

Consumer Credit Counselling Service – Response to FSA Guidance Consultation on Risks to customers from financial incentives

The Consumer Credit Counselling Service (CCCS) is the UK's largest specialist provider of free, independent debt advice. In 2011, CCCS was contacted by over 370,000 indebted consumers, and helped clients repay £289 million. The charity currently manages over £3.7 billion worth of unsecured problem debt.

CCCS advisers regularly report cases where individuals appear to have been mis-sold financial products. Around 17 percent of problems logged by the charity's Social Policy network in the first three-quarters of 2012 concerned issues that could be characterised as mis-selling. The following case (concerning a debt consolidation product) highlights how mis-sold products can leave consumers in a worse position than they would have been had the sale not taken place.

Social Policy evidence case 1

CCCS recently advised a client who had been mis-sold a consolidation loan by a major high street creditor. The client, who is severely disabled, had contacted the bank to discuss credit card debts he was struggling with. The consolidation loan increased his monthly debt repayments from £220 to £390.

This case highlights the importance of ensuring sales staff, and other consumer facing staff, are properly and consistently incentivised to put their customers best interests at the heart of what they do. Where a case of mis-selling, such as the above, is the result of firms giving their staff the wrong incentives we would expect the FCA to act quickly to put this right.

Therefore CCCS strongly welcomes the FSA proposals. We believe they will result in fewer consumers being sold inappropriate financial products, and, in the long run, may help reduce levels of personal indebtedness across the UK. As the new head of the incipient FCA has said, "The cost of going large may cost us a few pence – the cost of buying the wrong mortgage could see you lose your home."¹

CCCS is happy to provide evidence of mis-selling to the FCA to help its work protecting the interests of consumers. If the proposed guidance does not result in an improved environment for consumers, the FCA may in the future

¹ Martin Wheatley, speech at Reuters September 2012, *The incentivisation of sales staff – are consumers getting a fair deal?*

consider using product intervention rulemaking powers to ban staff incentive schemes that increase the risks of product mis-selling.

The charity would like to raise one concern regarding incentivised mis-selling, not covered by the consultation document. Our Social Policy network has reported many examples of customers being 'upsold' fee-charging current accounts after enquiring in-branch about a separate issue. It is a particular issue when people are enquiring about 'basic' bank accounts. We are aware the FSA brought in new rules about 'packaged' accounts in March 2012 and therefore are confident the FCA will continue to monitor this area for possible consumer detriment.

These accounts can add significantly to the financial pressures on indebted households for negligible returns. CCCS would recommend once the FCA arrives, it closely monitors this practice to ensure it is not detrimental to consumers. It will be important that in-branch selling is monitored as closely as telephone or online sales.

Social Policy evidence case 2

CCCS advised an unemployed client who had approached his bank after having gone overdrawn. Bank staff switched him to an account that charged fees of £15 a month. The client did not request, or enquire, about switching accounts. His debt problems have got worse as a result of the charges on his new account.

Social Policy evidence case 3

A CCCS client attempting to withdraw £250 from his free current account was persuaded by a member of staff that instead he needed a new account with a larger overdraft. After signing documentation, which he was advised not to read, he discovered he in fact had been 'sold' two new accounts, one of which charged a fee if regular sums of money were not deposited.

The FCA may want to consider recommending creditors follow a practice of *positive incentivisation*. This would be where creditors pay staff bonuses on the basis of behaviours/outcomes that benefit customers, rather than on the basis of potential financial gains. Creditors would need to consider how beneficial outcomes would be measured and incentivised. CCCS suggests these could include customer service, satisfaction with financial products and the minimising of risk of problem debt.

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From November 5th 2012 the Consumer Credit Counselling Service will be known as StepChange Debt Charity.