

Help the Aged Briefing for Competition Commission

Section One: What leads customers to switch their PCA from one bank to another including incentives and barriers to doing so?

1. What are the main reasons for an individual to choose a particular bank to open their PCA?

1.1 Introduction of Direct Payments

Government's agenda for payment modernisation. In September 2004 the government withdrew benefit payment books and into direct payments, meaning people like pensioners would have their pension paid into bank accounts.

It is estimated that in the UK 3.5 m people didn't have access to bank accounts. In NI according to the Family Resources Survey 2003-2004 around one in three individuals living in a low income family did not have a bank account.

Hence since the introduction of direct payments many household would have been driven to set up a bank account.

Method Of Payment	Number of Pension Credit Claimants
Bank Account	32310
Post Office Account	55571
Combined Book	9
Clerical Giro	1
Giro	4007
Order Book	39

Table 1: Method of payment for pension credit in Dec '05 (Source DSD)

1.2 Accessibility and Proximity to Banks

Research has shown the people living on low incomes have restricted access to bank branches. There is evidence that branch provision is poorest in low income communities and therefore their choice of bank is restricted (Kaur et al undated; Office of Fair trading, 1999a; Thrift and Leyshon, 1997; Vass 1997)

Accessibility and proximity often dictates why older people opt for a particular bank.

Access to bank branches is a particular issue for older people as over 50% of older people have a long term illness that limits their daily activities and mobility. So therefore for example older people's choice might be restricted by that fact to the nearest available branch. Pensioners households are less likely to have access to a car; 49% of pensioners have a car compared to 74% of all households in NI (2001 Census) Therefore older people who are reliant on public transport may choose a bank that is nearest to a bus route. Those reliant of family for lifts and transport might choose whatever bank their family banks with for convenience.

These issues of access are exacerbated in rural areas where a third of NI's pensioner population live.

2. What makes people reluctant to switch to another bank?

2.1 Familiarity and lack of difference

For many older people the security that familiarity provides is important. Coupled with this loyalty is an important value among NI's older people. Income is a hefty consideration and older people in NI are careful about their money. However the four main banks do not compete against each other and do not offer particular value for money, therefore there maybe little point in switching.

2.2 Bureaucracy and Complicated Process

Switching is a hassle for older people and many are put off by the bureaucracy and form filling that may be required. We have a huge problem in NI that we can't get older people to apply for all the benefits they are entitled to because of the complexity bureaucracy and form filling. What chance do we have of getting older people to switch banks if they are put off by the same complicated procedures?

2.3 Lack of Knowledge and Understanding

Older people particularly those on low incomes are financially excluded. PCA's are not tailored towards their needs and circumstances. They do not have the same access to information as other people who may be well informed and to whom PCA's and other financial products

are geared towards. A great deal of older people lack the capacity, skills, confidence and advice to be able to make informed choices.

2.4 Unavailability of another bank branch nearby

As stated before accessibility and proximity is absolutely paramount and would be a huge factor. There is no point in an older person switching accounts to a smaller provider who offer fairer terms in their PCA's if they physically can't get there.

2b. What would encourage them?

Some of the factors that may encourage older people to switch banks may be:

- Less complicated processes
- More Competitiveness between the banks and better value for money
- More available and accessible information on differences between banks
- More branches nearby
- Banks being more user friendly and understanding
- Banks tailoring PCA's to meet the needs of the ageing population
- Marketing is specifically targeted at other groups and not older people

3. Is Concern about their credit history a factor?

As a generalisation older people are loath to be in debt and tend to be nervous about buying on credit or applying for credit facilities. That is not to say that indebtedness does not exist among older people.

Considerations regarding credit history are a more prevalent concern about other low income households.

4. Are Customers aware of the switching service provided by the banks under the banking code?

When asked our qualified SeniorLine Advisors (Help the Aged's freephone advice and information service for older people and their carers) were unaware of the switching service provided by the banks. If such qualified and knowledgeable staff are not informed how do we expect older people to know.

Section Two: How Important are Bank Branches?

2.1 Do Branches with an extensive network have a competitive edge?

Absolutely, in terms of accessibility and convenience and for all the reason spelled out earlier in the document. The Northern Bank has 104 local branches, Ulster Bank 90 Local branches where as Alliance and Leicester has 14 and Woolwich has nine.

2.2 Is the branch more important to customer in rural areas than in towns and cities?

Yes, a third of all pensioners live in rural areas.

2.3 Do you see the use of internet and phone banking as an important factor in changing the state of the sector?

Whilst Internet banking is a convenient and useful way for many people to undertake banking, the development threatens the sustainability of many off-line financial products and services. Only 13% of older people in NI have access to the internet.

At the same time, the financial services world is continuing to fail older and disabled people in terms of the accessibility of their websites. A survey by Ability-net in February 2004 revealed that only one of nine online banks reached a minimum standard for accessibility¹.

A cursory glance at available savings accounts shows that many of those with the highest rates of interest are available exclusively online. In December 2005² five of the top six interest drawing accounts were internet only. Those older people who do not use the internet do not therefore have access to the highest rates of interest and are therefore indirectly discriminated against.

2.4 How do basic bank accounts and accounts with the post office and Credit Unions affect the state of competition?

Help the Aged Evidence suggests that not all banks are good at knowing about or even promoting basic bank accounts. There is no incentive for staff to sell basic

¹ <http://www.abilitynet.org.uk/content/oneoffs/e-nation3.htm>

² Research conducted on the Motley Fool Website, December 2005

bank accounts to individuals due to the nature of sales targets.

A 'mystery shopper' survey published recently by the Banking Code Standards Board highlighted that 62% of bank branches visited did not display information about basic accounts.

The Banking Code now requires participating banks to offer this type of account if it is suitable for a customer's needs or if an applicant specifically requests one. However the mystery shopper survey revealed that about 30% of assessors had difficulty in getting literature and in some cases it was not available at all. In about 20% of mystery shops, attempts were made by Bank and Building Society staff to sell a more complex product than the Basic Bank Account, which would often have been inappropriate for the consumer.

An increasing number of Basic Bank Accounts charge customers for overdrawing when direct debit payments are taken. For vulnerable consumers using such accounts this is very worrying and can be very costly.

Section Three: How well informed are customers about in terms and conditions? Do customers understand the structures and levels of interest charged on overdrafts and paid on deposits, and of bank charges?

3.1 Do customers find it difficult to compare the interest rates and charges of different providers?

Yes. That information is difficult for even those who have a decent level of knowledge and confidence about financial products. Older people are among those that experience the most highest level of financial exclusion, many struggle to understand bank charges and interest rates.

3.2 Do customers find it difficult to understand the information and apply it to their own circumstances?

Yes. The information given for older people with low levels of financial education is complex and extremely hard to understand and put into context. But the reality is that many older people who would have collected their pensions in one go and managed their finances themselves are now have to contend with the banks and their charges. Some of the charges levied by the banks represent a

substantial proportion of their income (the basic state pension is £82) which already has so demands upon it. So in effect the banks are unfairly squeezing pensioners for money they can't afford and putting them in additional financial hardship.

3.3 How clear are banks communications to customers?

Not clear at all.

3.4 What is the overall awareness of personal banking and financial issues more generally?

Many people are not well informed and have low levels of financial capability.