



***Consumer Council Brief for the
Financial Inclusion Commission***

December 2014

1. Introduction

1.1 The General Consumer Council for Northern Ireland (the Consumer Council) is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to *'make the consumer voice heard and make it count'*.

1.2 We have a statutory remit to promote and safeguard the interests of consumers and have specific functions in relation to energy, water, transport and food. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers. In addition, from April 2014, we have taken on responsibility for representing consumers in respect of postal services in NI.

1.3 The Consumer Council is also a designated body for the purposes of supercomplaints, which means that we can refer any consumer affairs goods and services issue to the Competition and Markets Authority, where we feel that the market may be harming consumers' best interests. In addition, we have 'supercomplainant' status for financial services, with powers to bring supercomplaints on financial matters to the Financial Conduct Authority (FCA).

1.4 In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

1.5 Consumers in NI have historically had lower levels of financial capability, and less choice when choosing products when compared to the rest of the UK. We have composed this briefing to provide a summary of the key issues relating to financial exclusion that are impacting on NI consumers, and would ask that The Financial Inclusion Commission fully considers the issues specific to this region. Additionally, we would like further information on how the Commission plans to engage with NI consumers and consumer organisations, and would be happy to provide an oral briefing if required.

1.6 We are currently undertaking a programme of research to explore how Post Offices, Credit Unions and other institutions could help fill the gap left in the wake of bank branch closures. We hope to have our findings and recommendations finalised by April 2015 and would be delighted to share these with you.

2. Banking Issues

2.1 Ten per cent of consumers in NI do not have any type of direct payment bank account, compared to four per cent in rest of the UK¹. The Department of Social Development NI (DSD) Family Resources Survey also shows that the percentage of households without a bank account is highest where there is a low income; the figure rises to 18 per cent without a bank account for households with an income of between £100 and £300 per week, and drops to seven per cent for those with an income between £300 and £800.

2.2 Having a bank account not only allows the holder to manage their money effectively and securely, but also helps them to access other beneficial products, such as including savings accounts and insurance, and to pay utility bills by direct debit.

2.3 NI has four major local banks (Ulster Bank, Danske Bank, Bank of Ireland and First Trust), which together hold 66 per cent of the market share for Personal Current Accounts (PCAs). Consumer group Which? run a twice yearly customer survey to rate the best and worst banks for customer service, and many of the top-rated banks in the survey do not have a high-street presence at all in NI.

¹ DSD Family Resources Survey 2012/2013

2.4 Banks like Metro which don't have a presence in NI, and recent entrant Tesco, who don't yet offer their PCA in NI, mean that consumers here have less choice in the market. Despite the launch of the Payment Council's 7 day switching guarantee last year, our research has shown that consumers here aren't interested in switching bank accounts as they fail to see the financial benefits of doing so.

2.5 The recent switching statistics from the Payments Council showed that in the first quarter of the year, 5551 people switched to or from an NI bank. It is interesting to note that our Big Four banks have all lost more customers than they have gained. The three biggest gainers are Halifax, Santander and Nationwide – all of which offer popular accounts which feature strongly in multiple different price comparison tables. They offer a range of incentives, such as a switching bonus, interest on current account balances or cash-back on household bills.

2.6 In contrast, none of NI's big four offer any special switching incentives, or account interest and are often missing from the comparison websites.

2.7 The Consumer Council will continue to provide evidence to the Competition and Markets Authority for their investigation into the PCA sector, to ensure the differences in the NI Market are fully taken into account.

2.8 By the end of February 2015, 77 branches (31 per cent) of the big four banks here will have closed throughout NI, and there are further closures on the horizon. Figures from the banks show that branch banking is in decline, with consumers choosing to bank through mobile or internet apps. Our research shows that despite the number of banking services that are provided via telephone and online, branch usage is still high. A sizeable proportion of consumers say they are still using branches on a regular basis. People in NI have told us they use branches of banks quite regularly, with 68 per cent of those who bank in branch stating that they visit once a month or more often.²

2.9 Many regard Credit Unions and Post Offices as playing a vital social and economic role in NI communities, particularly in rural areas. 34 per cent of the population of NI save with a credit union, compared to only two per cent in the rest of the UK³. Our Credit Unions do not currently get the same funding as their counterparts in GB to provide additional services, such as PCAs, due to a disparity in the way that the relevant legislation was enacted, at present only one Credit Union is able to provide current account facilities.

2.10 The Consumer Council has recently taken on the role to represent consumers in postal services, which includes the post office network. NI has 481 post office branches, which are protected by a strict UK wide access criteria enforced by the UK government to ensure the most

² CCNI Tracking Research, August 2014

³ http://www.ljmu.ac.uk/MKG_Global_Images/files/towards%20financial%20inclusion.pdf

vulnerable consumers are within a reasonable distance to their nearest post office branch. Post offices provide access to banking services for a number of providers, and can act as a digital bridge for those not carrying out their transactions online by maintaining some form of access within the local community.

2.11 However, there is a disparity in the services that consumers can access at post offices. Some providers allow consumers to make cash withdrawals and to deposit cash or cheques. Others only offer the facility to make withdrawals⁴.

2.12 In the wake of bank closures there is scope for Credit Unions and Post Office's to play a bigger role in serving low-income and financially excluded groups.

2.13 It is concerning that there is a programme underway of more branch closures, but no sustainable solution to provide essential services for the most vulnerable. This could result in many towns being left without a branch, potentially leaving consumers financially excluded and local businesses struggling.

⁴ <http://www.postoffice.co.uk/branch-banking-services#Withdrawals%20-%20Deposits>

3. Credit

3.1 Access to affordable credit for those on low incomes is imperative for ensuring that the most financially vulnerable have a safety net in emergency situations.

3.2 Often low income is associated with poor credit ratings, or 'credit scores', which can lead to exclusion from mainstream financial services and credit facilities. This means that the cost of credit to low-income households can be proportionately very high, as they turn to expensive short-term lenders.

3.3 The Consumer Council supported research in 2013 into the role that Credit Unions could play for low-income households,⁵ which found that low-income tenants were often left to borrow from a range of high-cost and often extortionate credit shops and money lenders. As previously mentioned, NI credit unions' provide an often essential service in communities, yet do not currently get the same funding as their counterparts in GB to modernise and provide additional services.

⁵ Housing Rights Service, Towards Financial Inclusion, 2013

3.4 Research from the FCA earlier in the year⁶ highlighted the fact that in many ways the needs and behaviours of very low income consumers are similar to those across the population as a whole. The key difference is that those on lower incomes are less able to improve their financial situation, especially if they become over-indebted.

3.5 A recent report by Stepchange Debt Charity highlighted the fact that their clients in NI are on average 20 per cent more indebted than the average UK client.⁷ They have cited unemployment and reduced working hours as the primary drivers of problem debt in NI, and have shown that these factors have led to a substantial increase in problem use of high-cost credit here.

⁶ FCA, Consumer Credit Research : Low income Consumers, April 2014

⁷ Stepchange Report, Northern Ireland, 2014

http://www.stepchange.org/Portals/0/documents/media/N.Ireland_report.pdf

4. Savings

4.1 Levels of savings in NI are significantly lower when compared to the rest of the UK, with 52 per cent of households in NI reportedly having no savings at all, compared to the UK average of 32 per cent⁸.

4.2 Our recent Cost of Living research⁹ revealed that 30 per cent of consumers say they are worse off financially compared to two years ago. Worryingly, 14 per cent of those surveyed struggle to find the money, have to dip into savings or borrow to pay their home energy bills, and 43 per cent have run out of money at some point at least once in the last two years.

4.3 A lack of rainy day savings meant that paying to repair or replace big ticket items (such as washing machines or other household goods) were among the things that 32 per cent of consumers said they would struggle to do.

4.4 Interestingly, Credit Unions are a very popular choice, with 34 per cent of the population of NI saving with a credit union.

⁸ IBid

⁹ <http://www.consumercouncil.org.uk/consumer-outlook/>

5. Insurance

5.1 In our 2009 report “Quote, Unquote¹⁰”, The Consumer Council set out to investigate whether consumers in NI were paying more for insurance. We found that compared to consumers in GB, we paid on average 39 per cent more for insurance, in particular consumers who live in low income and rural areas.

5.2 For home insurance, consumers living in rural NI were quoted the most expensive prices in the UK. Other research has shown that uninsured households were disproportionately likely to have low incomes, few savings, and to be facing financial difficulties. They were predominantly tenants and lived in metropolitan areas¹¹.

5.3 On the back of this the Consumer Council created a “Guide to Home Insurance” for those who rent, and plan on undertaking further work in 2015 alongside private tenant and social housing groups, housing advice organisations and other key stakeholders to work to address financial exclusion issues faced by tenants.

¹⁰ <http://www.consumercouncil.org.uk/publications/-quote--unquote--the-cost-of-insurance-in-northern-ireland/>

¹¹ Access to home contents insurance for low-income households, Joseph Rowntree Foundation

5.4 The cost of Car Insurance is a longstanding issue that we have been reporting on for some years now. Following our initial referral in 2011, the OFT described the overall market in NI as 'dysfunctional' and found that we pay 11 per cent more than GB, rising to between 30 and 70 per cent in rural areas.

5.5 The OFT referred the matter to the Competition Commission (CC) (now The Competition and Markets Authority (CMA)). The CMA reported on their proposed remedies in September 2014, and we will and continue to work on this complex issue for consumers.

5.6 We continue to encourage consumers to shop around and compare insurance products; the OFT investigation found that only 54 per cent of people here shop around compared to 73 per cent in GB. This may also serve to increase competition in the NI private car insurance market.

5.7 There is clearly a role for Industry to work with consumer organisations like ourselves, to improve transparency so consumers can feel confident they are paying a fair price for insurance products.

6. Context

6.1 Consumers in NI have historically had lower levels of financial capability, and less choice when choosing utilities and financial products when compared to the rest of the UK. Consumers here also have the lowest level of discretionary income in the UK, at £84 per week compared to the UK average of £174 a week¹².

6.2 The Consumer Council undertakes tracking research twice a year, exploring consumer attitudes to the Cost of Living. Our latest survey¹³ revealed the top concerns among consumers were:

Home energy – 40 per cent

Rent/ Mortgage - 23 per cent

Repair or replacement of big ticket household item – 20 per cent

6.3 The high cost of energy is a longstanding issue, as nearly 70 per cent of consumers here are reliant on home heating oil to heat their home. This is considerably more expensive than natural gas – making fuel poverty a major issue for households, particularly in rural areas where connection to a mains gas supply is unavailable. Around 45 per cent of NI's population live in rural areas, and in general face other accessibility

¹² ASDA income tracker, September 2014

¹³ http://www.consumercouncil.org.uk/filestore/documents/Consumer_Outlook_Index.pdf

issues such as limited access to banking facilities, and poor quality internet connections.

6.4 Consumers in NI currently lag behind the rest of the UK in terms of online usage, with 51 per cent of people (compared to the UK average of 57 per cent¹⁴) choosing to bank in this way.

6.5 Our 'Price of Being Poor' report¹⁵ highlighted how many lower-income consumers in NI pay more for everyday essentials (such as energy, food and transport), and end up excluded from essential financial services, essentially paying a 'poverty premium'.

6.6 It was clear from our research that not taking up a financial service or product may cost consumers money, leave them unprotected against risk, and limit some job opportunities. For example, this could mean not having a bank account for wages, or having no home contents insurance when your house has flooded. It is therefore vital that financial services and products are accessible to all consumers.

¹⁴ Ofcom Study, Internet use and attitudes 2014

¹⁵ <http://www.consumercouncil.org.uk/publications/price-of-being-poor--july-2011/>

6.7 Our 'Canny Consumers' report showed that low-income consumers also tend to be less aware about their consumer rights, and less confident in seeking redress.¹⁶

7. If you would like any further information or wish to discuss any aspect of this briefing in more detail please do not hesitate to contact Rachael Cray on [REDACTED] or via email on

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¹⁶ <http://www.consumercouncil.org.uk/publications/canny-consumers/>



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