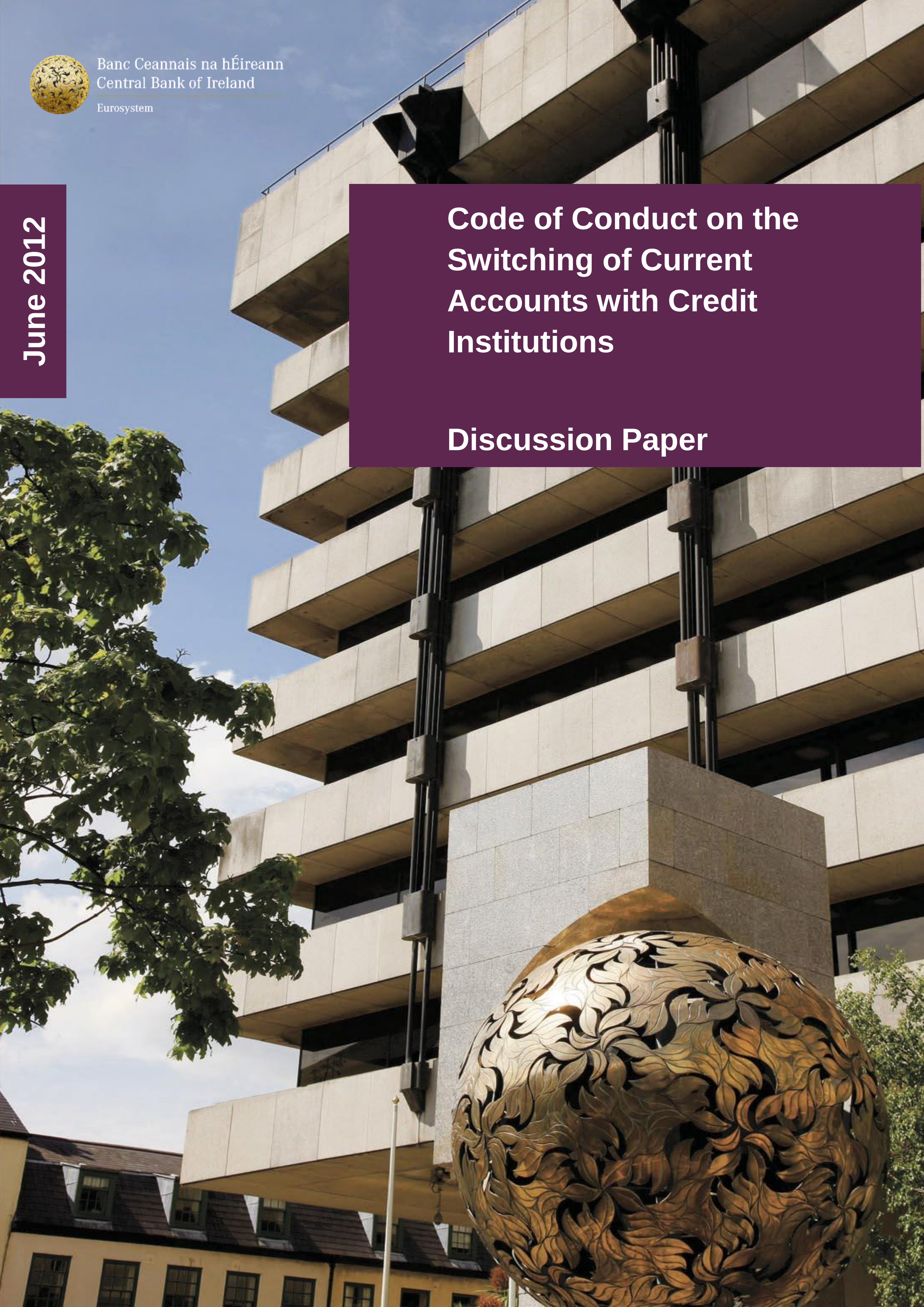
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

June 2012

Code of Conduct on the Switching of Current Accounts with Credit Institutions

Discussion Paper



Introduction

In July 2010, the Irish authorities in the context of the final decision of the European Commission on the restructuring of Bank of Ireland, committed to undertake several actions in order to improve competition in the Irish banking market. The Central Bank agreed to meet, *inter alia*, the following commitments:

a. *The IBF [voluntary] switching codes for personal and business customers will be placed on a statutory footing immediately, and will be accompanied by an information campaign (to be carried out by the NCA and the IBF), and*

b. *A review of the provisions contained in the switching code, with a view to making any necessary enhancements, will be carried out…by the Central Bank and concluded by end Q2 2012.*

The Central Bank's obligation under the first part of the above commitment was met with the publication, on a statutory basis, of the *Code of Conduct on the Switching of Current Accounts with Credit Institutions* (the Switching Code) on 1 October 2010.

Purpose of Discussion Paper

The purpose of this Discussion Paper is to meet the second part of the commitment outlined above. In summary, this Discussion Paper outlines the outcome of the review undertaken by the Central Bank on the operation of the Switching Code together with possible enhancements to the Switching Code as a result of that review. Furthermore, this Discussion Paper poses a number of questions to interested parties on issues connected with switching and how the Switching Code could be further enhanced or expanded to support the switching process.

The results of this Discussion Paper will feed into a review of the current Switching Code, to take place during 2013.

The Switching Process in Ireland

All banks providing current accounts in Ireland are subject to the Switching Code. The purpose of the Switching Code is to make the process of switching current accounts easier, and quicker for consumers. The Switching Code is primarily a set of procedures that must be followed by both consumers and banks when a consumer decides to switch their current account from one bank to another. It provides for:

- A smooth, efficient switching process for the consumer;
- Consistency of approach to the process by all credit institutions; and
- Protection and support for consumers contemplating, undertaking and/or completing the switching process.

The Switching Code is also intended to ensure that the process works in the best interests of consumers and mitigates against potential barriers to switching or related consumer detriment, including:

- potential and unnecessary consumer cost and possible impact on a consumer's credit rating e.g. failed transfer of a direct debit;
- excessive time taken to switch from one bank to another; and
- a lack of provision of timely and quality information; and
- inadequate support to consumers through the process.

Central Bank Review of the Switching Code, 2011

In 2011, the Central Bank began its review of the Switching Code with a theme-based inspection and mystery shopping exercise ('2011 Review'). The inspection was aimed at assessing how well the switching process works in practice for consumers. The mystery shopping exercise was undertaken to determine the awareness and understanding of the Switching Code amongst frontline bank branch staff. The 2011 Review confirmed that once a consumer began the switching process it generally ran smoothly. A number of issues and questions did, however, arise as part of the 2011 Review and are outlined below:

i) Staff Awareness and Training in Switching Process

The mystery shopping exercise indicated that the mystery shoppers felt encouraged to switch when they felt confident about the switching process. Confidence in the switching process was gauged by the interaction of the mystery shoppers with the branch staff. Staff members were considered to be helpful in two-thirds of the branches visited but the mystery shoppers only felt confidence in the switching process in approximately 50% of the branches visited. According to the mystery shopping report, '*the degree to which the mystery shoppers felt encouraged to switch closely matches whether they felt confident about the switching process. The extent to which the process was made simple and straightforward was commonly cited as a reason to feel encouraged to switch, whilst a myriad of reasons were cited for not feeling encouraged. Key within this was the lack of information provided, either in printed form or verbally, or that the institution did not seem enthusiastic to seek their business on a walk-in basis'.* Some mystery shoppers were asked to make an appointment with a specific member of staff which may indicate that not all staff members are in a position to fully address queries relating to current account switching.

ii) Levels of Switching in Ireland

The 2011 review confirmed that the level of current account switching in Ireland is low. Of the four banks reviewed in 2011 during the period October 2010 to June 2011, just over 6,000 current account holders switched to another provider in the period October 2010 to June 2011 using the Switching Code process. This figure represents 0.16% of all current accounts held with the four banks inspected.

The Eurostat (EU-SILC 2008) research shows that Ireland has a significantly lower level of current account ownership (83.2%) compared to the UK (97.9%) and the EU15 (94.1%). Considering the current contracted state of the Irish banking market, it is perhaps not surprising that we have a low switching rate.

iii) Engagement with Consumers

The Central Bank's expectation is that regulated firms should seek to identify ways to enhance all their communications with consumers. In the context of switching, we believe that good communication throughout the switching process helps to ensure that the process works smoothly and efficiently for consumers. The 2011 Review identified certain initiatives undertaken by institutions, for example, the issuing of updates via text message or call back procedures, which we considered to be best practice. Such initiatives can help to ensure that the switching process operates smoothly, the consumer is well informed with regard to the process and any issues can be identified and resolved within the required timeframes.

iv) Timeframes in Switching Code

Under the Switching Code, statutory timeframes are included for the completion of tasks relating to the switching process in relation to both the bank which the consumer is switching to ("the new bank"), and the bank the consumer is switching from ("the old bank").

The Switching Code specifies that the new bank must have the consumer's new account up and running within 10 working days of the switching date, i.e., the date agreed between the consumer and the new bank for the switching process to begin. The old bank must complete certain tasks under the Switching Code within 7 days of the agreed switching date when the consumer has opted to close their account. While the findings of the 2011 Review did not raise potential issues with the current timeframes, the Central Bank is aware that the UK is proposing to move the timeframes for both the new and old bank to 7 days to complete.

v) Addressing Errors and Delays

The Competition Commission market investigation into *Personal Current Account Banking Services in Northern Ireland,* reports that '*switching is likely to be discouraged by experience of actual problems in switching, and the level of such experiences will shape the perceptions of switching risks.*' The report goes on to say that banks are often dependent on the cooperation of direct debit originators, such as utility companies and credit originators, to ensure that direct debits and credit transfers worked smoothly and are error free.

The *UK Independent Banking Commission* report refers to a 2010 Consumer Focus survey which found that 27% of consumers who had switched experienced problems transferring direct debits. The Office of Fair Trading's (OFT) 2008 report on *Personal Current Accounts in the UK,* highlights the impact a missed direct debit can have on a consumer's credit record - '*In order for this record to be removed the consumer will need to realise that there has been a problem and then contact the third party involved. They may also need to get a letter from their bank explaining that the consumer was not at fault. It is then up to the third party who did not get the payment to decide whether or not the missed payment is removed from the consumer's record. If they refuse the consumer has the option of putting a note of explanation on the file, but there will still be a mark against their name….this may be driving the finding that nearly half of consumers surveyed fear the switching process*.'

In terms of errors and delays encountered in the switching process and identified in the 2011 Review, there were the following findings:

- where issues arose in successfully completing the switching process it was mainly in relation to direct debit originators, for example, failing to update their records with the new account details,

- there is inconsistency in the way in which banks deals with consumer detriment when they are responsible for errors or delays in the switching process, for example, how they deal with financial loss due to fees and charges being incurred or a negative credit rating. They tend to be dealt with on a case-by-case basis including making compensation or goodwill payments as necessary. On some occasions where credit ratings have been impacted, steps may be proactively taken by the bank to address these situations.

vi) Scope of the Switching Code

As part of our public consultation on the review of the 2006 Consumer Protection Code (Consultation Paper 47), we also invited comments on the statutory Switching Code and sought views as to whether the scope of the statutory Switching Code should be extended to include demand deposit and savings accounts. While the response to that consultation indicated that there was no support to extend the provisions of the Switching Code to demand deposit or savings accounts, we would again, as part of this Discussion Paper, seek views on this matter.

Examination of Possible Barriers to Switching

The Competition Commission market investigation into *Personal Current Account Banking Services in Northern Ireland,* the OFT's 2008 report on *Personal Current Accounts in the UK,* the 2010 report on the *Review of Barriers to Entry and Exit in Retail Banking,* and the September 2010 *UK Independent Commission on Banking Report* contain some analyses of the **possible** reasons for low levels of switching. Given the similarities between the Northern Ireland, United Kingdom and Irish markets, it is likely that these reasons are also relevant to the Irish market. The main possible barriers to switching identified in these reports are summarised below:

i) Consumer inertia

Consumers tend not to monitor the personal current account market with a view to switching. The main motivators of switching for consumers are 'push' factors, i.e., when consumers feel let down by their current provider, rather than 'pull' factors, e.g., lower fees offered by other banks. This is supported by the National Consumer Agency's September 2011 market research on switching behaviour which indicates that 57% of consumers have not switched provider as they are happy with their current provider. The OFT's consumer research also suggests that consumers are generally satisfied with their existing provider and there is a perception that all current accounts are the same, thus increasing inertia. There is a low financial incentive to switch, particularly for those consumers who are never overdrawn. Similarly, consumers feel less inclined to seek to switch accounts when they are overdrawn and may be concerned that they will not receive the same overdraft facilities with the new bank.

In general, the results of research and surveys appear to show that consumers are satisfied with their provider and this together with low financial incentives to switch result in low switching rates. In addition, banks are not competing on the fees front which, in turn, does not encourage consumers to switch, and if consumers are not willing to switch, banks will not be encouraged to compete by providing better offers.

ii) Loss of banking relationship

Trust is important for consumers and they are reluctant to lose a relationship with a bank they trust and which, they may perceive, has a '*better understanding of their needs, greater sympathy, a willingness to use their discretion on waiving fees, and agreeing overdraft rates or offering credit*' (NI report). Consumers also have a preference for banks with branch networks, even for consumers who rarely use branches.

iii) Lack of transparency of costs

The Central Bank recognises the work being done by the National Consumer Agency (NCA), in providing online cost comparisons of financial products (including current accounts), which allow comparisons of some standard bank charges, as well as the provision of other relevant information through its website, www.nca.ie. However, the pricing models of personal current accounts can be opaque and hence consumers can find it difficult to compare personal current accounts to identify the most cost-effective one for their particular circumstances. According to the *UK Independent Commission on Banking* report, the OFT found that consumers are not familiar with the key account fees and have difficulty understanding and calculating fees. It goes on to state that '*transparency is important because without it consumers do not know whether they can get a better deal elsewhere and hence they are unlikely to switch to better products even if the switching cost is low*.'

iv) Perception of difficulties with the switching process

The research indicates that consumers are concerned about the switching process going wrong, particularly in relation to errors occurring when transferring direct debit instructions and the time and effort required to switch provider. It is noted in the NI report that '*anticipation of problems is much higher than problems actually experienced by those who do switch: a very significant number of non-switchers anticipated that there would be problems in switching*.'

Questions for Consideration/Response:

Question 1: To what extent do you consider that we have identified the potential barriers to switching? Are there other barriers that we should take into consideration in reviewing the Switching Code? Are you aware of any other research or evidence of barriers to switching that we should consider?

Question 2: Should enhancements be made to the Switching Code in the area of requirements for training for credit institution staff on the Switching Code and the switching process?

Question 3: Should the banks be required to raise awareness of the switching process among their customers in view of the low level of switching in the Irish banking system? If so, what steps should they be required to take, individually and/or collectively? Could this be done effectively via conduct of business rules?

Question 4: Are there other measures that we should consider in reviewing the Switching Code to increase switching levels and reduce consumer inertia? Are you aware of any research or evidence/experience of measures taken elsewhere to increase consumer awareness and encouragement with regard to switching?

Question 5: Do the banks (old and/or new) keep consumers well informed during the switching process? How could banks (old and/or new) communicate better during the switching process?

Question 6: Do you consider that the current timeframes in the Switching Code for completing the switching process of 10 days and 7 days for the new and old bank respectively remain reasonable for both banks and consumers alike? If not, what timeframe would you deem to be reasonable and why? What issues might arise if the timeframes were changed?

Question 7: At the time of actual switching, should the obligation or onus be placed on the bank (old and/or new) to ensure that the switching process works successfully for the consumer, particularly with regard to direct debit and/or credit transfers? If not, where should the obligation be placed?

Question 8: Should the consumer be made aware that an impaired credit rating has been recorded against them as a result of a declined direct debit arising from the switching process?

Question 9: Should the provisions of the Switching Code be extended beyond current accounts and include demand deposit and/or savings accounts?

Making Your Submission

Interested parties are invited to respond the questions posed in this Discussion Paper **by 30 September 2012**. Please make your submissions by e-mail (see details below).

When responding to any question posed in this Discussion Paper, please use the headings in this paper to identify the question you are referring to. If you wish to raise any other issue related to Switching that is not covered in this Discussion Paper, please include in a separate section of your submission.

We intend to make submissions received available on our website after the deadline for receiving submissions has passed. Because of this, please do not include commercially sensitive material in your submission, unless you consider it essential. If you do include such material, please highlight it clearly so that we may take reasonable steps to avoid publishing that material. This may involve publishing submissions with the sensitive material deleted and indicating the deletions.

Despite the approach outlined above, we make no guarantee not to publish any information that you deem confidential. So be aware that, unless you identify any commercially sensitive information, you are making a submission on the basis that you consent to us publishing it in full.

Please clearly mark your submission **'Switching Code Discussion Paper'** and email to: code@centralbank.ie