



**The Consumer Council's response to
Banking Reform – protecting depositors:
a discussion paper**

**HM Treasury
Financial Services Authority
Bank of England**

April 2008

About The Consumer Council

The General Consumer Council for Northern Ireland (The Consumer Council) is a statutory body whose aims are to promote and safeguard the interests of all consumers in Northern Ireland.

Since 1985, the Consumer Council has been championing the cause of consumers in Northern Ireland. Our job has been to give consumers a voice – and to make sure that voice is heard by decision-makers.

The Consumer Council campaigns on behalf of consumers for the best possible standards of service and protection, carries out research, publishes reports, seeks to influence both the public and private sectors, and campaigns for a fair deal. In addition to specific duties in relation to electricity, natural gas, coal, public transport and food, we investigate and speak out on the important consumer issues of the day.

The Consumer Council comprises a Chairman, Deputy Chairman and twelve members appointed following ministerial approval. Currently, the Chief Executive leads a team of 43 full time and 2 part time members of staff plus two students on placement. The Department of Enterprise, Trade and Investment fund us.

Executive summary

- The Consumer Council believes that HM Treasury should remove the option for banks in Northern Ireland to print their own banknotes. We believe locally issued banknotes offer no benefits for consumers and cause inconvenience. Although we welcome the legislation which will properly protect consumers holding locally issued banknotes, it does not go far enough and strongly urge the HM Treasury to bring consumers' needs to the forefront and remove locally issued bank notes.
- The Consumer Council believes that more data is needed on consumer needs and regional variations before decisions can be made on important issues such as the compensation limit.
- Although credit unions in NI operate under a separate system, it is important that members of credit unions in Northern Ireland have the same rights and protections as those of credit unions in the rest of the UK.

Introduction

The Consumer Council is pleased to submit a response to this consultation paper on financial stability and depositor protection published by Bank of England, HM Treasury and FSA (the Authorities). We would be pleased to meet with the Authorities to discuss further any aspect of our consultation response and how best to protect consumers in Northern Ireland.

In our previous response we asked that research be conducted to inform the discussion. We suggested that the research cover the following issues and strongly recommended that 'booster' samples for Northern Ireland, Wales and Scotland be included to enable analysis at national level. The benefits of over-

sampling are demonstrated by the Financial Capability Strategy which has been adapted to suit the national differences¹.

- The levels of savings held by different groups of consumers. The available research is comparatively patchy and does not provide sophisticated profiles of consumers.
- Consumer awareness of how deposit protection schemes operate;
- Consumer perception of deposit schemes and the impact of schemes on consumer behaviour;
- The readiness of individual firms within the banking system to absorb the critical banking functions of the failed financial institution.

It is essential that this research is conducted to inform discussion of important issues such as the compensation limit and how to inform consumers of the level of protection available to them.

Locally issued banknotes

The Consumer Council strongly urges HM Treasury to remove the option for banks in Northern Ireland to print their own banknotes.

We welcome the proposed legislation which will properly protect consumers holding locally issued banknotes. This legislation is long overdue and we hope that it will be progressed quickly, but it does not go far enough.

We are disappointed the proposed legislation does not bring consumers' needs to the forefront. As stated in our consultation response in October 2005, locally issued banknotes offer no benefits for consumers but cause inconvenience in certain situations.

¹ The FSA's Baseline Survey into Financial Capability identified significantly lower levels of financial capability amongst consumer in Northern Ireland and as a result needs have been prioritised and resources targeted.

In practice many consumers experience the disadvantages of using, or trying to use, locally issued notes to purchase goods or services elsewhere in the United Kingdom (UK). It has also been a source of embarrassment, extra hassle and potential extra cost for many who have had payment (in Northern Ireland notes) for goods or services refused. Those who exchange their notes at a bureau de change or bank in Great Britain (GB) incur a cost.

In contrast to the inconvenience to the consumer, the banks benefit from: *the prestige, advertising and status they receive from issuing their own notes, which are difficult to quantify in monetary terms.*² This is in addition to the yearly £38.5 million³ financial advantage they have enjoyed to date.

We are concerned that consumers may face additional risk of counterfeit notes. What requirements are placed on issuing banks to protect consumers from counterfeit notes? Are locally issued banknotes more or less prone to counterfeiting than Bank of England notes? Are retailers and service-providers throughout the UK properly informed of how to recognise a counterfeit note?

If locally-issued notes are to remain, at the very least there should be measures in place to make sure the issuing banks use the highest quality anti-counterfeiting technology. There should be a requirement to provide information to retailers and service-providers throughout the UK on how to detect counterfeit notes. This will help prevent the circulation of counterfeit notes and aid recognition of the notes throughout the UK.

² Banknote issue arrangements in Scotland and Northern Ireland: A Consultation Document, 25 July 2005

³ Figure provided by HM Treasury

Credit Unions

Credit unions in Northern Ireland operate under a separate system as they are regulated by the Department of Enterprise, Trade and Investment (DETI). The Committee for Enterprise, Trade and Investment are currently undertaking an inquiry into credit unions in Northern Ireland. It is important that members of credit unions in Northern Ireland have the same rights and protections as those of credit unions in the rest of the UK.

Questions

Chapter 4

4.20) Should further consideration be given to the introduction of depositor preference?

The Consumer Council's answer depends on how the Authorities decide to treat compensation limits. If all deposits are guaranteed then it would not be necessary to guarantee depositor preference. If all deposits are not guaranteed then depositor preference should be given further consideration.

4.30) Do you agree that the Treasury should make an Order under the 2007 Act to ensure that, on the winding up or dissolution of a building society, any assets available to satisfy the society's liabilities are applied equally to creditors and members?

The Consumer Council welcomes this proposal.

Chapter 5

5.1) How would a higher compensation limit affect consumer confidence?

We welcome the intention to consult further on this issue.

A higher compensation limit would greatly increase consumer protection. More information is required to establish what the costs are if all deposits, irrespective of value, were guaranteed.

We are particularly concerned about consumers who have accounts with different institutions that only have one banking license between them. It is important that full relevant data is provided on which to make this decision.

5.2) How would a higher compensation limit affect the responsibility consumers have for their financial choices?

Consumers should only have to bear responsibility for their financial choices in as much as they can know the full risks they take. It is often not possible for consumers to know whether a particular firm is in difficulty. It is on this basis that a higher compensation limit can be justified.

5.4) Which of the solutions to cover balances above the compensation limit is the most practical, desirable and/or proportionate, and why?

We believe that fuller consideration should be given to the suggestion of a 100 per cent guarantee as, from the consumers' perspective, this would seem to be the simplest solution.

5.5) What types of large balance should be subject to additional protection, and in what circumstances?

There are many scenarios in which consumers may have a large sum in an account. Whatever solution is found it must be simple for consumers to understand.

5.7) What are your views on a one-week target for FSCS payment?

It is important for consumers, especially those operating on a low income or who do not have funds in an alternative current account, to be able to continue using basic banking functions as normal. Any delay could be very difficult.

5.10) How effective would interim payments be in mitigating consumer detriment when a full payout is not possible within a week?

Our preference is for basic consumer banking services to be continued. We believe interim payments could be confusing to some consumers, especially those whose current accounts are affected and those who are not keeping track of their finances. It is important that consumers understand the system, timings and amounts involved.

5.12) Should banks follow a common data standard or format, and, if so, what would this entail?

We recommend that banks make appropriate changes where necessary to ensure that basic consumer banking services are maintained throughout any crisis.

5.13) What information should be included in a single customer view and what would be the implications for firms of different information requirements?

We welcome the development of the single customer view as it should aid the Financial Services Compensation Scheme in compensating consumers.

5.16) To what extent would gross payments help maintain depositor confidence and speed up payment?

We support the proposal to move to gross payments. Gross payments would be simpler to understand and would therefore increase consumer confidence.

5.17) To what extent are gross payments justified by maintaining depositors' access to liquidity as well as by accelerating payments by the FSCS?

It is important that consumers are able to access the money in their short term deposits in the event of a crisis.

5.20) What are your views on the removal of the formal claims process? What risks would be involved in the FSCS automatically sending out cheques and how can they be mitigated?

This proposal would appear to simplify the system for consumers.

5.28) What notification requirements on compensation should apply to banks, and how can they be made less burdensome? Would these have an effect on market stability or depositor confidence?

Information about the compensation scheme should be easily accessible (both in terms of the way it is written and where it is placed) on the banks' websites and in branches.

The information should help consumers understand the risks associated with the product and what happens in the event of a bank crisis. This information should be included in financial capability initiatives.

5.30) What would be the best way for DWP and HMRC to make payments in the event that consumers did not have access to their bank accounts?

This question demonstrates the importance of ensuring access to basic banking functions. Alternative ways for DWP and HMRC to make payments include pre-

paid cards and through the post office network but these options will not suit all consumers.

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