

Money and Mental Health submission to the FCA's consultation on overdrafts (CP18/13)

Introduction

The Money and Mental Health Policy Institute is a research charity, established in 2016 by Martin Lewis to break the link between financial difficulty and mental health problems. The Institute's research and policy work is informed by our Research Community, a group of 5,000 people with lived experience of mental health problems or of caring for someone who does. This consultation response has been informed by a new survey of 441 Research Community members, carried out online between 17 and 29 August 2018,, as well as our wider body of research. Sample sizes for specific questions in this survey are provided in footnotes. Unless otherwise specified, all quotes in this response are drawn directly from our Research Community.

This responses covers Consultation questions 3, 4, 5, 6, 7, 8, 9, and 10, and Discussion questions 11, 12 and 14.

Q3: Do you agree with our draft rules to require firms to offer an online overdraft eligibility tool which indicates the likelihood of a consumer being eligible for an overdraft facility?

Money and Mental Health believes that a requirement on firms to offer an online overdraft eligibility tool is a step in the right direction. Many research participants expressed the view that they would never be able to get an overdraft with another provider, and demonstrated significant reluctance to consider switching as a result. Often the people expressing these views were heavy overdraft users. Many people also had concerns about the credit scoring implications of attempting to apply for other lines of credit.

"For me, having had an established account with an understanding bank for nearly 40 years, changing would not be a choice as I have a substantial overdraft arrangement built up over years and unlikely to be available to new account holders."

The anxiety commonly experienced by people experiencing mental health problems, together with the fact that they are more likely to be out of work, or in low-paid employment, and shame associated with financial difficulty and prolonged overdraft use, can make engaging with the market particularly difficult for this group. We believe that simple, accessible tools that reassure consumers that they will be able to access an overdraft through another provider could help to increase activity in this market segment. Research participants expressed broad support for

this idea, with eight out of ten (80%) respondents reporting that they would find an overdraft eligibility checker helpful or very helpful.¹

“If I were to change bank then I would need to know if I would get a like for like overdraft.”

“I cannot manage money but I am afraid that my bank will take away my overdraft, so I cannot change banks or get out of this situation.”

Many research participants particularly welcomed the idea that they should be able to check eligibility without this affecting their credit score - which can be a source of significant anxiety, particularly for those who are reliant on access to credit to get by.

“The eligibility checker is a great idea and as it wouldn't affect your credit score makes it even more attractive. This would be so helpful for people who are struggling financially so they could look around for a better deal without their credit score being affected even more.”

“My credit file isn't that good and I don't want to bring it lower by trying to get an overdraft or account that I won't get. So knowing whether I'll get it without damaging my credit would be great.”

However, in practice, this tool will only be effective if it is sufficiently simple to use, as discussed in paragraph 3.19. Where tools require consumers to input a vast amount of information, particularly technical details, this impedes the ability of more vulnerable customers, including those with mental health problems, to benefit from them. Mental health problems can affect our concentration, short-term memory and motivation, making collecting required information and filling in long forms much more difficult. If tools are designed in such a way that they require lots of information from consumers, the end effect of this intervention may be to further disadvantage vulnerable customers, who are less likely to use the tools to find a better deal, and further advantage customers who are already active and engaged in the market, and getting good value for money.

Similarly, if vulnerable groups are not to be disadvantaged, the FCA must ensure these tools are made available to customers who do not want to or are not able to access an online tool. We understand the FCA acknowledges this issue, but emphasise that alternatives must be offered in line with the needs of individual customers if these tools are to be provided in line with Equality Act obligations.

¹ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 259.

Q4: Should we require firms to design tools in a way that could be provided through APIs to third-party providers so that the same comparison can be run for a consumer across different banks?

Yes, we believe that requiring firms to design overdraft eligibility tools in such a way that they can be accessed by third-party providers through APIs would benefit consumers by strengthening competition.

“It would be helpful to know if there is another bank or building society that would offer me an overdraft at least equal to the one I get now.”

Mental health problems can affect our cognitive abilities in several ways, including:

- Impairing attention switching, making it hard to switch focus between different parts of a multi-stage task
- Reduced working memory, making it harder to hold onto and process multiple pieces of information at the same time
- Concentration difficulties, so it is difficult to sustain attention in a lengthy comparison process²

Each of these difficulties could make the process of comparing overdraft eligibility across several providers difficult, particularly when the output is probabilistic. Ensuring that API access is provided so third parties can compare eligibility across a range of providers without extensive legwork would be particularly helpful to people with mental health problems experiencing these symptoms, and other customers in vulnerable situations who may equally find comparing across providers difficult. If access to eligibility tools is not provided in this way, there is a risk that the benefits of providing calculators are muted, and accrue primarily to more engaged consumers who have the time, motivation and skills to seek out these tools across a range of providers and compare outcomes. As noted in paragraphs 4.70-4.72 of CP18/13, Open Banking could significantly increase consumer engagement with overdrafts and strengthen competition, but this could be undermined if comparison tools are not built around APIs.

Q5: Do you agree with our draft rules to require firms to provide clear, easy-to-read, prominent information about overdrafts to their customers before they apply for an overdraft?

People experiencing mental health problems frequently tell us that they require information to be clear, simple and succinct. Traditional models of terms and conditions are often long and full of technical information, which can be difficult to understand. A move away from this, to a more

² Holkar M. Seeing through the fog. Money and Mental Health Policy Institute. 2017.

straightforward, jargon free language is welcomed. Our survey found that 87% of respondents would find easy to read, prominent information helpful or very helpful.³

“Cut the endless jargon and confusing rules. Be clear and upfront. Make it simple.”

These proposals however are only part of the solution. Our research has found that people with mental health problems often experience information overload when liaising with financial services firms. Symptoms of mental health problems can often affect our information processing abilities which can make it more difficult to understand information. For people with mental health problems, providing more mandatory written information, however clear and easy to read, may be experienced as another barrier to engagement.⁴

Mental health problems can impact on a person's ability to interpret and understand information in any format. Some people prefer written information, others prefer to be able to ask questions and talk things through. The FCA must ensure that firms also offer customers the opportunity to discuss overdrafts, to ask questions, and particularly that they take the time to check a customer has capacity to take out an overdraft under CONC 2.10 - that is, they understand, can retain and weigh up relevant information and communicate a decision to the lender. Printed information is not a substitute for these important conversations and checks.

“There needs to be some form of reiteration that they understand prior to proceeding. There are times that I don't think straight and simply need things spelling out for me.”

Q6: Do you agree with our draft rules that online calculators should be made available to show consumers how much they will be charged for their overdraft and allow consumers to calculate their costs?

Our survey of people with experience of mental health problems, found that a quarter (23%) of respondents did not understand how much it costs to borrow using an arranged overdraft.⁵ This rose to 45% for unarranged overdrafts.⁶

“I don't understand the charges. I get a breakdown from my bank, but I can't relate the daily/interest charges to my bank statement. So as I'm coming out of depression & managing my finances better I'm not sure how to keep charges to a minimum.”

³ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 270.

⁴ Holkar M., Evans K., Langston K. Access Essentials: Giving people with mental health problems equal access to vital services. Money and Mental Health Policy Institute. 2018.

⁵ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 274.

⁶ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 265..

Allowing consumers to calculate how much they will be charged for their overdraft would broadly assist consumers, providing clearer and more salient information from which to make informed choices and potentially strengthening competition. These tools could be particularly valuable to people experiencing mental health problems, which can affect concentration, short-term memory, our ability to process information and motivation in ways that can make engaging in the tedious, technical process of shopping around for current accounts very difficult.

However, the design of these tools must be carefully considered if they are to offer equal benefits to all customers. In particular, the inputs required to use these tools must be carefully considered. If consumers need to gather a large volume of technical information about their current and potential overdraft use to make use of a tool, they are unlikely to engage with it, and the benefits will be severely limited. Given the particular barriers that people experiencing mental health problems can face gathering and inputting complex information, at worst, these tools can actively disadvantage more vulnerable consumers, while making it easier for engaged and active consumers to get a better deal. If not well-designed, these tools can aggravate market failures rather than solving them. The FCA must also ensure that banks are taking steps to ensure that customers who are not online have access to these tools and are not disadvantaged.

While these calculators are only available at firm level, however, the amount of work required of consumers to undertake meaningful comparisons is likely to undermine any competitive pressure that such tools could unlock. Open Banking is likely to be important in allowing consumers to compare overdrafts costs, tailored to their own usage rather than based on assumptions or simplifications, and we hope the FCA will continue to work to strengthen competition through this mechanism.

Q7: Do you agree that rules requiring consumers to be automatically enrolled into unarranged overdraft and refused payment alerts should be included in the FCA Handbook?

We agree with the FCA's analysis that requiring firms to automatically enrol customers into unarranged overdraft and refused payment alerts will potentially offer competition benefits, by improving awareness of overdraft use and driving market engagement, and consumer protection benefits by helping people know when they are using their overdraft and avoid charges if possible. These alerts are likely to have particular protective value to people experiencing mental health problems, which may make it harder to keep track of spending and lead to unwitting overdraft usage. We believe the evidence around the value of alerts is sufficiently strong to justify the inclusion of these rules in the FCA Handbook to ensure that they are available to as many consumers as possible.

Q8: Do you agree with our draft rules to require firms to automatically enrol their customers into arranged overdraft, unarranged and refused payment alerts?

Research participants overwhelmingly supported the proposal to receive alerts about arranged and unarranged overdrafts and refused payments. 87% of survey respondents reported that this would be helpful or very helpful.⁷

However consideration must be given to people's preferred communication channel. Mental health problems can mean that people struggle with certain channels of communication. Three quarters (75%) of people who have experienced a mental health problems struggle to engage with essential services firms through at least one communication channel.⁸ While telephone, in-person conversations and post are the channels which are most commonly problematic, some research participants who already receive text alerts about overdraft usage described how these can cause anxiety.

“Automatic alerts would be useful as often I can't deal very well with my finances and take my eye off the ball. But on the other hand, it may increase my anxiety, especially if there's nothing I'm able to do to rectify the issue.”

Commonly, messages sent by a single channel simply will not reach customers, who are then unable to act on them. To maximise the effectiveness of prompts, and ensure they reach those who would most benefit from them, we would argue that firms should send the message in at least two different ways, for example, by email, or in an automated phone call, as well as by text message.

“Many of those who suffer from anxiety and depression avoid their phones and refuse to answer them, they are turned off so having texts and alerts wouldn't be of any use. “

“Automatic overdraft alert - by email, as I don't have mobile phone, or they could phone landline, this would be helpful.”

While auto-enrolment is the right principle for simple interventions like this which have been proven to be effective, it is important to be aware that these messages are not universally beneficial, and to ensure that people have the ability to opt-out if they wish to do so. Where this option is not readily available, or is difficult to access, Research Community members feared that text messages would cause them significant distress.

“I don't have control over going into my overdraft. If I was alerted constantly it would make me anxious.”

⁷ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 270.

⁸ Holkar M, Evans K and Langston K. Access essentials: Giving people with mental health problems equal access to vital services. Money and Mental Health Policy Institute. 2018.

Q9: Do you agree with our draft rules regarding alert channel, content, scheduling and grace periods?

We agree with the proposals on the scheduling of alerts, and specifically the requirement that firms avoid sending multiple alerts in one day.

We also agree that the content of alerts should remain friendly, clear and direct people towards positive actions. However, there is a lack of recognition that people may not be able to take positive action, such as ensuring sufficient funds are moved into the account to avoid incurring charges. Therefore we suggest that the alert should also include signposting to debt advice organisations. This would ensure that people are not presented with alerts which they find distressing without a positive action to take. Signposting people to debt advice is a simple and effective way to assist those most at risk.

We are in agreement with the FCA proposition to require firms to communicate grace periods for unarranged overdrafts. People with mental health problems can experience difficulties with problem solving skills, memory and motivation,⁹ which can make it difficult to undertake the tasks required to bring their account back into line inside short grace periods - but knowing that they have chance to rectify matters can reduce distress.

Q10: Do you agree with our draft rules to require that if a firm refers to 'balance', 'available funds', or 'available balance', this must exclude any arranged overdraft available to the customer?

Money and Mental Health welcome the draft rules around references to 'balance', 'available funds' or 'available balance'. Research Community members frequently tell us how difficult it can be to keep track of their balance when unwell, and that the way their overdraft is presented within available funds by banks and building societies causes significant confusion, in some cases leading to unplanned overspending, financial difficulty and distress. 88% of respondents to our survey said that clearer information about how much money is actually in their account would be helpful or very helpful, with 66% saying this would be very helpful.¹⁰ People were particularly keen for this information to be available on ATM screens, as well as in statements, in app and through online banking.

"I find it hard to understand how much money is actually available in my account when there are two different amounts. It needs to say which amount is my 'own' money and which is overdraft."

Some respondents also suggested that having information about their balance displayed in this way could make it easier to resist impulses to spend by making the consequence more apparent.

⁹ Holkar M. Seeing through the fog. Money and Mental Health Policy Institute. 2017.

¹⁰ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 267.

“Seeing how much of my own money is in my account, exclusive of overdraft, will encourage me to think differently about my expenditure, especially that which takes place on the spur of the moment.”

“I think available balance no longer showing overdraft is a good thing. At times of impulse this can mean I withdraw cash I otherwise wouldn't.”

This could also help to improve trust in financial institutions - many respondents reported believing that banks purposely confuse customers with labelling of available funds to encourage overdraft use and make profits.

“Clearly displaying actual balance rather than including overdraft would be very helpful as it's easy to glance at total available funds and think it's all your own money (I believe the banks do this intentionally so people accidentally spend into their overdrafts).”

“I have always found it very misleading when being shown your available balance. Whilst it is nice to know what money you have access to it hides the fact that a proportion of this is borrowed and could cost you an awful lot of money if not paid back quickly.”

Some respondents were also keen that they should also be able to access information on their available overdraft easily, particularly on ATM screens (as discussed in paragraph 3.84) as not having this information to hand may cause worry and distress when funds are low.

Discussion questions

Q11: Do you agree with our approach to harm in this chapter? Do you have any comments, observations or evidence which would be relevant to this part of our analysis?

We broadly agree with the approach to harm set out in this chapter, and are pleased to see the FCA acknowledging the particular detriment consumers living in deprived areas face from unarranged overdraft charges and refused payment fees. We would also note the distress and psychological harm which can be caused when consumers struggle to manage their overdrafts effectively or face substantial charges for overdraft use. The high prices for overdraft use which result from a lack of competition and transparency in this market can have very serious consequences beyond people's financial wellbeing.

Many respondents felt that high charges incurred when they entered an unarranged overdraft by mistake, often due to difficulties caused by their mental health problems, were unfair and that customers are not given sufficient opportunities to rectify the situation before being charged substantial amounts. Respondents also felt that the high level of fees reinforced financial difficulties and could cause long-term financial problems, particularly for those who were using an unarranged overdraft because they were in other financial difficulties.



“It’s so high! There is no way that it costs them that much to administer it, and it makes it impossible to get on the right track again.”

“I think it’s a huge amount of money (although I don’t know the figure), and when somebody gets into it, it escalates so fast that it’s out of all control. It’s driven me to the brink of suicide in the past. I don’t know what to suggest to allow the banks to make money, but I do think there needs to be MUCH clearer help for people with mental health issues finding themselves being hit with no way to get out of the overdraft because the fees are so high.”

Research participants also expressed frustration at their difficulties understanding overdraft charges, and the way this impaired their ability to manage their overdraft effectively and determine whether pricing was fair. A quarter (23%) of people reported that they do not understand how much it cost to borrow using an arranged overdraft,¹¹ rising to 45% for unarranged overdrafts.¹² Nearly three quarters (72%) worried about the cost of their arranged overdraft at least some of the time.¹³

“Interest rates and the cost are complicated. I don’t know what is fair. All I do know is an unarranged overdraft is very expensive and incrementally so. It is to be avoided.”

Some respondents discussed recent changes in their banks’ overdraft pricing systems, but still did not feel that these offered clarity or made it any easier to predict costs. Some respondents also struggled to understand why overdrafts were priced differently to other forms of credit, and noted that this made it harder to compare costs.

“Under their new system their new charges seem clear but when you look at them closer they become harsher. I’d like to know where the fees go to.”

“I think it used to be fair when an arranged overdraft was a set fee each month now it’s so much per so many pounds I think it is less fair as the compounding costs make it harder to clear and stay in the black.”

Q12: Do you have any comments, observations or evidence about the range of potential remedies we have discussed?

Money and Mental Health believe that a move towards pricing overdrafts only using interest rates would benefit consumers, as long as sufficient tools are made available to help consumers understand what this means in pounds and pence. Our research suggests that the

¹¹ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 267.

¹² Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 265..

¹³ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 251.

complexity of current pricing structures is causing significant confusion, making it difficult for consumers, especially those experiencing mental health problems, to manage their overdrafts effectively, and leading to substantial financial difficulty and psychological distress.

We particularly welcome the proposal to align arranged and unarranged overdraft prices. Exceptionally high unarranged overdraft prices cause substantial detriment to consumers experiencing mental health conditions which make managing money more difficult and increase the likelihood that consumers will make mistakes and use an unarranged overdraft without intending to. Research Community members expressed dismay and confusion at the price differences between arranged and unarranged overdrafts, and frequently commented that they felt these differentials were unfair. While unarranged overdraft borrowing may be higher risk and incur greater costs for firms, current pricing structures do not appear to accurately reflect this risk, and we believe that aligning costs with arranged overdrafts using a fixed percentage uplift would curtail some of the malign behaviour of providers at present.

We would note, however, that for some Research Community members, knowing they have access to an unarranged overdraft and that fees and payments will not be bounced is a source of comfort and reduces financial anxiety. We thus agree that the FCA should look to set the links between arranged and unarranged overdraft pricing in such a way that unarranged lending continues to be available to customers.

Buffers and grace periods were both very important to survey respondents, who often reported making small mistakes in financial management due to the challenges created by their mental health conditions, and who appreciated having time to put this right without facing additional charges. The same symptoms of mental health problems which can lead to these financial accidents, however, could also make it very difficult to understand pricing structures when buffers are exceeded by a small amount, and so we approve of the FCA's suggestion that firms should be prohibited from structuring prices so that interest is charged on the whole buffer.

Some people with mental health problems, on low or variable incomes, who rely heavily on overdraft use may find that they are worse off under these proposed changes. However, many of these people will be repeat overdraft users, whose overdraft use is a reflection of deeper financial difficulties, most significantly insufficient income. Avoiding reform of the overdraft market will only continue to mask these problems, which cannot be fixed by the FCA alone.

We agree with the FCA's analysis that the current Maximum Monthly Charge is insufficiently salient to consumers to have driven any really impact. Although we feel that the FCA's proposed changes to align the costs of arranged and unarranged overdrafts should help to fix problems in this market, we believe that the option of a backstop price cap should be maintained. The bundled nature of overdrafts with PCAs means that there is a risk, despite the FCA's attempts to clarify pricing, that competitive forces may always struggle to bite in this market, and high prices may remain, particularly for back book accounts. As customers in vulnerable situations, including those experiencing mental health problems, may be less likely to switch current accounts, further intervention in the form of a price cap may be required to

ensure banks are not able to continue cross-subsidising more competitive PCAs for engaged customers from these legacy accounts.

We remain optimistic that Open Banking could substantially increase competition in the PCA and overdraft markets, and lead to the creation of new products which better meet the needs of customers experiencing mental health problems. However we have significant concerns that, at present, the people most likely to benefit from Open Banking are the most active and engaged consumers, who already receive the best deals. Without further intervention, it is possible that Open Banking will drive further inequalities, rather than driving innovation that benefits everyone. The FCA should continue to monitor the situation closely, and work with the government to consider what steps could be taken, including increasing the availability of anonymised transactions data¹⁴ and access to Project Innovate, to encourage new entrants utilising Open Banking technologies to create products which serve disadvantaged groups.

Q14: Do you agree that repeat overdraft use is a harm that we should address? Please explain what pattern(s) of repeat use that you would consider problematic, and provide any evidence that you may have to support your views?

Our research suggests that repeat overdraft use causes considerable harm and should be addressed. Experiencing mental health problems can cause difficulties with budgeting, planning, memory and concentration - all of which can contribute to difficulties in managing accounts and lead to incurring charges. People with mental health problems, are likely to be disproportionately represented among those repeatedly using overdrafts - half of research participants (49%) said that they used an arranged overdraft every month¹⁵ and nearly one in ten (8%) reported that they accidentally use an unarranged overdraft most months or every month¹⁶ - and steps should be taken to offer this vulnerable group additional support.

People shared how repeat overdraft use was particularly problematic for them, particularly where they were continually within their overdraft for months at a time, or who were never, rarely or only briefly in credit.

“I am stuck with this debt, as the money which goes in each week doesn't cover my overdraft.”

“Because I can never afford to clear it, I'm stuck with a monthly fee of £1 a day. So though I was initially grateful for the facility, it's become a burden.”

“I am never out of my overdraft... I wouldn't be able to live if i didn't have it.”

¹⁴ Evans K. Busting open the banks. Money and Mental Health Policy Institute. 2016.

¹⁵ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 271.

¹⁶ Money and Mental Health survey of people with lived experience of mental health problems, August 2018. Sample size for this question: 229.

The type of repeat overdraft use is problematic. People incur significant charges each month, often to the level of the MMC, driving them further into financial difficulties.