

Chartered Banker

Leading financial professionalism

The Professional Banker

Key Subject Updates

These updating notes are designed to be used in conjunction with the October 2009 edition of the textbook and will be examined from 1st February 2011.

November 2010

Chapter 1

Page 16 – Codes of Practice

First two paragraphs are replaced by:

As with anything voluntary, there have been examples in banking of monitoring, such as the Lending Code, which is monitored by the Lending Standards Board. The Financial Services Authority, which introduced a new regulatory framework for retail banking in November 2009, stated that the monitoring mechanisms that the Board has in place are robust and fit for purpose. This may not apply universally to all codes of practice.

Page 19 – Safeguards – Monitoring

A fourth bullet point is added:

- the increase in the complexity of securities being sold.

Chapter 2

Page 45 – Bank deposit guarantee

The fourth paragraph (prior to Case Study) is replaced by:

The government also sought to increase confidence in the banking and finance sector by reinforcing the compensation available to customers of failed organisations, increasing the protection for individual (personal) investors to £85,000, the sterling equivalent of 100,000 euros, with effect from 31 December 2010.

Page 47 – Agents for Payments

The Association for Payments Clearing Services (APACS) is now replaced by UK Payments Administration.

Insert prior to section on Credit Unions:

Building Societies in Scotland

Although some building societies existed in Scotland in the early 19th century, they have always done proportionately less business in Scotland than in the rest of the UK. None of the large building societies were founded in Scotland – unlike banks.

The lack of a major Scottish-based building society can be explained in a number of inter-related factors:

- The dominance of a number of other savings institutions – commercial and savings banks – may have inhibited the development of an indigenous building society movement.
- The relative poverty of the working class and lower middle class in the past made house purchase more difficult in Scotland
- The former availability of social housing (council houses) with subsidised rents that bore no relation to the actual interest cost associated with their construction
- The Scottish tradition, up until the 1980s of renting rather than purchasing a home. In the early 1990s about only 55% of Scottish homes were owner occupied as opposed to almost 70% in England.
- A previous inadequate stock of suitable housing in Scotland for purchase or acceptance as security for advances by building societies.

In the 1980s and 1990s we saw increased home ownership in Scotland encouraged in part by the sale of council houses, the near cessation of new council house building and higher council house rents. Mortgage business generated by this trend was won mainly by building societies and mortgage banks in England.

At the same time, the main building societies, such as Nationwide and the Yorkshire, had branches and agencies in Scotland, the savings deposits of which have partly financed their mortgage operations in Scotland.

The largest Scottish-based society is the Dunfermline Building Society. It was established in 1869 and incorporated in 1887. The Society is now part of Nationwide as its profitable core business was bought by the Nationwide in 2009 when the Dunfermline came close to insolvency due to its exposure to the commercial property market.

Page 52 – National Savings & Investments (NS&I) – Reform and revival

The final sentence of the final paragraph is amended to:

It was this situation that encouraged NS&I to introduce a new, easy access savings account and continue to provide an investment account, along with the NS&I Direct Saver account which offers access to funds either online or over the telephone.

Page 64 – The Bank of England Act 1998

A new final paragraph is added:

As a result of the banking crisis of 2007 / 2008, there has been discussion to move banking regulation away from the FSA and return it to the Bank of England. You should keep informed of these developments in your reading of the financial and quality press and online media.

Chapter 3

Page 74 – New Section

Insert prior to section on The Financial Services Authority:

The Payment Services Directive (PSD)

New regulation regarding payment accounts and payment services came into effect on 1st November 2009. These regulations come from the European Payment Services Directive and became law in this country by way of the Payment Services Regulations 2009. The FSA will be the main regulator for most of this raft of regulation.

The main aim of the PSD is to ensure that payments made within the European Union – in particular credit transfer, direct debit, card payment and money remittance – will become as easy, efficient and secure as domestic payments would be within a member state. The Directive seeks to reinforce the rights and protection of all of the users of payments services – this includes consumers, retailers, large and small companies and public authorities. The PSD states the information that a bank must either give or make available to a customer before, during and after a transaction is made.

Types of information would include how long a payment will take to reach a beneficiary, what exchange rates are applicable and the level of charges that will be applied to the transaction.

The Directive applies to most payment transactions and includes placing, transferring or withdrawing funds. It also applies to the provision and operation of payment accounts.

These Regulations also stipulate customers' rights and responsibilities and set out the circumstances in which a Bank will be liable. If any Bank breaches these Regulations, the FSA can impose penalties and censures. If a required term or condition is omitted from the documentation then the Bank concerned cannot enforce the missing term or condition.

Page 79 – New Section

Insert prior to section on The Consumer Credit Act:

The Consumer Credit Directive

This Directive comes into effect with effect from 1st February 2011. The key elements can be summarised as follows:

- The lender must provide adequate explanations about the credit on offer to the borrower
- An obligation on the lender to check creditworthiness before offering or increasing credit
- Requirements regarding credit reference databases
- A right for consumers to withdraw from any credit agreement within 14 days without giving any explanation
- Requirements to inform consumers when debts are sold on
- Requirements on credit intermediaries to disclose fees and links to creditors
- A right to make partial early repayments of credit

Any credit agreement signed on or after 1st February 2011 must comply with this Directive.

Pages 88 / 89 – Banking Conduct of Business Standards

The final paragraph (including five bullet points is deleted and replaced by:

The Banking Conduct of Business Sourcebook (BCOBS) sets out the rules and guidelines by which the FSA regulates retail banking under a principles-based approach. The sourcebook provides guidance on financial promotions and communications with banking customers throughout the lifetime of their relationship with a bank.

It also specifies how and when communications should be entered into with customers depending on the type of account held and what the information being provided relates to, for example pre-notification of charges, etc. BCOBS also covers changes to the charging structure, interest rates and terms and conditions of an account as well as a number of other areas previously covered by the Banking Code.

The BCOBS came in along with the previously mentioned Payment Services Directive and the Lending Code which we are about to consider

Page 89 – New Section

Prior to the Quick Question insert the following:

The Lending Code

The Lending Code is a self-regulatory code which sets minimum standards of good lending practice when dealing with:

- consumers
- small businesses employing fewer than 10 people and with a turnover of less than £2M
- charities with an annual income of under £1M.

The Code covers:

- loans
- credit cards
- charge cards
- current account overdrafts.

It does not apply to merchant services, non-business borrowing secured on land, or to sales finance. Compliance with the Code is monitored independently and it is enforced by the Lending Code Standards Board.

The Key Commitments

Subscribers to the Lending Code will act fairly and reasonably in all their dealings with customers by, as a minimum, meeting all the commitments and standards in the Code. The key commitments are:

- Subscribers will make sure that advertising and promotional literature is fair, clear and not misleading and that customers are given clear information about products and services.
- Customers will be given clear information about accounts and services, how they work, their terms and conditions and the interest rates that apply to them.
- Regular statements will be made available to customers (if appropriate). Customers will also be informed about changes to the interest rates, charges or terms and conditions.
- Subscribers will lend money responsibly.
- Subscribers will deal quickly and sympathetically with things that go wrong and act sympathetically and positively when considering a customer's financial difficulties.
- Personal information will be treated as private and confidential, and subscribers will provide secure and reliable banking and payment systems.

The areas covered by the Lending Code are:

- Communications and Financial Promotions
- Credit Reference Agencies
- Credit Assessment
- Current Account Overdrafts
- Credit Cards
- Loans
- Terms and Conditions

- Financial Difficulties
- Complaints
- Monitoring

Chapter 4

Page 122 – The regulator’s requirements for complaint handling

The six bullet points in the third paragraph commencing ‘The procedures that....’ are replaced by:

- The firm should aim to resolve the complaint at the earliest opportunity.
- If a firm has not been able to resolve the complaint by close of business the next business day, the firm should send the complainant a written acknowledgement promptly. This acknowledgement should give the name or the job title of the individual who is handling the complaint for the firm, together with details of the firm’s internal complaint handling procedure – often this is in the form of a leaflet.
- When the firm is able to issue a final response to the complainant, it must issue details of its complaints handling procedure along with information about the Financial Ombudsman Service.
- Within eight weeks of receiving a complaint, the firm must have issued a final response to the complainant.

Chapter 5

Page 131 – Standing orders and direct debits

New paragraph to be inserted at the end of the existing section:

Many banks now offer customers the Faster Payments service where it is possible to make automated payments that are guaranteed to reach the beneficiary's account within two hours, although in reality receipt is almost instantaneous. Although banks have offered same-day payments services in the past (through the Clearing House Automated Payments System), these have been targeted at high-value transactions, such as in the settlement of house purchases and sales. Faster Payments, on the other hand, is targeted at smaller value transactions of up to £100,000 and can be used as a substitute for standing orders.

Page 133 – Individual Savings Accounts (ISAs)

The entire section is replaced by the following:

An ISA is a tax-free savings account. The basics of ISAs are:

- They can consist of cash or stocks and shares.
- There is no tax liability.
- There are maximum annual limits set for the amount that can be paid into an ISA and these are reviewed by the government annually.
- Stocks and shares ISAs can be taken out by anyone over the age of 18 who is ordinarily resident in the UK for tax purposes.
- A cash ISA can be opened by anyone over the age of 16 who is ordinarily resident in the UK for tax purposes.

Prior to the Quick Question insert the following:

Muslim mortgages

Mortgages are interest based and this is something that does not conform to the Islamic Sharia law, therefore Muslims in the UK find themselves in a very difficult position as a mortgage contravenes their faith, and due to the nature of the financial services industry, if they wish to own their home, they have no choice in many cases but to reluctantly take out a mortgage. However, some lenders do now provide a Sharia-compliant mortgage that is based on Ijara and Murabha methods.

Ijara

The lender purchases the property. While the customer stays in the property, they make payments to the lender that total the purchase price of the property. These payments may be scheduled over a period of up to 25 years.

During the loan repayment period, the customer is also charged rent on the property. This rental amount is reviewed annually and will decrease over the lifetime of the facility as the capital sum outstanding to the lender decreases. Once the customer has repaid the money that was spent on purchasing the property, the property is sold to them. It can be possible to borrow up to 90% of the value of the property in this way. The precise details and operation of this arrangement can vary from lender to lender.

By following this arrangement, the lender makes money from the rent that the customer pays to them. As rent is not another name for interest, it is seen to be a fair payment for living in a property that is owned by the financial institution, rather than being a charge for borrowing money.

Murabha

The lender purchases the property from the seller at the original price and then sells it to the customer at a higher price. The amount of the higher price can be paid back to the lender over a period of up to 15 years. The financial services company makes their profit through the higher price at which they sell the property to their customer.

A major disadvantage of both these arrangements is that Stamp Duty must be paid twice in each transaction. This type of mortgage is not available at present from all lenders.

Page 138 – Payment protection insurance

The entire section is replaced by the following:

When a customer takes out a loan, it can be desirable that the repayment is protected should the customer suffer sickness or accident, or becomes unemployed. Payment protection policies can provide for the repayments due on loans to be covered for up to two years should any of these misfortunes arise. These policies are run in tandem with personal loans, credit cards and mortgages.

However, providers are no longer allowed to offer this type of protection at the time of sale. Instead, there must be a gap of at least seven days between the credit facility being provided and the payment protection insurance being offered.

This type of cover is particularly important for new mortgage customers to consider as claims for Income Support are subject to a waiting period. Policies are sometimes referred to as Mortgage Payment Protection Insurance (MPPI) and should not be confused with term assurance which is designed to pay off a mortgage in the event of the borrower's death.

Page 141 – Electronic funds transfer

At the end of the section on cheque guarantee cards, the following is to be added:

Cheque guarantee cards are in the process of being phased out and this process should be completed by mid-2011.

Chapter 6

Page 155 – Lending rates

The first sentence is replaced by the following:

The general level of interest rates at which financial institutions lend is mainly determined by the base rate declared by the Monetary Policy Committee (MPC) of the Bank of England each month.

At the end of the second paragraph, add the following:

In the past, financial institutions used to refer to the rate of interest which they set in response to changes in the Bank of England Base Rate as “base rate”, but the terminology has changed and reference is now made to each institution’s “reference rate”.