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Age Concern submission to joint
consultation by HM Treasury, Bank of
England and Financial Services Authority

*Financial stability and depositor
protection: further consultation*

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About this consultation

The Banking Authorities consulted in January 2008 on strengthening the framework for ensuring financial stability and depositor protection. This further consultation summarises the Authorities' plans in relation to the proposals set out in the January consultation, and raises further questions for consultation.

Age Concern is the UK's largest organisation working with and for older people. Four national Age Concerns in England, Northern Ireland, Scotland and Wales and a federation of over 400 local organisations work together to promote the well-being of all older people. Our work ranges from providing vital services to influencing public opinion and government. Every day we are in touch with thousands of older people from all kinds of backgrounds – enabling them to make more of life.

The Age Concern England Policy Unit develops public policy proposals on ageing and older people with respect to England and UK-wide policy. We influence Government, public bodies and professional organisations by commissioning and undertaking research, responding to consultations, liaising with decision makers, holding policy events and developing partnerships with other organisations.

Most of our policy responses and summaries are available to download on our website: www.ageconcern.org.uk.

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Key points

1. We welcome the broad thrust of the Government proposals, but have comments to make in relation to depositor protection. Adequate protection is extremely important for older people, who often have no opportunity to replace lost assets. Older people of modest means may have large amounts in interest-bearing accounts, either because they reduce their exposure to investment risk as they age, or on redundancy, retirement or the sale of property.
2. Although we support moves to increase compensation limits, equally important considerations are the scope of compensation and protection for balances above any compensation limit. There should be a separate compensation limit for each separate banking 'brand', not 'per person, per bank' as at present.
3. The Financial Services Authority (FSA) should not rely on market-led solutions alone, such as private deposit insurance, for balances above the compensation limit. Consumers should be given the option to choose an account with extra protection.
4. Failure to achieve a seven-day target for payouts could lead to extreme hardship for the most vulnerable in society. The Government should also pursue a back-up system for getting cash quickly to those in hardship.
5. Banks should be required to warn consumers if they are making a deposit that will take them over the compensation limit. Unless the 'per person, per bank' restriction is removed, they should also be required to give clear information on which of their brands are covered by a single banking authorisation.
6. We support moves for the Financial Services Compensation Scheme (FSCS) to make gross payments, rather than netting off accounts in credit against loans with the same bank. We also support the Government's proposal to take powers to permit pre-funding of compensation.

Introduction

1. Age Concern recognise the progress that has been made in strengthening the framework of banking regulation, following the events at Northern Rock in 2007. The current consultation raises detailed questions on which we are not in a position to comment. However, we do think it important to raise some general points for consideration. We hope they can be reflected in the forthcoming Financial Services Authority (FSA) consultation on changes to the Financial Services Compensation Scheme rules.
2. The level of consumer concern around this topic emerged during research we recently carried out with members of Age Concern forums (to be published later this year), for example:

'Integrity – I am disgusted with the way that banks have changed ...I don't trust them at all. I don't think the banks are prudent at all. I have money in banks – interest rates can be high – but you only get protected on the first £30,000 – so you're torn between security and interest'.

3. Older people are particularly vulnerable in the event of banking failure – they may have large amounts in cash, for example on moving into care, or they may depend on savings to top up income – yet many have limited access to up-to-date information, for example via the internet. For this reason, although effective communication of compensation limits is important, it is no substitute for adequate protection.

Compensation limits

4. As stated in our response to the banking authorities' January consultation, compensation limits are currently too low to instil confidence. The increase to £50,000 will not be enough to reassure savers.
5. If there is to be a cap on compensation, it is vital that FSCS rules are changed to apply the cap 'per person per brand', rather than per bank. Consumers seeking to diversify their risk are unlikely to appreciate that a single authorised bank might encompass several banking brands, and even if they do, it is not always immediately clear which brand is covered by which authorisation. For example, savings accounts may be offered through an intermediary such as Saga. The definition of 'single bank' should be changed so that there is a separate compensation limit for each separate banking 'brand'. Failing this, banks with more than one brand should be required to tell consumers who are opening an account, and at regular periods after that, if other brands are covered by the same banking authorisation.
6. The paper raises problems with a 'per brand' approach, such as the possibility of multi-branded products and merged brands, and the incentive for banks to set up multiple brands. Of course, these problems would disappear if compensation limits were uncapped. However, even with a cap, it ought to be possible to find solutions to these problems; for example, if two brands merge

the compensation 'rights' of each brand could be preserved, rather as with-profits insurance funds usually preserve their separate identity even when their parent company has merged with another insurer.

Balances above the compensation limit

7. It is our strongly-held belief that it is not reasonable to rely on individuals to spread their risk among several banking institutions – not least, because of the difficulty of defining a 'single bank'. It is particularly difficult for older people, who may not have access to information on the internet and who may be opening a high-value account at a stressful time – such as when moving house or entering a care home, or following a bereavement. It also places a heavy burden on friends or family who have legal authority to act for someone with limited capacity to take financial decisions.
8. We welcome the statement, in paragraph 5.11, that FSA is exploring ways for customers to cover balances above the compensation limit. However, we have reservations about relying on market-led solutions alone, such as private deposit insurance. Private insurance might have a role to play if it could be provided at reasonable cost, perhaps bundled with another product or offered as part of another transaction, e.g. through conveyancers on selling a property. However, even if private insurance is available, the risk is that those who would be most vulnerable to loss would be the least likely to buy it, for example older people reliant on a redundancy payment or pension lump sum. The FSA's work on financial capability has shown that the area where older people are least capable is that of choosing financial products.
9. We support the idea of increased protection for certain accounts, but are concerned by the emphasis in the 1 July consultation paper on the value for professional service providers. It is equally important for individual consumers. Nor should the protection only be limited to short-term accounts – older people often have good reason to keep larger amounts in one institution for long periods (for example, to pay for residential care after the sale of their home, or if they are not in a position to manage their own affairs).
10. The FSA should take account of the marketing messages put out by the financial services industry. Banks and building societies tend to offer better rates for larger amounts, and for fixed-rate accounts in particular (which are often attractive to older people) the best rates may require a deposit above the maximum compensation.
11. We would like to see the FSA exploring with the financial sector the feasibility of special accounts where the bank pays for some form of deposit insurance for amounts above the maximum compensation. We accept that the cost of the insurance would be reflected in the interest rate, but this would give the bank a strong incentive to buy a keenly-priced policy, and would also mean that the insurer contracts with the party (the bank) that is best placed to give information relating to the risk. It would also mean that those banks who

would have to pay above-the-odds would be more likely to limit the maximum investment.

Speeding up payments

12. Age Concern welcome the Authorities' commitment to a seven-day target for making compensation payments to eligible customers. However, even if this is achieved, any lack of access to funds could lead to extreme hardship for the most vulnerable in society, who are often heavy users of cash even if they have bank accounts (for example because they find it easier to budget that way or because they have limited mobility and need cash to pay for help in the home). We believe that the Government should pursue a back-up system to get cash quickly to those in hardship, such as the plans currently being developed for cash distribution in the event of pandemic flu. This might also help with cases of hardship if an EEA bank with UK branches were to fail.
13. We are particularly concerned about people who would find it difficult to open replacement bank accounts, for example because of limited mobility or poor health. We do not think it would be feasible to expect them to make a choice of account and open it within the time needed to avoid hardship. The banking authorities should consider transferring their compensation automatically to a special 'holding' account, such as a Post Office Card Account. The individual would then have access to banking facilities until they are in a position to make an informed choice on an appropriate replacement account.

Consumer awareness

14. All customers should be told about any compensation limit, both at the outset of the scheme and regularly thereafter, but in order for this to be meaningful the FSCS rules may need to be simplified. For example, in one BBC Money Box programme on the FSCS the interviewee could not – because of the complexity of the 'per person per bank' rule – give a definitive answer to a question about whether two well-known banks which belong to the same banking group would count as a single bank. Banks should be required to warn consumers if they are making a deposit that will take them over the compensation limit. Unless the 'per person, per bank' restriction is removed, they should also be required to give clear information on which of their brands are covered by a single compensation limit.

Gross payments

15. We support moves for the FSCS to make gross payments, rather than netting off accounts in credit against loans with the same bank. A customer's ability to borrow may have declined since the loan was first granted, and they could face severe hardship if liquid assets are lost – even if their overall wealth is not reduced.

Pre-funding

16. We strongly support the Government's proposal to take powers to permit pre-funding of compensation. Pre-funding would greatly increase consumer confidence. A risk-based levy would also increase the incentives for banks to manage their risk effectively

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