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Andrew Bailey
Chief Executive
Financial Conduct Authority
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21 May 2018

Dear Mr Bailey,

We are writing following the Financial Conduct Authority's (FCA) recent update on its ongoing high-cost credit review. It is disappointing that specific action on unarranged overdrafts has been delayed once again, with a consultation on potential remedies only planned for late 2018.

As you will be aware, both the consumer champion Which? and debt charity StepChange have previously highlighted the scale of harm caused by banks' extortionate unarranged overdraft fees. This is also an issue that has been raised in Parliament on multiple occasions, with members across all parties expressing concerns about the detrimental impact these fees have on consumers.

There is a particular issue with how banks treat customers who are heavy overdraft users. These customers are clearly identifiable by banks as being vulnerable and in financial difficulty, but banks' current practices towards these customers are neither fair nor appropriate. The response of the banks, which is to charge excessively high fees that cause significant consumer detriment, is evidence of a sector that does not have a culture of treating consumers fairly.

The FCA's latest figures reflect these concerns, with the most recent update showing that 30-65% of unarranged overdraft charges are paid by customers who used their unarranged overdraft over 15 times in a two year period. It is clear that these charges are unacceptable and only serve to push vulnerable people deeper into debt.

While it was promising to see the FCA shares these concerns, it is disappointing that so little action has been taken to protect consumers from these harmful practices since the review into high-cost credit was initially published in July 2017. The FCA must take urgent action to tackle this problem and restrict unarranged overdraft charges to the same level as for arranged overdrafts.

The FCA has previously expressed concerns about the unintended consequences of such a proposal, in particular a risk that some customers could lose access to overdrafts as a form of credit. However, it is important to note that banks already have limits on what they are willing to lend, even through unarranged overdrafts, and as such would not be in a position where they *have* to cut off access. We would expect banks to treat customers fairly when they limit access to credit - for example by being clear and transparent about the amount a customer is able to borrow in the first place, and contacting them as they approach the limit.



Similarly, concerns that this proposal would result in an increase in overdraft fees or introduction of fees for in-credit banking have also been raised. Should banks opt to increase fees on arranged overdrafts, consumers who use arranged overdrafts are in a better position to switch their bank, and are more likely to do so, than those who use unarranged overdrafts, ultimately exerting competitive pressure on the industry. It is also unlikely that our proposal would mean the end of free-if-in-credit banking as the first bank to introduce a charge for all current account customers would be taking a significant risk.

While the FCA consults on these excessive charges, we are also calling on the Government to move swiftly and legislate to give the FCA a mandate to implement regulations that cannot be challenged by the banks.

Yours sincerely,

Peter Vicary-Smith
Chief Executive

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Sir Kevin Barron MP
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