



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Information Release

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Central Bank Inspection Identifies Unfair Practices in Current Account Charges

The Central Bank of Ireland today (13 December 2011) published the results of a themed inspection which examined how banks are imposing 'out-of-order'¹ charges on current accounts. The inspection found that all charges were within limits approved by the Central Bank. However, a number of concerns were identified with the way certain charges were applied.

The inspection examined three out-of-order charges, i.e. surcharge interest, referral/over limit fees and unpaid item fees, across 300 customer accounts in five banks. These charges are more likely to arise for customers who are in financial difficulty and who may be struggling to keep a positive balance on their current accounts. The inspection also included an examination of 100 customer complaints files.

Director of Consumer Protection, Bernard Sheridan, said: 'Consumers need to be aware that they will incur out-of-order charges when they do not have sufficient funds in their account to meet outgoing payments. It is important that consumers keep an eye on their bank accounts and take steps to avoid such charges where possible. While our inspection did not identify any overcharging, we were not satisfied with the way in which some charges were applied across some of the banks inspected and we have directed the relevant banks to change their practices'.

The Central Bank has informed all banks of the findings and requested that they be considered fully in the context of all current accounts that they offer.

The key outcomes from the inspection were:

- **Prohibition on charging a minimum amount of surcharge interest**

One bank applied a minimum amount of surcharge interest of €2.54 even when the amount of surcharge interest accrued on the account was less

¹ 'Out-of-order' charges arise when a customer uses the account outside of approved limits.

than €2.54 for the month. The Central Bank considered this to be an unfair charge and the bank concerned has been directed to stop applying surcharge interest in this way.

- **Prohibition on applying referral fees and unpaid item fees jointly for the same item**

In certain circumstances two banks applied both a referral fee and an unpaid fee when an item was unpaid. Although this was not in conflict with the banks terms and conditions or the approval limits, the Central Bank considers this to be unfair and has directed the banks to stop applying referral fees in this way and to amend the terms and conditions of relevant current accounts.

- **Requirement to base referral fees on close of day account balance**

One bank applied a referral fee based on whether sufficient funds were in the current account at the time of presentation of the debit item, as opposed to whether the account was over limit at close of business, as is industry practice. It was determined that this was not in customers' best interests, as in some cases customers would lodge money to the current account during the business day and the account would not be over limit at close of business, but yet the referral fee would still be applied. The bank concerned has been directed to apply the referral fee based on the close of business position of the current account.

- **Complaint handling**

One bank was instructed to carry out a review of its complaint handling procedures, following its failure to adhere to the complaint handling requirements of the Consumer Protection Code.

Where the key actions identified from the inspection require significant changes to systems, terms and conditions and brochures, the Central Bank has agreed timelines for implementation.

The Central Bank of Ireland also provided feedback on areas of best practice identified on the following issues:

- **Fees on feeder accounts**

All banks were instructed to identify current accounts that are only used as feeder accounts to facilitate loan repayments, and to ensure that no

fees are applied to such accounts, in accordance with the Consumer Protection Code.

- **Introduction of a buffer limit to unpaid item fees**

It was identified that one bank does not apply an unpaid item fee where the value of the item unpaid is less than €20, which is considered to be an example of best practice. It was considered to be good practice not to apply an unpaid fee where the value of the unpaid item is less than the value of the unpaid fee and have requested banks to incorporate this into their charging structure.

- **Improved information in statements**

Only one bank provided details on the customer statement of the item that generated the unpaid fee. It is clearly in customers' interests that this information is provided and all banks are now requested to include this breakdown in customer statements going forward.

All banks were encouraged to enhance the ways in which they assist customers to avoid incurring out of order activity fees, particularly in the current economic climate. Where banks identify customers who are repeatedly incurring such fees, banks should be proactive in contacting those customers, not only to advise of the fees that have been applied, but with a view to putting a long term solution in place that is beneficial to the customer.

ENDS

Further information: Press Office (01) 224 6299, press@centralbank.ie

Notes for Editors

Section 149 Charges

Section 149 of the Consumer Credit Act, 1995 (as amended) requires credit institutions to notify the Central Bank of every proposal to;

- a) Increase any charge that has been previously notified to the Central Bank; or
- b) Impose any charge in relation to the provision of a service to a customer or to a group of customers, that has not been previously notified to the Central Bank.

A charge includes a penalty or surcharge interest, but does not include any rate of interest or any charge, cost or expense levied by a party other than a credit institution in connection with the provision of a service to the credit institution or the customer and that is to be discharged by the customer.

A service means any service provided by a credit institution to a customer in respect of:

- a) Making and receiving payments;
- b) Providing foreign exchange facilities;
- c) Maintaining and administering transaction accounts; or
- d) Other services as may be prescribed.

The Central Bank may under Section 149, amend or revoke a subsisting direction and may amend or revoke a subsisting direction, which has been amended.

Definitions

Surcharge Interest can be defined as the interest applied to balances in excess of an agreed overdraft limit, or to debit balances where no overdraft agreement is in place

A *Referral Fee* can be defined as the fee applied when a transaction causes an account to exceed an agreed overdraft limit, or to become overdrawn where no overdraft agreement is in place

An *Unpaid Item Fee* can be defined as the fee applied when an item is unpaid due to insufficient funds in the customer's account