expanding in the Northern Ireland PCA market.

Conduct of suppliers

Charging practices

17. The big four impose a number of charges when customers are in credit and overdrawn which are not found in the rest of the UK (and there are no offsetting advantages such as higher interest payments on positive balances).

Transaction and ancillary charges

18. While in Great Britain competitive pressure has seen some types of PCA charges disappear, these charges remain in Northern Ireland. We have been able to verify that two types of charges are prevalent in the Northern Irish current account banking market which are not evident in Great Britain:

- certain ancillary charges which relate to setting up, amending, or cancelling a direct debit or standing order; and
- various transaction charges levied each time a transaction occurs when an account falls into overdraft at any point during the charging quarter.

19. Other than the big four, none of the other significant current account providers in the Northern Irish PCA market appear to make these charges. The fact that only the big four impose these charges may indicate that they are able to act independently of both the competitive fringe and their own customers.

Account maintenance charges

20. Account maintenance charges are also levied either monthly or quarterly when an account is overdrawn by arrangement: in some cases this is in

addition to transaction charges and in others instead of them. Such maintenance charges are not widespread among their rivals in Northern Ireland or among banks in Great Britain, and in the single case we have encountered where they are levied by a rival the charge is lower. These charges are in addition to overdraft arrangement or renewal fees.

Interest rates on positive balances

21. The big four pay noticeably less interest on positive balances than their rivals in Northern Ireland.[4] Paying modest interest on credit balances provides the banks with a cheap source of funds (relative, for example, to the rate they would have to pay on their savings accounts) which can be used in their lending business. For customers this means that while they incur charges in times of overdraft they do not seem to benefit greatly, if at all, when they are in credit.

22. The banks in their response to the super-complaint raised concerns over what they saw as unfair comparisons of the interest paid on positive balances between themselves and non-branch banks such as the internet and telephone competitors. The super-complaint acknowledges this stating that '...the Northern Irish banks generally pay between 20 times and 42 times less interest than our [i.e. Which?'s] Best Buys'. It is worth noting that the comparison is not entirely fair to the Northern Irish banks as there are funding requirements for many Best Buys and a number are internet or phone bank operations'.[5]

23. We consider a more reasonable comparison to be between the big four and all their rivals' accounts in Northern Ireland and with the accounts of the big five in Great Britain. A comparison of interest paid on positive balances between the Northern Irish big four and Great Britain big five indicates that they are similar, i.e. low, compared with their rivals.

24. Price data over time suggest that the big four do not strongly price differentiate between each other on their major current account products which are held by the majority of their customers. The price data not only

[4] We examined interest paid on £1 and £1000 comparing the big four with their Northern Irish rivals and with the Great Britain big five.

[5] Super-complaint page 20 below table 7, document available from 'Which?' web site (http://www.which.net/campaigns/personalfinance/banking/0411nibanking_scomplaint.pdf)

suggests that the banks charge within a narrow price margin, but also that they broadly move in step with each other's prices.

25. When Halifax launched its current account campaign in January 2001, none of the major four were prompted into price competition with it; if anything they appear to have acted independently of this competitive threat.

Potential detriment to consumers as a result of the big four's charging practices

26. As a counterpoint to the issue of the existence of charges in Northern Ireland which have been abolished in Great Britain, the big four argue that, while 90 per cent of their standard account customers are in accounts liable to overdraft transaction charges,[6] only between 13 per cent and 24 per cent of their customers actually incur them by becoming overdrawn.

27. The detriment to consumers is, however, multiplied by the fact that even if a customer becomes overdrawn for only one day in a fee quarter, they are liable to pay transaction charges on every transaction which occurs in that fee quarter. Since any current account customer could fall into overdraft and therefore be penalised in this way, potential detriment also needs to be considered.

Price transparency

28. Three of the big four, namely Northern Bank, Ulster Bank and First Trust Bank, negotiate the APR for overdrafts on some of their current accounts, rather than advertising and applying a set rate. The super-complaint argues that, because these charges lack transparency, there is little opportunity for consumers to compare and switch.

29. The banks argue that consumers in fact benefit from these negotiated rates, one bank arguing that negotiated interest rates allow greater flexibility, so that consumers are not restricted by a 'one size fits all' approach. The banks maintain that negotiation of individual APRs does not prevent customers from benchmarking or comparing their negotiated

[6] This refers to authorised overdrafts.

rates against those published for other accounts and that the negotiated interest rate often compares favourably to published rates, although we have not seen evidence to support this. However, overdrawn customers are likely to feel themselves to be in a relatively weak bargaining position relative to the banks when negotiating an annual rate.

30. Other than the interest charged by three of the big four on overdrafts discussed above, PCA prices are made available to their customers in accordance with the provisions of the Banking Code. We understand that price brochures are available in bank premises and on the banks' websites. The big four are signatories to the Banking Code which requires banks to publish charges and to write to customers to inform them in advance of any changes to prices. We do not find that a lack of price transparency is a problem in this market.

31. There are signs of limited product innovation, for example the introduction of packaged accounts by some banks, although these have yet to gain a significant market share. Some standard PCAs have also been introduced with an overdraft buffer beneath which banking is free of transaction charges, although entry to these is generally subject to restrictions such as the need for significant regular monthly deposits. The big four have also introduced direct banking channels, but with modest customer uptake these have yet to make a competitive impact.

Price parallelism

32. Movement in current account prices appears to have been steadily upwards in the period 1999 to 2004. The banks have told us that their prices are not directly cost derived, so that this upward trend cannot be simply attributed to cost increases. They have also said that price is not their main focus of competition. Instead they claim to compete on the basis of service delivery and product quality, although in the time available it has not been possible to examine this in detail.

33. Many of the features that make tacit collusion a feasible strategy appear to be present in the Northern Irish PCA market. The major four banks do not appear to compete to attract customers from each other's customer bases. Furthermore the banks do not appear to see each other as close competitors but instead named the former building societies, particularly

the Halifax, as their major competitive threat. This combination of factors might suggest that the major four banks are not actively competing with each other.

34. We requested price data from the banks for the period 1999 to 2004 in order to examine the movements and patterns of price changes over time with a view to establishing the degree of parallelism. This covered transaction and ancillary charges and account maintenance fees, as well as interest rates paid on positive balances.

Transaction charges

35. Examination of the various charges which fall under this category shows little real differentiation by the banks in their pricing over the period for which information is available. While there were brief periods where the price difference between the banks widened, this was typically by a very small amount. For the majority of time over the period, however, the banks charged the same or almost identical prices for the same current account services when a customer is in overdraft.

36. On every PCA product/service there were five major price movements over the period and Northern appeared to initiate the price changes. The rest of the big four appeared to move in step with Northern's price movements, raising their prices in succeeding quarters, or at times within the same quarterly period as Northern Bank.

37. The patterns of prices suggest that the banks track each other's prices very closely. The banks mostly adjusted their prices to match Northern's price increases but sometimes responded to the price increase to maintain a small price differential.

Ancillary charges

38. The banks exhibited wider price margins than was the case for transaction charges, and for some services they seldom matched each other's prices. For some services Northern appeared to lead on price changes over the period examined. Bank of Ireland typically matched Northern's price increases after a lag of two quarters. Ulster and First Trust generally reacted to Northern's price changes either during the same quarter or after a lag of two to three quarters. Typically they matched

Northern's increases, although at times they narrowed the margin between themselves and Northern.

Account maintenance fees

39. The banks' account maintenance fees appeared to move in step with each other and to be adjusted to maintain price differential rather than to match price rises, and there was greater variation in these fees with no discernable price leader. The existence of these fees is indicative of a lack of price competition but there is no evidence of parallelism on these particular charges.

Interest rates on current accounts

40. Overall there is little to differentiate the banks on interest paid on positive balances. We examined those accounts that appeared to have the greatest number of current account customers in them. Looking at the interest paid on £1, £500 and £1000 the banks altered the rates very modestly over the period examined. While Ulster appeared to compete on price by offering a relatively favourable rate of interest in its Dual Account,[7] the other current accounts remained stable and inside the range 0 per cent - 0.25 per cent.

Price leadership

41. Price leadership can facilitate tacit collision by allowing oligopolists who wish to move to a tacitly collusive equilibrium to communicate or signal their intentions and coordinate their actions. Northern appears to act as price leader: price data over time suggests that it frequently appears to initiate price changes and then the other members of the big four follow at varying lags.

42. Northern has told us that it has been its practice for over ten years to publish price changes in newspapers across Northern Ireland, 30 days in advance of changes being made. This could constitute a facilitating practice which potentially signals its intentions to the other banks (who

[7] A savings based account with money transmission features, not strictly a standard current account.

typically write to their customers to inform of them of any price changes) thus making it easier for the big four to behave in a coordinated manner. Since Northern is the bank which appears to lead price changes, this raises a further suspicion of parallel conduct arising as a result of non-competitive behaviour between the big four in Northern Ireland.

43. Parallel price increases can occur in both competitive and collusive situations. The observation that prices are similar, and even that they tend to move together, does not therefore by itself demonstrate tacit collusion. One way of determining whether price patterns reflect competitive or non-competitive behaviour is to analyse profitability. Due to the limitation imposed by the lack of data and the complex issues involved, our profitability findings are inconclusive. This does not contradict our overall conclusion that competition appears limited, and our decision to consult on a market investigation could provide the opportunity for the CC to examine profitability further.

Competition for switchers

44. The evidence suggests that the banks do not actively compete for switchers.

45. Survey data quoted by the banks indicates very low levels of switching, of 2.3 per cent over the past year. Despite establishing internal systems to enable them to comply with the switching standards of the Banking Code, the big four have told us that they do not count the number of switchers. This implies that they consider it to be unimportant, possibly because they believe it to be low. Low switching could partly explain why entrants have shown little expansion in their market share (it thus acts as a barrier to expansion) and why there appears to be weak price competition between the big four, while of course weak price competition offers little incentive to switch.

46. Although all the banks claimed that they did actively compete for switchers, only one provided details of specific switching campaigns. These were, however, aimed mostly at promoting a particular range of recently launched current accounts which are not fee-free.

47. None of the major banks can demonstrate that they price specifically to attract switchers from each other's customer base. One has told us that

they ‘do not offer financial incentives to customers to switch' and another stated that when marketing for new business it did not differentiate between customers who had no bank account and those who banked with a competitor. A third bank cited only promotional campaigns aimed at the '11-18 year old market and Student and Graduate markets' to 'encourage customers to switch to them'. We regard these type of customers as new-to-banking customers and not switchers from other banks.

48. The big four appear to follow the same strategy of targeting new-to-banking business and retaining their existing business. Within their existing customer base where the majority of customers are in accounts which are liable to charges, there appears to be very little price competition between them.

Conduct of consumers

Low level of switching

49. The main barrier to switching appears to be customer inertia. A large majority of PCA customers appear to have held their account at the same bank for more than five years.

50. However, the big four argue that there is nothing to stop a customer switching from one bank to another. They point out that the there are no costs incurred by the consumer in transferring their accounts between banks. They argue that PCA switching is a completely cost-free process for the customer.

51. The big four have all signed up to the Banking Code including the provisions on switching, which was introduced in March 2003. The Banking Code is designed to improve the PCA switching process. It requires the 'old' bank to provide relevant account information (such as a list of direct debits and standing orders against the account etc) to the 'new' bank within three working days and that the new bank will have the account fully functioning within ten working days of accepting the application.

52. The big four told us that they do not track switching directly. Instead they provided evidence to show that, while they still collectively held a very

large share of the market, they were losing share of new business to other providers. The banks claimed that this shows that there has been considerable switching; however, these flows of new business would include new-to-banking customers and not just switching activity, thus overstating the extent of switching.

53. The big four argue that the Northern Ireland switching rate compares favourably with that in Great Britain, and use this in support of their view that there is a relatively healthy degree of switching in the Northern Irish PCA market. However both figures have significant margins of error. The most that can be said is that switching rates in both regions are very low, and no other inference can safely be drawn from this comparison. The combination of low switching and consumer inertia, together with the other features of the market which are apparent in Northern Ireland, differentiates the situation from that in Great Britain.

Low internet uptake on the part of Northern Irish consumers

54. Key Note figures[8] show that 5 per cent of consumers in Northern Ireland had access to a current account online in 2003, which compares with 21 per cent in Great Britain. This low uptake of internet access might partly be explained by the fact that Northern Ireland is a comparatively poorer economic region with a disproportionately higher number of socio-economic groups D and E than Great Britain. Gross Disposable Income per capita in Northern Ireland was £8,998 compared with £10,142 for the UK as a whole.[9]

55. The lack of internet uptake by Northern Irish consumers may represent a barrier to expansion for direct providers and again explain the lack of competitive constraint acting on the big four current account providers.

Summary

56. Overall we conclude that the features we have identified above, (high levels of concentration, significant entry barriers, price parallelism and consumer inertia and low levels of switching) appear in combination to

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[8] Key Note in their assessment of the personal banking market for 2003 based upon research by NEMS conducted in January 2003.
[9] National Statistics: Regional, sub-regional and local area household income. 1999 data.

result in limited price competition and weak switching competition between the big four.

APPROPRIATENESS OF A REFERENCE

57. The OFT guidance states that, when dealing with a suspected competition problem, the OFT will only consider a reference to the CC in one of two circumstances:

- firstly when it has reasonable grounds for suspecting that there are market features which prevent, restrict or distort competition but not to establish a breach of the CA98 prohibitions; or

- secondly when action under CA98 has been or is likely to be ineffective for dealing with the adverse effect on competition identified.

58. We have no grounds for suspecting that there are anti-competitive agreements and/or concerted practices within the meaning of Chapter I of CA98 or Article 81 operating in the market.

59. The only possible ground for action under Chapter II of CA98 or Article 82 would be if there were grounds for suspecting an abuse of joint dominance on the part of the big four. We consider it doubtful that the conditions for joint dominance would be met in this case. Article 82 and/or Chapter II would therefore not be effective in addressing the features we suspect of preventing, restricting or distorting competition.

60. We consider that other powers available to the OFT would not adequately address the competition issues we have identified. Other possible OFT action includes an OFT market study or enforcement action under consumer legislation. We do not believe that the features of the market we have observed are issues which fall within the scope of consumer legislation enforced by the OFT or the Financial Services Authority. A market study is not appropriate in this case because, in the event of it confirming the concerns about the operation of the Northern Ireland PCA market, the OFT's powers to put in place the kind of remedies which might be necessary would be limited. The CC has substantive powers to seek undertakings and make orders that are binding on undertakings

operating in a market. We believe that the test for a market investigation reference under section 131 has been satisfied, and that there is a reasonable chance that appropriate remedies will be available. In these circumstances consulting on a market investigation reference is more appropriate than conducting a market study.

61. The OFT has power under section 154 of the Act to accept undertakings instead of making a reference to the CC. The view of the OFT is that we are not currently able to judge with any certainty whether particular undertakings would effectively address the problems that may exist. The OFT will, however, consider any proposals for undertakings made in the course of this consultation.

Proportionality

62. The OFT guidance identifies three factors as relevant to whether an adverse effect on competition is significant, and thus whether a reference to the CC is appropriate, and these three criteria are met by the market for the supply of PCAs in Northern Ireland:

- firstly, the size of the market is significant, estimated at approximately £1.9bn in account balances

- secondly, a significant proportion of the market is affected by the features suspected of preventing, restricting or distorting competition; and

- thirdly, the features suspected of adversely affecting competition are unlikely to be short-lived. High levels of concentration and consumer inertia have been established in this market for some years. Against the background of this long history and despite recent widespread public concern about bank charges and the presence of alternative providers with accounts which do not charge these fees, none of the big four have felt it necessary to respond by abolishing them.

63. During preparation of this consultation document however we were advised in confidence by Northern Bank of its intentions to announce changes to its accounts and charges. This will occur after the date on which this consultation document is finalised but before it is due to be

published. We have taken account of these planned changes (to the extent of the information available to us) in our decision to consult on a market investigation reference. We will make a fuller evaluation of them, along with responses received during the consultation period and any other developments that take place, in taking our decision whether or not to make a reference. Data provided by the banks indicates a low level of switching between standard accounts in the same bank as well as relatively static overall market shares. This history of low intra-bank account switching makes it appear likely that the lack of competition will persist.

Remedies

64. If the CC decides that there are one or more adverse effects on competition it must take action to 'remedy, mitigate or prevent' the adverse effect(s) on competition and to 'remedy, mitigate or prevent any detrimental effects on customers' so far as those effects have resulted from the adverse effect (section 138 of the Act). In order to achieve that, the CC may accept undertakings from appropriate persons or may make an order under section 161 of the Act. Such an order may contain anything permitted under schedule 8 of the Act, as well as supplemental provisions. Schedule 8 provides the commission with wide-ranging powers falling within the following general areas: general restrictions on conduct, general obligations to be performed, acquisitions and divisions, and the supply and publication of information.

65. The OFT therefore believes that the wide range of remedial powers available to the CC, with or without any 'supplementary consequential or incidental provisions' should be capable of providing appropriate remedies to the spread of concerns raised. We believe the extensive powers available to the CC provide the best means of remedying any adverse effects on competition, and any detrimental effects on consumers, and of making the market for supply of PCA services in Northern Ireland work better.

ANNEXES

A POSSIBLE MARKET DEFINITION

Product market

A.1 In the super-complaint the product market is identified as personal current account banking services providing the facility to hold deposits, receive and make payments (cheques and debit cards and ATM facilities) and to make regular payments (direct debit and standing orders).

A.2 It could be argued that credit unions and post office savings accounts are a substitute for PCAs, and that Northern Ireland has particularly well developed credit unions and a well used post office savings sector. However, neither of these two provides access to the full range of services offered by PCAs, particularly for cheques, regular payments and cash debit cards. They do not therefore provide close substitutes for PCAs.

Geographic market

A.3 The geographic market is defined as the Province of Northern Ireland. The OFT agrees with the view in the Competition Commission's report on the proposed Lloyds TSB/Abbey National merger that Northern Ireland is a separate market to the rest of the UK. There is a clear geographical separation from Great Britain and a well-established history of different banks as the main suppliers. Data based on research conducted in January 2003 shows the penetration of online access to bank accounts to be only one quarter of the Great Britain level.[10] This supports the view that there is no overlapping chain of substitution linking Northern Ireland to mainland Great Britain. This argument is further supported by the

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[10] The percentage of those with access to their account online is 21 per cent in Great Britain and 5 per cent in Northern Ireland. Quoted by Key Note in their assessment of the personal banking market for 2003 (based on research by NEMS).

importance to consumers of access to a local bank branch and of a personal banking service, as emphasised by both consumer organisations and the big four Northern Irish banks. None of the banks suggested to us that the relevant market is wider than this (i.e. that it extends to the Republic of Ireland or Great Britain).

B DEFINITION OF TERMS

B.1 Personal current accounts (PCAs) provide the facility to hold deposits, receive and make payments (cheques and debit cards and ATM facilities) and to make regular payments (direct debits and standing orders).

B.2 Standard accounts are those PCAs for which there is no regular monthly, quarterly or annual fee when the account is maintained in credit. The big four operate about 1.1 million standard accounts in the province (this includes some multiple holdings).

B.3 Packaged accounts are defined for these purposes as PCAs which charge a regular fee, in return for which providers generally bundle other services with the account (such as travel insurance) and may offer special account terms. Approximately 5 per cent of all PCAs operated by the big four are packaged accounts. These accounts are targeted at consumers who may be prepared to pay a regular monthly fee even when in credit for what they perceive as 'premium service'.

B.4 Transaction charges are levied upon all transactions within an accounting period (usually a quarter) during which an account becomes overdrawn, and covers all items such as direct debit, standing order, ATM and cheque payments and manual withdrawals. This applies even if the overdrawing is brief and very small and irrespective of whether there is an agreed overdraft facility or not.

B.5 Arrangement fees are required when an overdraft is agreed and this is subject to annual renewal through payment of renewal fees.

B.6 Account maintenance fees are also charged monthly or quarterly on some accounts when they are overdrawn even when this is by agreement. In some cases this is in lieu of transaction charges, while for others it is in addition to them. These are not the same as overdraft arrangement or renewal fees.

B.7 Ancillary charges apply even when accounts are in credit. The range of these charges is wide - some of them apply to only very occasional events such as obtaining a bankers draft, and are generally not the subject of this complaint. Nor are fees for transfers between banks under BACS (smaller regular payments) or CHAPS (large payments over

£25000). The particular ancillary fees which are the subject of the complaint cover charges for setting up, amending and cancelling standing orders or direct debits and 'card replacement fees' for cash and credit cards. These particular fees are not generally levied in the rest of the UK.

B.8 Penalty charges occur when overdraft limits are exceeded or for entering overdraft without permission which involve manual intervention to decide on whether payments should be made. On top of these referral charges are then incurred for each refused item. These penalty charges are not specifically the subject of this complaint.