

**RETAIL BANKING: POSITION PAPER**  
**THE FINANCIAL SERVICES CONSUMER PANEL**

## Introduction

This paper sets out the Financial Services Consumer Panel's views on the retail banking sector and the consumer outcomes it should deliver. We have been fortunate in being able to draw heavily on the excellent work of the Which? Future of Banking Commission, whose recommendations took account of the views of consumers as well as those of regulators and of the industry. The Future of Banking Commission Report ("the Report") was published in June<sup>1</sup>. We have also drawn on various other recent research reports, including John Kay's treatise on 'narrow banking'.

Clearly, the debate around retail banking has intensified, with calls for greater competition, increased transparency, fairer remuneration and more straightforward products. In his speech at the Mansion House on 16 June the Chancellor announced a number of changes to the framework of financial services regulation<sup>2</sup>, including the establishment of a Consumer Protection and Markets Authority (CPMA). This may well have implications for the regulation of retail banking. This paper focuses however on the Panel's opinions and ideas on the future direction of retail banking services from a consumer<sup>3</sup> perspective, rather than dwelling on regulatory and market structure.

The Panel is pleased to support a great many of the recommendations in the Report and in the Which? Banking Manifesto<sup>4</sup>, which was published on 24 June. The regulatory restructuring already announced by the Government, the Treasury Committee inquiry into Competition & Choice in the Banking Sector, and the Independent Commission on Banking are creating an opportunity for real change throughout the retail banking sector.

It is our belief that a well functioning and competitive market that delivers the right outcomes for consumers will also deliver the right outcomes for the retail banking industry as a whole. Well-managed, competitive banks operating in a well-regulated sector where banks focus on good ongoing customer service is a goal worth pursuing.

Adam Phillips  
Chair  
Financial Services Consumer Panel

5 October 2010

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<sup>1</sup> The Future of Banking Commission Report available at [commission.bnbb.org](http://commission.bnbb.org)

<sup>2</sup> Speech at The Lord Mayor's Dinner at Mansion House by The Chancellor of the Exchequer, The Rt Hon George Osborne MP, available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

<sup>3</sup> In this paper the term "consumer" includes small businesses as well as individuals

<sup>4</sup> Banking Manifesto available at [www.which.co.uk](http://www.which.co.uk)

## Executive summary

Although this paper is focused on retail consumers and what they are entitled to expect from their banks, we have not ignored the current climate of post-crisis challenge in the banking sector. Opportunities for positive change are being created and we do not want the consumer outcomes we have set out in this paper to be lost in the wider debate. Government and regulators are now in a position to ensure that the retail banking sector is structured and regulated to deliver the right results for customers and, ultimately, for the UK economy as a whole.

The Panel recently launched its own proposals for better financial services<sup>5</sup> which include a call for “better banking”. We set out in those proposals what we mean by that, but perhaps most significantly we call for customer service to be driven by customer needs. This is the underlying principle on which we have based our assessment of what banks should be delivering for their retail customers.

We have highlighted in this paper not only the key aspects of the recent Which? ten-point plan, such as

- ✓ a ban on sales incentives and commissions for bank staff;
- ✓ easier account switching; and
- ✓ support for customers in financial difficulty

but also a number of additional areas on which attention should now be focused. These include:

- ✓ questions of branch access, whose importance to many individual consumers and small businesses is often overlooked;
- ✓ the impact on customers of regional competition issues, particularly in Scotland where the retail banking sector is dominated by just two banks;
- ✓ the so-called “free banking” model – a flawed and misleading term – which has somewhat distorted the perception of fairness in transactional banking. The true cost of a banking service must be made clear if customers are to make meaningful choices; and
- ✓ the emergence of packaged accounts, which do not offer value for money for all and which make it more complex for customers to move their accounts.

The Panel believes that a transactional banking service should be akin to other basic utilities available to all such as water and electricity supplies.

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<sup>5</sup> “The Consumer Plan for Better Financial Services”, June 2010, at [www.fs-cp.org.uk](http://www.fs-cp.org.uk)

Indeed, access to a bank account is now a pre-requisite for buying many such essential services at the cheapest rate. In a 2008 report for DG Employment<sup>6</sup> there was some discussion of compensatory financial systems designed to ensure that a banking service was available to all and this is an area that could be explored further. So given its importance in everyday life, the Panel identified retail banking and its regulation as one of its key priority areas in the coming year. We will continue to review developments as the first anniversary of FSA regulation of retail banking conduct of business approaches. We are also proposing to submit evidence to the Government's Independent Commission on Banking in which we will emphasise again the need for good consumer outcomes to be the key driver for change.

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<sup>6</sup> "Financial services provision and prevention of financial exclusion" at [www.bristol.ac.uk](http://www.bristol.ac.uk)

## **Section 1: Context – the market, the models, competition and regulatory approach**

In addition to the Treasury Committee Review into Competition and Choice in the Banking Sector, the Government has set up an independent commission to ‘investigate the complex issue of separating retail and investment banking in a sustainable way’. The main aim would be to reduce the risk of destabilising failures which require the taxpayer to bail out the failed banks. The notion and recent practice of ‘too big to fail’ undermines and ultimately destroys the functioning of an effective market. This concept has to be challenged. Market discipline may only be effective if it allows failure. Beyond the question of stability, however, there are a number of consumer objectives that the Consumer Panel wishes to argue, as part of reform of the banking system.

The Panel is concerned that, as the economic recovery continues, the lessons learned from the banking and financial crisis may seem less relevant and a return to the ‘status quo ante’ may prevail. While some banking practices may be improving, there is little evidence to suggest that behaviours are changing markedly or that consumers have become the key focus driving beneficial change. Banks’ treatment of small and medium enterprises (SMEs) is a case in point<sup>7</sup>. The environment of constrained lending to SMEs that first arose in the aftermath of the financial crisis is now being exacerbated by the reduced number of banks in the lending market. Whether this paucity of credit for SMEs is the result of an exploitation of oligopolistic power, an extreme risk averse approach by lenders, a risk averse SME stance, an absence of sound SME business proposals, or a combination of these factors, is a question that needs to be addressed.

### **Existing business models**

Currently, in the UK there are only five sizeable High Street banks: HSBC; HBoS/Lloyds; RBS/NatWest; Santander and Barclays. The Co-Operative Bank, although smaller, is currently running a trial programme of putting bank counters in supermarket branches of Somerfield and the Co-Op. Entry to the market is difficult and, while there have been some success stories, several smaller players have found it hard to grow. Recent consolidation in this sector has been evident. The cost of regulation and the prevailing banking models discourage new entrants. While potential and recent entrants such as Tesco, Virgin, the new bank to be chaired by Lord Levene and Metro Bank have indicated moves into the retail arena, it has yet to be seen in detail how their banking models will differ, and also what success they will achieve in delivering significantly improved consumer outcomes.

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<sup>7</sup> In Adam Posen’s lecture to the Cass Business school in October 2009 (Getting credit flowing, [www.bankofengland.co.uk](http://www.bankofengland.co.uk), he acknowledged that credit always tightens particularly for SMEs in a recession, but that the availability of credit to non-financial companies, particularly to SMEs, during the upturn remains a major issue – in the absence of enough credit, correctly allocated, there will be insufficient investment in the economy.

## **More effective competition**

The Panel has long challenged the widely held belief that increasing competition or offering more product choice *necessarily* brings benefits to consumers. We do think, however, that the current concentration of business levels in the large banking groups throughout the UK, together with common ownership of financial firms, severely limit consumer choice. Yet, choice is part of the infrastructure of an effective market place.

There are good reasons for wanting more effective competition in retail banking, namely to improve customer service, introduce fairly-priced products which are of benefit to customers and to bear down on charges. In other retail sectors, where effective competition prevails, consumers benefit from lower costs and genuinely innovative products designed to meet their needs. But the structure of retail banking and the models that have been adopted to date do not allow for similarly beneficial consumer outcomes.

Brand switching is not in itself a measure of competition. However, the restricted number of banks and lack of product and brand differentiation limit customer choice and often discourage consumers from shopping around. Indeed, much recent research points not to consumer apathy but rather to significant customer disenchantment with existing services and their lack of differentiation.

## **Competition objective**

The FSA does not at present have a duty to promote competition, although there is some debate over whether the new CPMA could have a competition or economic regulator-type role<sup>8</sup>. In this regard the FSA is at present unlike the other industry regulators. Ofgem, for instance, proclaims: 'Protecting consumers is our first priority. We do this by promoting competition, wherever appropriate, and regulating the monopoly companies which run the gas and electricity networks.'

Currently, in the financial services sector, the competition authorities are the OFT and the Competition Commission, but they act case by case, triggered by major concerns. Because neither body specialises in financial services, enquiries tend to be cumbersome and protracted, and outcomes are frequently subject to legal challenge by the industry (unlike the FSA which has a close and continuing relationship with the major firms and is rarely taken to court).

Accordingly, the Consumer Panel believes it is essential for the financial services regulator to have a duty to promote competition in the interests of consumers, and also for its consumer protection duties to be extended to 'have regard for the need of consumers to obtain value for money'.

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<sup>8</sup> In its forthcoming submission on the future of regulation (A new approach to regulation: judgement, focus and stability at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)) the Panel is indeed calling for the new CPMA to have an objective to promote effective competition

Interestingly, there is growing public debate on the competition question. For example, Adair Turner, Chairman of the FSA and Andrew Tyrie MP, Chairman of the Treasury Committee, both raised the issue in question at the BBA's Annual International Banking Conference on 13 July 2010<sup>9</sup> with each expressing perhaps slightly differing views on competition and the future of financial services regulation.

### **Stand-alone retail banks**

The exploitation of retail bank customers in existing models does provide strong grounds for arguing that consumers might be better served by stand-alone retail banks that benchmarked their performance against the best players in retailing generally, such as M&S and John Lewis. The Panel finds some of the arguments put forward for 'narrow banking'<sup>10</sup> attractive in terms of more effective competition and we look forward to more evidence as to how such a model realistically could be achieved. The rationale behind 'narrow banking' is persuasive, though we do note counter-arguments which state that smaller banks, by their very nature, are not necessarily intrinsically safer - Northern Rock being a case in point (although some argue that Northern Rock was not a narrow bank as currently envisaged). Notwithstanding, we support the need for different models from the structures currently operating, which favour the existing players to the detriment of new entrants and customers. We accept that structural reform is required to put a stop to the doctrine of 'too big to fail' and we support the underlying principle that a regulator should be able to close down failing banks without contagion and the risk of the collapse of the entire sector. We look forward to the future debate on the effectiveness of living wills.

Establishing the payments system as a separate regulated entity, not owned by the existing banks, could, arguably, help new entrants, just as the existence of separately owned gas and electricity grids allow new suppliers to enter the market. Ready portability of bank accounts could also help new entrants. Simpler structures offering more straightforward, yet competitive products could also reduce the costs of compliance and reduce the risk of referrals to the Financial Ombudsman Service.

### **Economic rent**

Wholesale banking is one remove from consumers. Nevertheless, savings and pensions investments in aggregate are traded in wholesale markets, the transaction costs of which are borne by consumers. Market making has become oligopolistic since small players are less viable than the large, lacking deep enough pockets to cope with a run of poor trading, as well as the depth of knowledge of market conditions. The high levels of remuneration from investment banking and proprietary trading arise from the ability to extract 'economic rent' on account of oligopoly, as well as from fees from trading in products which often have little real value - termed 'socially useless' by Adair

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<sup>9</sup> Speeches and other information are available at [www.bba.org.uk](http://www.bba.org.uk)

<sup>10</sup> John Kay – "Narrow Banking: the Reform of Banking Regulation"

Turner since this, it can be argued, contributes negligibly to wealth creation. The cost of these rents and fees is ultimately borne by UK consumers, as well as by business users and overseas clients.

### **Flawed reward structures**

Conglomerate banks, which include both retail and wholesale functions, can arguably justify themselves as best able to meet all the needs of their customers, particularly business customers. Against that, a culture of excessive profits and bonuses is arguably not conducive to high standards of customer service on the retail side. As Patrick Hosking, writing in the Times (21 July 2010) comments: “incentives are hopelessly lop-sided and short-termist. Lop-sided, in that managers and staff rarely shoulder any of the downside if things go wrong. Short-termist, in that they pay out after just one, two or three years. The rational conduct of agents is, therefore, to take excessive risk, to stoke bubbles and to ditch a fair value approach in favour of unthinking momentum investing”. Andy Haldane, Executive Director, Financial Stability at the Bank of England speculated that<sup>11</sup> “the banking ‘productivity miracle’ may have been, at least in part, a mirage – a simple, if dramatic case of risk illusion by banks, investors and regulators.”

Exploitative behaviour, such as the mis-selling of Payment Protection Insurance (PPI), may well have been induced by a wish to emulate the profits of the wholesale side. The ability to exploit PPI through existing client bases in retail banks was also reflective of existing bank models where ‘captive’ customers can be ‘milked’ for, it seems, excessive profit-taking.

Proposals have been made for action to tackle ‘unacceptable’ bonuses in the financial services sector. An effective approach could be however to foster more effective competition so that economic rents are competed away, as happens in efficient markets. Failing that, direct economic regulation or fiscal measures may be alternative means, likely to be more effective than exhortations to shareholders to do their duty in exercising control, or in non-executive directors stepping up to the mark.

Despite the Walker Review<sup>12</sup> which, quite rightly, increased scrutiny on governance and non-executive roles in ensuring effective risk management, it has yet to be proved whether this more intrusive approach will be adopted and will reap the intended rewards, or whether shareholders will, indeed, take a more robust approach, moving away from their usual timid, collective stance. Given the potential conflict of interest for fund managers voting on pay packages, the Panel believes that more should be done to ask the view of retail investors ahead of such votes. Fund managers and pension managers need to remember that they are custodians of the money they have under investment and need to do more to ensure that the wishes of the ultimate shareholders are reflected in their voting on pay and reward issues.

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<sup>11</sup> Speech at the Future of Finance Conference 14 July 2010, available at [www.bankofengland.co.uk](http://www.bankofengland.co.uk)

<sup>12</sup> Walker Review of Corporate Governance of the UK Banking Industry at [webarchive.nationalarchives.gov.uk](http://webarchive.nationalarchives.gov.uk)

## **Supervision and regulatory gaps**

There is debate about the efficacy of supervision – those who doubt its effectiveness argue for structural reform so that no firm is too large to be allowed to fail. Whatever view may be taken, there is a need to strengthen regulatory arrangements in the consumer interest. It is essential that consumer outcomes are enhanced in the new Consumer Protection and Markets Authority.

It would also be desirable to remedy in the CPMA the present unsatisfactory demarcation between the FSA and the OFT in respect of retail banking. OFT is responsible for consumer credit, hence for overdrafts, while the FSA is responsible for deposits, giving rise to the possibility of ‘gaming’ by some firms.

In its submission on the Future of Regulation, the Panel will be calling for a wider debate on the regulation of credit. We will be arguing the case for the CPMA to regulate all activities of the firms with which the CPMA has a relationship, although there is also a view that the CPMA should regulate all providers of consumer credit.

## **New regulatory structure**

Clearly, the new regulatory structure will present opportunities as well as threats. The Panel looks forward to entering the debate and to focusing on consumer interest and better outcomes. Some of the principles/practices we are espousing include:

- Genuine customer focus
- Greater transparency
- True accountability
- Straightforward products
- Effective competition
- Behaviours driven by ongoing quality of service.

## **Section 2: Retail banking services – consumer needs and expectations**

The Consumer Panel strongly supports many of the recommendations in The Future of Banking Commission Report (“the Report”) published in June, which we regard as valid and compelling.

In the Report the Commission identified thirteen consumer outcomes, or measures to protect consumers that could be taken by a regulator. Which? has gone on to develop these measures into a ten-point action plan which was also launched in June:

1. Ban sales incentives and commissions for bank staff. Instead, reward branch and call centre staff for providing high quality service.
2. Make all bank fees fair. Charges must be transparent and proportionate to the cost of the service being provided.
3. Make switching banks easier, and ensure the process is clear and quick.
4. Support customers in financial difficulty. Bank charges and overdraft fees should not contribute to a customer’s financial problems.
5. Stop penalising existing customers for staying loyal to their bank. Currently, if you stick with one current account or savings account provider for many years, you’re likely to earn little interest on your money.
6. Inform customers of relevant risks. Bank must make it clear to their customers which products are covered by the Financial Services Compensation Scheme.
7. Offer 100% guaranteed accounts. These new accounts should protect a customer’s money completely from external risks.
8. Provide services that meet customers’ needs. A range of services must be available to prevent the exclusion of customers who are unwilling or unable to bank online, or who would prefer to continue using cheques.
9. Ensure complaints are dealt with fairly and quickly. All complaints must be handled in a timely manner.
10. Give bank managers long-term incentives, not short-term targets. The remuneration of bank employees must be linked to long-term performance, to help create a more consumer-focused industry.

As regards point 2, we understand that there are likely to be conflicting views on what is “fair”. We believe charges should be proportionate and a true reflection of the actual cost of the service provided to the individual. We endorse point 9 too, particularly given recently published statistics on bank complaints:

- In the financial year 2009/10 a total of 163,012<sup>13</sup> new cases were referred to Financial Ombudsman Service adjudicators and ombudsmen. Of these, banks were the most complained about sector (61% of all complaints), the second most complained about sector being general insurance at 11%. Banks were the most complained about sector for banking and credit issues (83% of complaints); mortgages (64%); and payment protection insurance (70%). The number of complaints against banks upheld by the Financial Ombudsman Service was 52%.

The ten-point manifesto goes a long way towards articulating a set of reasonable and achievable consumer outcomes for the retail banking sector. But there are some additional issues that the Panel believes should also be addressed.

### **Access**

We acknowledge that different customers have different preferences for the ways they conduct their day-to-day banking. Different levels of customer sophistication may affect their banking preferences. While some may choose remote and efficient access, others will prefer face-to-face contact. We believe the needs of all customers should be taken into account, with their needs driving retail customer strategies rather than the primacy of internal banking drivers such as IT efficiencies.

With much of the focus today being on technology-based banking it is easy to overlook the importance of branch access to both SME's and many individual consumers. Cash-based small businesses have a real need for access to secure locations for banking. There are some bank services, such as purchasing foreign currency, that can be most easily accomplished by visiting a branch. Some sectors of the community do not have access to the internet and/or are unable or unwilling to use telephone banking services and prefer face-to-face contact when dealing with their finances.

The Panel's new research on fairness<sup>14</sup> published on 28 June noted consumer criticism of limited face-to-face contact in financial services, reliance on call centres and unhelpful documentation. Participants in the research lamented the decline of the old fashioned bank manager and criticised the faceless nature of retail banking today. While the Panel is not harking back to the past with its rosy hued picture of perfect service and paternalistic managers, clearly there is a consumer appetite for personal contact in banking that is linked with trust and concepts of being treated fairly. In our response to the BIS Consultation Paper on Post Office Banking earlier this year<sup>15</sup> we said that we would like to see all bank and credit union accounts being accessible through Post Offices to help those whose nearest bank branch was not easily accessible. We do not see this as purely a

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<sup>13</sup> [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

<sup>14</sup> Consumer perceptions of fairness within financial services, Opinion Leader at [www.fs-cp.org.uk](http://www.fs-cp.org.uk)

<sup>15</sup> The Consultation Paper is available at [www.bis.gov.uk](http://www.bis.gov.uk) and the Panel's response at [www.fs-cp.org.uk](http://www.fs-cp.org.uk)

convenient distribution outlet for banks closing their own branches, but rather an opportunity for the Post Office to deliver a valuable service to the community where banks find it genuinely impossible to maintain a branch presence. We also thought that there was further scope for Post Office banking services to be enhanced, such as the introduction of debit facilities on card accounts, that would be of benefit to consumers.

### ***Regional competition***

Lack of competition in retail banking in both Northern Ireland and Scotland in particular has had a direct and unacceptable impact on consumer choice. Banking in Scotland is dominated by just two banks – Lloyds TSB and RBS. These two institutions have over 800 branches between them. Even the proposed sale of parts of RBS would result in only six branches transferring to another bank. The position of banking customers in Northern Ireland is little better with the market dominated by just four banks. This situation must be addressed if consumers in Scotland and Northern Ireland are to have a genuine choice of banking service.

### ***So-called “free banking” and non-payment of interest on current accounts***

In its ten point action plan Which? called for all bank fees to be fair and for charges to be transparent and proportionate to the cost of the service being provided. We wholeheartedly support this, but there is a much wider underlying issue.

Much of the retail current account market for non-business consumers operates on the basis of the so-called “free banking” model. “Free banking” is of course a misleading term. Simple current accounts in credit that are not subject to specific fees only appear to be free because no or negligible interest is paid on credit balances and operating costs are cross-subsidised by unfair fees imposed for other services, such as unauthorised overdraft charges. In its 2008 report<sup>16</sup>, the OFT estimated that in 2006 banks earned £8.3bn in revenues from around 54mn active personal current accounts, equivalent to £152 per account per annum by way of forgone interest. In order to achieve fair and transparent pricing of retail banking services the so-called “free banking” model will need to be challenged and real assessments made of the actual cost of the various services being provided, offset at the appropriate stage against banks’ earnings from customers’ credit balances. We are pleased that the Treasury Committee will be looking at the “free banking” model.

It is critical that the true cost of a banking service is made clear if consumers are to be able to make meaningful choices. If all customers are to be treated fairly, it follows that all bank fees should be fair, perhaps based on transactions, offset by credit balances. This is an area requiring further research and development.

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<sup>16</sup> Personal Accounts in the UK, OFT Study, at [www.of.gov.uk](http://www.of.gov.uk)

## ***Packaged accounts***

There are a number of banks now selling packaged accounts. According to headlines from Mintel's recent research<sup>17</sup> around one in six current account holders have a fee charging packaged account, and that twice as many would be prepared to pay a small fee for certain benefits.

Earlier research by Which?<sup>18</sup> showed that only 12% of its members with a packaged account said they used all the benefits it offered, while 78% used some and 10% none. There is a significant risk therefore that many consumers who are sold a packaged current account have a product that does not meet their needs or which offer 'supposed' benefits which are of little value. Which? also indicate that in 2008 packaged bank accounts accounted for 42% of all spending on current account advertising, compared with 28% in 2007.

Packaged accounts were also mentioned in the FSA's 2010 Financial Risk Outlook<sup>19</sup>, which stated that packaged accounts may offer value for money for some consumers, but they may not benefit all; and that consumers could be better off purchasing products individually or not at all. Some may find that where the add-ons are insurance products, they do not provide the expected level of cover. The European Commission is also concerned. In January 2010 the Commission published the findings of its independent research into tying and other potentially unfair commercial practices in the retail financial sector, which raised concerns about the impact of bundled services on competition.<sup>20</sup>

What is required is far greater clarity about the products and services on offer in a packaged account, including costs, preferably alongside the key features and costs of comparable stand alone products. We look forward to seeing the outcome of the FSA's conduct risk outcomes testing on packaged accounts.

In addition, the growth in packaged accounts may have an adverse effect on competition in that it makes it more complex for customers to move their accounts. This is an area that the Panel would like to see investigated formally.

## ***Security and confidence***

In its ten point manifesto Which? called for banks to offer 100% guaranteed accounts. These accounts would be backed by secure assets such as Government bonds and would effectively be 'ring fenced' from other deposit accounts and from market risk. There is also the question of the security of other deposit accounts. Consumers need to be clear about the extent to

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<sup>17</sup> June 2010, Mintel at [oxygenacademic.mintel.com](http://oxygenacademic.mintel.com)

<sup>18</sup> [www.which.co.uk](http://www.which.co.uk)

<sup>19</sup> [www.fsa.gov.uk](http://www.fsa.gov.uk)

<sup>20</sup> [www.ec-europa.eu/internal-market](http://www.ec-europa.eu/internal-market)

which they can be confident that savings accounts are, indeed, 'low risk' products and that, subject to a clear overall limit, their money is safe.

Part of the solution would be for deposit protection to be allocated per brand. The Panel has been promoting this approach for some time, both domestically and in the European arena<sup>21</sup>. We believe that a requirement for all brands to be separately authorised, together with the introduction of guaranteed deposits, would bring clarity to the question of deposit protection and make it easier for consumers to spread their savings between brands to reduce the risk of loss.

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<sup>21</sup> Including Panel responses to CP09/3 and the Review of Directive 94/19/EC on Guarantee Schemes, at [www.fs-cp.org.uk](http://www.fs-cp.org.uk)

## **Section 3: The future**

### ***Structure of the banking sector***

To a large degree the structure of the banking sector in itself is of little consequence to consumers. What matters is the behaviour of institutions delivering retail banking services and the quality, relevance and reliability of those services.

Any new structure would have to deliver the essential functions of the banking system. Referring again to the Report, the Commission identified the essential functions as:

1. The facilitation of payment: the agreement and mechanisms to distribute cash and credit payments, including access to direct bank transfers, card payment systems and ATMs.
2. Co-ordination: bringing savers and borrowers together by offering a return on savings and lending at interest.
3. Risk management: pooling deposits and lending to a diverse range of borrowers

We believe this is an accurate assessment of the core features of banking business. In times of crisis consumers need a seamless overnight transfer of accounts to other account providers. Even a delay of a week can lead to a large number of missed transactions at considerable additional cost to all concerned and lack of access to money for food and other basic needs.

Any structural change should not impede the effective delivery of these services to retail consumers.

### ***Banking products and services***

There are also a number of more detailed key challenges that remain around banking services that are outside core business. For example:

- There is still poor practice around unauthorised transactions. The FSA's rules require the immediate refund of disputed transactions to the customer. The FSA expects refunds to be made on the same day that they are made aware of the transaction. The FSA has called on banks publicly<sup>22</sup> to ensure that they comply with the requirements, but the Panel's qualitative research through Moneysavingexpert.com showed that around half of those responding who had reported unauthorised transactions on their bank accounts had experienced some difficulty in obtaining a refund.

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<sup>22</sup> For example, Dan waters appearance on Money Box, November 2009, article available at [news.bbc.co.uk](http://news.bbc.co.uk)

- Complaints about banking and to banks continue to cause concern. As we have set out earlier in this paper, banks were the most complained about sector of financial services. This will not change until banks are providing services and products at the right price that meet customer needs.
- Problems remain in the way the right to set-off is applied, with reports of individuals being left with insufficient money to meet basic needs such as rent, food and other basic needs. In the light of evidence supplied by Citizens Advice Bureau and Money Advice Trust, which showed that problems with set-off are on the increase, the FSA has now consulted on guidance to assist firms in applying set-off in an appropriate and compliant way<sup>23</sup>.
- Certain customer segments still find access to basic banking difficult. According to the Consumer Focus Report On the Margins<sup>24</sup> the most vulnerable people still face a number of barriers when trying to open a bank account, including identification requirements, language barriers and financial capability. In addition there is still a great deal to be done to counter the negative impact on individuals of issues such as poor previous banking experience and fear of fraud and ID theft.
- Customers are still suffering from unfair overdraft charges and, indeed, some banks have introduced new charging practices which are exacerbating customer difficulties
- Potential for regulatory gap and customer detriment remains
- The need for safer, straightforward products delivered through a cost-effective simplified advice system has yet to be met.

This paper highlights the Panel's position on retail banking. Clearly, the sector continues to evolve and we will revisit our position, as appropriate, and update our thinking. We hope, however, that you find this brief paper helpful.

If you would like to contact the Panel, please either call the Panel's Secretariat on 020 7066 9346; e-mail us at [enquiries@fs-cp.org.uk](mailto:enquiries@fs-cp.org.uk); or write to Consumer Panel Secretariat, The FSA, 25 The North Colonnade, Canary Wharf, London E14 5HS.

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<sup>23</sup> CP10/15\* Quarterly Consultation at [www.fsa.gov.uk](http://www.fsa.gov.uk)

<sup>24</sup> [www.consumerfocus.org.uk](http://www.consumerfocus.org.uk)