



## *Honourable Banking Blue Star Awards*

15 August 2010

The Rt. Hon. Mark Hoban MP  
Financial Secretary to the Treasury  
HM Treasury  
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### **Re: Recommendations on policy development regarding financial services / consumer protection laws**

Dear Mr Hoban,

In the spirit of the Government's new big society plan, we are a consumer advocacy group with a particular interest in protecting vulnerable people from unethical credit practices. We've recently contacted the Office of Fair Trading (OFT) and the Department of Business Innovation and Skills (BIS) with suggestions to improve consumer law applicable to lenders. BIS recommended that we contact HM Treasury regarding some of our recommendations:

#### **Consultation**

Banks and building societies would agree to consult with social welfare organisations and consumer protection organisations when considering the social costs of any major decisions they make that may affect the wider public.

No-one expects banks and building societies senior managers and policy leaders to have the expertise of social workers when designing new policies and products that may have anti-social consequences. But it can do no harm for them to consult social welfare organisations and consumer protection organisations that do have expertise in assessing the potential social costs of new products and practices. For instance, penalty charges make good financial sense to banks and building societies as an easy revenue stream. Few of them would understand how penalty charges impact the vulnerable.

In using penalty charges in the past lenders have shown little thought and consideration for what might happen if a pensioner, for instance, who has had a stroke and has difficulty managing their finances, accidentally overdraws their account. Nor did they apparently consider the potential effects the stress alone may cause such people when they suddenly end up with a rapidly ballooning debt.

In the past they have given little thought to people who may have sudden, serious mental-health breakdowns. Such people may have taken more money out of their account than they had in it, completely unaware of the ramifications of this. When they recovered a delicate grip on their sanity, the last thing they needed was a bank or building society trying to recover the money from them and much more on top.

As I'm sure you're no doubt aware, many banks and building societies even today give scant regard to the welfare of those who are unemployed and struggling to get by. Obviously the last thing such people need is the temptation of easy overdraft money through unauthorised borrowing that they can easily take, whilst blocking the full consequences out of their minds. Recovering that money plus substantial charges on top is only going to place more pressure on someone who already has enough to deal with. Indeed, if enough pressure is heaped on some individuals, they can blow their fuse and take out their problems on the softest targets they know; their partners and children — sometimes even resulting in serious cases of domestic violence. To some families acute financial pressures lead to marriage breakdowns, family break-ups and even suicides. Some people suffer serious physical and mental health problems from the stress of financial problems, whilst others take to substance abuse in a bid to gain relief. Needless to say, banks and building societies must not be allowed to contribute to poverty directly or indirectly in their quest for ever larger profits.



## *Honourable Banking Blue Star Awards*

### **Warnings from social welfare organisations and consumer protection organisations**

We recommend that if a consumer protection organisation or social welfare charity raises serious questions about the impact of a bank's or building society's policies or actions with regard to the possibility of potential harm being done to the public - especially vulnerable people - then the bank or building society must undertake a serious and urgent review of the matter with the outcome being reported directly to senior management, the organisation raising the concern and the OFT.

### **Penalty Charges**

We recommend that all credit / debit cards would have default limits applied to them so that cardholders can't physically withdraw from cash machines any more than the amount of money they actually have in their account; or if they have overdrafts and / or credit facilities; they can withdraw no more than their agreed credit limits to prevent penalty charges arising. Unauthorised borrowing (or 'informal overdraft arrangements' as some banks are now calling it) that gives rise to significant new debt and charges will only be at odds with OFT guidelines for responsible lending anyway; especially concerning vulnerable people. Needless to say default limits to prevent unauthorised borrowing should also extend to point-of-sale facilities at retail stores and so on.

The previous three recommendations take on vital importance when considering the obvious tendency of many boards, senior managers and financial product designers to base policy, plans and decisions on what they can get away with in terms of profit-maximising without breaking the letter of the law, rather than what's morally right or wrong.

### **Right of set-off advance warning**

We applaud the OFT's new guidelines that a lender should not be allowed to use their 'right of set-off' to take money from a customer's basic account or current account to pay a debt without first checking the customer's circumstances. But we further suggest that the customer should also be given at least seven days advance warning before any offsetting is carried out. If a lender phones a borrower to establish their circumstances to decide to offset or not, there is always the very real possibility that the borrower will be under considerable stress and may forget to pass on important information. A week's notice should give the borrower sufficient time to assess their circumstances more objectively. That would also give them the chance to properly inform the lender in writing of their circumstances and reduce the likelihood of the lender taking any snap, ill-advised decisions to offset without knowing all the facts.

If people in financial difficulties are not given this advance warning then there may be a risk that money that they expect to be available for necessities like rent and food, is suddenly made unavailable. In some cases landlords may react to missed rent payments by issuing a notice of eviction, thus putting such people at risk of homelessness. By giving at least seven days notice a person in financial difficulties should have at least some time to make whatever emergency arrangements are necessary to keep food on the table and a roof over their head. This is obviously even more vital if the borrower has dependents.

### **Rebuilding ethics back into the banking system**

We are keen to host an annual competition for retail banks and building societies to encourage them to compete with each other on ethical performance and social responsibility. To achieve this we would rate each bank and building society over the following categories:



## *Honourable Banking Blue Star Awards*

- their performance in protecting vulnerable people
- the clarity and truthfulness of corporate and social responsibility statements as well as adherence to them
- the transparency and consumer-friendliness of products and supporting marketing information
- each bank's or building society's overall treatment of its employees
- their compliance with the spirit of the law as opposed to just the letter of the law
- the example set by senior management in terms of honourable behaviour (this will include the efforts of senior management to lead the way by personally withdrawing from unethical competition with their peers for ever bigger remuneration packages and bonuses)
- Social objectives achievements and ethical investment.

Every year we hope to present a prestigious award to the overall strongest performing bank or building society according to the above categories. We also hope to present a second award to the most successful and innovative social-objectives-maximiser to encourage banks and building societies to take greater pride in our society by actively competing with each other to improve it. With enough public support we would hope that those banks and building societies that do well would derive a competitive advantage as consumers become more aware of banks and building societies committed to earning society's trust and respect. Similarly, we would hope that poor performance in any of the above categories could potentially impact a bank's or building society's balance sheet, thus giving them plenty of incentive to improve. Please see our website [www.honourablebanking.org](http://www.honourablebanking.org) for more information.

With all this in mind, we would be very grateful if you would formally consider our recommendations and their potential to improve consumer protection laws, which the OFT use to form their guidance and requirements for lenders in order to hold consumer credit licenses. We would also be keen to gain your department's official support and backing for our charitable endeavour to rebuild ethics back into banking. We suggest our proposal would especially benefit the new government as it strives to make the banking industry more responsible. We've also contacted the new Secretary of State for Communities and Local Government, Mr Eric Pickles MP asking for his department's official support and backing.

If you need any further information or you have any queries please don't hesitate to contact me via my contact details on page one or below. I look forward to your kind reply.

Thanking you in advance.

Yours sincerely,

Paul Sinclair

Director

Honourable Banking

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