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Dr Andrea Coscelli
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Dear Dr Coscelli

Lloyds Banking Group's New Bank Charges

Affinity is the largest independent trade union representing staff working in the Lloyds Banking Group, with over 35,000 members.

You will be aware that in its final report on the retail banking market dated 9th August 2016, the Competition and Markets Authority (CMA) concluded that in respect of personal current accounts (PCA) "The overall level of customer engagement remains low. The level of switching and searching we observe do not appear consistent with a well–functioning market". In its response to the CMA's interim findings, Lloyds Banking Group said that it "has identified a segment of PCA customers across the market who regularly use overdrafts and who may not be able to switch to another provider on the same terms because of poor credit rating ("credit constrained switchers")."

A few weeks ago, Lloyds Banking Group announced: "All fees and charges associated with unplanned overdrafts will be removed". What the Bank also said, although this didn't receive as much publicity, was that from "November, there will be a simple, single rate of 1p per day for every £7 of planned overdraft usage, clearly linking the amount charged to the amount and period of borrowing". Over the last few weeks the Bank has started issuing letters explaining the changes in more detail and the reality is now dawning on customers who have agreed overdrafts that their monthly bank charges are going to increase by up to 158% in some cases. A customer with a £1,000 agreed overdraft facility would see their yearly Bank charges increase from £276 to £514, an 86% increase in charges. A customer with a £5,000 agreed overdraft facility would see their Bank charges increase from £996 to £2,568, an increase of 158%. A customer with a £10,000 agreed overdraft would see their charges increase from £2,052 to £5,136, an increase of 150%.

Lloyds Banking Group knows full well that customers with higher overdraft limits are unlikely to be offered the same overdraft limits by other banks and it's taking advantage of this by forcing them to either pay massively increased bank charges, take out personal loans or use credit cards. These new charges are being introduced at a time when the Bank of England is warning that the rise in personal loans is dangerously high. In a speech to the University of Liverpool's Institute for Risk and Uncertainty, Alex Brazier, the Bank of England's Financial Stability director, said "the increase in debt was dangerous to borrowers, lenders and, most importantly from our perspective everyone else in the economy".

We understand that the Bank will make savings of nearly £18 million from introducing the new charging regime. The Bank is maximising the value of its profits on the back of customers it calls "credit constrained switchers" and that's unacceptable.

It seems that now Lloyds Banking Group is back in private ownership it is getting more aggressive in maximising profits from its customer base. In itself that would be a reasonable objective but the Bank is exploiting its monopolistic position in the PCA market and forcing hundreds of thousands of customers, who regularly use their agreed overdraft facilities, and who cannot go elsewhere, to pay unreasonably increased charges.

The Competition and Markets Authority should review the Bank's treatment of this group of specific customers under its existing review of the retail banks. We have written to MPs setting out our position and I know that a number of them will have referred this issue to you already.

I look forward to your response.

Yours sincerely

Mark V Brown
General Secretary