

## RETAIL BANKING MARKET INVESTIGATION

### Invitation to comment on PCA pricing analysis using transactions data

1. On 21 May 2015, the CMA published an [Updated Issues Statement](#) (UIS) on the retail banking market investigation. This notice sets out the CMA's intention to carry out further work in relation to personal current account (PCA) pricing analysis using transactions data.
2. Our pricing analysis was set out in [Appendix C](#) of the UIS.
3. Our initial analysis was based on six illustrative profiles of typical PCA users. In response to our initial consultation, parties made a number of points.<sup>1</sup> As stated in the UIS, we intend to supplement this initial analysis with further work. In our view, the main reasons are that:
  - (a) the six profiles should be weighted as they do not each reflect an equal number of PCA customers. However, deriving a valid weighting is not straightforward; and
  - (b) the PCA landscape is complex and may not be captured adequately by six customer profiles (even if weighted appropriately).
4. We said in the UIS that:

We intend to extend this analysis using transactions data for a representative, large sample of PCA customers. The advantage of using transactions data is that it enables the comparison to be based on actual transactional behaviour and facilitates comparisons between providers across all customers.<sup>2</sup>
5. This document sets out how we propose to carry out the analysis using transactions data, and the expected outputs from the analysis.

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<sup>1</sup> [UIS](#), Appendix C, Annex 2, paragraphs 9-17.

<sup>2</sup> [UIS](#), Appendix C, paragraph 9. We obtained the anonymised transactions data from 13 PCA providers (Barclays, HSBC Group, Lloyds Banking Group, RBS Group, Santander, Allied Irish Bank, Bank of Ireland, Clydesdale, Co-operative Bank, Danske Bank, Metro Bank, Nationwide and TSB).

## Proposed use of transactions data

6. As part of its market investigation, the CMA has gathered anonymous transactions data from a number of banks operating in the UK. This is information for a sample of anonymous PCAs on account usage including average credit balance, average debit balance, number of days in arranged and unarranged overdraft usage, inbound payments and transfers into the account (excluding charges).
7. In order to supplement our pricing analysis, we intend to use the transactions data to estimate for a representative sample of PCAs:
  - (a) the net cost per month of each account using prices at a particular date (likely to be during July 2015). We intend to calculate net cost assuming the customer does not hold other banking products as we do not consider it appropriate to include benefits obtained from other banking products that depend on also holding a PCA (because such incentives appear aimed at encouraging holders of PCAs to take out other products and therefore represent a reduction in the price of the other product rather than that of the PCA); and
  - (b) the net cost per month for that account if the account-holder switched to another PCA. This would be done for other relevant PCAs (we discuss below the relevant PCAs, see paragraphs 12-14 and 18).<sup>3</sup>
8. In order to allow for different expected periods of holding PCAs, these calculations would be carried out:
  - (a) for one month, excluding all temporary switching incentives available at that date in the market (such as one-off payments to the customer and first-year discounts);
  - (b) for periods of 12 months and five years, including switching incentives (such as one-off payments to the customer and first-year discounts). The projections would assume prices at the date of comparison (see paragraph 7(a)) and would not attempt to anticipate future price changes.
9. Our transactions dataset does not include all details of account usage.<sup>4</sup> Consequently, these calculations would represent estimates of net cost to the customer, rather than precise calculations of how much would be paid by the

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<sup>3</sup> A PCA would only be included in the comparisons for a particular account if, based on the transactions data for that account, the account-holder met the eligibility criteria for that PCA.

<sup>4</sup> For example, it does not include a breakdown of customer spending, which is relevant to calculating cashback under the Santander 123 account.

customer (or received) for each type of account. Nonetheless, we consider that these estimates will be useful as they will provide a more detailed understanding of net costs than can be obtained from our analysis using the six customer profiles.

10. We intend to exclude the following categories of account from the sample to be analysed:
  - (a) Basic bank accounts – following the agreement between nine major banks and the government,<sup>5</sup> the cost of most basic bank accounts will be very similar from December 2015.
  - (b) Student and young person’s accounts – the cost of these depends on account-holder characteristics which may not remain the same over time.
11. We intend to carry out the analysis for:
  - (a) standard PCAs offering standard features only, usually free-if-in-credit to customers;
  - (b) ‘reward’ PCAs providing a cash reward (eg monthly payment, interest on credit balances, cashback linked to spending from the account); and
  - (c) packaged accounts providing customer benefits in kind (for example phone insurance, travel insurance, breakdown cover). The calculations for packaged accounts will require estimates of the value of these customer benefits.

### ***Estimated potential savings from switching***

12. Estimating the potential savings from switching is relevant to any effects of our first theory of harm (impediments to customers’ ability to effectively shop around and switch products or suppliers). The estimated potential savings from switching accounts would be calculated as the difference between the net cost per month for the existing account held by the customer and the net cost per month for the PCA with the lowest net cost per month to the same customer. Net cost per month would include temporary switching incentives, ie be based on the approach in paragraph 7(b).
13. Standard and reward PCAs would be compared only with other standard and reward PCAs. This is because it cannot necessarily be assumed that a standard/reward account-holder would be willing to pay for the benefits

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<sup>5</sup> HM Treasury (2014), [New basic fee-free bank accounts to help millions manage their money](#).

provided by packaged accounts. Additionally, there is more uncertainty about the net cost of packaged PCAs due to the need to value benefits in kind.

14. Packaged PCAs would be compared both with other packaged PCAs and with standard and reward PCAs; as already noted the estimated value of packaged benefits would be taken into account. We note there is more uncertainty about estimated potential savings from packaged accounts due to the need to value benefits in kind.
15. We intend to calculate estimated potential savings on two different bases, as follows:
  - (a) Firstly, including in the comparisons only those PCAs offered by the brand or banking group with which the account-holder has their PCA. This would show the potential savings from internal switching.
  - (b) Secondly, including in the comparisons all relevant PCAs (as defined in paragraphs 13 and 14). This would show the potential savings from internal or external switching.
16. Potential savings across the market could be calculated by summing across the sample and grossing up for the proportion of all PCAs represented by the sample. This would be an underestimate of the total switching savings across the market because it excludes any savings from switching by holders of students/young people's accounts.
17. It may be appropriate to segment the data to compare estimated savings across different groups of account-holder, for example those often going into unarranged overdraft, those going into arranged overdraft (but not unarranged overdraft), those rarely going into overdraft but with small average credit balances and those with larger average credit balances.

### ***Estimated average prices***

18. Estimating average prices is necessary to address the question of whether banks with a higher market share charge higher prices than smaller banks, which, as set out in the UIS, is relevant to our second theory of harm (concentration rise to market power of some banks leading to worse outcomes for consumers.<sup>6</sup> We intend to calculate the average price (ie average net monthly cost) for each account by taking the mean monthly net

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<sup>6</sup> UIS, paragraph 103.

cost for that account across the sample. This would be done separately for standard/'reward' PCAs and packaged PCAs

19. A complication in calculating average prices is that average prices may be affected by account eligibility criteria. Some reward accounts, for example, require the account-holder to pay in at least £500 per month and have at least two direct debits. Some other accounts have monthly fees that are waived if certain account criteria are met.
20. We would therefore intend to carry out this analysis for different segments of the data such that average prices within the segment are comparable. For example, for standard/reward PCAs, segments could be:
  - (a) accounts with incoming payments of less than £500 and/or fewer than two direct debits per month;
  - (b) accounts with more than two direct debits per month and incoming payments of between £500 and £1,000;
  - (c) accounts with more than two direct debits per month and incoming payments of between £1,000 and £1,500; or
  - (d) accounts with more than two direct debits per month and incoming payments of over £1,500.
21. The precise segmentation will need to be determined on the basis of actual account eligibility criteria.

### ***Disaggregated analysis***

22. Additionally, we would be able to compare prices for different accounts across different balance levels and/or levels of payments into the PCA.
23. This could show, for example, whether particular PCAs are cheaper for customers typically in overdraft, with low balances and/or with high balances.

### **Interpretation of the analysis**

24. There are a number of points that need to be considered in interpreting analysis of prices including the need to take into account quality differences.<sup>7</sup>

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<sup>7</sup> [UIS](#), Appendix C, paragraph 22.

## How we propose to take forward the analysis

25. We intend to contract the calculation of monthly costs to Runpath Digital Ltd (Runpath). Runpath has specific experience of comparing PCA prices and has been involved in the midata project.<sup>8</sup> Appendix 1 provides further details of Runpath. Runpath would also provide us with a summary of aggregate results.
26. We would provide Runpath with a sample of the anonymised transactions data. The transactions data we obtained from the banks is a stratified sample with oversampling of certain accounts, for example switchers, customers of small banks and account-holders resident in certain areas. We intend to remove this oversampling from the sample we provide to Runpath (with the exception of Northern Ireland account-holders – continued oversampling of Northern Ireland account-holders will facilitate separate calculations for Northern Ireland.)

## Data security

27. The CMA intends to use its powers under the Enterprise Act 2002 to transfer the transactions data to Runpath, in order for it to carry out this analysis for the purpose of the market investigation. The data will be supplied to Runpath in anonymised format; the CMA does not hold the name, contact details or account number/sort code of the account-holders to whom the transactions data relates, so it is not possible for either the CMA or Runpath to identify individuals from the transactions data.
28. All data will be transferred securely to Runpath, who will be contractually obliged to hold it securely in accordance with the CMA's IT security policy, and to take appropriate technical and organisational measures against accidental loss or destruction of, or damage to, the transactions data.

**The deadline for comments is midday Friday 26 June 2015.** Please submit comments by email to [retailbanking@cma.gsi.gov.uk](mailto:retailbanking@cma.gsi.gov.uk) or write to the team at:

**Retail banking team  
Competition and Markets Authority  
Victoria House  
Southampton Row  
London  
WC1B 4AD**

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<sup>8</sup> The midata project encourages companies to release to consumers details of their usage of services such as PCAs, helping consumers to make accurate comparison of the costs they would incur with different providers.

## Appendix 1: Runpath's description of its business

### Overview

1. Runpath is an organisation that provides FinTech (financial technology services) to its business partners by way of proprietary platform APIs, full service digital product development, commercial marketplace engineering and data analysis services.

### Services

2. We are experts in the supply of contemporary technology and specialise in:
  - **financial management** – our platform understands 120 different product classes and can be used by industry and consumers to consolidate one's entire financial picture;
  - **product selection** – the evolution of product comparison, placing the consumer at the heart of needs based financial instrument selection;
  - **distribution** – Runpath is one of the largest distributors of financial products in the UK; and
  - **data services** – we are adept at innovating in marketplace and customer insight.

### Runpath service components



Source: Runpath Digital Ltd

## **A relevant case study**

3. The government's midata initiative was launched in 2011 as a scheme feeding into the overriding programme of providing better information and protection for consumers.
4. It aims to encourage consumers to be more aware of their spending habits and how best to spend and place their money.
5. This is done by getting businesses, consumer groups and regulators to make available the data they hold on consumers in standardised, safe, electronic and portable formats.
6. It should then be possible to upload the data simply and automatically into comparison sites and other tools to enable clearer and more informed decision making.
7. Runpath, having developed a proprietary PCA pricing model for the Money Advice Service in 2013, approached its client GoCompare.com to explore the first midata comparison build. Runpath had been involved in HMT's working group from the outset and, at the end of 2014, set to task on crafting the first front end solution for GoCompare. This was done in collaboration with HMT, the BBA and the ICO.
8. The Runpath midata platform (that hosts and powers the GoCompare.com service) ingests an individual's 12 months' worth of transactional history and performs a multitude of calculations on it, arriving at a price for each PCA available in the UK based on usage characteristics – thereby empowering the consumer by demystifying complex pricing.
9. The service can be found on the [GoCompare.com website](https://www.gocompare.com).

Source: Runpath Digital Ltd