affinity

St John's Terrace, 3-7 Ampthill Street, Bedford MK42 9EY
T 01234 716005 F 0844 774 9622 W www.workaffinity.co.uk E 24hours@workaffinity.co.uk
General Secretary: Mark Brown

Rt Hon. Nicky Morgan
Chair of the Treasury Select Committee
House of Commons
Committee Office
London
SWIA OAA

11th March 2019

Dear Mrs. Morgan

Lloyds Banking Group – Overdraft Charges

I refer to your letter to Mr. Antonio Horta-Osorio, Group Chief Executive, Lloyds Banking Group dated 13th February and his letter to you dated 18th February regarding overdraft charges. Mr. Horta-Osorio refers to our campaign on overdraft charges, although you never mentioned us by name in your letter, and the relationship between Affinity and LBG. I shall deal with that relationship later in this letter.

A few weeks ago, Lloyds Banking Group announced that underlying profits for 2018 had increased by 6% to £8 billion. It also announced that it was increasing the share buyback programme from £1bn to £1.75bn. In fact, including the increased buyback Lloyds has returned almost £12bn to shareholders since it resumed dividend payments in 2014. Shareholders have done well out of Lloyds over the last few years and will continue to do so, assuming a Brexit deal can be reached. Mr Horta-Osorio has also done well having received £51.4 million in pay and bonuses since taking over the Group in 2011.

We are not against paying for performance or maximising returns for shareholders but what we do object to, and so should all MPs, is when an organisation uses its monopoly position to take advantage of its customers. Lloyds stands accused of introducing a new set of overdraft charges for its millions of customers to maximise profits just weeks before such a fee structure is due to be banned by the Financial Conduct Authority. Such blatant profiteering from a bank saved by UK taxpayers at the height of the financial crisis is simply unacceptable.

In respect of the introduction of overdraft charges for arranged overdrafts Mr. Horta-Osorio says: "We are delighted that this new approach has led to a significant behavioural change, with many consumers paying down their overdraft....,". According to the FCA, 70% of the £2.4bn revenue from overdraft charges comes from customers with arranged overdrafts. When the Lloyds charges were introduced back in 2017, customers with arranged overdrafts were faced with monthly bank charges that were going to increase by up to 158% in some cases. A customer with a £1,000 arranged overdraft facility would see their yearly bank charges increase from £276 to £514, an increase of 86%. A customer with a £5,000 agreed overdraft facility would see their Bank charges increase from £996 to £2,568, an increase of 158%. Lloyds Banking Group knew full well that customers with higher arranged overdraft limits were unlikely to be offered the same overdraft facilities by other banks and it took advantage of that by forcing those customers to either pay massively increased bank charges, which many couldn't afford, or take out personal loans from Lloyds to pay down their overdrafts.

In his response to your letter Mr. Horta-Osorio fails to address the central issue that the FCA has said Lloyds fixed daily charging structure for overdraft users is going to be banned and replaced with a fairer system. Mr. Horta-Osorio says: "We continue to engage with the FCA on this issue and believe that our revised proposition still meets the FCA's objective". However, the FCA has already said that in order to fix the dysfunctional overdraft market, of which Lloyds is the biggest player, it will be: "Ensuring the price for each overdraft will be a simple, single interest rate – no fixed daily or monthly charges.".

In its consultation paper entitled High Cost Credit Review, the FCA details the consumer research it undertook which formed the basis of its proposals. When consumers were asked how easy or difficult it would be to work out how much an overdraft would cost if you borrowed £500 for one week, 28% of consumers said that would be difficult to calculate using Lloyds fixed daily fees (1p for every £7 borrowed) compared to 15% who were shown a simple interest rate with an overdraft calculator. Incidentally, 59% of consumers said it would be easy to understand the pricing of the overdraft using the Lloyds approach, compared to 74% using the interest rate and calculator approach. It's for that reason, the FCA says single interest rates for overdrafts will reduce harm, will be simpler for consumers and will foster competition.

Mr. Horta-Osorio is either being willfully obtuse in defending Lloyds current fee structure or he doesn't appear to have read the FCA consultation paper. To persist in defending the indefensible in the face of research produced by the FCA smacks of hubris. However, customers are not stupid, and they know when they are being taken advantage of by their bank. That may be why the independent service quality survey results, which banks are required to publish by the Competition and Markets Authority, shows that when it comes to overdraft services Lloyds Bank came 7th, Halifax came 10th and Bank of Scotland came 11th out of 16 banks and building societies. Not exactly a ringing endorsement from Lloyds Banking Group customers for Mr. Horta-Osorio's approach to overdraft charges.

Lloyds seems deaf to the needs of its customers on this issue so we have written to Mr. Andrew Bailey, Chief Executive of the FCA, asking him to write to Mr. Horta-Osorio making it clear that the actions of the bank are undermining consumer confidence in UK banking and seeking assurances from Lloyds that it will withdraw its new overdraft charges immediately. A copy of that letter is attached.

Finally, Mr. Horta-Osorio refers to the union recognition arrangements in Lloyds Banking Group.. The union decided not to sign the new recognition agreement with the bank because it would have undermined our independence and stopped us from campaigning effectively on behalf of our members. We would never have been able to write to MPs on issues like overdrafts, or sales practices or pension deficits under the terms of the recognition agreement. In fact, everything we wrote would have required the bank's approval. Equally, the proposed recognition agreement would have prevented staff from joining a union of their choice. Mr. Horta-Osorio supports a free market when it comes to financial services but not when it comes to trade union membership. The union recently won a landmark pensions case in the High Court on Guaranteed Minimum Pensions. That case will see up to 100,000 pension scheme members in Lloyds receive pension top up payments for past discrimination worth up to £100 million. Furthermore, the case will see up to 5 million pension scheme members, mostly women, receive pension top up payments worth up to £20bn according to the Government. We would never have been able to pursue that case if we had signed the recognition agreement.

Whilst some unions in Lloyds could accept collective passivity, we could not, so we declined to sign Mr. Horta-Osorio's recognition agreement. Almost 4 years on, Affinity is still the largest independent trade union in Lloyds Banking Group.

None of the forgoing however, detracts from the fact that Lloyds is taking advantage of its customers with its new overdraft charges. That's the real issue Lloyds Banking Group needs to address.

Yours sincerely

Mark V Brown
General Secretary