Bank Charges Approval Process

Background

The Consumer Credit Act 1995, under Section 149, requires credit institutions to notify the Central Bank of Ireland ("CBI") if they wish to introduce new customer charges or increase existing customer charges. The timelines required by the CBI for the consideration of these charges were amended under the Central Bank (Supervision and Enforcement) Act 2013, bringing them to three months for both new and existing services. These were previously three weeks and four months respectively. In addition, the 2013 Act provided an exemption for new entrants whereby they are not required to notify the CBI of charges for a period of three years after commencing business.

As a result of the amendments introduced by the 2013 Act, the CBI published guidance for credit institutions in 2014 on the approval process for charges under Section 149. This document provided information on:

- The types of charges to which Section 149 applies, incorporating charges applied to both personal and business customers;
- The notification process, including the pre-notification, consideration and completion phases;
- The consideration phase timelines; and
- The CBI assessment criteria and information requirements, including approval of the maximum permitted level of the charges.

As part of the assessment process the CBI noted that consideration is given to customer behaviours, in particular the profiles of personal current account customers. The CBI published guidance documents in 2011 and 2015 on the profiles of these customers, which it considers when assessing notifications under Section 149.

As a result of changing trends in customer behaviour the CBI published:

- An updated guidance document on the approval process for charges under Section 149 ("Information on the Bank Charges Approval Process – Consumer Protection Directorate, August 2020"); and
- An updated guidance document on the profiles of personal current account customers ("Update to Personal Current Account Profiles – Consumer Protection Directorate, August 2020").

The negative interest rate environment and pressures on profitability will require financial institutions to review their income strategies and associated banking charges. The CBI noted that it is reviewing 12 applications at present, nine of which are seeking to increase bank charges.

Bank Charges Approval Process – Summary of Changes Introduced

The guidance document issued by the CBI in 2014 contains detailed information for credit institutions regarding the notification process under Section 149, the assessment criteria used by the CBI when reviewing Section 149 notifications and information to be provided by credit institutions when submitting a notification. The following updates have been made as part of the "Information on the Bank Charges Approval Process – Consumer Protection Directorate, August 2020" document:

- Notifications for new entrants must be submitted in such a manner as to allow the CBI sufficient time to fully consider the application and issue a decision immediately after the three year exemption period;
- Reference is made to the industry letter issued by the CBI in October 2019 regarding the charging of third party costs and interest on costs to mortgage customers in arrears;
- Notifications must be submitted in electronic format only; and
- Reference is made to the changes to customer trends and profiles noted in "Update to Personal Current Account Profiles – Consumer Protection Directorate, August 2020".

Personal Current Account Profiles – Summary of Changes Introduced

When assessing notifications of new charges / increases to existing charges under Section 149, the CBI has regard to the effect of these charges on customers. As part of this assessment the CBI consider the profile of customers, taking into account current trends and updated data. The CBI has noted the following customer behaviour trends as part of its "Update to Personal Current Account Profiles – Consumer Protection Directorate, August 2020":

- A reduction in Over The Counter ("OTC") cash withdrawals, as a result of a reduction in cash-based transactions;
- A reduction in use of credit transfers and cheques;
- An increase in overall Point Of Sale ("POS") transactions, with the exception of contactless transactions, as these technologies advance;
- A significant decrease in contactless POS transactions, with the exception of those customers heavily reliant on manual transactions; and
- Increased use of Direct Debits and Standing Orders for all customers, with the exception of those customers already heavily reliant on the automated functionality of their accounts.

How can KPMG help?

The information requirements when submitting a Section 149 notification include peer research, competitor analysis, switching research, customer usage patterns and trends, financial information and pricing strategy. We have extensive experience assisting financial institutions with CBI submissions and insight into what peers are doing in relation to products and charges. Examples of how our team of experts can assist include:

- End-to-end product assurance reviews, including fees and charges assurance. This bespoke methodology will arm financial institutions with tools and techniques to control its product set, maintain regulatory compliance and reduce the risk of future restitutions and enforcement action;
- Review and assurance of firm's Section 149 processes and procedures and adherence of fees and charges with underlying CBI approval, Terms and Conditions and systems;
- Review / development of cost and income models, as part of the Section 149 notification process;
- Review / development of customer behaviour / customer usage models, as part of the Section 149 notification process;
- Assessment of the impact of changes to the pricing strategy on the Conduct Risk Framework; and
- Review and assessment of the CBI engagement process.

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