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11 June 2015

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To:

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Project Manager  
Retail banking and market investigation  
Competition and Markets Authority  
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Dear Sirs,

**Subject: Consultation Paper – Retail banking market investigation**

## **1 INTRODUCTION**

Bacs is pleased to provide a response to the consultation paper on the Retail Banking Market Investigation – Updated Issues Statement.

Bacs, founded in 1968, is a not-for-profit, membership-based industry body owned by 16 of the leading banks and building societies in the UK, Europe and the US. Bacs has been maintaining the integrity of payment related services for 45 years, and is responsible for the schemes behind the clearing and settlement of automated payments in the UK: Direct Debit and Bacs Direct Credit.

Through these two schemes and their supporting services Bacs delivers core components of all Personal Current Accounts. Bacs also operates the Current Account Switch Service (CASS) allowing for the transfer of current accounts. Some 22 banks and building societies representing 40 brands including over 99% of all current accounts participate in the Service. CASS was designed to provide a switching service that was recognised by customers as being quick and hassle free.

Bacs has confined its response to paragraphs 71 to 75 and 161. Paragraphs 71-75 deal with “potential barriers to switching”, whilst paragraph 161 deals with the undertakings that were put in place following the 2002 Competition Commission investigation into SME banking.

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## 2 CONSULTATION RESPONSE

### Paragraphs 71-75

The Current Account Switch Service (CASS) was created to remove a perceived barrier to switching current accounts by providing a Service that was recognised by customers as ‘quick and hassle free’. Research suggested that to achieve this objective the Service had to have a clear, independent and ubiquitous identity. To establish that identity an integrated central communications campaign promoting the Trustmark, Guarantee and associated customer proposition was developed, supplemented and supported by participant communications activities and promotion of CASS via influential stakeholders such as the media and comparison websites. The mass market nature of current accounts meant that the use of the full spectrum of mass media channels was necessary.

Although the launch campaign which ran from September 2013 to March 2014 was successful in raising both awareness and confidence as measured by Bacs’ tracking market research neither have achieved the 75% level agreed with HMT to be reached by June 2015. Consideration has been given to further central advertising but the current switch fee is very close to the cap of £5 set in conjunction with HMT, precluding the Service from raising funds for such a campaign without recourse to participants.

Bacs is working with the FCA following their report “Making Current Account Switching Easier” to develop an industry response to the key recommendations on awareness and confidence. Proposals are being discussed with the CASS Management Committee (CASS MC), the participant body with responsibility for the Service, for presentation to the FCA later this month.

As the CMA notes overall switching rates through CASS have not advanced significantly from the levels seen prior to launch despite the success of initial communications. This outcome is in line with the market dynamics model developed by the University of Bristol for Bacs which we shared with you last year. The research in developing the model suggested that whilst reducing the perceived cost to customers of switching would be beneficial the very low level of customers who would consider switching limited the overall effect. We believe that a number of your current and planned activities help understanding of the balance of push and pull factors customers consider in their switching decision.

Bacs has also initiated three studies to understand better how CASS might contribute to reducing inertia in the market. First, we are investigating how our market dynamics model can be modified to understand how factors such as central advertising and product innovation can alter the proportion of customers who would consider switching accounts. Secondly, we are reviewing the various market research reports that show markedly different results for awareness and confidence to understand how these differences arise and in turn to help develop more robust and effective measures of customer behaviour. Finally, the output from those two activities will be used to refine further CASS communications activities. We would be happy to discuss these studies with you in more detail.

In addition, and with regard to the redirection period mentioned in paragraph 72, Bacs is developing proposals for addressing this question. These will be presented to the CASS MC for consideration later this month. The underlying principles behind the proposals are:

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- CASS must deliver according to the “hassle free” Guarantee (customer proposition).
  - The customer experience must ensure payments (debits and credits) are not lost or delayed (e.g. the PSR D+1 requirement must be met).
  - If anything goes wrong with payments leading to lost interest or charges the new bank must honour the Guarantee and put it right, ensuring the customer’s account is restored to the position it would have been in if the funds had arrived in their new account as instructed.
  - Stakeholder impact, including service users and participants must be minimised.

The intention and current planning assumption is that these principles will form the basis of the plan that will be presented to the FCA on the 19 June in readiness for a follow up meeting on 24 June.

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Paragraph 161

We have noted that the 2002 SME Undertakings define an SME as a business with an annual sales turnover of no more than £25 million whereas CASS includes SMEs with an annual turnover of up to £6.5 million and less than 50 employees. We are confident that over 99% of all SMEs are now included within scope for CASS.

Larger companies typically have individual banking requirements that make a switch within the 7 working-days guaranteed by CASS something that is unlikely to work in a safe and controlled manner. With this in mind a replacement for the automated ToDDaSO service was introduced at the same time as CASS was launched. This is commonly referred to as the 'Partial Service'.

As part of the CASS 2015 work plan a review of the Partial Service is underway and this includes an analysis of the benefits and features available. We would recommend that a review is undertaken to understand if the current 2002 SME Undertakings should be replaced.

### **3 CONCLUSION**

In summary we believe we are addressing the areas highlighted by the FCA; and, through a process of continuous improvement (that forms an integral part of our standard annual work programme) we hope our work on the Partial Service will make rescinding the 2002 SME Undertakings possible.

Yours faithfully

Michael Chambers  
Chief Executive