The Consumer Panel

Good morning, and thanks to the BBA and EFMA for this opportunity to put the consumer view. It is good to have consumers first up on the agenda. The consumer view is never popular with the industry, but I hope I don't meet the fate of a Slovenian colleague, who was recently booed off the stage by a group of Slovenian bankers. Please don't shoot the messenger.

In case you don't know us, the Consumer Panel is one of four statutory panels that advises the FCA. As independent experts we bring the consumer perspective to FCA policy making, supporting and challenging the regulator. This task has become more complex as the consumer protection remit of the regulator grows. And there are few specialist financial services consumer organisations around so we are in a niche market.

We also look at broader financial services issues as they affect consumers. This year we have projects on cross subsidies in personal current accounts, investment costs and the consumer view of regulation. I'll touch on a couple of these later.

Trust

I was asked to talk about what needs to be done to restore trust in banking.

Libor, PPI misselling and the financial crisis have damaged trust, and only last month we heard that the banks had underpaid PPI compensation to the tune of £1billion. Whether those reports are true or not, the reputational damage is done.

A recent Ernst & Young survey found that only a quarter of UK consumers had complete trust in banks, and one in 6 had minimal or no trust. This is on a par with the views that Spanish and Russian consumers have of their banks.

Trust requires the fair treatment of customers, no more, no less. Banks need to treat their customers well, and to be seen to be doing so. This means a fundamental change in the culture of retail banking. I think some at the top of the banks have finally got this, but there is still a long way to go before consumers see the benefit.

Treating Customers Fairly

I was in Kuala Lumpur last week, working on a training programme for regulators from developing countries. There were 32 countries. Some participants, like Brazil and Malaysia, had fairly well established retail financial services. Others, like Burundi and Myanmar, were much less advanced. They agreed pretty quickly what treating customers fairly looked like:

- People have access to the financial products and services they need;
- Providers take account of the needs of vulnerable groups;
- Sales and promotional materials are clear and not misleading;
- Prices and terms and conditions are transparent;
- People can switch providers easily and without undue penalties;
- There is an easy way for people to complain, and independent redress.

Not a million miles from the FSA’s six TCF principles. Fair treatment is a universal concept.

All were equally united in saying that, as regulators, the number one barrier they would face in implementing these principles was the industry, summed up as "the banks will not like this!".

So how are banks here doing on these principles?

Access and Vulnerability

A basic bank account is all but essential to participate in economic life in the UK. Yet the industry persuaded the Government to try to negotiate an opt-out to the Payments Account Directive, to maintain existing voluntary arrangements on basic accounts. As it happens, the Panel does not have a strong position on universal access, although we are clear that any basic account should have minimum standards of functionality, and be good value. The point is, the banks' stance betrays a belief that they should be treated differently from other EU banks. It is not clear how the consumer benefits.

There are also worrying signs on vulnerable consumers. The Panel has had a bit of a battle with the BBA on forced account closure. This happens when a consumer's account is closed due to suspected fraud. They are often not told what is the problem, nor can they open another account. They are effectively 'de-banked'.

We want banks to at least advise consumers in this situation that they have a right to complain to CIFAS. It does not seem a big ask, but over a year after we first raised the issue, nothing seems to have happened.

In his latest report, the Ombudsman has reported more complaints from consumers in financial difficulty. What they are saying is that banks are not treating them fairly when they get into trouble. In many cases, the Ombudsman agrees with them.

Promotions

I think promotions get a cautious tick, on the whole the ASA and FCA do a good job of preventing downright misleading promotions. Though I did quite like the approach of the Bank Negara Malaysia, which bans the industry from using the word 'free' in its promotions. As they say, "nothing is free, the banks have to explain to their customers how it will be paid for".

Transparent Disclosure and Pricing

Which leads us to transparency. In the words of Albert Einstein, “If you cannot explain it simply, you have not understood it well enough”. Or maybe you are just trying to pull the wool over your customer’s eyes. Few of us understand the special theory of relativity, but most people are familiar with the central ideas – nothing can travel faster than the speed of light, you cannot travel back in time, etc.

Not so with banking. We all know that terms and conditions can run to more pages than Macbeth and that nobody reads them except for lawyers. To its credit, the BBA is looking at simplification, and we look forward to seeing the results of that work.

But at the moment those central, simple, facts are not prominent.

For example, what does my insurance cover and not cover? People want to know that in the first page, not have some obscure exclusion on page 94.

What rate am I getting on my ISA? I had to ring my bank to find this out. Seriously.

What would it cost me to go overdrawn by £25 for five days? I searched my bank's website for 'unarranged overdraft costs', and got 600 hits, most of which I didn't understand and none of which gave me a simple answer.

Getting through to my bank on the phone is a pain, so I asked someone I knew at another bank. He said it was 'complicated', but eventually came up with £31.06 for his bank's standard account.

The price on a payday lender's website, by the way, was about £7, less than a quarter the price and completely transparent.

If you are thinking that people are stupid to slip into the red, or to take out a payday loan, then you are out of touch with the struggle many people have to make ends meet and pay their bills on time. Charging someone over £31 to borrow £25 for a few days is not fair. No wonder complaints are going up from those in financial difficulty.

Price caps

A quick diversion into price caps if I may. The Panel is neutral about price caps. But we do not believe the high-cost short-term credit cap introduced by the Government should be confined to payday loans. The FCA has acted quickly to stamp out poor practices in the payday loan market. We support that of course. But we wish that it would apply the same zeal to bank overdrafts and credit cards. These cause many more people to tip into deep debt than do payday loans. And, as Which? has found, overdrafts can be a lot more expensive than payday credit. We think that if it looks like a duck and quacks like a duck, then it should be treated like a duck.

Cross Subsidies

The lack of price transparency is of course tied up in the notion of ‘free’ banking, and the cross subsidies needed to make this work. My current account pays me about £40 or so a month. Who pays for this? Those who go overdrawn? Mortgage customers trapped in high rates? Other customers who have been sold high profit products? The answer is probably all of the above, but nobody knows.

The question is whether it matters. Cross subsidies are integral to financial services. Insurance only works if risks are pooled: those who don’t claim subsidise those who do. That is the deal. Banking is different, and it is not clear that cross subsidies here benefit all consumers. It is likely that the better-off and financially savvy are the winners. That is why the Panel is looking at this area, to open up a debate on the public policy implications of the current model.

Bundled accounts are another price transparency issue. Complaints to the Ombudsman about packaged accounts products increased two and a half times last year.

Packaged accounts can save time and money – as long as people can use all the individual products and the price is clear. The complaints to the Ombudsman suggest that many consumers don’t. They said that accounts were not meeting their needs, or they had been given insufficient information. Sound familiar?

And it's not just banks that are guilty. The FCA's recently found that two-fifths of consumers said they had not planned to buy add-on insurance before the day of purchase. Three months later 19 percent could not even remember buying it!

Ability to Switch

I haven't forgotten the list, and the issue of cross subsidies takes us neatly into switching. There is good news here. Seven-day switching gives consumers an easy way to move if they are fed up with their bank, or see a better offer. There has not been a huge increase in switching. This may be because people think it will go wrong. The media concentrates on the horror stories rather than the thousands of times it goes right. Or it may be that one bank looks pretty much like another, especially if there are no clear prices to differentiate them. It is nevertheless a positive step.

It is also easy to switch a range of everyday products, from general insurance to cash savings.

The bad news is in the mortgage market. We heard last week that some borrowers, particularly those on their lenders' high standard variable rate, have been told they cannot move to a cheaper deal because they no longer meet affordability tests.

The MMR regulations allow lenders to relax the rules for existing borrowers who reach the end of their fixed-term mortgage deal. If these borrowers do not want to borrow more money, and have a history of paying on time, lenders can allow them rollover onto competitive deals. That many are not doing so is unfair.

As interest rates rise, the number of "mortgage prisoners" trapped in uncompetitive deals will rise too. Many will be unable to afford repayments. We would like to see action now on this vulnerable group.

Complaints and Redress

So, to the last of the principles set out by my class of developing economy regulators.

When people complain they have a right to expect their complaint will be taken seriously, investigated fairly, and redress will be paid if due.

The FCA's recent thematic review into complaint handling found this didn't always happen. And the Ombudsman finds in favour of the consumer in over half of cases. For one major High Street bank, the figure is 77% across all products. Contrast with a mid-sized building society, which achieved 4% last year. This suggests many firms are not even bothering to look at complaints seriously. Better to take your chances with the Ombudsman than devote time and effort trying to understand what went wrong and why.

As an aside, in Malaysia the Association of Malaysian Banks plays a major role in resolving customer complaints. There seems to be a collective will to put things right. As a result, only 2% go to independent arbitration.

Salz recommended to Barclays that it should learn from customer feedback, and publish the measures by which it would judge performance in resolving complaints. Yes, of course, why not? Why don't banks do this already?

Some firms still charge premium rates when people ring to complain. The last thing people need when they are already distressed is to worry about their phone bill as well. Which? has called for the FCA to ban financial companies from using premium rate numbers. The regulator has said it will consult on capping the cost to a standard rate.

But why wait for the regulator to act? This is a simple thing to fix. Is it really worth losing trust to make a few quid?

The Panel is looking at whether data at firm level, for example on complaints, uphold rates, enforcement action, could be brought together in a way that would be useful for consumers. A sort of Which? star rating system if you like. They key question here is whether this type of information would drive consumers' decisions and we are looking at that, too.

Sales and Remuneration

Customers will never be treated fairly while there is a conflict of interest between their interests and that of the seller. I remember the story of the bank employee who sold insurance policies to his friends and family so that his salary would not be cut. This was not fair on him, or the people he sold to.

We believe changing incentives structures in banks is key to achieving culture change.

Salz concluded that Barclays had become too focused on profit and bonuses rather than the interests of its customers. He said a "transformational change" was needed to restore Barclay's reputation.

The FCA will consult soon on amending the remuneration code. I hope this will mean that bank staff no longer have to put short-term profits above the interests of consumers, nor feel their livelihoods are at risk if they put their customers first.

The FCA is also consulting on a new regime for senior managers. This will promote integrity and fairness. There will also be clear expectations on more junior staff through a licensing regime.

It is a great pity that the regulator has to do this. The financial crisis and collapse in public trust should have been a wake up call for UK retail banks. It wasn't and we are all suffering the consequences. Banks get way too much regulation, and consumers bear the cost.

Meanwhile, Sir Richard Lambert is setting up a Banking Standards Council. This will set standards for "culture, competence and customer outcomes". Banking is socially important. Bankers in key positions should have the same high professional standards as other professions such as doctors and solicitors.

The new body is voluntary. But the banks will lose yet more credibility if they do not get behind it.

Innovation

I would like to end on a more positive note and say a quick word about innovation.

We are starting to see some good technological innovations.

Seven day switching I have mentioned. Banks are also making more use of social media.

PayM is another good thing. People can now pay a family member or friend using their mobile phone number. And consumers will soon be able to pay in cheques in using a mobile phone.

Mobile payments are also increasing. One coffee chain here has apparently launched an app that you can use to order and pay before you even reach the counter.

And RBS/NatWest have announced a £1 billion digital upgrade. This is obviously needed to ensure people can get their money from ATMs when they want, but the cash will also improve mobile banking.

I have heard debates about whether innovation is socially useful or just about making banks more money. I believe it can be both. Banks should have a well-developed social conscience. This is a sector which has taken the country to the brink of economic ruin. But banks are businesses, too, and if people are prepared to pay for innovative products and services which meet their needs at a fair price that is fine.

However, innovation carries risk, and some people worry about fraud, data security and ID theft. Banks need to take account of the needs and preferences of these customers, too. Which really brings us back to the starting point and the need to take account of vulnerable consumers.

Summary

So, to summarise.

People do not trust banks because banks are not yet trustworthy.

There are some relatively simple fixes.

Sell people only what they want and need.

Explain clearly to them what they are buying and what, exactly, it costs.

Put things right quickly when they go wrong.

The underlying problem of bank culture will take much longer to fix, but I think we are on the right path.

So I'll leave you with a quote from a Bank of Mauritius paper “Towards a fair and inclusive banking sector”. It says: ‘Providing banking is a privilege not a right. Using banking is a right, not a privilege’.

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