British Bankers Association's Complaints Seminar
Tuesday, 29 April 2014, Pinners Hall, 105-108 Old Broad Street, London

Are consumers at the heart of UK banking?

It was just over a year ago I was here at Pinners Hall posing the question: is British retail banking still at the crossroads? The crossroads point had of course been made by Adair Turner back in 2012[1] just after the Libor scandal broke; when trust in our banking system looked as if it had moved one step forwards, and then several steps back.

That seems a very time ago when you consider all of the things that have happened since then in banking. The Parliamentary Commission on Banking Standards (PCBS) has reported[2]; the new Financial Conduct Authority (FCA) is now a year old; the Payments Accounts Directive has been passed[3]; and the Mortgage Market Review (MMR) has come into force.[4]

You may be pleased to hear our message today is much more optimistic and positive than previous years. I've been speaking at this BBA event many times over the last four years and can genuinely say there have been some great innovations in the last year.

The seven-day account switching service enables unhappy customers to vote with their feet. While they have always been able to do this, the new service should make it faster and relatively pain free. The Consumer Panel has always been very supportive of hassle free switching because we know it helps to drive up standards and improve competition in other industries. And it empowers the customer – as we have always said no one really likes complaining - people just want a good service that meets their expectations.

From next month we have a new code of practice for misdirected payments[5] - an area of consumer frustration and misery, and an issue of concern for the Panel for many years. Mobile banking is now gathering pace – today is the launch of '*Paym*', which enables people to make and receive payments through their current account with their mobile phone number.[6] These are all good initiatives for consumers from the industry.

Coming down the line we have Sir Richard Lambert's professional standards work.[7] We also have proposed changes to make '*individual responsibility a reality*' for senior bankers - in the words of the PCBS - and to deliver clearer expectations for the behaviour of junior and senior employees. Both will hopefully benefit consumers, and the Consumer Panel believes it is important that they are joined up.

I will return to the subject of professional ethics, and its interaction with sales and pay incentivisation later.

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[1] http://www.fsa.gov.uk/library/communication/speeches/2012/0724-at.shtml
[2] http://www.parliament.uk/bankingstandards
[3] http://register.consilium.europa.eu/doc/srv?l=EN&t=PDF&gc=true&sc=false&f=ST%208001%202014%20INIT
[4] http://www.fca.org.uk/firms/firm-types/mortgage-brokers-and-home-finance-lenders/mortgage-market-review
[5] http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/2867/
http://www.paymentscouncil.org.uk/files/payments_council/misdirected_payments/code_of_best_practice_misdirected_payments_for_payment_service_providers.pdf
[6] http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/2866/
[7] http://www.bankingstandardsreview.org.uk

Martin Wheatley recently announced that there had been 15% fewer complaints made in the last six months of last year (H2), than had been made in the first half of 2013 (H1).[8] This was positive, although it's worth recognising that the fall was mainly due to complaints about payment protection insurance (PPI) dropping 22% to 1.4 million.

What is less positive is that complaints against personal current accounts had risen by 8% to over 303,000 in the H2 period last year.

The introduction of the new switching service straddles the H2 period with its introduction last September – so it will be interesting to see if switching helps lower current account complaints this year. But the key point is that whilst any decrease in complaint numbers is to be welcomed, 2.48 million complaints is still a massive number in a six-month period.

We think it is probably too early to suggest that the latest complaints data is proof firms are putting consumers at the heart of their businesses - as Martin has suggested - but from last year's crossroads, perhaps we have at least taken the right turn.

Another development since last year is the FCA's Thematic Review into Complaint Handling. We think this is really important. We agreed with the FCA that something wasn't working in the way firms managed and investigated customers' complaints[9].

We also agreed - as I'm sure you do - that it is in the industry's interest to ensure that when customers do complain, they have confidence their complaint will be recognised, that it will be investigated fairly, in a timely manner, and that redress will be paid where it is due.

I understand that the banks are now looking for changes to the 'DISP rues' (complaints handling rules) to ensure that they work more effectively for consumers and firms. We look forward to seeing more details in that regard.

Meantime, I want to talk about what the Consumer Panel thinks is wrong with the way complaints are currently handled by banks, and what we would like to see change.

We know what each firm defines complaints differently. This is not helpful. The fact the FCA has two definitions for a complaint doesn't help either of course. Antionia mentioned this in relation to the FCA's Thematic work earlier. We are hopeful that this work will deliver beneficial outcomes for consumers and the industry.

Whilst we recognise that complaints data is not necessarily produced to enable consumers to compare firms, the reality is they will undoubtedly use it to do so. This is not possible if they are not comparing like for like. Given that complaints data has to be published, wouldn't it be better to make it more useful, and meaningful in the interests of consumers?

We think customers should be able to compare financial firms on a like for like basis, and the ability to compare firms on how they treat their customers when things go wrong it central to any meaningful comparison.

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[8] http://www.ft.com/cms/s/0/2f1e59ca-bfc1-11e3-9513-00144feabdc0.html#axzz3082J7CTE
[9] http://www.professionaladviser.com/ifaonline/news/2292287/fca-to-review-major-firms-complaints-handling

Another inconsistency is that some firms continue to charge premium rates when people ring to complain. Most firms will say all feedback is good feedback – so why put in place obstacles to dissuade people from giving you this information? And the reality is that if you are ringing to complain about something you are probably pretty distressed. The last thing you need is the additional worry of how much the call is going to cost.

Which? have called for the FCA to ban financial companies from using expensive customer service numbers. We support this call and are pleased that it has been announced that FCA will be consulting on capping the cost to a standard rate in the future.[10]

That said the Consumer Panel believes the industry shouldn't need to wait for a cap. This is clearly unfair, and there is nothing to stop the industry sorting this problem out right now.

Incidentally, under recent changes to the EU Consumer Rights Directive[11] (CRD), calls to customer helplines must be charged at no more than the basic rate. However, financial services are not included in this legislation[12]. Why should financial services be different to other sectors in this regard?

If I can turn now to complaint handling and resolution. Recording and complaints is one thing. Ensuring they are handled properly is another. Whilst 15% reduction in complaints is to be welcomed, the real challenge is ensuring Ombudsman uphold rates also come down.[13]

For example, in the last quarter of 2013, 32 % of complaints about current accounts were found in favour of consumers. This was 40% for deposit and savings accounts, and 80% for packaged accounts. Clearly, too high on all counts.

In many respects, preventing or avoiding complaints is about ensuring the expectations of your customer matches the service that you actually provide. The Panel has always believed that part of the solution in relation to financial services is for terms and conditions of products to be made simpler, shorter and consumer friendly.

If the customer can easily understand product features and be aware of the contractual and legal rules when things go wrong, there is less scope for being dissatisfaction – and ultimately understanding a product empowers the customer to avoid being hit with additional fees or charges.

The Panel has been very supportive of the BBA's work on creating a model set of current account terms and conditions which are aimed at meetings the needs of the consumer, as opposed to the bank's lawyers. We believe this is the kind of leadership which shows the industry taking good initiatives in the interests of all of their customers.

Making things clear and easy to understand is a great virtue, and I would argue fundamental to putting the consumer at the heart of UK banking. But another challenge is making sure the consumer facing part of your business is sufficiently trained to meet the expectations of your customers.

[10] http://www.moneymarketing.co.uk/news-and-analysis/regulation/fca-hits-out-at-premium-rate-phone-lines/2009232.article
[11] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0083&rid=1
[12] https://press.which.co.uk/whichpressreleases/which-demands-a-ban-on-costly-calls/
[13] http://www.financial-ombudsman.org.uk/PUBLICATIONS/complaints-data.html

This month *Which?* published its mystery shopping on the knowledge of bank staff in relation to the Financial Services Compensation Scheme (FSCS).[14] The results were worrying as some banks were very poor on advising their customers of the £85,000 limit of protection, or the fact it was protection per customer in relation to an authorised firm, and not per bank brand. Getting this basic information wrong could be very expensive for many people with all of their life savings with one authorised firm.

Problems with the knowledge of front line staff is not new of course. We only need to think back a couple of years when it emerged from a *BBC Money Box* investigation that many of our High Street banks were telling customers that they could only cancel CPAs with the consent of the payee.[15] In other words, the customer was *unable* to unilaterally cancel the CPA.

This was wrong in relation to the 2009 Payment Services Regulations[16]. And yet it has taken a considerable amount of time for some banks to amend their practices and contractual terms,

If I can turn to some of the Panel other areas of concern in relation to consumer complaints.

We continue to be concerned about what happens when a customer's account is forcibly closed by his or her bank because account fraud is suspected. The customer is often not told what the problem is, or what they can do about it. Instead, they just discover they don't have a current account and can't open another one. We think this is wrong[17] and have previously worked with the British Bankers Association', Stephen Timms MP and other key stakeholders to find a reasonable way forward.

Unfortunately, no progress seems to have been made here.

We believe at the very least banks should advise affected customers of their right to complaint to CIFAS.[18] At present this is not happening, and as a matter of fairness consumers should know what their basic legal rights are.

Bank charges, particularly for authorised and unauthorised overdrafts, continue to be significant source of complaints and misery in the consumer world. There continues to a great irony here. For example, borrowing £100 with an authorised overdraft will cost £30 with Halifax or £20 with some Santander accounts – whereas QuickQuid or Wonga costs between £20 and £37. Borrow the same sum on an unauthorised overdraft and it can cost £100 in bank charges! We are pleased that the FCA has announced that it will be looking at overdrafts later in the year. Incidentally, one of the Panel's priorities this year is cross-subsidies in the Personal Current Accounts market. Overdrafts are of course a fundamental part of this and help maintain the "free if in credit" model which dominates the UK PCA market. So we will be interested to see how the FCA work develops.

With the FCA soon to announce its cap on "high-cost short-term" credit, the Panel continues to argue what's good for the goose is good for the gander. Overdraft and credit card charges can be as expensive if not more so than payday loans, so why shouldn't there be a general cap on high-cost fees and charges across the consumer credit industry? This would surely make more sense than carving out specific areas and looking at them separately.

[14] http://www.which.co.uk/news/2014/04/bank-staff-fail-tests-on-compensation-scheme-363485/
[15] http://www.bbc.co.uk/news/business-17870704
[16] http://www.legislation.gov.uk/uksi/2009/209/contents/made
[17] http://www.bbc.co.uk/news/business-18540832
[18] http://www.cifas.org.uk/dispute_a_warning_can_I_get_it_amended_removed

In conclusion, I would observe that so many of the financial scandals and problems – here and abroad - can be traced back to a lack of embedded professional ethics; and I believe that ethical failure is a *causa causans* of so many of our financial problems.

The Panel has talked in the past of the need to change the incentives structures in banks. It remains our view that this is the single most important change without which consumers can never be placed at the heart of banking.

Instead of aligning bonuses to the number of products sold – we have seen how badly this turned out with PPI – why not align them to complaint uphold rates? Without changing the way incentives operate, the work of Richard Lambert and the FCA will struggle to deliver real change. With it, however, these initiatives could change banking for the better.

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