Consumer research on overdrafts

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Prepared for the Financial Conduct Authority

Prepared by:

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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.

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Glossary

The report contains a number of industry terms and specific descriptions of participants in the research.

Term	Meaning
Authorised / Arranged overdraft	Refers to an overdraft facility, which is arranged in advance. Users can borrow money up to a limit agreed with the bank. There are often fees for this authorised facility.
Banks	A generic term used to describe all financial institutions that accept deposits and provide personal current account and overdraft facilities.
Behavioural economics (BE)	A method of economic analysis that applies psychological insights into human behaviour to explain economic decision-making.
CMA	Competition and Markets Authority
Consumers	A collective term to describe participants of the market research projects, who were also consumers of financial products.
FCA	Financial Conduct Authority
Financial confidence and capability	Participants who took part in the qualitative research were screened using a number of questions to gauge their levels of confidence in dealing with their money and finances.
MAS	Money Advice Service
Monthly maximum	Monthly maximum charge refers to the maximum charge that can be

charge	paid each month in fees, charges and interest for unarranged overdraft borrowing as set out in the CMA's Retail Banking Market Investigation Order 2017.
Participants	A collective term to describe participants of the market research projects.
Typology	A term to describe groups of consumers, identified in the research, into which participants seem to fall, and that provide a means of explaining differences in attitudes and behaviours across the sample.
Unarranged/ unplanned/ unauthorised overdraft	This is created when users spend more than they have in their current account without an agreement in advance. This can also happen if the bank has agreed an overdraft but the user goes over the limit set.

1. Executive Summary

1.1 Background to the research

In its Review of High-Cost Credit[1] the Financial Conduct Authority (FCA) reported it had significant concerns about how unarranged overdrafts operate. It said that charges were high, complex and potentially harmful. Its concerns in relation to arranged overdrafts were about consumers' long-term use of arranged overdrafts, at levels which are persistent, unsustainable, or both.

In 2016, the Competition and Markets Authority (CMA) published a report[2] following its investigation into the retail banking market. It found that found competition in this market was not working effectively and in the interests of all consumers and that detriment was particularly high for users of overdrafts. The CMA set out a package of measures to address the problems it had found. It implemented some measures itself and made recommendations to the FCA and other bodies. One of the measures the CMA implemented was the monthly maximum charge for unarranged overdrafts.

In its response to the CMA, the FCA set out the action it would take including looking at overdrafts in the context of the wider consumer credit market alongside other high cost credit products.

As part of the work the FCA identified the need for a programme of qualitative research to explore consumer use, experience and understanding of overdrafts. A key aim of this research was to inform the development of any future interventions in this market.

1.2 Attitudes towards overdrafts

Overdrafts are considered simple, easy to obtain and an automatic feature of most current accounts. They are often not applied for separately, but instead provided as standard and viewed as a natural extension of the current account. In some cases, overdrafts are wrapped up within packaged accounts and positioned as another benefit, alongside insurances and other features, which can add to the sense of the overdraft as a perk of the account, to be used freely, rather than a form of debt, to be used for emergency borrowing.

1 https://www.fca.org.uk/publications/feedback-statements/fs17-2-high-cost-credit
2 https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk

Because of this positioning, and in many cases, the lack of a separate application process, people do not tend to engage with their overdrafts, or assess the costs of use, or how they should be used, in the same way as a loan or credit card. Compared with other credit products, overdrafts can go under the radar and get very little attention from consumers, and the media. There was very little awareness of overdrafts being talked about by banks, or of any high-profile media stories or recommendations from consumer champions like Martin Lewis. Overdrafts are not associated with the negative press associated with some other credit products, such as payday loans, and overall, there was felt to be little in the public sphere to challenge perceptions or raise awareness about overdrafts.

Many perceive there is very little to know, see or even think about, when it comes to overdrafts. Therefore, usage is normalised and felt to be without risk to either personal finances or credit scores. 'Herd instinct' is also a powerful influence here and many of the heavier or more persistent overdraft users justify this by explaining it is 'only what everyone else is doing'.

Prior to this research, few of the participants had ever reflected on or considered how overdrafts work for them. Instead, participants felt that they were acting sensibly by using an overdraft over other credit products, as overdrafts are seen to be safer, low risk, normal and a socially acceptable way of managing personal finances.

1.3 Use of overdrafts

Overdraft use varied widely across the sample. Some were using overdrafts in the way they were intended: short term, emergency, unplanned, infrequent, often smaller amounts to cover mishaps or shortfalls.

Some actively chose to only have an unarranged overdraft to limit their use, and avoid the temptation and risk of this becoming habitual. These participants felt that the high fees and charges associated with an unarranged facility acted as a cognitive 'nudge' to avoid going overdrawn, or if they did, to settle the debt as quickly as possible. By contrast, they feared that an arranged overdraft, with lower fees, would encourage them to spend more than they had, and potentially lead them into debt or financial difficulty.

However, many were habitual in their behaviour, often using high amounts, regularly, for longer time periods, and without being aware or thinking about the costs or longer term implications of living beyond their means. These individuals were more inclined to see their overdraft as an extension of their own money, rather than borrowing, perpetuating these habits and behaviours.

The ease, convenience and flexibility of access, coupled with high initial limits, can also encourage more habitual behaviour, not least because high limits feel at odds with a short-term, emergency positioning.

Added to which, overdrafts do not have the same 'debt' connotations as other credit products, in part due to the consumers' income often clearing the debt each month and putting them back in credit.

When asked in the pre-session questionnaire whether they agreed or disagreed with the statement: 'I think of my overdraft as a form of debt', less than one in five of the sample agreed.

The perception that the overdraft is not really a debt is perpetuated by the perceived lack of an application process, the close association with the current account, and the way frequent use is normalised by current account providers and peers.

1.4 Participant views of banks

While many participants recognised that managing their money is their responsibility, there was a sense that banks are not supporting them in the way they offer overdrafts, and instead exploiting their weaknesses, and in some cases putting them at risk of, or leading them into, financial difficulty.

Participants reported banks were frequently offering consumers high overdrafts limits and providing limit increases without any reference to income, need, affordability or personal preference.

Self-managing overdraft limits was also a challenge, and some who had been offered high limits with a personal current account, or an upgraded packaged account, were refused a request for limit reduction.

Some participants felt that current account providers can lure consumers in with free overdrafts and high limits when they are students, which can normalise living in overdraft, or high, persistent use. This can result in financial problems when these initial rates are removed, or the overdraft withdrawn altogether and customers given a short period of time to repay the debt.

The way banks present overdrafts, and the money management tools and information they provide to customers, varied widely, and these tools or initiatives can feel more in favour of the bank, rather than the customer.

Presenting overdrafts alongside a customer's existing funds, and using the label 'available funds', can feel misleading and provides a cognitive nudge to reinforce perceptions that the overdraft amount is 'their money', available to use freely, without risk or judgement.

Not always providing a full or up-to-date picture of personal current account balances and transactions, and failing to show pending payments or contactless payments, which may be delayed from being debited from their account, can lead consumers to think they have more money than they do. This can encourage over-spending or lead to unplanned overdraft use, and incurring fees.

A lack of pro-activity offering tools to help customers make informed decisions about their spending can feel underhand. Alerts about when customers are in or near their overdraft were universally welcomed, but awareness was mixed and some felt it was not clear how to activate this facility. Many felt an 'opt out', rather than 'opt in', for such facilities, would benefit those most in need.

The conditions of use, the distinctions between different overdraft types and the full costs of using different overdrafts, are not clear to participants. A more consistent and transparent approach to informing consumers could help users manage their personal current account and make more informed decisions about when and how to use their overdraft.

1.5 Cost of overdrafts

Few understood what they are paying for their overdraft, or how this has been calculated. Many anchor to an individual element of the cost, such as a daily charge or a monthly fixed fee, to the exclusion of other costs, and in doing so, are often underestimating the full, or cumulative cost, of using an overdraft.

Even when participants tried to seek clarification with their bank regarding the costs, the information was often complex, hidden and confusing. Many experienced multiple costs for their overdraft use, but were unsure how these figures were calculated and how they related to the way they use their overdraft.

Many felt the lack of predictability around costs, and when fees and charges will be incurred or debited from their account, was an additional pain-point that could result in financial difficulty. While some were informed as to when these charges would be withdrawn, they felt the timeframe was so far in the future, it was easily forgotten or over-looked.

The lack of clarity, transparency and consistency around the cost of using and having access to an overdraft was the single biggest issue emerging from the research. It is easy for consumers to lose track and sight of the full cost of using an overdraft, which can encourage use and lead to difficulties managing their personal current account. For those with higher debts elsewhere, or lower incomes, this can also lead to financial difficulty.

Cost is the single biggest barrier to enabling consumers to make an informed decision about when and how to use their overdraft, and ignorance surrounding costs, particularly cumulative costs, is the key reason why both arranged and unarranged overdrafts are often seen as a better, cheaper, less risky option compared to other credit products.

1.6 Areas for improvement

There is considerable scope for improvement in the way overdrafts are positioned, communicated, offered and delivered, to enable consumers to make more informed choices about when, where and how to use their overdraft instead of other credit options.

Potential improvements and interventions were discussed in the research sessions. On many occasions these were spontaneously suggested by participants before prompting, and included a range of areas, as follows:

- Educate consumers and re-frame overdrafts as a debt, with potential costs, risks and implications; best used for short-term, emergency money.

- Create an 'application process' to engage consumers with the 'terms', make this a defined choice, and enable an option not to include with their account.
- Set proportionate overdraft limits (linked to income) and ensure limit increases are equally proportionate, as well as enabling customers to set or reduce their own limits.
- Provide clear information about the charges and different types of overdraft, with cost examples linked to users' own overdraft limits, and a cumulative and personalised cost to confront users with the consequences of their overdraft behaviour.
- Offer a buffer to allow for minor mishaps, and make charges proportionate to avoid punishing those with low limits and limited means, and to discourage higher, more persistent use.
- Timely alerts put users more in control – few felt these would cause frustration if sufficiently salient, and an opt out instead of an opt in for overdraft alerts, such as SMS text messages, would ensure those who need them most benefit from these.
- Online eligibility, comparison and calculator tools can lead to greater engagement and transparency and may raise awareness of any cost difference between providers and result in greater competition.
- More support from their personal current account provider, in the form of a two-way conversation that involves guidance and holistic solutions (not sales), and reassurance that their overdraft won't simply be removed if they seek help or support.

These changes could offer consumers a greater level of transparency, context, clarity and control over their personal current account and overdraft use.

2. Background and Objectives

Work carried out by the FCA under its High-Cost Credit Review[3] identified a number of priorities and concerns around overdrafts. This included issues around consumers' long-term use of arranged overdrafts, at levels that are persistent and/or unsustainable and experiences relating to unarranged overdrafts, particularly inadvertent breach of credit limits and subsequent charges that appear high and complex. This followed an earlier report[4] by the CMA into competition in the retail banking sector, which explored among other things, personal current accounts and overdrafts. The FCA has subsequently carried out work including reviewing the monthly maximum charge for unarranged overdrafts, looking at ways for providers to engage consumers in considering the relevance and impact of overdraft features, and exploring whether online tools could be used to assess eligibility for an overdraft.

A programme of qualitative research to explore consumer use, experience and understanding of overdrafts was required to inform and input into the FCA's work on overdrafts. A key aim of this research was to inform the development of any future interventions within the overdraft space.

Specific areas of exploration were:

- Awareness and understanding of overdrafts and how they work
- Why consumers use overdrafts over another form of credit, and how overdrafts compare to other credit products
- When, where, how and why consumers use their overdrafts, and how they feel overdrafts should be used
- How consumers feel about using their overdraft and whether they use them as initially intended
- Knowledge and awareness of the costs of using an overdraft and how this impacts on how consumers use them
- Reactions to alternative cost structures, and what consumers feel they need to help them understand the cost of using an overdraft
- The value placed on having access to an overdraft facility and how consumers would feel without this

3 https://www.fca.org.uk/publications/feedback-statements/fs17-2-high-cost-credit
4 https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk

- What consumers feel they would do if they did not have an overdraft facility and how this would affect them
- What consumers feel would improve the experience of using an overdraft, and reactions to possible interventions, tools and communications

This report outlines findings from this research carried out in January and February 2018.

3. Methodology

A range of research methods were used to ensure we captured individual responses, while also benefitting from the discursive, dynamic and creative environment of the group discussion. The approaches used were tailored to ensure we captured different angles on the same issue and utilised multiple touch points with consumers, to avoid a single snap shot, or moment in time.

There were four stages to the study:

Step 1 Individual pre-task

All participants were given a short task to complete at home before taking part in an interview or group discussion. This took the form of a questionnaire and selfie video, which explored broad attitudes and beliefs about a range of financial products, including overdrafts. The aim of this approach was to get participants thinking about the subject and their behaviour, to avoid 'cold' recall and limit 'in the moment' reactions, or post-rationalising their responses. The pre-task questionnaire also provided an early, spontaneous impression of the consumer context and the 'language leaks' that reveal how consumers really think and feel about overdrafts. This non-confrontational and non-judgemental data capture method tends to prompt a very open and confessional response that can also carry through to the subsequent stages of the research, with participants more inclined to voice opinions that they had already shared in the pre-task exercise.

Step 2 – Individual depth interviews

An individual depth interview (IDI) approach was used to explore the deeper, more personal experiences of using an overdraft. The individual depth interviews proved an excellent means of exploring and understanding overdraft usage and behaviour, by adopting a free flowing, natural, conversational approach, these enabled participants to tell their story in their own words, anchored to real life experiences. Researchers could build a rapport with participants, to gain a deeper and wider understanding of their life and how overdrafts fit within this context. Interviews were conducted both face to face and over the telephone, to enable a broader geographical spread.

Step 3 – Focus group discussions

A creative and discursive group format was used to understand broader attitudes, shape ideas and test reactions to new overdraft concepts and possible future interventions. The group environment enabled participants to share ideas and bounce thoughts off one another, prompting participants to consider all the variables that might play a role in shaping their behaviour and attitudes. Part of the session was dedicated to getting participants to work in small groups to co-create ideas for improving the experience of having or using an overdraft, taking ownership of the broader objective of determining potential interventions to increase awareness and transparency of overdrafts, and the costs associated with this form of credit.

Step 4 – Reflector interviews

Within the weeks following the interviews a sub-section of our sample were re-contacted and asked to reflect on the experience and any actions they had taken subsequently. These enabled us to understand the extent to which raised levels of awareness about their own behaviour, and how overdrafts work, had affected participants once back in the 'real world'.

4. Sample

Fifty IDIs, each lasting one-hour, and 6 focus group discussions, each lasting two hours, were conducted, with a total sample comprising 98 consumers. 99 consumers in total completed the homework questionnaire.

A regional spread was captured across the sample. Locations included: Scotland, North, Midlands, East Anglia, Wales, London, South East and Northern Ireland.

The sample was evenly split by overdraft usage. Half were arranged overdraft users with an agreed facility in place between the consumer and their personal current account provider. Half were unarranged overdraft users, who either had an overdraft limit they had gone over, or they did not have an overdraft agreement but had gone beyond their available funds and incurred charges because of it.

Within these different types of overdraft, we also ensured a mix of overdraft usage from infrequent to persistent:

- ‘Infrequent users’ were defined as individuals who go into their overdraft less than 3 times a year and / or less than 3 months in a row
- ‘Low persistent users’ were defined as individuals who go into their overdraft 3 months out of 6 months or 3-6 months in a row
- ‘High persistent users’ were defined as individuals who go into their overdraft 6 months out of 12 months and / or 6-12 months in a row

Within this, we also ensured a mix of amounts of overdraft being used by participants, to include a range within the following bands:

- Low - £10-250
- Medium - £251-500
- Medium - £501-1000
- High - £1001-1999
- High - £2000+

Additional recruitment criteria included:

- A spread of age, gender and socio economic group;
- A spread of self-reported financial confidence;

- Mixed levels of income to include higher and lower levels
- A personal current account with a range of different banks / building societies
- Had their overdraft for a mix of lengths of time
- A range of attitudes / experiences towards the charges for using an overdraft

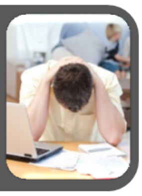
5. Consumer typologies

A number of typologies emerged according to the way participants relate to their finances and the behaviours they adopt in relation to credit. These are groups of consumers, identified in the research, into which participants consistently seemed to fall, and that provide a means of explaining the different attitudes and behaviours, and setting responses in context.

Four typologies were identified according to the key characteristics observed during the research. These typologies are not predicated simply on overdraft usage and behaviour, but more on broader attitudes towards, and management of, money and personal finances.

5.1 A visual representation of the consumer typologies

The diagram illustrates the different consumer typologies identified in the research and their key characteristics:

Consumer typology	Avoiders 	Survivors 	Jugglers 	Indulgers 
Key character-istics	• Risk and debt averse • Only spend what they have • Use credit rarely – small amounts and short term • Can be in recovery from financial difficulty • Savvy and engaged with their finances	• Just about making ends meet • Little or no financial contingency • Likely to have dependents • Control is key and do all they can to keep out of debt BUT unexpected expenses can tip them into debt / difficulty	• Lower incomes often coupled with high debts and multiple credit products • Balancing limited means with the need to enjoy life / spend • Can experience stress and anxiety about financial situation, or go into denial	• Younger, pre-family, financially inexperienced • Struggle with self-control and use credit to fund a lifestyle / fit in with peers • Optimistic about financial future and comfortable using credit / living in debt
Overdraft use	Less likely to have an agreed overdraft – often a deliberate choice to limit use / temptation. Use is infrequent and small amounts, often accidental and resolved quickly.	Opt for unarranged to limit temptation. Use is unplanned and for emergencies, small amounts and short periods of time. More inclined to use an overdraft when need of extra money – fearful of the risk associated with other credit products.	Overdraft often the last debt among many and can be used to service other debts. Some are using unarranged because they cannot access arranged, others are confused and think their unarranged overdraft is agreed.	Use arranged overdraft and view as a 'perk' of their current account. Use is normalised at an early age - often higher amounts and longer time periods, without concern. Some going over limit into unarranged overdraft due to over-spending.

5.2 Avoiders

This typology demonstrated the following attitudes and behaviour:

- The financial situation of individuals within this typology can vary widely and include all levels of income, from those who are higher net worth to those on lower salaries.
- What they all share, however, is a need to be careful with money, either because they do not have very much or because of an innate desire to avoid being in debt.
- Avoiders are typically risk averse when it comes to money and personal finances. Control is key for this typology.
- During research interviews, these individuals would typically describe their philosophy to money management as 'living within your means' / 'don't spend more than you earn', and would cite this as the reason why others failed to stay in control and experienced financial difficulties.
- Going into debt is a source of stress and anxiety for these individuals; they are generally happier planning and saving for things, or going without, rather than getting into debt.
- If they use credit, it is likely to be short term and/or for low amounts, due in part to the negative connotations around debt or borrowing, and their own fear of debt and the possible repercussions.
- Avoiders can also include those who are in recovery from debt, and this can increase their desire for control over their money and personal finances, and their resistance towards debt. Having recovered financially and emotionally from the trauma of financial difficulty, they are wary of anything that might result in a repeat of this experience.
- Typically, Avoiders are savvy and engaged in their finances, adopting practices or behaviours that allow them to stay on top and in control. For example, it was not uncommon for them to have multiple personal current accounts, which they used to segment their finances. Those with less means adopted similar practices often using cash placed in separate envelopes at home as a way of budgeting for living expenses and maintaining a more visual control over their finances.

- Avoiders were regularly monitoring and auditing their accounts, it was not uncommon for them to check daily and for the more fastidious to work from a spread-sheet to keep a track of spending and future expenses.
- Avoiders tend to be happy and optimistic about their financial position which is largely related to their lack of debt.

"I know my limits! I know what's going in and out, but sometimes I have more out than in. I write everything down, calculate to the point." Unarranged, Infrequent, Wales

"I feel like I'm on top of my game, I live within my means, if I haven't got it I go without or save, it doesn't bother me." Unarranged, Infrequent, Watford

"I'm quite happy and content I guess, it's not as though I have a lot of money but I've got enough to do what I need and I'm not in debt." Arranged, Infrequent, London

"I'm learning to think differently about money because of my past lessons. I'm in a much better space now, spending was an addiction but I can't ever be in that position again. I can't be an idiot anymore." Unarranged, Infrequent, Birmingham

"I'm cautious, careful, I guess I think about the next move, I'm not going to be flamboyant because if you don't have a lot you have to be careful about how you spend it, planning is important." Arranged, Infrequent, London

5.2.1 Avoiders' overdraft behaviour

Avoiders are less likely to have an agreed overdraft in place. This tends to be a deliberate choice to limit habitual usage. A few had even created their own buffer or overdraft, by keeping an amount of money accessible, but separate from their personal current account, rather than using a bank facility.

The higher costs associated with an unarranged facility were a useful deterrent for this typology, acting as a 'punishment' and reason to rectify quickly and avoid in the future.

Use of overdrafts tended to be infrequent and typically of lower amounts, often happening accidentally where payments were taken sooner than expected, or were for larger amounts than expected. These situations tended to be resolved quickly.

Some Avoiders challenged the charges they received from their bank, especially when they felt they were incurred through no fault of their own and were generally successful in getting these waived due to the infrequency of their overdraft use.

5.3 Survivors

The characteristics of this typology were as follows:

- Survivors tend to have more precarious finances and struggle to stay in control of them.
- They are typically living on a relatively low income and just about making ends meet. They have little or no financial back up, or contingency, and limited means to build one, so unexpected costs can result in financial distress.
- They are more likely to have dependents, which adds to the financial pressures and emotional stress.
- They often feel that the increasing costs of living, combined with stagnating salaries, are penalising them, and they are fighting hard to stay on top.
- Like ‘Avoiders’, control is key, but they are more likely to live in fear, as they know they can tip over the edge and lose control of their financial situation at any point, sending them on a downward spiral.
- They try to avoid debt but unexpected expenses or emergencies that fall outside the normal bills or expenses, and their existing means, and/or use of credit, can lead to a cycle of debt which can cause further problems.
- They have a strong emotional response to debt and are more inclined to feel they are ‘failing’ if they use credit products to get by.
- They are wary about financial service providers, as they are keen to avoid highlighting their financial difficulties to their bank or credit provider. Instead they are more likely to call on family and friends to help as this feels more flexible, more secure, less pressured and a cheaper alternative to approaching their current account provider or other financial services providers.

- They are less financially savvy compared with 'Avoiders' and can often lack confidence in financial matters, which means that they can be reluctant to engage with financial information.
- Survivors can experience strong feelings of stress, fear and worry linked to their more precarious financial situation, and this can also result in a reluctance to engage with financial information.

"I sometimes just feel out of control, hitting rock bottom again. It's very hard to save and get back to square one, and I'm anxious as I'm naturally a worrier". Unarranged, Persistent Northern Ireland

"I'm sorting things out but I'm not safe. I'm teetering on the edge, trying to survive and not fall." Arranged, Infrequent, Birmingham

"I feel like a weight is on my shoulders, I'm always trying to make everything last for the month but it's a pressure, you are constantly checking and it feels like everyone else is doing better than me." Unarranged, Infrequent, Manchester

"Each month our income just balances out our out-goings, so there's not much left over. We are just about treading water but we've not got much so if there was a big disaster we wouldn't have anything to fall back on". Arranged, Persistent, Glasgow

5.3.1 Survivors' overdraft behaviour

Survivors are more inclined to use an overdraft over other credit products, which they perceive to be riskier and with the potential to become habitual and run away with them. Some Survivors cannot access other credit products due to previous financial difficulties and so the overdraft is their only source of credit.

Like Avoiders, Survivors are more likely to use an unarranged overdraft as a means of avoiding habitual usage and maintaining some control over their personal finances. Despite their reluctance to borrow, they are more frequent users of their overdraft by comparison with Avoiders, as their need to use the facility is greater and more frequent. However, they tend to use their overdraft for small amounts, and for short periods of time, as they do not have the means to recover from larger scale usage.

5.4 Jugglers

This consumer type was characterised as follows:

- Jugglers are in a perpetual and often increasing cycle of debt. They often find it difficult to make ends meet and tend to use credit as a means of bridging the gap, and in this respect, there is a fine line between them hanging on, and losing control of their money and personal finances.
- They tend to have lower incomes and higher debts across multiple credit products. It was not uncommon for individuals to have taken out a consolidation loan to pay off debts, only to run them back up again, often to higher amounts than before.
- Jugglers were more inclined to have experienced a significant life event, such as a divorce, becoming a single parent, being made redundant from work, or experiencing a significant health issue, either personally or within their close family unit. These external events compounded their financial difficulties and increased the pressure and anxiety they felt.
- It was not uncommon for individuals within this typology to demonstrate signs of stress or mental health issues linked to the worry about their financial situation. This in turn could result in impulsive spending, which compounded the situation.
- Constant budgeting can be a drain and the need and desire to make memories and not miss out on life, especially where children are involved, led to the use of credit with a ‘buy now think later’ mentality.
- Some were so overwhelmed that they were in denial about the extent of their financial situation, turning their back on the problem and hoping for something, or someone, to help change their circumstances.
- Many felt lost and alone either because they did not know where to turn for help, or because they were being turned down for help when approaching their financial service providers.
- Jugglers are the most confused and frustrated of the four typologies, they can feel trapped in a cycle of debt, and while they often accept personal responsibility for the situation, they also feel that their bank and financial service providers have not helped them, but instead encouraged their increasing use of credit.

"I have £2,000 owed and spend my life overdrawn. I am getting older now and my life isn't improving." Arranged, Persistent, Northern Ireland

"I'm trying to ignore it, when I look at my bank account, I'm like 'oh my god what's happened this month?!' I feel afraid." Arranged, Persistent, Glasgow

"I get short blasts of it being fine but it can snap at any time. I'm fine today but as the month progresses then it's stressing and trying to juggle what needs to be paid and what I can do without." Unarranged, Persistent, Glasgow

"I'm on the floor not really going anywhere, I don't know how to break loose, there's always something that tips me over, that I've not budgeted for. It's like one step forward, two steps back." Unarranged, Infrequent, Watford

5.4.1 Jugglers' overdraft behaviour

For Jugglers, the overdraft tends to be the last debt among many, and it was not uncommon for these participants to be using their overdraft to pay other debts. Increases in overdrafts can be a life line to stave off impending danger from other credit problems instead of fuelling the problem.

Some Jugglers are unable to obtain an arranged facility because of their poor credit history, or ownership of other credit products, such as a bank consolidation loan, which means they have no choice but to experience higher charges through unarranged usage.

Some are also confused and feel that their unarranged facility is an arranged one. Only through discussions around the charges experienced was this confusion highlighted. For these individuals, the fact that the bank enables payments to go through without funds is the tacit agreement of an overdraft and they are not aware there may be alternative and cheaper options.

Those going over their arranged overdraft tend to be near breaking point and can become disengaged with their personal finances completely, especially when charges begin to escalate, as they have no facility or measures to recover from this. There were a few instances of participants moving their income to another personal current account and simply ignoring their overdraft and the increasing charges with their previous current account provider.

5.5 Indulgers

This consumer type was characterised as follows:

- Indulgers tend to be younger, pre-family and with limited financial experience, sometimes in their first job, or early in their career, and experiencing the highs that come with a regular income.
- They tend to have a short-term outlook on their finances, living month to month or even week to week, rather than planning or considering the long-term future, and their mind-set tends to be one of ‘living for the moment’.
- They struggle with self-control and are more inclined to give way to impulsive spending. They are comfortable using credit to bridge the gap between the money they have and the money they will get when they are paid. They are often susceptible to peer pressure, spending to keep up with friends, be that a night out, the latest item of clothing or the latest gadget.
- Credit is used to facilitate their lifestyle and is the distinction between what they earn and what they want to earn, which often translates as them seeing credit as ‘their money’ / ‘their available spending power’.
- They justify their behaviour as ‘me time’ at this life stage, and see it as an important step in their lives, to spend on enjoying themselves before becoming bogged down in more adult responsibilities and commitments. They often rationalise their behaviour as short term, before they have to grow up and get serious.
- They tend to have an optimistic outlook on their future and feel they have time and money on their side. They see their use of or reliance on credit as something that can be counteracted by career progression and future income increases.
- Any issues with debt they experience are rationalised by this optimistic outlook, and there is evidence of Optimism Bias, with some over-estimating how their financial future might look, and neglecting to consider the additional cost of dependents or other potential financial commitments that might occur.
- Indulgers are often distracted from considering the financial implications of their behaviour by the very enjoyment of their spending, and side-line the risks as low level and manageable.

"I live for today, forget about tomorrow and when tomorrow comes, live it better than I did yesterday." Arranged, Infrequent, Birmingham

"I'm just quite a frivolous person and I'll just throw money about and I don't think about it, so I spend now, worry later and just turn my back." Arranged, Persistent, Glasgow

"When it comes to my finances I'm appalling and over spend. I'll impulse buy, not necessarily on stuff but more on experiences like going out for meals." Arranged, Persistent, London

"I spend a lot but I'm young, why not, money is my spending power." Unarranged, Persistent, Watford

5.5.1 Indulgers' overdraft behaviour

Indulgers tend to see their arranged overdraft as a 'perk' of their current account and some go as far as describing it as 'free money', especially if their relationship with overdrafts started during their time as a student. Overdraft use is typically normalised and ingrained with many using their overdraft for higher amounts and longer time periods, and with little sense of concern.

Indulgers tend to not feel they are doing anything wrong, as the bank is tacitly condoning their overdraft use by allowing them to act in this way. This affect is compounded as many of their friends and peers appear to do the same, meaning there are few checks or balances, or external influences to question or challenge their behaviour.

The overdraft charges, where known, feel minimal or inconsequential, especially in comparison to their 'spending high' and for habitual users the cost is calculated into their spending, it simply becomes another bill or direct debit that they factor in to their monthly outgoings.

In some cases, overdrafts can be packaged alongside other benefits as part of the personal current account and this can encourage their use, as customers can feel they are paying for the facility and should get the most out of it.

Unarranged use tends to be a result of over spending, and going over their agreed overdraft limit. This can be intentional with some tempting fate by trying to make a purchase, knowing they do not have the funds to cover it, or that they are already at their arranged overdraft limit. This in turn can create a perpetual cycle and feed into their desire for instant gratification.

"I don't see it as credit. It's a facility that's been allowed to us and it's there to be used."
Arranged, Infrequent, Manchester

5.6 Movement between typologies

Across the sample a strong representation of each of the four typologies was observed. The typologies themselves are not mutually exclusive and consumers can move between them, as their financial situation changes, or as they respond to the experience. Many talked about how their behaviours and attitudes to money had changed over time, with life events tending to be the biggest influencer on behaviour change.

Examples of these movements include:

- Indulgers who became Jugglers as their levels of debt increased across numerous credit products, often credit cards and store cards, and their expectation of increases in income, to manage the debt, were not met.
- Some Indulgers experienced a behavioural interruption, often as a result of life events, such as starting a family, and the realisation that their behaviour was no longer acceptable with dependents to consider, or trying to buy a house and realising that their current behaviour was negatively impacting on their ability to secure a mortgage. These Indulgers tended to move towards an Avoider mentality.
- Survivors can become Jugglers, and vice versa, according to changes in their financial situation and personal circumstances.

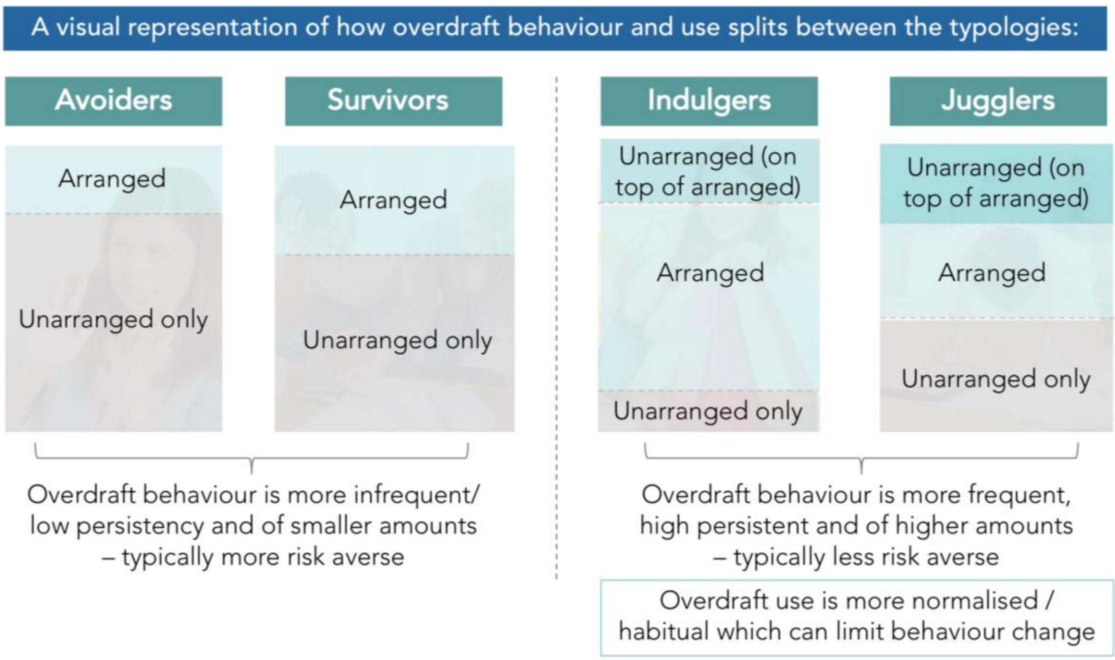
In this respect, the typologies are not permanent and consumers can move back and forth between them during their lives. The exception to this is the Avoider mind-set, as these participants tend to be more static in their behaviour, with an innate aversion to debt or risk around money and personal finances.

5.7 Summary

Differences were observed across the four typologies in relation to the type of overdraft used, be that arranged or unarranged, and the frequency and level of use. The diagram below is a visual representation of how the sample for this study splits out and the distinctions between their overdraft behaviour.

This visual demonstrates how unarranged overdraft use was greater amongst Avoiders and Survivors as a means of control and limiting habitual behaviour. Overdraft use among these two typologies tended to be infrequent and for smaller amounts.

Indulgers and Jugglers tended to be more frequent users of overdrafts and used higher amounts. The type of overdraft used varied more within these typologies. Among Indulgers, unarranged use was often as a result of spending over their arranged overdraft limit. For some Jugglers, unarranged use was due to a lack of access to an arranged overdraft, due to prior financial difficulties.



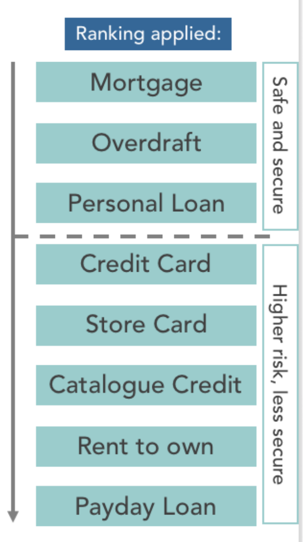
6. How overdrafts fit within the personal finances landscape

Compared with other credit products, overdrafts tend to be seen as safe, trusted, normal and socially acceptable. Many participants are well informed about the risks relating to other credit products, however, overdrafts appear to have slipped under the radar, in the sense that few had previously considered what they are, how they use them, what they cost, or the possible implications on their financial situation. As a result, many felt more open to having and using an overdraft facility in comparison to other credit products, and far less aware of how they use them or how they work.

Prior to a more detailed review of overdrafts, the research was designed to first explore how they sit in the minds of participants, the spontaneous associations linked with them, and how they are viewed in context with other credit products.

Participants were given a list of eight credit products on separate cards and asked to rank and arrange them in relation to how they felt about each product. The range of credit products included: store cards, catalogue credit, rent to own, payday loans, personal loans, mortgages, credit cards and overdrafts.

Attitudes towards the credit products were very consistent with many choosing to rank the products in similar ways for similar reasons. Primarily, participants ranked the financial products based on trust and perceived risk. The following ranking, which can be viewed in the diagram to the right, represents how many grouped or perceived the different credit products in relation to one another.



The notion of trust was determined by who provides the product. Within this context, products that were seen to be provided by 'the bank' (i.e. mortgage, overdraft, personal loan) were considered more trustworthy compared with other products.

The level of trust and risk associated with credit products was also influenced by how accessible they were felt to be. Products that are safer and more secure were felt to be harder to obtain. Mortgages and personal loans were felt to involve complicated and lengthy applications processes and overdrafts were typically viewed in relation to accessing a personal current account, which was considered equally challenging and rigorous.

By comparison, other products were considered riskier, as participants saw them as more freely given, often with few checks and little consideration of the consumers' wider financial circumstances.

Aside from trust, participants also viewed credit products in relation to their desirability. Mortgages were the ultimate financial goal, a sign that they are doing well and have security and status, whereas payday loans represent the opposite end of the spectrum and suggest a person who is struggling financially and has few alternative options.

This exercise demonstrates the position that overdrafts have in consumers' minds at a spontaneous level. They were consistently placed in the top tier, demonstrating that many take these products at face value and interpret them as safe, trusted, official, reputable, normal, socially acceptable and desirable.

	✓	✗
Mortgage	Security, means more appealing to lenders, trusted	Product range/application = difficult to navigate alone
Overdraft	**Safety net, buffer, a helping hand, a perk, from the bank**	Does it impact on credit score?
Personal Loan	Structured payments for large purchases	Lengthy and complicated application, credit linked
Credit Card	Build credit score	Too tempting / frivolous spend High and increasing limits
Store Card	Loyalty / brand rewards	Frivolous 'want not need', high interest rates
Catalogue Credit	Affordable option for those with little to spare	Too accessible, limited checks, entry level debt
Rent to own		Unknown, outdated approach
Payday Loan	Build credit score where no other options available	Exorbitant interest rates 'Preys on the weak'

Exploring product associations further supported that, at least on the surface, overdrafts have a very positive image.

The risks of other credit products are clear and many participants could readily talk about their concerns and worries relating to each product. By comparison, overdrafts are considered benign with few overt risks or negatives.

The fact that overdrafts occupy this space in the minds of participants means that they are falling under the radar of the normal checks and balances they apply to debt or credit products. This means that the risks are perceived to be few, or overlooked altogether.

Unlike other credit products, overdrafts are not perceived to be linked with high APRs, or financial ‘scandals’, such as mis-selling, and there is no stigma associated with having an overdraft. In fact, many participants expressed a view that they would feel socially excluded if they were not able to obtain an overdraft. This perception was reinforced by some parents who witnessed their children freely accessing overdraft facilities, while they themselves were being restricted or limited, and they felt they were losing out or had in some way failed to make the grade.

Overall, overdrafts occupy an almost harmless place in participants’ minds compared with other credit products and this encourages many to be open and accepting about having and using the facility.

“There are no negative connotations anymore. Everyone has one, especially students. People like me are all in it, for big things too, like cars or holidays.” Arranged, Persistent, Manchester

7. Attitudes towards overdrafts

For many, overdrafts have gone under the radar and have garnered little consideration. This research was the first time many had reflected on their overdraft use and behaviour, and in doing so, questions and concerns were brought to light, signalling that there is a need for greater clarity, transparency and communication around overdrafts.

Many participants went on a journey and their initial reactions and positive associations quickly gave way to a degree of confusion and frustration, and demonstrated the opportunity and need for greater clarity and awareness around overdrafts.

At the outset, attitudes towards overdrafts were both consistent and positive. Many felt supported by their overdraft and referred to it as a safety net, a buffer, a helping hand and protection against the unexpected. In comparison with other credit products it was a safer, more sensible and flexible option, and any negative associations, or risks, were minimised or overlooked.

"The overdraft is a buffer, it allows me to enjoy my life more." Arranged, Persistent, South East

For some, overdrafts occupy a more frivolous, self-involved and emotional territory as they are perceived to be a perk, an incentive, free money, and in some cases, relating to the amount of overdraft provided, it can be viewed as a recognition of self-worth. This reaction to overdrafts was more prevalent among the Indulgers typology, as overdrafts can represent the difference between what they earn, and what they want to earn, to enable their lifestyle and spending behaviour.

Those who were using their overdraft less frequently and for shorter periods of time, typically with an arrangement in place, were the most positive overall. This type of usage tended to be among the Avoider typology who recognised the facility for what it was, and used their overdraft sparingly, to manage unexpected costs or emergencies. They tended to be comfortable with overdrafts and felt that they fulfilled a relevant purpose in their lives.

"My overdraft is a cash flow thing for me, it helps me on occasions, it's not a means of spending out of my limits." Unarranged, Infrequent, Glasgow

In addition, those participants who had made an active choice to request an overdraft demonstrated greater engagement with the product and were more positive in their associations. They were more inclined to use the facility in a planned and controlled manner, for a defined purpose or need. Whereas those who received the facility without request, or did not have a defined need for it, often as part of an account opening or upgrade, were more at risk of using the facility freely, which in turn led some into financial difficulties and challenges.

7.1 Emotional associations with having access to overdrafts

Early in the session, participants were given a diagram called 'The Blob Tree'. This depicts several characters, on or around a tree, each of which can suggest a feeling or an emotion, according to individual interpretation. Participants were asked to circle the character that best represented how they felt about having access to an overdraft. Reactions were extremely consistent and the characters selected, and the feelings they evoked, revealed how comfortable, supported and secure many felt due to having access to an overdraft.

The comments resulting from this exercise reinforced the extent to which overdrafts are considered both benign, and a helping hand.

"It's a bit of a bonus, a cushion if you need it. It's a comfort blanket, I'd have to scrimp without it." Arranged, Persistent, Manchester

"It's the bank giving you that wee extra helping hand when you need it." Unarranged, Persistent, Glasgow

"You've got some freedom, a breathing space, it's a safety net (or ledge) which makes you feel more confident if things go wrong." Arranged, Infrequent, London

"It's a helping hand if you need it, the bank's holding you up." Arranged, Infrequent, Birmingham

"It's security, it's a cushion should you need it, he's waving to say 'it's here if you need me', but it can also make you feel like you're a valid customer because you've been given that option to use it… it just gives me that extra boost to know it's there." Unarranged, Infrequent, Glasgow

7.2 Emotional associations of removing overdrafts

Towards the end of the sessions, and once participants had had the opportunity to discuss when, where and how they use their overdrafts, they were asked to replicate the Blob Tree task, this time considering how they would feel, if they no longer had access to an overdraft.

The emotional associations chosen demonstrate the loss of control, heightened feeling of risk, and feeling punished or disadvantaged, when faced with the idea of losing access to an overdraft. Alternative credit products were not always accessible for some participants and the idea of removing the overdraft facility altogether induced feelings of fear and dread.

However, not all participants had a strong reaction. For some the removal of the facility was more of an annoyance than a major concern. This response tended to come from those Avoiders and Indulgers who had the financial means to adjust and realign their spending to counteract the loss of the overdraft, or the risks associated with not having one. These individuals felt that it would require them to be more considered with their spending and active in their money management, but outside of this they felt they would be able to cope financially.

The comments below demonstrate the associations linked to the loss of overdrafts.

"I'd be scared that I wouldn't have enough money and a bill would come out." Unarranged, Infrequent, London

"I'd feel on my own, a lot more constrained, isolated. I don't have any other options." Arranged, Persistent, Wales

"I'd be sulking, it's something that I've got used to, so if it was taken away from me I'd be a little bit miffed because I class it as there if I need to use it." Arranged, Persistent, Wales

"It might help some people control their spending, but for me I would lose that buffer or safety net against the unexpected." Arranged, Infrequent, Manchester

During the homework task, participants were asked to select words that described how they felt having used their overdraft. The Wordle diagram below summarises these results and reinforces that while some feel happy and relaxed using their overdraft, for many, there can be a disconnect between having an overdraft, and using it, with feelings around regret, guilt and failure:

7.3 Emotional associations of using an overdraft

When participants were prompted to consider how they feel when using an overdraft and the emotional associations linked with this, it demonstrated stark differences with how they felt about having access to the facility, and bought to light more negative associations.

Emotional associations linked to overdraft use centred more on the loss of control over their money and personal finances, and feelings of disappointment, regret, sadness and failure. For some, these feelings were evidently short lived, particularly among Indulgers where the opportunities to spend outweighed the short-term concerns. While for others, these feelings were pushed to the back of their mind, often as a survival instinct. This was particularly evident among Jugglers.

Avoiders and Survivors tended to have stronger feelings around using their overdraft, they saw it more as a personal failure and their inability to stay in control of their money and personal finances created a sense that they had let themselves and their dependents down.

"I'm sitting on the branch feeling glum, upset because I've failed in some way, you feel dismayed because you've had to use it. You've failed by having to go into it." Unarranged, Infrequent, Glasgow

"Every January my New Year's resolution is to manage my finances better by not going into my overdraft, but then I do and I just get annoyed because I've failed." Arranged, Persistent, Glasgow

"I felt angry, I try to avoid using my overdraft but I didn't prepare properly so I was angry with myself." Unarranged, Infrequent, London

"I feel not in control of my finances when I go overdrawn. It feels like a struggle at certain points …I am doing something wrong." Arranged, Persistent, Manchester

7.4 Considered reactions towards overdrafts

Once participants started to reflect on their overdraft use, it became clear that overdrafts do not sit quite as comfortably as they initially thought. For many, it was evident that this was the first time they had thought about the role of overdrafts in their lives, and how they used them. In so doing, there was a recognition that usage and understanding of how overdrafts work was often overlooked and misunderstood.

Some participants were in denial about how much and how often they were using their overdraft and it had become habitual to the point that they no longer saw the distinction between their money and their overdraft. In these cases, participants had become so comfortable using and living within their overdraft that they barely registered or noted what they were doing.

"I guess it's become more of hammock than a safety net." Arranged, Frequent, London

Understanding how overdrafts work, the implications of usage and the charges linked to overdrafts were consistently raised as areas of confusion. This prompted a realisation among many participants that they perhaps did not know as much as they first thought, reinforcing the perception that overdrafts are currently flying under the radar in consumers' minds, and managing to avoid any real scrutiny or evaluation.

"It's like a black hole! I'm not at all clear about it… the rules aren't clear, what makes you eligible? How do they decide?" Arranged, Infrequent, Manchester

7.5 Areas of confusion and frustration

During more detailed discussions, it was evident that there were several areas of confusion and frustration relating to overdrafts.

7.5.1 The distinction between types of overdrafts

Some participants were unclear about the difference between arranged and unarranged overdrafts and some believed that their unarranged facility was an arranged overdraft. It was only during conversations around costs that these individuals were prompted to realise they were paying significantly more than arranged users.

For some, there was an assumption that a payment being honoured by their bank when they are overdrawn is the very definition of an overdraft. This could suggest a tacit agreement must be in place and compounded the confusion surrounding the two types of overdraft. As a result, this left some participants feeling disappointed and frustrated that their bank had not been more upfront with them, and had not been clear about the distinction between the two types of overdraft, often resulting in some negativity and cynicism regarding the banks' behaviour.

7.5.2 Cost of overdrafts

Awareness and understanding of the costs was a key area that many participants were not clear about. Even if they could recount specific costs they had incurred in the past, they struggled to identify how the costs were formed and calculated and how these related to their own overdraft usage. Even when participants attempted to find out this information it was perceived to be difficult to understand, or even obtain, often wrapped up in jargon and percentages which had little meaning to them and their own circumstances.

The use of multiple charges by the bank compounded this issue, making the information feel inaccessible. Few felt they would apply the time or effort needed to make sense of the costs.

"Overdrafts to me are like a wolf in sheep's clothing, you know more about credit cards and the dangers, but overdraft feels safe. I bet if we totted up how much we are paying for the privilege you'd be paying quite an amount." Unarranged, Infrequent, London

7.5.3 Impact of usage on credit score

Some participants were unsure about the impact their overdraft use was having on their credit score, or future financial capabilities. Many felt any impact was limited, particularly in relation to an arranged facility. However, unarranged behaviour raised concerns and uncertainty. On reflection, some unarranged users who had recently been turned down for a consolidation loan, despite never missing any payments, began to question if indeed their unarranged overdraft behaviour was the cause.

There is an opportunity to ensure consumers understand the implications of their overdraft use and behaviour, and for current account providers to be more forthcoming and clear in their communication, so that consumers can make more informed decisions.

7.5.4 Awareness of going overdrawn

The way many participants find out they have gone overdrawn varied and can be a significant area of frustration. There is currently little consistency in the approach across current account providers, and this created further discontent.

Some participants were finding out by accident: either when they saw charges on their statement; or when they reviewed their finances at the end of the month; or when they checked their balance and saw that they had less money than they expected in their account.

Some were only finding out about falling into their overdraft when they received a letter through the post. Often this arrived too late and charges were already in place. This approach can be interpreted as underhand and a way for the bank to make more money from the customers' mistake.

Some were alerted to the situation when they checked their balance via their banking app. Some personal current account providers are actively signalling to consumers their current overdraft usage, either by using a pop up message, or by changing the colour of their balance figure from black to red. These were felt to be more pro-active measures, but they still required consumers to be checking their balance regularly, which some of the more 'at risk' typologies can be less inclined to do.

Awareness of the option to receive overdraft alerts was mixed among participants, and the availability of this option appeared to be inconsistent, with some current account providers offering overdraft alerts to their customers, and others appearing not to offer this facility, or not to communicate the option to their customers.

Upon hearing about the feature, some of the less engaged Jugglers believed that their current account provider was deliberately keeping this facility hidden or quiet to make more money from them, while others questioned why this was not more actively promoted.

Those receiving overdraft alerts felt informed and supported by the bank. These were felt to put the consumer back in the driving seat, enabling them to regain control of their current account and take action, by moving money or borrowing from family and friends. Even those who had no means to change the outcome of their overdraft situation, because they had run out of money, valued the transparency and openness of the approach.

The overdraft alert feature has the potential to raise awareness of overdraft use and behaviour, and help consumers' limit the fees and charges. Many felt they would benefit from overdraft alerts and that personal current account providers should more actively promote the feature to ensure the benefits are more widespread and accessible.

7.5.5 The presentation of overdrafts and the consumer perception

The language used around overdrafts is currently influencing behaviour. Many participants spontaneously raised the use of the term 'available funds' when checking their account balance, as something which is unclear and can feel underhand and disingenuous.

By labelling funds in this way there is no distinction between the 'bank's money' and 'my money', and this presentation can provide consumers with the cognitive nudge to view the money as 'mine', or available to spend freely.

For some typologies, particularly Indulgers and Jugglers, it positively encourages this perception, essentially dangling a carrot for those who need and want it most.

For Survivors, presenting their balance in this way feels like a cruel trick, another trap for them to avoid so as not to fall into difficulty and lose control.

Although many participants recognised the approach and can do the maths to calculate the distinction between their money and the overdraft amount, the approach used feels more for the benefit of the bank in encouraging spending and making money on fees and charges, rather than being helpful and supportive of consumers.

Many felt that current account providers could do more to present overdrafts in a more open and transparent way, with a clear distinction between their money and the bank's money.

Participants were also shown a number of statements, each of which represented the different ways in which firms describe overdrafts, and how they should be used. These statements can be seen below.

1. For short-term borrowing or emergencies only
2. For short-term borrowing... a safety net to cover unexpected costs like essential repairs or an unexpected bill
3. An unexpected bill or an essential repair, it's a convenient way of accessing extra money when you need it quickly
4. If you need some extra money in your account, for a short period of time. It can cover your bills before your salary is paid in, for example
5. For life's unexpected costs... it can help you through expensive months like December, or paying unexpected costs such as an emergency plumber
6. For short-term borrowing, for example, to tide you over until payday
7. A buffer for those little emergencies or to have just in case
8. For short term borrowing
9. A short-term safety net

Participants consistently noted the variation in the descriptions, and felt that some were too detailed, giving permission to use the overdraft freely, or were too frivolous and unrestricted in the way they presented overdrafts. Often the terminology was felt to be enticing overdraft use, rather than presenting a more responsible angle.

Many felt a more consistent approach would be beneficial, and one that frames overdrafts, as for short term, emergency use, rather than 'extra money' for whatever and whenever you need it.

Statement 1 'For short term borrowing or emergencies only', as defined by the Money Advice Service[5], was felt to be the most transparent and accurate description of overdrafts. Many responded positively to this simple and unequivocal definition, as it left no room for misinterpretation. For those who were using their overdrafts more frequently, persistently, or for higher amounts, this also acted as a 'nudge' to reflect on their overdraft use and whether it was in line with how the product is designed, or in their own best interests.

"They need to make the short term borrowing message clear because there are better options if you are borrowing larger amounts." Unarranged, Infrequent, London

"Why reference Christmas, that's really encouraging, everyone is going to want extra money at Christmas, it seems so deceiving." Arranged, Infrequent, Birmingham

5 https://www.moneyadviceservice.org.uk/en/articles/overdrafts-explained

8. Overdrafts as a form of debt

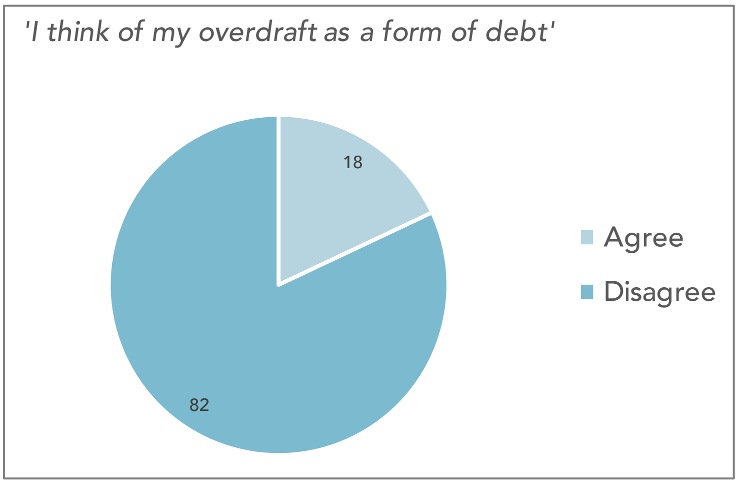
The way overdrafts are presented and acquired means they are rarely viewed as a debt in the same way as other credit products. The framing of overdrafts encourages use and normalises overdrafts without a clear understanding of the costs or potential risks.

Before taking part in the individual depth interviews or group discussions, participants were asked to complete a homework task, in the form of a short online questionnaire. The questionnaire explored general attitudes to money and personal finances, and perceptions of financial products, including overdrafts.

While it should be noted that this is not a quantitative study, the combined sample of 99 participants who completed the homework task can provide some indication of the prevailing views.

This element of the research process provided a spontaneous read on attitudes and behaviour, and enabled us to capture a 'clean read' on overdrafts, before participants were influenced by either moderators or other participants.

One question asked participants to indicate whether they agreed or disagreed with the following statement: *'I think of my overdraft as a form of debt.'* Less than one in five of the participants agreed with the statement, as illustrated in the pie-chart below.



Base n=99

This perception was reinforced during the IDIs and Focus Groups. From the outset, participants rarely viewed or referred to their overdraft as a 'debt', for several reasons:

- There is perceived to be no formal application process in the same way as other credit products. Instead, acquiring or using an overdraft feels quite casual and informal, with most consumers receiving their overdraft as standard with their current account, rather than actively applying for the facility.
- There is no overt agreement or structured repayment which sets it apart from other credit products.
- The close association with their current account positions the money as 'mine', especially as it is visually and practically seen as part of the 'same pot'.
- The constant clearing (or part clearing) of the debt each month, as their salary comes in, reinforces the perception that this is low risk and short term. This in turn can suggest it is not a problem and is all part of normal money management rather than a form of borrowing.
- Overdrafts are not presented as a debt in communications with the bank, and are not felt to be discussed in the media as a credit product with risks attached, unlike other financial products, such as, credit cards and pay day loans.

As a result, overdraft use can be encouraged and the risks side-lined or overlooked. Many felt more could be done to challenge perceptions and reframe overdrafts as a debt, bringing the possible consequences and risks to the fore.

9. Attitudes towards overdraft providers and how they interact with customers

Initial reactions to overdrafts can position banks as helpful and supportive by virtue of providing the facility to customers. On reflection, many began to feel the wool has been pulled over their eyes and that banks are being underhand in the way they offer and communicate about overdrafts, leading to misconceptions or not using them in the way that was intended.

9.1 Perceptions of overdraft providers

Many participants have a generally negative and cynical perception of financial service providers, and feel they are there to make money from them by encouraging as much debt as possible.

It was noted throughout the research that responses to possible interventions, as well as interactions with current account providers, are often viewed through this prism of cynicism and negativity. Many participants used emotive terms to describe financial service providers, including 'dishonest', and frequently referenced 'scandals' or 'scare stories' around other financial products, such as Payment Protection Insurance.

While many appeared satisfied with their current account provider on a day to day basis, the generally negative perceptions of the financial services sector cast a long shadow, and many would reflect that there must always be hidden 'catches' or watchouts with any financial product, waiting to 'trap' unwary consumers into incurring charges or interest, and encouraging debt.

Only on reflection, throughout the research process, participants began to perceive that overdrafts are no exception, and many of the practices employed by current account providers were encouraging overdraft use:

- Banks make it easy and effortless for consumers to acquire an overdraft, often coming as part of their current account without any sense of application or evaluation of personal need.
- They offer large initial limits and apply increases to these limits both spontaneously and on request, with little or no consideration of how these relate to income, affordability or usage patterns.
- Some participants had paid off their overdraft and / or other debts, sometimes using a consolidation loan, only for banks to offer a new overdraft deal or increased limit once they had achieved this, acting as a further temptation for those trying to act responsibly and regain some control over their money and personal finances.
- Communication of limits feels one-sided in favour of increases not decreases. Some participants who had requested a limit decrease were challenged by their current account provider, and advised it was not possible to remove or reduce the overdraft.
- The ability for consumers to self-manage or reduce their overdraft limit was considered difficult and unclear. Those who had tried to manage this online or using their banking app commented that the process is hard to locate or recognise, and often hidden within menu options. Others commented that there is not an option to manage overdraft limits remotely, and they are instead required to make direct contact with the bank. Both scenarios were felt to act as barrier to engaging with their current account provider, or setting a lower overdraft limit.
- Banking apps use prompts and pop-ups to advertise overdrafts to customers in a quick click, easy process which limits consideration and increases the desire to access 'extra money'.
- Encouraging use of and reliance on overdrafts among students, often with a fee free overdraft, which can feel like 'free money' initially, can draw users into living in their overdraft, and feels calculated and manipulative, especially when charges are later applied with little warning.
- Applying charges for overdraft use and then taking these charges out at a time that is not known, or expected, challenges those trying to budget and manage their finances. There were occasions where these charges had caused participants to go further overdrawn, or into an unarranged overdraft, and incur more costs, perpetuating feelings of entrapment and compounding negative reactions towards current account providers.

“I regret letting my bank give me more! When I had a student account, they straightaway gave me £500 with no interest, then upped my limit to £1700. I’ve struggled to get out of it since!” Arranged, Persistent, Wales

“I try and reduce my overdraft limit by £100 and they say you can’t unless you make an appointment. Both appointments have been cancelled.” Arranged, Persistent, Wales

“The banks talk about lending you money more than they talk about how you can save money.” Arranged, Infrequent, Birmingham

“I asked to extend mine when I was coming back up to Scotland, I just sent off an email and it was really quickly done.” Arranged, Persistent, Glasgow

“Their objective is to charge you the fee, that’s where they get their reward from so they want you to use the overdraft.” Unarranged, Infrequent, London

9.2 Interactions with overdraft providers

Perceptions of banks as acting in their own best interest was a barrier to participants making contact and engaging with their current account provider about overdrafts. Many felt their bank was more likely to try and sell to them, rather than help them with their current situation. As a result, many were closed to the idea of engaging with their overdraft provider, and some were fearful that it could have a negative impact on their financial situation by alerting their bank to potential problems that could result in the withdrawal of their overdraft facility altogether.

Where customers had gone to their bank for help and to discuss their options, the outcomes of these meetings were mixed. Examples included:

- Unarranged overdraft users who spoke with their bank to try and get an arranged facility but were declined, without any guidance or clarification as to why this was the case and what they would need to do to qualify for an arranged overdraft.
- Arranged users seeking advice on alternative solutions to an ongoing and persistent overdraft and being offered a loan option without any explanation, rationale, contextual information or calculations to demonstrate the comparative costs. This

often left them feeling unable to make an informed decision, and instead suspecting their current account provider was only trying to make more money from them.

- Arranged users approaching their bank to reduce their limits but being challenged or restricted from making any such changes.
- Unarranged users asking the bank to stop allowing them to go overdrawn and instead decline transactions, but being told that this was not possible.

These experiences made participants feel that the bank was more likely to be part of the problem rather than offering support, guidance or solutions.

The lack of clarity around overdrafts and the rules around usage can perpetuate this reluctance to engage and communicate with banks. Few felt they knew where they stood in terms of their rights, and many of those who were in or near financial difficulty, or more reliant on their overdraft, lived in fear of it being withdrawn. As a result, these participants actively limited direct contact and interaction with their current account provider, to remain in control of their money and to keep off their banks' radar.

Banks are felt to have all the power when it comes to overdrafts, so customers can choose to avoid contacting their overdraft provider as a way of maintaining their own control over the situation.

10. Awareness and understanding of the cost of using overdrafts

There is a great deal of confusion surrounding the costs of using an arranged overdraft, and many default to a hopeful assumption that the costs of overdraft use are minimal. There is greater awareness around the costs of using an unarranged overdraft, with the set daily charges having more clarity and resonance. However, this presentation of costs can provide a false impression, with many tending to focus on the relatively small daily charge rather than the more substantial cumulative costs.

Very few had seen or heard anything about the monthly maximum charge and even those who had, misinterpreted the communication. Once explained, the monthly maximum charge was considered a positive move in the right direction and suggests that someone is holding the banks to account, and acting on behalf of consumers. However, there was a perception this could go further and be more inclusive by providing a more proportionate cap to benefit those on lower incomes, for whom even a lower charge can be just as challenging or detrimental to their personal finances.

At the point of taking out or receiving the overdraft there is little clarity around fees and charges and this continues throughout the cycle of the overdraft. Even those participants who were more engaged in their finances and actively tried to investigate the costs, struggled to obtain the information and gain clarity on the costs charged. Often this was felt to be hidden within lengthy terms and conditions and the presentation of the information felt difficult for participants to understand, or relate to their own overdraft usage.

For some, there is a reluctance to engage in their finances, or with the costs related to their overdraft use. Habitual or persistent overdraft users appeared to no longer be aware of the costs, as they are absorbed into their outgoings, often factored into their spending in the same way as a household utility bill or other monthly direct debit would be.

Those in or near financial difficulty tended to disengage from the costs or consequences of their overdraft use because of their general debt burden, and feeling they were caught in a cycle of debt. This was especially true for some of the 'Juggler' typology who were often close to their overdraft limit, in addition to other borrowing.

"You're paying for a benefit, you don't really want to stop and work out the charge." Arranged, Infrequent, Manchester

"I only ever look at the money coming in, I avoid looking at what I've spent and what I no longer have, because I'm only interested in my spending power." Unarranged, Persistent, Watford

The charges have got so out of hand now that I refuse to deal with it and the banks are a fat lot of good. I have another basic account and I'm just using that now." Arranged, Persistent, Birmingham

The way banks present charges can cause confusion. Some people receive multiple charges, including interest, fixed fees and / or a daily charge, but are unable to relate them to their overdraft use. This separation of charges can also perpetuate the feeling that costs are minimal as the combined or full cost can be overlooked, and instead many anchor to one element – often the fixed daily or monthly charges, which were more easily understood.

Others pay a fixed fee for a packaged current account that includes a range of features of which an overdraft is one. In these instances, few could identify what they pay for the overdraft vs. other benefits and this in turn can encourage use.

"I've paid for it whether I use it or not so I might as well." Arranged, Persistent, Manchester

"I have three charges on my statement for my overdraft but I could not tell you what they are for and how they are calculated, it's all rather complicated." Arranged, Persistent, Wales

"I pay £45 pm for my account which includes my overdraft and other insurance benefits but I couldn't tell you how much I am specifically paying for my overdraft. I don't really think about it." Unarranged, Persistent, Manchester

Overall, the lack of transparency and the complexity around the fees and charges are acting as a barrier to engagement and understanding. Instead many make a hopeful assumption that the costs are minimal.

10.1 Unarranged charges

In comparison with arranged costs, there is greater awareness around the charges experienced for using an unarranged facility.

Daily charges for being overdrawn have greater impact and resonance and can serve as a nudge to act, especially among the Survivors and Avoiders consumer typologies, who are more inclined to see the charge as a fine or punishment. Indeed, some Avoiders felt that the more punitive the cost, the more inclined they would be to actively avoid using the overdraft, acting as a helpful nudge to change their behaviour or reduce their spending.

The daily charging mechanism can lead to misconceptions. Many anchor onto the daily charge and fail to understand the complete cost or the cumulative effect this figure can have on them and their finances.

By focusing solely on the daily figure, many can see overdrafts as a cheaper option, compared with other forms of credit. This was particularly evident among the Indulger typology for whom the charges barely registered in the context of what the overdraft facility afforded them to enjoy and/ or spend.

"I give the charges a cursory glance. It's never enough for me to be too worried - £10 or £20 a month." Arranged, Infrequent, Manchester

Overall, daily charges have more cut-through and can work as intended for some. However, the daily charge can also provide a false impression of the cost of overdrafts, demonstrating that both a daily and a cumulative cost are required to ensure users of all types are fully aware of the costs and implications of using their overdraft.

10.2 Reactions to different cost structure examples

Participants in the research were presented with three different cost structures and a scenario of borrowing £500 for 15 days, and asked to identify which they felt would be the most to least expensive option. Participants were not asked to do the actual calculations, but to base their response on initial or instinctive impressions, looking at the information presented.

- ❑ Bank A: Charges interest on the amount borrowed each day with a rate of 37% APR
- ❑ Bank B: Charges a fee of 1p per day for every £8 borrowed. So borrowing £8 costs 1p a day, borrowing £9 costs 1p per day and borrowing £17 costs 2p per day
- ❑ Bank C: Charges a single fee of £1.50 per day

Reactions to the different cost structures highlighted the potential for misinterpretation and the need for context and examples.

APR of 37% was consistently assumed to be the most expensive of the three options presented, despite it being the cheapest.

Many participants perceived 37% to be a large number, and therefore assumed there would be a higher cost associated with it. They also benchmarked it against known credit card rates of around 18%, which were already perceived to be an expensive form of credit.

Few understood what APR stands for, or how it works, with many seeing it as a form of financial jargon. Only a few were aware that it referred to an annual percentage rate. Even the more financially savvy participants struggled with this, and found the calculation difficult to make. APR as a term can induce fear as it suggests something unknown and confusing, using actual costs rather than percentages was preferable.

Many were able to relate the APR amount to other APRs they knew that were being offered, for example, bench-marking against the lower APR offered by some credit card providers, or the higher APR offered by some payday loan providers. However, few were able to extrapolate this or understand how it would compare in terms of actual fees and charges for using their overdraft.

"I picked A as the most expensive because whenever I see APR I just think of credit card and it sounds really expensive. I didn't actually know it was over the whole year." Unarranged, Infrequent, London

Option B, 1p in every £8, created a powerful anchoring affect. Anything with pennies can feel very low cost, beneath the notice or consideration of participants, which can in turn become an inducement to use the overdraft.

However, the perception that this option was cheap was undermined by the complexity of the cost structure, which some participants saw as a ploy on the part of the overdraft provider to mislead them into thinking it was cheaper than it is.

"As soon as I see pennies I just ignore it, I think it must be so low." Arranged, Persistent, Wales

"The penny example feels like a trick it is so low." Unarranged, Infrequent, Watford

The daily charge option of £1.50 per day was felt to be the most clear and transparent. As a charge, £1.50 was considered a small amount, less than the cost of a cup of coffee per day, and this led many to infer this would be the cheapest option, when it was the most expensive option by some margin.

These responses highlight the need to show the cumulative cost, as well as daily costs or charges, to avoid people underestimating the cost by anchoring to the smaller number, and ensure consumers are aware of the implications of using their overdraft over time, as well as for the single day.

"I think single fees are best to describe cost as you know exactly what you are paying. An interest rate doesn't stick in my head." Arranged, Persistent, Wales

"It's better as a per day cost, I am not good at maths, the APR or pennies per pound freaks me out." Arranged Infrequent, Northern Ireland

"I'm a bit financially vacant, I find it really hard to understand percentages so if the bank told me I was going to be charged a certain amount every day I would find that reassuring because I can work out how much I'm going to spend. 37%, that's maths I can't do. For things to be transparent it's easier just to tell me how much I'm going to pay." Unarranged Persistent, Glasgow

10.3 Awareness of the monthly maximum charge

Few had heard anything about the monthly maximum charge. Awareness was slightly higher towards the end of the research period, due to increased media coverage about the change, and subsequent communications from banks to their customers.

A few had received letters and leaflets informing them of the changes being implemented, often alongside other communication from the bank and updated terms and conditions. Those who had seen any communication commonly misinterpreted the message it was conveying. Some had assumed it was a new overdraft limit and some felt it was communicating a new maximum level for unarranged overdraft use. Only a small number understood the monthly maximum charge and what it meant for customers.

Once explained, the monthly maximum charge was considered a good thing and of benefit for those most in need. Those who had direct experience of high charges in the past were keen to praise the initiative, and felt it would have saved them hundreds, if not thousands of pounds in charges. Some also felt this would have helped them avoid getting into further financial difficulty, and a few felt they would have been able to recover independently, without the need for an Independent Voluntary Arrangement (IVA).

Some felt the monthly maximum charge lacked any reference to affordability and in a worse-case scenario may encourage heavier users to stay in their overdraft for longer, go up to their limit, or just be more blasé because the risks were capped.

Many struggled to relate to the high monthly charge cap and some Strugglers and Survivors questioned why there was not more of a proportionate cap that could benefit those with lower limits, but who felt they suffered high charges in comparison to their lower income.

Many of these participants commented that even charges lower than the monthly maximum charge set by many current account providers, for example, of £30-40, would be extremely detrimental for them, and potentially result in financial difficulty, or trigger falling into a cycle of debt. Some questioned whether the cap could consequently go further and provide a more proportionate limit for those on lower incomes, those with low overdraft limits or usage amounts, rather than the single focus on the highest spenders or users of higher overdraft amounts.

10.4 Reaction to examples of communication about overdrafts

A range of unbranded communication examples were shown to participants during the research. Reactions to the communication examples were consistent, with some working better than others to engage participants and communicate key information. As a result, elements of best practice were identified using these examples.

Avoiding large blocks of text, small fonts and ‘jargon’ or financial services language was consistently recommended to engage consumers and ensure they understood the message. Where examples did not conform to this style, participants quickly became disengaged. They struggled to finish reading the material, and described it as reminiscent of terms and conditions, something they are more inclined to file than read.

“You see all the text and just switch off – it needs to be short and to the point otherwise you never read it.” Arranged, Persistent, London

Offering tools and solutions such as overdraft alerts to help customers avoid getting into overdraft, or incurring unarranged fees, was consistently highlighted as a valuable and relevant message. It helps establish a more equal relationship between the bank and customer, and challenges the perception that banks want customers to be in their overdraft. It puts customers in control and encourages them to take simple steps to avoid going into an unarranged overdraft.

Enabling participants to understand the fees and charges by clearly presenting specific amounts on both a daily and monthly basis was considered transparent and helpful. This information is currently hard to locate and understand, and has the potential to provide useful context and clarity, to help consumers make more informed decisions about when and how to use their overdraft.

Overall, simple, clear language and an uncluttered layout with visual examples to illustrate the more complex elements of overdrafts, will have the best opportunity to improve awareness and understanding, enabling consumers to feel more informed about when and how to use their overdraft and the implications of doing so.

10.5 Reactions to a cost calculator concept

An online calculator that would help consumers to understand and calculate the costs of their overdraft, by inputting key information about the provider, type of account, amount used and time period, was appealing to participants across the sample.

Many felt that the example looked simple, easy to use and inviting. Being able to tailor and personalise the information, particularly down to the detail of brand and account type, increased salience and engagement.

Showing the cost and calculation as a daily amount, but also providing a total over the defined time period, was felt to provide some much-needed transparency and context to costs. Placing the cost in this wider context also avoids overdrafts as appearing too cheap or tempting to use.

Many were drawn to this concept and were interested to calculate their own costs as they felt that this would be an enlightening experience.

“A fee calculator would be really good, I would know what I am paying for, before it’s too late.” Arranged, Persistent, Northern Ireland

The only area of confusion was around the term ‘buffer’. This was new terminology for some and it required explanation in this context. It also raised the question of whether the buffer would be extended to unarranged overdrafts.

11. Overdraft intervention concept evaluation

Compared with other credit products, overdrafts receive little consideration or media attention and this means that practices and behaviour have been rarely considered by users. There is a need for a more informed understanding of the product, bringing overdrafts and consumers ‘into the light’ by educating users and reframing overdrafts as a debt.

Many felt there was room for improvement and that this is less about one big change than a series of smaller changes that together will offer consumers a greater level of transparency, context, clarity and control over their current account and overdraft use, and enable them to make a more informed choice about when, where and how to use their overdraft instead of other credit options.

11.1 Supporting more informed decision making

The lack of consistency across providers is currently contributing to the confusion around overdrafts. Standardising the approach throughout the customer journey, and particularly at the account opening stage, could help consumers better understand the terms, and make a more informed choice about when and how to use their overdraft.

The following changes could support a more consistent, defined and informed relationship with overdrafts:

- Be clear about the distinctions between the different types of overdraft, including the difference between arranged and unarranged, and linked to this, provide breakdowns on the costs, with examples using individuals’ own overdraft limit to increase impact and salience.
- Make overdrafts a defined choice rather than simply bundling the facility alongside current accounts or including by default.
- Create an ‘application process’ to reinforce the credit positioning and engage consumers with the ‘terms’ of use, and be clear and transparent about the possible future changes to their overdraft agreement, particularly for students /graduates.

- Set proportionate overdraft limits linked to income, rather than arbitrary amounts. and ensure limit increases are equally proportionate and are measured for need.
- Ensure that limit increases are offered in context of clear communication about the intended role and use of overdrafts, to limit the risk of them being seen as a 'perk', or prompting consumers to view them as 'my money'.
- Avoid offering large overdraft limit increases to consumers who have worked hard to clear a long-term overdraft debt, and respond to requests to reduce overdraft limits.
- Make limit reductions a topic of conversation and make the process to reduce overdraft limits simple and straightforward, ideally via the bank's app or internet banking pages.
- Ensure customers are aware of and able to choose a current account without an arranged overdraft, or with a low limit, as a means of helping them self-manage their overdraft use and avoid frequent or persistent use.

"It should be in proportion to your salary. It's not good that banks want to give big amounts." Arranged, Persistent, Manchester

"They need to start at the beginning and re-think things, they shouldn't be giving people an overdraft when they open an account, you should have to apply and go in branch to discuss the reasons and why you need it." Arranged Infrequent, Birmingham

"Surely the bank will be able to monitor when you are going in and out of your overdraft and what you can afford before they just splash out and give you a limit you just can't afford." Arranged, Infrequent, Manchester

"If you pay it off, there's the temptation to start using it again. It needs to tie-in to a reduction in the limit." Arranged, Persistent, Manchester

11.2 Overdraft alerts

Many participants were unaware they were in their overdraft until it was too late, and charges had been incurred. Banking apps have helped many to actively manage their day to day finances but even the most engaged participants can overlook and miss a payment on occasion.

Alerting users when they are in or near their overdraft could help consumers to feel more in control of their current account and avoid some of the costs and pitfalls that occur as a result.

Alerts could be SMS text messages or push notifications, and these can help consumers in different ways. For Avoiders, Strugglers and Jugglers they can provide peace of mind and enable them to take action and avoid, or limit, overdraft charges, if they have the necessary means to move money around. While for Indulgers, alerts can provide an interruption to their spending patterns, a jolt or wake up call to reassess their spending behaviour, or rein in their spending.

"If I'd have got a text from the bank when I bought those trainers to say I was overdrawn I would have worried more because that's the bank saying hey, stop spending." Unarranged, Persistent, Watford

"I don't know why my bank has never told me about this, it would be so helpful and would allow me to relax because no text, no problems." Unarranged, Persistent, Birmingham

Awareness of existing alert facilities was mixed and those who were aware tended to be individuals who are more active or engaged in their money management per se, and look to limit risk through control and monitoring of their current account. Those who could benefit most from the facility were less aware of it, and often surprised that these services exist, and are not more actively promoted.

As a result, many felt that to have maximum impact and reach a wider and more relevant audience, who could benefit substantially from it, the alert facility should be an 'opt out' rather than an 'opt in' feature.

11.2.1 How the overdraft alert service should work

The timing, frequency and content of the overdraft alerts need to provide consumers with sufficient warning, detail, and actions or solutions.

Many want the alerts to go further than simply telling them when they have gone overdrawn, to pre-warn them about problems and inform them about the consequences and charges.

In this respect, participants wanted to know when their balance is getting low, when a payment might tip them over into their overdraft, when they have fallen into, or gone over their overdraft, and what this will mean in terms of charges.

Ideally, this information needs to come with sufficient time to allow them to act and avoid problems or charges. Mornings were the ideal time to receive these alerts, allowing consumers the time to act, and limiting the potential embarrassment of alerts being received at work, or seen by colleagues.

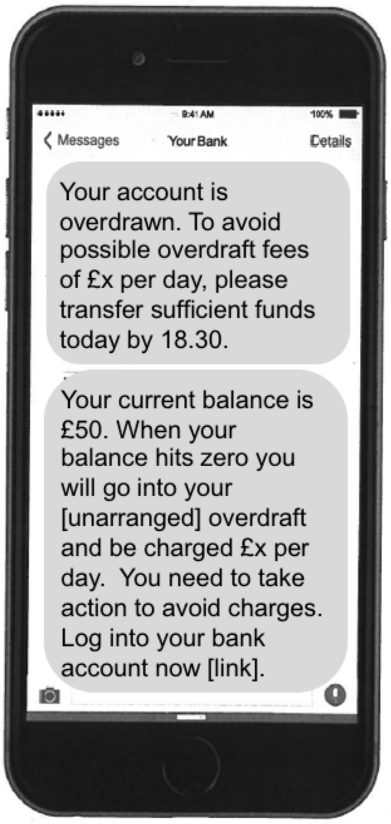
Those already receiving alerts felt the timing could be sporadic and many were receiving these late in the day, leaving them with very little time to resolve the situation or avoid charges. This compounded negativity towards overdraft providers, and some felt they were purposefully withholding or delaying sharing this information.

Very few were resistant to the idea of alerts to help them stay in control of their current account. A couple of participants who had turned off this facility, only did so because the messages lacked specificity, told them what they already knew, and only served to remind them of these problems.

"I've turned my texts off because I'm getting alerts about daily charges which I'm already in dispute with the bank about, if I wasn't where I am now, I'd still have the texts coming through." Unarranged, Persistent, Birmingham

11.2.2. Reactions to overdraft alert examples

Two alert examples were shown during the research: one that informed customers they were overdrawn, and one that highlighted that their account balance was low. These were shown after initial exploration and attitudes towards alerts.



Reactions to both examples were very positive.

Many participants were familiar with the example that informed them they were overdrawn, but felt that the inclusion of information relating to charges was a new and positive development. It not only tells them how much they are overdrawn but highlights the cost which can motivate them to act, while also providing useful clarity about the cost implications.

The second message, designed to pre-empt potential problems due to a low account balance, was extremely motivating and many felt that whether they were using an arranged or unarranged overdraft, this would be a valuable nudge to be more careful about their spending.

For unarranged users, this pre-emptive prompt was felt to help them avoid charges that for some, might predicate further financial difficulty and additional fees and charges.

Reactions to these examples demonstrated that the ideal is not only messages that alert consumers once they are in their overdraft, but messages that also help them to avoid using their overdraft or incurring charges.

"Prevention is better than cure!" Unarranged, Infrequent, Wales

"In terms of the text, I really like it, it gives me comfort and a conscious effort to sort it." Unarranged, Persistent, Northern Ireland

"Sometimes you spend money without knowing, things can run away with you, so this would be very helpful!" Arranged, Infrequent, Wales

"I just need some reminders to keep me on track." Arranged, Infrequent, South East

11.3 Improving communication around costs

There is an opportunity to improve the clarity around fees and charges for using an overdraft. Current charges feel opaque and confusion is widespread, with even the most engaged and savvy participants struggling to understand the full cost relating to their overdraft use.

The perception is that overdrafts are a low-cost form of borrowing, at least in comparison with other credit products, and many focus on the short term, individual costs, rather than the combined fees and interest charges. The cumulative costs paid over time are often overlooked.

Providing a review of what consumers have spent in the last 6 months, or year, would provide a more accurate picture of the cumulative costs. It will also increase transparency and confront users with the consequences of their overdraft behaviour, and provide a more accurate comparison with the cost of other credit products.

Confronting users with a cumulative cost tends to have greater impact, being interpreted as a loss, with many considering what else they could have done with this money, had they managed their finances better, or been more careful with their overdraft use.

Presenting the costs as a forecast or projection would have less impact. While of interest, participants felt it would be too easy to excuse them or ignore them as fictional. Many tend to overestimate improvements to their financial situation in future, suggesting they will manage things better or use their overdraft less, and therefore the projected costs would not be accurate.

Overall, improved communication around the costs, fees and charges of using an overdraft has the potential to challenge perceptions that the cost is negligible, and enable consumers to make a more informed decision about the cost, affordability or appropriateness of their overdraft usage and behaviour.

"It would depress me but be a good idea. I think it would change my behaviour." Unarranged, Infrequent, Northern Ireland

"This is a fantastic idea! You can see it in black and white." Arranged, Persistent, Wales

"The cold, hard truth would be good. You can see patterns and work out why things are that way." Arranged, Infrequent, Northern Ireland

11.4 Flexible charging structures

Current practices can feel as though they penalise those who are financially challenged and/or trying their best to manage their money responsibly. A more flexible approach to the implementation of fees and charges could benefit those most in need.

Having some form of grace period, or interest free buffer, to allow for minimal short-term over-spend, would limit the risk for those where even small charges can have a big impact. Allowing a buffer limit of £15-20 was considered all many needed to protect them from charges resulting from the odd slip up or over-sight. The more savvy and confident participants appeared to be already achieving a similar effect by contacting their current account provider to challenge overdraft charges and get them removed, highlighting the discrepancy in experience between different types of consumer.

Existing cost structures do little to encourage consumers to limit how much of their overdraft they use. Overdrafts feel like an 'all or nothing' facility with the focus weighted towards higher limits.

Some felt that a reduction in charges for lower overdraft limits, or going into an arranged or unarranged overdraft by a smaller amount, would be fair and responsible, and help those with low incomes or more precarious finances. Scaling charges according to the amount used could benefit those most in need, while also discouraging heavier users from going up to their overdraft limit. There is currently little or no financial motivation in limiting arranged overdraft use; indeed the reverse is more likely with those on a fixed monthly charge using more of their overdraft to achieve greater value for money.

11.5 Giving consumers control in the moment of purchase

The process of going into an unarranged overdraft is not always unplanned. Some Indulgers and Jugglers make purchases knowing they do not have the means to pay, and not having the payment declined can be interpreted as an endorsement of their behaviour and can lead to this kind of overdraft use becoming habitual.

Allowing consumers the option to choose restrictions on what payments can be declined (outside of Direct Debit payments) could support those with issues around self-control, as it provides a direct challenge to spending behaviour and raises awareness of impending problems.

Some participants who had experienced financial difficulty had requested this facility from the bank, but were told that it was not possible. While others had moved to basic current accounts with limited features and no overdraft facility, sometimes because of an IVA, and were positive about the fact that they could no longer go overdrawn or have the temptation to run up overdraft debt.

While many felt that they would need their direct debits and household bills to be honoured by their current account provider, even if this took them into an arranged or unarranged overdraft, some also felt that the option to choose in the moment of purchase, whether a transaction should be declined, would provide additional control.

This option resonated most with Indulgers, some of whom recognised the need for an interruption of this sort, to prompt them to consider their behaviour and nudge them to limit their spending and overdraft use, with the potential to drive longer term behaviour change and limit financial difficulties further down the line.

Overall, the option to choose when the overdraft would be activated could enable consumers to play a more active decision in how they manage their money, allowing them to be more in control and avoid some of the potential risks, temptations and pitfalls around overdraft usage and behaviour.

11.6 Removing unarranged overdrafts

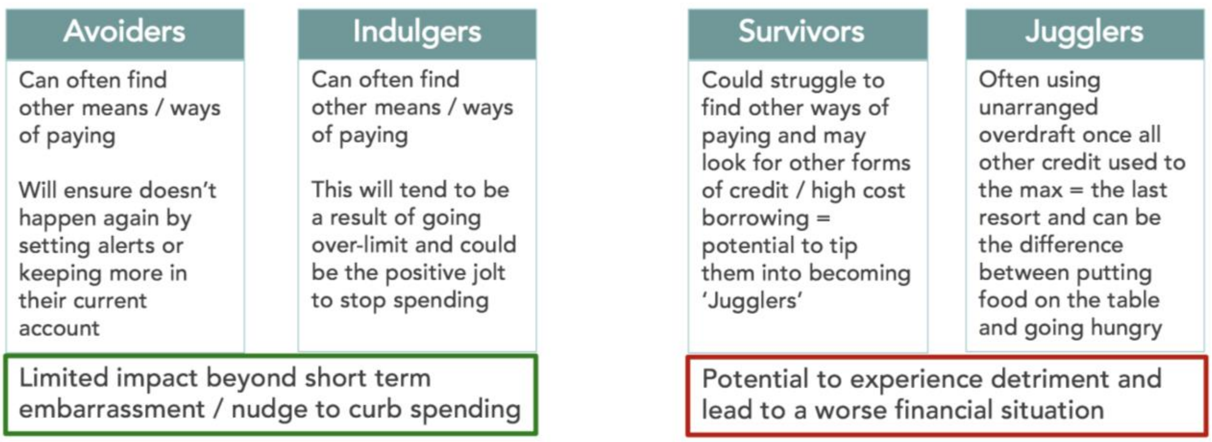
The impact of losing access to an unarranged overdraft, and experiencing a declined transaction, varied widely across the different types of consumer.

Experiencing a declined transaction can be embarrassing in the short term, but many felt it was increasingly becoming the norm, and consequently there was less of a stigma around this. Many had commented that in context of stagnant wages and the rising cost of living, such events were widespread and inevitable, and not necessarily a reflection of how someone was managing their personal finances. Those who had experienced a declined transaction tended to shrug it off, and even those working in retail settings commented that they had become adept at covering up any embarrassment by blaming the electronic point of sale machine.

Removing an unarranged overdraft might have little impact on Avoiders and Indulgers as they can often find other means and ways of paying for items. They can also ensure it doesn't happen again by keeping a tighter check on finances and it can be the positive jolt some consumers need to curb their spending.

However, Survivors and Jugglers could lose a valuable safety net that can help them get to the end of the month. Removing this facility can put their financial stability at risk and leave some at a loss in terms of alternative payment methods. These participants tend to have used up, or have limited access to, other credit options, so removing this facility can tip them further over the edge and in worse case scenarios be the difference between putting food on the table and going hungry.

The diagram below illustrates how the potential impact of removing the overdraft facility varied by typology:



Removal of the unarranged facility was not felt to be a workable solution to issues around the misuse of overdrafts, and for those most at risk it has the potential to lead to further detriment and lead to a worse financial situation.

11.7 Overdraft comparison tool

Many felt that a comparison tool would help raise awareness and drive competition between current account providers, and potentially increase transparency and clarity around charges and conditions.

Few were aware overdraft charges or conditions varied across providers, although there was little surprise that this might be the case. Once this was understood, many felt a comparison tool or calculator would at least raise awareness of these differences.

The more financially savvy and engaged among participants felt they would be motivated to use such a tool to understand what they were paying for their overdraft facility, and how it compared with other current account providers. As a result, some did reflect that tools of this kind would lead to more engagement around the costs and conditions of overdraft facilities.

However, few felt they would feel inclined to choose a current account based on the overdraft conditions or charges, as other features or financial incentives were perceived to take precedence when considering changing or taking up a new current account.

Younger participants, particularly 'Indulgers', were the most open to switching accounts but, were more likely to do so in response to cash incentives.

Others demonstrated greater loyalty or inertia (Status Quo bias) around changing current accounts, as they believed they benefited from the longer term 'relationship' that they held with their current account provider.

"You would have to save a lot to make you want to change accounts. It would have to be worth it and hassle free." Arranged, persistent, Wales

At best, many felt that the more transparent information or comparison data would enable them to negotiate better overdraft rates or deals with their own bank rather than switching.

An online comparison tool may help raise awareness of costs between providers, but without being aware of the costs of overdraft use, or how these might vary across providers, it was hard for many to envisage this being a point of distinction and comparison to influence their choice of current account provider.

This intervention comes further down the line, and after awareness has been raised about the true cost, nature and implications of using overdrafts. In developing the calculator, the preference was for the tools to be offered on an independent platform such as MoneySavingExpert.

11.8 Support from overdraft providers

Many felt current account providers could be more proactive in spotting problems, or persistent overdraft use, among consumers, and provide customers in need with more support.

Current perceptions support the idea that providers can encourage the wrong overdraft use, and ignore the signs of problems or persistent behaviour, meaning that providers are felt to be part of the problem rather than a potential source of support and help.

The annual financial review process offered to some customers by their current account providers, used to be a way of assessing and supporting customers' management of their money, but is now more often perceived as an opportunity for the bank to sell other credit products to customers, irrespective of need. Those experiencing financial difficulty can feel they need to fight for help from their current account provider, or use a third-party source to get usable guidance.

There was little consensus about what should trigger some form of intervention from their current account provider, often relating it to their own financial situation, overdraft limit, or attitude to overdraft use. However, there were some consistent themes, and many felt signs that a customer is in difficulty and needs support from the bank would include:

- If the overdraft balance grows consistently for 3-6 months in a row
- If a customer is in their overdraft every month, for any amount, for 3 to 12 months in a row
- If an overdraft limit/amount outstanding is not covered by monthly income, and /or coupled with the above behaviour.

Many felt they would benefit from more support and engagement from their current account provider, and consistently requested a two-way conversation that involves listening, supporting and offering solutions. This was often likened by older participants to something like the old bank manager relationship: someone who knows them and cares enough to offer guidance rather than just selling them additional credit products or encouraging further debt.

Many would also need reassurance that their current account provider would not simply remove the overdraft if they got a sense that the customer was in or near difficulty, but will consider a more holistic view of finances and provide options. For example, a personal loan to reduce the cost of borrowing and provide a more structured repayment, but in line with a reduction in the overdraft limit to avoid them building up even more debt over time.

Participants also commented that any such recommendation would need to demonstrate the potential cost saving, in terms of interest and charges, to offset the fear that many have, that firms will try to encourage further debt, or recommend products that benefit the provider more than the customer.

Some commented that when they had approached their current account provider to discuss options for reducing their overdraft debt, they had been offered alternative products, such as a loan, but without any information or guidance about how this would compare to the cost of using an overdraft, or how it could benefit the customer, leading many to assume by default that this was all about sales, potentially a more expensive credit option, and for the benefit of the firm.

"I want them to say to me, 'we won't charge you this month if you pay off so much'. If you're getting charges all the time, you can't pay off your overdraft." Arranged, Infrequent, Northern Ireland

"They need to contact you with a solution – a loan or a repayment structure. They could reduce the fee and help you get out of it." Arranged, Infrequent, Manchester

"We need a more personal relationship from the banks. Because we don't trust them, we avoid getting in touch with them at all." Arranged Infrequent, Manchester

12. Summary and conclusions

This research demonstrated that while many value having access to overdraft facilities, the way they work, coupled with the lack of engagement and understanding, has put consumers at a disadvantage.

Overdrafts can provide consumers with peace of mind by giving them a safety net with which to manage their finances. From a practical stand-point they are considered easier and more instant to access in comparison with other credit options.

However, many have misconceptions about overdrafts, and on reflection they can appear to be lower cost and lower risk than they are.

Overdrafts have become imperceptibly normalised in the minds of consumers, and they can slip under the radar, with use becoming habitual, and risks overlooked. This perception is perpetuated by the way personal current account providers appear to endorse usage and behaviour, by providing easy access to the facility, and giving out large, often seemingly disproportionate overdraft limits.

This lack of clarity can make it hard for consumers to compare overdrafts with other credit options. Complexity of charges can perpetuate the perception that costs are lower than many think, which can discourage users from engaging with the wider costs or implications of use.

On reflection, many felt that there were major knowledge gaps and misconceptions around overdrafts and an opportunity to improve the consumer experience, and enable them to make more informed decisions about when, where and how to use their overdraft.

Many felt there was a need to educate consumers and present a more coherent narrative around the role and workings of overdrafts, as well as more tactical changes to engage users on a day to day basis with their usage and behaviour, and give them the tools to manage and control their overdraft use.