



***Consultation: CMA Provisional Market Investigation
Reference, Personal Current Account Market***

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Introduction

The General Consumer Council for Northern Ireland (the Consumer Council) is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to *'make the consumer voice heard and make it count'*.

We have a statutory remit to promote and safeguard the interests of consumers and have specific functions in relation to energy, water, transport food and postal services. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

CMA's proposed Market Investigation Reference for Personal Current Accounts

The Consumer Council welcomes the opportunity to respond to the CMA's provisional decision to make a Market Investigation Reference in relation to Personal Current Accounts.

Over the past number of years The Consumer Council has carried out extensive research into how consumers view financial products and services in NI. We have been keen to explore how consumers shop around for financial products, and what they understand when contemplating the products on offer. We want to help ensure that consumers are confident they are getting value for money from their bank, and that they have the ability to easily switch to another provider if they are not.

Despite an OFT market study undertaken in 2008 into the banking practices related to personal current accounts (PCAs), the OFT's 2013 evaluation of this

report showed that implementation of the recommendations on transparency and switching has been slow, and has had a limited impact on competition in the banking sector. The UK lags behind the rest of the world in terms of trust in banks – with some 15 per cent of consumers having minimal or no trust in their bank¹. Low income families with credit and debt issues often have the least trust, as they see banks as inflexible and the most likely institution to apply punitive charges which increase their debt.²

The Consumer Council has responded to consumer need by developing a Personal Current Account Manifesto (updated most recently in September 2013) which was informed by consumers' experiences and views. They told us that some of the most important things in daily banking are good customer service, clear and transparent charges, easy to understand communications and reliable help when switching from another bank.

We have been working with all of the banks operating in NI to encourage them to adopt and implement the recommendations from this Manifesto.

We have seen some improvements; however there is still work to be done. In our previous response to the CMA's initial intention to launch a market investigation, we outlined our five key issues with the personal current account banking market. These were:

1. Northern Ireland Banking Structure & Access to Financial Services
2. Bank Branch Closures
3. Apathy to Switching Bank Account
4. Unclear Terms & Conditions

¹ Global Consumer Banking Survey, 2014

² Dearden, C, et al. Credit and debt in low-income families. Joseph Rowntree Foundation, 2010.

5. Lack of Trust in IT systems

We will again look at these issues, with a particular emphasis on the points that the CMA have outlined as the suspected features of concern in the market for PCA's (para 3.6).

1. Northern Ireland Banking Structure & Access to Financial Services

NI has the highest percentage of unbanked individuals in the UK. 11 per cent of consumers in NI³ do not have a direct payment account which allows money to be paid in and direct debits to be paid out, compared to four per cent in rest of the UK. Having a bank account not only allows the holder to manage their money effectively and securely, but also helps them access other beneficial products, such as savings accounts and insurance.

NI has four major local banks, which together hold 66 per cent of the market share for PCA's,⁴ although none of the four local banks are headquartered in the province. Consumer group Which? run a twice yearly customer survey to rate the best and worst banks for customer service. The March 2014 survey revealed that two of the worst three banks are based in NI: Bank of Ireland and Ulster Bank. Many of the top-rated banks in the survey do not have a high-street presence at all in NI.

Banks like Metro which don't have a presence in NI, and recent entrant Tesco, who don't yet offer their PCA in NI, mean that consumers here have less choice in the market. This can be a frustrating experience for consumers when shopping around, and so there is a need for price comparison websites to better reflect regional differences in the PCA marketplace.

³ Family Resources Survey in November 2013

⁴ Danske Bank Evidence to the Northern Ireland Affairs Committee on Banking, 2013

In addition, our Credit Unions do not currently get the same funding as their counterparts in GB to provide additional services, such as PCA's, due to a disparity in the way that the relevant legislation was enacted. 34 per cent of people in NI are a member of a Credit Union (compared to only two per cent in GB), and yet at present only one Credit Union is able to provide current account facilities.⁵

Unlike those throughout the rest of the UK, prisoners in NI who are unbanked cannot open an account prior to release. This is something that we have been trying to work with the banks operating in NI to implement, but to date we have not been able to gain a firm commitment from any of the banks to operate accounts for prisoners pending release.

2. Bank Branch Closures

Northern Ireland will have lost 27 per cent of the branches from our big four banks in the last two years, and there are further closures expected in the future.

Consumers in NI currently lag behind the rest of the UK in terms of online usage, with 51 per cent of people (compared to the UK average of 57 per cent⁶) choosing to bank in this way.

Figures from the banks show that branch banking is in decline, with consumers choosing to bank through mobile or internet apps. However, having access to a bank branch is still very important to the majority of consumers. Our recent study showed that 68 per cent of consumers in NI visit their bank branch at

⁵ Irish League of Credit Unions, Briefing paper for the Committee for Enterprise Trade & Investment, 2014

⁶ Ofcom Study, Internet use and attitudes 2014

least once a month or more often.⁷

Despite their enduring popularity, there are definite improvements to be made within the bank branch network. Staffing issues and poor opening hours continue to be cited frequently by consumers as a reason not to visit their branches:

“Go in on your lunch hour and the queue is out the door.” F, Carrickfergus,
March 2014

We are concerned that the cumulative effect of the recent large scale bank closures may cause real problems for consumers throughout NI. Currently, each bank makes the decision to close a branch independently, based on their own commercial reasons. In some cases this has left areas without any bank branch services at all. This is particularly worrying in rural areas, and especially for elderly or disabled customers – who may be not as willing, able or confident in using remote banking services or ATMs.

3. Apathy to Switching Bank Account

Our research with consumers has highlighted a number of reasons why they aren't interested in switching bank accounts, from customer loyalty, to the perceived inconvenience involved. The primary reason however is apathy – they can't see the point in switching when there is little financial benefit.

We carried out research into switching in March 2013, and again in January and March 2014. Despite the launch of the Payments Council's 7-day service, attitudes remain largely unchanged.

⁷ Consumer Council NI Consumer Confidence Tracking July 2014

“It’s the hassle and you just know that something will go wrong, you just know it.” M, Belfast, 2013

“Ok you can move things and gain a wee bit here and lose a bit there, but there’s really no accounts paying anything decent” M, Dungannon, 2013

“I think it’s out of just pure laziness with me that I haven’t changed banks.” F, Lisburn, 2014

For those who have switched, the experience was broadly a positive one. There just wasn’t a compelling enough reason for most consumers to feel that switching was something that they needed to consider, and there was still the perception that it was hard to know whether there were really better deals out there.

“Most of the banks are all the same... one bank is no different from the other. They will make you a deal at the start but that bank will probably taking charges so ones just the same as the other” M, Lisburn, 2014

“I don’t have a problem with them and I don’t see any opportunities out there for something better or different so why bother.” M, Lisburn, 2014

The persistently low numbers switching, despite the launch of the Switching Guarantee, reflect the fact that this measure alone has not done enough to drive competition in the favour of consumers.

4. Unclear Terms and Conditions

Inherent in this category are key consumers issues, such as the lack of clarity around overdraft charges. As acknowledged by the CMA, this can make it very difficult for consumers to choose the best value account for their needs. This

situation is made more difficult as price comparison sites often rate accounts in different ways, meaning consumers can easily be given conflicting advice.

The Consumer Council carried out research into the habits of NI consumers. We found that some 17 per cent of consumers in NI claimed not to have read terms and conditions of the most complex products they had bought in the last five years⁸. This is nearly twice the proportion of consumers who have not read terms and conditions in the UK. This could again go some way to explaining the higher proportion of those who are unbanked, and also the lack of enthusiasm to switch bank account.

“There's that much of them and they're that small print that you're immediately put off even attempting to read it, and the language that they use - sometimes you just can't understand it.” M, Cookstown, 2014

“Too much to read, [would be] easier if it was short and concise.” F, Armagh, 2014

Other research shows that terms and conditions for bank accounts continue to be too long – with some banks clocking up over 25,000 words, while others manage to do the same job in half this.⁹

5. Lack of Trust in IT systems

The payments crisis that affected NI consumers from 19 June to 16 July 2012 and beyond has had far reaching consequences for many. While RBS customers in the UK were affected for a couple of days, many of those in NI experienced problems for months following the Ulster Bank IT crash. Perhaps

⁸ Managing Money- How does Northern Ireland add up?, Consumer Council, 2007

⁹ Fairer Finance 'Spare us the small print' research, April 2014

surprisingly given the financial detriment and inconvenience caused to consumers, Ulster Bank did not experience a large loss of consumers following this crisis. The comments that we received from consumers backed this up, as despite the ongoing problems, they were still not motivated enough to move accounts.

“I was going to move when the Ulster Bank had them glitches. But at the end of the day when I went in to complain... they just happened to pay me a couple of pound in the bank here there and everywhere for their mistake. There was nothing I could do but say thanks, take it, bow your head and walk out.” [F, Lisburn, 2014]

“I’m with Ulster Bank and it was about a month..... ago we were out and about doing our Christmas shopping and they had the glitch again..... It was embarrassing because I knew I had money but the lady said it was all Ulster Bank cards...I still haven’t moved.” [F, Lisburn, 2014]

Given that many of the major banks have had their own public, albeit often short lived, IT glitches in the past 2 years, it is perhaps not surprising that consumers have been wary of moving.

The Consumer Group Which? recently started a campaign to get the banks and the FCA to address these reoccurring and industry wide IT issues. A recent study showed that more than half of UK consumers would “never use mobile banking services” because of security concerns¹⁰. The PCA market needs to urgently address the real concerns that consumers face with regards to security and IT standards, with a joined-up and coherent industry-wide

¹⁰ Intercede, “The Rise of the Identity Centric Economy”, 2014

approach. With a decline in high street presence, online banking will be a key driver of competition, and needs to work for consumers.

Summary

Consumers have told us that they lack faith in the banks IT systems, and that they are dissatisfied with the confusing account information provided by their banks. Additionally, bank branch closures and stringent criteria for opening basic bank accounts continue to be a barrier for consumers to access banking services. There is still a lot of work to be done to make the PCA Market more accessible, competitive and transparent for consumers across the UK.

Qualitative research with vulnerable unbanked consumers found widespread mistrust of banks and a sense that “banking is not for me.”¹¹ As we have conveyed, in comparison to the rest of the UK, a significantly higher proportion of consumers in NI are unbanked, and of those who do have a bank account, less use banking smart phone apps or read terms and conditions. Access to financial services, lack of transparency, trust, and barriers to switching are key financial inclusion issues; the Consumer Council recommends that the UK market study should include a regional breakdown of the findings relating the PCA market, so that our concerns about the issues specific to NI can be fully explored.

A change is needed to put the customer first in banking, which can be helped by adding more competition and diversity in the banking services market. For example, at present there is only one bank (Barclays) that offers free basic banking facilities to undischarged bankrupts in the UK.

¹¹ Consumer Focus. On the margins. 2010.

There also needs to be more awareness raised of the positive changes that have been made in the PCA market, from the 7-day switching guarantee, to the automated account-balance text alerts now provided by many banks. The Consumer Council therefore welcomes the proposal by the CMA to carry out its functions under Section 5 of the Enterprise Act in relation to the supply of PCA services in the UK. We hope that in carrying out this investigation, the CMA can secure :

- Greater transparency in the bank account market, to allow consumers to better compare the range of accounts on offer and choose one that best suits their needs.
- Simplified terms, conditions and charges to allow consumers to understand the real potential costs of a 'free' bank account.
- Greater promotion by the banks of proactive services that help consumers keep track of their bank accounts, such as free text alerts.
- A range of diverse bank account options that meet the needs of those that currently are at high risk of financial exclusion, such as prisoners pending release, undischarged bankrupts and those who are currently unbanked.
- Lower barriers to entry for new financial services providers to join the market, particularly the market in NI which is less diverse than the rest of the UK.

The Consumer Council would be concerned if potential remedies are suggested which would essentially remove the option of 'free-if-in-credit' banking. Before any such steps could be considered, we believe there is a need for further

research directly with users of bank accounts, and those who are currently unbanked.

The Consumer Council wants to see a strong personal current account market that works well for all consumers. We hope that increased competition will lead to a more innovative and consumer-focused marketplace. We will continue the positive working relationships we have with banks operating in NI in the implementation of the recommendations set out in our Personal Current Account Manifesto¹². We would be happy to discuss the recommendations and our work to date further, and look forward to working with the CMA in the future.

If you wish to discuss any aspect of this response, please do not hesitate to contact Holly MacLennan.

¹² http://www.consumercouncil.org.uk/filestore/documents/Personal_Current_Account_Manifesto.pdf



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