



Submission from the National Pawnbrokers Association to the Competition and Markets Authority

Consultation: Personal Current Accounts and Banking Services to Small and Medium Sized Businesses

September 2014

Executive Summary

The National Pawnbrokers Association (NPA) is one of the oldest professional trade associations in the UK, having been formed in 1892. Its focus is to ensure there is professional and ethical conduct from market participants.

The NPA supports the Competition and Markets Authority provisional decision for a market investigation reference as we are concerned that perceived changes in banking practices is leading to a deleterious impact for a range of SMEs.

The focus of the NPA relates to the trend of banks to withdraw current account facilities to pawnbroking businesses – thereby reducing an alternative credit option for SMEs who have spoken of their own difficulties in accessing credit from the banks.

This is negatively impacting upon a key sector of the financial services industry that is very well and tightly regulated. Virtually no complaints are upheld against the industry according to the Financial Services Ombudsman - with thousands of customers utilising the services of pawnbrokers to manage short term cashflow issues on a regular or occasional basis.

The National Pawnbrokers Association has found that the withholding of current account facilities is affecting businesses with – and without – money transfer services with the implications this can have on jobs and livelihoods. We are aware that occasionally the fact that some of our members are engaged in money transfer services may be a factor in withholding current account facilities because of money laundering concerns.

However, we do not consider it acceptable or reasonable that those pawnbroking services who work as agents for companies, such as Western Union, should be penalised as businesses rightly have to follow rigorous money laundering procedures and a compliance fee has to be paid each month.

We remain concerned that firms who have been operational for many years without any fault being attached to their businesses are seeing their current accounts being withdrawn with only 90 days notice – leaving very little time for sourcing new accounts and, thereby, threatening the viability of the businesses concerned. We also express our dissatisfaction that when current accounts are withdrawn, no reasons are offered despite the endeavours of our members to ascertain why these unexpected decisions had been made.

We are concerned that:

- Pawnbrokers and their staff are having their livelihoods put at risk as banks are withdrawing or withholding access to current account facilities;
- This trend is hindering a financial services product that is trusted by thousands of customers each and every week;

- It is causing problems in a sector where virtually no complaints have been upheld due to the open, friendly, consumer driven approach which the industry has adopted;
- It is acting as a barrier to entry to new businesses trying to obtain a current account in order to trade;
- The denial of current account facilities helps to engender an anti-competitive environment.

The National Pawnbrokers Association is willing to enter into constructive dialogue with the CMA and other partners in order for a positive way forward to be found for all concerned. Critically, it is vital to find a way forward so that the services provided can continue for thousands of consumers across the country.

Pawnbroking – Providing Value for Money

We are concerned that restrictions with providing current accounts to pawnbroking businesses are leading to distortions in competition policies.

An independent assessment of pawnbroking by BBC Radio Four’s *MoneyBox* programme (November 2011) found that a pawnbroking loan is more affordable than an unauthorised bank overdraft facility as well as being more affordable than a pay day loan.

BBC *Breakfast* (January 2012) found pawnbroking to be a good option for borrowing small sums (see below)

If you borrow £100 for a month you pay back on average	
Pawnbroking	£108
Pay Day Loan	£155
Bank Overdraft- unauthorised	£200+

In many examples banks are considerably more expensive than pawnbrokers.

Compared to Banks- £100 loan paid back after 30 days

PAWNBROKER	*£6.75 to £10
SANTANDER	£20
BARCLAYS	£22.50
HALIFAX	£30

Source Daily Mail May 2014 and *NPA

The Financial Services Ombudsman has found only a handful of complaints have been upheld against the sector – as compared to hundreds of thousands upheld against pay day lenders and banks.

Unlike other financial services products, there is **no** risk of debt collection services or bailiffs being used.

A pawnbroking loan is provided via a pledge on an item and if the item is not redeemed then it is sold and any surplus made on the item after loan, interest and costs is returned to the customer (assuming the loan was for more than £75)

Therefore, the loan is asset based and does not involve undue risk or a continuing series of interest payments which may last for a considerable period of time, as would be witnessed with other forms of consumer credit products.

Do you consider that the CMA’s analysis of the suspected features of concern in the market for PCAs is correct?

Whilst the NPA is not in a position to comment on the availability of personal current accounts we hope it would provide some context to the CMA’s consideration to refer to perceived difficulties in accessing current accounts for businesses.

As the survey data from NPA members as referenced to in Annex A of this submission highlights, there is evidence to suggest SMEs with a range of different profiles and who have been established in business for many years are now experiencing difficulties in accessing current accounts.

Whilst we accept the nature of this issue is different in terms of challenges pertaining to personal current accounts, we would put forward the perspective that the issues facing SMEs and domestic customers in accessing current accounts reflects the CMA’s provisional view in paragraph 3.7 that there may be “*supply side problems resulting from market concentration and high barriers to entry*” which may merit further investigation.

Do you consider that the CMA’s provisional analysis with respect to the exercise of its discretion to refer the PCA market is correct?

The NPA is not in a position to comment further on PCAs other than our response to question one (as above).

Do you consider that the CMA’s analysis of the suspected features of concern in the SME banking sector is correct?

The NPA supports the CMA's analysis, as contained in paragraph 3.3, that there are supply side issues that is limiting access to business current accounts (BCAs). As our survey in Annex A demonstrates, our members have found it difficult to access BCAs across a range of banks. Whilst we recognise there will always be a case by case analysis to be considered as to how such decisions are reached, we have discerned a trend that seems to echo a general position being adopted by a number of banks towards pawnbroking and money service businesses.

Our concern is that such a trend may be counter intuitive in terms of developing and maintaining a diverse and regulated consumer credit marketplace. It is in the interests of consumers to be able to shop around and make informed choices as to the best consumer credit options available for them. Restricting that choice to banks by limiting access to BCAs for money service businesses and pawnbroking firms would, we suggest, raise potential competition concerns which is worthy of further investigation.

We welcome the CMA's provisional recognition of this trend by banks in terms of the provision of BCAs and we support further investigation by the CMA to help ensure the UK maintain a diverse, regulated and vibrant consumer credit marketplace.

Do you consider the CMA's provisional analysis with respect to the exercise of its discretion to refer SME banking is correct?

We agree with the CMA's provisional analysis that there are indications to suggest that a series of supply side issues may be constraining the market and, consequently, not enabling a full banking offer to be provided to a broad range of SMEs.

Within the pawnbroking sector, our evidence indicates consistent policy trends from a significant number of banks leading to a number of business current accounts being closed or being prevented from opening. This may indicate supply side issues that require further investigation.

This trend, upon an initial analysis, does not seem predicated upon the characteristics of individual firms or how well or not they are operating. The regulatory framework which the pawnbroking sector rightly has to operate within also does not seem to have been fully considered when business current account decisions are being made.

Therefore, if a blanket approach has been adopted amongst a core group of banks which is sending market signals regarding the sector to other banking participants, then this may indicate an unintentional restriction of consumer credit competition. We do believe the CMA's provisional analysis confirms trends as evidenced by survey work undertaken by the National Pawnbrokers Association, amongst other evidence presented by other SME groups. This would lead us to conclude that there does

seem to be a prima facie case for the CMA to undertake a market investigation regarding banking services to SMEs.

Do you consider that the features which the CMA has identified that may prevent, restrict or distort competition, are capable of being effectively and comprehensively remedied by UILs (undertakings in lieu of an MIR) given by the banks?

We agree that it is feasible that UILs by the banks could help address this issue. The National Pawnbrokers Association has had a productive meeting with the British Bankers Association where we discussed options to ensure the interests of the banks are safeguarded and reputable and regulated pawnbroking firms can continue in business by retaining or gaining access to current accounts.

We are also aware of the work of HM Treasury in respect of money service businesses not being able to gain current accounts from banks. This issue impacts upon NPA members as many pawnbrokers also act as agents for companies, such as Western Union, in order for customers to view their local pawnbrokers as their local one stop shop for accessing a range of financial services.

We welcome the statement of the then Treasury Minister, Sajid Javid MP, during a debate in Westminster Hall on 17 July 2013, when the Minister acknowledged concerns that banks were withdrawing facilities to money service businesses and added that HM Treasury were working to “*try to find solutions that do not mean extensive business closures*”.

As a consequence, we do believe there is some evidence to suggest that the good intentions of the British Bankers Association and the work of HM Treasury could indicate that UILs by the banks is a possible way forward to rectify this situation.

However, the work of the CMA and the evidence gained by the NPA does indicate that systemic issues may also be at play that has led to the current restrictions of the provision of business current accounts to the sector. This assessment may or may not be correct but we do believe that the wider issue of banking for SMEs can include the matter of considering systemic issues when clear trends in terms of the provision of current account services had been identified.

We propose a twin track approach when work continues to ascertain if UILs can help resolve this matter whilst considering if systemic institutional issues have been at play which has led to the emergence of these trends in the first place. This twin track approach would enable a short term solution to be identified whilst the longer term need for the banking sector to adjust to the needs of the wider SME market, including meeting the long term needs of suitable and regulated consumer credit providers, such as pawnbrokers, could also be considered.

Do you consider that a potential solution to any competition concerns identified may need to consider alternations to the structure of the markets in addition to (or in place of) remedies focused on increasing customer engagement?

The NPA has identified what could be systemic trends in the banking system which is unintentionally beginning to restrict consumer credit choice in the marketplace.

Over 10,000 people are employed in the sector and, according to the Financial Ombudsman Service, barely a handful of complaints have been upheld against the sector. It is a trusted source of finance which avoids the pitfalls of other consumer credit models. A pawnbroking secured loan is provided via a pledge on an item and if the item is not redeemed then towards the end of the loan contract, the customer is offered 14 days to redeem the item. If the item is still not redeemed, then the item is sold and any surplus made on the item, after interest, loan amount and reasonable costs are addressed, is given back to the customer.

Therefore, the loan is asset based and does not involve undue risk or a continuing series of interest payments which may last for a considerable period of time, as would be witnessed with some other forms of consumer credit products.

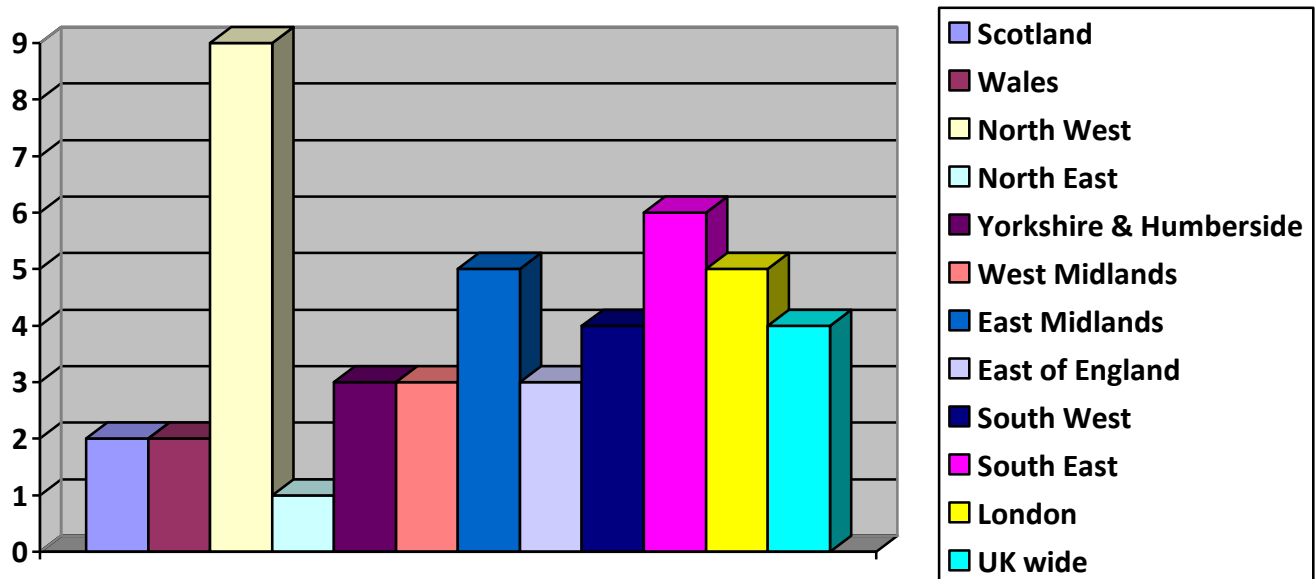
Therefore the rationale for the trend of banks not to provide current account facilities to pawnbroking firms is hard to ascertain and we are not in a position, therefore, to propose specific recommendations for alterations to the structure of markets, further to questions being posed by the CMA.

However, we do agree with the CMA that greater customer engagement is key to resolving these issues, bearing in mind that our survey has found that the majority of our members were not aware of the reasons why various banks had closed current accounts.

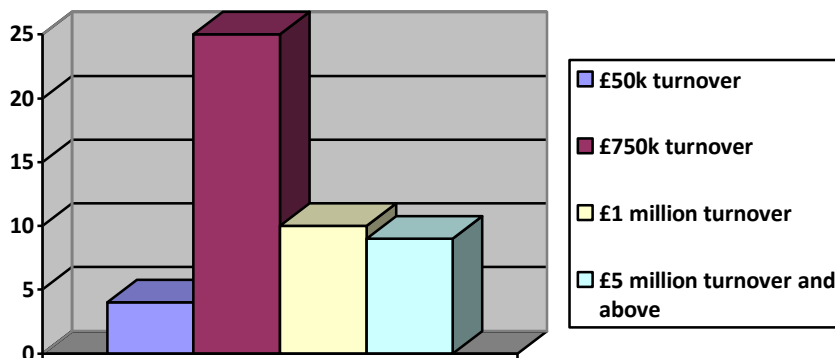
Annex A - Pawnbrokers survey

In April 2014, the National Pawnbrokers Association surveyed its members and over 20% of its members responded – representing 80% of the industry as a whole.

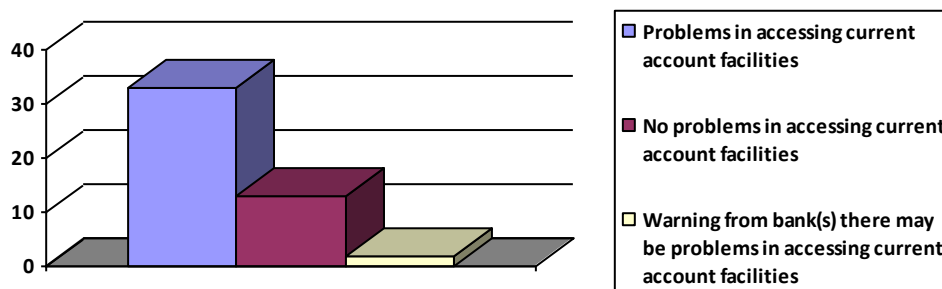
The response we received represented pawnbrokers across the UK who are or have been experiencing difficulties in accessing current account facilities:



Pawnbrokers of all commercial sizes also responded to the survey:



The majority of respondents reported problems in accessing current account facilities:



Money Transfer Services and Pawnbroking

The majority of the businesses affected were responsible for pawnbroking and money transfer services. However, what was striking was that a significant proportion of respondents did not carry out money transfer services and accounts were still being withheld:

Money transfer services, such as acting as agents for Western Union, provide a key role in the global economy. As the then Treasury Minister, Sajid Javid MP, said:

A healthy, functioning remittance sector is crucial for the thousands of our constituents up and down the country who use such services to send money abroad.¹

The sector also plays a key role in supporting the underlying operations for a number of pawnbroking firms. It enables a range of transactions to take place at pawnbroking stores and helps ensure that pawnbrokers meet the needs of today's consumer market place by providing retail, pawnbroking and money transfer services in a friendly one stop shop environment.

We welcome the fact that HM Treasury, Her Majesty's Revenue and Customs, the British Bankers Association and other organisations are working together to address the issue of current accounts being denied or closed down for firms engaged in the money transfer sector.

We are concerned that ***around 10% of all respondents to the survey who happen not to provide money transfer services are also being affected by the banks not offering or withdrawing current account facilities.*** We are also aware of at least one example where the bank informed the company it was concerned with its pawnbroking operation but was seemingly content with the money transfer service that this company operated.

It is difficult to ascertain a rationale for this development as the pawnbroking industry provides loans based upon secured assets. A pawnbroking loan is provided via a pledge on an item and if the item is not redeemed then, the customer is advised 14 days before the end of the loan contract that the item could be sold if it is not redeemed. Any surplus on the sale of an item is refunded to the customer after the loan costs are recovered.

Therefore, the loan is asset based and does not involve undue risk or a continuing series of interest payments that may last for a considerable period of time, as would be witnessed with other forms of consumer credit products. Concerns regarding credit risks or money laundering would not apply to regulated pawnbrokers.

New Market Entrants

¹ Westminster Hall debate, Hansard, 17 July 2013

The survey undertaken in April 2014 was able to assess the impact of the banks' approach towards the sector – but as the National Pawnbrokers Association consists of existing businesses, it does not measure how the approach of the banks is impacting upon new market entrants to the industry.

However, on the basis of the enquiries received, we are confident that the approach of the banks is leading to additional hurdles for new market entrants.

We have found that in many cases reasons are not offered for the refusal to provide current account facilities. However, in one case a business planning pawnbroking services in the Midlands – with no money transfer services on offer – was told that the company had to provide evidence that it would not be at risk to “Politically Exposed Persons”.

This showed a misunderstanding of how the pawnbroking sector works – as it is based on loans based upon assets which are thoroughly checked to avoid stolen items being pawned.

Competition

The National Pawnbrokers Association is concerned that this negative trend in respect of current account facilities is hindering the growth and development of the sector. Specifically, we are concerned that if this trend continues, it would be difficult for a regulated, responsible and popular form of consumer credit product to remain as freely available as it is today. This raises important competition issues and whether this trend is restricting open competition in the financial services consumer market place.

We therefore encourage the **Government and the regulatory authorities to address this issue to avoid an anti-competitive stance becoming embedded in the financial services consumer marketplace. We would welcome the opportunity to meet with Ministers and officials to discuss this matter further.**

Annex A – Case Studies

- Pawnbroker A - Southern England

“We have been with our bank for the last three years ... surprisingly we received a letter stating our account will close. Now we don't have any other account for our business”.

- Pawnbroker B – Northern England

Bank informs business account may close. Business contacts the bank –

“They hummed and haared a bit ... it has been sometime now and we have not even had the decency of any communication confirming that the account will remain open”.

- Pawnbroker C – London area

“Bank closed my account. I am in the process of seeking advice from my solicitor”.

- Pawnbroker D – Northern England

“Bank is closing our accounts. I emailed the bank – I am yet to hear back from them”.

- Pawnbroker E – Southern England

“We asked the bank for working capital to help finance our move into pawnbroking and they refused on the grounds that we would be in competition with them. We are not a money service business”.

- Pawnbroker D – Scotland

“We have lost a lot of money due to the bank closing down our business account ... What is VERY distressing is the fact they will not give me a reason for their action”.

Further case studies are available upon request.

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