

StepChange Debt Charity response to the Banking Standards Board consultation: What do good banking outcomes look like to consumers?

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Introduction

StepChange Debt Charity is the largest specialist debt advice charity helping people across the UK. In 2016 we were contacted by almost 600,000 people seeking debt advice. Demand for our services has increased to its highest level in the first half of 2017 when over 320,000 people contacted StepChange Debt Charity for help and support with their problem debt. We welcome this consultation and the development of a framework to establish what good banking outcomes look like for consumers. We have focused our specific comments on some of the questions.

Questions

Consumer principles:

1. Do you agree with the consumer principles listed in the framework?

We consider the consumer principles listed in the framework to be comprehensive and covering the main areas of focus. These consumer principles align with our understanding of our experiences with our clients and some of the barriers they can face when engaging with 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?

The approach of focusing on outcomes and having 'real life' examples is welcome as provides a useful illustration of what the outcomes would mean for both banks and consumers. It also differentiates this framework from the FCA rules. Having a clear, focused outline of what good consumer outcomes for the banking sector will give a realistic goal for the banking standards board, consumer groups and banks themselves to work towards.

Outcomes-based approach:

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

Taking an outcomes based approach should allow there to be effective measurement of whether banking standards are being raised to improve consumer outcomes.

Examples of what the outcomes mean to consumers

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

Access:

We welcome the inclusion of 'I need to be given helpful information if I am turned down for credit, have the reasons why explained, and signposted appropriately' as an important example.

Nonetheless we would add ahead of this another example linked to this:

'I want to have access to credit that is affordable and manageable for me to repay'

Where accessing credit is not appropriate then the example of where a consumer is turned down for credit should come in.

This suggested example would be helpful as there are concerns about ensuring consumers, particularly the more financially vulnerable, have access to credit that is affordable for them. This example is also essential as we have concerns about unaffordable lending in the banking sector. The FCA Credit Card Market Study found that the affordability tests firms conduct are noticeably less sophisticated than the creditworthiness tests they undertake. This is important as creditworthiness assesses the credit risk for the firm whereas affordability assesses whether the client is able to afford the credit over the course of the agreement. This is also an issue in the overdraft market as our recent research on persistent overdraft debt found that some of our clients have reported examples of unaffordable lending:

My bank offered me a £2,250 overdraft, even though I work part time. I only receive £200 a month wage; and the rest I rely on universal credit. I had no extra money.

For anything. I was struggling to meet my financial commitment and couldn't get a loan. However my bank gave me a £5000 overdraft despite my credit score and my existing debts

We welcome that the examples on access includes 'I need to open a bank/building society account without my passport or driving licence.' Nonetheless, we suggest the examples on access also include reference to basic bank accounts. There have been improvements in access to banking with the introduction of fee-free basic bank accounts. However, there are still some obstacles to opening these fee-free accounts as consumers can only open one if their either do not have an account at all or are considered to be in financial difficulty by an unclear definition. These accounts are not profitable for banks so they have little incentive to open them for customers. However, these fee-free accounts are likely to be more suitable and lead to better outcomes for consumers when they are in financial difficulties. We have seen evidence of our clients being rejected when trying to open a basic bank account since January 2016, for example:

Case study:

Another client was advised to open a basic bank account by their debt adviser. He tried three different banks over two months but was told that he was declined due to his credit file.

Case study:

Our client requested a basic bank account from their bank but was rudely told that he would not be eligible for one. The bank refused to give him a reason for declining the account.

In some cases, a basic bank account will be the most suitable option for a consumer but they can struggle to access these. Therefore we suggest this section on access incorporates reference to access to basic bank accounts where appropriate.

Clarity and transparency

We support the outcomes of this principle are that products are described and sold in a way that consumers understand. We also acknowledge that the 'value for money' principle includes the example 'I want to understand why my overdraft charges are what they are'. However, we would suggest this could be extended to include that charges for credit products (e.g. credit cards and overdrafts) should be clear and easy to understand and not include any hidden charges. This would increase clarity and transparency for consumers. This is necessary as overdraft charges in particular can be confusing for consumers to understand including high cost unarranged overdraft charges. The Competition and Markets Authority Retail banking market investigation found that half of consumers exceeded their arranged overdraft limit were not aware that they used an unarranged overdraft.¹

Redress and being listened to

We particularly welcome the outcome of consumers being appropriately listened to within banks and building societies. Our research on overdraft debt found some concerning examples where clients who reported they were struggling to repay their overdraft were not listened to or offered appropriate support, for example:

I contacted my bank on several occasions before approaching StepChange; and they couldn't help me in any way.

For the first six months they didn't help at all then they changed my account so I didn't get charges but it was too late by this point

I cannot say it was a positive experience as it was hard to get the help I required. They didn't want to know.

The issue was not just that the clients were not listened to but also that they were not offered appropriate support or a suitable solution to help them manage their financial difficulties. We would therefore suggest, perhaps under the Fairness principle, that there is an example about offering adequate support and signposting to debt advice when a consumer is in financial difficulties.

Fairness

The Fairness examples includes 'I need my products to adapt to changing circumstances during my lifetime (for example, needing some breathing space built into my 30-year mortgage if I develop an illness and am unable to work for a period of time).' We would also like to see an example of breathing space where the consumer is seeking debt advice or has engaged with their bank about a repayment plan. The government is currently consulting on the implementation of a breathing space scheme. However, ahead of this scheme being taken forward, it would be useful for this framework for good consumer outcomes to include reference to breathing space. Breathing space is where interest, charges and collection and enforcement action are stopped allowing consumers to stabilise their finances. We see many cases where our clients continue to see interest and charges to debts when they have engaged with their bank and found a solution e.g. a repayment plan, for example:

¹ CMA (2015) Retail banking market investigation: provisional findings report Appendix 7

Case study:

A major bank continued to apply interest and charges to a debt. This interest and charges came to more than the client was paying towards their debt and therefore this resulted in the client having a higher debt balance than when they started their debt management plan.

Case study:

The client had a temporary payment arrangement with a major bank offering to repay £1 a month back on their overdraft debt. However, the bank continued to add interest and charges to the overdraft and this pushed the client over their overdraft limit and left her facing additional unarranged overdraft charges. The client was left feeling stressed and under considerable

We would like to see a reference to breathing space in the examples under the fairness principle.

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?

It can be a challenge to measure consumer outcomes effectively. However, a good starting point for this might be to gather views from consumers in a variety of situations on the outcomes they have experienced in respect of the consumer framework. StepChange Debt Charity would be very happy to help the Banking Standards Board to develop these measures further including by working with our clients to explore their experiences with banking services..

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?

With support from banks themselves, as well as consumer and civil society organisations, the outcomes-based approach in this framework should be useful in developing workable and practical good practice guidelines for the banking sector.