GIVE US BACK OUR MONEY

The average bank can cost you £12,000 more than the best over a working life

In a sane world, if you consistently irritated a third of your customers, you'd quickly go out of business. Unhappily, that's not the world in which we live – a new *Which?* survey shows that 35 per cent of people are annoyed by their bank, yet the industry made more than £35 billion last year.

Customers are hit with exorbitant charges for services that cost banks next to nothing, banks capitalise on anxiety about financial matters, and poor service is widespread.

Much of the problem arises from the fact that most of us bank with one of just five big companies; they largely control the pace at which the industry moves. But you'll find the same behaviour spread throughout the financial sector.

WATCH OUT FOR BIG CHARGES

It costs banks a lot of money to get hold of a new customer. For example, Lloyds TSB gives £50 to new customers to tempt them into the fold; Alliance & Leicester and First Direct both give £25. And many of the banks use loss leaders, such as attractive interest rates, to pull people in.

Having done that, they need to make their investment back as quickly as possible. One way is by making easy money on big overdraft charges and charges you weren't expecting. Here we explain what those charges are – and then how they bolster them with other unreasonable practices.

Overdraft charges

Banks already make £3 billion a year from charges for unauthorised overdrafts, as we revealed last September, and these charges are on the rise.

Lloyds TSB is the latest to increase them, going from £25 to £30. It charges £30 if you go over your limit by £10 (it waives the first charge in any 12-month period). Then there's £30 each day you go over by a further £10 or more, up to £90 a month. If you don't have enough in your account to pay a standing order or direct debit, it adds a further £35. And, on top of all that, it charges 29.8 per cent interest on the unauthorised borrowing.

These levels of charge are typical of the industry. Even Nationwide, generally one of the fairer-minded companies, makes them. Its boss, Philip Williamson, told us: 'Like other banks, we use these charges to discourage delinquent activity.' In other words, they use the charges to encourage people to run their accounts without going overdrawn.

There's an important point between the lines there: these charges are merely punitive – they

OUR RESEARCH

In February 2005, we conducted a face-to-face survey of 932 people in the UK aged 15 or over.

PHOTOGRAPHY ALAMY, STUDIO 21, JOHN TRENHOLM

The best and worst practices

We compared more than 500 products and charges while researching this report, many of which seem designed to catch customers out.

But we also came across one really good practice that stands out as an example for the entire industry to follow.

MEANEST CHARGE

Alliance & Leicester was first choice here: the only bank to charge for moving your cash to another Isa provider. But it withdrew the £25 fee last month.

Instead, the Meanest Charge award goes to Halifax. It charges £1.50 every time you use your debit card abroad – in addition to the 2.75 per cent it adds to all foreign transactions.

Its subsidiary IF also charges £1.50 – but adds a fractionally less cruel 2.25 per cent.

MOST USELESS FINANCIAL PRODUCT

No one needs identity-theft insurance.

Several companies have launched their own policies recently, including Capital One, Barclaycard, Alliance & Leicester and The Royal Bank of Scotland. But once again our award goes to Halifax.

It charges more than anyone else, £84 a year – money that would be much better spent on a shredder and protection software for your PC.

MOST POSITIVE CHANGE

This award goes to Lloyds TSB for being the first bank to return the money it makes on slow transfers.

It has had a system in place to refund people's lost interest since January last year.

HSBC recently followed suit, saying it will return lost interest by the end of the year.

The banking industry as a whole has agreed to speed up transfers – but not until November 2007. Meanwhile, we want all banks to follow Lloyds TSB's example.

don't reflect the cost to the bank. When we asked Neil Berkett, a director at Lloyds TSB, to justify them, all he could say was that 'our fees are comparable to those of our competitors'. By that logic, Lloyds TSB can rip off customers more each year, as long as other banks rip them off more too.

Foreign charges

It's a similar story when you use a bank card abroad: charges don't reflect costs to the bank.

The maximum it costs a bank to process a foreign card transaction is 1.5 per cent of the sum involved. But most add 2.75 per cent to each bill – at least 1.25 per cent pure profit for doing nothing.

If you use a cash machine, they usually add a further 1.5 to 2 per cent, with a minimum charge of £1.50 or £2. And that's still not enough for some banks – the most recent trend is to add a flat fee when you pay for something abroad with your debit card. Lloyds TSB is the latest to join in, charging £1 for each use. NatWest already charges 75p a transaction. Halifax, winner of our Meanest Charge award, and Intelligent Finance charge a whopping £1.50 – put a £10 meal on a Halifax debit card, and you'll pay a total of 17.75 per cent extra in charges.

If you use your debit card abroad often, set up a Nationwide FlexAccount. Alone among the major banks and building societies, it doesn't make any charges when you use your card overseas.

BE CAREFUL WHAT YOU BUY

Of course, we don't all go overdrawn and we don't all get short of cash when we're on holiday. So the banks need other ways to recoup the money they spend getting hold of each customer.

Banks in the UK are particularly good at selling their customers new policies and accounts. In the worst cases, people end up buying policies they don't need without even knowing it.

A prime example of banks selling customers something they don't need is payment protection insurance (PPI). It's expensive, gives limited cover and, for lots of people, it's worthless.

The idea is that PPI covers your loan payments if you're unable to work because of sickness or unemployment. However, if you're on a contract or self-employed or you have a pre-existing illness, it probably won't pay out.

In the past, we've found widespread mis-selling of PPI with personal loans over the phone, and now we've discovered that the banks are using worryingly similar practices on the internet.

We looked at the websites of 34 loan companies and found ten that don't ask you whether you want to include PPI in your quote, but automatically add it on. The culprits were The Co-operative Bank, Direct Line, Egg, HSBC, Liverpool Victoria, Lloyds TSB, Lombard Direct, Mint, Northern Rock and

Smile. They're hoping you'll take out a loan without realising that you'll pay less by opting out.

More useless insurance

A new development in the field of policies people don't really need is identity-theft insurance.

When *Which?* reader Adam Brown activated a new card with Alliance & Leicester, its adviser asked whether he'd seen the news stories about fraud on the new chip-and-Pin system. For just £29 a year, he could buy its identity-theft insurance.

Fortunately, Adam wasn't that easily fooled: 'Now's the time for them to make a quick buck,' he told us. 'It all seems wrong to me.'

Identity-theft insurance doesn't stop you from becoming a victim of fraud or identity theft, and you still have to do some work to sort it out if you're a victim. It offers help and advice – which is also

'Now's the time for them to make a quick buck. It all seems wrong to me'

Adam Brown

available for free from the police and Citizens Advice – and reimburses the cost of postage, phone calls, legal expenses or loss of earnings.

The £25,000 or so of cover offered sounds like a lot but it's not for the money stolen: the bank is liable for that, not you. It simply covers your expenses, and it's unlikely that you'd need to claim for anything like the amount covered.

You don't get much that you can't do yourself – even though the most expensive policy costs £84 a year. That policy wins Halifax its second award, for the Most Useless Financial Product.

BE WISE TO THE SPIN

Identity-theft insurance is a fairly inspired piece of marketing – it cashes in on the wave of public concern about identity theft. Profiting from anxiety or confusion is a strong point for many banks.

Michelle Smyth got in touch with us on just this point. She was understandably concerned when Yorkshire Bank asked her to contact it about a payment she had made to her credit card. Worried about incurring charges for missing a payment, and unable to get through on the phone, she rushed to town to discuss it with her branch.

When she got there, she discovered that there was no problem with the payment: 'I was furious that the bank had sent me a deliberately misleading letter just to try to sell me something.'

Yorkshire Bank admitted that it was in the wrong but, in classic bank-speak, a spokesman said he 'would advise that the branch was simply trying to draw attention to services which they thought would be of interest in a proactive manner.'

Confusing adverts

If people are anxious or confused about what's happening, it's easier to make money from them. Few of us understand much about personal finance, so there's no shortage of confusion.

For example, you might think that the slogan 'a low rate that stays low' means that the interest rate will stay at a similar level. Not so.

Capital One and The Co-op have both made this claim in their advertising. The Capital One card was launched in April 2004 with a rate of 5.9 per cent – within six months the rate was 6.9 per cent.

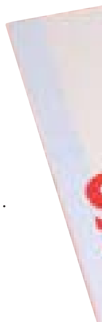
The Advertising Standards Authority says that because the rate was low compared with other credit cards, this claim is OK. But it's unclear whether the public understands the difference.

Both cards also claim to be 'flat rate'. Flat rate is a new term – again, one that's conveniently open to misinterpretation by potential customers. It doesn't mean the rate will stay at its current level: it means you're charged the same rate for all transactions.

DON'T BE LOYAL TO ONE BANK

We all encounter banks trying to sell us things we don't need or bamboozling us with financial terminology. So it's surprising that only one in 20 people have switched banks in the last two years – doubly so when you hear the stories of people who've suffered from poor customer service.

To find out how banks treat loyal customers, we asked you about your treatment at the hands of banks. We were inundated with responses. For



How to avoid banks' charges

Here are a few of the ways you can avoid losing money to the banks.

GET A NATIONWIDE CARD FOR ABROAD

Nationwide is the only major bank or building society that has a card which doesn't charge if you use it abroad. If you travel a lot, set up a FlexAccount.

PROTECT YOUR OWN ID

Rather than buying identity-theft insurance, avoid obvious passwords (such as your birthplace), check your credit file yearly, and shred old post. Go to www.cifas.org.uk for advice.

JOIN A CREDIT UNION

Opt out of traditional banking altogether with a credit union. Credit unions are formed when people in a community – people who live in the same village, say – save and borrow together. Credit unions can charge a maximum of 12.7 per cent for borrowing and typically give 2 to 3 per cent interest on savings.

The Association of British Credit Unions is negotiating with a leading bank to enable credit unions to offer basic bank accounts with ATM facilities. Have a look at www.abcul.org.uk to find your nearest union.

Nationwide doesn't charge to use its FlexAccount abroad example, Richard Gommo has banked with Lloyds TSB for 51 years but ended up £345 out of pocket after it simply lost the deeds to his house. Richard told us that he'd 'experienced poor service and many irritations over the years'.

Juliet Tibbels had to battle with Barclays just to get a new cheque book. She met with various frustrations; most worryingly, a cheque book was sent to the wrong address. 'I was eight months pregnant at the time,' says Juliet. 'I could have really done with my cheque book to pay for things when I was unable to leave the house.'

Brenda Schofield wrote to Barclays to complain about poor service and was called by someone she assumed wanted to apologise. However, true to form, it was an adviser trying to sell her something: 'My gripe with Barclays is its arrogant lack of concern for customers and its impersonal responses, except when it comes to selling its products.'

Banks are expert at profiting from customer loyalty. But remember they want to keep you as a customer, so it pays to challenge them. Chris Rolfe phoned Lloyds TSB to cancel his insurance because he'd found a better deal elsewhere. Straight away, it offered him the same cover as he had before for half the price, plus £20 of Marks & Spencer vouchers. But he was so annoyed that he refused the offer and he's going to switch his current account to a different bank: 'I didn't accept the offer because I was so insulted that it had been charging me double for goodness knows how long.'

ESCAPE TO A BETTER OFFER

Switching current accounts isn't difficult – you can switch almost at the stroke of a pen, and 90 per cent of people who have switched say that they found the process straightforward.

However, banks have ways of making other types of account more difficult to escape. For starters,

PHOTOGRAPHY CORBIS

'The industry is a virtual cartel'

'The UK banking industry is a virtual cartel – a cartel without the collusion,' says Don Cruickshank.

Five years ago, he wrote a damning report on the industry for the government. Now he's hit out again, saying that nothing has changed since his report.

He feels that competition still isn't working, and says the big banks are making too much money.

'In any other business,' he told us, 'the boards would be concerned about customer service and not just profits.'

Don thinks nothing has happened because the status quo is in the government's interest: the more stagnant the industry is, the less chance of a scandal.

As a result, the big banks still dominate: 'If competition was working, we would have seen new entrants, and less efficient companies leaving the market.'

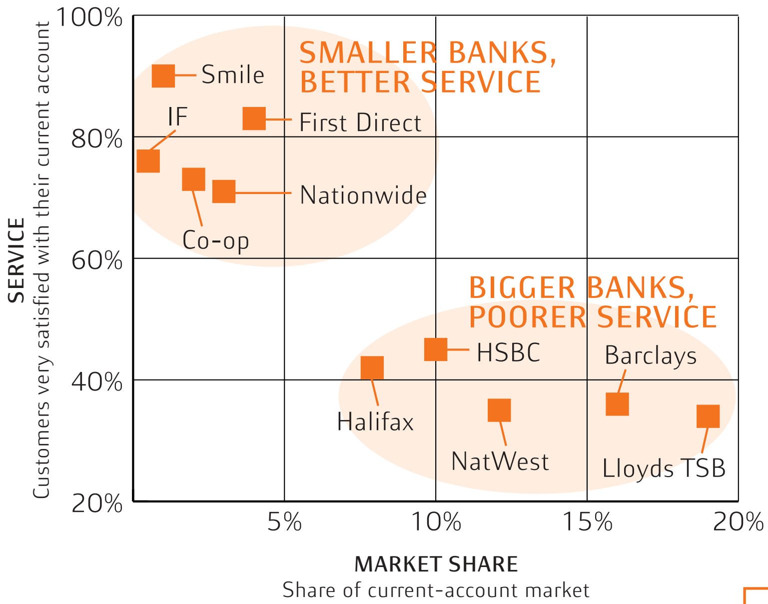
He's calling for drastic action: 'We need a regulator with proper powers to give competition and transparency.'

Cruickshank: 'We need a regulator with proper powers'

Big banks have unhappy customers

Our annual survey shows big differences in customer service between the banks.

Most interestingly, the banks with the biggest market shares seem to care less about their customers. But those same banks own other banks that have some of the happiest customers – First Direct is owned by HSBC, and Intelligent Finance is owned by Halifax. So why can't they get it right themselves?



In March 2004, we sent questionnaires to 11,363 *Which?* members asking about their current-account providers; thanks to the 5,111 who responded. Market share is taken from a January 2004 Mintel report.

Which? campaigns

Which? is always campaigning to improve how banks treat their customers. Here are some of the issues we've been tackling recently.

ELECTRONIC TRANSFERS

The banks have finally caved in to pressure to speed up electronic transfers, two years after we revealed how they make around £30 million a year from the delays.

Currently it takes between three and five days to transfer money between accounts; the banks have agreed to move to one day or less. However, the changes won't happen until the end of 2007.

Meanwhile, they'll still profit from money that's not theirs and from ridiculously high fees of £20 to £25 for same-day transfers.

Lloyds TSB and HSBC have agreed to refund the lost interest to customers until the new system is in place. We'll keep up the pressure on the others.

CASH MACHINES

The Treasury Select Committee has agreed with a Which? campaign to label cash machines more clearly.

Labels now have to say that the machine will (as opposed to 'may') charge. And you'll be told on screen as soon as you put your card in that there'll be a charge – previously, the machines didn't tell you until you were nearing the end of a transaction.

CREDIT-CARD CHARGES

The Office of Fair Trading is investigating credit-card charges after we gave evidence to the Treasury Select Committee. We showed that charges had increased and most companies charge the same.

MIS-SOLD INSURANCE

The Financial Services Authority is looking at the sale of payment protection insurance (PPI). It made the announcement after *Which?* research showed that financial companies sold PPI to people who could never claim on it.

BANKS IN NORTHERN IRELAND

In May, the Office of Fair Trading referred the big four banks in Northern Ireland to the Competition Commission after we used our super-complaint powers to highlight the issue.

The banks charge their customers outrageous amounts – even more than in the rest of the UK.

they make it tricky to tell which is the best rate: it's impossible to compare credit cards because interest is calculated in any one of 20 different ways.

The other barrier to smart shoppers is charges for moving to better offers. For example, over the last year, mortgage lenders have increased redemption penalties by around £100. And a growing number of credit card companies have introduced charges for transferring balances. If you owe money on your card, they charge 2 per cent (up to a maximum of £50) to let you swap to a more generous card.

Nicer banks for smarter shoppers

Even if you do switch to a better bank, you could still be a source of income for your old bank. Many have separate companies that offer better rates and service to the people who aren't loyal enough to put up with high charges and poor treatment.

HSBC was the first bank to offer a better version of itself when it launched First Direct in 1989. A three-year loan of £5,000 costs £173 less with First Direct than it does with HSBC.

When we asked HSBC to justify the difference, it told us: 'Because First Direct doesn't have to support branches and all the staff that involves, it can do different things with pricing from HSBC.'

Whether or not that's true (and not many people pop into their branch to discuss a loan while they're repaying it), it doesn't explain the difference in how customers are treated. We've found 83 per cent of First Direct customers are happy with their bank, compared with just 45 per cent of HSBC customers.

It's a similar story with Abbey and its online version, Cahoot. Abbey typically charges 17.3 per cent for a £1,000 loan, Cahoot just 6.2 per cent; in our survey, 51 per cent of Abbey current-account customers are very satisfied with their service, compared with 61 per cent of Cahoot customers.

HOW TO TURN THE BANKS AROUND

We can all do our bit to challenge the banks by moving our money to more generous companies with better customer service. But the main problem is with the industry, not consumers.

Critics point their fingers at two big problems – the culture of putting shareholders before customers and the lack of effective competition.

Putting customers first

The most infuriating thing about the banking industry is its inability to see the opportunities in treating consumers with more respect. There's a big market out there for a company that thinks more imaginatively – not least among that 35 per cent of people who feel annoyed by their banks.

Sadly, none of the banks is taking the initiative, so Which? is embarking on a consultation with the industry to make it happen. We'll develop a new code that encourages companies to put customers first. People will be able to see which firms treat customers fairly – those that don't care about customers won't be able to sign up to the code.

There's already a Banking Code which, in theory, ought to prevent a lot of the dodgy behaviour we've seen. But it isn't based on general principles – it

£12,000 wasted in a working lifetime

If you shop around before you choose a bank for an account or loan, you'll save a lot of money.

Take the typical set of scenarios we've shown below – in total, the worst banks charge around £740 more a year than the best ones. That's £22,200 over a working lifetime.

The big banks tend to cluster around the average points, offering suspiciously similar rates. But they could still cost you an extra £400 a year – £12,000 over a working life.

OVERDRAFT CHARGES
We found a £201 difference in overdraft charges for a typical scenario: a £250 authorised overdraft and £50 unauthorised overdraft three times a year, plus typical transaction charges.

BANKING CHARGES
There's a £30 difference in the cost of cancelling a cheque, fast-tracking a cheque to pay in two days and paying the charge for a bounced cheque.

CREDIT-CARD CHARGES
Save £165 a year in a typical scenario: £2,550 spent, all of the bill repaid in three months, a quarter of it in other months.

CASH ISA
We found £55 a year between the best and worst rates on a £3,000 mini cash Isa.

LOANS
There's an £867 difference in interest on a three-year £5,000 loan.

OVERDRAFT CHARGES

BEST	£81	Smile
AVERAGE	£204	
WORST	£282	The Co-operative Bank

Correct at 18.5.05

BANKING CHARGES

BEST	£30	Cahoot Current Account
AVERAGE	£50	
WORST	£60	NatWest/RBS Plus

CREDIT-CARD CHARGES

BEST	£20	Capital One – No Hassle Platinum
AVERAGE	£48	
WORST	£185	HFC Bank – GM Platinum

CASH ISA

BEST	£162	Abbey
AVERAGE	£140	
WORST	£107	Newcastle Building Society

LOANS

BEST	£452	Barclaycard
AVERAGE	£643	
WORST	£1,319	Barclays

SAME COMPANY, DIFFERENT RATES
A £5,000 loan from Barclays costs £867 more than virtually the same loan from Barclaycard.

That's typical of banks' attitudes to customers: one rate for loyal customers, another to win business from smarter shoppers. Barclaycard's Ian Barber says the reason is that people expect to get a loan from their bank: 'Far fewer people would be accepted for a Barclaycard loan, hence the difference in rates.'

MORE INFO

CURRENT ACCOUNTS
Last report
September 2004
Next report
November 2005

CREDIT CARDS
Last report
December 2004
Next report
December 2005

You can also find lots more ratings and information at www.which.co.uk/creditcards and www.which.co.uk/currentaccounts.

looks just at particular practices. So when one trick is banned, the banks can just dream up another.

And even when the code catches up with practice, it's not always for the better. For example, we pointed out in September that Barclays and NAB (which owns Yorkshire Bank and Clydesdale Bank) weren't following the guideline to give customers notice of unauthorised-overdraft charges. The banks and building societies that subscribe to the code solved the problem by rewriting the guideline to apply to authorised overdrafts only.

That's why we want the code to include a principle of fairness, so that banks can't get off on a technicality when they break the spirit of the code.

Fighting the dominance of the big banks

Phil Evans, Which?'s expert on competition, has been campaigning in the banking sector for nine years. 'The industry doesn't work for consumers,' he says. 'It's difficult for people to choose the right product because of the confusing array of charges and complex pricing structures.'

The problem is compounded by the size of the biggest companies – just five companies dominate the sector, and they tend to price their offers similarly. They are the Halifax/Bank of Scotland Group (HBOS), Barclays, HSBC, Lloyds TSB and The Royal Bank of Scotland Group (which includes NatWest). Including their subsidiaries, they have 80 per cent of the current accounts market.

When we found that the dominance of four big banks in Northern Ireland stopped consumers getting a good deal, we complained to the Office of Fair Trading. It agreed with us and now the Competition Commission is investigating.

The big UK banks aren't at that stage yet but there are clear signs that they're ripping people off. They need to start treating customers much better than they currently do. We're going to do everything we can to make that happen.

Which? says

Thirty-five per cent of people are annoyed by their bank.

That's not very surprising when you realise that the banks dish out charges that don't remotely reflect the costs to them.

Add the profits from anxiety, confusion and customer loyalty, and there's a clear problem.

But there are also clear solutions.

If the Office of Fair Trading's current investigation concludes that credit card charges are unfair, there are plenty of similar bank charges we think it should look at.

Banks can avoid the investigations that await by starting to treat customers fairly now. We're drawing up new guidelines, working with the industry – you can help by telling us about your experiences at www.which.co.uk/moneytalk.

And, of course, you can challenge the big banks by moving to a bank with better service and better rates. Find all the up-to-date best rates on www.which.co.uk/switch.

Have your say at the Moneytalk website

Free access to your cash – for how long?

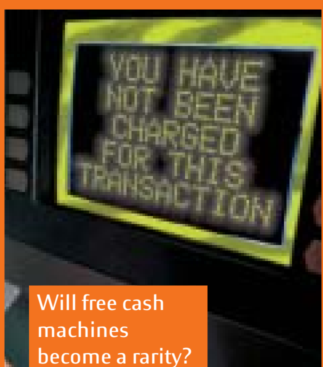
Cash machines that charge when you withdraw money are growing at a phenomenal rate.

Over the last couple of years, 20,000 convenience machines have been installed (there are currently around 30,000 free machines in total). These so-called convenience cash machines charge around £1.50 every time you withdraw cash.

If they're supplementary to existing cash machines and branches where we can withdraw money for free, they are more convenient.

But there are strong signs that we should worry about how long we'll have free access to our cash.

Banks are selling off free machines and closing branches. HSBC sold 800 free machines last year; NAB, which owns Clydesdale Bank and Yorkshire Bank, is closing 100 branches.



Will free cash machines become a rarity?

Peter Brown from NAB told us: 'I'm not aware of any place that will be left with just charging ATMs, but I couldn't be sure.'

It's a particular threat to people who live in rural areas. Disappointingly, the British Banking Association recently rejected the idea of banks sharing branches to retain free cash facilities in rural areas. It isn't even prepared to extend the limited pilot scheme that ended in 2003.

Derek French from Campaign for Community Banking shares our frustration: 'The industry has turned its back on a profitable solution through sheer narrowmindedness.'

If you have to pay for cash withdrawals because your local branch has closed or the nearest ATM has been sold, we want to hear from you. Write to Dept AW, PO Box 44, Hertford X SG14 1SH or visit www.which.co.uk/moneytalk.