

moneyadvice**scotland**

Scotland's Money Charity

RESPONSE

What do good banking outcomes look like to consumers?

January 2018

About Money Advice Scotland

Money Advice Scotland is Scotland's Money Charity.

Our mission is to be the driving force towards financial wellbeing for the people of Scotland.

Background

We welcome the opportunity to respond to the Banking Standards Board (BSB) consultation, *What do good banking outcomes look like to consumers?*

To help form the basis of this response, we held a roundtable event chaired by Martin Coppack which included key stakeholders from the advice and wider finance sector in Scotland. We are grateful to Martin and his colleague, Amy Huntly, for providing an excellent overview of the consultation and invaluable insight throughout the day. This was followed up by an internal consultation event with the Money Advice Scotland team, focusing on the staff's experience as both advocates for consumers, as well as their own direct experience of the system.

Consumer principles

1. Do you agree with the consumer principles listed in the framework? (These are access, choice, clarity and transparency, safety and security, redress and being listened to, value for money, fairness.)

Yes. The consumer principles closely mirror the United Nations guidelines for consumer protection and complement the existing regulatory framework. In our view, the consumer principles are wide-ranging and provide the model starting point for a new consumer framework.

We would be supportive of the inclusion of an additional principle on accountability. This would fit well with the proposed principles, and corresponds with one of the nine characteristics including within the existing BSB assessment framework that specifies what consumers have the right to expect from their bank.

2. Do you think that focusing on consumer outcomes is a good approach to raising standards in the banking sector? If not, what are your concerns and possible alternatives?

Yes. The financial services sector is naturally driven by profit motive, but a renewed focus on consumer outcomes may help raise standards in the banking sector.

This outcomes-based approach places the emphasis on banks and building societies to put the necessary measures in place to ensure that consumers are protected against detriment. The focus on outcomes sets out a clear target for the banking sector, prompting them to work backwards to ensure that these objectives are realised.

All too often, consumers are faced with complex financial decisions, then punished disproportionately when things go wrong. If someone visits a GP, they don't have to be medically trained to ensure that the treatment prescribed is safe. Equally, a consumer

shouldn't have to be a qualified IFA to protect themselves against harmful outcomes when accessing financial products and services.

In terms of any concerns at this stage, we would be interested to learn more about the potential consequences of failing to achieve good outcomes for consumers.

3. Would you add or remove any principles? Do you think that there are any that are particularly important?

We would not remove any of the proposed principles.

The principle of access is particularly important as it covers the initial engagement with a bank or building society, as well as the ongoing relationship between the provider and the consumer. We know that certain groups of consumers encounter greater difficulty when accessing basic financial services and products. The Scottish Household Survey shows that respondents in the 20% most deprived households are less likely to have access to a bank account.

The way that people access all types of information and products is changing and shifting rapidly towards an online model. Nonetheless, this contact channel is not suitable for everyone (particularly those who are digitally excluded) and it was considered important that consumers retain some degree of choice, especially in the context of widescale branch closures. Attendees at our consultation event noted difficulty obtaining contact telephone numbers for banks and considered it important that this information was accessible within one click when visiting a website.

Value for money is another particularly important principle. Financial services and products form one component of the poverty premium that refers to the extra costs incurred by people on low incomes to access essential goods and services. Inertia also means people on all levels of income can pay more than necessary. While this may be profitable to the banking sector in many circumstances, it was considered counter to good consumer outcomes.

Outcomes-based approach

4. Is an outcomes-based approach likely to be effective for this work?

The focus on outcomes for consumers is the correct starting point. Again, we would stress the need for consequences of not meeting what is considered as good outcomes for consumers.

5. Do you agree with the high-level outcomes listed?

Yes.

6. Do you think a different approach should be taken?

No.

Examples of what the outcomes mean to consumers

7. We have included some 'real life' examples of what the outcomes might mean to consumers, provided by consumer and civil society organisations and drawn from existing consumer research. Do you think these are helpful in illustrating the outcomes identified in the Consumer Framework?

Yes. The examples are well-defined and it is appropriate that they are written in the first person from the voice of the consumer. Of all objections levied at the banking sector, perhaps the most prevalent is that the language accompanying terms and conditions is often impenetrable. The real-life examples help to ensure that the consumer framework is relatable and this will be pivotal to its effectiveness.

8. Would you add, amend or remove anything to reflect more accurately the needs of consumers?

Access

We would add the following example to be included under the principle of access:

I need to be able to open a basic bank account

Our members frequently note concerns about people who are still unable to open a current account, despite the EU directive that provides consumers with a legal right to a basic bank account. For people with a poor credit history, including those in bankruptcy or other debt solutions, basic bank accounts offer a real financial lifeline. However, take-up for basic bank accounts remains relatively low as this type of product is not well advertised.

The following examples could also be included under either the principle of access or value for money.

I want to be able to access my money without being charged

I want my bank to offer an option to phone me back rather than expecting me to hold on in lengthy queues to speak to someone

The first example is particularly pertinent in light of impending plans to cut the number of free-to-use ATMs. The second example is included with reference to the long waiting times faced by some consumers when contacting banks, whereas others may keep your place in the queue and arrange a call back. This can prove an expensive process if people have no other option but to access banking services by telephone.

Choice

We would add the following example to be included under the principle of choice:

I need to know that I am not being sold products that are unsuitable to someone in my circumstances.

The reputation of the banking sector was damaged by the PPI mis-selling scandal. To date, £28.8bn has been paid back to people who were mis-sold PPI and claimed compensation. A number of consumers effectively lost out twice: first in terms of the mis-selling of a product

that was not required; and second by not receiving full compensation due to disproportionately high fees charged by claims management companies. It is reasonable for consumers to expect that they will not be sold (or targeted with marketing in relation to) products that are not suitable.

In our view, it is also important to note that in terms of the principle of choice, more is not always better. A consumer presented with too many options is likely to stay with the devil they know which could end up costing more or causing detriment. We are particularly supportive of the example that would oblige a bank/building society to automatically inform a consumer about the best product. All too often, consumer inertia is blamed for the large number of people who remain in more expensive products or tariffs. However, a consumer shouldn't have to be savvy to guard against being ripped off.

Clarity and transparency

We would suggest amendments to the following examples included under the principle of clarity and transparency:

I need to be able to understand the small print to be able to make an informed decision

I want to be able to trust what I am told because there is no way I can get my head around the small print

Arguably, consumers shouldn't have to be expected to understand the small print. In the second quoted example, there is also the implication that it is a failing on the part of the consumer that they can't understand the small print. However, by its very nature small print refers to something that is difficult to understand (often by design) and where important information is being withheld or downplayed. It is questionable whether the principle of clarity and transparency can be achieved when important information is contained only within the small print.

It is worth pointing out that clarity and transparency in terms of communications does not refer exclusively to language. The FCA's paper on vulnerability reported that one in seven adults has literacy levels of a child aged 11 or below. To improve outcomes for this significant section of consumers, we are of the view that the case exists for visual representations or risk warnings to help people with low literacy levels distinguish products that may not be suitable or are likely to cause detriment.

Safety and security

The examples provided under this principle accurately reflect the needs of consumers. One attendee at our consultation event suggested the inclusion of an example that puts an obligation on banks and building societies to issue consumers with examples of scams. However, it was highlighted that scammers already deploy this approach and decided that this may bring more risks than benefits.

Attendees at our consultation event were of the view that consumers can still be found at fault for very sophisticated scams that take advantage of security lapses at the bank. We

would add the following example to reinforce the responsibility on banks to respond rapidly to fraud:

I would like my bank to immediately put things right where bank processes have allowed fraudsters to operate

Redress and being listened to

Attendees at our consultation event were of the view that an apology was as important as compensation for some consumers and called for this to be incorporated under the first example included under the principle of redress.

We would also add the following examples under the principle of redress and being listened to:

I want to be able to complain easily without having to fill in lots of forms

I want to be able to nominate an advocate to take up my complaint on my behalf

I need to know that there are consequences if my bank fails to deal with my complaint seriously

Our members frequently report concerns about difficulties encountered when acting on a person's behalf, even when a mandate is in place. The process can be cumbersome and protracted, leading to unnecessary delays in resolving a consumer's complaint. Even for people who can complain directly, the process of doing so should be straightforward.

We are also of the view that consumers need to know that it is worthwhile complaining. Many people are put off pursuing a complaint as they feel that it won't make a difference or compel a change in practice.

Value for money

We would add the following example under the principle of value for money:

I need to know when the same product is available for a better price from another bank/building society

Again, this chimes with our previous comment that consumers shouldn't have to be experts to prevent against paying over the odds for financial products and services.

Fairness

We would add the following example under the principle of fairness:

I want to know that I will be signposted towards independent advice and support if I am in financial difficulty

This would provide consumers with assurances that help is available, and is particularly important when research from the Money Advice Service indicates that around only one in five of people in financial difficulty seek advice. Banks and building societies are in a

privileged position in terms of being able to identify debt or financial difficulty at an earlier stage.

The principle of redress and being listened to refers to the expectations of the consumer when a bank or building society makes a mistake, but it is equally important to consider the outcomes when a consumer is responsible for a mistake. We would add the following example under the principle of fairness.

If I make a mistake, I need to know that I will not be subject to disproportionate penalties

A current example of this is unarranged overdrafts where a person will face charges far in excess of the payday price cap, with the regulator questioning whether they have any place in the market. We all make mistakes with our finances, but people who are vulnerable or living on a low income typically pay a heavier price. This example could equally fit under the principle of clarity and transparency, where many the charges for unarranged overdrafts are not communicated clearly to consumers.

How could the outcomes be measured?

9. Are there any indicators that you think might be helpful for measuring consumer outcomes, and that we should consider in subsequent stages of this work?

The Scottish Government recently established a series of Experience Panels as it takes the historic steps towards setting up a new social security system for Scotland. This process seeks to gather the views of people with first-hand experience of the social security system, underpinned by the rationale that few people are better placed to shape the future approach. A similar exercise with consumers – and particularly with consumers who perhaps haven't experienced good banking outcomes in the past – may help determine what good looks like to consumers.

We welcome the consumer survey that accompanies the consultation. Engagement with consumer and civil society organisations is welcome, but it is important that the direct experience of the consumer is also captured.

Aspirational benchmark and usefulness to consumer and civil society organisations

12. Do you think the framework could be useful in the development of good practice guidelines and a common language?

In our view, the principles and intended outcomes are broad enough to form the basis of good practice guidelines. That the framework is written from the perspective of the consumer is also crucial to establishing a common language.

13. Does the framework provide a way for consumer and civil society organisations to more readily engage with our work at the BSB (for example, advising on the development of good practice), and potentially align some of their own future work when working with the banking sector?

We would welcome a reporting mechanism for consumer and civil society organisations to record concerns about practices within the banking sector that may be leading to adverse outcomes for consumers.