

**Written evidence submission for Treasury Committee:**

**Competition and Choice in the Banking Sector  
from the Consumer Financial Education Body (CFEB)**

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## About CFEB

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The Consumer Financial Education Body (CFEB) is an independent body, created in April 2010 as a result of the Financial Services Act 2010. Our mandate is to develop consumer financial education in the UK, as well as to enhance the public's understanding and knowledge of financial matters and their ability to manage their finances.

CFEB welcomes the opportunity to submit written evidence.

## Summary of our response

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- The main point of interest in this inquiry for CFEB is “whether competition is inhibited by difficulties faced by customers in accessing information about products”.
- There are barriers to accessing information and also barriers to acting on that information.

### Barriers to accessing information

- Product disclosure has limitations. CFEB is happy to work with industry and regulators to identify what works in adequately informing consumers of risks and benefits.
- Transparency is important and desired by consumers. We welcome the Government's announcement around simple products.
- Packaged accounts and different systems of overdraft charging create barriers to comparability and transparency of accounts.
- Some consumers have very limited choice – such as undischarged bankrupts and people without conventional proof of identity.
- Our impartial information and advice can help competition. Evidence from the Money Guidance Pathfinder shows people using the service to compare products and taking action afterwards.

### Barriers to acting on information

- There are several reasons why information and advice do not have a stronger influence in the market.
- There are clear differences between types of consumer, not least in terms of their financial capability. People are less financially capable when they are going through major life events, such as unemployment and divorce.
- Financial capability will have less impact in markets where consumers do not feel powerful and where competition is limited.
- Evidence from Centre for Competition Policy and from the FSA provides some explanation for why switching of bank accounts is low, including confidence and the perceived time needed.
- But the difference between banking and other markets is not fully explained. Behavioural science may have some explanations – we welcome research and ideas from firms and others about changing financial behaviour.
- Remedies are needed on the demand and supply side, and at their interface. CFEB has a role on the demand side and we are exploring interventions, such as a Financial Health Check, at key financial decisions.

## 1.0 Introduction

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- 1.1 This is a response to the Treasury Committee's call for evidence to inform its inquiry into competition and choice in the banking sector. A number of the issues the Committee is addressing in this inquiry can ultimately impact on consumers' ability to manage money, and it is clear that the financial crisis has affected competition and choice in retail and wholesale markets. For example, there is less scope and arguably less incentive to switch in a highly consolidated market. But the main point of interest in this inquiry for CFEB is **"whether competition is inhibited by difficulties faced by customers in accessing information about products"**.
- 1.2 Our expertise is important to this inquiry because the way consumers use information about products is central to our statutory function. We were set up to enhance: public understanding and knowledge of financial matters; and the ability of members of the public to manage their own financial affairs. We consider that there are barriers to accessing information and also barriers to acting on that information. This submission considers each of those issues in turn.

## 2.0 Our Response

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### Barriers to accessing information

- 2.1 CFEB considers that there are barriers to accessing information, which can partly be addressed by a better process of providing information, and ensuring transparency.
- 2.2 The report by the Commission on the Future of Banking, as well as research by the FSA and others, note the limitations of product disclosure – both in its volume and the extent to which consumers engage with it, remember it accurately or recall seeing it at all<sup>1</sup>. Previous Treasury Select Committee inquiries have also made very helpful contributions to this debate. CFEB is happy to work with the Government, industry and regulators to discover what works best in terms of adequately informing consumers of the risks and benefits of a particular product or service.
- 2.3 Central to the purpose and effectiveness of disclosure is product transparency: the consumer should know what they are buying. Research for the Treasury's Retail Financial Services Forum found that transparent products with clearer labelling were desired by consumers<sup>2</sup>. The Government has announced its intention to consult on a new range of simple products, into which CFEB will seek to input. The sales process should also be transparent

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<sup>1</sup> For example, Future of Banking Commission, 2010 [commission.bnbb.org]; Disclosure in the Prime Mortgage Market, FSA 2009 [[www.fsa.gov.uk/pubs/consumer-research/crpr82.pdf](http://www.fsa.gov.uk/pubs/consumer-research/crpr82.pdf)]; Warning: Too much information can harm, Better Regulation Executive and National Consumer Council 2007 [[www.bis.gov.uk/files/file44588.pdf](http://www.bis.gov.uk/files/file44588.pdf)]

<sup>2</sup> 'Simple transparent products' research paper, HM Treasury 2010 [[www.hm-treasury.gov.uk/fin\\_retail\\_finservices\\_forum.htm](http://www.hm-treasury.gov.uk/fin_retail_finservices_forum.htm)]

– one of the problems identified with the Payment Protection Insurance market was that many consumers did not know it was optional<sup>3</sup>.

- 2.4 Developments in the personal current account market have meant that products are not necessarily transparent, readily comparable or understandable. Firstly, increasingly available packaged accounts and other products tied to current accounts compete, by their nature, on a variety of features as well as price. The FSA has flagged that this may not be of benefit to all who use them<sup>4</sup>. Consumers should be encouraged to consider whether the extra features offered provide good value for money and, where insurance products are included, the cover they need. Secondly, it is well documented that overdraft charges are not consistently applied from firm to firm, which limits transparency and comparability<sup>5</sup>. Regardless of any developments in the market and regulation of overdrawn bank accounts, it is important that efforts are made to ensure consumers are able to understand and compare the costs they may face when borrowing in this way, and better able to compare the overall cost of different forms of credit.
- 2.5 The Committee should also give consideration to the limited choice available for some consumers. Current accounts increasingly have conditions attached, such as a minimum monthly deposit. The features of basic bank accounts vary significantly and, as highlighted by Citizens Advice in their recent report, *Called to Account*<sup>6</sup>, the choice available to groups such as undischarged bankrupts is very limited and not always clear. Those without conventional forms of proof of identity, such as homeless people and recent migrants, may also struggle to access a bank account and information about it. The outcome is that many people remain unbanked, with the individual and social costs that entails. Rural consumers may have little meaningful choice if they wish to use face-to-face banking – and the OFT found that branch location was the main reason for choosing a bank account<sup>7</sup>. An increasing number of accounts are only available online, which restricts choice for those without internet access.

### **Barriers to acting on information**

- 2.6 As we have noted above, consumers do face difficulties in accessing clear information about products; but perhaps more important is their ability and motivation to act on that information.
- 2.7 Financially capable consumers can drive competition. Our definition of financial capability is made up of five domains: making ends meet, keeping track, planning ahead, choosing financial products and staying informed. Choosing products is clearly crucial, and the other domains are all relevant, to a consumer's ability to exercise choice and encourage competition.

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<sup>3</sup> See, for example, The sale of PPI – results of thematic follow-up work, FSA 2006 [[www.fsa.gov.uk/pubs/other/ppi\\_thematic.pdf](http://www.fsa.gov.uk/pubs/other/ppi_thematic.pdf)]

<sup>4</sup> Financial Risk Outlook, FSA 2010 [[www.fsa.gov.uk/Pages/Library/corporate/Outlook/fro\\_2010.shtml](http://www.fsa.gov.uk/Pages/Library/corporate/Outlook/fro_2010.shtml)]

<sup>5</sup> See, for example, Personal Current Accounts in the UK – an OFT market study, OFT 2008 [[www.of.gov.uk/shared\\_of/reports/financial\\_products/OFT1005.pdf](http://www.of.gov.uk/shared_of/reports/financial_products/OFT1005.pdf)]; Which? magazine September 2010

<sup>6</sup> Called to Account, Citizens Advice 2010 [[www.citizensadvice.org.uk/called\\_to\\_account](http://www.citizensadvice.org.uk/called_to_account)]

<sup>7</sup> OFT *ibid*.

- 2.8 We believe CFEB's impartial information and advice can help competition – shopping around for the best deal and comparing products are among the main activities we help people do. In the Money Guidance Pathfinder<sup>8</sup>, users were helped to gather information on and compare products in 30% of face-to-face and 47% of telephone sessions. Evaluation found that 21% of users had applied for, bought or changed a product within two months of a session. The Moneymadeclear website contains information on bank accounts, including packaged accounts, and our comparison tables can be used as a tool to inform switching<sup>9</sup>. In future, CFEB aims to make it easier for users to make informed decisions about products.
- 2.9 However, there are several reasons why information and advice do not currently have a stronger influence on consumer behaviour in the market. It is worth acknowledging that consumers are not one homogenous group. There are clear differences between types of consumer, not least in terms of their financial capability. Our research shows that people are less financially capable when they are going through major life events, such as unemployment and divorce, both of which tend to increase in an economic downturn<sup>10</sup>. This is likely to impact on their ability and inclination to exercise choice.
- 2.10 In markets where consumers do not feel powerful, the impact of financial capability will be limited. In sectors that are not competitive, due to consolidation for example, even active consumers may benefit less from switching and are therefore less likely to be able to drive competition.
- 2.11 Research by the Centre for Competition Policy shows that active consumers are more likely to switch bank accounts: the best predictor of whether someone will switch is whether they have switched in another market. A person's confidence in predicting gains and costs was a better predictor than what they estimated those gains or costs to be. Consumers thought it would take much longer to search and to switch bank accounts than other contracts. But even allowing for consumer characteristics, experience and expectations, there was an effect that meant that switching was lower in the current account market<sup>11</sup>. This warrants further research and the CCP are following up this study. This suggests that increasing knowledge and confidence is an appropriate remedy but will not be the whole solution.
- 2.12 An omnibus survey of 2000 adults in Britain conducted on behalf of the FSA in January 2010 found that people with only a bank account were less likely to have switched or considered switching in the last year. Across all product holdings, most consumers who considered switching in the past year did actually switch; and the reasons given by those who switched were very closely matched to the reasons given by those who only considered switching. These reasons were predominantly financial: dissatisfaction was

<sup>8</sup> The Money Guidance Pathfinder provided information and guidance by telephone, face-to-face and online. Money Guidance Pathfinder evaluation, CFEB 2010  
[\[www.cfebuk.org.uk/pdfs/20100709\\_pathfinder.pdf\]](http://www.cfebuk.org.uk/pdfs/20100709_pathfinder.pdf)

<sup>9</sup> See [www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk).

<sup>10</sup> The impact of life events on financial capability: evidence from the BHPS  
[\[www.fsa.gov.uk/pubs/consumer-research/crpr79.pdf\]](http://www.fsa.gov.uk/pubs/consumer-research/crpr79.pdf)

<sup>11</sup> Pain or gain: Does consumer activity reflect utility maximisation, Centre for Competition Policy, University of East Anglia 2008 [\[www.uea.ac.uk/polopoly\\_fs/1.104668!ccp08-15.pdf\]](http://www.uea.ac.uk/polopoly_fs/1.104668!ccp08-15.pdf)

not the main driver of switching<sup>12</sup>. More research would be welcome into the reasons people do not shop around when they are dissatisfied.

- 2.13 Behavioural science has some theories to explain the low levels of switching in the current account market<sup>13</sup>. We welcome the Government's commitment to make use of behavioural economics and agree it is relevant to financial services. CFEB recently published *Transforming financial behaviour*, which identifies drivers for changing consumer behaviour and ways these could be harnessed to improve financial capability<sup>14</sup>. The report seeks the views and experiences of others in using behavioural strategies and we would welcome the contribution of retail firms and others to help inform our work.
- 2.14 To increase the number of financially capable consumers who are able to exercise choice effectively, a range of remedies will be needed on the demand and supply sides and at their interface. On the demand side, CFEB is striving to enhance the public's understanding and their ability to manage money. We are exploring interventions such as the Financial Health Check at key financial decisions.

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<sup>12</sup> Consumer awareness of the FSA and financial regulation, FSA, to be published September 2010, copies available from the FSA on request.

<sup>13</sup> The psychology of personal current accounts, OFT 2008  
[\[http://www.oft.gov.uk/shared\\_oftrreports/financial\\_products/oft1005e.pdf\]](http://www.oft.gov.uk/shared_oftrreports/financial_products/oft1005e.pdf)

<sup>14</sup> Transforming Financial behaviour, CFEB 2010  
[\[www.cfebuk.org.uk/pdfs/20100713\\_transforming\\_financial\\_behaviour.pdf\]](http://www.cfebuk.org.uk/pdfs/20100713_transforming_financial_behaviour.pdf)

CFEB Response to Treasury Committee inquiry into competition and choice in banking