

# Banking Standards Review: Consultation Paper February 2014

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### **About this consultation**

In September 2013 six of the UK's biggest banks and building societies asked Sir Richard Lambert to start a process to create a new organisation to help raise standards and competence in banking in the UK. This follows the report from the Parliamentary Commission on Banking Standards which said it would welcome the creation of such a new body. More details on the background of the Banking Standards Review can be found on its website here: <http://www.bankingstandardsreview.org.uk/background/>.

This consultation paper requests views on the objectives, role and scope of the new organisations, along with questions about how best these could be delivered with credibility.

### **About Age UK**

Age UK is a charity and a social enterprise driven by the needs and aspirations of people in late life. Our vision is a world in which older people flourish. Our mission is to improve the lives of older people, wherever they live.

We are a registered charity in the United Kingdom, formed in April 2010 as the new force combining Help the Aged and Age Concern. We have almost 120 years of combined history to draw on, bringing together talents, services and solutions to enrich the lives of people in later life.

Age UK provides information and advice to over 5 million people each year, runs public and parliamentary campaigns, provides training, and funds research exclusively focused on later life. We support and assist a network of around 170 local Age UKs throughout England; the Age UK family also includes Age Scotland, Age Cymru and Age NI. We run just over 450 Age UK charity shops throughout the UK and also offer a range of commercial products tailored to older people.

Age UK also advocates for older consumers including in financial services. Particular areas of focus in the recent past have been payment systems (including work on the future of cheques); access to banking more generally (for example accessibility of telephone and online options, treatment of powers of attorney); equalities (for example calling for blanket age limits in lending to be replaced with appropriate use of underwriting).

# Key points and recommendations

- We welcome this consultation and the aspiration to create a 'race to the top' of culture and conduct in banking in the UK
- It is important that the organisation is able to move standards beyond the minimum expected by regulators and that it does not get hamstrung by a need to agree consensus but is able to continue to set high aspirations
- We support the aim to bring the whole of the UK banking industry together in this project, however caution against too rigid a collective approach so that the organisation cannot be 'held to ransom' by slow movers but is able to pursue its high aspirations
- In the medium to longer term credibility will rest on results rather than structure of the new organisation, the focus should therefore be on setting meaningful standards with robust and transparent reporting
- We strongly support substantial board level responsibility for ethics and conduct
- We consider that benchmarking may be one of the most important outputs from the new body. In order for it to be successful it should be robust, transparent, sufficiently detailed, measurable and comparable.

## 1. Introduction

We are pleased to be able to respond to this consultation from the Banking Standards Review. The aspiration to create a 'race to the top' of conduct and standards and the focus on the public interest is a welcome move forward in the debate on the future of UK banking and regulation.

Banking is an essential service, like everyone else, older people need to be able to manage their money and make and receive payments. If older people are prevented from managing their money independently or with appropriate support then they risk losing money through an inability to shop around, may not be able to remain at home and are at increased risk of financial abuse. Yet the past years have seen banks disregard the needs of older customers and at worst take advantage of their tendency to loyalty and their disabilities. We hear from older people who cannot safely manage their banking because they cannot reach a branch and both telephone and internet banking is inaccessible. We hear from people who, on starting to help their parents with their finances, find they have lost thousands of pounds because they haven't been able to shop around for new savings products and have been left on derisory rates of interest. We hear from older people who feel patronised by bank staff when they seek help with new technology and are put off from using it.

We hope that the new organisation proposed by the Banking Standards Review will help to make it common practice for the industry to understand the needs of all customer groups and actively considering how the banking experience can better meet their needs. We hope that it will be able to encourage and highlight good practice and offer clear challenges to industry about what customers should be able to expect from their bank.

We hope that our response to the questions below will help the Review to develop proposals which will make a clear and substantial improvement to consumers' experience of banking and therefore the relationship between consumers and the industry.

Age UK is currently holding the Age UK Financial Services Commission to examine how the financial resilience of older people can be improved. The Commission is bringing senior figures from across the financial services industry, including banking, to discuss issues facing those approaching retirement, those already retired and also the oldest old. In summer 2014, we will set out a roadmap of actions that regulators, government and industry need to take. We will share relevant data or recommendations arising from the Commission with the Banking Standards Review.

## 2. Responses

**Q1: Objective: “To contribute to a measurable and continuous improvement in the conduct and culture of banks doing business in the UK, and to support high standards in the future.” Do you agree?**

We welcome the focus on measurable and continuous improvement. However in order for this to be meaningful we would like to see a commitment to seeking substantial improvements. It will also be important that the new organisation identifies the correct items to measure. We foresee a potential conflict between the collective approach and substantive change and think that the objective should therefore make clear that the new organisation is seeking a race to the top and will not be held back by its desire to have a collective approach. This is discussed more below.

**Q2: Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?**

We would welcome the collective participation of all banks doing business in the UK. However we have some concerns that too rigid an approach could hold the new organisation back and lower the standards that it is able to champion. We appreciate that it is intended that the organisation will be independent of the banks, however if it is to achieve collective agreement to standards it will to a certain extent inevitably depend on them. Age UK has experienced projects working with industry to agree collective protocols and has found that the need to agree consensus has often limited what can be achieved. A rigid collective approach would be more suitable for minimum standards. As this project seeks to create a race to the top and potentially provide thought leadership in the field we would suggest that standards should be set in such a way that all institutions have something to aspire to and are required to report on progress towards a meaningful change. This should be valued more than the ability to completely achieve insignificant changes. If it is to be a race, it must be possible to cheer some organisations for moving faster than others. More thought on this is included in our response to the question on benchmarking.

**Q3 & 4: Do you agree with the proposed role and scope of the new organisation?**

We broadly agree with the proposed role and scope and particularly welcome the references to public reporting and metrics. Our primary reservation is the potential for a single code or standard to limit the standards which can be set.

**Q5: Do these proposals go far enough to ensure the body has credibility?**

We have considered credibility as both a short term and a long term issue. In the short term, we consider that the proposals provide enough for the new organisation to be achieve reasonable goodwill. Arguably, the new organisation needs does not depend on credibility with consumers or consumer groups in order to achieve its objective, at least initially credibility with financial institutions will be most important. In the medium to long term however credibility with the wider public will be judged on results and in particular the ability of the body to drive standards beyond where they currently are. It must be able to add something new, beyond what institutions are doing anyway and beyond the minimum standards set by the regulator.

Therefore we would ask whether this structure is the best way to enable the new body to be open, to publicly challenge existing practice and to disagree cordially with financial institutions.

The benchmarking exercise is likely to be the first real test of credibility, if it is perceived to be more of a public relations exercise than a really transparent assessment of standards and efforts to improve. One way in which the organisation could demonstrate early credibility would be to include more transparent reporting of existing complaints data within the benchmark, for example showing complaints compared to market share. This is an example of a form of transparency that has been requested by consumer groups for a long time which goes beyond what the regulator feels able to compel and would show real leadership and commitment to a change of direction.

**Q7: Is there a case for a more proactive approach to managing ethical issues, and how should it be managed?**

We would strongly support the more proactive management of ethical issues, including board level committees and board members with specific responsibility for specific ethical and conduct issues. However we have some reservations about some of the narrative surrounding this question. Although we have certainly heard speeches and statements from banking leaders which talk more about values and ethics, we are not convinced that this is sufficient to move straight on to 'influence further down the organisation'. Whilst we agree it will take more than 'diktats' to achieve real change throughout institutions, we would like to ensure that the board level responsibility approach referenced here will be part of a lasting commitment to substantive improvements and that senior leadership consistently demonstrate that they value positive ethics, at times more than at least short term profit. Unless this commitment to ethics is demonstrated in real decision making we think it will be unlikely to have a significant influence on the rest of the organisation.

**Q8: Do you agree with the proposal to build on best practice as set out in the regulators guiding principles?**

Yes.

**Q13: Do you think a benchmarking exercise would be of value?**

Yes, we think this may be the most important aspect of the new body's work. Of course its value will depend on the ability of the new organisation to set meaningful standards and to ensure that the assessment is robust. We do not expect that the

'rank order' of institutions would be the most interesting part of the exercise and therefore would prefer to see relatively detailed reporting. Without good transparency in this exercise it will be difficult to maintain credibility.

**Q14: Are these the right group of metrics?**

We are most interested in outcomes for consumers, short but also long term. Providing this is prioritised and not lost amongst the other groups then we broadly agree with the proposed metrics. We would also emphasise post sale outcomes.

We suggest that in addition to specifying the metrics the new organisation should also establish some standard in relation to reporting. We would like to see banks publicly set targets for improvements in relation to the metrics. This must go beyond the often woolly 'customer charter' type targets. Different banks could legitimately choose to focus on different aspects depending on their priorities and customer base. For example, in the field of accessibility, one may choose to focus on improving systems for those who need some help managing their money, where another could decide it needs to focus on accessibility of infrastructure, such as cash machines.

**Q15: Would it make sense for banks to adopt a set of standard questions to add to their existing surveys?**

We consider this approach could be appropriate, however if it is to be pursued then the body should also look at how effective existing surveys are in reaching a full range of consumers. Some groups of older consumers, especially the older old and those who may not be comfortable internet and phone users or find it easy to get out to attend focus groups are often absent from standard surveys, resulting in further exclusion. Some industry bodies have started to address this with specific research, for example the Payments Council has conducted work looking at the experiences of the older old and people living with disabilities. This approach is helping it to create more meaningful projects and avoid unsuccessful ones, such as the cheque replacement programme.

**Q16: Is self reporting appropriate? Might other methods deliver better results?**

If self-reporting is to work then it must be comparable and credible. If it is decided to pursue this approach the new organisation should consider sampling the reporting to ensure that it is sufficiently rigorous.

**Q17: Are there non-bureaucratic alternatives to this approach that might work better? Is there room for kite-marking?**

We would not make kitemarking a priority for the new organisation at this time. It is more appropriate for minimum or standardised achievements and we do not see that it would help the new organisation to create a race to the top, or continuous improvement, but rather perhaps a 'race to ok'. The organisation would need enhanced credibility for the kitemark to have a chance of being meaningful.