



**Competition and Markets Authority investigation of
retail banking**

**Response by Barclays Bank PLC to the Issues
Statement**

3 December 2014

1. INTRODUCTION

- 1.1 This submission is made on behalf of Barclays in response to the Issues Statement published on 12 November 2014 by the CMA, setting out the scope of the retail banking market investigation and initial theories of harm.
- 1.2 Barclays welcomes the opportunity to comment on the issues that the CMA envisages being relevant to its investigation and, in particular, whether there are:
- a) issues that the CMA has identified that in Barclays' opinion should be outside the scope of this investigation; or
 - b) further issues that the CMA has either not identified, or issues that the CMA has indicated it is not minded to pursue, but which in Barclays' view would be worth considering.
- 1.3 In Barclays' view, the supply of retail banking services to personal current account ("PCA") customers and to small and medium-sized enterprises ("SMEs") in the UK is conducted in a dynamic competitive environment characterised by recent new entry, increasing awareness of switching, innovation and the introduction of a number of new transparency and comparability initiatives. Barclays looks forward to the CMA's analysis of these developments.
- 1.4 In this response, Barclays sets out its comments on the following aspects of the Issues Statement:
- a) The customer and geographic scope of the investigation
 - b) The key characteristics of the retail banking sector
 - c) The CMA's proposed theories of harm
 - d) Prior reviews and other regulators

2. THE SCOPE OF THE INVESTIGATION

Customer scope

- 2.1 Barclays is concerned that under the CMA's Terms of Reference, no distinction is made between the provision of retail banking services to private banking and other

PCA customers. Although, the CMA's Decision on the Market Investigation Reference of 6 November 2014 does expressly note that the Reference Group may wish to take Barclays' submission on this issue into account when conducting its analysis.¹

2.2 Private banking customers have a number of important and distinct characteristics that distinguish them from other PCA customers and justify their separate treatment. Indeed, the inclusion of such customers within the CMA's general analysis of PCA customers would likely distort any findings on the wider retail banking market. The following points are relevant:

- a) Private banking clients have a different profile and, to the extent that they hold a current account, it is typically operated in a different manner to other PCA customers. They are high net worth individuals² with often complex banking needs who tend to use their current account as a liquidity management tool for their investments rather than for the purposes of carrying out day to day transactions.
- b) Private banking customers often bank through different channels. Indeed, Barclays Private Banking clients will generally engage with Barclays via private bankers, telephone relationship channels in the Isle of Man, Glasgow and Singapore and, to a lesser extent, the full service Barclays Private Banking branch in Mayfair. Private banking clients are often assisted in their financial affairs by (independent) financial advisers reflecting the fact that Private Banking covers a wide range of services, including current accounts.
- c) The set of providers offering current account services to private banking customers is significantly different to that of PCA customers generally and includes, for example, Credit Suisse, Citi, Goldman Sachs, JP Morgan, UBS, Coutts and Morgan Stanley. High Street banks typically tend to service private banking clients from a separate division or bank than other PCA customers (e.g. Barclays Private Banking; Coutts etc)

¹ Final Decision, paragraph 2.82.

² FCA Consumer Credit Guidance (CONC) defines an individual as being of high net worth if he/she:

- o received during the previous financial year net income totalling an amount of not less than £150,000; and/or
- o had throughout that year net assets with a total value of not less than £500,000.

- d) The geographical dimension of the supply of private banking services is broader than simply the UK and therefore involves a wider range of competing suppliers.
- 2.3 Barclays welcomes the CMA's recognition at paragraph 12 of the Issues Statement that there are significant differences between different categories of SME which affect their retail banking needs. This is in line with Barclays' previous submissions that market dynamics and conditions are not the same across the SME spectrum.

Geographic scope

- 2.4 In the Issues Statement, the CMA states that "*For each separate product market, we will consider whether there are separate geographic markets in each of England & Wales, Scotland and Northern Ireland; or whether the geographic market is wider than this, ie Great Britain or the UK*". In Barclays' view, there is no merit in considering the possibility of regional markets as banks and other financial services providers largely maintain a consistent offering in terms of pricing and service levels across the UK.
- 2.5 Barclays considers that the CMA could also take this opportunity to end the current anomaly involving the differential treatment of Northern Ireland PCA customers (pursuant to the Northern Ireland PCA Market Investigation Order 2008), with the terms of that Order taken into account in the present investigation with a view to the adoption of a consistent approach across the entire UK. This would be in line with the CMA's decision to conduct a simultaneous review of the undertakings that were put in place following the 2002 Competition Commission investigation into SME banking.

Size of the SME loan market

- 2.6 Barclays notes that at paragraph 18 of the Issues Statement, SME business loans are stated to be around £90 billion (reflecting the same statement in paragraph 1.2 of the SME Market Study). Barclays considers that this figure understates the true size of the sector since it seems to take account only of the figures of the high street banks. Bank of England data reports that the true size of total SME business loans is around £160 billion.³

³ Bank of England, Money and Credit: October 2014, published 1 December 2014

3. KEY CHARACTERISTICS OF THE RETAIL BANKING SECTOR

- 3.1 At paragraph 19 of the Issues Statement, the CMA describes a number of key characteristics that it considers will be important in assessing the nature of competition in the sector.
- 3.2 Barclays recognises the relevance of many of those elements, but urges caution on the relative weight given to each element and any associated findings.
- 3.3 In addition, Barclays submits that the CMA should ensure that its analysis captures all dimensions of competition, including price, quality/service and innovation, together with the need to take account of individual bank's overall risk strategies linked to funding requirements and from complying with other applicable regulations.
- 3.4 The above comments apply equally to PCAs and to SME banking services.

4. THE CMA'S PROPOSED THEORIES OF HARM

Theory of harm 1: Impediments to customers' ability to effectively shop around, choose and switch products or suppliers, resulting in weak incentives for banks to compete for customers on the basis of price, quality and/or innovation

- 4.1 The CMA considers what impediments there are to customers accessing information ('access'), identifying best value offers and understanding the true costs of banking products ('assess') and switching ('act'). Each of these elements is considered in turn.
- 4.2 **Access.** The CMA states that a lack of accessible and transparent information may mean that customers do not have the information they need to compare offers or make informed decisions about how they use their banking services. In response, Barclays notes the following:
- a) Barclays is committed to ensuring that customers have the necessary information about fees, service levels and other factors that will enable them to make informed decisions about their finances.
 - b) Barclays' own PCA transparency steps include the provision of enhanced annual summaries, Annual Eligibility Statements, text alerts and the

restructuring of overdraft charging. Barclays "Feature Store" gives customers an enhanced ability to determine the account features they value and wish to take up. [...]

- c) In addition to the above, there are significant industry transparency initiatives such as the Payments Account Directive and HM Treasury's Midata proposal (which could potentially be widened in scope and expanded to cover a greater number of banks). On the SME side there is also the new Business Banking Insight website, launched on 28 May 2014, which will display the results of regular surveys of SME banking experiences.
- d) Barclays is very much aware of current customer demand for product simplification and emphatically rejects the suggestion in paragraph 33 of the Issues Statement that it may have given rise to informational barriers by retaining more complicated products and pricing patterns in order to discourage customers from searching for alternatives. When undertaking an initiative to enhance its BCA proposition, Barclays undertook customer research to identify the most important components for customers and then undertook conjoint analysis of these core customer needs. In an internal presentation setting out the detailed findings⁴, Barclays presented the results of market research into five proposition areas: service, rewards, overdrafts, pricing and a Features Store. The pricing proposition involved simple and transparent pricing, and when Barclays was migrating existing customers to this simplified pricing structure, all customers were sent a breakdown of current average monthly charges compared to the charges under the new structure. So far nearly 500,000 small businesses have been sent this letter.

4.3 **Assess.** The Issues Statement suggests that product and pricing structures exploit customers' cognitive limitations and behavioural biases, and inhibit their ability to compare offers and understand the true costs of banking products.

- a) Barclays agrees with the CMA's identification of FIIC banking as an important element in the assessment of product and pricing structures as well as customer behaviour. In particular, since standard PCAs are provided free of

⁴ [...]

charge, the true costs involved in the provision of PCAs may be less apparent to customers.

- b) While accepting that the prevalence of FIIC PCAs is a feature of UK retail banking, Barclays does not accept any suggestion that as a result of this fact banks exploit customer behavioural biases leading to higher prices or reduced quality and differentiation.
- c) Furthermore, there is a recognised tension between the desirability of producing a tailored offering that best suits individual customer needs versus the benefits of product simplicity that may aid comparability.
- d) If the Midata initiative fulfils its potential, it will enable consumers to compare products with very different pricing and rewards strategies. This would go a significant distance in addressing the CMA's concerns about customers' cognitive limitations and behavioural biases. It is also important to recognise that Midata will be based on an individual's actual account usage, addressing the CMA's concern around customers making 'inefficient choices'. In short, the CMA should give Midata careful attention and consider ways to enhance its impact.

4.4 **Act.** The CMA is concerned that the costs and risks of switching and the absence of prompts act as a disincentive for consumers to shop around and switch.

- a) PCA switching and the awareness of the CASS service is increasing materially. Although the CASS service is still new, the UK Payments Council reported that it facilitated 1.2 million switches in its first year since launch⁵. This is an increase of 22% on the same period in the preceding year. The Payments Council also reported that 69% of the public are aware of the CASS service. Moreover, any perceived costs and risks of switching (which the CMA has acknowledged are greater than actual costs and risks) will continue to fall as CASS beds down and becomes more widely used.

⁵ http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/3139/

- b) Barclays notes that this increased threat of switching, together with heightened product innovation across the industry, are representative of a healthy competitive market.
- c) Barclays also considers that it is incorrect to assess switching in isolation from multi-banking and competition for customer churn. In relation to PCAs, the CMA has previously cited a report from Mintel which found that 28% of UK customers held two PCAs and a further 7% held three PCAs or more⁶.
- d) Multi-sourcing is also pertinent - research by Charterhouse showed that at least a third of all small businesses have a relationship with a UK financial provider other than their main bank. There is also strong competition between banks for new and switching customers, especially in relation to SMEs, where 10-15% of a typical provider's customer base enters and exits each year.
- e) More fundamentally, current levels of switching may simply reflect broad satisfaction with the product and service offering. Indeed, Mintel research reveals that only 3% of PCA customers are unhappy with their PCA offering⁷. The number of complaints in relation to PCAs has dropped dramatically in recent years – almost halving since 2010. The CMA has also reported that only around 10% of SME customers are dissatisfied with their bank⁸.

Theory of harm 2: Concentration giving rise to market power of some banks leading to worse outcomes for customers

- 4.5 Barclays considers that the CMA must avoid placing undue significance on levels of concentration and historically stable market shares. It would especially point to the significant potential for disruption from the many new developments in the sector

⁶ PCA Market Study, paragraph 4.42

⁷ PCA Market Study, paragraphs 6.29 and 6.39.

⁸ SME Market Study, paragraph 9.45

including: recent new entry, the pace of technological change and product development, and increasing switching rates.

- a) Recent new entry (such as Metro Bank, Tesco Bank, Virgin Money, the Post Office, the proposed Atom Bank and niche providers such as Handelsbanken, Aldermore and Shawbrook)
- b) Reduced barriers to entry resulting from regulatory change, the diminishing significance of branch networks as well as technological advances (especially the growth of online and mobile banking)
- c) Ongoing innovation and product development (such as reward based current account, Barclays Pingit and Paym which enable customers to send and receive payments simply using a mobile phone number and alternative funding sources such as Funding Circle)
- d) Increasing levels of PCA switching as well as growing awareness of the ease of switching with the introduction and promotion of CASS. In addition, the Midata initiative presents a significant opportunity to drive customer engagement and further improve transparency and comparability

4.6 A market characterised by high concentration leading to abuse of market power would be expected to display poor customer outcomes. Despite relative levels of concentration, neither the PCA nor the SME Banking markets exhibit these characteristics, suggesting that competition is operating effectively.

Theory of harm 3: Barriers to entry and expansion leading to worse outcomes for customers

4.7 At paragraph 49 of the Issues Statement, the CMA references a number of potential barriers to entry or expansion in the sector. We have not addressed each of the proposed barriers at this point but Barclays makes the following observations:

- a) At paragraph 49(b) the CMA identified *"the need for a branch network in order to achieve a significant scale"* as a potential barrier. Earlier at paragraph 19(h) the CMA asserts that *"banks themselves appear to consider it important to maintain [...] their networks to attract both SME and PCA customers"*. While branches are important to some customers, their

significance is certainly in decline. Far from maintaining their networks, most banks are closing UK branches due to a reduction in demand.⁹ Data from the BBA indicates that the number of branches declined by 5.4% in the period from the end of 2011 to 2013 alone ¹⁰.

- b) Moreover, Barclays maintains we are witnessing a significant period of transition with the potential for customer needs to be met through the combination of technological developments like video banking and alternative physical channels like the Post Office rather than through traditional branches
- c) Alternative methods of interaction between banks and their customers, such as mobile banking, internet banking and telephone banking, are becoming increasingly important. This is particularly marked for those customer segments more likely to open a new current account (those aged 16-35 years)¹¹. Most recently, Barclays has announced plans for a video banking service which it expects to be available to all retail customers around the clock by the end of 2015¹².
- d) In addition, the nature of branches is changing with, for example, initiatives by Barclays involving the replacement of traditional counters with machine-

⁹ See, for example, Financial Times "UK account holders flock to Swedish bank's 'church spire'", 25 August 2014.

¹⁰ In relation to branch closures, a recent analyst report by Deutsche Bank on the UK retail banking sector points to work from CACI (a location planning consultancy) suggesting that "80% of the UK market can be covered today by 800 branches" and forecasts that "500 will be enough in 10 years" (Deutsche Bank, UK Retail Banking 2014, 8 September 2014, pages 1, 12-13 and 104-107). In relation to the reduction in branch usage, Deutsche Bank notes that "branch footfall is falling >10% p.a.". Deutsche Bank also considers that it has never been easier to start a new bank without needing a large branch network: "Advances in core banking technology and increased customer adoption of self-service by digital channels make it easier than ever to launch a new bank without needing a huge branch network" (*ibid.*, page 9).

After the publication of the Deutsche Bank report, on 28 October 2014, Lloyds Banking Group announced a net reduction of about 150 branches (closing 200 and opening 50) over the next three years, accounting for around 7% of its network of 2,250 branches (see: BBC, Lloyds Bank confirms 9,000 job losses and branch closures, 28 October 2014, <http://www.bbc.co.uk/news/business-29798532>).

Most recently, on 21 November 2014, Ulster Bank announced it would close another 10 branches in Northern Ireland, out of the 74 branches it had (BBC, Ulster Bank closing 10 more branches in Northern Ireland, 21 November 2014, <http://www.bbc.co.uk/news/uk-northern-ireland-30141520>).

¹¹ [...]

¹² "Barclays to launch video banking service", Financial Times, 30 November 2014.

based assisted service counters [...]. Barclays is also engaged in innovative outsourcing arrangements such as branch partnerships with third party independent retailers (such as ASDA) and cooperative arrangements with the Post Office.

- e) From the perspective of PCAs and BCAs acting as gateway products (paragraph 49(d) of the Issues Statement), Barclays highlights that customers exhibit significant multi-sourcing (taking different financial services products from multiple providers), and in many instances will have multiple PCAs / BCAs. It should also be noted that there are consumer benefits in terms of convenience and efficiency in having more than one financial product with a particular provider.
- f) Barclays queries the significance apparently given by the CMA at paragraph 49(d) of the Issues Statement, to linkages between PCAs / BCAs and other retail banking services, such as credit cards, cash ISAs, deposit and cash savings accounts, personal and business loans and other forms of finance. There is no evidence of a lack of competition in the provision of these products. Also there is no evidence that these products are a pre-requisite to participating in the provision of PCAs / BCAs. Therefore, there is no reason to conclude that any linkages constitute a barrier to entry or expansion
- g) Barclays welcomes the CMA's recognition at paragraph 49(a) that regulatory barriers have been reduced through recent reforms of the authorisation processes for new banks and also steps taken by the PRA to reduce capital and liquidity requirements.
- h) In relation to access to finance and payment systems (paragraph 49(c)) while Barclays does not agree with the categorisation of this area as a potential barrier, it welcomes the CMA's recognition that the PSR is charged with assessing access to key payment systems and that the CMA's analysis will take account of the potential impact of any policy proposals that may be forthcoming from the PSR.

5. **PRIOR REVIEWS AND OTHER REGULATORS**

- 5.1 Barclays strongly agrees with the CMA's intention to approach the industry afresh and independently in its investigation, rather than simply updating previous work.

This is particularly necessary given changes in the intervening period such as: (i) the fundamental changes in Barclays' overdraft and BCA propositions over the last 18 months; and (ii) recent advances in technology and consumer behaviour and usage of such technology.

5.2 In Barclays' view, it would however, ease the administrative burden on parties if the CMA could make use of parties' factual submissions in response to previous CMA reviews.

5.3 [...]