

# A review of personal current accounts

Final Report

June 2016

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## Personal current accounts in the UK

Almost every adult in the UK has at least one bank current account and depends heavily on their bank to help them run their lives. Following the scandal of PPI sales and the onset of the financial crisis in 2008 there has been a lot of focus, both regulatory and political, on the way in which UK banks operate and behave.

As an independent financial product information business, Defaqto's team of researchers maintain a detailed database of product features and benefits across the whole UK financial market, including retail banking, with information stretching over 20 years. This allows us to consider bank accounts in detail and to understand how they are changing over time.

In this report Defaqto has looked at the ways in which banks have been developing their current accounts in recent years, and analysed the ways in which the market is changing. Our aim is to concisely summarise the current state of the market, and identify where it might be headed over the next few years.

It is clear from our work that the UK has a fiercely competitive personal current account market in which banks are trying new ways to appeal to customers to get them to switch from their rivals. We are seeing growth in the number of accounts offering ongoing cashback or rewards schemes, and alongside that a reduction in the number of 'packaged' accounts.

Increasingly instead of paying a bank for the privilege of using their services, banks will pay customers (even if it is only a small reward) for using them. This is good news for those customers who usually stay in credit but the picture is less rosy for those who are often or persistently overdrawn. Despite a fall in overdraft costs over the past four years, this does not appear to be an area where the banks are actively competing to win new customers.

In summary, after many years of criticism and public scrutiny, it appears that banks are coming up with new and differing ways to win and retain customers, and despite many predictions to the contrary, the era of 'free in credit' banking seems set to continue for some time to come.

# Key findings from the Defaqto research

## Rewards

- **Banks are paying you to use them.** Rather than paying your bank to use their services, as many people have predicted, banks are now more likely to pay you to use them. Seven of the UK's largest banks now have some form of cashback or reward scheme.
- **Rewards are tangible but not huge.** The rewards on offer from these schemes are not huge - a typical customer who stays in credit is likely to earn in the region of £50 to £100 a year from ongoing rewards. This could though be much larger for higher spending account holders and those taking out a mortgage through their bank, with rewards more likely to be in the region of £100-£200 a year.
- **Cash bonuses for switching bank are disappearing fast.** In 2015 there were seven banks offering one-off cash bonuses for switching to them, but this has fallen to just 4 this year, each paying new customers £100-£150 for moving to them.
- **The number of people switching banks is relatively steady.** The rate at which people are reported to be switching current accounts is relatively steady, but banks are increasingly trying new ways to appeal to customers who are willing to switch. The focus is on attracting and retaining new customers through the offer of tangible and persistent rewards, such as cashback or higher savings interest in the current account.
- **Cashback rewards are the key to getting new customers.** The overall gainers of new account holders in 2015 were those companies which at the time offered the best ongoing rewards - Santander and Halifax, while those banks losing customers – Barclays and Natwest – appear to have responded by introducing reward schemes of their own. The marketing drive clearly appears to be on introducing cashback schemes.

## Overdrafts

- **Little reward for the persistently overdrawn.** The news is not so good for those people who regularly go overdrawn, in particular those who exceed or don't have an agreed overdraft facility. These people are unlikely to see any benefits of the cashback or reward accounts.
- **Unauthorised overdraft costs are falling.** On a positive note the cost of unauthorised overdrafts has fallen on average by 21% in cash terms over the past four years. The average cost of overdraft fees and charges differ between banks, but for the largest overdraft users the differences are narrower than in the past.  
For these very heavy overdraft users the differences are large enough to make it worth shifting accounts - provided the new bank will grant an overdraft facility immediately.
- **Banks not competing on overdraft fees.** At present banks do not compete against each other on the scale of their overdraft fees, although there is some difference between the cost of overdrafts from each of the major providers the issue for those who need overdrafts is more that they are available rather than how much they cost.

## The Future

- **'Reward in Credit' accounts are the new norm.** The good news is that for those customers who usually stay in credit and are prepared to switch to a different bank, 'free in credit' banking is rapidly becoming 'reward in credit' banking. Customers will be paid to use a bank account, rather than the other way around.

## The market

Current accounts for people (as opposed to business banking customers) include a range of different account types, aimed at different types of customer. Defaqto categorises accounts into five main groups

Account Type	Characteristics	No. of Accounts	% of Accounts
Basic	Very restricted accounts, often only available on request. Limited functionality (i.e. may have no standing order ability, no debit card etc.)	21	14%
Standard	Normal accounts, low or no monthly fee, no extra non-banking benefits	57	39%
Added value	Fee based account, offering a range of extra benefits – typically insurance based	28	19%
Premier	High fee based accounts, aimed at wealthy individuals with significant incomes or investible wealth. Typically promising very high levels of customer service	27	18%
Young person	Introductory accounts helping young people transition from basic into fully functional current accounts	15	10%
<b>Total</b>		<b>148</b>	<b>100%</b>

*Table 1 – Current account types (as at June 2016)*

At present there are 148 different accounts on offer from some 36 banks. While some providers might have one or two mainstream accounts other, such as Barclays, have as many as 15 different versions of accounts across the five categories. The sheer number of different account types might deter potential customers, who when faced with so much choice decide to bank elsewhere.

The number of mainstream bank accounts has remained broadly steady over the past 5 years, despite the growth in the number of banks offering current accounts

Account Type	2012	2013	2014	2015	2016
Standard	47	51	52	54	57
Added Value	44	36	28	27	28
Premier Added Value	18	22	22	25	27
Young Person	6	12	14	15	15
<b>TOTAL</b>	<b>115</b>	<b>121</b>	<b>116</b>	<b>121</b>	<b>127</b>
<b>No of Providers</b>	<b>31</b>	<b>31</b>	<b>34</b>	<b>37</b>	<b>36</b>

Table 2 – Current account types over time (as at June 2016)

In the past few years a number of new banks have launched current accounts in the UK, including Metro Bank, Marks & Spencer, the Post Office, and Virgin Money. Lloyds TSB was split with the spun-off TSB beginning to launch its own current account products.

Over the same time Defaqto has noted a marked reduction in the number of added value accounts on offer, as banks appear to be consolidating their efforts on a smaller number of products. The notable exception is Barclays, which has a range of added-value accounts based on various insurance add-on packs that the customer can select from a menu type approach.

The apparent rise in the number of premier added value accounts reflects the increasing willingness of banks to publicise the products they offer for higher net worth individuals.

## ‘Reward’ accounts

One of the major developments in the UK personal current account market has been the rise of the reward account. A few years ago commentators, including ourselves, believed we might be moving towards the end of free-in-credit banking. Lately though a number of banks, most prominently Santander and Halifax, have been heavily promoting current accounts that give cash rewards to their customers.

We now have seven major banks offering a cashback or reward account, to compete for the attention of new customers. These seven accounts are summarised in Table 3 on the following page.

The question posed though is how sustainable a reward account can be in the long term, from the banks’ perspective? If customers remain loyal to their bank and purchase multiple products (e.g. mortgages, insurance, loans, credit cards and the like) then the banks can afford to run their current accounts as loss-leaders, cross subsidised by the other product types. However, if customers switch often and use only their current account with their

bank it is difficult to see how the bank could afford to keep offering cashback rewards on the current scale in the long term.

### Reward accounts summarised

Provider	Benefits	Fees	Minimum Conditions
Barclays Blue Rewards	<ul style="list-style-type: none"> <li>£7 a month reward</li> <li>£3 a month for home insurance purchase</li> <li>£5 a month for residential mortgage</li> <li>7% cashback from Expedia</li> <li>Cashback online from selected retailers</li> </ul>	<ul style="list-style-type: none"> <li>£3 per month</li> </ul>	<ul style="list-style-type: none"> <li>Pay in £800 each month</li> <li>Pay out 2 Direct Debits each month</li> <li>Can be added to Personal and Premier accounts</li> </ul>
Co-Op Everyday Rewards	<ul style="list-style-type: none"> <li>£4 a month reward</li> <li>5p cashback on every debit card transaction, up to £1.50 per month</li> </ul>	<ul style="list-style-type: none"> <li>No fee</li> </ul>	<ul style="list-style-type: none"> <li>Online accounts only</li> <li>MUST Login to online banking each month to get the £4 reward</li> <li>Pay in £800 each month</li> <li>Pay out 4 Direct Debits each month</li> <li>Stay in credit or agreed overdraft</li> <li>Opt for paperless statements</li> </ul>
Halifax Rewards	<ul style="list-style-type: none"> <li>£5 a month reward</li> <li>Up to 15% cashback from selected online offers</li> </ul>	<ul style="list-style-type: none"> <li>No fee</li> </ul>	<ul style="list-style-type: none"> <li>Pay in £750 per month</li> <li>Pay out 2 direct debits</li> <li>Stay in credit</li> </ul>
RBS (Scotland) / Natwest (England & Wales) Reward	<ul style="list-style-type: none"> <li>3% cashback on selected household bills paid by direct debit (utilities, phone, TV package and council tax)</li> <li>1% cashback from partner retailers</li> </ul>	<ul style="list-style-type: none"> <li>£3-28 depending on account</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
Santander 123	<ul style="list-style-type: none"> <li>1% cashback on council tax and first £1,000 of a Santander mortgage payment</li> <li>2% on gas and electricity bills, and Santander home insurance</li> <li>3% on mobile and phone, broadband and TV packages</li> <li>Up to 3% interest on account balances up to £20,000</li> </ul>	<ul style="list-style-type: none"> <li>£5 per month</li> </ul>	<ul style="list-style-type: none"> <li>Pay in £500 per month</li> <li>Have 2 active direct debits</li> <li>Cashback only on direct debit payments</li> </ul>
TSB Classic Plus account	<ul style="list-style-type: none"> <li>5% interest on balances up to £2,000. No interest on balance over £2,000</li> <li>5% cashback on first £100 per month of contactless or ApplePay payments (until 31 Dec 2016)</li> </ul>	<ul style="list-style-type: none"> <li>No fee</li> </ul>	<ul style="list-style-type: none"> <li>Pay in £500 per month</li> <li>Register for Internet Banking and logon to Internet Banking once every 12 months</li> <li>Paperless statements and correspondence</li> </ul>

- |  |   |  |  |
|--|---|--|--|
|  | <ul style="list-style-type: none"><li>▪ Access to regular saver account paying 5% AER on savings up to £250 per month</li></ul> |  |  |
|--|---|--|--|

*Table 3 – Summary of Reward Account incentives (June 2016)*

### 'Typical' customer profiles

To estimate how much benefit they might get from using a reward account, we created a set of profiles of 'typical' customers, as shown in the table below:

'Model' customers	Monthly Spend		
	Low	Middle	High
Gas	£40	£60	£100
Electric	£25	£40	£80
Water	£25	£40	£60
Council Tax	£120	£150	£240
Sky	£30	£60	£90
Broadband/Landline	£20	£50	£70
Mobile 1	£20	£30	£50
Mobile 2		£30	£50
Mortgage	£500	£800	£1,500
Home insurance	£25	£40	£60
Contactless spend per month	£50 in 20 transactions	£200 in 50 transactions	£300 in 100 transactions
Savings Balance	£1,000	£3,000	£10,000

*Table 4 – Customer profiles for calculation reward account value*

We used three different profiles to try and see the impact of customers with what might be considered low, middle and high spending patterns.

### Potential Benefits by model consumer

Using the three profiles we calculated the potential value to each of the model consumers for the seven different Reward accounts.

Summary of Benefits	Barclays Blue Rewards	Co-Op Everyday Rewards	Halifax Reward	NatWest/RBS Reward	Santander 123	TSB 555
<b>Low User</b>						
Account Fee	-£3.00			-£3.00	-£5.00	
Monthly Reward	£7.00	£4.00	£5.00			
CashBack Reward				£8.40	£4.60	
Mortgage Reward	£5.00				£5.00	
Insurance Reward	£3.00				£0.50	
Contactless Incentive		£1.00				£2.50
Savings Interest					£10.00	£50.00
<b>Net Annual Benefit</b>	<b>£144.00</b>	<b>£60.00</b>	<b>£60.00</b>	<b>£64.80</b>	<b>£71.20</b>	<b>£80.00</b>

<b>Middle User</b>						
Account Fee	-£3.00			-£3.00	-£5.00	
Monthly Reward	£7.00	£4.00	£5.00			
CashBack Reward				£13.80	£8.60	
Mortgage Reward	£5.00				£8.00	
Insurance Reward	£3.00				£1.20	
Contactless Incentive		£1.50				
Savings Interest					£90.00	£100.00
<b>Net Annual Benefit</b>	<b>£144.00</b>	<b>£66.00</b>	<b>£60.00</b>	<b>£129.60</b>	<b>£243.60</b>	<b>£100.00</b>

<b>High User</b>						
Account Fee	-£3.00			-£3.00	-£5.00	
Monthly Reward	£7.00	£4.00	£5.00			
CashBack Reward				£22.20	£13.80	
Mortgage Reward	£5.00				£10.00	
Insurance Reward	£3.00				£1.20	
Contactless Incentive		£1.50				
Savings Interest					£90.00	£100.00
<b>Net Annual Benefit</b>	<b>£144.00</b>	<b>£66.00</b>	<b>£60.00</b>	<b>£230.40</b>	<b>£330.00</b>	<b>£100.00</b>

Table 5 – Potential annual value of reward accounts (June 2016)

Clearly the value of each reward account is very heavily dependent on the profile of the customer. Higher benefits are available to those who have significant regular monthly bills (e.g. with NatWest and Santander).

Customers who are considering shopping around based on the strength of these benefits need to consider very carefully whether the net reward will be worth it, and if so which account offers the best benefits for them.

### Reward Account Pitfalls

As well as the reward benefits, there are some potential pitfalls that customers should watch out for:

#### Monthly fees

- Where these exist they can be increased, as happened recently when Santander increased its account fee from £2 to £5 a month

#### Taxation of Rewards

- Some rewards are considered taxable by HMRC and some aren't. For example, the Halifax and Co-Op banks pay monthly rewards on which they have already deducted income tax at 20% HMRC while Barclays Blue Rewards do not have any tax deducted.
- Account rewards are not included in the new Personal Savings Allowance limits, so tax will be payable on them.
- Halifax and Co-Op account holders who are higher rate taxpayers will have to declare their account rewards to HMRC because more tax will be due, while all Barclays Blue Reward account holders who are taxpayers will have to declare this to HMRC.
- Cashback on shopping and bills, where it is given, is deemed by HMRC to be a return of some of the customer's own money and is not taxable and therefore not declarable to HMRC.
- Those thinking of switching to gain cash benefits must consider their personal tax position carefully to ensure that it is worth the effort involved, especially where the reward is only given in exchange for paying a fee.

#### Interest

- Some of the accounts, such as Santander and TSB, pay relatively high rates of interest on particular account balances. Those using the account as both a savings pot and a transactional account need to be careful to ensure their balance stays at or above the level needed to achieve the higher savings rates.

#### Associated Products

- For some accounts the amount of reward on offer is heavily dependent on having other products with that provider – typically a mortgage or home insurance. Customers though may well be better off overall by shopping around for those products and buying them elsewhere.

#### Usage

Accounts such as the Co-Op Everyday Rewards has strict usage rules, such as regular logging on to the online account to obtain the reward.

## Switcher incentives

For some time, a number of current account providers have been giving new customers a cash incentive to switch to them from another provider. In recent years this has been as high as £150 per customer.

Provider	2012	2013	2014	2015	2016
Clydesdale Bank				£150	
First Direct	£100	£100	£100	£100	£100
Halifax		£50	£100	£125	£100
HSBC					£150 *
M&S Bank				£100	£100
Smile			£100	£100	
The Co-operative Bank			£100	£100	
Yorkshire Bank				£150	

Table 6 – Cash switching incentives (2012 to 2016)

\* With the HSBC incentive a further £50 is paid after 12 months if the customer registered for online banking within 60 days of account opening, is still a current account customer and has met all account conditions in the intervening period.

Since the Current Account Switching Service was introduced these incentives have only been provided if the customer uses the full service and closes their old account. The focus is very much centred on ensuring that the switched account is the main and active current account.

Provider	Rules	Switching Reward	Payment Timing
First Direct	<ul style="list-style-type: none"> <li>▪ Account credited with £1,000 per month within 3 months of account opening</li> <li>▪ Limited to 1 payment per customer or joint relationship</li> <li>▪ Not available to existing or former customers</li> </ul>	£100 credit to new account	Within 28 days of all criteria being met
Halifax	<ul style="list-style-type: none"> <li>▪ Switch from another bank, using the Current Account Switch Service to switch into a new or existing account</li> <li>▪ Use CASS to transfer all active credits and debits from the old bank account AND close that account</li> </ul>	£100 credited to new account	Within 3 working days of switch completing
HSBC	<ul style="list-style-type: none"> <li>▪ Open new account</li> <li>▪ Make full switch using CASS with at least 2 Direct Debits or Standing Order, within 30 days of account opening</li> <li>▪ Offer only until 10 July 2016.</li> </ul>	£150 credited to new account Further £50 after 12 months if registered for internet/mobile banking within 60 days	70 days after account opening.
M&S Bank	<ul style="list-style-type: none"> <li>▪ Switch account using the switching service</li> <li>▪ Must include a minimum of 2 direct debits</li> </ul>	£100 M&S Gift Card	Within one calendar month of switch completing

Table 7 – Payment terms for current account switching incentives (June 2016)

### The decline of cash incentives to switch

The number of providers offering switching incentives has declined to just four, with one of these (HSBC) only being available for a limited period of time. It is possible that as new account types are developed to tempt customers in other ways, these switching incentives might disappear altogether; more likely they will be used as part of shorter-term marketing campaigns rather than persistent benefits.

# Current Account Switching Service (CASS)

The current account switching service was introduced in September 2013 to provide bank customers with a simple and reliable way to move banks. In almost three years the service has been readily accepted and appears to be working well for most users.

The number of people switching accounts though remains quite low. Latest figures show that on a trailing twelve-month basis switching is roughly steady at around 80-90,000 customers a month - around 3% of all current account holders per year. Early 2016 saw an increase in the numbers switching with around 115,000 customers switching on average in February and March of this year.

In the early days of its introduction a significant proportion of customers choosing to switch account did so without using the full service, choosing instead to leave their original account open. This was likely to be an issue of gaining confidence in the CASS process, as the latest figures show that less than 2% of switchers now choose to leave their old account still open.

## Switching winners and losers

CASS publishes switching statistics, with a 6 months' delay, showing who the winners and losers for account switching are. The latest set of figures, for the 12 months to September 2015, show that there were large gains by Santander (227,000) and Halifax (118,000) and large losses by Barclays (-112,000) and NatWest (-70,000) and Lloyds Bank (-54,000) over the period.

Perhaps not surprisingly the two biggest gainers were banks with heavily promoted incentive/reward schemes, while the biggest losers were banks without such schemes.

It is interesting to note that since the period covered by these statistics the two heaviest losers – Barclays and NatWest – have launched their own reward schemes, presumably in an attempt to retain their customers.

Santander was by far the biggest gainer over the period, however it has since increased the account fee for its 123 account from £2 to £5 a month. It will be interesting to see whether this has the effect of dampening interest in their account, or whether the account benefits (not least of which is a very high rate of savings interest) will be enough to keep new customers switching to them.

# Overdrafts

## OFT overdraft charging scenarios

In considering overdrafts, we used a series of different overdraft scenarios for planned and unplanned debts. For authorised overdrafts Defaqto uses its own simple scenarios based on the amount and length of agreed overdraft usage; for unauthorised overdrafts we used the scenarios that the Office of Fair Trading (OFT) has agreed with the banks. The theory is that by making each bank publish its overdraft charges using standard scenarios, prospective customers will be able to compare banks and shop around for a cheaper deal.

Defaqto Authorised Overdraft Scenarios	
Scenario	Description
1	The total cost of an authorised overdraft of £250 for 5 days
2	The total cost of an authorised overdraft of £500 for 10 days
3	The total cost of an authorised overdraft of £1,000 for 30 days

OFT Unauthorised Overdraft Scenarios	
Scenario	Description
1	Bank refuses a payment from the account because there is not enough money in it
2	A payment from the account takes it into an Unarranged Overdraft by less than £10. The account is overdrawn for one day during the month.
3	A payment from the account takes it into an Unarranged Overdraft and customer makes another payment from the account while overdrawn. The account is overdrawn for two days in a row during the month.
4	A payment from the account takes it into an Unarranged Overdraft, and customer makes nine more payments from the account while it is overdrawn. The account is overdrawn for 10 days in a row during the month.
5	A payment from the account takes it into an Unarranged Overdraft. Account is overdrawn for one day. However, on three more occasions during the month, a payment takes the account into an Unarranged Overdraft. On each of these occasions the account is overdrawn for three days in a row.
6	A payment from the account takes it into an Unarranged Overdraft. Account is overdrawn for 21 days in a row during the month and customer makes 12 more payments from the account while it is overdrawn.

## Authorised overdrafts

Authorised (or planned) overdrafts are ones where the customer has an agreed facility with their bank and which they can draw on as and when they need it. These tend to have relatively modest fees and are usually not seen as a major issue in the industry. By their nature the overdraft has been applied for by the customers and agreed by the bank, and people are usually clear in advance about what to expect in terms of charges and interest.

2016	Authorised 1	Authorised 2	Authorised 3
Standard	£11.26	£13.44	£23.69
Added Value	£5.00	£7.18	£18.50
Premier	£1.59	£2.74	£10.43
<b>All accounts</b>	<b>£8.49</b>	<b>£10.19</b>	<b>£19.79</b>

Table 8 – Average cost of authorised (as at June 2016)

Across those accounts that offer overdrafts the cost is not particularly high, for any of the account. Interestingly the higher charges appear to apply to those with standard bank accounts, while the lowest fees are charged to those with Premier accounts (who already though pay quite sizeable account fees).

## Unarranged/unauthorised overdrafts

The area of unplanned/unauthorised overdrafts is where there has been considerable negative political and media comment and where most regulatory focus has been spent in recent years. Our analysis shows that over the past 5 years unauthorised overdrafts have become much cheaper – although they are still not ‘cheap’.

2016	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Standard	£16.00	£29.00	£29.14	£93.15	£73.35	£111.69
Added Value	£9.27	£20.00	£18.08	£65.24	£64.12	£76.60
Premier	£9.87	£15.20	£18.01	£53.34	£49.88	£61.68
<b>All accounts</b>	<b>£12.52</b>	<b>£24.13</b>	<b>£23.53</b>	<b>£76.36</b>	<b>£65.48</b>	<b>£90.60</b>

Table 9 – Average cost of unauthorised overdraft by account type (as at June 2016)

As with authorised overdrafts it appears that the higher charges are applied to Standard accounts, with lower charges applied by those accounts which already have monthly account fees. Clearly one of the uses of the account fee must be to hold overdraft costs down.

All Accounts	2012	2013	2014	2015	2016	average change 2012-16
Scenario 1	£18.49	£16.89	£16.36	£12.78	£12.52	-32%
Scenario 2	£19.82	£19.14	£20.71	£24.18	£24.13	22%
Scenario 3	£36.94	£35.32	£36.03	£24.28	£23.53	-36%
Scenario 4	£108.93	£106.03	£101.09	£77.21	£76.36	-30%
Scenario 5	£81.45	£82.13	£81.62	£65.39	£65.48	-20%
Scenario 6	£131.29	£129.79	£120.27	£90.16	£90.60	-31%

*Table 10 – Average cost of unauthorised overdrafts 2012 to 2016*

It is clear that the banks have taken action in recent years to change their overdraft charging policies to reduce the cost, particularly for the heavier overdraft users. For most of the overdraft scenarios the average cost has fallen by around 30% since 2012. If we take into account the effect of inflation over the four year period then the fall is even more significant.

## Unauthorised overdraft costs from the big banks

We looked at how overdraft costs from the big seven banks have changed since 2012.

	Major banks	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Barclays	2012	£8.00	£22.00	£22.00	£44.00	£88.00	£66.00
	2016	£8.00	£0.00	£10.00	£35.00	£35.00	£35.00
	Change (%)	0%	-100%	-55%	-20%	-60%	-47%
HSBC	2012	£25.00	£0.00	£25.00	£125.00	£50.00	£150.00
	2016	£0.00	£0.00	£10.00	£50.00	£45.00	£80.00
	Change (%)	-100%	0%	-60%	-60%	-10%	-47%
Lloyds	2012	£10.00	£0.00	£25.00	£85.00	£85.00	£85.00
	2016	£10.00	£0.00	£26.00	£86.00	£86.00	£86.00
	Change (%)	0%	0%	4%	1%	1%	1%
Natwest	2012	£6.00	£6.00	£12.00	£60.00	£60.00	£126.00
	2016	£6.00	£0.00	£12.00	£60.00	£60.00	£90.00
	Change (%)	0%	-100%	0%	0%	0%	-29%
Halifax	2012	£0.00	£0.00	£10.00	£50.00	£50.00	£105.00
	2016	£0.00	£0.00	£10.00	£50.00	£50.00	£100.00
	Change (%)	0%	0%	0%	0%	0%	-5%
Nationwide	2012	£15.00	£15.00	£50.00	£95.00	£80.00	£95.00
	2016	£15.00	£0.00	£30.00	£75.00	£45.00	£75.00
	Change (%)	0%	-100%	-40%	-21%	-44%	-21%
Santander	2012	£25.00	£30.00	£60.00	£150.00	£150.00	£150.00
	2016	£10.00	£0.00	£32.00	£95.00	£95.00	£95.00
	Change (%)	-60%	-100%	-47%	-37%	-37%	-37%

Table 11 – Change in the cost of unauthorised overdrafts from the major banks (2012 to 2016)

In some cases, the overdraft charges have been reduced by as much as 60% and in some cases they have been removed altogether.

It is interesting to note that the difference in cost between most of the large banks is not particularly large.

It is also interesting that Santander, the bank which according to the CASS is gaining most customers at present, has almost the highest unauthorised overdraft cost, while Barclays, the bank which is losing the most customers, is the one with the lowest unauthorised overdraft charges. From this we must infer that customers switching banks at present are doing so on the strength of the benefits and rewards, rather than on the overdraft fees and charges.

## Overdraft Control

In recent years we have seen the gradual introduction of 'Control' features, which protect customers by restricting their ability to go overdrawn thereby avoiding the unplanned fees. Most major banks now have control as an option on their current accounts; usually in return for a fixed monthly fee.

The cost of control is falling and increasingly can be turned on/off by customer request as they face difficult times, rather than being a permanent feature of the accounts.

## Overdraft summary

Banks clearly have reduced overdraft charges in recent years, from the switching figures though it would appear that those with high overdraft costs are not those tempted to switch.

The big issue for customers who regularly rely on an overdraft is that in switching to a new account they may not have surety that they will be allowed an overdraft facility, and also that they have no easy way of calculating in advance how much any overdraft would cost them.

# Added-Value Accounts

One of the major issues in the market in recent years has been the regulatory focus on ‘Added Value’ accounts. These are ones in which a customer pays a monthly fee in exchange for a package of additional benefits put together by their bank – hence the commonly used phrase ‘packaged accounts’.

These packaged bank accounts often don’t come cheap.

We looked at the monthly fees being charged by providers for the differing current accounts. Most standard accounts have no additional costs although some, such as Santander 123, Barclays Blue Rewards, NatWest/RBS Reward, do have a small monthly fee.

For Package Accounts fees are typically in the range of £5 to £15 a month, or even more for the Premier accounts.

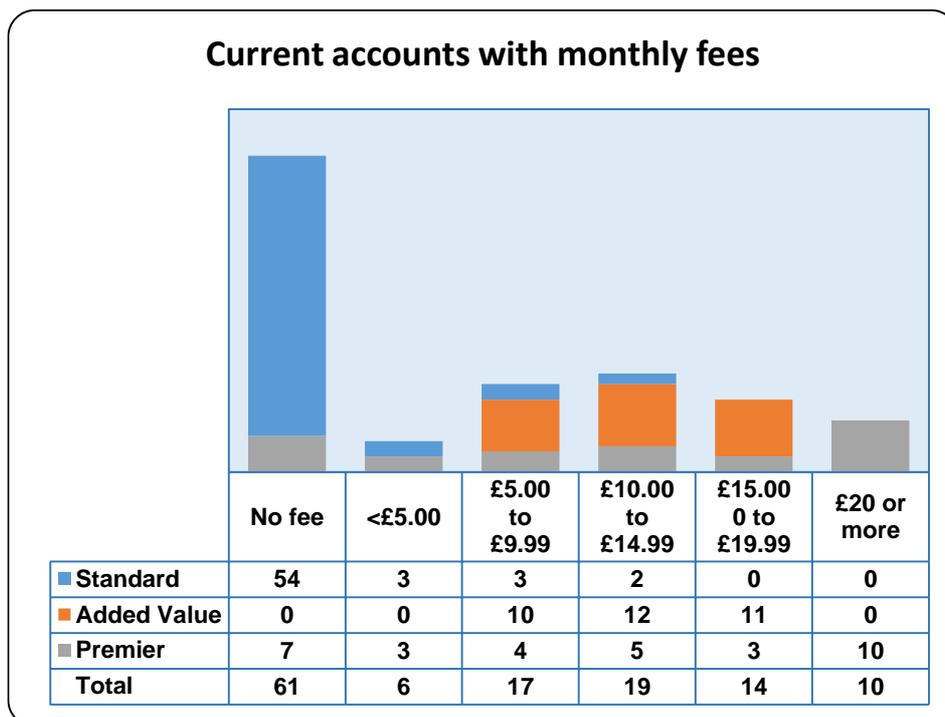


Chart 1 – Monthly fees charged by account type (as at Apr 2016)

The benefits offered by added value accounts typically consist of preferential deals on other banking products such foreign currency exchange, savings, mortgages and the like, or the inclusion of insurance type benefits such as travel, mobile phone, home emergency or car breakdown cover.

The biggest benefits of these accounts appear to centre on international travel, with 'free' currency and travellers' cheques and travel insurance being the three most common benefits.

Since 2012 we have noticed a marked decline in the number of benefits offered by packaged accounts. In particular, the provision of mobile phone insurance has fallen, as has the proportion of accounts claiming to offer customers preferential deals on other banking products like mortgages, savings and credit cards. The one major area of growth has been in banks stating that their added value account holders will get preferential deals on personal loans.

## Features included in packaged accounts

Packaged current account features	% of packaged current accounts		
	2012	2014	2016
Commission Free Foreign Currency	93.9%	90.0%	88.5%
Commission Free Travellers Cheques	92.4%	90.0%	84.6%
Travel Insurance	77.3%	78.0%	71.2%
<b>Preferential Deal for Unsecured Loans</b>	<b>54.5%</b>	<b>74.0%</b>	<b>71.2%</b>
<b>Mobile Phone Insurance</b>	<b>72.7%</b>	<b>62.0%</b>	<b>57.7%</b>
<b>Preferential Deal for Savings</b>	<b>81.8%</b>	<b>70.0%</b>	<b>55.8%</b>
Breakdown	60.6%	58.0%	53.8%
<b>Preferential Deal for Mortgage</b>	<b>65.2%</b>	<b>60.0%</b>	<b>50.0%</b>
Relationship Manager	25.8%	44.0%	48.1%
Discounts or Vouchers	25.8%	42.0%	42.3%
Holiday or Travel Discount	36.4%	40.0%	42.3%
Free Card Protection Cover	45.5%	46.0%	40.4%
<b>Preferential Deal for Credit Card</b>	<b>53.0%</b>	<b>30.0%</b>	<b>36.5%</b>
Entertainment Ticket Discounts	28.8%	32.0%	32.7%
<b>Identity Theft Assistance</b>	<b>43.9%</b>	<b>32.0%</b>	<b>17.3%</b>
Concierge Service	10.6%	18.0%	15.4%
<b>Identity Theft Alerting</b>	<b>33.3%</b>	<b>26.0%</b>	<b>13.5%</b>
Other Insurance	10.6%	10.0%	13.5%
Airport Lounge Access	12.1%	10.0%	11.5%
Home Emergency Cover	12.1%	6.0%	5.8%
Extended Warranty Cover	9.1%	6.0%	5.8%
<b>Home Insurance</b>	<b>25.8%</b>	<b>6.0%</b>	<b>3.8%</b>
<b>Legal Helpline</b>	<b>19.7%</b>	<b>4.0%</b>	<b>3.8%</b>
Life Insurance	6.1%	2.0%	1.9%
<b>Accidental Death Cover</b>	<b>3.0%</b>	<b>6.0%</b>	<b>0.0%</b>
<b>Accidental Death Cover Public Transport</b>	<b>3.0%</b>	<b>6.0%</b>	<b>0.0%</b>
<b>Health Benefits or Discount</b>	<b>6.1%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Identity Theft Insurance</b>	<b>6.1%</b>	<b>0.0%</b>	<b>0.0%</b>

Table 12 – Changing benefits in added value current accounts (2012 to 2016)

Customers opening a packaged account will usually do so because the overall bundle of tangible benefits is worth more than the annual account fee. Other benefits though will have much less customer value, or might apply in so few cases that the value is not achievable by the customer (e.g. airport lounge access only available in minor airports, or to the account holder but not their family.)

## Defaqto Ratings

Some time ago Defaqto began producing Star Ratings for financial products, to help customers to get a better understanding of where quite complicated products or propositions actually sit in the market, when compared against other providers

In the banking world we produce a number of Star Ratings: three separate ratings for the major account types – **Standard**, **Added Value**, and **Premier** accounts, and a separate rating for **Current Account Switching**.

The account ratings are produced by looking at a wide range of account features covering availability and accessibility, account features, fees, charges, overdrafts, added benefits and rewards. The switching rating looks at what banks do to make the customer experience of switching easier, for both customers switching to them and also for customers who are moving to other banks.

More information on these ratings, and a list of ratings for all current accounts is available online at:

[www.defaqto.com/star-ratings](http://www.defaqto.com/star-ratings)

# About Defaqto

Defaqto is an independent financial product information company which helps people and businesses make better informed financial decisions.

Since 1994 we have built the most comprehensive, whole of market, financial product information database and become one of the leading providers of financial product information in the UK. We cover retail financial products across insurance, protection, banking, pensions and investments.

Our services are underpinned by up-to-date data which encompasses product and management information from our research tools plus results of our regular market surveys and industry studies. Our experts validate and analyse the financial product data we collect to provide independent insight and support.

Defaqto insight supports all layers of the financial services sector including the general public, product providers, financial advisers, brokers, web aggregators and the public sector. In addition, our data underpins our other services including Star Ratings, publications and consultancy.

We make extensive use of software to help consumers in their decision making and create applications that support our clients' business processes.

Defaqto Matrix is a web-based application that provides timely, accurate and comprehensive competitor intelligence. It helps users access information on financial product features across various sectors to analyse and compare where products sit in the market.

Access further information about Defaqto at [defaqto.com](https://www.defaqto.com)