



Evidence to the Economy, Energy and Tourism Committee on its inquiry into the implications of the final report of the Independent Commission on Banking

September 2011

About Consumer Focus Scotland

Consumer Focus Scotland is the independent consumer champion for Scotland. We are rooted in over 30 years of work promoting the interests of consumers, particularly those who experience disadvantage in society.

Part of Consumer Focus, our structure reflects the devolved nature of the UK. Consumer Focus Scotland works on issues that affect consumers in Scotland, while at the same time feeding into and drawing on work done at a GB, UK and European level.

We work to secure a fair deal for consumers in different aspects of their lives by promoting fairer markets, greater value for money, improved customer service and more responsive public services. We represent consumers of all kinds: tenants, householders, patients, parents, energy users, solicitors' clients, postal service users or shoppers.

We aim to influence change and shape policy to reflect the needs of consumers. We do this in an informed way based on the evidence we gather through research and our unique knowledge of consumer issues.

Introduction

Consumer Focus Scotland welcomes the opportunity to provide written evidence to the Economy, Energy and Tourism Committee in relation to the final report of the Independent Commission on Banking. Consumer Focus Scotland is the independent consumer champion for Scotland. We work on issues that affect consumers in Scotland, while at the same time feeding into and drawing on work done at a GB, UK and European level. We are part of Consumer Focus, and our work on financial services is led by our colleagues at Consumer Focus in London. While Consumer Focus Scotland has not carried out any work in relation to the Independent Commission on Banking, our colleagues at Consumer Focus have considered the consumer issues arising from its work. They have not looked specifically at the implications for Scotland, but it is likely that similar issues will arise from consumers wherever they live within the UK.

We have therefore included as an appendix to this evidence the text of a briefing produced by Consumer Focus just prior to the publication of the Commission's report. This sets out the key issues for consumers arising from the Commission's interim report. We also attach a copy of Consumer Focus' July 2011 response to a consultation by the Commission - this can also be accessed on our website at the following link:

<http://www.consumerfocus.org.uk/publications-reports/consultation-responses>

Competition and consumer switching in relation to bank accounts in Scotland

The primary issue identified by Consumer Focus is the need for the retail banking market to change so that the banks feel the pressure of competition, forcing them to fight to attract new customers and retain existing ones. Consumer Focus research shows that three-quarters of people have never even considered switching their current account.¹ The available consumer evidence in relation to Scotland supports this conclusion. The Scottish Consumer Council (SCC), one of our predecessor organisations, published consumer research in 2008 in relation to consumer switching and attitudes in a number of key markets, including current accounts and savings accounts.² The research found that, in contrast to other markets such as energy, insurance and telecoms, consumers in Scotland were unlikely to switch their bank accounts. Only 5-6% had switched their current and savings accounts, while 77% had been with the same bank for over 10 years, and a further 10% had used the same bank for between 5 and 7 years.

¹ Consumer Focus, [Stick or Twist](#), October 2010

² Scottish Consumer Council, [Making markets work for consumers in Scotland-everyone benefits, consumer switching behaviour and attitudes in key markets](#), May 2008

The SCC found that consumers were choosing banks on the basis of convenience and family tradition, rather than on competitiveness and service. It concluded that, while these may be positive preferences and choices made by consumers, this puts little incentive on banks to raise their game. Of the small proportion who had switched bank accounts, a sizeable minority did not find this easy, and in comparison with consumers in England and Wales, a higher proportion in Scotland said it was not easy to find out what banks have to offer.

The SCC report found that consumers in Scotland showed a clear sense of loyalty to established brands across the range of markets studied. It concluded that while consumers in Scotland were rewarding banks with trust and loyalty, the banks were not providing consumers with sufficiently clear, accurate and honest information. It recommended that the banking industry should make increased efforts to provide more accessible and transparent information on accounts. In its response to the Commission's interim report, Consumer Focus again called for greater transparency in relation to the pricing of financial products, in order to remove a major disincentive to switching for consumers and to stop banks making money by exploiting the unwary or those in financial difficulty.

Consumer Focus has also welcomed moves by the banks to set up a redirect service for direct debtors to reduce error rates, which may also encourage consumers to switch. Consumer Focus research has found that concern that things may go wrong when switching accounts is one of the major barriers to switching.³

Other key consumer issues

The other key measures called for by Consumer Focus are:

- More needs to be done to help lower income consumers, neglected by banks, who do not seem to see them as profitable enough to provide with appropriate products. Lower income consumers suffer the most from products that don't meet their needs. Bank accounts and saving products are essential services and policy makers need to think about those at the bottom for whom market competition will do little to reach. This reflects the findings of the SCC research in relation to Scotland, which found that specific groups – including those on lower incomes, those without internet access, disabled people and those aged over 55 – had fewer choices available to them, and were less likely to switch or to consider switching across a range of markets.⁴

³ Consumer Focus, [Stick or Twist](#), October 2010

⁴ See footnote 2

- Remove barriers to new entrants to a retail banking sector which has seen significant consolidation since 2007 – but it is important that this does not end up as more of the same. A healthy financial services market should not just be a small number of major banks and big building societies. More innovation and diversity is needed including other models such as credit unions, community initiatives and post office banking.

APPENDIX

Consumer Focus's media briefing ahead of the Independent Commission on Banking's report on banking sector reforms

Friday 9 September 2011

What does the Independent Commission on Banking (ICB) report mean for consumers?

This report could herald further reforms to the UK's banking sector in addition to those already underway in the wake of the financial crisis. The change which has been the subject of most speculation is the 'ring fencing' of retail banking in order to further protect ordinary consumers from future bank failures.

Leaving that aside, the ICB has been considering significant changes to retail banking in order to improve competition. There is certainly ample scope for improvement. Consumer Focus research suggests that the retail banking market suffers from poor customer service, complex and confusing products and pricing, low switching levels and a feeling that there is little difference between the big banks. Specific proposals under consideration include:

- Help encourage new entrants to the banking market, partly by means of divestments of state owned bank stakes
- Automated redirect of Direct debits and standing orders when switching
- Maximum switching time of seven working days
- Greater transparency on cost for consumers about which account represents best value

These reforms would have a positive impact on the banking market and on consumers. Consumer Focus believes that the debate about whether to delay 'ring-fencing' shouldn't impact on reforms intended to promote stronger and more effective competition. Such reforms raise no systemic issues and there is no reason for any delays to making the UK's banking sector more competitive.

We are encouraged that the ICB's interim report had prompted some progress by the banking sector itself towards faster, more failsafe switching processes, and we urge the Government to ensure that these reforms are delivered as soon as possible.

We believe that the retail banking market needs to change so that the banks feel the pressure of competition and start to really fight to attract new customers and

[Evidence to the Economy, Energy and Tourism Committee on its inquiry into the implications of the final report of the Independent Commission on Banking](#)

retain existing ones. Our research shows three-quarters of people have never even considered switching current account – this gives little incentive for banks to improve customer service.

With the draft Financial Services Bill currently being scrutinised, we also urge the Government to put in place a regulatory framework for the future that promotes a fair and competitive banking sector.

What are Consumer Focus's views on splitting retail and 'casino' banking?

We believe that ensuring the stability of our banking sector should be one of the Government's major aims. There must never be a repeat of the recent financial crisis. Whatever the structural solution, the Government must think long-term and set itself the goal of protecting and enhancing sustained confidence in the UK financial system.

What does Consumer Focus want to happen following the ICB report?

We want a real focus on encouraging competition and choice in the retail banking market, delivering better services for the people who rely on it, and putting the consumer at the heart of financial services. If the reforms work, more power will be put into the hands of consumers, ensuring that they are more able to vote with their feet if they are unhappy with the service they receive.

In its response to the ICB's Interim Report, Consumer Focus called for a number of measures including:

- More must be done to tackle complicated products with opaque charges and fees, many of which are so complex that customers do not trust or engage with them. The Office of Fair Trading estimates that the banks make £2 billion annually from penalty charges such as unauthorised overdraft charges.¹ Prices should be upfront, transparent and comparable. This would remove a major disincentive to consider switching for consumers and stop Banks making money by exploiting the unwary or those in financial difficulty.
- We support the banks' project to set up a redirect services for Direct Debits so they are automatically transferred to reduce error rates. Consumer Focus research shows this is the largest cause of fears around switching and this move would reassure consumers there is less scope for things to go wrong when they move accounts.²

- More needs to be done to help those lower income consumers, neglected by banks, who do not seem to see them as profitable enough to provide with appropriate products. Lower income consumers suffer the most from products that don't meet their needs. Bank accounts and saving products are essential services and policy makers need to think about those at the bottom for whom market competition will do little to reach.³
- Remove barriers to new entrants to a retail banking sector which has seen significant consolidation since 2007 – but it is important that this does not end up as more of the same. A healthy financial services market should not just be a small number of major banks and big building societies. More innovation and diversity is needed including other models such as credit unions, community initiatives and post office banking.

FACTFILE

- Consumer Focus research in 2010 suggested that just seven per cent of people switched their current account in the past two years. This compares to 31 per cent for energy providers; 26 per cent for telecoms and 22 per cent for insurance. Banking is clearly less competitive than many other markets.
- Three-quarters have never considered switching their current account provider. Over nine million people had thought about switching (around 17 per cent of account holders) but had not done so.
- Of those who had thought about switching, nearly half were put off by fears around transferring Direct Debits. These fears may not be misplaced - one in four people who had switched reported an error with one or more of their direct debit payments
- According to the Financial Services Authority, the banking industry attracted 1.8 million complaints in the second half of 2010. Just this week figures from the Financial Ombudsman Service showed a 54 per cent increase in complaints with nearly half (47 per cent) upheld in favour of the consumer.
- Consumer Focus research found that consumer disgruntlement is even deeper. Three-quarters of people with a grievance against their bank made a complaint, but fewer than half (47 per cent) were happy with the response they received. Less than a third then persuaded the complaint further (31 per cent) and only nine per cent took their complaint to the FOS.

Notes:

- In December 2010, Consumer Focus hosted a public event on behalf of the ICB as part of its consultation process. Members of the public were invited to give their views on the UK's retail banking system.

1. Source: OFT [Personal current accounts in the UK progress update](#) March 2011, p19
2. In October 2010, Consumer Focus published [Stick or Twist](#), which investigated switching in the personal current account market to look at whether it was likely to influence competition among banks and affect unfair charges. Our research showed that there is still a great reluctance among consumers to switch account providers. There also appear to be real problems with the switching process.
3. Consumer Focus has issued a number of reports looking at ways to improve the access people on low incomes have to mainstream banking products and affordable credit. These include:
 - [On the Margins](#) – looked the issue of financial exclusion and how those on low incomes have been pushed to the margins of mainstream banking
 - [Affordable Credit](#) – analysed the experiences of France, Germany and Australia to see if lesson could be learned by British policy makers to tackle financial exclusion and the issue of high cost credit
 - [Opportunity Knocks](#) – laid out the case for how the Post Office could as a ‘neighbourhood bank’
 - [Counter measures](#) - argues all UK high street banks should allow full access to personal bank accounts at the post office network, to meet consumer demand
 - [Keeping the Plates Spinning](#) – investigated the UK’s pay day lending market

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