BANKS MUST CHANGE FOR GOOD

TIME TO PUT BANK CUSTOMERS FIRST

Which? is calling for a permanent change in the culture of Britain's retail banking industry that would see good customer service put ahead of the pursuit of short-term profits

Almost three years since the start of the banking crisis, very little has really changed for customers. Although Britain's taxpayers now own a large share of several of the nation's biggest banks, many of the problems that have plagued the banking sector for years remain.

With a few notable exceptions, poor customer service is endemic in the banking sector. High street banks rarely compete to win customers' loyalty by proving they are the fairest or offer best value. Instead, their business models are built to take advantage of customer inertia and poor financial literacy. As a result, unfair charges, mis-selling and poor complaints handling are all common.

BANKING COMMISSION

The lack of progress in addressing these issues was what spurred Which?, along with key politicians from each of the main political parties, to set up the Future of Banking Commission (FOBC) at the end of 2009.

Unlike other banking inquiries, the FOBC sought to listen to consumers, through events such as the Which? Big Banking Debate (pictured above right). The aim was to create a report which would become the blueprint for rebuilding our broken banking sector, putting customer needs first.

Evidence was also taken from key industry figures – such as the Governor of the Bank of England, the chairman and chief executive of the Financial Services Authority, academics and bank executives to ensure the widest possible spectrum of views was heard.

The report, published in June, calls for a fundamental overhaul of the culture, structure and regulation of Britain's banking sector, driven by a combination of government legislation and international co-operation. The Commission's objective is that the UK's new coalition will use its recommendations as a template for the banking reforms it intends to embark upon over the current parliament.

A NEW CODE OF CONDUCT

At the heart of the Commission's report is the call for a new culture, backed by the creation of a new Good Financial Practice Code for staff in the banking industry. This code would be enforced by a professional standards body, which would play a role similar to the General Medical Council's in the medical profession, with industry staff acknowledging the duty of care they have to their customers.

To ensure such a culture change takes grip, the Commission also calls for reforms to the roles of auditors and accountants, who should have greater responsibility for holding banks to account. The Commission also wants to see reforms to the way that bank staff, from the branch to the board, are remunerated, with a greater emphasis placed on longer-term incentives and a ban on sales incentives for frontline staff.

CUT RISKS TO CONSUMERS

Another core principle of the Commission's report is that banks must be allowed to fail, and such failures must not put the taxpayer at risk.

As a result, the Commission supports proposals to force banks to have 'living wills', which would ensure both retail depositors, the taxpayer's purse and the stability of the financial system would be protected in the event of a bank failure.

The Commission believes retail banks need to be insulated from riskier investment banking operations and that the government's upcoming inquiry into banking reform should give serious consideration to compulsory separation, or a similarly radical overhaul of the structure of the banking sector.

NEW REGULATION FOR BANKS

The report also calls for a rethink of the way that we regulate our banks. At the heart of this change would be a new pro-competitive set of consumer regulations, which would aim to tackle many of the problems in today's banking industry by promoting effective competition. Specific remedies to help consumers are also recommended in the report. These have been used as a basis for the Which? banking manifesto (right).

To read the full report, and to leave your comments, visit www.which.co.uk/banking.

PHOTOGRAPHY BY: ANTHONY UPTON

THE WHICH? BANKING MANIFESTO

Which? is calling for a change in the culture of Britain's banking industry that will see good customer service put ahead of the pursuit of short-term profit. We want banks to implement this 10-point plan

1 Sales incentives and commissions for bank staff which incentivise mis-selling should be banned. Instead, branch and call centre staff should be rewarded for providing high-quality service. All customer-facing bank staff must be suitably qualified. All advice on investment products must be provided by advisers who are qualified to at least CFP level.

7 Banks should offer a new breed of 100% guaranteed accounts. The money would be invested in UK government bonds and the like, and would be ring-fenced from a bank's other activities, so no money in these accounts could be at risk in the event of a bank failure. Higher paying accounts would be available, but subject only to FSCS protection levels.

4 Customers should be allowed to 'opt in' to unauthorised overdrafts. Those who do have overdrafts should not be overcharged. Banks should provide support for those who manage their finances poorly, and should not exploit them. Any bank charges added to an account should not contribute to a customer's financial instability.

8 Banks should continue to provide and process cheques for all consumers until there are viable alternatives in place. Banks must also not penalise customers who wish to continue transacting via branches, and must not exclude those customers who are unable or unwilling to conduct their banking online.

2 All bank charges and fees must be fair, transparent and proportionate to the costs incurred in providing the service. Banks should not use charges and fees to disguise the true cost of a deal. The industry should develop measures of total cost, which include all fees and charges, so that consumers can easily compare the cost of products.

9 Banks should resolve all complaints in a fair and timely manner. Banks should publish a detailed annual breakdown of complaints, broken down by brand and product area, and should provide detailed explanations in areas where complaints volumes are significant. There should be no incentivisation for bank staff to reject complaints.

5 Existing customers should be given the same access to products as new customers. Banks should not be allowed to offer more favourable terms to new mortgage or savings customers, for example, while preventing existing customers from taking advantage of these better deals, potentially leaving them trapped on poorer terms.

3 Remove all barriers to switching financial products. In the current account market, banks should work towards offering portable account numbers, allowing customers to switch accounts without having to transfer direct debits and standing orders. In the Isa market, transfers should be completed within 10 working days.

6 Bank staff must clearly state whether the products they are selling are covered by the Financial Services Compensation Scheme (FSCS), and this information must be provided in writing to the customer. Banks must also inform customers of the risk of having a savings balance which is close to, or above, the limit of the FSCS.

10 Bank management should have longer-term incentives built into their remuneration packages. All senior retail banking executives should also have their pay linked to overall levels of customer satisfaction, complaints levels and regulatory compliance – to help create a more customer-focused industry.