Written evidence submitted by the Consumer Council

1. Introduction

1.1. The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland.

1.2. The Consumer Council is grateful for the opportunity to contribute to the Treasury Committee's Call for Evidence on the Future of Financial Services. Our response will focus on the issues of importance to Northern Ireland consumers and will therefore only focus on some of the questions set by the Committee.

2. Response

Committee Questions

- What changes should be made to the UK's financial services regulations and regulatory framework once the UK is independent of the European Union?
- What role does Parliament have to play in influencing new financial services regulations?

2.1. The Consumer Council believes that the national level approach to financial regulation does not always account for Northern Ireland specific problems and, as such, does not always result in the same level of protection or choice for consumers across all UK regions.

2.2. This submission will outline a number of examples that show how financial services in Northern Ireland can be different to the rest of the UK. For a regulator to be accountable to all citizens it must have an accurate and equal understanding of the issues those citizens face.

2.3. The FCA's own research[1] (table 6.2) shows that Northern Ireland consumers display higher levels of vulnerability than their GB counterparts (56% v UK average of 50%) and have the highest percentage of over-indebted consumers (20% v UK average 15%).

Market Differences

Banking

2.4. A UK wide approach to policy interventions does not always lead to the same level of outcome for Northern Ireland consumers. For example, the Payment Accounts Regulations 2015 required the nine largest personal current account providers to offer basic bank accounts that are fee-free for standard operations.

[1] https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults

2.5. The nine institutions are; Barclays, Clydesdale and Yorkshire Bank, Co-operative Bank, HSBC, Lloyds Banking Group (including Halifax and Bank of Scotland brands), Nationwide, Royal Bank of Scotland (including NatWest and Ulster Bank brands), Santander and TSB.

2.6. According to research conducted by Cognisense on behalf of The Consumer Council, Ulster Bank and Danske Bank are the two banks most used by consumers in Northern Ireland, each having approximately a fifth of the market share (21% and 19%) respectively.

2.7. Despite having a fifth of the market share in Northern Ireland, PAR places no requirement on Danske Bank to offer a basic bank account that is fee-free, and as a result, consumers in Northern Ireland are unable to obtain such an account with them. The same applies to Allied Irish Bank (AIB) who hold 10% of the Northern Ireland market share.

2.8. A similar approach has been taken with the more recent introduction of Confirmation of Payee (CoP) with the result that some of banks in Northern Ireland are not required to implement CoP protocols, which may lead to lower levels of protection for Northern Ireland consumers in comparison with GB.

2.9. One area in which Northern Ireland does have an advantage is its credit union network. Figures indicate that 41.8% of adults in Northern Ireland are registered with a credit union compared to just 3.42% in the UK (Bank of England, 2020). However, it should be noted that the legislation in England permits credit union interest to be charged up to 3% per month compared with only 1% in Northern Ireland.

2.10. This is a potential barrier for low income consumers seeking affordable credit as the risk involved in providing loan funding from the deposits held by credit unions may be too high within the current legislative constraints as all costs have to be recovered within the 1% a month interest rate.

Access to Cash

2.11. In its report on cash access, the Payment Systems Regulator (PSR) states: *'Northern Ireland is the region with the highest number of cash preferers compared to other regions* (37%)'.[2] However, what remains unclear is why higher numbers of consumers in Northern Ireland prefer to use cash then their GB counterparts.

2.12. As mentioned above, the FCA's 'Financial Lives' Survey rates the multiple characteristics of potential vulnerability in Northern Ireland at 56%[3], suggesting a higher prevalence of vulnerable consumers. This higher level of vulnerability could be a driving force for a higher reliance on cash within Northern Ireland.

[2] https://www.psr.org.uk/psr-publications/consultations/cp196-full-research-report
[3] https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults

2.13. However, consumer behaviour and infrastructure could also be playing a part. As stated above, within Northern Ireland significantly more adults are members of a credit union, compared to the UK. Many credit unions are set up to cater for face to face interactions with consumers, rather than via technological means, albeit this is changing since the advent of COVID-19.

2.14. Another potential barrier is the very limited mobile phone network coverage in some of the more rural areas in Northern Ireland, especially in Border regions. These 'not spots' mean that consumers may not be able to use mobile and online banking easily, even if they have signed up to it.

2.15. With regard to broadband provision, Ofcom report[4] that among the four UK nations, Northern Ireland (31%) has the highest availability of full fibre services, compared to England (10%), Scotland (8%) and Wales (12%). It states 89% of premises have access to superfast broadband, however, there are still considerable numbers of residential and business premises in Northern Ireland, some 50,000, or 6% of the total, that do not have access to decent broadband[5]. The majority of these, some 44,000, are in rural areas. This 6% of premises without access to decent broadband compares to only 1% in England and 3% in both Scotland and Wales.

Affordable Credit

2.16. The Dormant Accounts scheme in England has been used to establish Fair 4 All Finance, which has been founded to support the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services.[6] However, it is our understanding that the remit for Fair 4 All does not fully extend to Northern Ireland.

2.17. The Dormant Accounts scheme that exists in Northern Ireland does not have the same requirement in legislation. The Dormant Bank and Building Society Accounts Act 2008[7] sets out the requirements for distribution of dormant account money by the various regions. Section 18 (1)(b) states distribution of dormant account money for meeting English expenditure must be made for meeting expenditure on or connected with;

(i) the development of individuals' ability to manage their finances, or

(ii) the improvement of access to personal financial services.

2.18. Section 21 of the legislation places no such requirement on the distribution of money for Northern Ireland expenditure and, therefore, there is a significant risk that the extensive work being undertaken by Fair 4 All Finance[8] and the millions in funding that

[4] https://www.ofcom.org.uk/research-and-data/multi-sector-research/infrastructure-research/connected-nations-2019/interactive-report

[5] Decent Broadband – is a technical term for a download speed not less than 10mbps

[6] https://fair4allfinance.org.uk/about-fair4all/

[7] http://www.legislation.gov.uk/ukpga/2008/31/part/2

will aim to have a significant benefit for consumers in England, will not be fully available for consumers in Northern Ireland.

2.19. It should also be noted that Northern Ireland has lower proportions of consumers with investments or savings of up to £10,000, which further reduces consumer resilience to the types of impacts caused by the current crisis. According to the FCA Financial Lives survey 12% have no savings or investments (vs. 12% for the UK), while 60% have savings and investments of less than £10,000 (UK: 49%)

2.20. Growing numbers of households will become economically unviable/unattractive for mainstream lenders and will forced towards high cost subprime lenders, or denied access to credit altogether. Unless accessible, affordable, alternative credit, alongside debt advice and money management guidance, is made available to Northern Ireland consumers, there is a significant risk that vulnerable consumers will face substantial detriment. Simply put, they will have fewer options available to them compared to their counterparts.

Committee Questions

- How should new UK financial regulations be scrutinised?
- Should the mandate and statutory objectives of the financial services regulators change to include wider public policy issues?
- How should consumer interests be taken into account when considering potential regulatory changes?

2.21. The FCA should have more explicit financial inclusion objectives and regulated firms should be subject to financial inclusion audits as part of the FCA supervisory framework. The FCA should be required to publish regular reports on progress on these objectives because it is essential that any national regulator can be accountable and accessible to all of the citizens that it serves. As the consumer representative body for NI, The Consumer Council is well positioned to advocate and support financial inclusion, working in partnership with the Department for Communities, the Money and Pension Service and other relevant stakeholders.

2.22. The FCA was created to focus on conduct of business regulation, with a mandate to promote the right outcomes for consumers. However, it has no physical presence in Northern Ireland, unlike other UK wide regulators, such as the Bank of England and the Competitions and Markets Authority.

2.23. The Consumer Council believes that the FCA should have a physical presence in Northern Ireland as regulators must have a detailed understanding of the issues being faced by consumers in all areas of the UK. Surveys and statistical analysis must be robust and have sample sizes that are reflective of all UK regions, not just England or GB. For a regulator to be accountable to all citizens it must have an accurate and equal

[8] https://fair4allfinance.org.uk/

understanding of the issues those citizens face. Civil society does not have the resources or capacity to respond to every consultation. Therefore, regulators need to proactively engage to explain, in plain language, the aims of proposed regulations and receive input from those citizens likely to be affected.

2.24. Sections 3.12 and 3.13 of the HM Treasury Consultation on Financial Services Future Regulatory Framework[9] recognise the importance of engaging with consumers and states that the review will need to examine *"Engagement with, and scrutiny by, the range of stakeholders that may be affected by the work of HM Treasury and the financial services regulators, including market participants and consumers."*

2.25. As stated, the FCA's own research[10] (table 6.2) shows that Northern Ireland consumers display higher levels of vulnerability than their GB counterparts (56% v UK average of 50%) and have the highest percentage of over-indebted consumers (20% v UK average 15%).

2.26. The population of Northern Ireland represents approximately 2% of the UK. Therefore, issues that impact consumers here are unlikely to have a significant UK wide impact and will therefore may not attract the attention of industry or regulators. This is an issue that could be further exasperated by EU exit for consumers who live in one region but work in another.

2.27. The issues outlined in this submission demonstrate that the financial services market in Northern Ireland is sufficiently different to other parts of the UK. The Consumer Council believes that these differences warrant a greater understanding of the issues faced by Northern Ireland consumers.

2.28. The Ministerial Foreword of the HMT consultation states "*government and Parliament will set the policy framework for financial services and the strategic direction of financial services policy. Working within this framework, the regulators will design and implement the regulatory requirements that apply to firms, using their expertise and agile rule-making powers to ensure regulation is well-designed and keeps pace with market developments. Enhanced scrutiny and public engagement arrangements will help ensure that the regulators are accountable for their actions and stakeholders are fully engaged in the policy-making process".*

2.29. To achieve these goals, in addition to the FCA having a physical presence in NI, The Consumer Council believes the following actions are needed:

- The future regulatory framework for financial services needs to ensure that engagement and consultation can take place properly with all parts of the UK, to ensure that the different parts of the UK are adequately and equitably considered.
- Representative bodies such as The Consumer Council need to be adequately funded to provide insight on consumer issues,

[9] Future Regulatory Framework (FRF) Review: Consultation - GOV.UK (www.gov.uk)
[10] https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults

- Regular liaison meetings need to be scheduled with key regional representatives, such as The Consumer Council and:
- Each level of the proposed framework must be accessible to consumers and their representatives.

February 2021