

Ref: PD20080/177

12 September 2008

Banking Reform consultation responses
Banking Reform Team
HM Treasury
1 Horse Guards Road
LONDON
SW1A 2HQ

Dear Sir or Madam

Locally issued banknotes

As you will be aware, the Consumer Council for Northern Ireland has responded to all previous consultations on the issue of locally issued banknotes. The Consumer Council has urged HM Treasury to remove the option for banks in Northern Ireland to print their own banknotes. We are disappointed that this option has been ruled out.

We welcome the proposed legislation which will properly protect consumers holding locally issued banknotes. This legislation is long overdue and we hope that it will be progressed quickly, but it does not go far enough.

We are disappointed the proposed legislation does not bring consumers' needs to the forefront. As stated in earlier responses, locally issued banknotes offer no benefits for consumers but cause inconvenience in certain situations.

In practice many consumers experience the disadvantages of using, or trying to use, locally issued notes to purchase goods or services elsewhere in the United Kingdom (UK). It has also been a source of embarrassment, extra hassle and potential extra cost for many who have had payment (in Northern Ireland notes)

for goods or services refused. Those who exchange their notes at a bureau de change or bank in Great Britain (GB) incur a cost.

In contrast to the inconvenience to the consumer, the banks benefit from: *the prestige, advertising and status they receive from issuing their own notes, which are difficult to quantify in monetary terms.*¹ This is in addition to the yearly £38.5 million² financial advantage they have enjoyed to date.

Another issue that has been raised to our attention is the lack of control that can be exercised over the issuing banks. For instance, the Bank of England operates a denominational mix policy that seeks to ensure that there are sufficient lower denomination notes in circulation for the public's cash transactions to take place in an efficient manner. This is obviously an important issue for consumers yet there is no governing body in place that can control the issuing banks in this regard. Again, in this matter, consumers in England and Wales are offered greater protection than consumers in Northern Ireland.

We are not reassured by the details provided in the consultation document about the proposals to combat counterfeiting. We are still concerned that consumers may face additional risk of counterfeit notes.

The Consumer Council believes that HM Treasury should remove the option for banks in Northern Ireland to print their own banknotes. If you wish to discuss this issue or require further information please do not hesitate to contact Alison Laird on 028 9067 4820.

Yours sincerely



JULIE MEGRATH
Head of Money Affairs

¹ Banknote issue arrangements in Scotland and Northern Ireland: A Consultation Document, 25 July 2005

² Figure provided by HM Treasury