



Westminster Hall Debate:
Banking in Scotland
October 14th, 2010

Summary

Citizens Advice Bureaux in Scotland report that the banking crisis and the recession have had a significant effect on the financial well being of bureaux clients. Poor banking policies and practices which have existed since before the recession have negatively impacted clients who have lost their jobs, those who have seen their income considerably reduced, people with debt and those who have become bankrupt. Citizens Advice Scotland's research shows that in the recession banks became aggressive and unsympathetic creditors – worryingly nine out of ten CAB debt clients in 2008 had debt with a bank¹.

Introduction

Citizens Advice Scotland and its CAB offices form Scotland's largest independent advice network. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 81 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout nearly 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.

There are 2,200 volunteers in the service who provide almost 13,000 hours of their time each and every week. Paid staff provide a further 15,200 hours of work each week in management, support, administration and specialist advice work.

There are citizens advice bureaux in 30 of the 32 local authorities in Scotland, making the network the only independent advice body in the country with truly national on the ground coverage.

Citizens Advice Bureaux traditionally help vulnerable people in their communities, although clients come from every section of society. An Ipsos Mori poll in 2009 found that one in five members of the public in Scotland had visited a bureau for advice in the last three years. In 2008/09, more than 250,000 clients brought new issues to bureaux in Scotland.

Banking and CAB clients in Scotland

In 2009/10 135,032 new debt issues were brought to bureaux in Scotland with bureaux helping clients with more than 370 debt issues for every day of the year. The number of debt issues brought to bureaux increased by 28% since 2008/09 and 82% of debt issues were regarding difficulties experienced by clients in making payments

Over 4,200 problems with bank accounts were reported by clients in 2009/10. A number of these issues concerned the interest and charges that are associated with an account, while a high number also concerned difficulties opening an account.

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 bank².

¹ Citizens Advice Scotland, *Drowning in Debt* p 5

² Ibid

Access to Bank Accounts:

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. CAB evidence suggests that many people, due to their financial circumstances, are still unable to access basic banking services.

In 2009/10 clients brought 17,848 issues relating to financial products and services to bureaux across Scotland - a quarter of which concerned bank accounts and Post Office card accounts. Twenty Seven percent of these issues were on opening bank accounts and 23% were on interest rates and charges.

In Scotland one in five households in the 15% most deprived datazones did not have a bank account in 2007/08^[3], compared to the Scottish average of one in ten^[4].

Problems in accessing bank accounts can impact on the receipt of benefits, wages and employment opportunities. A number of clients feel 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.

Overdraft Charges:

Overdraft charges continue to be an issue for CAB clients. More than 11,000 issues concerned overdraft debts brought to bureaux last year. Clients often report that they incur overdraft charges due to mistakes made by others, including banks, benefit agencies, and companies failing to cancel direct debits: As the banks 'won' the case brought to the UK supreme court by the Office of Fair Trading (OFT), citizens advice bureaux continue to report an increasing number of clients who find themselves facing disproportionate charges. Many of these clients are victims of the recession who had never gone into their overdraft previously and had little experience of the excessive charges that they now face. Citizens Advice Scotland is concerned that these charges remain unfair and disproportionate, and are a significant problem for low income clients.

Right of Set off

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. In many cases the use of the right of set-off means that the customer's overall indebtedness spirals out of control. Banks do not seem to check whether amounts taken from current accounts will leave the customer overdrawn, thus incurring additional overdraft charges:

Conclusion

The effects of the banking crisis for our clients are in many ways an amplification of the effects that were being felt before the crisis. The effect of the banking crisis and the recent economic climate has been to increase the financial problems faced by clients, and at the same time to introduce many more people to these poor practices. Policy and practice changes in the banking sector must address these problems and give greater consideration to low income and vulnerable consumers.

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^[3] does not exclude the 5% refused to say whether they had any kind of account including credit union and post office account

^[4] The Scottish Household Survey Annual Report 2007/08
<http://www.scotland.gov.uk/Resource/Doc/282618/0085510.pdf>, p66

Appendix:

Access to Bank Account:

- A client in debt was advised to open another bank account to receive his JSA payments. However, despite the client stressing that he just wanted a basic account, he was unable to open an account at any of the banks he approached.
- A client had a loan with his bank who then closed his current account due to arrears. The client applied to another bank for an account but was refused after an apparent background credit check.
- A client has tried nine local banks who have all refused to open a basic bank account. The client lives in Dumfermline and is now having to travel to Edinburgh to complete another application. He cannot get his pension paid to him unless he has a bank account.

Overdraft Charges

- A client accumulated over £1,000 in bank charges over a three month period while his bank refused his application for an approved overdraft limit. The client is overdrawn by £270 and wanted an overdraft facility so that he can pay off the money that he owes without being faced with multiple charges.
- A single mother is being charged £5 by her bank for every day she is overdrawn and £25 for every transaction she makes. The client is living on Income Support with a five year old daughter.
- A client's bank wrote to the client saying "we note your account is overdrawn and are charging £10 for this letter".
- A client is having his income from JSA swallowed by bank charges after being made redundant. The client received over £300 in charges in one month.
- A client has been charged £68 in charges and counting after being overdrawn by only 44 pence.
- A client incurred £76 of overdraft charges after his benefit payments were late due to an administrative error. The client has now received his benefit payments, but the charges still stand.
- A client asked a company to cancel a Direct Debit, but the company was late in doing so causing the client to go into overdraft. Consequently, the client has incurred bank charges of £176 to date, with ongoing charges being applied at £20 per day.

Right of set off

- A lone parent's bank took £400 from her account to repay debts without her permission. The client has credit card and overdraft debts with her bank, with whom the bureau has been in contact with to negotiate repayments. The bank took £400 from her current account after her wages had been paid in, leaving the client with no money at all. The client contacted her branch who stated that if the client moved her account to another bank they would take her to court.
- A client's bank used their 'right of set off' to take the client's wages to go towards arrears on a loan. The client is working 10 hours per week and is receiving £11 per week in benefits. Upon being paid this month, the bank took all the funds towards repaying arrears on his loan, leaving the client with no funds.
- A client's bank took two payments totalling over £1,000 from her current account to put towards loan arrears without her permission. The client was originally in credit in her account, but the two payments left her over £1,000 into her overdraft. The client has no funds to live on and is now stuck in a cycle of overdraft charges

