

Scottish Affairs Committee: Enquiry into the Banking Sector



Memorandum from Citizens Advice Scotland (CAS)

October 2010

Summary

- CAS welcomes the continued work of the Scottish Affairs Committee on the banking sector in Scotland.
- CAS has contact with banks on a number of working groups and other meetings on a regular basis. However, we would welcome closer working relationships with all the major banks in Scotland.
- Since CAS gave evidence to the enquiry in November 2010, there have been indications that banks are more open to client problems and more willing to address these issues. However, evidence from bureaux shows that more work is needed to ensure that these issues are rectified, particularly issues caused by overdraft charges and access to bank accounts.

Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 83 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout 222 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. During 2009/10, 135,032 new debt issues were dealt with by bureaux in Scotland – over a quarter of all the issues brought by clients. Bureaux helped clients with more than 370 debt issues for every day of the year. Many of these debt issues relate to the UK banks, who are one of the main types of creditor used by bureau clients. Our *Drowning in Debt* report (2009) showed that banks were the creditors for almost half of the debts held by bureau debt clients, and that almost nine out of every ten debt clients are in debt to their bank.

Working with the UK banks

3. CAS works alongside the UK banks on a number of different working groups, such as the Protected Trust Deed Working Group in Scotland and the Money Advice Liaison Group (MALG). CAS is part of the Addressing Financial Difficulties group set up this year which includes creditors and money advice agencies looking at ways we can work better together and also looking at good practices within both creditors and money advice which are seen to work particularly well.

4. CAS also works with industry organisations, such as the British Bankers Association (BBA), the Lending Code Standards Board, and UK Cards, on various issues. We find the involvement of banks and creditors on these groups to be a useful avenue of communicating our clients' problems, although not all of the groups are well attended by the banks. It is important that banks continue to engage in joint working groups with government and advice providers.
5. CAS currently meets with representatives from a number of banks on a regular basis. We find this arrangement to be very useful for both ourselves and the banks. However, while the banks are more open to hearing our evidence on banking practices, we have found that resulting changes in policy and practice are thin on the ground. From our point of view, the challenge isn't getting banks to listen, but in getting them to act.

The effect of the banking crisis on banking services to the public

6. In November 2009, CAS provided a memorandum to the Scottish Affairs Committee that outlined the ongoing difficulties that our clients were experiencing with their banks and arguing that a return to 'business as usual' isn't acceptable for Scottish CAB clients.
7. While some improvements in policy and practice have been made in the intervening 11 months, many of the problems we outlined in our memorandum continue to affect our clients. In the second half of 2009 and the first half of 2010, over three million banking complaints were made in the UK – nearly 350 for every hour of the year. The three banks represented in the committee's enquiry together received over 160,000 banking complaints in the first half of 2010. Banks may be more open to improving their policies and practices, however, these statistics show that there is still room for improvement.
8. We remain concerned about a number of the issues raised in our previous memorandum to the Committee, including unsympathetic policies on arrears, aggressive debt collection practices, and access to credit. Many of the problems that face our clients at the end of 2010 remain the same as those they faced at the end of 2009.
9. In this memorandum, we would like to raise three issues on banking that are most concerning to CAS. These are continuing problems with **overdraft charges**, the **right of set off**, and **access to personal current accounts**.

Overdraft charges

10. During 2009/10, Scottish Citizens Advice Bureaux helped clients with 11,294 overdraft debt problems. Many of these problems related to high and disproportionate overdraft charges that made financial management very difficult. CAS published the *Fully Charged* evidence report in June 2010, which outlined the problems that our clients face with overdraft charges:
 - A great number of those facing overdraft charges do so for reasons other than being an irresponsible spender, such as low income, job loss, mistakes by banks, or problems with benefit payments or direct debits. Regardless of whether the mistake is the client's fault, the charges remain the same.
 - Bank charges inherently discriminate against low income clients, where the level of charges is insensitive to the level of infringement. Many of these clients are in a vulnerable situation, such as having a low income, suffering from health problems, being a lone parent, or being a single pensioner. Banks rarely consider these circumstances when imposing charges.
 - Overdraft charges can have a significant impact on clients whose only source of income is benefit payments. These clients can budget in pennies, then find that a slight overspend results in a debt of up to £100 in charges.
 - A significant problem for bureau clients is the attitude and actions that banks take when clients question or ask for reprieve from charges. The responses from banks are often unhelpful and can adversely affect the customer.
 - A common response from banks is to pressure clients to take out new products while they are stuck in their overdraft. This can include consolidation loans, re-financing loans, and other products. Clients feel under pressure to agree to these requests as overdraft charges mount up.
 - Bureaux report that it can be common for banks to ask for high rates of repayment of overdraft arrears and to be unresponsive to other offers of repayment.
 - It is a common occurrence for banks to let charges build up on a client's overdraft and then to sell or pass on the debt to a debt collector. In the meantime, the client often has little chance of escaping the seemingly endless charges.
11. The upshot of the variety of charges that clients can incur has resulted in a substantial cross subsidisation from those who incur charges and those who do not. According to the OFT market study on personal current accounts, and supported by our evidence, this cross subsidisation is from low income, low saving clients, to high income, higher saving consumers – a kind of reverse Robin Hood effect. The revenue made from the customers who incur charges is actually keeping the cost of an account low for other higher income customers.

The right of set off

12. Bureaux are continuing to report use of the 'right of set off' when a client is in arrears. The right of set off allows banks to legally transfer cash from current or savings accounts to pay credit card or loan arrears without account holders' permission. Citizens Advice Bureaux have seen cases of people having their pay or benefit payments removed from accounts, leaving them unable to meet priority debts, such as mortgage payments and council tax, and in greater financial difficulty.

An East of Scotland CAB reports of a case in which a client's bank moved all his part-time wages and benefits from his account to go towards arrears on a personal loan. This action left the client in financial hardship, with no access to funds for himself or his family.

A West of Scotland CAB reports of a client whose insurance pay out was used by his bank to pay off the client's unauthorised overdraft. The client was unable to work due to illness and received a payment from her work insurance. However, all of the payment was then taken by the bank to cover overdraft charges, leaving the client without employment or funds. The client contacted the bank asking for the money back and was offered a loan instead.

A North of Scotland CAB reports of a client whose bank took money from her current account when the client fell behind on payments on a loan. This left the client without funds for necessary expenditure and relying on her mother's help to get by. The deductions from the client's current account pushed her into her overdraft thereby leaving the client facing additional charges.

Access to personal current accounts

13. Basic bank accounts were introduced into the UK financial system to increase financial inclusion. Subsequently the UK Government and the financial industry entered into an agreement with a Shared Goal to halve the unbanked population – a goal that was realized in 2009. Our *Banking on the Basics* report (to be published in November) found that many people, due to their financial circumstances, are still unable to access basic banking services.
14. A number of people are unable to access basic bank accounts because of a poor credit history or no credit history, being unable to meet ID requirements, for owing monies to a bank, and/or due to bankruptcy. Though some people choose to be unbanked, our research shows that many find it difficult to gain access to a bank account, with some giving up all together.

15. Banks hold potential customers to limited ID requirements to comply by the Anti-Money Laundering regulations. The limits imposed by the banks on the kinds of identity requirements considered acceptable is detrimental to vulnerable people looking to open an account. Ten of 12 mainstream banks are also unwilling to open a basic bank account for undischarged bankrupts, though CAB client experience suggests that this is dependent on local branch practices.

A West of Scotland CAB reports of a client who became bankrupt and was advised by her bank that she would be downgraded to a basic bank account. The client was happy with this but has now been told that her account is being closed altogether and that she may not bank there any longer. The client has tried other banks and building societies but has been refused due to the undischarged bankruptcy. The Post Office account will not be of use as she needs her wages paid into the account.

An East of Scotland CAB reports of a client who has a disability and multiple debts. The client has tried to open a basic bank account with at least 9 local banks and has been declined by all and is now having to travel to Edinburgh to complete applications for bank branches there. The client is unable to receive his pension without a bank account and is subsequently having a hard time paying his creditors. The client is frustrated and in worse health because of the situation.

16. Problems in accessing bank accounts can impact on the receipt of benefits, wages and employment opportunities. A number of clients in our research felt that they were unable to pursue employment opportunities because of a lack of bank account to have their wages paid into. Research also shows that access to a bank account makes it easier for people to access affordable credit, housing, and lower utility payments – which leads to greater financial inclusion overall.

Conclusion

17. The effects of the banking crisis for our clients were in many ways an amplification of the effects that were being felt before the crisis. Unfair bank charges; the right of set off; unsympathetic attitudes to those experiencing financial difficulties; and aggressive debt collection were all hallmarks of the pre-crisis UK. These policies and practices are broadly still in place today as the banks smoothly return to 'business as usual'. Our experience is that the banks are more willing to recognise the problems that affect many of their customers. The challenge now is for the banks to implement solutions to these problems.

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