IBF RESPONSE TO SWITCHING CODE DISCUSSION PAPER

The Irish Banking Federation (IBF) is the leading representative body for banking and financial services in Ireland, representing some 70 member institutions, including licensed domestic and foreign banks and institutions operating in the financial marketplace here.

We welcome the opportunity to comment on the above discussion paper by the Central Bank of Ireland (hereafter 'the Central Bank').

We have a number of observations which are set out below for the Central Bank's consideration.

Introduction

The success of this Code of Conduct is reflected in the recently published European Commission report on switching. According to the report, mystery shoppers in a number of EU member states including Ireland were more likely than the EU average to receive key information on the process of switching (http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf). The report also points to findings that three quarters of mystery shoppers did not have any difficulties finding information on switching and the report references Ireland in particular in this regard, stating that "… in Ireland the subject of switching was shown as a clear topic heading." In addition, it was reported that "Shoppers making their enquiry about switching were most likely to receive step by step information from bank staff in Ireland (83%)".

The switching process is in part reliant on third parties to run smoothly and efficiently, namely the customer involved and Direct Debit Originators (DDOs). On some occasions, a difficulty can arise with DDOs not conducting the necessary actions in a timely manner or misdirected payments. DDOs are a key part of any account switch, but are currently excluded from sanction under the regulations. IBF advocates that further consideration be given to formalising the DDO's obligations within the code.
Given that the European Commission has stated its intention to issue proposals on switching in November 2012, we believe that the Central Bank should await sight of these before issuing any domestic proposals. In addition, any proposed revision to the code should be aligned with these EU proposals.

Questions for Consideration / IBF Response

Question 1: To what extent do you consider that we have identified the potential barriers to switching? Are there other barriers that we should take into consideration in reviewing the Switching Code? Are you aware of any other research or evidence of barriers to switching that we should consider?
The reasons for not switching are both financial and non-financial. Members feel that Central Bank has identified the most pertinent barriers to switching, which are common to other markets across the globe.

The Irish banking sector has shrunk both in terms of the number of institutions offering current bank accounts in Ireland and also the number of current account products offered which may also have an effect on the number of current account switches.

Over the past few years the Irish consumer has become much more aware of what they are spending their money on and where savings can be made. There are several websites, books and tv shows which try to help customers find the best price for their needs and wants. One of those tools available to consumers is the National Consumer Agency's website www.nca.ie which allows the comparison of current accounts offered under some of the standard bank charges such as Debit/Laser Card/ATM transaction fees and quarterly fees. While there are differences in cost, the potential savings are not as significant as the potential savings made from switching car insurer or utility company.

Question 2: Should enhancements be made to the Switching Code in the area of requirements for training for credit institution staff on the Switching Code and the switching process?
The Switching Code should not make reference to a requirement for staff training. The code details the requirements to which financial institutions must adhere. To meet those requirements each institution must determine their own training requirements in the same way as they determine training requirements to ensure adherence to other regulatory obligations.

Different levels of expertise are required by staff dealing with different elements of the process (e.g. account opening). Institutions should have the flexibility to customise their training accordingly.

It is possible for a customer to call into the bank and talk to a member of staff who would not have, nor would they need detailed process knowledge, however all frontline staff have the ability to advise customers that a process (and code) is available and refer customers onwards for more detail.

Question 3: Should the banks be required to raise awareness of the switching process among their customers in view of the low level of switching in the Irish banking system? If so, what steps should they be required to take, individually and/or collectively? Could this be done effectively via conduct of business rules?
In accordance with the existing code the IBF and members have information available in branches and webpage's dedicated to explaining how the switching process works.
IBF - http://www.ibf.ie/gns/customer-information/personal-banking/AccountSwitching.aspx

Examples of bank webpage dedicated to Switching process
UBIL - http://www.ulsterbank.com/roi/personal/daily-banking/current-accounts/useful-information/switch.ashx
AIB - http://www.aib.ie/personal/current-accounts/Switching-Your-Account
PTSB - https://www.permanenttsb.ie/switch-to-us/
BOI - http://personalbanking.bankofireland.com/current-accounts/switch-to-boi/

Question 4: Are there other measures that we should consider in reviewing the Switching Code to increase switching levels and reduce consumer inertia? Are you aware of any research or evidence/experience of measures taken elsewhere to increase consumer awareness and encouragement with regard to switching?
Although the UK research referenced in the discussion paper is useful, there are distinct and significant differences between the markets which dilutes the value of overlaying the UK research onto the Irish market. Firstly, there is a significantly larger UK population which creates economies of scale justifying any technical enhancements, e.g. ToDDaSO (Transfer of Direct Debits and Standing Orders); secondly, market share in the UK is more fragmented due to the far greater number of financial services providers creating a broad competitive environment.

Question 5: Do the banks (old and/or new) keep consumers well informed during the switching process? How could banks (old and/or new) communicate better during the switching process?
Banks use a number of different communication channels to keep customers (those switching in and those switching out) informed during the switching process; these include branch staff engaging with the customer face-to-face, by phone, by text and letters.

In the case of a customer who is switching in, banks advise customers of the switching process itself. Customers are also informed when the switch has taken place.

Customers who are switching out generally receive a letter from the bank confirming that direct debits have been forwarded to the new Bank. The customer is also encouraged to contact the bank if they have any queries.

Question 6: Do you consider that the current timeframes in the Switching Code for completing the switching process of 10 days and 7 days for the new and old bank respectively remain reasonable for both banks and consumers alike? If not, what timeframe would you deem to be reasonable and why? What issues might arise if the timeframes were changed?

The current timeframes are appropriate, having regard to the steps to be taken and the processes involved. We would note however, that adherence to the timeframes outlined in the Code and the process itself, is heavily reliant on action being taken in a timely fashion by third parties, and in particular DDOs. DDOs updating customer account details in accordance with the Direct Debit Scheme rules has historically been an issue for the Code. Similarly, the switching process is reliant on a number of customer actions and behaviours in order for it to run smoothly, such as the customer refraining from using their cards on their Old Account which has historically accounted for a notable proportion of Old Accounts being kept open longer than necessary. These external actions should be given due consideration and a proportionate supervisory approach taken to the adherence of the Code timeframes.

Question 7: At the time of actual switching, should the obligation or onus be placed on the bank (old and/or new) to ensure that the switching process works successfully for the consumer, particularly with regard to direct debit and/or credit transfers? If not, where should the obligation be placed?

The greatest risk to the successful switching of a current account lies with DDOs who do not cooperate with the banks and/or who do not cooperate in the time limits set out. The actions of the DDO and or credit transfer originators are outside the control of the banks. Therefore it would be impractical to place an obligation on the banks in this regard.

To improve the switching process for both the banks (old and new) and the customer, it is imperative that DDOs are included within the scope of the Code. The Irish Payments Services Authority (IPSO) can act as the competent authority in relation to monitoring DDO compliance and also issuing sanctions for non compliance. As per the Irish Payments Services Organisations "Direct Debit rules" there is an onus on each financial institution to also intervene or sanction DDOs who persistently breach the DD rules.

Question 8: Should the consumer be made aware that an impaired credit rating has been recorded against them as a result of a declined direct debit arising from the switching process?

It would be most unusual for a consumer's credit rating to be impacted negatively as a result of a declined direct debit arising from the switching process. A consumer's credit rating will only be impacted where a repayment on a financial product is not executed in a timely manner, for example a missed mortgage repayment. The bank holding the customer's payment account has no visibility of the impact of a declined direct debit transaction. Responsibility for informing the customer of an impaired credit rating should rest with the credit institution where the impairment occurs.

Question 9: Should the provisions of the Switching Code be extended beyond current accounts and include demand deposit and/or savings accounts?

The Code facilitates the transfer of a customer's primary banking activities from one institution to another, namely their current account. Our understanding is that savings accounts only make up a very small proportion of account switches. By their nature savings accounts are not used for regular payments and typically standing orders, direct debits and cheque books are not facilitated on them. Account opening requirements would continue to apply to the new account. We are of the opinion that a Regulatory Impact Analysis would demonstrate only a negligible benefit from introducing statutory requirements around savings accounts.