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FCA to Introduce Reforms to UK Overdraft Market

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On 7 June 2019, the Financial Conduct Authority ("**FCA**") confirmed that it is introducing reforms in relation to the overdraft market, set out in its policy statement PS19/6. The aim of these reforms is to make overdrafts simpler, fairer, and easier to manage and will protect the millions of consumers that use overdrafts, particularly more vulnerable consumers. According to the FCA, the changes represent "*the biggest overhaul to the overdraft market for a generation*." In particular, the FCA has announced that it is:

- stopping banks and building societies from charging higher prices for unarranged overdrafts than for arranged overdrafts;
- banning fixed fees for borrowing through an overdraft – calling an end to fixed daily or monthly charges, and fees for having an overdraft facility;
- requiring banks and building societies to price overdrafts by a simple annual interest rate;
- requiring banks and building societies to advertise arranged overdraft prices with an APR to help customers compare them against other products;
- issuing new guidance to reiterate that refused payment fees should reasonably correspond to the costs of refusing payments; and
- requiring banks and building societies to do more to identify customers who are showing signs of financial strain or are in financial difficulty, and develop and implement a strategy to reduce repeat overdraft use.

Most of the new rules will be in force by 6 April 2020, apart from the guidance on refused payment fees which will take effect immediately. The repeat overdraft-use remedies will come into force on 18 December 2019. Further information can be found on the FCA's website here.

Related Professionals

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