Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2011

A review of personal current account charges

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1. Executive summary

This paper sets out the research carried out by the Central Bank of Ireland (the Central Bank) into the level of charges incurred by customers in Ireland on personal current accounts (PCAs). The intention of this research is to:

- improve our understanding of the overall cost to customers of running a PCA annually; and
- help to improve understanding of, and increase transparency around, the charging structures within a PCA and how they differ from those in other markets.

To investigate the levels of charges incurred, this paper looks at charges across a number of Irish banks. In order to compare these charges we have created four customer profiles representing customers with typical usage patterns and show how their different behaviour and usage patterns would affect the levels of charges incurred by them in a year. The profiles are not intended to capture the entire population of current account users but merely to illustrate how different profiles incur different fees.

Overall, across all the profiles and accounts for each bank reviewed (40 different scenarios, see Appendix 1), 48% of scenarios would result in fees of less than €72 per annum (p.a), i.e. €6 per month and 72% of the scenarios would result in fees of less than €120p.a. or €10 per month.

Our research found that customer behaviour and usage are the key drivers of fees on PCAs, with customers whose accounts go into an unauthorised overdraft position paying the highest fees overall. Also customers who undertake more manual transactions, in general, incur higher costs, whereas electronic transactions cost less to the customer.

It should be noted that customer usage is constantly evolving as are the services offered by the banks. As services such as online banking improve for customers there will continue to be a shift towards electronic and online banking. Other factors which may influence customer behaviour include Government initiatives such as reducing the reliance on cheques, which is one of the core priorities of the National Payments Implementation Programme.

We also compared the annual costs of charges in the UK and Northern Ireland (NI) to those in Ireland. Our research showed that banks in the UK and Northern Ireland tend to apply a different type of charging structure which is based on transaction-fee-free banking for day-to-day banking offset by high charges for out-of-order type transactions. This means that costs increased rapidly and substantially once out-of-order type transactions occurred.

In contrast banks in Ireland charge higher fees for day-to-day banking (except where the customer qualifies for free banking) along with lower fees compared to the UK and NI if the account goes out of order. This is illustrated through the profiles with low out-of-order transactions as these are more expensive in Ireland than the UK and NI due to more expensive day-to-day transactional banking in Ireland (see tables 7 and 8, page 15).

2. Introduction

This purpose of this paper is to examine charges on PCAs and provide an overview of annual charges for four customer types across a range of credit institutions and current account offerings. This paper also compares annual charges for those same profiles to banks in the UK and Northern Ireland.

According to research by the ESRI, 80% of households in Ireland have access to a personal current account[1] (PCA) making them one of the most widely used financial products in the market. Consequently the cost of operating PCAs is of interest to the vast majority of people.

The European Commission undertook a study of bank charges in 2009 and produced a report entitled “Data collection for prices of current accounts provided to consumers”[2]. In the findings, Ireland ranked mid-table out of the 27 EU countries for current accounts for domestic usage profiles with Italy being the most expensive and Bulgaria being the cheapest. This indicates that Ireland sits in the middle in terms of cost for consumers when compared with the EU countries.

The study also presented statistics on transparency of fees and charges stating that “66% of the banks surveyed required additional contact (to determine the actual charges)”. The same statistic was nearly 80% for banks in Ireland. This illustrates that the structure of fees and charges in Irish banks can be complex and difficult for customers to understand, hence, the importance of improving transparency and understanding of the structures. The National Consumer Agency (NCA) provides very useful information and sets out individual fees for current accounts on their itsyourmoney.ie website[3]. Nevertheless, it can be difficult for a consumer to assess the overall impact of these fees on their particular circumstance.

3. Role of Central Bank in relation to bank charges

Under Section 149 of the Consumer Credit Act, 1995 (as amended) (the Act), credit institutions must notify the Central Bank if they wish to:

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[1] Financial Exclusion and Over-indebtedness in Irish Households, by Helen Russell (ESRI), Bertrand Maître (ESRI) and Nora Donnelly Available from (http://www.socialinclusion.ie/publications/documents/2011_03_07_FinancialExclusionPublication.pdf)

[2] European Commission *Directorate-General for Health and Consumers “*Data collection for prices of current accounts provided to consumers”

[3] http://www.itsyourmoney.ie/costcomparisons/cs_tab_personal_current_account.htm

- introduce any new customer 'charge' for providing a service[4] (this may be as a result of the establishment of a new provider or financial product); or
- increase any existing customer 'charge' for providing a service.

'Charge' includes a penalty or surcharge interest by whichever name called, being an interest charge imposed in respect of arrears on a credit agreement or a loan, but does not include any rate of interest or any charge, cost or expense levied by a party other than a credit institution in connection with the provision of a service to the credit institution or the customer and that is to be discharged by the customer.
The Central Bank assesses these notifications based on four criteria set out in the legislation (see Appendix 2). One of these criteria requires that the Central Bank examine the "effect on customers" of the new or increased charge. In order to fully understand the effect on the customer an understanding of the cost of the overall product to which the charge applies is required.

This paper looks at the annual costs of running a personal current account for four types of customer. While the information required by the Central Bank, from Credit Institutions to assess a notification under Section 149 of the Act, remains unchanged[5], the profiles developed will assist the Central Bank in understanding and analysing the overall costs for different customer profiles of different current accounts and therefore assist in our implementation of the Act**.** They will allow us to gauge the effect of any increase in current account charges by the banks, and allow us to better compare competitors in the current account market.

4. Characteristics of the Irish current account market

There are currently five main providers of PCAs in Ireland, these are: AIB, Bank of Ireland, National Irish Bank (NIB), Permanent TSB (PTSB) and Ulster Bank. Each bank offers a range of different current accounts including; student, packaged and tailored accounts with a variety of features.

It is apparent that account usage patterns are changing, with certain customer types changing their usage at different speeds. We have used behavioural characteristics to develop different customer profiles based usage patterns.

It is clear from research carried out and the data available from bodies, such as the Irish Payments Services Organisation Limited (IPSO), manual transactions still retain importance in Ireland. Ireland has the highest level of ATM withdrawals (per capita)

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[4] Under Section 149 (13) of the Act, 'service' means any service provided by a credit institution to a customer in respect of the following- making and receiving payments; providing foreign exchange facilities; providing and granting credit; maintaining and administrating transaction accounts used for the services specified by this subsection, including issuing statements; any other service that may be prescribed by regulations for the purposes of this section.

[5] The Central Bank is to issue updated guidance for the industry on submitting notifications by the end of 2011. Although the format may change the substance of what is being requested has not changed.

in the EU[6]. There is a low use of electronic credit transfers compared to the EU but we have a high use of debit and credit cards compared to EU averages. The SEPA[7] project should increase the ease of making cross border payments and will eventually move all national direct debit and credit transfer schemes to SEPA schemes.

However, online banking usage is increasing. In 2010, there were 2.7 million customers using online banking, which is an increase of 3.9% on the previous year. Customers made 38.6 million payments (including mobile top-ups and international payments) through online banking services during 2010, an increase of 11.7% on the previous year. Online banking customers accessed their accounts 150 million times during 2010, an increase of 10.4% on 2009[8].

The use of debit cards as an alternative to cash looks likely to grow further. According to IPSO "the total spend on payment cards in Ireland last year was €22.8 billion – now exceeding the value of ATM withdrawals (€22.3 billion) for the first time. Figures for the first half of 2011 indicate the continued rise of card usage and decline of ATM withdrawals."[9]

There has also been an increase in the number of cards issued with a debit function, with numbers doubling between 2006 and 2010. There has also been a distinct rise in the number of payments made with cards with a debit function from c. 99m in 2006 to c.225m in 2010. This contrasts with the level of payments made with cards with a credit function which has remained relatively static at c.105m in 2006 and c.107m in 2010[10].

The National Payments Implementation Programme (NPIP) aims to, *interalia*, reduce the use of cheques, but they remain important for certain customers in Ireland. There is a move from paper based transactions to electronic alternatives. Ireland is in the top 10 in terms of direct debit usage in the EU with 125 million transactions processed per annum, averaging 24 direct debits per capita[11].

Transaction fee-free banking was introduced in Ireland in the early to mid-2000s as banks sought to increase market share, not only in respect of PCAs, but also regarding other products which would generate revenue, for example credit cards, loans etc. Recently there has been a move in the USA to introduce fees in a bid to find new ways to increase revenue, as the sluggish economy has affected revenue in other areas.

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[6] IPSO Payments Today – Q1, 2011, p1
available from: (http://www.ipso.ie/section/IPSONewsletterPaymentsToday)

[7] SEPA – Single Euro Payments Area – payments across national borders should be as easy as payments within those boundaries; and as a result, one would require just one bank account within the Eurozone to conduct business throughout the zone.

[8] IBF/IPSO Online personal Banking Report, Quarterly Report, April 2011
Available from: (http://www.ibf.ie/Libraries/Research_Statistics/Online_bank_stats_Q111.sflb.ashx)

[9] http://www.ipso.ie/section/IrishConsumersareChangingtheirPaymentHabits

[10] Blue book 2010 data: (http://sdw.ecb.europa.eu/reports.do?node=1000001969)

[11] IPSO Payments Today – Q1, 2011, p3
available from: (http://www.ipso.ie/section/IPSONewsletterPaymentsToday)

The terms and conditions applying to transaction-fee-free banking have been altered by a number of Irish banks in recent years and this trend may continue. Under Section 149 of the Consumer Credit Act 1995 (as amended)[12], the underlying charges on a personal current account are approved up to a maximum amount; however it is at the discretion of the banks as to how they apply these charges, if at all.

5. Development of profiles

a. Customer profiles

The personal current account (PCA) was chosen as the product for which we would develop customer profiles as this banking product is utilised by the majority of the adult population in Ireland (80% of households have this type of account[13]). Owing to their high penetration rate, current accounts charges are important for many consumers particularly when banks introduce new fees, increase fees or change criteria regarding eligibility for free banking.

Four customer profiles have been developed. Key data[14] has been inputted for all profiles, using charges from five Irish retail banks[15] which offer current accounts, in order to calculate an average annual cost. Equivalent data has also been inputted for Northern Ireland and UK banks[16].

The profiles were established in order that we could differentiate customer groups with the intention of using these profiles to assess the effect of a change in any of the applicable current account charges.

We consulted with the relevant Irish banks, the Irish Banking Federation (IBF) and the National Consumer Agency (NCA) on the various profiles and their design.

There is no typical PCA customer as each customer has their own particular usage pattern in terms of purchases, payments, services utilised, etc. Therefore, there can be no one typical scenario. However, with input from the banks regarding the four profiles we have chosen and the variety of transactions included in the profiling model, we have confirmed that the charging structures are plausible and could reflect real life situations for a PCA user.

The key driver of costs incurred on current accounts the manner in which a customer uses their account. Customers who use manual transactions in general incur higher

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[13] Financial Exclusion and Over-indebtedness in Irish Households, by Helen Russell (ESRI), Bertrand Maître (ESRI) and Nora Donnelly available from (http://www.socialinclusion.ie/publications/documents/2011_03_07_FinancialExclusionPublication.pdf)

[14] All data included was based on the charges being applied by the 5 banks as at the 25 November 2011.

[15] AIB, Bank of Ireland, PTSB, Ulster Bank and National Irish Bank.

[16] The data we have utilised is subject to change and banks retain the right to amend their fees and charges in line with their terms and conditions.

costs, whereas electronic transactions cost less to the customer. We have developed customer profiles with this in mind.
We have named the four profiles to be used as follows: standard, sophisticated, unsophisticated and non-standard. These profiles are not intended to represent the entire population of current account holders but are merely intended to allow us to illustrate how different ways of using a current account affect the levels of fees charged. Below we have summarised the key characteristics of each of the profiles.

Standard – A standard profile customer *would use the majority of the functionality available on their account. We envisage that this type of customer would be a regular user of their online banking facility and would only occasionally need to attend a bank branch. This customer may occasionally incur limited out-of-order charges.*
Non-standard – A non-standard profile customer *would have a similar usage pattern to a standard customer, using the majority of the functionality available on their account. This type of customer would be a regular user of their online banking facility and would only occasionally need to attend a bank branch. This type of customer utilises overdraft/unauthorised overdraft position and incurs out-of-order transaction fees frequently.*
Sophisticated – A sophisticated profile customer *would be a heavy user of the more automated functionality of their account. This type of customer would carry out more transactions electronically/online and rarely use over the counter (OTC) transactions/cheques or need to attend a bank branch. This customer would have an overdraft facility but rarely use it. They would not incur out-of-order charges.*
Unsophisticated – An unsophisticated profile customer *would have more limited use of functions than a standard customer. This type of customer would use more manual type transactions, such as OTC transactions, and have a greater reliance on cheques. This customer does not have an overdraft facility and does not typically incur out-of-order charges.*

The table below illustrates the characteristics for each profile:

Table 1 - Summary of current account profiles

Service Type	Standard	Non-standard	Sophisticated	Unsophisticated
Qualifies for Free Banking	Maybe	No	Yes	No
Out of Order	Sometimes	Yes	No	No
Use of Cheques	Sometimes	Yes	Low	Yes
Use of Online Banking	Yes	Yes	Yes	No
No. of Transactions	Medium	Medium	High	Low
Overdraft Set up	Yes	Yes	Yes	No
Usage of Overdraft - Authorised	Yes	Yes	Yes	No
Overdraft - Unauthorised	Sometimes	Yes	No	No

b. Charges included in profiles

The current account fees included in the model are: day-to-day transaction fees, out-of-order fees and other ad hoc fees that may be incurred. These fees include:

Table 2 - Summary of charges included in profiles

Day-to-day transaction fees	Out-of-order fees	Ad hoc fees
Maintenance fees	Referral fees	Duplicate statements
OTC withdrawals (including cheque processing)	Unpaid direct debits/standing orders	
OTC deposits (including cheque processing)	Interest on authorised overdraft	
Point of sale debits (including online transactions)	Interest on unauthorised overdraft	
Credit transfers		
Direct debits		
Standing orders		
ATM withdrawals		
Cheques drawn		

Charges excluded from the profiles

Charges that were specifically excluded from the profiles were one off type charges such as:

- stop payment fees, as these are not frequently used;
- PIN replacement/card replacement fees;
- bank draft charges, as these are not specific to current accounts;
- foreign exchange fees such as non-euro ATM withdrawals and non-euro point of sale (POS) transactions/currency conversion/commission charges as these are not typical charges incurred by all customers; and
- stamp duty charges levied by the Government, as these are incurred regardless of the institution.

c. Credit Institutions used in model

Irish banks

Following consolidation in the market, there are currently five main Irish retail banks that provide PCAs: AIB, Bank of Ireland, NIB, PTSB, and Ulster Bank - all are included in the review. For each bank we used the data available on their current accounts to populate the customer profile templates. We have included their main personal current account offering and also included a transaction-fee-free current account option, where applicable. Each bank has a variety of different account offerings, such as packaged and tailored accounts. The banks do have discretion when charging fees and can reward customers for loyalty for example by reducing charges.

UK and Northern Irish (UK and NI) banks

In order to compare Irish bank charges with those of the UK and Northern Ireland we have populated the customer profiles using data from three of the main UK banks and four Northern Irish banks. Irish banks have used UK banks as comparators in their commercial justification for Section 149 notifications. The Irish market is more comparable to the UK market than to other European markets in terms of usage patterns (i.e. cash and cheques retain a high level of importance in both the Irish and UK markets) and also the institutions which operate here. For example, RBS in the UK operate in Ireland as Ulster Bank. AIB is the parent of First Trust in Northern Ireland and, similarly, Bank of Ireland operate in Northern Ireland also.

The three UK banks were chosen based on market share by number of customers. Based on Office of Fair Trading data taken from *Finance Intelligence*, July 2010, the top three banks were Lloyds TSB (19%), RBS (17%) and HSBC (14%).

The four Northern Irish banks were chosen based on MORI Data taken from Competition Commission Report on *Personal Current Banking Services in Northern Ireland Market Investigation*, 2007[17]. The top four banks based on market share were: Ulster Bank, Northern Bank, First Trust Bank and, Bank of Ireland.

d. Calculation of charges

The charges are split into standard fees for day-to-day transactions and out-of-order/other fees. Where customers qualify for transaction-fee-free banking, they will not be charged standard fees. However, out-of-order fees do apply to such customers. The table below shows how the transactions are split between day-to-day and out-of-order transactions.

Table 3 - No. of transactions under each profile

Charge Groups	Charge Type	No. Of Occurrences	No. Of Occurrences	No. Of Occurrences	No. Of Occurrences
		Standard	Sophisticated	Unsophisticated	Non-standard
Day to Day Transaction Fees					
Basic Charges	Quarterly Charge	4	4	4	4
Manual Transactions	OTC Withdrawals*	8	4	30	8
	OTC Deposits*	8	4	16	8
Debit Card	POS Debit (including online transactions)	80	105	0	80
Set up/Renewal Fees	Overdraft Set up fee	1	1	0	1
Credit Transfer	Credit Transfers	11	11	0	11
Direct Debit/Standing Order	Direct Debit/Standing Order Charge	28	49	7	28
	ATM Withdrawals	50	70	12	50
Cheques	Cheques Drawn	3	2	20	3
Out of Order/Other Fees					
	Referral Fees	2	0	0	7
	DD/Standing Order Unpaid	1	0	0	9
	Interest Charged on Authorised Overdraft	€1500 for 30 days	€1500 for 10 days	-	€1500 for 60 days
	Unauthorised overdraft interest	€500 for 10 days	-	-	€500 for 45 days
Other Fees	Duplicate Statements	1	0	1	2

*OTC withdrawals and deposits includes cheque processing

An increasing trend is that customers who use online banking tend to have much higher levels of activity than non-online users. This is reflected in our sophisticated profile, where usage of day-to-day transactions is high, but out-of-order transactions do not occur. Online users have greater visibility of their current account position, allowing it to be actively managed and therefore helping to avoid overdrawn positions. A customer with less visibility over their account may find it more difficult and time consuming to manage.

[17] http://www.competition-commission.org.uk/rep_pub/reports/2007/fulltext/527.pdf

Non-standard customers attract more costs in terms of out-of-order fees and interest; however this is a reflection of the higher cost in managing such cases.

The feedback received from the banks indicated that overdraft usage take up being approximately 30% of current account customers. Some current accounts do not allow an overdraft position at all. In developing our profiles we have included an overdraft facility, for illustrative purposes, on all profiles except the unsophisticated account. Overdraft interest is included in our profiles, where appropriate, however it should be noted that this charge is not subject to Section 149, whereas surcharge/unauthorised interest[18] is.

Credit cards are increasingly being used as an alternative to overdrafts, however some customers use overdraft facilities for short to medium-term financing, rather than a term loan.

Please refer to Appendix 3 for further details on the assumptions made for each profile.

e. Criteria for transaction-fee-free banking

Each of the five Irish banks reviewed apply different criteria for accessing transaction-fee-free banking. They are either based around usage/behaviour and/or turnover and balance of money in the account. PTSB and NIB also require that the account is operated within agreed credit limits for the customer to be eligible for transaction-fee-free banking.
The table below summarises the criteria for accessing free banking for each of the five retail banks included in this review:

Table 4 - Criteria for free banking

Credit institution	Description of criteria to access free banking[19]
AIB	Usage/behaviour based: • Use your AIB Debit Card to make a purchase each quarter, **and** • Make a debit transaction using AIB Phone or Internet Banking e.g. Top up your mobile
BOI	Turnover/balance based: • Over the Fee quarter, Lodge minimum €3000 to your Personal Current a/c, **and** Usage/Behaviour based: • Make 9 debits using Banking 365 Phone/Online **OR** Turnover/balance based: • Throughout the fee quarter, maintain a minimum credit balance of €3000 in your personal a/c
NIB	Free transactional banking available on the standard Easy current account except manual withdrawals which are free up to 6 per quarter.

[18] Surcharge Interest is an interest charge imposed in respect of arrears on a credit agreement or a loan. It is charged in addition to the normal interest on the credit facility.
[19] The criteria listed below are based on published information from the banks' websites as at 25 November 2011. These terms are subject to change by the banks and criteria for accessing transaction fee free banking can be changed and/or removed by the banks.

PTSB	Turnover/balance based: • Lodge a minimum of €1000 into your account every month for 3 months **OR** Usage/behaviour based (all of the below must be met to qualify): • Use Visa Debit Card to pay for 6 or more purchases every month for 3 months e.g. groceries; • Each quarter make at least one transaction via Open24; • Keep account within agreed limits; **and** • Do not exceed authorised overdraft limits.
Ulster	No restrictions. Free transactional banking available on standard current accounts.

Ulster Bank has the “lowest” entry level criteria for accessing free banking with certain current accounts not requiring any particular level of usage or turnover. NIB also offer free banking for all transactional banking on their Easy Account, however fee-free manual withdrawals are restricted to six per quarter. Bank of Ireland and PTSB have the largest balance/turnover criteria of each of the banks, with each stipulating that at least €3,000 must be lodged to the account in the quarter. AIB require one debit purchase and one debit transaction, using 24-hour banking, per quarter.

Where banks use an amount lodged as a criteria for transaction-fee-free banking, it can be concluded that it is easier for customers to qualify for free banking if they are earning higher incomes or have adequate savings. Consequently, lower income earners or those on social welfare would find it more difficult to meet these turnover/balances targets in order to qualify. The development of a low cost basic payment account would help to deal with this issue.[20]

f. Source of Data

Data was obtained from the European Commission Report: *Data collection for prices of current accounts provided to consumers,* 2009, the Irish Payment Services Organisation (IPSO)[21] and the ECB Blue Book data. Consolidating the information from these three sources allowed us to create a benchmark for the average number of transactions on typical current account activities.

Using transaction volumes for a standard customer, we were then able to extrapolate this data to cover the three other profiles chosen.

[20] A strategy for the reduction of financial exclusion in Ireland has been developed by a steering group chaired by the Department of Finance and facilitated by the Social Finance Foundation. A key component of this strategy is the development of a Basic Payment Account.
http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf
Work is progressing on the design of the Basic Payment Account which will be introduced on a pilot basis by the end of Quarter 1 2012. Following an evaluation of the pilot phase, it is planned to fully roll out the Basic Payment Account by the end of 2012.

[21] http://www.ipso.ie/section/IPSONewsletterPaymentsToday

Fees and charges data was obtained from Central Bank internal data for Irish banks and confirmed with the individual institutions. We obtained data for Northern Ireland and UK Banks from the banks' own websites.
There is limited information available on overdraft activity and size in the European market. To gauge the impact of overdraft use on the various customer profiles we used information available from the European Commission Report mentioned above, which contained details of average overdraft amounts utilised and the average time a customer utilised an overdraft (including authorised and unauthorised). This data was based on the UK market. We have also used data obtained recently from Irish banks as part of a themed inspection, carried out by the Central Bank, of out-of-order fees to assess typical overdraft usage in the Irish market. Using this data, we assumed that while a standard customer may avail of overdraft facilities, they would not typically fall into an unauthorised overdraft position for long periods. By contrast, a non-standard customer would be expected to use their overdraft facility and also the unauthorised overdraft facility for longer periods than a standard customer.

6. Findings

a. Profiles of customers in Irish Banks

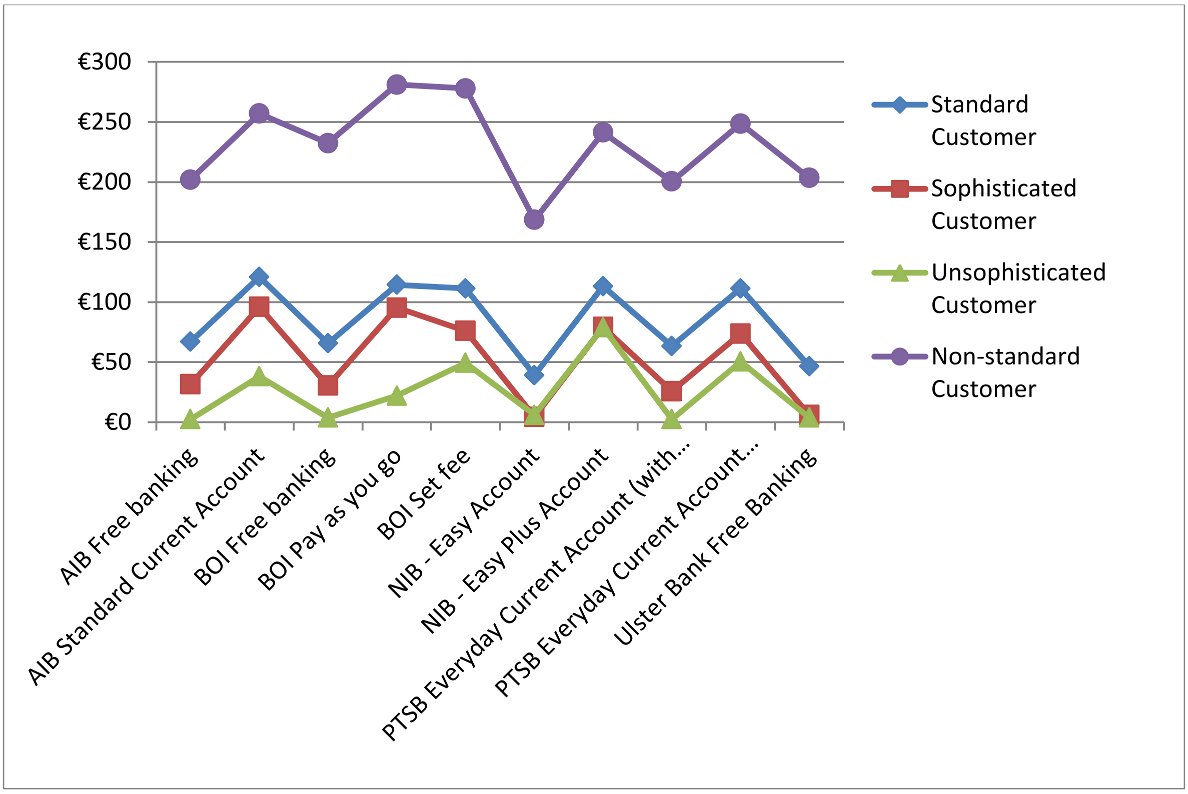
The range of fees applicable to each profile is set out in the table below. The table is split into profiles that qualify for transaction-fee-free banking and those that do not.

Table 5 - Range of costs per profile (Ireland)

Profile	Current Account with transaction-fee-free banking (lowest to highest)	Current Account without transaction-fee-free banking (lowest to highest)
Standard Customer	€39 (NIB) to €67 (AIB)	€111 (PTSB) to €121 (AIB)
Non-standard Customer	€169 (NIB) to €232 (BOI)	€241 (NIB) to €281 (BOI)
Sophisticated Customer	€5 (NIB) to €31 (AIB)	€74 (PTSB) to €96 (AIB)
Unsophisticated Customer	€3 (PTSB, AIB) to €6 (NIB)	€22 (BOI) to €79 (NIB)

Please refer to Appendix 4 for illustrative graphs of each of the individual profiles.
The table below illustrates the typical charges incurred by all four profiles across the Irish banks for each of the current account offerings included in the review.
(Please refer to Appendix 1 for fee data and Appendix 3 for details of the underlying assumptions for each profile.)

Figure 1- Irish Banks - Annual PCA charges for each of the customer profiles



Key findings

Based on our findings from the profiling exercise carried out for the five Irish banks, it is clear that the charges applied by Irish banks are predominately driven by account usage and customer behaviour, with higher fees incurred where out-of-order transactions feature. Please refer to Table 7 below which shows the impact of out-of-order charges on the total cost of an account per customer.

Based on the profiles created, sophisticated and unsophisticated customers typically pay the lowest charges. As Irish current account customers are predominately charged for usage, an unsophisticated user pays fewer charges. A sophisticated customer, may use their account frequently but typically does not incur out-of-order charges resulting in a lower overall cost.

A standard customer, as per the profiles outlined, will tend to pay fees of up to €67 per annum where they qualify for transaction-fee-free banking and up to €121 per annum where they do not qualify for transaction-fee-free banking account.

The average yearly cost to the consumer of running an account under each of the profiles is as follows;

- Standard profile – Average yearly cost €86
- Non-standard profile – Average yearly cost €231
- Sophisticated profile – Average yearly cost €52
- Unsophisticated profile – Average yearly cost €26.

The non-standard profile customers typically pay fees that are two to four times higher than a standard customer, reflecting the additional charges that may be incurred. These charges include referral fees, unpaid direct debit/standing order fees and overdraft interest.

Unpaid direct debit/standing order fees are the key driver of the high charges incurred by non-standard customers. Our workings assume a typical non-standard customer has nine unpaid direct debits/standing orders per annum.

b. Profiles of customers in UK and Northern Ireland Banks

The table below sets out the range of costs incurred by all four profiles across the UK and NI banks for each of the current account offerings included in the review.

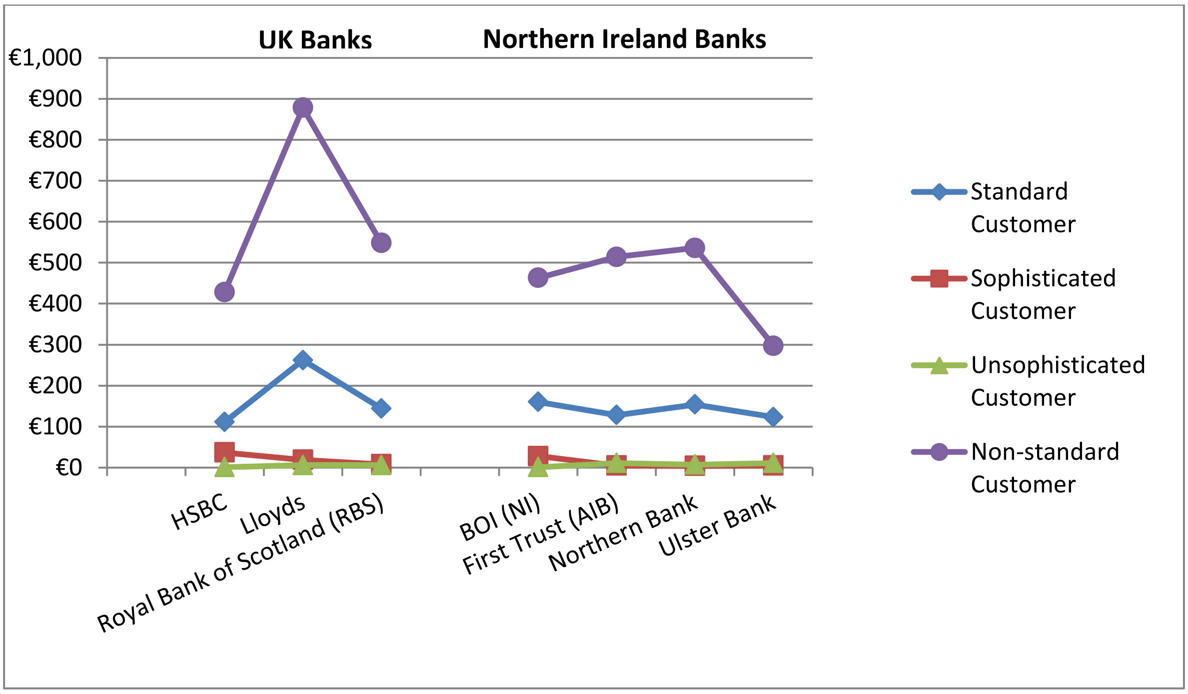
Table 6 - Range of costs per profile (UK and NI)

Profile	Lowest to Highest cost per profile
Standard Customer	€111 (First Trust & HSBC) to €262 (Lloyds)
Non-standard Customer	€297 (Ulster Bank) to €878 (Lloyds)
Sophisticated Customer	€4 (Northern) to €37 (HSBC)
Unsophisticated Customer	€1 (HSBC & BOI) to €11 (UB & First Trust)

Converted to Euro using EUR/GBP 0.8782 (mid-market rate) from xe.com 28 October 2011

The graph below illustrates the range of annual costs across each of the UK and NI banks. These are summarised in the table below:
(Please refer to Appendix 1 for fee data and Appendix 3 for details of the underlying assumptions for each profile.)

Figure 2- UK/NI Banks - Annual PCA charges for each of the customer profiles



Converted to Euro using EUR/GBP 0.8782 (mid-market rate) from xe.com 28 October 2011

Key findings

The UK and Northern Irish banks do not typically apply charges for standard day-to-day usage of current accounts giving customers transaction-fee-free banking. However this contrasts with the typically high charges applied for out-of-order transactions. The out-of-order charges applied by Northern Irish and UK banks are far in excess of those charged by Irish banks.

Sophisticated and unsophisticated customers profiles incur relatively low fees compared with other profiles. This is because these customers do not typically incur out-of-order charges with their day-to-day banking being predominately free of charge. The standard customer profiles, who have minimal out-of-order activity, will incur some fees.

It is clear from the data that, non-standard customers in the UK and Northern Ireland are penalised, for example Lloyds, in addition to having a high interest charge for an unauthorised overdraft have a daily charge of £10 for each day an account is in an overdrawn position.

c. Comparisons of Irish bank charges to United Kingdom and Northern Irish (UK and NI) banks

Based on the profiles used in this exercise, charges for standard and non-standard profiles are lower in Ireland when compared to those in the UK and NI. This is because there are a higher number of out-of-order transactions on these profiles which are costlier in the UK and NI. Sophisticated and unsophisticated profile annual costs were higher in Ireland when compared to those the UK and NI as they have lower numbers of out-of-order transactions coupled with more expensive day-to-day transactional banking in Ireland. One of the main drivers of bank charges in the UK is the cost of referral fees and unpaid fees which can be as high as £25 per item. By contrast, Irish banks typically charge up to €5 for a referral fee and €10-12 for unpaid direct debits/standing orders.

The table below splits out the total cost of each profile between standard or transactional charges and the out-of-order charges. When these are compared with the UK table it is clear that the UK's costs are heavily weighted on the out-of-order charges.

Table 7 - Table of Irish profiles split between standard and out-of-order charges

	AIB Charges Free Banking	AIB Charges Standard Current Account	BOI Charges Free Banking	BOI Charges Pay as You Go	BOI Charges Set Fee	NIB Easy Account	NIB Easy Plus Account	PTSB Everyday Current Account (with free banking) *	PTSB Everyday Current Account (without free banking)	Ulster Bank Free Banking
	€	€	€	€	€	€	€	€	€	€
STANDARD										
Transaction Charges	25	80	25	73	70	0	75	20	68	0
Out of Order/Other Charges	42	41	41	41	41	39	38	43	43	47
Total	**67**	**121**	**66**	**114**	**111**	**39**	**113**	**63**	**111**	**47**
NON-STANDARD										
Transaction Charges	25	80	25	74	71	0	75	20	68	0
Out of Order/Other Charges	177	177	207	207	207	169	166	181	181	203
Total	**202**	**257**	**232**	**281**	**278**	**169**	**241**	**201**	**249**	**203**
SOPHISTICATED										
Transaction Charges	25	91	25	90	71	0	75	20	68	0
Out of Order/Other Charges	6	5	5	5	5	5	4	6	6	6
Total	**31**	**96**	**30**	**95**	**76**	**5**	**79**	**26**	**74**	**6**
UNSOPHISTICATED										
Transaction Charges	0	35	0	18	45	2	75	0	48	0
Out of Order/Other Charges	3	3	4	4	4	4	4	3	3	4
Total	**3**	**38**	**4**	**22**	**49**	**6**	**79**	**3**	**51**	**4**

*As per PTSB's terms and conditions, a customer who meets the free banking criteria but goes into an unauthorised overdraft position, may lose their entitlement to free banking in that quarter. This would apply to a standard and non-standard customer in the scenarios above.

Table 8 - Table of UK/NI profiles split between standard and out-of-order charges (shown as Euro equivalent)

	UK Banks			Northern Ireland Banks			
	HSBC	Lloyds	RBS	BOI (NI)	First Trust (AIB)	Northern Bank	Ulster Bank
	€	€	€	€	€	€	€
STANDARD							
Transaction Charges	29	29	0	23	0	0	0
Out of Order/Other Charges	82	233	144	137	128	154	123
Total	**111**	**262**	**144**	**160**	**128**	**154**	**123**
NON-STANDARD							
Transaction Charges	29	68	0	23	0	0	0
Out of Order/Other Charges	399	810	548	440	514	536	297
Total	**428**	**878**	**548**	**463**	**514**	**536**	**297**
SOPHISTICATED							
Transaction Charges	29	11	0	23	0	0	0
Out of Order/Other Charges	8	8	8	5	5	4	5
Total	**37**	**19**	**8**	**28**	**5**	**4**	**5**
UNSOPHISTICATED							
Transaction Charges	0	0	0	0	0	3	0
Out of Order/Other Charges	1	6	6	1	11	4	11
Total	**1**	**6**	**6**	**1**	**11**	**7**	**11**

We found that in the UK and NI banks we reviewed, only 50% of the scenarios would result in fees of less than €120 p.a. compared with 72% in Ireland. However, when we looked at the cost of transaction charges only, in general, Ireland has higher fees than the UK and NI. The annual cost of the transaction only charges, excluding any out-of-order charges, showed that, in Ireland, 40% of the scenarios would have annual charges greater than €50p.a., whereas in the UK and NI only 4% of scenarios would have charges greater than €50 for transaction or day-to-day transactions. This illustrates that, while the majority of the total costs would be higher for UK and NI profiles, if out-of-order charges were stripped out, the costs for profiles in Ireland are significantly higher.

In the UK, NI and Ireland unsophisticated and sophisticated profiles typically cost the least. Non-standard profiles have the highest charges, with the gap between customer profiles being greater in the UK and NI market. Lloyds had the highest fees of the UK banks we looked at, with a cost of €878 per annum for the non-standard customer profile. The highest cost for an Irish profile was the Bank of Ireland non-standard profile at €232 per annum where a customer qualifies for transaction-fee-free banking and €281 where no free banking applies.

In the UK there are some instances where, in addition to overdraft interest/unauthorised overdraft interest a daily fee applies where an account is in an overdrawn position. Lloyds have a £10 charge per day with RBS charging £6 per day.
Interestingly, in Northern Ireland, First Trust whose parent is AIB, has much higher charges for non-standard customers than AIB in the Republic of Ireland. Similarly BOI charge higher fees for non-standard customers in Northern Ireland than for those in the Republic of Ireland. Annual fees for the sophisticated and unsophisticated profiles are typically lower in Northern Ireland.

7. Conclusion

It is clear from our research that there is a range of charges applied to customers for using their personal current account. The charges are mostly driven by customer usage and behaviour. The charges imposed on Irish bank customers would appear to be more evenly distributed across all customer profiles when compared to the customers in the UK especially where there are penalties imposed on customers whose accounts go out of order.

The higher users of services generally incur higher fees. Manual-type transactions incur higher fees although it is noted that these are more expensive for the bank to provide. While non-standard customers do incur high fees, this is in part due to the higher cost of providing this service as there can be more manual intervention required.

It is likely that the regulation of bank charges in Ireland has resulted in lower fees for out-of-order transactions. While some might consider these charges high, they are certainly lower than those charged by banks in Northern Ireland and the UK, where there is no price regulation of charges.

Our research also showed that while overall the total annual charges in Ireland were lower than in the UK and NI this was driven by the high costs of the out-of-order charges in those markets. When we stripped away the out-of-order transactions, we

found that the annual charges for the profiles in Ireland were generally higher than in the UK and NI.
Analysing the annual charges across all of our profiles and all of the accounts that were selected, we found that, 48% of the scenarios would incur costs of less than €72p.a (i.e. 19 of 40 scenarios i.e. profiles and accounts) and 72% would incur costs of less than €120p.a (29 of the 40 scenarios). Therefore 28% of scenarios would incur costs of more than €120p.a with all except one of those relating to the non-standard profiles i.e. those with high out-of-order transactions.

Customer behaviour and usage are the key drivers of fees on personal current accounts with customers who allow their accounts to go into an unauthorised overdraft position paying the highest fees overall. Therefore, active management of an account to prevent this position will ultimately reduce the overall cost of running the account.

Users of accounts can potentially minimise the costs associated with using their current account by altering their behaviour and closely monitoring their account. Therefore, if users can carry out a sufficient number of transactions or lodge a sufficient amount of funds in a month or a quarter, they can potentially qualify for transaction-fee-free banking. Also, customers can limit fees by monitoring their account to prevent out-of-order charges such as unpaid direct debits or by allowing their account to go into unauthorised overdraft for example.

Banks tend to reward customers for using more online and automated transactions by applying lower fees to those types of transactions. Therefore, customers can further keep fees down by opting to carry out more transactions on line. There is also a free banking option available in most banks which is driven by both transactional and/or balance criteria. If customers can meet these criteria it is another way to keep the costs of running their accounts down.

Where a customer is unhappy with their current provider they can switch to another provider. The Code of Conduct on the Switching of Current Accounts with Credit Institutions[22] sets out provisions to which credit institutions must comply making the process as smooth as possible for the customer.

While the information required by the Central Bank from a Credit Institution submitting a notification, under Section 149, will not change the customer profiles will assist the Central Bank in better understanding and analysing the overall costs of current accounts to customers and therefore assist in our implementation of the Act. They will support us in our assessment of proposed changes in current account charges by helping to gauge the effect of the changes and better compare competitors in the current account market.

[22] On 1 October 2010 a Code of Conduct on the Switching of Current Accounts with Credit Institutions was introduced and came into effect on that date.

APPENDIX 1 – Summary of profiling scenario results

Irish Bank Data – Annual bank charges for each profile[23]

Irish Banks	Standard Customer €	Non-standard Customer €	Sophisticated Customer €	Unsophisticated Customer €
AIB Free banking	67	202	31	3
AIB Standard Current Account	121	257	96	38
BOI Free banking	66	232	30	4
BOI Pay as you go	114	281	95	22
BOI Set fee	111	278	76	49
NIB - Easy Account	39	169	5	6
NIB - Easy Plus Account	113	241	79	79
PTSB Everyday Current Account (with free banking)	63	201	26	3
PTSB Everyday Current Account (without free banking)	111	249	74	51
Ulster Bank Free Banking	47	203	6	4

UK/NI Bank Data – Annual bank charges for each profile[24]

UK Banks	Standard Customer £ / €	Non-standard Customer £ / €	Sophisticated Customer £ / €	Unsophisticated Customer £ / €
HSBC	£97 / €111	£376 / €428	£32 / €37	£1 / €1
Lloyds	£230 / €262	£771 / €878	£17 / €19	£5 / €6
Royal Bank of Scotland (RBS)	£127 / €144	£482 / €548	£7 / €8	£5 / €6
Northern Ireland Banks				
BOI (NI)	£141 / €160	£407/ €463	£25 / €28	£1 / €1
First Trust (AIB)	£113 / €128	£451/ €514	£5 / €5	£10 / €11
Northern Bank	£135 / €154	£471 / €536	£4 / €4	£6 / €7
Ulster Bank	£108 / €123	£261 / €297	£5/ €5	£10 / €11

[23] These figures are based on the fees and charges applied by the 5 banks as at 31 August 2011.
[24] These figures are based on the fees and charges applied by the banks as at 20 July 2011.

APPENDIX 2 – Section 149 Legislation

The wording in the legislation sets out the criteria under which each notification should be assessed as follows;

149 (9) The Bank shall, in exercising the powers conferred by this section, have regard to—

> *(a) the promotion of fair competition between—*
>
> > *(i) credit institutions, and*
> >
> > *(ii) credit institutions carrying on a particular type of banking or financial business,*
>
> *(b) the statement of commercial justification referred to in subsection (2)(b), and*
>
> *(c) a credit institution passing any costs on to its customers or a group of its customers in proposing to impose or change any charge, in relation to the provision of a service to a customer or a group of its customers, and*
>
> *(d) the effect on customers or a group of customers of any proposal to impose or change any charge in relation to the provision of such service.*

The charges on services which are required to be notified are defined in the legislation below;

149 (13) In this section— 'service' means any service provided by a credit institution to a customer in respect of the following—

> *(a) making and receiving payments;*
>
> *(b) providing foreign exchange facilities;*
>
> *(c) providing and granting credit;*
>
> *(d) maintaining and administrating transaction accounts used for the services specified by this subsection, including issuing statements;*
>
> *(e) any other service that may be prescribed by regulations for the purposes of this section; 'charge' includes a penalty or surcharge interest by whichever name called, being an interest charge imposed in respect of arrears on a credit agreement or a loan, but does not include any rate of interest or any charge, cost or expense levied by a party other than a credit institution in connection with the provision of a service to the credit institution or the customer and that is to be discharged by the customer.*

A summary of typical products and charges for Section 149 are set out below;

	Section 149
Firms in scope	● Credit institutions and prescribed credit institutions
Types of products	● Credit cards ● Loan accounts ● Personal current accounts ● Business current accounts ● Mortgage accounts ● Business current accounts ● Commercial products such as letters of credit, guarantees etc (this list is not exhaustive)
Examples of charges	● current accounts, term loans, overdrafts and credit card charges ● mortgage charges * ● foreign exchange margins and spreads ● money transmission charges ● merchant service provider charges, e.g., charges imposed on retailers for the acceptance and processing of credit/debit cards (charged by credit institutions, e.g., Elavon Financial Services Ltd); ● hire purchase charges (charged by Volkswagen Bank GMBH for example); and ● sundry – vehicle unit funding (Volkswagen Bank GMBH), fixed rate savings bond account (Leeds Building Society), transaction charges in relation to its deposit, loan and multicurrency accounts (HSBC Private Bank Ireland). (this list is not exhaustive

* Mortgage arrears charges for customers e.g., letter issue fee, surcharge interest etc. who are in the Mortgage Arrears Resolution Process, have been prohibited since 1st January 2011 in conjunction with the new Code of Conduct on Mortgage Arrears

APPENDIX 3 – Summary of profiling assumptions

Assumptions made in relation to the Standard Current Account profile

- Cheques Drawn is included above, however government stamp duty, which is currently €0.50 per cheque, has not been included in the cost.
  A separate charge is applied for cheque processing and this is included with OTC withdrawals.
- Interest Charged on authorised overdraft is calculated based on a customer going €1500 overdrawn for 30 days in a year.
- Interest Charged on unauthorised overdraft is calculated based on a customer going €500 overdrawn for 10 days in a year.
- It is assumed that standard customers have an authorised overdraft for which there is a set up cost.

Assumptions made in relation to the Non-standard Current Account profile

- Cheques Drawn is included above, however government stamp duty, which is currently €0.50 per cheque, has not been included in the cost.
  A separate charge is applied for cheque processing and this is included with OTC withdrawals.
- Interest Charged on authorised overdraft is calculated based on a customer going €1500 overdrawn for 60 days in a year.
- Interest Charged on unauthorised overdraft is calculated based on a customer going €500 overdrawn for 45 days in a year.
- It is assumed that non-standard customers have an authorised overdraft for which there is a set up cost.
- It is assumed that a non-standard customer will incur multiple referral and unpaid fees and will require duplicate bank statements.

Assumptions made in relation to the Sophisticated Current Account profile

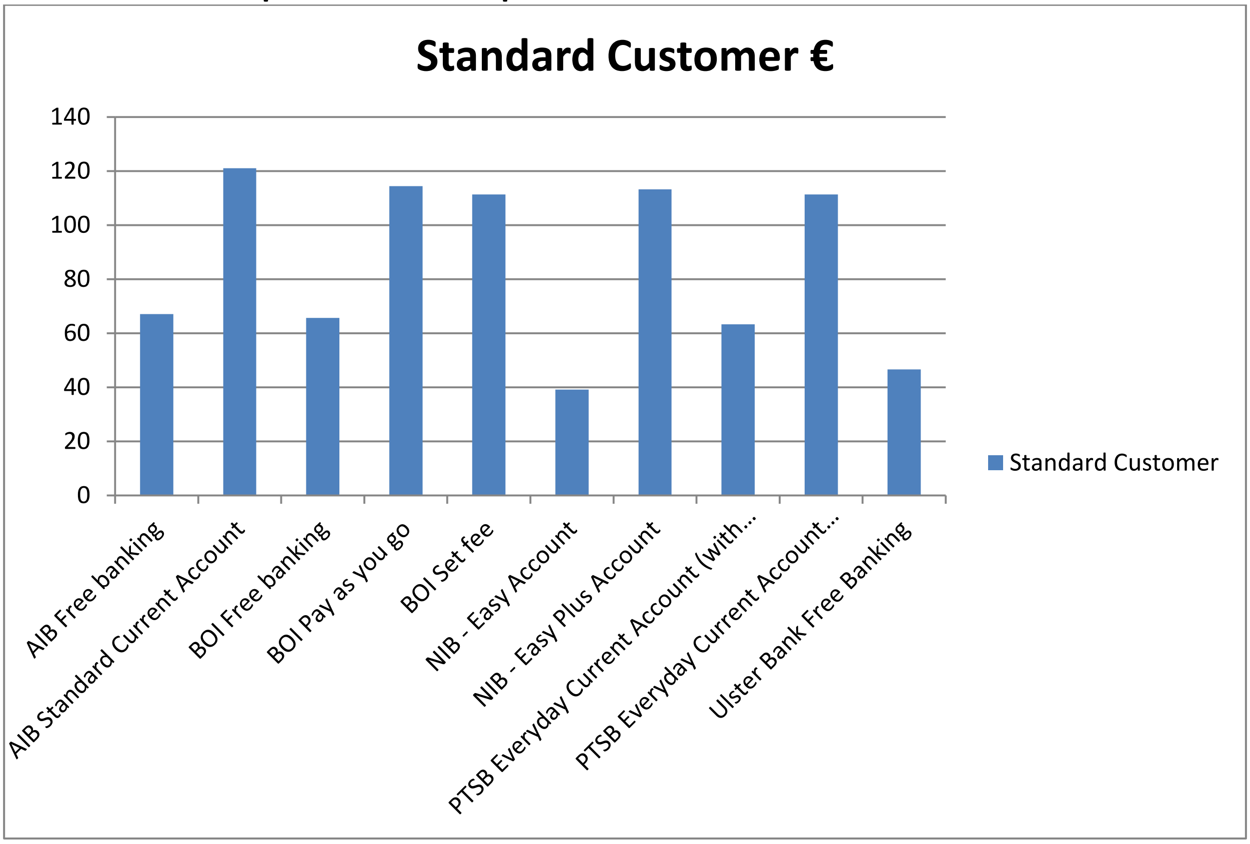
- Cheques Drawn is included above, however government stamp duty, which is currently €0.50 per cheque, has not been included in the cost.
  A separate charge is applied for cheque processing and this is included with OTC withdrawals.
- Interest Charged on authorised overdraft is calculated based on a customer going €1500 overdrawn for 10 days in a year.
- It is assumed that a sophisticated customer would not fall into an unauthorised overdraft position
- It is assumed that sophisticated customers have an authorised overdraft for which there is a set up cost.
- It is assumed that a sophisticated customer would not incur any referral/unpaid fees or require duplicate bank statements

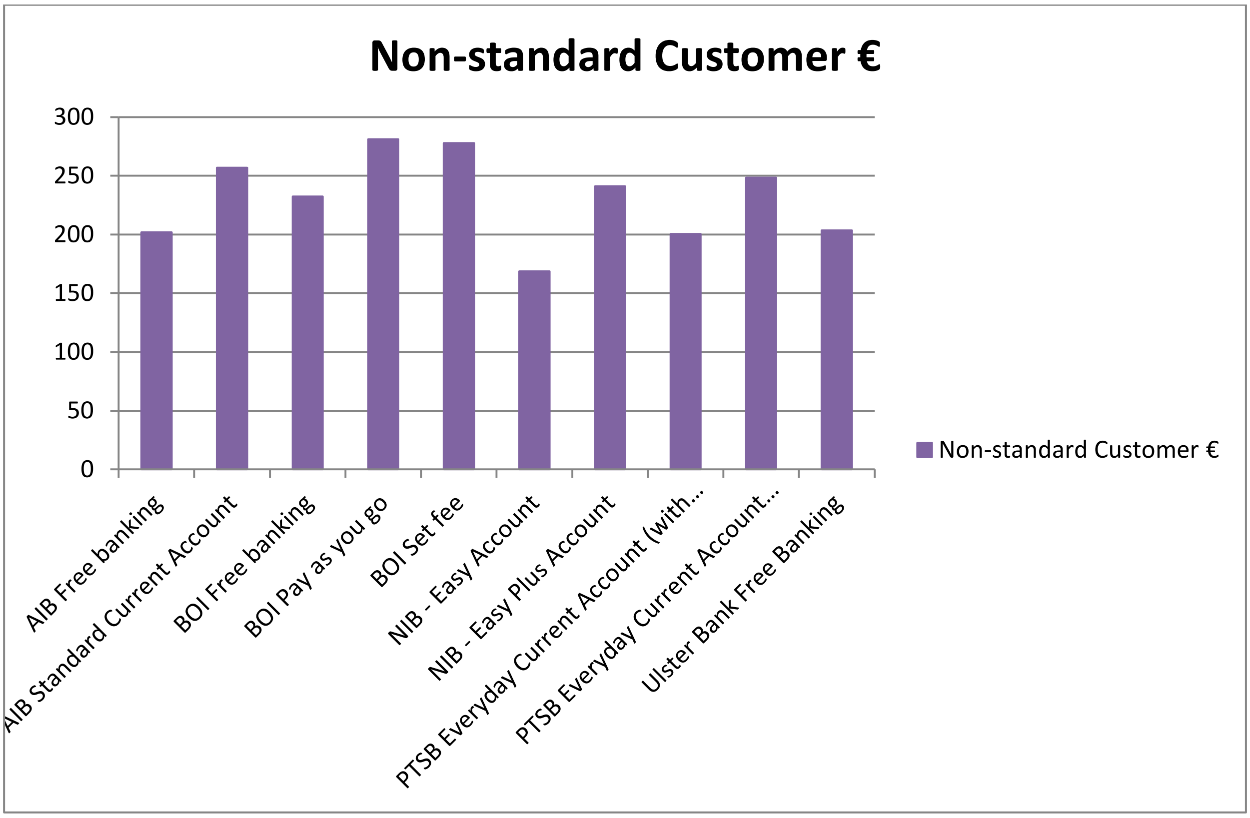
Assumptions made in relation to the Unsophisticated Current Account profile

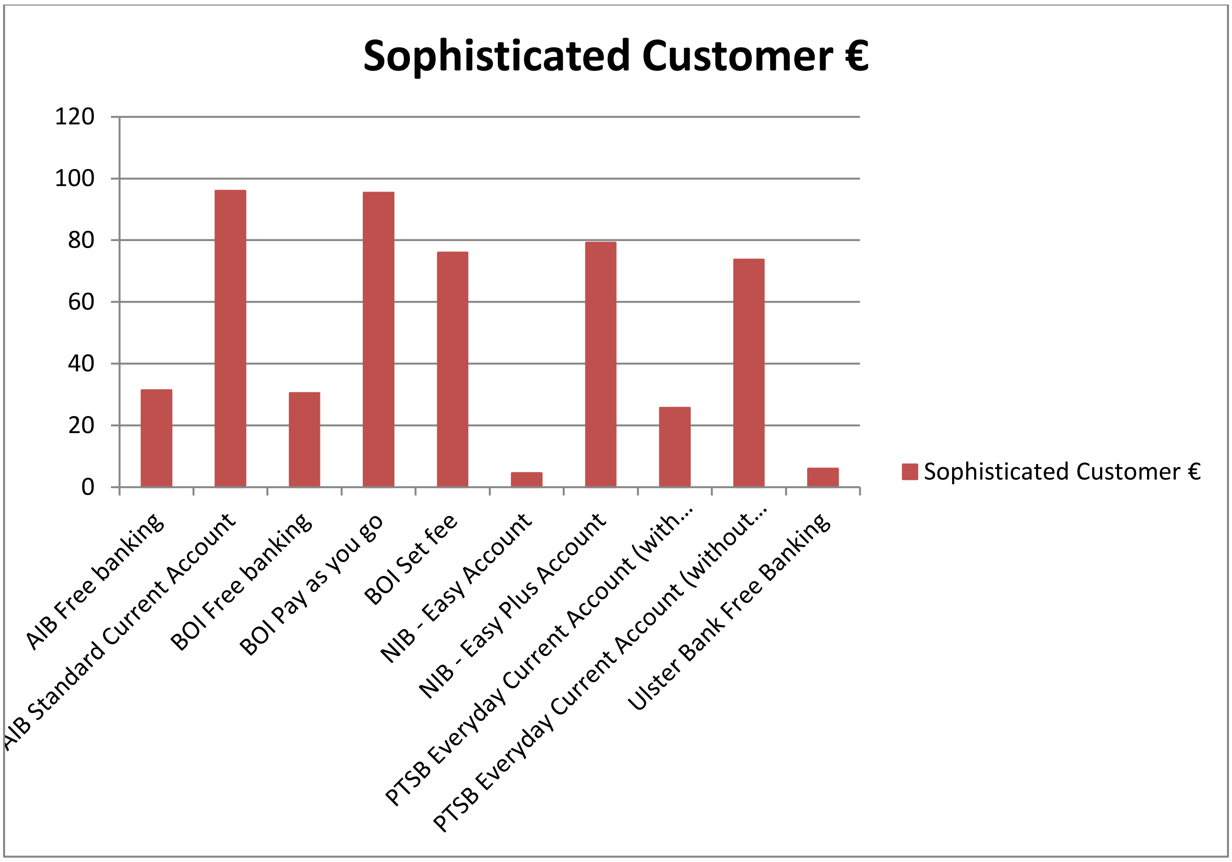
- Cheques Drawn is included above, however government stamp duty, which is currently €0.50 per cheque, has not been included in the cost.
  A separate charge is applied for cheque processing and this is included with OTC withdrawals.
- It is assumed that an unsophisticated customer would rely more heavily on manual transactions
- It is assumed that an unsophisticated customer would rely more heavily on cash and would not have a debit card

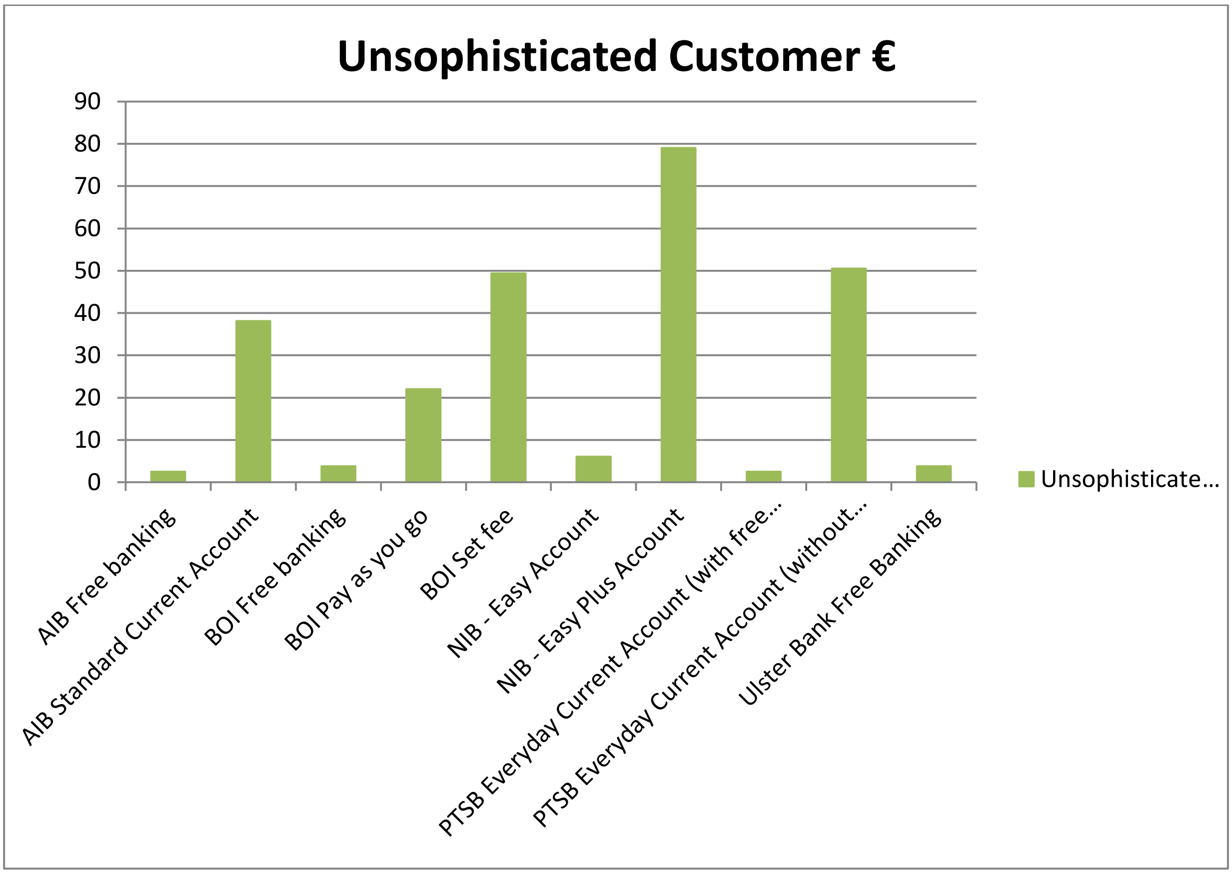
- Unsophisticated customers would not incur referral and unpaid fees
- Unsophisticated customers will not have an authorised overdraft so do not incur a set-up fee

APPENDIX 4 – Graphs of customer profiles






Sophisticated Customer €
120
100
80
60
40
20
0
AIB Free banking
AIB Standard Current Account
BOI Free banking
BOI Pay as you go
BOI Set fee
NIB - Easy Account
NIB - Easy Plus Account
PTSB Everyday Current Account (with...
PTSB Everyday Current Account (without...
Ulster Bank Free Banking
Sophisticated Customer €


Unsophisticated Customer €
90
80
70
60
50
40
30
20
10
0
AIB Free banking
AIB Standard Current Account
BOI Free banking
BOI Pay as you go
BOI Set fee
NIB - Easy Account
NIB - Easy Plus Account
PTSB Everyday Current Account (with free...
PTSB Everyday Current Account (without...
Ulster Bank Free Banking
Unsophisticate...

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