British Bankers Association's Complaints Seminar
Thursday, 15 March 2012, Pinners Hall, 105-108 Old Broad Street, London
(9.25am opening remarks, MRD at 11.00am)

'Towards a new deal for consumers of British banking'

If a society is judged on how it treats its most vulnerable members, then the British financial services industry must be judged on the volume and type of complaints it generates, and how it deals with them. In that regard, there are some troubling questions. Why are complaints so high, year on year? Why are consumers mis-sold products *en masse*? Why do some products not do what they say on the tin? And why do so many banks have almost all of their complaints overturned by the Financial Ombudsman Service (FOS)?[1]

In the first six months of last year there were almost 2 million financial service complaints reported to the FSA.[2] The figures for July to December 2011 may be higher given the large number of payment protection insurance (PPI) complaints which had been placed on hold pending the BBA's High Court case, lost last April.[3]

Out of all of these reportable incidents, UK banks accounted for almost 70% of the total, with customer service, bank charges and disputed sums accounting for the biggest source of complaints in retail banking. That's a lot of unhappiness that needs to be put right, and at the moment consumers have to jump through two hoops before they can access independent dispute resolution through the FOS.

Anything that represents a barrier to customers securing a fair deal in their financial

1 http://www.guardian.co.uk/money/2012/feb/28/barclays-most-complaints-uk-bank
2 http://www.fsa.gov.uk/library/other_publications/commentary/aggregate_com This excludes 'non-reportable' complaints which had been resolved by close of the next day of business.
3 *BBA v. FSA and FOS and another*: http://www.judiciary.gov.uk/media/judgments/2011/bba-fsa-judgment

services has to be unwelcome from a consumer interest perspective. And the two-stage complaint-handing process has undoubtedly represented an extra layer of complexity – some would say 'deterrent' - in what should really be a simple, standard, and straight-forward process. Why jump through two hoops when one will do fine?

The Consumer Panel welcomes the new one-stage complaints process from 1st July this year, along with the other significant changes to the FSA's Dispute Resolution Complaints sourcebook (DISP). Indeed the requirement to have a 'Head of Complaints' to take responsibility for compliance and drive cultural change across the organisation, was an idea that the Panel had called for within the FSA. We see these changes as fair, common sense solutions.

What expectations might consumers have of the new streamlined complaints process? Fair, speedy and hassle-free restitution or redress might be one answer. Yet the underlying expectation of every consumer is that when they buy something it should do what it says on the tin; it should just work and not surprise or harm them. In other words, no-one wants to complain in the first place.

Complaint management is by its very nature a repair job: trying to fix something that has broken down, which in the financial services world means trying to reassemble a relationship with a customer by resolving their problem, with an eye on goodwill and the desire to avoid reputational damage. One litmus test of how good an industry handles complaints comes from attitudinal surveys.

The Triodos survey of 2,000 British adults last month found that 40% of consumers were either dissatisfied or disaffected with their bank with 18% of respondents advising that they would not recommend their bank to a friend.[4] This is consistent with a survey Triodos undertook last year which found a similar level of customer disillusionment. The reasons given then for dissatisfaction broke down as: 38% citing

4 http://www.thisismoney.co.uk/money/saving/article-2105443/Failing-banks-leave-customers-unhappy-year-ago.html

poor customer service; 38% complained about the hefty bonus culture; and 29% were unhappy that the were not being treated as an individual.[5]

If attitudinal surveys cause a bit of industry angst then the new requirement in schedule 11 of the Financial Services Bill for all Financial Ombudsman decisions to be published in full must be a daunting prospect. While the personal identify of complainants will be redacted, the identity of the authorised firm will not. Think of 20,000 very large mirrors being held up to your firms, and that is the kind of beauty parade we are taking about.

Of course there have been glimmers of hope and progress. With 'faster payments' we now have the ability to make and receive sterling payments within a matter of hours or even minutes. A new easy switching guarantee will enable customers to move their bank account within seven days, and customers will get an annual statement to make it easier to compare different personal currents. But it won't surprise you to discover that the Consumer Panel has been calling for increased complaints transparency for a long time.

Is increased transparency reasonable? After all mistakes are an occupational hazard when you are dealing with so many financial transactions each second of every minute of the day. *To err is human; to forgive is divine*. Given that our entire legal system is predicated upon the basis of being open to the public it is difficult to see how anyone can object to decisions of the FOS being publicly available. Disclosure of the firm’s name is part of that public process. Such openness will undoubtedly put pressure on firms to improve the quality of their complaints handling process – but will it be enough?

Will a better complaints process be enough to deliver better banking services that meet the expectations of British consumers? How do we reduce high levels of

5 http://www.which.co.uk/news/2011/02/brits-fail-to-find-reasons-to-recommend-their-bank-244503/

complaints and customer dissatisfaction? How do we prevent future mis-selling scandals, incentivise staff yet protect the consumer interest? And how do we guarantee effective consumer choice and genuine value for money?

It's timely that we reflect upon such questions today; as precisely fifty years ago today President Kennedy delivered his speech to the US Congress on '*Protecting the Consumer Interest*'.[6] Today is *World Consumer Rights Day* in recognition of President Kennedy's seminal definition of '*consumer rights*' in 1962.[7]

JFK's essential message was that the march of sophisticated technology had rendered many consumer laws obsolete, and that it was necessary to protect consumers with four new areas of rights:

- a right to be safe – to be protected against the marketing of goods hazardous to health;
- the right to be informed – to be protected against misleading information and to be given the plain facts to make an informed choice;
- the right to choose – access to a variety of products at competitive prices with satisfactory quality at a fair price;
- a right to be heard – to ensure that the consumer voice formed part of Government and regulatory policy at all levels.

It's fair to say that over the last half a century we've done a reasonable job of making cars, travel by aeroplane and train, food, medicine, and electrical goods and devices much safer and more straight-forward for consumers to choose and purchase. Things have went wrong, but overall things work. We've acted with a view to prevent harm, rather than cure or try to compensate it. Yet when it comes to financial services why haven't we made the same progress?

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6 http://www.presidency.ucsb.edu/ws/index.php?pid=9108#axzz1oFBmlXcW; http://www.jfklibrary.org/Asset-Viewer/Archives/JFKWHP-AR7096-A.aspx

7 http://www.consumersinternational.org/our-work/wcrd/about-wcrd

If we take banking, the market has innovated tremendously. In the 1980's we had the launch of free-if-in-credit banking and more recently we have had packaged and fee-based accounts. Much activity, yet innovation has always been to the exclusion of transparency in cost and a lack of effective competition in the market. I would suggest that it is these systemic problems that underlie the high level of complaints and dissatisfaction in the UK personal current account market.

The new complaints process can only act as a magnifying glass to these problems. And no matter how well complaints are resolved, the difficulty must be that complaints will continue to be perpetuated unless we address root causes.

Today, the Consumer Panel launches it '*Better Banking'* Position Paper as a serious contribution to the case for a new deal for consumers of British banking.[8] We believe that a dynamic personal current account market is in the best interests of all consumers, and as I will argue, in the best interests of banks themselves in terms of less complaints, customer loyalty and better business sustainability.

We also believe that there are a number of major drivers which mean that change is coming – the new Financial Conduct Authority (FCA), the 'Vickers' Bill, European law reform, and e-technology - I will return to these drivers later, but first I would like to set out a summary of the Consumer Panel's '*Better Banking'* position.

The Panel believes that the creation of the new Financial Conduct Authority is a once in a generation opportunity to ensure better banking services for British consumers by using its new powers to do the following things:

- remove opaque charging by requiring transparency on the true costs of the different parts of banking services;

8 http://www.fs-cp.org.uk/newsroom/index.shtml

- empower consumers to shop around much more by switching their current account provider without any hurdles or delays;

- tackle cross-subsidisation within retail banking at the expense of financially vulnerable consumers;

- insist banks act honestly, fairly and professionally by bringing an end to the inappropriate incentive structures that reward one-off sales rather than developing long term customer relationships; and

- making it easier for new competitors to enter the retail banking market in order to increase consumer choice.

The Independent Commission on Banking (ICB) chaired by Sir John Vickers has identified many of the key challenges facing the UK banking industry.[9] The Consumer Panel believes that the problems identified by the ICB must be tackled in order to make the banking industry and market work more effectively for consumers.

We support the ICB key recommendations in relation to:

- recognising high market concentration, with the largest four banks dominating the retail personal current account market;

- a lack of new market participants and market competition;

- the ‘too big to fail’ problem;

9 http://bankingcommission.independent.gov.uk/

- over reliance on a small number of income streams – such as overdraft charges and cross-selling on high margin products – to subsidise their wider service provision; and

- the lack of transparency around the true costs of banking services which creates weakness in consumer demand, the ability shop around and work out whether value for money is truly given.

We believe the free-if-in-credit banking model has led to market stagnation and in-effective competition in the 21st century.

The relatively poor record of UK banks on complaints handling, the overall high levels of complaints and general consumer dissatisfaction that I talked about earlier, are all symptoms of these underlying problems.

We don't think there is a panacea or one regulatory lever that can be pulled to make everything work perfectly. But we do think a solution can be found by going back to the consumer principles identified by President Kennedy 50 years ago today, that is: **the right to safe products sold on an informed choice basis, within a market with competitive choice, at a fair and transparent price**.

These were radical ideas in swinging sixties America, and strange as it may seem, they remain radical when we talk about the UK financial services industry. But these are good principles, the right thing to do; and British consumers deserve a new deal in banking.

Will the UK's banks embrace the need for change? The Consumer Panel hopes so, and as I said earlier there are a number of major drivers that mean change is already happening or on the horizon.

- The new complaints regime and full publication of FOS decisions create an impetus for firms to prevent more complaints from occurring, and for those that do, ensure that they are resolved more swiftly and robustly. But neither that - nor indeed greater consumer ‘switching’ of current account providers - can on its own drive up fairness, value for money and standards.

- The Financial Services Bill will give the FCA a significant new competition remit which will enable business models by firms to be examined and reviewed in the consumer interest. Regulatory action on the competition side is a big part of the solution.

- We support the Government’s intention to take forward a number of major structural reforms as recommended by the Independent Commission on Banking. From a competition perspective, the Government’s forthcoming Bill may act as a catalyst for positive market change.

- There is of course a hugely important European dimension. At the EU level we have a review of the Payment Services Directive and E-Money Regulations, possible reform on personal current account switching, transparency of charges, and basic bank accounts. The UK has an opportunity to influence all of these debates at the EU level, and there can be little doubt that the European consumer space is going to continue to have a profound impact upon our banking services market.

- The final driver is perhaps the most interesting and unknown of all: technology. The advent of e-money, smart phone technology and the prospect of sort codes and account numbers being linked to e-money accounts must mean that lots of banking services will be provided on a smart phone. If not now, soon. Add in the provision of some consumer credit and you have a personal current on a phone.

Will the UK's major banks be challenged by a multiplicity of banking '*apps*' in a few years time? Certainly, that prospect must at least be feasible. The challenge is surely for the UK's banks to embrace change and focus on long-term customer relationships.

And to do this, brings us back to where we started: *the need for a new deal for consumers of British banking.*

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London

15 March 2012