

24 May 2012

Regulator calls for free bank accounts to end

A Bank of England regulator has called for banks to stop offering free current accounts.

Andrew Bailey, executive director at the Bank, stressed that this would be the best way to bring an end to mis-selling scandals in Britain.

He also explained that free banking is a “myth” anyway as it skews banking services and drives up the cost of fees elsewhere, which has created too much variation in what customers are paying.

But Bailey said this might only happen if regulation amendments are made because it will be difficult for individual banks to make the switch without losing business.

He added: “It is hard for a single bank to break out of the existing situation without appearing to raise the price of its service to customers,” he said.

“And, it is hard for the industry as a whole to break out without appearing to collude. So, it may require intervention in the public interest, not least because it is a way to encourage greater competition.”

Jonathan Davis, managing director of Jonathan Davis Wealth Management, backed Bailey’s point of view, saying: “I am all for transparency as then the buyer can judge better the value, or otherwise, of the proposition.”

Davis explained that the top four or five banks control around 80-90% of the market and something needs to happen to upset this imbalanced status quo.

“Will it happen? I have no idea but I support it,” he added.

“If it happened I believe it would bring in greater competition into banking and this would likely enhance the experience of banking users.

“Competition in anything usually brings about improvement.”

But it is thought that, with millions of Britons still enjoying free banking, any move to introduce fees for standard services would be met with anger.

Speaking to the Westminster Business Forum, Bailey said: “I also worry that the banks may not properly understand the costs of products and services they supply.

“And I worry also that this unclear picture may have encouraged the mis-selling of products that is now causing so much trouble.”

The banking industry is currently having to pay out billions of pounds in compensation as a result of mis-sold payment protection insurance.