



Summary of The Consumer Council's Research into Northern Ireland's Financial Services

February 2018

Introduction

The Consumer Council has undertaken a research project into Northern Ireland's (NI) financial services market. The Consumer Council has undertaken this research to highlight distinct financial services issues that face NI consumers. The research was undertaken through desktop research and stakeholder engagement. Provided in this document is a summary of the issues discussed in the wider research project. Further to this summary, The Consumer Council has published three separate pieces of research that can be found on our website, on the following topics:

- NI Mortgage Market;
- Unsecured Lending and Debt in NI; and
- NI Insurance.

The Consumer Council has where possible tried to reach out to participants in these markets to ensure different perspectives have been considered. We have sought to identify root causes of distinct issues arising in each of these key consumer markets with a view to informing workable solutions. The research has highlighted that consumers in NI face some unique challenges; NI has distinct banks, lenders and insurers creating separate benefits and challenges which must be considered when looking at the wider United Kingdom (UK) market.

The Consumer Council is a designated super-complaint body for the Financial Conduct Authority (FCA)¹, Payment Systems Regulator (PSR)² and Competition and Markets Authority (CMA)³. This designation requires these regulators to respond to any complaint made by The Consumer Council within 90 days and publish a response stating how it proposes to deal with the complaint. This designation is something we take seriously and this work has helped inform The Consumer Council's view of the financial services markets in NI, to inform any future issues raised with these regulators.

¹ <https://www.gov.uk/government/news/financial-services-super-complainants-confirmed-by-government>

² <https://www.psr.org.uk/complaints-and-disputes/super-complaints>

³ http://www.consumercouncil.org.uk/filestore/documents/CC16_105_Final_Forward_work_programme_2017_-18_121216_-_FINAL.pdf

We will be working where possible with stakeholders to raise the issues highlighted in the work. The Consumer Council, as always, welcomes feedback and discussion on any of the subjects raised.

1. Economic Context

- 1.1 Of the devolved UK nations Northern Ireland (NI) has the lowest median wage⁴, highest economic inactivity rate⁵, most number of people on Personal Independence Payments (PIPs) and Disability Living Allowance (DLA)⁶ and lowest proportion of people with savings over £100⁷. In addition to this, NI was hit harder by the 2008 Global Financial Crash (GFC) than other UK regions, leaving 41% of households with a mortgage in negative equity in 2013⁸.
- 1.2 Given these market issues, it is unsurprising that the debt advice charities StepChange and Christians Against Poverty (CAP) both report that the average debt for clients in NI is higher than any other UK nation⁹. The overall indebtedness of people in NI, whilst still severe in many cases, is improving. In 2015, the Money Advice Service (MAS) found that NI was the most indebted UK region¹⁰. When MAS carried out a similar study in 2017, NI had fallen to the fourth least indebted region¹¹. The number of NI adults declaring to be insolvent fell for the first time in eight years in 2015 and dropped again further in 2016. This has coincided with a rise in house prices in NI and a fall in the number of people in negative equity from 41% to 10% of home owners with a mortgage between 2013 and 2016¹².
- 1.3 These improvements should be treated with some caution as there is still reason for concern. On average each adult in NI has a personal loan of £1,109 compared to £750 in GB¹³. The average CAP client in NI has £26,185 in debts at the point they seek debt

⁴<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/005514medianequivalisedhouseholddisposableincomebycountry2014to2015>

⁵<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/july2017>

⁶<http://www.newsletter.co.uk/news/cost-of-disability-claims-in-ni-soars-by-200m-a-year-1-7017974>

⁷<https://www.statista.com/chart/6219/half-uk-adults-less-than-%25C2%25A3100-savings/>

⁸ Consumer Council – Assessment of NI Mortgage market

⁹ Both StepChange and CAP NI specific data was obtained by The Consumer Council on request

¹⁰https://masassets.blob.core.windows.net/cms/files/000/000/337/original/MAS_Report_10.03.2016.pdf

¹¹<https://www.moneyadvice.org.uk/blog/are-you-one-of-the-8-3-million-adults-with-problem-debt>

¹²<https://www.housingrights.org.uk/news/41-northern-ireland-homeowners-trapped-negative-equity>

¹³ UK Finance Postcode Lending and Bank of England Credit Union Statistics

advice. In GB the debt figure for CAP clients is £13,968¹⁴. In addition university graduates are starting their working life with more debt than ever. The average NI graduate in 2017 left university with debts of £20,990 compared to £8,020 in 2003¹⁵.

- 1.4 Part of the root cause of NI indebtedness is economic context, another is high levels of consumer spending. People in NI spend more on hotels and restaurants, communication, clothing and footwear and has the second highest spending on alcohol and narcotics of any UK nation. A consumer spending bubble would be particularly concerning for NI, as consumer spending makes up 74% of NI's GDP¹⁶.
- 1.5 Furthermore, a number of people in NI operate outside the banking system and may therefore be using cash in hand lending. 10% of people in NI are 'unbanked'¹⁷ compared to 4% in GB. More than half of Northern Ireland Housing Executive (NIHE) tenants aged over 65 years old and nearly 40% of tenants aged 45-59 years old do not have either a debit or credit card¹⁸. These clients could end up turning to high interest doorstep lending or worse, illegal lending.
- 1.6 The mortgage market in NI has also changed significantly in the last decade. New mortgage lending in NI plummeted from £6.9bn in 2007 to £1.5bn by 2012, rising slightly to £2.4bn by 2016¹⁹. In the same period, the number of 'active lenders' fell by 36% (from 36 to 23)²⁰. A number of metrics suggest the quality of new lending in NI is improving. In 2016, first time buyers in NI had a lower loan to income (LTI) ratio than the UK average (2.9 versus 3.51)²¹. The percentage of monthly income servicing capital and interest repayments is also lower (16.2% for NI versus 18% for the UK). While first

¹⁴ Figure direct from Christians Against Poverty

¹⁵ <https://www.statista.com/statistics/376516/student-loans-northern-ireland-average-debt-on-entry-to-repayment-timeline/>

¹⁶ https://www.ulster.ac.uk/_data/assets/pdf_file/0008/181277/Outlook_Summer-2017_Infographic_UUEPC.pdf

¹⁷ Consumer Council – Banking on Change; 'Unbanked' refers to people who do not have a bank account and operate outside the mainstream banking system

¹⁸ https://www.nihe.gov.uk/ctos_2015_main_report-3.pdf

¹⁹ FCA Product Sales Data

²⁰ Ibid

²¹ <https://www.cml.org.uk/news/news-and-views/uk-mortgage-market-shows-strong-regional-differences/>

time buyers struggle to get onto the housing ladder in other UK regions, over 60% of regulated house purchases in NI were undertaken by first time buyers in 2016²².

²² <https://www.cml.org.uk/news/news-and-views/affordability-boosts-the-northern-ireland-market/>

2. Issues Identified

2.1 In the course of this work, a number of issues have been identified in the NI financial services markets. Some issues exist across more than one of the markets the research looked at and some are specific to individual markets.

Different Market Participants

2.2 Many of the firms that operate in the different markets we looked at are specific to NI and do not operate in GB. The four NI based banks: Danske Bank, First Trust (part of the AIB group), Ulster Bank (part of the RBS group) and Bank of Ireland hold 65% of the NI personal current account (PCA) market²³ and 27% of the NI mortgage market (by outstanding loans)²⁴. Progressive Building Society also only operates in NI and accounts for over 7% of the NI mortgage market (by outstanding loans)²⁵. Over 20% of the NI mortgage market consists of lenders that do not offer mortgages in GB²⁶.

2.3 There are other lending practices specific to NI that at a UK level may not be considered. Over 60% of personal loans in NI are held by credit unions and the four NI based banks mentioned above. Another key difference is the place of credit unions. 38.4% of adults in NI are registered to a credit union compared to 3.3% in the UK. There are also 1,100 Consumer Credit firms²⁷ are registered specifically to NI²⁸.

2.4 Further, a number of insurers based in Great Britain (GB) opt not to operate in the NI motor insurance market, creating less competition and more expensive premiums. Covea, AIG and e-sure do not offer car insurance in NI²⁹. Royal and Sun Alliance (RSA)

²³ <https://publications.parliament.uk/pa/cm201314/cmselect/cmniaf/uc650-ix/uc65001.htm>

²⁴ UK Finance Postcode Lending Data

²⁵ Ibid

²⁶ Ibid

²⁷ Consumer Credit firms are companies that are regulated by the FCA to carry out some form of unsecured lending.

²⁸ <https://register.fca.org.uk/>

²⁹ <https://piba.ie/system/files/999/original/motor-insurance-presentation.pdf?1473253153;>
https://assets.publishing.service.gov.uk/media/5329dee940f0b60a760002be/130816_customer_survey_tables.pdf - Derived from Table 11 – S11

in 2014 withdrew from the NI broker market³⁰. Aviva, the largest UK insurer, stated in 2014 they *'carried out a very small amount of [motor insurance] business in Northern Ireland'*³¹.

Data Exclusion

- 2.5 NI has been excluded from several recent key financial service market studies. In the last two years, Credit Reference Agencies (CRAs) Experian and Noddle have both published 'UK' reports on average credit card debts by region that exclude NI³². Of particular concern is that other evidence points towards NI having particularly high credit card debt but this may not be seen by regulators and policy makers who view the CRA research.
- 2.6 A lack of data is also holding back the NI insurance market. The Association of British Insurers (ABI), Competition and Markets Authority (CMA) and Consumer Intelligence have all published UK regional insurance analysis that leaves NI as the only excluded UK region³³. These studies will be used by insurers in their premium pricing models alongside their own internal research. NI being a missing UK region will create inaccurate pricing in the NI market.

Separate legislation

- 2.7 Furthermore, differences in legislation may be leading to different consumer outcomes. Credit unions in GB can charge an annual loan rate of 42.6% APR (or 3% a month), in NI the maximum annual loan rate is 12.68% APR (1% a month)³⁴.

³⁰ <https://piba.ie/system/files/999/original/motor-insurance-presentation.pdf?1473253153>

³¹ https://assets.publishing.service.gov.uk/media/5329dee3e5274a22680002f5/130628_wp21_survey_report.pdf

³² www.telegraph.co.uk/personal-banking/credit-cards/mapped-uk-areas-that-rely-most-upon-credit-cards;
<http://www.experian.co.uk/consumer/credit-card-hotspots/>

³³ [https://www.abi.org.uk/data-and-resources/industry-data/free-industry-data-downloads/;](https://www.abi.org.uk/data-and-resources/industry-data/free-industry-data-downloads/)
[http://www.belfasttelegraph.co.uk/business/uk-world/average-home-insurance-costs-for-uk-households-rise-by-7-36064162.html;](http://www.belfasttelegraph.co.uk/business/uk-world/average-home-insurance-costs-for-uk-households-rise-by-7-36064162.html)

https://assets.publishing.service.gov.uk/media/533aea81ed915d6938000019/Appendices_1.1-6.14.pdf

³⁴ <https://www.nidirect.gov.uk/articles/borrowing-credit-union>

Illegal Lending

- 2.9 Unlike the rest of the UK, NI does not have a dedicated illegal money lending team, and there has been limited visible enforcement activity against such lending. Between 2004 and 2013, there were two successful prosecutions of illegal money lenders in NI³⁵, compared to 324 made in GB³⁶. The Illegal Money Lending Teams (IMLTs) in England, Scotland and Wales received funding of £4.6m in 2014/15³⁷. Illegal lending will sometimes be discovered in the course of other work that Trading Standards Service NI (TSSNI) and the Police Service for Northern Ireland (PSNI) undertake but there is no dedicated body that proactively pursues the activity. Action is needed to set up a body or assign a current body powers to enforce against illegal lending. Illegal lending prosecution needs to be addressed as a matter of some urgency.

Home Insurance

- 2.10 There is a disparity in home contents insurance cover between the overall NI population and those who are NIHE tenants, who may be on a lower income. Only 26% of NIHE tenants have contents insurance³⁸, compared to 87% of all NI households³⁹. NI has the highest proportion of people of any UK region with low levels of savings, with 56.8% of the NI adult population having savings of under £100⁴⁰. The high numbers of people with low savings in NI adds further to the concern that people are not financially prepared for unexpected costs.

Motor Insurance

- 2.11 The cost of claims is higher in NI, and is likely to be one of the leading causes to why NI has the second highest premium costs in the UK⁴¹. The average range for minor

³⁵ http://www.nicva.org/sites/default/files/d7content/attachments-resources/cee_expensive_lending_in_northern_ireland_2013.pdf

³⁶ <https://www.theguardian.com/uk-news/2014/jan/24/sixty-victims-loan-shark-witness-protection-illegal-moneylending>

³⁷ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2014-06-24/202104/>

³⁸ https://www.nihe.gov.uk/ctos_2015_main_report-3.pdf

³⁹ <https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2013/industry-data/household-spending-on-insurance-tables.xlsx>

⁴⁰ <https://www.statista.com/chart/6219/half-uk-adults-less-than-%25C2%25A3100-savings/>

⁴¹ <http://www.theaa.com/about-us/newsroom/insurance-news/car-home-insurance-news-2017-q-1>

whiplash claims⁴² is **£3,765 - £6,183** in NI compared to **£1,917 - £3,960** in GB⁴³. Furthermore, while 3.3% cars in the UK are located in NI, personal injury awards in NI amounted to 5.5% of the UK total⁴⁴. Attempts to lower motor insurance premium prices have not worked and previous recommendations from more comprehensive studies have not been implemented.

Travel Insurance

- 2.12 There is lower take up of travel insurance in NI. In the UK, 24% of people do not have travel insurance⁴⁵; in NI the figure is 35%⁴⁶. The average cost of a medical claim on a travel insurance policy is £900⁴⁷. People are being left uninsured and open to significant detriment if anything goes wrong on holiday.
- 2.13 It is possible that people identified as ‘high risk’ by insurers may not be getting the required cover for their needs. People with medical conditions will often be better served by seeking specialist advice from a qualified insurance broker rather than effectively ‘self-advising’ through a price comparison website (PCW). As only 7% of travel insurance policies were purchased through a broker in NI⁴⁸, not many people are seeking professional advice.

Health Insurance

- 2.14 The largest provider of UK private health insurance, BUPA, has withdrawn from all NHS hospitals in NI⁴⁹, citing lack of medical negligence cover and an insufficient level of service wanted by its customers. The implication of the announcement means that BUPA customers in NI who require an intensive care bed after surgery, routine cardiac surgery, scans to grade cancer and operations to tackle obesity will have to travel to

⁴² Minor whiplash claims refer to injuries with moderate systems and where recovery is expected in one year.

⁴³ <https://piba.ie/system/files/999/original/motor-insurance-presentation.pdf?1473253153>

⁴⁴ http://www.consumercouncil.org.uk/images/uploads/languages/APG_on_Motor_Insurance.pdf

⁴⁵ <https://abta.com/about-us/press/numbers-travelling-abroad-uninsured-on-the-rise>

⁴⁶ http://www.consumercouncil.org.uk/filestore/documents/CC_Travel_Insurance_FINAL.pdf

⁴⁷ <https://www.abi.org.uk/news/industry-data-updates/2013/07/travel-insurance-statistics-update/>

⁴⁸ http://www.consumercouncil.org.uk/filestore/documents/CC_Travel_Insurance_FINAL.pdf

⁴⁹ <https://www.belfasttelegraph.co.uk/news/health/bupa-pulls-out-of-every-northern-ireland-nhs-hospital-36313089.html>

England to receive treatment⁵⁰. BUPA are working towards a resolution but at the time of writing the issue still remains.

Price Comparison Websites

- 2.15 Whilst not specific to NI, the increased use of PCWs may mean that some consumer needs are not being met. Research shows that many consumers think PCWs identify the correct policy for their needs, in effect an ‘auto-advised’ service, which is not the case⁵¹. PCWs show consumers the policies they are eligible for. PCWs do not offer a ‘whole of market’ service and several insurers choose not to operate on them.

Negative Equity

- 2.16 The effects of the 2008 GFC were compounded by UK wide mortgage lending practices leading up to 2007/8 that created artificially inflated house prices as people were able to access houses their personal finances could not afford.
- 2.17 NI felt the effects of the GFC more acutely than other UK regions leading to a house price crash that has left large numbers of people in negative equity – *where they owe more on their property than their property is worth*. 25,000 households in NI remain in negative equity. The average negative equity balance is £32,000⁵².

Trapped Borrowers (Mortgage Prisoners)

- 2.18 A further and separate issue is that up to 60% of the NI mortgage population are ‘mortgage prisoners’⁵³ – meaning they are trapped in mortgage deals that met pre GFC affordability requirements but not new tougher FCA lending rules.
- 2.18 ‘Mortgage prisoners’ are deemed by lenders to have too small a disposable income to be offered a new mortgage deal so have been denied access to the same low interest rates that others have had in the last decade. They have instead been stuck on high

⁵⁰ <https://www.belfasttelegraph.co.uk/news/health/bupa-pulls-out-of-every-northern-ireland-nhs-hospital-36313089.html>

⁵¹ <https://www.fca.org.uk/publication/research/price-comparison-website-consumer-research.pdf>

⁵² <https://www.cml.org.uk/news/news-and-views/affordability-boosts-the-northern-ireland-market/>

⁵³ <http://www.bbc.co.uk/democracylive/northern-ireland-31438844>

Standard Variable Rates (SVR). It is likely that these mortgage prisoners will be struggling to manage their personal budgets, compounding NI's problem of overall indebtedness.

Rising Interest Rates

- 2.19 In March 2009, in the aftermath of the effects of the 2008 GFC, the Bank of England cut interest rates to 0.5%. Not many would have predicted that eight years on, interest rates would be even lower. Interest rates were in part lowered to bolster consumer spending. This was achieved; however, in April 2017, the Bank of England warned that a growing consumer credit bubble had the potential to damage banking stability⁵⁴. Whilst some consumers have used the low interest rate environment to repair their financial position, many have chosen to make the most of cheap credit and increased their spending. As at February 2017, credit card debt had grown at its fastest pace in 11 years, to a new high of £67.3bn across the UK²⁶.
- 2.20 One of the unintended consequences of record low interest rates is that a whole generation of home owners with a mortgage have never experienced anything other than low interest rates. In 2015, the Money Advice Trust charity claimed more than one million people had never experienced an interest rate rise on their mortgage⁵⁵. This figure is rising each year the base rate interest rate does not rise. The buoyancy of the NI first time buyer market leaves NI more exposed to the eventual rise in interest rates.

⁵⁴ <http://www.telegraph.co.uk/business/2017/04/04/risky-lending-will-endanger-banks-credit-bubble-bursts-bank/>

⁵⁵ <http://www.bbc.co.uk/news/business-33786528>

3. Recommendations

Specific recommendations for NI's unsecured lending, debt, insurance and mortgage markets can be found in the respective research papers available on The Consumer Council website. Across the project, The Consumer Council has identified three overarching issues for particular consideration:

3.1 More data is needed to represent NI at a UK policy level

- 3.1.1 The Consumer Council are offering to work with relevant agencies that have failed to include NI in research they have presented as UK wide. In the course of this research we have found three CRAs that have presented research as UK wide but does not include NI⁵⁶. CRAs often sell UK wide data to policy makers and regulators and NI's exclusion could impact the consideration NI is given.
- 3.1.2 The exclusion of NI from UK wide data sets is also a significant problem in the insurance market, causing a lack of competition and effective premium pricing in NI. Some of the biggest GB insurers are choosing not to operate in the NI motor insurance market, citing a lack of data and variable claims costs as two key reasons. The financial clout of these insurers competing in the NI market would start to drive pricing down. The significant market share of those insurance firms familiar with the NI market such as Axa Ireland, Allianz Ireland and Prestige further demonstrates that insurance companies consider NI to be a separate market from GB. Work needs to be done to address the NI data gap, to improve access to market entrants.
- 3.1.3 A further data gap is the unknown scale of illegal lending in NI. Further research needs to be undertaken to address this data gap. In GB specific funding and enforcement powers are given to bodies whose sole purpose is to tackle illegal

⁵⁶ <http://www.thisismoney.co.uk/money/cardsloans/article-3273996/How-neighbours-manage-money-Interactive-map-reveals-average-credit-scores-postcode.html>; <http://www.telegraph.co.uk/personal-banking/credit-cards/mapped-uk-areas-that-rely-most-upon-credit-cards/>; <http://www.experian.co.uk/consumer/credit-card-hotspots/>

lending. In NI, there is no body with the remit to prosecute illegal lending. Consideration should be given to whether this arrangement in NI is the most effective at tackling illegal lending. Prior to addressing the enforcement arrangement a determination of the scale of the problem is needed.

3.2 Increase public awareness in NI on key consumer issues

- 3.2.1 More information is needed for people who have an interest only mortgage, are a 'mortgage prisoner' or are in negative equity. Whilst lenders have made much progress in raising awareness of interest only mortgages, further information from an independent body may assist people to take steps to address the issues.
- 3.2.2 Some 'mortgage prisoners' may still have options available to them. Crucially mortgage prisoners need to seek independent financial advice to have their options assessed and to develop a long term strategy that would increase affordability. This could include tackling other debt to increase the mortgage options available to them in the long run.
- 3.2.3 Many people in negative equity may also wrongly think they do not have options when they do. For example, some lenders may be willing to settle the mortgage for a lower amount given the wider economic environment. Again, those affected need to engage with the issue. The first step must be to open up communication channels with their lender to have their options assessed. The Consumer Council is well placed to increase awareness of these issues through its different consumer facing and communication functions. The Consumer Council will update its website to assist consumers on mortgage related issues.

3.3 Stronger affordability requirements are put in place for lending products:

- 3.3.1 Easy access to credit for people who cannot afford the repayments is an avoidable root cause of debt. Greater affordability checks need to be taken on a range of credit products – most notably credit cards and car finance. The FCA

are in the process of implementing a range of measures from their 2016 Credit Card Market Study⁵⁷. No such increased requirements have been made for car finance. The Consumer Council does not believe that car loans should be agreed on the basis of self-certification of income. It did not work in the mortgage market⁵⁸ and it will not work for car financing.

3.3.2 The need for high standards of affordable new mortgage lending are of particular importance for NI as its housing market is still in fragile recovery and its consumers are heavily indebted. There is nothing seen in the course of this research to indicate there is an issue with current mortgage lending in NI. However it would be prudent to have the quality of lending files in NI reviewed impartially to ensure the recovery in the NI housing market is on a solid foundation. This would need to be undertaken by the FCA, in its role as the industry's conduct regulator. The Consumer Council will therefore be asking the FCA to ensure that NI mortgage files are being looked at in future mortgage thematic reviews⁵⁹.

⁵⁷ <https://www.fca.org.uk/publications/market-studies/credit-card-market-study>

⁵⁸ <https://mortgageadvisers.which.co.uk/specialist/self-certification-mortgages/>

⁵⁹ <https://www.fca.org.uk/about/supervision/thematic-reviews>