

Consumer Focus Board

Paper 9.1

Title: Financial Services Update
Purpose: To note and agree
Date of meeting: 20 January 2010
Responsible officer: Sarah Brooks
Prepared by: Linda Weatherhead
Attachment: Annex A: Focus on finance seminar summary

1 Overview

- 1.1 This report summarises the work we have been doing over the last year on Financial Services and the recent development of that work as part of a co-ordinated programme on Financial Services in 2010. We have good building blocks in place in terms of the financial inclusion agenda and disadvantaged and vulnerable consumers and the impacts of the recession on their access to financial services, we have researched the preferences of low income consumers in terms of the banking products and services they would like to see, have produced work on regulatory structure, payment methods and long term sustainability considerations in financial services.

2 Action for the Board

- 2.1 The Board is asked to NOTE the work done to date and AGREE the general approach to the 2010-11 work programme, subject to feedback from the external consultation.

3 Background

- 3.1 A Financial Services matrix team (along the lines of those already established in mobiles and digital) first met in November 2009 and will be meeting monthly to closely co-ordinate the work going on in the different programmes and to develop our expertise and maximise synergies and utilisation of resources. The existing body of work will be further developed and provide background for our proposals for a market that is consumer oriented and fair.
- 3.2 We have had a significant impact recently in relation to our work on the Post Office bank and banking services for low income consumers. Our engagement helped to secure a commitment from the Prime Minister to extending PO banking services in his Party Conference speech in October, and subsequently the issuing of the BIS consultation in November 2009. The congruence between our campaign messages and the terms of reference for the BIS consultation is indicative of the considerable influence we've been able to exert on the Government in the last few months.
- 3.3 In the last month we have embarked on an extensive round of consultations with stakeholders to better identify the response to our work programme 2010/2011 and to

establish gaps or areas of co-operative working where we can most add value. We have also significantly increased our involvement in committees and forums where the issues are currently being debated. Additional and dedicated resources have increased our capacity in this area.

- 3.4 Our work will focus on developing the areas where we already have strengths and background and also where we can draw on lessons from our work in other sectors such as price transparency, choice, access to services and inclusion, customer service, sustainability (economically, individually and environmentally), competition and regulation.

4 Summary of 2009/10 work

4.1 Research and campaign work

- 4.1.1 **Debt Survey, March 2009** - 'snapshot' omnibus survey on how consumers are managing their debt in the financial crisis which brought up particular issues in relation to the problems faced by right-to-buy homeowners in managing their mortgages in the financial crisis and also their greater level of indebtedness in terms of second mortgages and loans secured on their homes and led to the briefing report above. It was recognised that this survey could provide a benchmark for the impact of the recession on consumers and therefore it is planned to repeat the exercise in April 2010.

- 4.1.2 **Debt collection/debt purchase** – scoping project has been conducted and further research commissioned to provide an overview of the problem and highlight policy development required to address consumer detriment in this area.

- 4.1.3 Research on **financial needs of low income consumers** following on from and extending our initial campaigning to secure a continuation of the Post Office Card Account for the payment of pensions and benefits (winter 2008). This activity has included provided briefings to no10 on the merits of extending the range of financial services offered through post offices; exploring the various options through which this could be brought about e.g. fully fledged bank, link to credit unions, mutualisation, extension of services through the current relationship with the Bank of Ireland; and setting out the range of social banking services which post offices are well placed to deliver. The research focuses on the advantages of post offices offering an expanded range of financial products with a pamphlet launched January 2010 and full report February 2010. Our ongoing campaign stresses that the introduction of these services would meet wider social objectives – including financial inclusion and community cohesion – while also underpinning the commercial viability of the existing PO network.

- 4.1.4 Consumer Focus Wales (CFW) commissioned a small qualitative study in March 2009 to highlight some of the **daily experiences of low income families in Wales** who largely live on a cash budget, including how they manage their money, their general attitudes to wider money issues, and who they turn to if they need additional finance, which resulted in "The cost of Cash report." The focus of the research was people with children under 16 living in the household. This research also formed part of a wider study into the 'poverty premium' and how it affects families in Wales. The latter study was a partnership project with three other key stakeholders in Wales (the Bevan Foundation; NEA Cymru and Save the Children in Wales) and covered issues such as the costs of education, financial services and fuel.

4.2 Planned and in process work

4.2.1 Research into the experiences of “unbanked consumers” to complement research currently being undertaken by Treasury.

The specific sub-groups of unbanked that we will be looking at are:

- People who are homeless, living in a hostel, temporarily with friends or ‘sofa-surfing’
- New migrants in low wage occupations
- Long established ethnic minority residents
- Women fleeing domestic violence
- Adults with moderate learning difficulties
- Adults with mental health problems
- Ex-offenders
- Users of loan sharks
- Ex-service personnel
- People who have experienced a disruptive life event in late middle age (bankruptcy, death of partner/divorce, chronic illness/disability)

4.2.2 A study of this type has never been conducted before and the researchers are reporting that it is generating a high level of interest. Interviews will start in January with a final report due in March.

4.2.3 Two separate research studies are about to be commissioned in relation to **payday lending** in terms of a comparative study of the market in the UK and the US and qualitative research with users of payday lending. Work on both of these studies should start in January 2010, with reports due at the end of February.

4.2.4 In the first half of next year we will be commissioning a review of the market in relation to the **costs of pensions** focusing on –

- Charges – find out the range of currently ‘advice’ charges paid by pension manufacturer and difference between stakeholder and managed funds
- Commission to salesperson – as above.
- Awareness of low commission options, stakeholder pensions – review the FSA (and others) case reports on the consumer awareness of the charges
- Consequence of the charges on the total value. Review the data on the relative performance of low-cost (usually stakeholder) pension funds and the managed pension funds.

4.2.5 Research into **financial exclusion amongst care leavers in Wales**. This will examine how care leavers manage financially, what, if any, barriers and difficulties they face, the perceived effectiveness of the support networks available to them, how this varies across local authority areas and how any such support can be improved.

4.2.6 Research with older people to provide insight into levels of debt and borrowing amongst the 65+ age group and the impact this could have while living on a restricted post-retirement budget (CF Wales).

4.2.7 Additional research on tracking over-indebtedness amongst the 16-50 age group will also be undertaken to examine the types of credit held, people’s ability to manage those credit commitments, default propensity and the implications for the Welsh Assembly Government’s financial inclusion policies.

4.3 **Research on the impact of the recession on social exclusion in Wales.**

- 4.3.1 Mystery shopping exercise on bank account switching to check whether EU principles of November 2009 are being rolled out and further research to follow up on NCC research on “Credit – choice or chance” and the from September 2002 and the Active Switching Index.
- 4.3.2 Comparative research on **how the regulatory regime serves consumer interests** and what implications there are from a separation of prudential regulation from consumer protection.
- 4.3.3 Analysis of **consumer complaints data** from the regulators. Is there a consistency in how they are reported and resolved?
- 4.3.4 Regulatory and market barriers to new entrants, particularly in light of the de-regulation of mutuals and consolidation/government capitalisation of financial institutions. Do different models provide better competition and choice? Look at examples in other countries and benefits/detriments to consumers.

4.4 **Reports and papers**

- 4.4.1 **Rating regulators, February 2009** - examines issues such as transparency, access, how regulators grasp the broader perspective, how they intervene on behalf of vulnerable individuals, how they use enforcement tools when necessary – and aims to ensure that regulation of markets stays connected to its original purpose – namely to benefit the consumer.
- 4.4.2 **Feast to Famine, April 2009** - Consumers on low incomes with no savings are being hit hardest as high street lending dries up and many will be forced to borrow from unregulated, sub-prime money lenders unless Government makes new, affordable forms of credit available. From Feast to Famine is a study looking at how consumer credit is being rationed during the financial crisis.
- 4.4.3 **Right to buy owners struggle to keep their homes, Briefing Report, July 2009** – report following on from the Debt survey below making recommendations for action on by central and local government, social housing landlords, the regulators and the courts.
- 4.4.4 **Pay now, pay later, August 2009** – Report on prepayments which shows that one in ten consumers are not receiving goods or services they pay for in advance, with less than half (48 per cent) of those getting their money back.
- 4.4.5 **Adaptation to a changing climate, October 2009** – How climate change will impact on consumers with a particular focus on the impact on property and investments and the need to fast track adaptation by promoting long term sustainable solutions.
- 4.4.6 **The Cost of Cash, CF Wales, November 2009** – highlights the daily experiences of low income families in Wales who largely live on a cash budget.
- 4.4.7 **Making Markets Work: the role of cash in paying for goods and services**, Consumer Focus Scotland, December 2009 - this study explores which payment methods are attractive to consumers in different contexts, with emphasis on the use of cash and the needs of low-income or disadvantaged people. The study looks in

general at how people pay for household bills and then specifically about the use of cash in four key areas: retail; energy; council tax; and telephone services.

4.5 Consultation and other responses

- Financial inclusion – ensuring access to a basic bank account, response to EU Consultation, April 2009
- Response to the Welsh Assembly Government consultation ‘Taking everyone into account: a financial inclusion strategy for Wales’, May 2009
- Response to the OFT guidance on second charge lending, May 2009
- Response to the OFT Financial Services Strategy, June 2009
- Consumer Focus response to OFT review on high cost credit, September 2009
- Response to consultation on irresponsible lending, October 2009
- Response to the Welsh Assembly Government’s Draft Action Plan for the Credit Union Movement in Wales 2010-2013, ‘Raising the Profile: Meeting the Challenges’, December 2009
- BIS Consultation on Credit and Store cards (in process) January 2010
- Briefing on the Financial Services Bill

4.6 Focus on Finance seminar series

- 4.6.1 A series of high level debates exploring regulation, competition, cross-subsidisation, financial inclusion and comparative systems/trust and confidence. The microsite www.focusonfinance.org.uk contains the seminar papers and summaries to date and a full summary and analysis will be produced at the end of the series. (see Annex A for a summary of the seminars to date and those planned for the coming months)

5 Work programme 2010-2011

- 5.1 Our work programme is currently out for consultation and has been framed in a way to give us the flexibility to respond to issues as they come up, particularly in the area of financial services which is a moveable feast. It also pays heed to the limited resources available which will increase to the equivalent of 4 FTEs but at the moment is limited. We will be taking into account the feedback from our consultations and also the initiatives and changes that are being introduced on an almost daily basis, as well as utilising our work planning criteria of detriment, trend, advocacy gap, impact and value to determine our priorities.
- 5.2 The areas currently covered by our work programme are as follows. There will obviously be a need to prioritise within this.
- 5.2.1 **Behavioural economics** – This work will review thinking on behavioural economics and apply this to two financial markets in order to develop hypotheses on how to improve their function for consumers.
- 5.2.2 **Financial services regulation** – Promoting the consumer interest and interaction with policy development. Drawing on our work in the area of regulatory principles and framework and access to services
- 5.2.3 **Competition banking** – Looking at consolidation in the banking market, pushing for a competition review and developing proposals that would facilitate exercise of choice and consumer market drivers. Drawing on previous work on price transparency,

customer service. Responses to inquiries and a policy report on switching. (connected to Behavioural economics work)

- 5.2.4 **Tackling high cost credit** – The development of proposals for affordable credit. Key policy paper based on identifying and evaluating good practice in low cost lending, workshop events.
- 5.2.5 **Debt and credit in the recession** - Mitigating the current consumer impact of debt and development of future safeguards to limit over-indebtedness. The work will include research on debt management, policy briefings and stakeholder events and promotion of protection measures to alleviate the problems experienced by disadvantaged groups.
- 5.2.6 **Policy and advocacy at European and International Level** – Engagement and collaboration in developments on the international level to inform UK policy and advocacy.

CF Wales

- 5.2.7 **Financial advice for young people** - young people's awareness and understanding of financial issues, what types of information they value and how existing learning/information channels could be extended and/or improved.
- 5.2.8 **Switching financial services** - the extent consumers in Wales actively engage in the financial services market.

6 Resources

- 6.1 Limited resources had been allocated to the 2009/2010 work programme areas on financial services but these will continue and be increased into 2010/11. In the London office total staff resource allocation for 2009/10 was approximately 2 full time staff members with work being contributed by the Disadvantage team, Fair Markets and Public Affairs.
- 6.2 As of end December further dedicated resources have been added and by the start of the 2010 financial year should have doubled to the equivalent of 4 full time staff members. The increase in numbers and better co-ordination through cross team working should bolster our capacity going forward.

7 Stakeholder consultation

- 7.1 The disadvantage team have done significant work in re-establishing contacts with key stakeholders in the areas of financial inclusion, high cost credit and debt during the year which had been lost during the transitional phase. These include Toynbee Hall, Family Action, Money Advice Trust/National Debtline, Help the Aged and Aged Concern, Shelter and Citizens Advice and the Financial Inclusion Centre, and the Social Market Foundation. We have also developed a working relationship with Barclays, who are proactive in this area on the industry side.

- 7.2 The Community and Public Services team have had a number of meetings with No10, the Chair of the Business Committee; relevant Govt departments including BIS, DWP and HMT; and principal stakeholders on PO and financial inclusion issues.
- 7.3 More recently the Fair Markets team have been consulting with stakeholders in relation to the areas of banking service provision, competition and regulation. Meetings are planned or are ongoing with BIS, FSA, FSA Consumer Panel, OFT, Which?, Experian, the Lending Standards Board, FOS, Debt Resolution Forum, Santander, RBS, and BBA.
- 7.4 CFW have also been continuing to build relationships with other key stakeholders across Wales in the area of financial inclusion. This includes membership of the Welsh Assembly Government's Financial Inclusion Strategy Steering Group (the strategy was formally published in July 2009) and the Advisory Group for the Financial Inclusion Champions Team in Wales.
- 7.5 The concentration of key elements of the financial services industry in Scotland, particularly Edinburgh, has resulted in much public debate in Scotland on the economic impact of the problems in the sector. Consumer Focus Scotland has been working to ensure that the consumer agenda is highlighted. We took part in an invited David Hume Institute seminar on the future of the financial services industry in Scotland and a dinner with the Secretary of State for Scotland, Jim Murphy, to discuss next steps. We spoke at a Church of Scotland conference on justice in markets which focused specifically on the banking sector and have been exploring the possibility of some future joint work with Scottish Financial Enterprise. Trisha McAuley was a member of the OFT working group on Transparency in Personal Current Accounts which reported at the end of last year and also the British Bankers' Association implementation working group set up to take forward the OFT recommendations.
- 7.6 We are on the 'Lenders Compared' (home credit) governance board, the Financial Crisis Audit framework panel at the Financial Inclusion Centre and the research advisory group at the Money Advice Trust, the Treasury's Retail Financial Services Forum, the UK Payments Council, and the BIS Consumer Finance Forum among others.

FOCUS ON FINANCE SEMINAR SUMMARY

1 Regulation

- 1.1 The seminar considered the need to better manage risks and ensure deposit/depositor protection whilst acknowledging that firms should be allowed to fail. Good corporate governance needed to be encouraged in any structural changes and the Walker review underlines obligations on boards as the first line of defence in a financial crisis.
- 1.2 Demystifying the area and providing the means to consumers to assess and choose products was identified as a crucial aspect of a new framework. Proposals to improve financial capability need to be combined with appropriate regulation of the market to improve transparency and comparability of products. Independent Financial advice has been proposed by the FSA but the problem remains of how you provide advice and guidance to those who can't afford an advisor.
- 1.3 Safe products and regulation of products was mooted and provoked considerable debate as well as throwing up some practical barriers. At the macro level should we also look at reviewing policy in areas such as planning policy and inflation targeting to keep property prices more stable?

2 Competition

- 2.1 The financial crisis followed a period of extreme competition which led to risk taking which was not sustainable. The resulting consolidation of financial services and government intervention has had an impact on competition. There is an argument that competition can still be fostered alongside stability through a narrow banking model but issues raised included whether this would encourage new entrants, where would funding for the narrow model come from, and could narrow banks drive innovation with this limited business model.
- 2.2 It was agreed the regulators should have a role in promoting competition. However competitive pressures should always be aligned with the consumer interest and banks need to focus on their reputation and customer service aspects.
- 2.3 It is important to tackle barriers to new entrants. It was argued that the regulatory system allowed the mutuals market to diminish and now Government intervention has insulated existing institutions from normal market pressures. The special resolution scheme needs to help to restore trust and confidence in both established players and new entrants. Is there a lack of political will to act in a similar way to the regulation of the energy industry?
- 2.4 Is reform of the payments system and new payments technology a key to opening up the market or is it inherently necessary for common standards and practices to be required of payments systems?

3 Free or fee

- 3.1 Free advice and free products often come with hidden costs that are more likely to impact on low income consumers. The provision of so called free products has driven the design of increasingly complex products with hidden costs and charges and this is fed by consumer behaviour in considering headline rates and short term cost. Should Governments mandate

free and transparent products? Are financial services an essential utility? How should they then be regulated?

- 3.2 It is unlikely that banks will start charging for basic bank accounts but the overdraft fees case is likely to push banks towards more complex innovative ways of cross-subsidising. The need for transparent products, comparability and financial capability was again raised.
- 3.3 Will electronic and micro payments models see new entrants challenging existing models? Is there room for fee and free?

4 Financial inclusion

- 4.1 Scheduled for 10 February 2010. How mainstream financial institutions can be persuaded to adapt their services to the needs of low income consumers? The seminar is due to be held on 10 February 2010. Sukhvinder will chair the event. Brian Pomeroy, the Chair of the Financial Inclusion Taskforce, has agreed to write the main paper for the seminar and Alan Cook, Managing Director of Post Office Limited, is going to be a panellist. It promises to be a high quality debate.

5 Restoring trust in financial services. Is America leading the way?

- 5.1 To be scheduled in February. We have been in contact with Congressman Kanjorski, a member of the House Financial Services Committee, and Chair of its Subcommittee on Capital Markets, and trying to find some dates when Congress is not in session and also get clearance with the House Ethics Committee for him to come.