national consumer agency
gníomhaireacht náisiúnta tomhaltóirí

putting consumers first

Submission from the National Consumer Agency to the Central Bank of Ireland's Discussion Paper concerning the Code of Conduct on the Switching of Current Accounts with Credit Institutions

The National Consumer Agency ('the NCA'/'the Agency') welcomes the opportunity to comment on the Central Bank of Ireland's ('the Central Bank') discussion paper concerning the Code of Conduct on the Switching of Current Accounts with Credit Institutions ('Switching Code').

The Central Bank's review of the Switching Code is welcome however the Agency believes that improvements to the Switching Code and an increase in consumers' awareness of it alone are unlikely to significantly increase the numbers of consumers who switch current accounts. It is therefore suggested that the Central Bank should undertake a study to ascertain the reasons why the majority of consumers do not at the very least consider switching current accounts[1]. As part of this research, awareness levels of the Switching Code should also be gathered[2]. The NCA regularly collects data on switching levels across 18 key markets, including current accounts, and would be happy to assist the Central Bank in conducting this research.

It is also submitted that decisions made by financial institutions in recent months have done little to promote competition and switching. The NCA has developed interactive financial product comparisons ('Comparisons') on its www.nca.ie/compare website. These Comparisons provide information to consumers on the wide range of banking and insurance products on offer in the Irish market. Recent updates to the information on the Comparisons show that most banks[3] have re-introduced fees[4] in the past year or put in

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[1] NCA Research 2012 – See response to Question 1.

[2] Research undertaken by the NCA in late 2010 showed that less than one third (31%) of consumers were aware of the Switching Code.

[3] http://compare.nca.ie/CurrentAccount

[4] In effect fees were always in existence but in many cases were not applied or discounted.

place certain qualifying criteria, including in some notable instances a requirement to keep large sums on deposit, to be eligible for 'fee free banking'[5].

It would be expected that in a competitive marketplace, once one or more firms make decisions which make their offering(s) less attractive to their customers that a rival would compete for the business. Unfortunately this does not seem to be the case in the Irish current account market at present with the result that significantly increasing switching rates will be all the harder to achieve.

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 NCA conducts a biannual face to face survey of 1,000 consumers and part of this survey examines switching behaviour across a variety of product categories, including current accounts. The switching figures from the most recent iteration of this survey, which was conducted in June 2012[6], show that just 2% of consumers with current accounts switched provider within the past twelve months. Of the 2% of consumers who switched current account provider, 61% stated that they saved money as a result of switching. In the last five years, 6% of consumers have switched current account provider and of these, 14% have switched more than once in that period.

The table below identifies a number of influencing factors for those consumers who did not switch current accounts in the past year:

Happy with the quality/level of service currently provided	49%
Current provider offers the best value for money	22%
Too difficult to determine who provides the best value for money	10%
Time and money required to switch outweigh the benefits	8%
No convenient alternative provider	3%
Cannot switch due to limitations	1%
Other	1%
Don't know	6%

[5] This contrasts starkly relative to savings, where the NCA receives a very significant number of interest rate changes per month for interest bearing deposit and regular savings products, in an attempt to entice new customers.
[6] http://corporate.nca.ie/eng/Research_Zone/Reports/switching-behavour-aug-2012.html

While a combined 71% of consumers said that they are satisfied with their current provider, the survey found that of the consumers who have not switched current accounts within the past year, 67% have never checked to see if a better option was available. These results are at odds with each other as it difficult to understand how consumers can be truly satisfied with their existing supplier if they have never examined the alternatives.

As noted in the introduction the Agency is of the view that, building on the above, further market research is required to understand the reasons why the majority of consumers have not or do not consider switching current accounts. It is likely that a mixture of quantitative and qualitative research would be required to obtain robust results on what could prove to be a complex topic.

Other issues which have been brought to the attention of the NCA via its consumer helpline are:

- Banks charging consumers for statements, which is in breach of provision 3.16 of the Switching Code;
- Overdraft fees and surcharges incurred due to delays;
- Errors recorded on Irish Credit Bureau record because of missed payments; and
- Poor administration, e.g., losing applications, using incorrect forms.

As also mentioned in the introduction, the commercial decisions of financial institutions are also likely to have a very significant impact on the levels of switching in the market.

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 Agency is of the view that, as a matter of course, all relevant credit institution staff should be adequately prepared to handle enquiries regarding the switching process and in particular queries surrounding the timeframes for switching, direct debits, what happens if an error occurs etc.,. Relevant bank staff should be in a position to instil confidence in consumers regarding the switching process and in particular to make assurances to consumers that the process can be completed quickly, easily and within definite timeframes.

The NCA notes that the Central Bank carried out a mystery shopping exercise in September 2011 to investigate the current account switching process[7]. One of the findings of this exercise was that bank staff lacked awareness and training in the Switching Code. It was found that:

- only half of the staff were aware of the switching process spontaneously once the mystery shopper stated they wished to move their account;
- one fifth requested that the mystery shoppers make an appointment with a specific staff member. This made the process more difficult and could deter the customer from switching;
- the switching pack, which sets out the information required by the consumer to go through the process, was provided in less than half of the visits and half of those were incomplete;
- explanations of how standing orders, direct debits and salary payments would be dealt with were provided on just over half the visits.

The results of this exercise clearly point to issues which need to be resolved. The NCA is of the view that it is vital that bank staff are fully aware and understand the process so that consumers have the ability to efficiently switch current accounts.

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?

As mentioned previously, awareness of the switching code is only one issue in terms of the level of switching in the market. Having said that, the NCA is of the view that banks should, indeed, be required to raise awareness of the switching process and in particular the Switching Code and the safeguards it offers consumers.

On 20th September 2012, the Agency examined the websites of the six current account providers in Ireland in order to establish the standard of switching information which was provided to consumers. The results are as follows:

[7] http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankInspectionandMysteryShopIdentifiesConcernsaboutInformationProvidedonCurrentAccountSwitching.aspx

Provider	Information on switching to provider	Information on switching from provider	Makes reference to the Code of Conduct
AIB	Yes	No	Yes
Bank of Ireland	Yes	No	No
EBS	Yes	No	No
National Irish Bank	Yes	No	Yes
Permanent TSB	Yes	No	Yes
Ulster Bank	Yes	Yes	No

It can clearly be seen that there is an issue with regard to the information that is made readily available to consumers.

The Switching Code was published on 1st October 2010 on a statutory basis by the Central Bank. The NCA notes the investigation and mystery shopping exercise conducted by the Central Bank in 2010 and 2011 and is of the opinion that consumers need to be aware that the Switching Code is statutory and breaches of the Switching Code can fall under the FSO complaints process and the Central Bank enforcement regime.

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?

As previously outlined, the Agency's interactive Comparisons are an online tool designed to allow consumers to compare the various products on offer from financial institutions in Ireland. The Comparisons include current accounts among their product categories. The tool allows consumers to directly compare the current accounts which are available to them across a wide range of categories such as transaction fees, quarterly fees, overdraft rates, interest earned on credit balances and foreign exchange transactions. This is a valuable tool in encouraging consumers to switch by showing all the products currently available in a comparable format.

As highlighted in response to Question 1, the Agency is of the view that additional research is required to fully understand the reasons why consumers do not currently switch current accounts. It may also be useful to examine other consumer markets (such as telecoms and cable/satellite providers) where there is a higher degree of switching in order to compare features such as ease of switching, product/cost differentials and the competitive behaviour of the players in the market. It would also be useful to explore possible misconceptions that may exist in the minds of consumers about the impact of switching current accounts. Consumers may be unsure what this means for any credit cards/loans which have been obtained from the same institution and the portability of a good credit history from one bank to another. The latter could be all the more of an issue where there is low awareness of the Irish Credit Bureau ('ICB').

The NCA was involved in discussions with the Department of Finance and the Competition Authority on sectoral commitments and following these engagements proposals were put forward to the Central Bank regarding the transparency of current accounts. Unfortunately some of these could not be introduced by the Central Bank due to the maximum harmonisation nature of the Payment Services Directive. However, in the interest of empowering consumers and encouraging them to switch, the NCA proposes that the Central Bank should consider whether these excluded proposals could be implemented on a voluntary basis by the financial institutions.

The excluded proposals were:

1. *"Better information on fees and interest rates:*
   - *(i) Information on fees and charges should be presented in separate, easy to understand one page summary sheets for each type of personal current account.*
   - *(ii) These summary sheets should be collated into a brochure format with the full list of fees and charges included. On the bank's website, information equivalent to that contained in the summary sheets should be linked to the relevant personal current account.*
   - *(iii) The provision of this information and the ease of accessibility will be reviewed by way of independent usability testing commissioned by banks with reports made public and recommendations implemented."*

2. *"Improvements in annual statements and notifications of changes in fees and interest charges:*
   - *(i) Banks shall provide customers who have current accounts with separate annual statements of total fees/interest paid.*
   - *(ii) Banks shall provide deposit account customers with separate annual statements of interest earned.*
   - *(iii) Banks when informing customers on changes in interest rates and charges shall include details of the old rate/charge, the new rate/charge and the difference in monetary terms (in the case of rate changes for loans and mortgages)"*

Some of these proposals could be tested with consumers as part of the proposed market research to ascertain if they would be useful.

The NCA is aware of research published by Which? on the 13th September 2012 in relation to portable bank account numbers[8] in the UK. Portable bank account numbers would, in theory, allow consumers to move their current account to another bank more easily, by taking their account number with them, therefore removing the need to change existing direct debits and standing orders. While the NCA appreciates that the sort code system would have to change, the NCA would argue that two factors would support a closer examination at the feasibility of this idea;

1. Single European Payments Area ('SEPA') – changes to the way account numbers are presented is coming anyway with Bank Identifier Code ('BIC') and International Bank Account Number ('IBAN') numbers replacing account numbers and sort codes;
2. Centralised IT systems and on-line banking have reduced the need for a customer to be associated with a branch and there is a question mark over whether sort codes are needed at all.

Which? believe that this initiative would make switching banks as easy as switching mobile phone providers and would increase competition amongst the banks. The research surveyed 2,057 adults and found that 59% of consumers would be more likely to switch their bank account if they could keep their account number. 63% support the introduction of portable account numbers in the UK and 76% believe that the introduction of portable account numbers would make switching bank accounts easier. There is not sufficient information at present to have a definitive view on the initiative but it may be worthy of further consideration as it develops in the UK.

Also in the UK, following a recommendation from the Independent Commission on Banking, in 2011, in relation to improving the process of switching current accounts, the Payments Council[9] has been working with banks, and other payment service providers, to design and cost a system for improving the switching current accounts process. The new switching process will come into effect in September 2013. It is designed to ensure that switching a current account to a new provider will be faster, easier, and for the first time will be backed by a guarantee. When a customer switches to a new current account provider, the whole process of moving the account will be completed in seven working days. The old account remains open, and the customer uses it in exactly the same way, until the end of the

[8] http://www.which.co.uk/news/2012/09/keeping-bank-account-number-would-boost-switching-say-consumers-295702/
[9] http://www.paymentscouncil.org.uk/files/payments_council/improving_current_account_switching_-_oct_2011.pdf

seventh day. On the eighth working day, the new account will be fully operational, and any remaining credit in the old account will have been transferred across.

The new process will guarantee that:

- the customer will receive whatever is needed to operate the new account, like a debit card, PIN and chequebook within the seven working days;
- the customer's new bank will arrange for all incoming and outgoing payment instructions to be redirected from the old account to the new one;
- the customer's balance will be transferred to the new account;
- any payments sent to the old account on or after the seventh working day will be automatically redirected to the new account;
- the customer will not suffer if there are any bank errors; and
- the old current account will be closed at the end of the process.

It is submitted that the feasibility of this approach be examined in more detail by the Central Bank.

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?

The NCA considers that it is vital that consumers be kept up to date at every stage of the process. The Paper identifies issues with direct debit originators such as utility companies and it is the Agency's view that the Irish Payment Services Organisation ('IPSO') should be advised of, and respond to, any systemic or recurring issues with direct debit originators.

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 NCA believes that the timeframes should be set at the absolute minimum level necessary. Banks in all cases should endeavour to complete the process as quickly as practicable. As set out in the response to Question 4, the Payments Council in the UK intends to implement new rules in September 2013 guaranteeing that a consumer can switch their account within seven days. The NCA suggests that this process should be considered for banks in Ireland in order that consumers are protected and the market is more open to competition.

The Agency understands that the timeframes for each bank may need to be different to allow for a critical path within the process. However, the Agency wishes to emphasise that the current timelines should be the maximum time periods for switching and an increase to the time periods should not be considered.

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 obligation for ensuring that the switching process works successfully must lie with both the old bank and the new bank as both banks must liaise effectively in order to ensure direct debits are processed in an efficient manner. In exceptional circumstances, issues with the switching process may arise due to the actions or inactions of third parties such as direct debit originators and in these cases the IPSO should be advised. Consumers should be made aware of any issues that arise.

The NCA has received a small number of queries from consumers who have had a difficulty with the switching process. The most frustrating of these for the customer is when neither bank wishes to take responsibility for an error in the switching process that the consumer has no power to resolve. In this instance the NCA advises consumers to formally complain to both banks and assists consumers by supplying direct contact details for senior customer service personnel in both institutions. The NCA is of the view, however, that no-one should have to take this step or effectively complain to effectively switch.

The NCA proposes that banks should be required to report complaints in relation to the switching process directly to the Central Bank. While it would not be for the Central Bank to intervene or resolve issues directly, it would give the Central Bank a better sense of the scale of problems regarding switching as they arise and would act as a strong incentive for banks to improve their procedures regarding complaints resolution.

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?

Yes. It is the Agency's view that consumers must be informed of any issues or potential issues which have arisen from the switching process. Furthermore, the Agency believes that where a consumer misses one or more payments as a result of the switching process this should not impact on their credit rating. This is more important given the tightening of lending criteria. In the past, it is not unreasonable to assume that consumers would be more likely to question the reasons for a credit refusal and would therefore discover a problem with their credit history. It is more likely now that people might assume other factors (such as affordability or other criteria) are the reasons why a decision was made to refuse credit. Where a consumer is negatively affected, through no fault of their own, by delays in the switching process, the bank at fault should provide adequate redress to the consumer. This may involve waiving referral or missed payment fees and by ensuring that missed payments are not reflected on the consumer's credit record.

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

The NCA opines that the case for application of the Switching Code to demand deposit and/or savings account has not yet been sufficiently made. In general, demand deposit accounts can be closed at any moment or within a certain notice period and consumers can set up a different account with an alternative bank and transfer their funds directly to this account. Typically, direct debits and standing order payments made to and from demand deposit or savings accounts are under the customer's control and so the process of switching these accounts is more straightforward than switching a current account. The NCA suggests that further consideration of the issues is required before extending the Switching Code to other products.

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