FCA OVERDRAFT PROPOSALS CONSUMER RESEARCH

Summary Report

June 2019

Prepared by Atticus Research Ltd

Table of Contents

Acknowledgements

The FCA commissioned Atticus Research, an independent market research company, to conduct this consumer research on overdrafts. Atticus Research Limited conducted this study and undertook the qualitative recruitment, fieldwork, analysis, and report writing for this part of the FCA's programme of evaluation.

The views expressed in this report are those of the authors and/or participants and not necessarily those of the FCA, nor do they reflect FCA policy or constitute guidance to firms.

1. Background

The genesis of this research was in the changes the FCA have proposed around the way firms charge for and communicate about overdrafts, as part of its review of high-cost credit, which included several different stages of consumer market research.

A need was identified to conduct further consumer research, to test reactions to some possible disclosure options, referred to within this document as 'overdraft pricing models'.

These proposals are currently being consulted on and the FCA may or may not take them forward, depending on the results of its current Consultation.

The FCA wanted to test some aspects of these overdraft proposals, because:

1) The FCA wanted to test perceptions of overdraft pricing models to confirm its understanding
2) The FCA wanted to assess some of the earlier research findings in more detail, and;
3) The FCA wanted to think about how best to present an interest rate, should this option be taken forward, including whether this should be shown as an annual, daily or monthly figure.

Atticus Research were invited to respond to these needs with a recommended approach and proposals, and were subsequently selected to carry out the consumer research.

This document summarises the key research findings and recommendations.

2. Research objectives

The key research objectives were to explore and understand the following:

1. Awareness and understanding of the costs of using an overdraft
2. Reactions to overdraft pricing models
3. Reactions to overdraft pricing models with an APR
4. Reactions to overdraft pricing models plus an APR and pounds and pence (£/p) examples

5. Which of the pricing options were perceived to be most / least clear; most / least understandable; and perceived most / least expensive

3. The research approach

The research was designed specifically to address the key research objectives: to provide individual reactions to overdraft pricing models without the influence of peer pressure or group think; to provide some level of quantification and to provide qualitative evaluation to better understand how and why consumers interpret each pricing model the way they do.

The approach adopted for this research combined elements of qualitative and quantitative research, including a pre-group self-completion questionnaire, followed by a short, focussed group discussion.

3.1 The research process

On arrival at the viewing facility, participants were greeted and introduced to the research, and then asked complete a 10-15 minute semi-structured questionnaire, capturing data about their overdraft usage and attitudes, then focussing on four overdraft pricing models.

Participants were tasked to rate each pricing model in terms of how clear or not it felt, how well or not they felt they understood it, and how cheap or expensive it would be to use. The questionnaire used is in the appendix to this report.

Next, participants were brought into a group discussion room, and asked to share their general reactions about the pricing models they had reviewed, before giving a more detailed evaluation of each one, in the order in which they had been presented in the pre-group questionnaire.

Having initially seen models 1 to 3 as they are currently presented in the market, during the discussion they were subsequently shown with the addition of APR and finally £ and p illustrations.

Once this was completed, participants were asked to indicate if their views had changed, which pricing model they now felt most comfortable with, and any thoughts or recommendations for firms or the regulator around how best to present or calculate overdraft pricing.

These sessions lasted 45-50 minutes each, and by being shorter, with the focus on reactions to the pricing models, avoided the 'over-analysis' or post-rationalising that can occur in focus group discussions, and instead, enabled us to get a more instinctive response to each proposal.

Participants were told little about the research or what would be discussed, prior to being presented with the overdraft pricing models. These were each shown as a hard copy description of each pricing model for participants to read and respond to, with the focus on their initial reactions and intuitive understanding, rather than detailed explanations or discussions of each one.

There are a number of advantages to this approach:

- The individual pre-group questionnaire gives oxygen to new ideas and ensures participants are not over-influenced by dominant respondents, and more likely to commit to their own views in the group, having committed them to paper;
- Short, focused group discussions eliminate the risk of over-analysing or over-rationalising simple proposals or communication ideas, better replicating a real-life scenario;
- Respondents can remain engaged and work harder due to the more energetic pace.

4 The pricing models

Four pricing models were shown to each participant in the research. These were presented one at a time, and in rotation, so that each group of participants first saw the pricing models in a different order, to limit the potential bias and anchoring effect that can occur if people are shown information in the same order each time.

Pricing models 1-3 were based on existing overdraft pricing models, as they are presented to consumers by firms. Model 4 was developed by the FCA to test alongside the other models. Model 4 represented the FCA's current proposals for overdraft pricing set out in their December 2018 Consultation, in combination with £ and p illustrations.

For reasons of commercial sensitivity and confidentiality we are not publishing detailed findings about the models tested, but focus on customers' general attitudes and the performance of the proposed FCA model.

5 The sample

Seven sessions, each lasting one hour, and comprising 9-10 consumers, were conducted on Thursday 21st March in Nottingham. The total sample comprised 68 participants.

The number of focus groups enabled us to split the sample according to overdraft type, overdraft usage and behaviour, and household income. This enabled us to identify any differences between types of consumer, in response to the alternative overdraft pricing models.

The sample structure across the seven consumer group sessions was as follows:

	Social	Type of overdraft	Overdraft use
1	Lower income (under £25k)	Arranged overdraft users	Infrequent / low persistency - 50% infrequent users - go into their overdraft less than 3 times in a year AND / OR Less than 3 months in a row - 50% low persistent - go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row
2	Higher income (over 25k)	Arranged overdraft users	Persistent - 50% Low persistency – go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row - 50% High persistency - go into their overdraft 6 months out of 12 months AND / OR 6-12 months in a row
3	Lower income (under £25k)	Arranged overdraft users	Persistent - 50% Low persistency – go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row - 50% High persistency - go into their overdraft 6 months out of 12 months AND / OR 6-12 months in a row
4	Lower income (under £25k)	Unarranged overdraft users	Persistent - 50% Low persistency – go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row - 50% High persistency - go into their overdraft 6 months out of 12 months AND / OR 6-12 months in a row
5	Higher income (over 25k)	Unarranged overdraft users	Infrequent / low persistency - 50% infrequent users - go into their overdraft less than 3 times in a year AND / OR Less than 3 months in a row - 50% low persistent - go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row
6	Higher income (over 25k)	Arranged overdraft users	Infrequent / low persistency - 50% infrequent users - go into their overdraft less than 3 times in a year AND / OR Less than 3 months in a row - 50% low persistent - go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row
7	Lower income (under £25k)	Unarranged overdraft users	Infrequent / low persistency - 50% infrequent users - go into their overdraft less than 3 times in a year AND / OR Less than 3 months in a row - 50% low persistent - go into their overdraft 3 months out of 6 months AND / OR 3-6 months in a row

Additional recruitment criteria included:

- A spread of age, gender and socio-economic group;
- A mix of amounts of overdraft being used by participants.
- A spread of self-reported financial confidence;
- Personal current accounts held with a range of financial service providers
- Arranged overdrafts to have been held for a range of lengths of time

Participants were free-found by professional qualitative research recruiters, and each completed a screening questionnaire to ensure they fitted the quotas used to ensure a representative cross-section of overdraft users. The recruitment screening questionnaire is included in the appendix to this document.

The definitions used to identify the types of overdraft being used were as follows:

An arranged overdraft

- A specified overdraft limit that consumers stick to and don't go over (arranged)
- An arranged overdraft where consumers have a pre-existing agreement between them and their bank about how much they can continue to spend even if there is no money left in their current account

An unarranged overdraft

- All to have an overdraft limit that they have gone over, or they don't have an overdraft agreement but have gone beyond available funds a few times in the last year and had charges because of it (unarranged)
- An unarranged overdraft where the bank allows them to spend even if there is no money left in their current account, and they don't have a pre-existing agreement to do so. An unarranged overdraft may also occur if they spend more than the limit of an arranged overdraft.

6 General findings

6.1 Awareness and usage of overdrafts

Few felt they had engaged with the cost of their overdraft prior to participating in the research sessions. A number of factors or beliefs appeared to be driving this:

- Many view overdraft costs as something of a fait accompli, and something that gets absorbed into the wider world of their outgoings, sometimes referred to as another utility or not unlike the monthly charges applied by mobile phone networks;
- Some also relate to overdrafts as an extension of their current account, or 'my money for when I need it'. It can therefore go under the radar, and feel less like borrowing or a debt, and avoid the scrutiny or engagement among users that might be applied to other forms of borrowing, such as loans or credit card debt;
- Some of those who use their overdraft less frequently, for just a few days a month, or for smaller amounts of under £50, felt the costs would be small and not sufficient to fully engage with;
- Others who are into their overdraft more frequently or for larger amounts can feel equally reluctant to engage, fearing it will only confront them with an uncomfortable truth about their financial situation.

In summary, comments suggested that many do not want to face the reality of their overdraft use, or the cost implications of this. Many felt there was little to know, or little they could do even if they were more aware. Therefore, any communication or information around overdraft costs will need to create impact and resonance.

> *"Sometimes, psychologically, when you've been charged, you want to forget it, so you don't want to go into the granular detail of it, so I'd be less motivated to really drill-down into what it was."*

Arranged overdraft user, higher income

"Unless I get directly affected by it, say I look at my bank account and think, 'Why have they taken that?', I don't really look into it, I just let it be."

Arranged overdraft user, higher income

"Because they don't normally change drastically because I use roughly the same amount every month because it's just normal expenses, it's a bit of a habit."

Arranged overdraft user, higher income

The results from the pre-group questionnaire, completed by each participant before the focus group discussion, and before they had been shown overdraft pricing models, also demonstrated that many felt relatively confident about their knowledge of overdrafts, with a mean score of 3.4, on a scale of 1 to 5, where 1 = not at all confident, and 5 = extremely confident, in terms of understanding what overdrafts are and how they work (Base n=67); and a mean score of 3.2, on a scale of 1 to 5, where 1 = not at all comfortable, and 5 = extremely comfortable, in terms of how comfortable they felt having an overdraft (Base n=67).

6.2 Reactions to communications from overdraft providers

There was an indication that for many, almost as soon as they see copy or information from their current account provider, they 'switch off'.

This can be because they expect it to be 'bad news', illustrating their financial circumstances are not what they would like, and presenting them with an uncomfortable reflection of their situation, or even a reduction of their self-status, and their place in the world.

It can be driven by an expectation that the language and content will not speak to them in a way they want, or feel they can understand. This also helps explain why many participants felt baffled by the subject of overdraft costs and pricing.

> *"These letters go in my shredding pile because they baffle you, nothing's straight forward. I'll read a few lines but won't continue if it confuses me. I know how much my overdraft is that I've got, I don't use it very often, so I know what my charges are, so if they sent me a random letter like that (example pricing models) I'd just put it on the shredding pile."*
>
> Arranged overdraft user, higher income

There was a sense of 'learned helplessness' emerging from the way participants responded to the subject. The idea that they had become less resourceful and less willing to engage with, or challenge, overdraft charges, because they had learned over time, and through experience that it's not worth it, and there is a 'system' loaded against them.

On reflection, many participants went on a journey in the sessions, to the conclusion that something needs to change to make overdraft charges more understandable to the ordinary person, and to raise awareness about the costs and fees incurred when using an overdraft.

6.3 Perceptions of the cost of using an overdraft

The results from the pre-group questionnaire, completed by each participant before the focus group discussion, and before they had been shown overdraft pricing models, also demonstrated that many felt reasonably confident about their understanding of the cost of using their overdraft, with a mean score of 3 on a scale of 1 to 5, where 1 = not at all well understood, and 5 = extremely well understood, in terms of how well or not they felt they understood the costs, fees, charges or interest charged for their overdraft (Base n=67).

A key barrier to engaging with their overdraft costs was a perception among many consumers that these are the same or similar across all personal current account providers, and there is limited value in engaging with or comparing these costs.

The general view that all firms must be charging about the same was underpinned by a belief among many participants that, in spite of a degree of cynicism around financial service providers, there was a residual sense of trust that 'my bank' would offer fair or comparable terms for using an overdraft.

Many were therefore surprised and perturbed to find costs and charges for using an overdraft varied between firms. Many participants feared this would be used to make the costs of using an overdraft more difficult to understand, or to relate to their own overdraft use and charges.

However, many also felt that overdraft charges can feel complex and multi-faceted, with a number of different fees and charges being referenced by firms. These often had different names, or ways of being calculating – including flat fees and interest rate charges. Those mentioned in this context included: an arrangement fee; arranged and unarranged charges; interest on overdraft balances; transaction charges for late payments; etc.

This tended to reinforce the feeling that charges were complex, opaque, with various layers and fees, calculated in different ways, and difficult for ordinary people to understand.

This led to a perception that if participants experience overdraft charges and want to know why, they have to work hard to access to the answers or an explanation, and would be unlikely to be able to understand the results even if they were to engage at this level.

On balance, many felt the costs of using an overdraft should be simplified, with simple working out, the costs clearly shown in £/p, and an APR or interest rate, in order to make it easier for consumers to feel they can understand what they are being charged, and make a more informed choice about whether or not to use their overdraft in the first instance, or whether to consider alternative credit options.

> *"I kind of understand paying it back over a certain amount of days but all the hidden charges, I don't know how it got to that figure or if there's anything else you need to pay on top…"*

Unarranged overdraft user, lower income

“I don’t try and query it because systems are automated, so it would be pointless, but I don’t really try and understand what’s going on.”

Unarranged overdraft user, lower income

“You get an overdraft and you get all these different charges and it’s all been an effort to get yourself out of debt, then you incur more charges and get more in debt, it’s that loop.”

Unarranged overdraft user, lower income

“I didn't even know there were different charges until today! I had no idea about ‘EAR’ and whatever.”

Unarranged overdraft user, lower income

“Recently I had the arrangement fee for having an overdraft and then interest fees on the overdraft and then I went over slightly one day and I had about 3 different fees one month! I rang up the bank and said, ‘I might need to get a loan and put it all on a loan’ and then that bamboozled me even more and I didn't call them back. I was trying to work out if it was going to be cheaper for me to get a bank loan than paying all these different fees overall and having all these charges coming out of my account.”

Unarranged overdraft user, lower income

“… it’s easy to get tripped up because of the ways different banks present things, it would confuse people.”

Unarranged overdraft user, higher income

6.4 Attitudes to current account overdraft providers

Many participants commented on their own apparent dichotomy, that while they feared that 'the banks' would try and make money for them where they could, they also had a degree of trust in their current account provider.

This was often described at a very general level that because financial institutions have consumers' money, they have a natural presence and an authority in our society, and therefore, as consumers, we are often more inclined to believe in what they do or say, rather than stop to question it. Many also indicated that the knowledge and expertise in and around overdraft lies with current account providers, and it was both natural and sensible to defer to them as 'the experts'.

> *"You never question it because it's from the bank..."*
>
> Unarranged overdraft user, lower income

6.5 Arranged vs unarranged overdraft users

There were few differences between the responses of arranged and unarranged overdraft users.

Those using unarranged overdrafts appeared more sensitive to the cost of this facility, and some indicated that this also felt higher risk to them, and their financial situation. These consumers were more likely than other to be familiar with, or using, other high cost credit products, such as payday loans, and as a result, they were more alert to the potential risks of borrowing per se.

Some of these participants described a situation where they would simply run out of money towards the end of the month, and go into their overdraft out of necessity, rather than by choice or design.

The pre-group questionnaire also demonstrated the unarranged overdraft users felt less confident about the cost of using their overdraft, than those using an arranged overdraft.

By contrast, many arranged overdraft users appeared to have stopped noticing the cost, suggesting it felt like an almost nominal amount, at around £10-15 a month.

For these participants, the arranged overdraft facility was in effect a utility, and the not unreasonable cost of having access to another month's salary in the bank when they need it. For those using it regularly, it was often viewed as the cost for the facility of being a month behind with their money or salary.

> *"I see mine as a monthly fee, so if I'm having a bad month, I know that whatever I've used is the maximum I'm going to pay, because I'm unlikely to have a bad week, I get paid monthly, so if it's a bad month, it's a bad month, so I'm paying extra that month for going into it."*
>
> Arranged overdraft user, lower income

> *"I like '30 days', because that'll be good 'til pay day, so you know you'll get paid and pay it off."*
>
> Unarranged overdraft user, higher income

6.6 Reactions to overdraft pricing models

The FCA developed an overdraft pricing model (Model 4), and tested this in the research, against other current overdraft pricing models (Models 1 to 3).

The consensus among every group of participants was that the FCA model (Model 4) works significantly better and addresses the issues identified in relation to other pricing models.

This finding was supported in the results from the pre-group questionnaire, completed by each participant before the focus group discussion, where participants were shown each model, in a different order for each group of 10 participants, and asked to rate each model on a range of parameters. Model 4 consistently achieved the highest rating of the four pricing models in terms of clarity and ease of understanding, achieving a mean score of 3.5, on a scale of 1 to 5, where 1 = not at all clear and 5 = extremely clear; and a mean score of 3.4, on a scale of 1 to 5, where 1 = not at all well understood and 5 = extremely well understood (Base = 67).

Model 4 was also perceived to be the most inexpensive of the four options, with a mean score of 2.7, on a scale of 1 to 5, where 1 = cheap and 5 = expensive (Base = 67).

Many participants went on a journey throughout the research process. Initially, on completing the pre-group questionnaire, many reflected that they had not previously engaged with the cost of using their overdraft, or were less aware than they thought about the actual costs of using their overdraft, and how these are calculated.

Many felt that the experience of evaluating each of the four pricing models was challenging, and elements of pricing models 1-3 confusing, and their only option was to make a 'best guess' at whether they understood each model, or the cost of using an overdraft on this basis.

Many were also surprised and concerned to realise that firms charge different amounts for the same facility, or have different means of calculating and presenting overdraft costs. This felt confusing and for many, who reflected it appeared to them as a means of ensuring they would find it harder to compare costs across overdraft providers, or simply be so confused they would never be in a position to understand how these costs are arrived at.

The confusion around the different pricing models was demonstrated in the way that many initially indicated a level of understanding of the different pricing models, that they later questioned and retracted, once they had looked in more detail or discussed these in the group session.

Many realised on further consideration that they had anchored on to specific elements of the communication, or numbers in the existing pricing models that had greater prominence than others, and used these as an indicator of the complexity or cost of the pricing model as a whole.

The research findings indicated that the current overdraft pricing models were not working and many found them hard to understand or interpret. Many participants felt that the overdraft pricing systems and models did not enable them to see or work out the actual cost of using an overdraft.

Many felt the experience of reviewing the overdraft pricing models demonstrated that the financial services providers are not explaining or calculating these overdraft fees in a clear, transparent or meaningful manner, and therefore, the regulator needs to act.

> *"What I don't understand is, you should feel reassured when you're taking out an overdraft and yet they're unnecessarily complicated, there are so many different definitions and maths involved and it should really be made a lot clearer and a lot more concise, so the customer understands what they're getting into."*

Arranged overdraft user, lower income

A number of recommendations were made by participants, or derived from the research insights, that were felt to help consumers understand the cost of using an overdraft, and to enable an easier comparison between firms, based on charging for overdraft use.

The recommendations are as follows:

- **Simplify the appearance** of the different overdraft pricing models by reducing the jargon, technical terms and general volume of text in the way overdrafts are presented or explained;
- **Create a more logical narrative flow** within the overdraft pricing communications, that will ensure consumers see the key information up front, rather than towards the end of the document, better reflecting their own needs and priorities: how much using the overdraft will cost, the APR, and an explanation of how these are calculated;
- **Lead with an example of the cost in £/p**: answering the key question consumers have - *'how much will it cost me?',* and place this before explaining how overdrafts work or how these costs are calculated, which can often confuse or disengage consumers. This was a key finding in the research, and once they had reviewed the different pricing models, many participants felt that only Model 4, with the examples in £/p, an interest rate and an APR, could help them make sense of the cost of overdrafts;
- **Use round numbers.** The range of odd numbers used in the different pricing models added to the sense of complexity and confusion. These also made the examples, or the daily amounts, or the equations hard for participants to extrapolate, calculate, relate to or apply to their own overdraft usage;
- **Standardise the way overdraft charges are calculated across firms.** Many felt this would not only make comparison across firms easier for consumers, but also reduce much of the confusion prompted by the different ways overdraft costs are calculated, as they would only ever have to understand one pricing model;
- **Show an APR example alongside the £/p example**: while many did not fully understand APR, it was a familiar acronym, and one that many were able to use as a benchmark, feeling they roughly knew what a higher or lower APR would be. Therefore, including the APR, alongside £/p, was felt to be extremely helpful in explaining the cost of an overdraft, and providing a wider context that participants could relate to other credit products they know or use.
- **Include the APR alongside a range of £/p examples to include daily, weekly, monthly and annual costs.** While few understand the cost implications of an APR, it is a familiar

means of comparing interest rates, and many felt able to identify what would be a high, medium or low APR, using loans, credit cards or payday lender APRs as a frame of reference;

- **Adding a cost example showing the annual cost** would provide a wider context for overdraft use, and the longer-term cost of using it this way. It would also help explain the APR equation, by showing the APR and the annual cost alongside each other;
- **Refer to APR not only as an acronym**, but also as an 'annual percentage rate', to further explain and clarify the meaning;
- **Use APR as a description of the interest rate in preference to EAR:** Many felt that EAR as an acronym, or description of the interest rate, should be removed from the pricing model communications. This was an unknown acronym, which confused many participants and focussed their attention on trying to discern the meaning of the EAR acronym, or the difference between EAR and the more familiar APR. Many felt confused about how APR and EAR might relate or compare. Even the inclusion of an explanation of EAR did little to help participants understand this measure. The addition of the EAR acronym as a description of interest rate can also feel like a catch, adding complexity and giving consumers another reason not to engage with the cost of using an overdraft. However, this was not a reflection of reactions to including the interest rate, which when shown as an APR, and with £/p examples, was overwhelmingly the most popular option.

> *"I'd rather see in pounds and pence what the monthly fee is, just set, because I can't do with working out with percentages what it's cost to cost me each month, it's just too much."*
>
> Arranged overdraft user, lower income

> Re. Information priorities: *"How much you're going to pay back in real terms for using the overdraft, what the percentage rate is and how it's calculated."*

Arranged overdraft user, lower income

"It makes it easier but the APR is your guide, it's like a restaurant star rating, it's the one thing that you can gauge your payments by."

Unarranged overdraft user, higher income

"*Don't bamboozle us or confuse us by adding things in that we don't necessarily need to know about, so keep it simple."*

Unarranged overdraft user, higher income

6.7 £/p example evaluation

Many arrived at the overdraft pricing information with a single question in mind: *'How much will it cost me to use my overdraft?'* Of the pricing models presented to participants, only Model 4 addressed this need. It was clear that showing a £/p example of the cost of using an overdraft, alongside an annual interest rate and an APR, was the overwhelming preference of the information options explored or discussed with participants in the research.

Many felt that Model 4 enabled them, often for the first time, to understand the cost of using an overdraft. This was more important and relevant to participants than the other pricing models or the other equations used to calculate the cost of an overdraft.

Only Model 4 was felt to come anywhere near addressing the needs of participants, and as such, it was consistently selected as the preferred of the four pricing models shown in the research, and irrespective of the actual cost compared to others.

The concept of showing the £/p cost with a range of relevant time periods – ideally day / week / month / year - also enabled participants to relate to this information, and relate the actual costs, to their own situation or overdraft usage behaviour.

The £/p examples, alongside interest rate, were ultimately felt to put the consumer back in control and almost made the mechanics and working out of the different models irrelevant.

Putting this information at the top of the communication also speaks to consumer priorities, and means the various schema or equations are less confusing or distracting, reducing the risk that consumers will incorrectly estimate the cost of existing pricing models, as happened so often in the research.

The research demonstrated that many are resistant to engaging with the cost of using their overdraft. The instinctive behaviour is to avoid or minimise any financial pain, so the pricing models and communication about overdraft costs are working against the grain from the outset. Therefore, the costs need to be as clear as possible, relevant and relatable, and this was only achieved by Model 4, showing £/p examples as useful, salient, simple and accurate indicators of the cost.

Although the effect of the £/p examples was positive when applied to each of the existing pricing models 1-3, the highly positive effect of showing £/p examples was undermined by the perceived complexity of pricing models 1 and 2, and the powerful anchoring effect on participants, triggered by the way these models present numbers, monetary amounts or workings out.

> *"You usually receive a statement from the bank, so you're used to seeing columns of figures and you can understand that, so when you suddenly get words from the bank, you're like, 'What's all this!? I want numbers!'"*

Unarranged overdraft user, lower income

> *"In order for the customer to understand how much they pay back when they use their overdraft should be made clear, 'If you borrow this much and use this much, you'll pay this much', so there's an exact figure, rather than lots of examples and lots of figures."*

Arranged overdraft user, lower income

"I liked it when it gave it in real money, the representative part of it, so they give you the exact figure you're going to pay, I can understand that one."

Unarranged overdraft user, higher income

"It just makes it better putting it in real terms, so you know it's £12, that's a couple of meal deals and it puts it into perspective when you've got the figures."

Unarranged overdraft user, higher income

7 Additional insights

7.1 Compound interest

Very few participants had heard of compound interest, and this felt like new news for many. Only one or two across the entire sample felt they could explain what this is, and those who had heard of compound interest, related it more to savings products, and had never considered it in the context of borrowing.

In addition, few had any sense that interest charged daily, weekly, monthly or annually would cost any different.

> *"I'd expect it to be the same but it's probably not …."*

Arranged overdraft user, lower income

Once explained, many felt this was very unfair and another example of how the way financial services works can catch out the unwary.

However, as an additional concept to introduce to the overdraft pricing explanations, this also felt like a step too far for many participants, adding another layer of complication, and potentially undermining the simplicity of Model 4, that remained the priority.

7.2 Interest rate range

Participants were presented with an example of an email, and asked to imagine they received this from their overdraft provider:

Dear Mr Smith, You have gone into your overdraft. Unless you transfer sufficient funds today by 19:30, we will charge you a possible overdraft fee of up to £2 per day. Borrowing £750 for 10 days costs £10. The interest rate you will pay will be between 36% and 60%. Kind regards, Your bank

None of the participants in the research felt they understood what was happening in this example, and the idea of unspecified APR was extremely unsettling, undermining their sense of security and removing any sense of predictability or control.

Many felt this would make them feel worried and distressed, and it felt as though 'the bank' would be in charge, and it felt more like a punishment than a fee for using an overdraft.

> *"It's quite threatening …… you'd feel frightening and threatened, it would stress you out."*
>
> Unarranged overdraft user, lower income

> *"I don't think it's informative, the words 'possible' and 'between'! It should be more concise …."*
>
> Unarranged overdraft user, lower income

> *"You feel like you understand the concept of what an overdraft is but when you get into the smaller details they're all quite similar and yet there are key differences..."*
>
> Arranged overdraft user, lower income

"It's confusing, you've got to look closer to really know what's there… it makes me wish I'd paid more attention when I actually arranged the overdraft in the first place! I didn't realise there were quite so many options available to me at the time and I'm wondering if I got the right option!"

Arranged overdraft user, lower income

"There're no definites, everything's 'possibly' and 'between', I mean, 'between 36% and 60%' is a bit different!"

Arranged overdraft user, lower income

"I'd just pay it off and go to another bank! If you're charging you £10 for borrowing the £7.50 then the interest rate is a fixed fee loan, so 'between 36-60%' is nonsense, it's confusing because you can't have a fixed rate and a variable interest rate."

Unarranged overdraft user, higher income

7.3 Overdraft tools and features

A number of participants commented on the references to tools and service elements in the overdraft pricing models.

Those who were using them felt the preventative tools, such as alerts and text messages, work well and can give them the opportunity to avoid overdraft fees altogether, or at the very least, highlight when they are going to incur overdraft fees.

Text alerts deliver more clarity and control than the pricing model explanations, which were beyond comprehension for some participants, and can feel generic, irrelevant or too theoretical: 'talking about money, not about me or my money.'

This made the pricing models 1-3 hard for some to relate to, and comments consistently suggested that many wanted something that feels tailored to them: *'Where am I now, and what will it cost me….'*

The text alerts and updates, by contrast, are rooted in real-time, and relating to the consumer's own situation or overdraft use. This takes out of the equation having to make complex decisions about the future, and suggest that the more real-time intervention, the better, providing a simpler equation or decision making process. For example, because you are £x into your overdraft, you will pay £x…. per day / week / month / year…

There is also the opportunity for consumers who perceive a need to create constraints for themselves around overdraft use, for example, *'If my account gets to £10 then stop me…. '* or '*If my overdraft costs reach £x for the month, then stop me….'*

However, it was also apparent that these tools or service features are of more value for those with the financial means to avoid overdraft use, or access to alternative, cheaper borrowing options.

Many also felt the option of a 'buffer' felt fair and more customer focussed, allowing for the odd slip up. However, some were unsure what the term 'buffer' meant, and suggested labelling it 'no charge' would be clearer to them. However, on balance, the term 'buffer' could be interpreted as a more effective 'stop sign', and less of encouragement to use the fee free overdraft amount.

7.4 Online overdraft tools

Throughout the research, many comments revealed the desire for more personal or tailored information relating to an individual's own overdraft usage or behaviour. Many felt this would be accurate, relevant and relatable than just examples or interest rates.

Some suggested that the ideal would be an online tool or calculator, that enabled them to enter their own numbers relating to their overdraft use, and that would tell them how much they are paying in fees.

This was especially appealing to consumers who were more inclined towards digital channels, and who rejected more paper-based communication, and found the pricing model explanations hard to engage with in print.

7.5 Overdraft comparison

Many participants also suggested that a more standardised approach to calculating or presenting overdraft fees would enable consumers to compare firms, and in so doing, give them more control over this element of their personal finances.

> *"… I think it certainly helps when you've got a comparison chart, so you can see it clearly and understand what they're talking about and you can understand why you're being steered in that direction."*
>
> Arranged overdraft user, lower income

> *"They should make it part of any comparison you'll make when you compare banks, the same as they do with all the other products they sell."*
>
> Arranged overdraft user, lower income

> *"Banks have got an obligation to present that information and put it in the public arena so that people are more aware of it."*
>
> Arranged overdraft user, lower income

> *"In an ideal world, where it says, 'How does mine compare?', you'd have a list of all the banks because ultimately you might not change your bank just for something cheaper but it's good to know, so if you had a list of how it does compare."*
>
> Unarranged overdraft user, higher income

Annex 1 - Overdraft Pricing Model 4

How much does my overdraft cost?
If you have an arranged overdraft with us, we charge interest at 19.9% EAR when you use it.

We charge the same for unarranged overdrafts, which is when a payment takes you beyond your arranged overdraft limit or if you don't have an arranged overdraft you spend more than is in your account.

EAR is a common way of showing interest rates on overdrafts. If you were to borrow an amount of money and pay it back one year later, this is the interest rate that you would be charged.

How does my overdraft compare?
To help you compare the cost of our overdraft with other overdrafts or credit products, our representative APR is 19.9%.

How much does my overdraft cost in pounds and pence?
As an example if you borrow £250 it will cost you

£0.89 for 7 days	£1.27 for 10 days	£3.81 for 30 days

Model 4 performed best of the four models in the pre-group individual assessment, being slightly clearer and more understandable, and often perceived to be the cheapest of the four overdraft pricing models.

The clear narrative and simple language worked well in this example, and addressed the central question in people's minds, stating both how much it would costs in £/p, and providing an APR for wider comparison.

Unlike the other models, this model speaks to the core question of cost rather than presenting a schema or a complex set of equations that consumers need to try and work through to answer their basic information needs.

However, comments suggest that many were confused by the EAR acronym, and it was not explained to them well enough in the content, with few feeling they understood the explanation of EAR.

Reactions suggest that the key information, with the £/p examples, should be placed at the head of the page. This avoids the risk of burying the lead information, and creates a more logical narrative, with the following information explaining how these costs are arrived at.

Some did, however, misunderstand the £/p example, and assumed the £0.89 for 7 days, was a daily fee, that would then change to £1.27p once they went over 10 days etc. Some felt their misinterpretation of the £/p examples was due to the current complexity of overdraft charges, leading them to assume there would always be layers and tiers of costs.

Reactions demonstrate how important it will be not only to provide relevant £/p examples, but to present and explain these in a clear way. The introduction of a daily £/p cost, alongside week, month and annual cost examples, will also help clarify this information.

Model 4: Summary

The inclusion of the cost table placed this model ahead of the others and many selected it as their preferred option, commenting that it was clear, simple and easy to apply to their own overdraft use or behaviour. Many also commented that the addition of the interest rate and an APR, in context of the £/p example, enhanced their ability to understand the overdraft pricing and compare it with other credit products they might know or own. Once they had considered the different overdraft pricing options, many appeared to have come to a realisation that they like to see the interest rate, and that this, along with the £/p examples, felt familiar and informative.

Many also commented that of the four overdraft pricing models, it was the only one they felt comfortable and confident with, and that it delivered the clarity and simplicity, with cost examples and interest rate, that they had felt was so lacking in the other pricing models.

Model 4: Monthly / Daily options

Participants were also presented with examples of Model 4, and in place of the 19.9% EAR, the daily interest charge (0.0508%) or monthly interest charge (1.52%).

Reactions were mixed, and on balance, few felt these would be more helpful to them than an annual interest rate.

Some also suggested that the monthly and daily interest rates appeared to be very low, or a nominal amount, and there would be a risk that consumers will anchor to these small number without understanding how they work, or engaging with the cost implications.

Comments suggest that the interest rate and APR, with an annual £/p example and an annual interest rate would be clearer and frame this in a more familiar, consumer-friendly context.

Model 4: Verbatim comments

> *"It's easier to read, more understandable …"*
>
> Unarranged overdraft user, lower income

> *"It has a structure and it also has an example of what someone could borrow and that makes you more confident because you can clearly understand it."*
>
> Unarranged overdraft user, lower income

"It's simple, it's got examples and figures, you can work it out, even though it's a bit more expensive, being '20% APR, it just seems a lot simpler."

Unarranged overdraft user, lower income

"It looks like it might be more expensive but it's clear, I'd know where I am …."

Arranged overdraft user, lower income

"It's visually easier to read, there's not loads of blurb in there, it's quite bold."

Arranged overdraft user, lower income

"… I don't go into the overdraft often, so if I go into it by a few days, I want to know what it means to me and that's easier to understand than a percentage over a year."

Arranged overdraft user, lower income

"It's better, I just don't like the rate but I understand and like the monthly charge because I'm being paid monthly, so I can relate to that, I'm not being paid weekly, I'm being paid monthly."

Arranged overdraft user, higher income

"I think Model 4 is the more useful one because I can put it into real terms and my circumstances."

Arranged overdraft user, higher income