

Commission Services Working Document: Consultation on Bank Accounts

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This is the Financial Services Consumer Panel's response to the Commission Services Consultation on Bank Accounts.

The Panel is an independent statutory body. Its main purpose is to ensure that the UK's Financial Services Authority (FSA) promotes fairer outcomes for consumers during policy development. The Panel also takes a broader role in advising European institutions and the UK government on financial services regulation and legislation.

1. *Transparency and comparability of bank account fees*

Question 1: Do you consider that the information provided by banks on bank account fees is presented to consumers in a sufficiently clear manner and easy to compare between banks? What good practices could you identify? What are the persisting shortcomings? Do you think that amendments to the transparency obligations in the Payment Services Directive (2007/64/EC) could address those shortcomings?

The Panel has concerns about the lack of transparency of costs and levels of cover provided particularly to customers of packaged bank accounts, where a number of different services are provided within the account wrapper for a regular fee. The Panel considers it important to increase the level of price transparency of such accounts. While it may not be appropriate to disclose the cost of individual travel insurance policies, for example, it believes greater price transparency is needed to help consumers assess whether they are receiving value for money and compare different services. As a minimum, it believes both the monthly and annual cost of these accounts should be disclosed.

Question 2: Do you think that standardising bank account fee terminology could help to provide more transparent and comparable information on fees? If terminology were to be standardised, should that standardisation cover all fees or only some of them? If only some of them, on the basis of which criteria

should they be chosen? Should terminology be standardised at national or EU level?

A move towards standardisation to facilitate comparison would be helpful. If standardisation were to be introduced, harmonisation of terminology should be limited to core terms in order to leave some flexibility to allow for the individual characteristics of national markets.

Question 3: Do you think that glossaries of terms and standardised lists of bank fees would facilitate comparability? If so, what format and content should this information have? What body/forum would you consider appropriate to develop such a glossary/standardised list of fees?

No comment.

Question 4: In order to further increase bank account fee transparency and comparability, which of the following tools should be considered:

- i) comparison websites managed by public authorities*
- ii) standardised cost simulations to be provided by banks*
- iii) standardised representative examples to be provided by banks*
- iv) surveys by consumer organisations/financial ombudsman*
- v) any other tools you consider relevant?*

Should any of them be made compulsory? What would be the likely costs?

No comment.

Question 5: What level of detail should the information on actual fees paid have and how frequently should it be provided to the account holder? Would having comparable information on the fees actually paid encourage consumer mobility, including on a crossborder basis?

No comment.

Question 6: What other measures/instruments should be considered in order to improve the transparency and comparability of bank fees? Please describe and indicate at which level (national or EU) you consider they should be taken.

No comment.

2. Switching between payment account providers

Question 7: Do banks in the Member State where you have a bank account offer a switching service? If yes, is it in line with the Common Principles on bank account switching described above? Is information on the conditions of switching presented in a consumer friendly manner?

Under the Common Principles, arrangements currently exist between UK firms to facilitate the switching of Sterling currency current accounts.

The Independent Commission on Banking (ICB) in its 2011 report¹ recommended that “a current account redirection service should be established, to smooth the process of switching current accounts for individuals and small businesses”, and said that a new industry-wide account switching service would have “significant net benefits” for customers and the economy. The UK banking industry has pledged to introduce a new free guaranteed seven-day switching service by September 2013. The Panel welcomes this initiative. It hopes this will tackle both the perception among consumers that switching providers is cumbersome, complicated and risky and the reality that where consumers do switch providers, many experience problems.

Question 8: If a switching service in line with the Common Principles is offered by banks in the Member State where you have a bank account, does it remove all obstacles to bank account switching? If not, what obstacles remain? Provide examples of good practices and persisting obstacles encountered.

Research in 2010² by Consumer Focus in the UK found that relatively few consumers had switched their current accounts in the previous two years (3.3 million people, equating to 7% of consumers). The research found that 75% had never even considered switching provider, whereas 17% had thought about it but had not done so because of concerns about the costs of switching. This included inconvenience, fears of errors in the switching process or fears of the effect switching would have on their credit rating.

44% of consumers who had switched Personal Current Account (PCA) providers experienced difficulties, with the transfer of Direct Debits the most common cause of problems. Over a quarter (27% – equating to nearly one million consumers) said Direct Debit payments had gone wrong when the mandate was transferred to the new account.

Question 9: Should the Common Principles remain voluntary? What do you consider are the advantages or disadvantages of making them compulsory at EU level? What would be the likely costs?

It appears that the Common Principles have not achieved their objective as there are still substantial flaws in the switching process. Therefore there is scope for increasing prescription in this area.

Question 10: Should switching principles/measures also cover cross-border switching of bank accounts?

¹ [Final Report](#), Independent Commission on Banking, September 2011

² Oliver Morgans on behalf of Consumer Focus, *Stick or twist?: An analysis of consumer behaviour in the personal current account market*, 2010 see <http://www.consumerfocus.org.uk/files/2010/10/Stick-or-twist-for-web1.pdf>

Yes.

Question 11: According to you, how important is the risk of having receipts, bills and payments misdirected when switching bank accounts? What measures could be considered to make the switching process safer?

Concerns about errors in the switching process appear to be one of the key reasons for consumers not to switch accounts. The Panel welcomes the new switching process proposed³ by the banking industry following the ICB's recommendations, particularly the guarantees that:

- the customer will receive whatever they need to operate the new account, like a debit card, PIN and chequebook within those seven working days;
- the customer's new bank will arrange for all their incoming and outgoing payment instructions to be redirected from the old account to the new one;
- the customer's balance will be transferred to the new account;
- any payments sent to the old account on or after the seventh working day will be automatically "caught" and moved on to the new account;
- the old current account will be closed at the end of the process.

In particular, the Panel welcomes the proposed guarantee that the customer will not suffer if there are any bank errors. This is an important safeguard for consumers in the event of mistakes being made.

Question 12: What obstacles, if any, are still faced by account providers that are smaller or established in another Member State to expand their client base or to enter new markets? Are these connected to problems with switching facilities?

The Panel has identified a number of market failures in its position paper on UK personal current accounts⁴. The most common form of PCA in the UK is the 'free-if-in-credit' PCA model. When this model emerged in the 1980's it was an innovative and radical development which led to fundamental changes in the market. However, after 25 years of free-if-in-credit PCAs dominating the market, there is now widespread stagnation with little market innovation. The Panel believes the model is restricting the development of different PCA models which limits market competition. For both existing firms and prospective market entrants, there is little potential to develop innovative models which appeal to consumers, when consumers perceive day-to-day banking to be free.

The Panel also believes the current level of overdraft charges bears no relation to the actual cost of unauthorised transactions – in effect, vulnerable consumers, more likely to incur overdraft charges, are subsidising the PCA

³ [Improving Current Account Switching](#), Payments Council, October 2011

⁴ [Better banking services and the myth of 'free' banking: towards a dynamic Personal Current Account Market](#), Financial Services Consumer Panel, March 2012

model. It believes that regulatory action is required to end the dominance of this model, in order to reduce barriers to entry to new providers.

Question 13: What other measures should be considered to improve bank account switching? Please describe.

No comment.

3. Access to a basic payment account

Question 14: Do you dispose of information on consumers encountering difficulties in access to a basic bank account? What types of obstacles are signalled by the consumers preventing them from having access to a basic bank account?

The Panel does not collect its own information in this area but would recommend the work of the Financial Inclusion Taskforce, set up by the UK Government in February 2005. One of the Task Force's objectives was to halve the number of adults in the UK living in households without a basic bank account (BBA).

Since 2006, the Taskforce has been using the Family Resources Survey to track the number of people who live in a household where no-one has a bank account and, as part of this tracking, information has been provided about the types of people who are most likely to be unbanked. The Taskforce has monitored the shared goal of halving the number of adults without a bank account. This monitoring has led to pressure on banks to provide Basic Bank Accounts for those whom a current account is not appropriate. It carried out a variety of research in pursuit of this objective, including a mystery shopping exercise in 2010⁵ which addressed the process of opening a basic bank account and concluded that:

- applicants who want a basic bank account can usually obtain one, although one in six applicants were misdirected to an account which may not have suited their needs.
- around 60% of those who might need to be credit checked are not told how this could affect their credit score.
- providers were consistent in enquiring about identification and verification.

In 72% of visits, shoppers were asked clarification questions; 84% of these were asked questions about their identification. The other questions asked by bank staff concerned employment status (54%), living arrangements (47%), age (39%), how long they had been in the UK (23%), how much money they had (17%), whether they had any County Court Judgements (10%) and whether they had registered bankruptcy (6%). The variations in the type of further questions were often closely linked to the nature of the individual scenarios.

⁵ [Mystery shopping review of the provision of basic bank accounts](#), Report for the Financial Inclusion Taskforce by Consensus Research, December 2010

Question 15: Are you aware of any measures taken by banks or other institutions in the Member State where you have your residence to facilitate access to a basic payment account? Have these initiatives been successfully enforced?

Financial Inclusion Taskforce

The Financial Inclusion Taskforce mentioned above was set up in 2005 to monitor progress towards the shared goal of halving the number of people in households without a basic bank account. The baseline for the goal was the 2002-03 Family Resources Survey (FRS) which reported 2.8 million adults living in 1.8 million households without access such an account (defined as a current account, basic bank account or saving account).

The FRS data for 2007/08 showed that 0.89m people, in 0.69m households, did not have access to a bank account of any kind. This indicated that the shared goal had been met and meant that the proportion of unbanked households in the UK was among the lowest in Europe⁶.

The Taskforce found that account opening was driven primarily by third party requirements – most prominently employers or landlords requiring an account for payment of wages or rent – rather than consumer demand.

The Taskforce argued that a voluntary approach to securing access to banking is preferable to a compulsory universal service obligation (USO) for a number of reasons:

- it is more likely to achieve active compliance by the banks and encourage innovation and a degree of competition in basic banking provision
- in countries with a USO in banking, levels of banking exclusion are much higher than in the UK
- a great deal of empirical evidence indicated that only a very small proportion of people without bank accounts were unbanked because they had been refused access to banking. By far the greatest barrier was a lack of demand for bank accounts, due to a strong preference for cash budgeting, followed by a mistrust of banks.
- the Taskforce also preferred to keep the threat of further regulation as a last resort, to encourage the banks to act responsibly.

Question 16: Do these measures also facilitate access to a basic payment account for non-residents?

Existing initiatives apply to non-residents but we are not aware of any specific initiatives aimed at this group. The Panel is aware that there can be specific

⁶ <http://www.fininc.eu/gallery/documents/other-documents/update-ofeurobarometer-tables.pdf>

difficulties for people who may not have their banking history in another country taken into account, and that any moves to improve this situation, subject to the requirements of adequate money laundering safeguards, would be welcome.

Question 17: If consumers still have difficulties in opening a bank account, what are the reasons for that?

The voluntary approach to provision of basic payment accounts which has been followed in the UK so far is in line with the approach of the Commission when it issued its Recommendation in July 2011 setting out general principles applicable to the provision of basic payment accounts within the EU. However, the Panel is not aware of any evidence that the Recommendation has led to improved access to basic payment accounts, and therefore recommends a stronger obligation on the banks to provide access to such accounts, as appropriate, to those who wish to open them. However, this needs to acknowledge that there are those who do not wish to use banking services, who would not benefit from them, and who should not be forced to do so, and that alternatives to mainstream banking options should be investigated.

Question 18: If more needs to be done what additional measures should be envisaged? Should the problem be tackled at national or EU level?

Stimulating demand

In the UK, the success of increasing access to basic accounts has been partly due to a number of initiatives which have stimulated demand for such accounts. These include:

- The *Now Let's Talk Money* campaign in 2006/7, in which seconded experts provided training in how to identify and support financially excluded people, including use of extensive local advertising and a free national helpline.
- In 2008 this was replaced by the Financial Inclusion Champions, based in areas of high financial exclusion to coordinate local agencies' work in this area. The Financial Inclusion Champions initiative received funding of over £7m over three years.

It is unlikely that the level of banking inclusion seen in the UK would have been achieved without these programmes, both of which have now closed. The Panel believes that stimulation of demand for appropriate financial products is a constructive means of reducing financial exclusion. It is likely that this would be best addressed at national level, but an effective means of doing this could be by means of resource support for programmes such as the already-proven Financial Inclusion Champions initiative.

Alternatives to banking solutions - the Credit Union Current Account

In 2006 the Association of Credit Unions Ltd (ABCUL) introduced a current account specifically to meet the needs of low-income members. One of its objectives was to help customers who may have been put off opening a bank account because of fears about cost, or of dealing with an organisation with which they did not feel comfortable. The account provides access to payment services, ATM's and debit cards, in exchange for a monthly or weekly fee. Research⁷ into the use of the account indicated that it has contributed to an increase in financial inclusion amongst its target audience.

⁷ *The Credit Union Current Account A research study into low-income consumer expectations of the operation and charging structure of the Credit Union Current Account.* Liverpool John Moores University, April 2008.