The UK retail banking industry has come in for a lot of criticism recently about rising personal debt levels; the High Court test case concerning the fairness or otherwise of unauthorised overdraft charges; its stated intension, in the new updated voluntary Banking Code, to stop offering fraud protection to online customers who don't use anti-virus software; its alignment with the regulator's Treating Customers Fairly guidelines; and various other topics. **Neil Johnson**, a policy manager at the Building Societies Association, explains how the new Code responds to some of these concerns and provides an overview of its history and aims

The new updated UK Banking Code came into force this spring and, as ever, it is intended to set out a series of best practice procedures for financial institutions to follow when dealing with customers. It has subscribers from across the financial services sector, covering current and savings accounts, payment services, credit cards, loans and overdrafts, but not mortgages. The Code is 'sponsored' by the Building Societies Association, the British Bankers Association, and Apacs, the UK payments association – individual members of these associations sign up to it, so that customers can enjoy the high level of protection that it provides.

Key improvements to this latest version of the Code include a strengthened commitment to responsible lending including better credit assessment practices, more help for those struggling with debts, and clearer product information for comparison purposes. The Financial Services Authority is also keen that the Code meshes with its own Treating Customers Fairly guidelines more completely and this latest version moves some way towards this, as the enhanced product information commitment shows.

The Code is updated every three years and the next review process, due to start in 2010, will no doubt take the TCF guidelines more fully into account, as well as the current investigations into personal current accounts and HM Treasury's consultation on banking regulation. There is necessarily a time-lag in the updating process as industry and regulatory consultations take up the best part of a year. As we all know, many things have changed in the sector since last summer, but the Code is changing to keep up-to-date with the expectations of consumers and will continue to do so.

History

When the Code was first conceived back in the late 1980s, complaints against the banking system were rising and the economy and personal finances were facing a downturn [*similar conditions to those of today - Ed*]. This lead to the Good Banking code in 1992, the first ever voluntary agreement between banks, building societies and others to try and assist UK consumers by providing an accepted level of service, while still encouraging competition and innovation. The Code celebrated its 15th birthday last year and I like to think it still provides a good baseline for the industry today, with the regular three-year updates, overseen by a Banking Code Standards Board in consultation with interested regulators, consumer groups and others, ensuring it has a strong future.

Mike Young, an independent consultant, was appointed in November 2006 to oversee this latest development of the Code and hosted a number of roundtables to hear various ideas and opinions from all interested parties about possible amendments. His report, containing 53 formal recommendations, was presented to the sponsor associations in May last year who then consulted members and published responses accordingly. The majority of Mike's proposals have been accepted and incorporated into the 2008 Code and where this hasn't been possible the sponsors have provided a detailed explanation as to why, containing possible alternative solutions for the future.

Major changes

The main new additions to the 2008 Code are in the areas of credit assessment, financial difficulties and customer communications. The strengthened credit procedure will ensure that, in future, a bank or building society will assess more thoroughly whether they feel a borrower will be able to repay the money borrowed. As well as getting confirmation from one or more credit rating agencies, lenders will be required to consider applicants' past finance history, income and expenditure commitments, alongside any internal credit scoring techniques that they may have.

If a customer is having difficulty managing their financial affairs, the revised 2008 Code requires subscribers to work with them and adopt a sympathetic approach. Any subscriber who is aware of a difficulty must in future proactively contact borrowers to see if they can avoid debts accumulating, suggesting sources of independent financial advice at the same time. The Code also still protects lenders however, by recognising that borrowers must accept their commitments and that ultimately, if they don't cooperate and show willing, the lender can legitimately take action against them to recover debt.

From 1 October 2008 onwards, another requirement kicks in – namely, that important information regarding savings accounts and unsecured loans must be provided in summary boxes on or within pre-sale material. This is intended to make it much easier for consumers to compare the features of different products and identify the one best for their specific requirements.

• For more on the Code please visit: http://www.bsa.org.uk

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