

Retail banking market investigation: provisional findings report

Appendix 7

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Personal current account switching process and multi-banking

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Switching process

1. There are different ways in which a customer may switch usage between different PCAs.
 - (a) **Full account switching** – this is opening a new account in bank B, as a main account, and closing existing account in bank A.
 - (b) **Multi-banking** – there are various configurations to multi-banking:
 - (i) opening a new account in bank B as a main account, and keeping a dormant account in bank A;
 - (ii) opening a new account in bank B as a main account, and continuing to use an old account in bank A as a secondary account; and
 - (iii) opening a new account in bank B, as a second account, and continuing to use an old account in bank A as a main account.
2. Further, to switch account, a customer can either:
 - (a) manually handle all the arrangements themselves (for example, by changing direct debits and standing orders); or
 - (b) use the automated switching process known as CASS, described in detail below.

The current account switch service (CASS)

3. CASS was launched in September 2013. It is a voluntary scheme set up as part of an industry wide programme by the Payments Council and owned and

operated by Bacs Payment Schemes Ltd (Bacs). It makes switching current accounts simpler and quicker for customers. Some 40 bank and building society brands participate, accounting for over 99% of the current account market. Customers using CASS to switch accounts are covered by the Switch Guarantee,¹ which includes the automatic closure of their original account.

The FCA CASS review

4. The FCA published a review of the effectiveness of CASS in March 2015.² It found that:
 - (a) CASS addressed the main concerns expressed by customers about switching, such as having to transfer salary payments and utility bills;
 - (b) the vast majority of switches were completed within seven days and without error and most customers who had used the service rated it positively;
 - (c) customers lacked awareness and confidence in CASS; and
 - (d) there were a small number of operational issues associated with CASS, the main one being the risks arising when the redirection service ended. Others include access to CASS to providers offering alternatives to traditional current accounts,³ issues with using CASS for customers requesting overdrafts or with overdrafts they were unable to repay through a debt management company⁴ and the use of Continuous Payment Authorities (CPAs).⁵
5. In considering its effect more broadly, the FCA found that there had been only a small increase in switching volumes since CASS was launched, although

¹ The Switch Guarantee: It will only take seven working days. The service is free to use and customers can choose and agree a switch date; the bank will take care of moving all payments going out and those coming in; if money is in an old account, the bank will transfer it to the new account on the switch date. For 36 months, the bank will arrange for payments accidentally made to the old account to be automatically redirected to the new account. The bank will also contact the sender and give them the new account details. If there are any issues in making the switch, they will contact the customer before the switch date. If anything goes wrong with the switch, they will refund any interest (paid or lost) and charges made on either the old or new current accounts as a result of this failure.

² FCA (March 2015), [Making current account switching easier: The effectiveness of the Current Account Switch Service \(CASS\) and evidence on account number portability](#).

³ At present some smaller banks and e-money providers are excluded. With effect from the end of April 2015, the FCA notes that CASS will offer access to any authorised payments institution (API) offering an account with the same features as a current account, providing the API is able to obtain their own 6-digit sort code and meet the account switching service requirements.

⁴ The FCA noted that at some banks a switch could be initiated before a decision on an overdraft was made. Once initiated a switch could not be stopped. The FCA believed that this affected only a small proportion of customers switching (possibly around 1%), but it could lead to financial difficulties and it was beginning to work with industry on a solution to this issue.

⁵ A CPA is a recurring or regular payment using a customer's debit card details (rather than a bank account number and sort code). CASS does not deal with transferring CPAs.

this needed to be seen in the context of the other significant barriers to switching which still exist, such as consumer inertia. There had been some limited changes in provider behaviour, particularly in relation to the development of current account products. The FCA found no changes in levels of customer satisfaction with current accounts.

6. The FCA recommended the following areas for further enhancements to CASS:
 - (a) measures to raise awareness of the service, such as a targeted marketing campaign;
 - (b) identifying ways to raise confidence levels in the service via the marketing campaign (for example, by publicising customers' positive experiences) and refining the targets around consumer confidence to better reflect customers' concerns (such as an error-free switch); and
 - (c) a technical or other solution to the problems that may occur if/when the redirection service comes to an end (this could include an unlimited extension to the redirection service).
7. Bacs has conducted research work in response to the FCA's recommendations. This included:
 - (a) research into customers' confidence.⁶ It found that there were indications that the CASS description could be simplified and more positively framed around the potential for errors; and
 - (b) testing of awareness measures to understand the reasons for differences in the Bacs tracking research and the FCA's reported measure.⁷ It found that the primary reason for differences was due to the design of the survey questions.

Levels of switching

8. We present below evidence on switching levels: switching levels via CASS, switching levels from surveys, internal switching and rates over time. We then examine switching in other sectors and within the EU.

⁶ Conducted by Optimisa.

⁷ Conducted by TNS.

CASS switching rates

9. CASS data shows the amount of switching by customers using the CASS process. It therefore provides a lower band estimate of switching rates, as it excludes full account switching if conducted manually.⁸ In addition partial switching through CASS is low. We estimated the annual switching level through CASS (and through the previous switching process known as ToDDaSO⁹) to be around 2% of all UK main accounts.¹⁰ This figure drops to 1.3% as a proportion of all accounts.

Switching rates from surveys

10. The GfK PCA consumer survey found that, over the past three years, 8% of PCA customers had switched banks. For the year 2014, the annual switching rate between banks was around 3%.^{11,12} This data includes full account switching and switching of a main account whilst keeping an old account open. It excludes internal switching (ie switching PCA within a customer's existing bank) and when customers open a new account as a secondary account. External surveys are in line with this figure. In 2014 GfK FRS data reported a 2.5% GB switching rate from one bank to another based on main accounts, whilst the TNS survey¹³ reports the GB switching rate to be 3.4%.

Table 1: Searching and switching rates (number of customers)

Groups	Last 12 months (weighted, %)	Last three years (weighted, %)
Non-searcher/non-switchers	78.1	65.4
Searcher/non-switchers	15.7	20.5
Searcher/external switchers	2.3	4.6
Non-searcher/external switchers	0.9	3.5
Searcher/internal switchers	0.7	1.9
Non-searcher/internal switchers	1.8	4.1
Missing data	0.7	0.2

Source: CMA analysis based on GfK PCA consumer survey. Entire surveyed sample.

⁸ Full account switching. Opening a new account and closing your old one. A customer can 'manually' handle all the arrangements themselves (for example, by changing direct debits and standing orders).

⁹ The predecessor to CASS was Transfer of Direct Debits and Standing Orders (ToDDaSO), which was an electronic payments service (effectively a back-office process) used by providers to transfer payment instructions (ie direct debits and standing orders) for retail customers between two different current accounts. It had been in operation in the UK since 2001 and accounted for a gradually increasing proportion of current account switches until the launch of CASS. It continued to run until the end of 2014.

¹⁰ The switching rate is calculated by the number of switches between March 2014 and February 2015 (CASS data excludes customers that kept an old account open and adjusted to remove SMEs), divided by the number of accounts at the end of 2014.

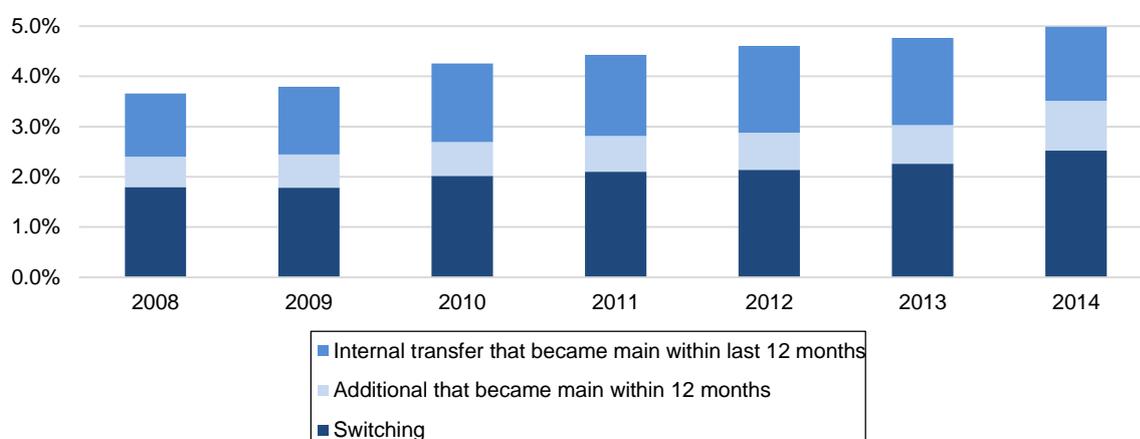
¹¹ Respondents classified their own accounts as 'main'.

¹² Data does not significantly differ between England, Wales, Scotland and NI. Switched within the last three years (sample size): UK = 8% England = 8% (3,049) NI = 7% (702); Wales 9%(137) Scotland = 7 (661) (GfK PCA consumer survey).

¹³ TNS, Current Account Switching Index: December 2014. Q.1A: 'Have you changed the bank/building society with whom you have your current account in the LAST YEAR?'

11. In 2014 approximately 2.5% of customers switched internally increasing the switching rate to 6%. According to the GfK FRS, the GB internal switching rate was 1.5% based on main accounts. The GfK PCA consumer survey indicates that internal switchers are less likely to have searched. Last year approximately 73% of internal switchers did not shop around prior to switching¹⁴ in contrast to 27% of those that switched to another bank.
12. As shown in Figure 1, the annual rate of switching for GB main accounts has increased over time, but still remains low. In 2014 full account switching accounted for 50% of all switching activity, opening an additional new account¹⁵ represented 20% and internal switching approximately 30% of activity.

Figure 1: GfK FRS data:* percentage of main accounts over time – GB



Source: CMA analysis based on GfK FRS data.

*GfK FRS asks customers who had opened a current account in the last 12 months which of these statements best describes what they did when they opened their account: (i) I switched my main current account from another bank or building society; (ii) I replaced an existing account held with the same bank/building society; (iii) it was taken out as additional to my main current account; (iv) it was my first ever current account; (v) although I had had a current account in the past I no longer held one at the time I opened my account; (vi) other; don't know. Data is reported for all accounts and those which customers classify as their main account. We report figures in relation to customers 'main' accounts. GfK told us that there was a step change in the data between 2007 and 2008 as a result of a methodology change in the survey.

13. The search and switching rates reported above relate to customer numbers (ie the volume of customers searching and switching accounts). We recognise that the value of these customers is also important. It may be the case that customers searching and switching are higher-value customers. There is no explicit measure to customer value. We therefore consider three dimensions of value: average credit balances, overdraft balances and incomings into the account as a proxy, as presented in Table 2.
14. When considering credit balances the annual rate of external switching is 3.6%, which is slightly higher than the switching rate of 3.2% when looking at

¹⁴ GfK PCA consumer survey.

¹⁵ These account are classified as then becoming main accounts.

customer numbers (volume measure). Internal switching is also higher at 5% compared with 2.5% for customer numbers (volume measure). When using overdraft balance as a proxy, the external switching rate is reduced to 2%; when using incomings into the account, external switching rates are closer to the ones reported for customer numbers (volume measure) at 3.3%.

Table 2: Searching and switching rates (values)

Groups	Last 12 months (weighted, %)			Last three years (weighted, %)		
	Credit balance*	Overdraft balance	Incomings	Credit balance*	Overdraft balance	Incomings
Non-searcher/non-switchers	67.1	81.6	74.8	55.2	64.7	60.8
Searcher/non-switchers	24.1	14.9	19	26.2	24.8	24.1
Searcher/external switchers	3	1.8	2.7	7.2	2.7	4.9
Non-searcher/external switchers	0.6	0.2	0.6	2.8	2.1	3.2
Searcher/internal switchers	0.8	0.5	0.8	2.5	1	2.1
Non-searcher/internal switchers	4.2	0.7	1.7	6	4.5	4.9
Missing data on searching/switching	0.2	0.4	0.5	0.1	0.3	0.1

Source: CMA analysis based on GfK PCA consumer survey and PCA transaction data submitted by banks.
*5% of surveyed customers are not included due to missing information on their average credit balances.

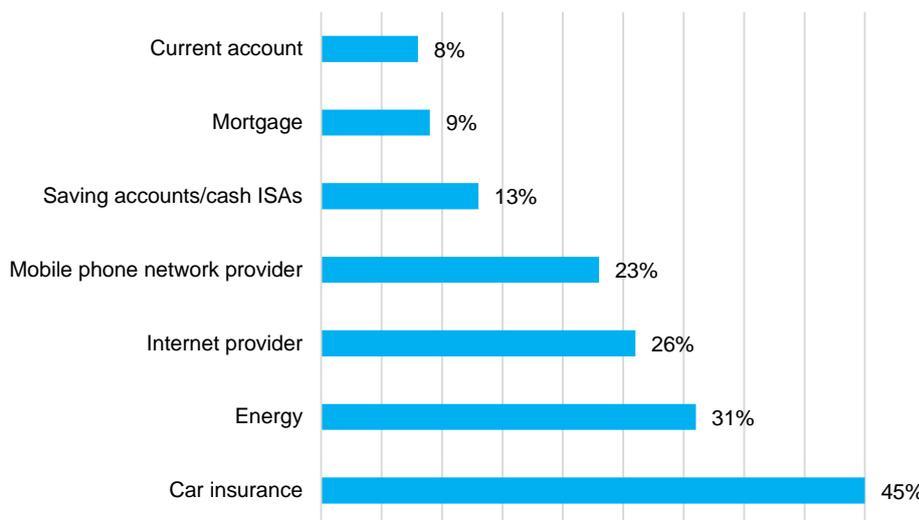
Switching in other sectors and the EU

15. Figure 2 suggests that switching rates are lower for PCAs compared with many other sectors such as car insurance and energy.¹⁶ While we acknowledge that there are differences between sectors, the comparison shows that switching rates are relatively low in PCAs compared with other sectors.

¹⁶ Base: All who have each product/service (mobile phone = 4,254, car insurance = 3,700, current account = 4,549, mortgage = 2,265, energy = 4,136, internet provider = 4,028, savings accounts/cash ISAs = 3,684). Switched current account between banks (253), not switched (4,198).

J1: 'In which if any of the following have you changed supplier within the last three years? If you don't have one of these please say so'.

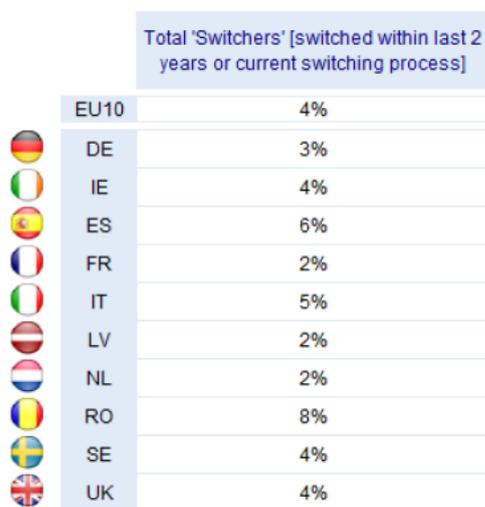
Figure 2: Proportion of customers who have switched supplier in different sectors in the last three years



Source: GfK PCA consumer survey.

16. A 2012 study by the European Commission¹⁷ found that the number of UK customers switching in the previous two years was close to the EU average, as shown in Figure 3.¹⁸

Figure 3: Comparison of switching rates across the EU in 2012



Source: Directorate-General for Health and Consumers (2012), *Bank fees behaviour study*.

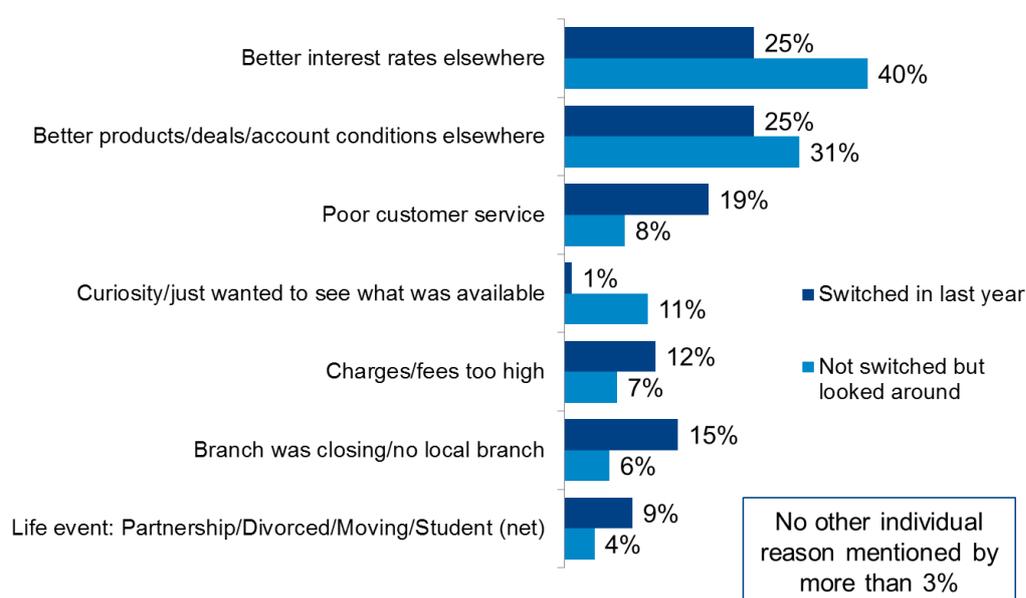
¹⁷ *Bank fees behaviour study* conducted by TNS at the request of Directorate-General for Health and Consumers, p28.

¹⁸ It is important to note that different member states operate under different banking structures and conditions may have changed since 2012.

Drivers for switching

17. Switching can be triggered by perceptions of better offers (monetary and quality) with other providers (pull factors), as well as by negative experiences with existing providers (push factors), or a combination of the two.
18. According to the GfK PCA consumer survey,¹⁹ as shown in Figure 4, the most cited reasons for those customers who switched in the last year were the perception of a better offer: better interest rates elsewhere (25%), and better products/deals/account conditions elsewhere (25%). Negative experiences were also stated, namely poor customer service (19%), charges/fees too high (12%) and branch was closing/no local branch (15%).

Figure 4: Triggers for searching/switching (in the last year)



Source: GfK PCA consumer survey (2015).

Base: All switched in the last year (339); not switched but looked around (656).

19. GfK FRS data and a Payments Council 2014 survey²⁰ found that both push and pull factors are closely aligned.²¹ In contrast, the FCA CASS report²² found that decisions to switch were driven primarily by push factors, ie dissatisfaction with the current provider.²³

¹⁹ Question F7: 'When you last changed your main current account/when you last looked around, what made you think about doing that?' OPEN ENDED.

²⁰ Why did you switch your account from...(ORGANISATION AT QB1a) to...(ORGANISATION AT QA1a)? Any other reasons? WHAT ELSE? Payments Council, *Account Switching: Quantitative Market Research Results, 2014*.

²¹ Push = account charges too high/unjustified 18%; Pull = better features/benefits available on account elsewhere at 14% and better credit interest rate available elsewhere 14%.

²² FCA CASS report, paragraph 5.22.

²³ In NI reasons for switching appear to be similar A Bol survey found that people were more likely to move due to push than pull factors. A further survey found that reasons for switching included: better mortgage rates; to

20. Santander found that the reasons for opening a 123 account were more about the product, especially cashback and interest, while reasons for opening non-123 accounts were more about brand and channels. HSBC found that customers switched accounts due to dissatisfaction with their previous provider, with awareness of competitor offers or joining incentives aiding their decision. One bank ([redacted]) found that customers were primarily driven by push factors.²⁴ An Ipsos Mori report for NI highlighted that location was a key driver for choosing a PCA.²⁵ TSB noted that traditionally push factors had dominated but there was now a tension with both push and pull being important. Both dimensions are also reflected in LBG qualitative research.²⁶
21. Banks research cited above provides some insight but there is no overarching reason for switching. We note that a design of survey questions plays an important role. Responses vary when answering 'reasons for opening' 'reasons for switching' and/or 'reasons for closing'. We also note that in NI reasons for switching appear to be similar.^{27,28}

Reasons for not switching

22. In the GfK PCA consumer survey we asked an unprompted question about the reason why respondents had not considered switching supplier (see Figure 5 below). The most commonly mentioned reason was that they were happy with their current supplier (51%). Around a fifth said that they 'had no reason to change' (22%) or that it was 'too much hassle/couldn't be bothered' (20%). Reasons given for not switching accounts are much the same for overdraft users as non-users although a smaller proportion of high overdraft users claim they are happy with their current provider.

receive an overdraft extension and cash incentive. According to Mintel, when customers were asked what factors had motivated them to switch their main current account provider they cited: their new provider offered them a better deal (42%); had a better reputation for good customer service (27%); and their old bank gave poor customer service in branch (26%). Source: Mintel Current Accounts – Ireland, August 2014, pp71 & 72.

²⁴ [redacted]

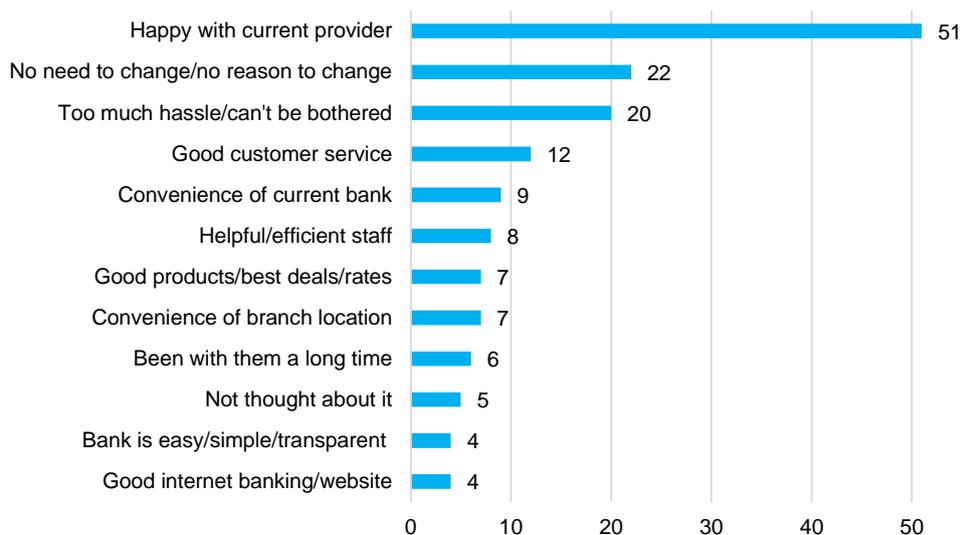
²⁵ (1) Near where I live (2) Recommended to me and (3) Dissatisfied with previous account

²⁶ Push factors: perceived failure; inadequate service; pull: incentives

²⁷ A Bol survey found that people were more likely to move due to push than pull factors. A further survey found that reasons for switching included: better mortgage rates; to receive an overdraft extension and cash incentive.

²⁸ According to Mintel, when NI customers (who were internet users) were asked what factors had motivated them to switch their main current account provider, they cited: their new provider offered them a better deal (42%); had a better reputation for good customer service (27%); and gave poor customer service in branch (26%). Source: Mintel Current Accounts – Ireland, August 2014, pp71 & 72.

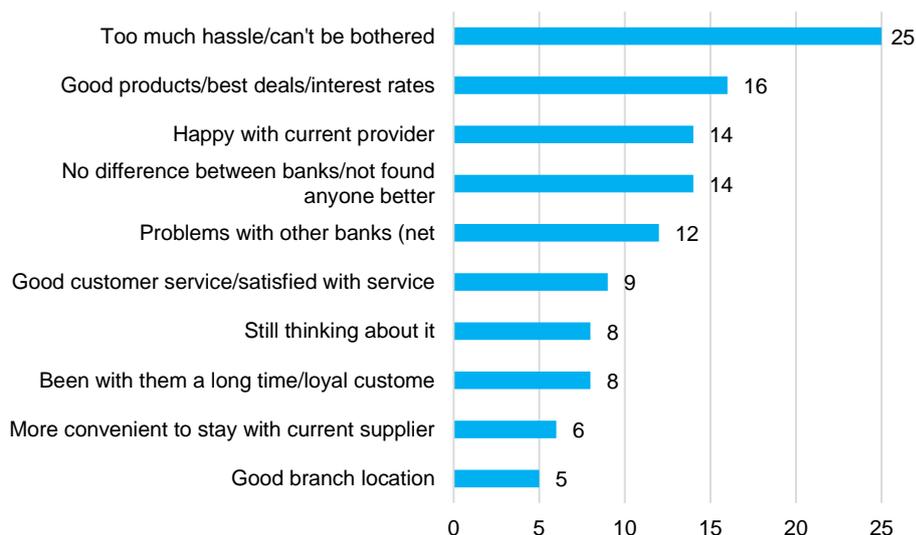
Figure 5: Barriers – why not looked around/switched (in last three years)



Source: CMA GfK PCA consumer survey

23. Respondents who had looked around in the past year, but not switched were asked for the reasons why they did not switch their account after searching (see Figure 6 below).²⁹ ‘Too much hassle/can’t be bothered’ was cited by 25% of respondents and ‘no difference between banks/not found anyone better’ was cited by 14%. 8% did not switch because of loyalty to their current provider, while 6% did not do so because it is more convenient to stay with their current provider.

Figure 6: Barriers – why not switched after searching (in last year)



Source: CMA GfK PCA consumer survey

²⁹ F15: ‘You say you have looked around, but didn’t change your main current account. Why didn’t you do that?’

Switching movements

24. Switching movements as reported by data provided to the CMA from banks is shown in Figure 7. This shows that Santander, Halifax (part of LBG) and Nationwide were all making net gains in 2014.³⁰

Figure 7: CMA aggregate switching data 2014 – sorted by net gain (switched in – switched out)

[REDACTED]

Source: CMA aggregate data.

*Metro and Co-op only provided data for acquired customers.

†AIB also includes First Trust Bank.

‡Numbers for Clydesdale also include Yorkshire bank.

Notes:

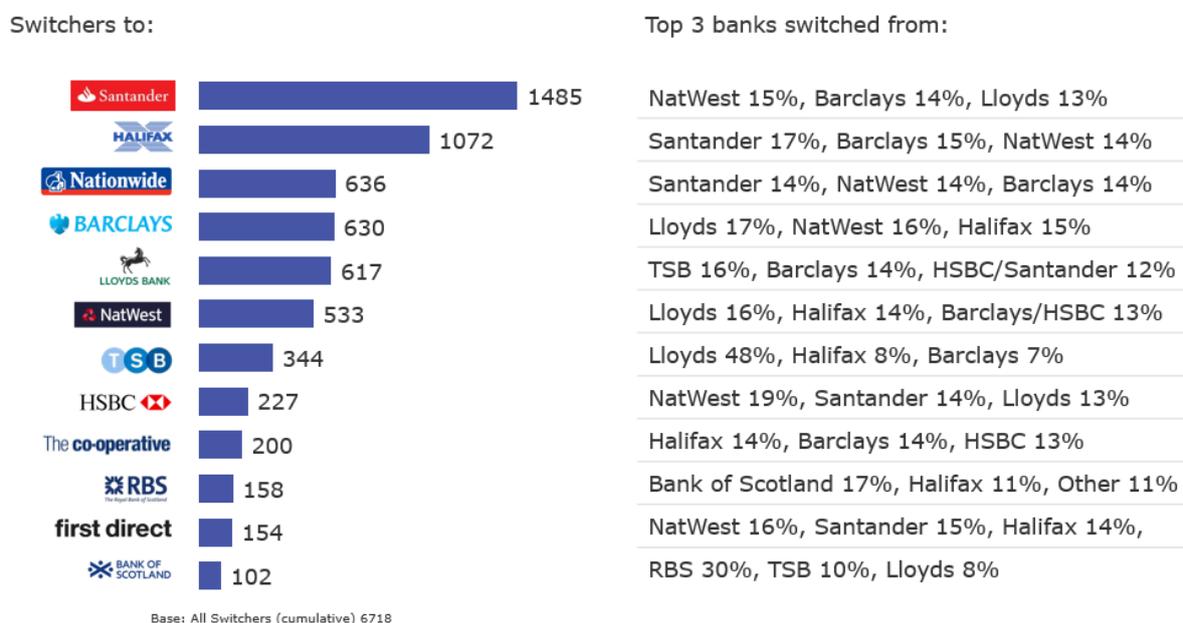
1. Switching data is at brand level except for RBS/NatWest.

2. Internal switches have been excluded. For switches concerning RBS/NatWest, RBSG only provided data on switches within the whole RBSG, therefore the balances switched out of RBS/NatWest might be distorted; Barclays provided numbers of switches to LBG as a whole and not by brand. The numbers have been allocated to Lloyds bank.

25. Third party sources, namely TNS market research, [REDACTED] and Payments Council³¹ CASS data corroborate Santander, Halifax (part of LBG) and Nationwide as net gainers.

26. Figure 8 provides further details in relation to switching movements. This confirms that Santander and Halifax (part of LBG) are the main winners with the greatest loses being from Lloyds and Natwest (part of RBS).

Figure 8: TNS cumulative switching data 2013 to 2014, by Brand



³⁰ NI, [REDACTED].

³¹ Excludes low participate volumes.

Switchers from:



Base: All Switchers (cumulative) 6718

Top 3 banks switched to:

Santander 21%, TSB 18%, Halifax 17%
Santander 27%, Halifax 18%, Barclays 12%
Santander 27%, Halifax 20%, Nationwide 11%
Santander 25%, Halifax 20%, Lloyds/Barclays 10%
Santander 27%, Barclays 14%, NatWest 12%
Halifax 28%, Nationwide 14%, HSBC 13%
Santander 29%, Halifax 17%, Barclays 12%
Santander 30% Halifax 11%, Bank of Scotland 9%
Lloyds 33%, Santander 16%, Halifax 11%
Nationwide 21%, Santander 19%, Halifax 14%
Santander 20%, RBS 18%, TSB 12%
Santander 27%, Halifax 24%
Santander 45%

Source: TNS Current account switching update. Quarterly observations, Cumulative data to December 2014.

PCA multi-banking

27. This section provides evidence on multi-banking. Multi-banking can be defined in different ways:
 - (a) Narrow multi-banking: customers with PCAs at more than one bank.
 - (b) Broad multi-banking: customers with different financial products at different banks.
28. This section of the appendix focuses on narrow multi-banking only.³²
29. Some banks told us that multi-banking had increased over the past years.³³ Furthermore, a number of banks have suggested that we should consider multi-banking in our analysis³⁴ and two banks specifically stressed that multi-banking put a competitive constraint on the market.³⁵

Levels of multi-banking

30. The statistics on multi-banking are based on responses to the GfK PCA consumer survey data, with a total sample size of 4,546 respondents. Where data on respondents' characteristics (eg age, account inflows) is available

³² For simplicity, we refer in the rest of the appendix to 'narrow multi-banking' by using the shortened term 'multi-banking'.

³³ AIB, LBG, Barclays, HSBCG, RBSG, Bol.

³⁴ Barclays, HSBCG, RBSG, LBG.

³⁵ Barclays, HSBCG.

from the 2014 anonymised current account usage data, as provided by banks (transaction data), we use that data instead.³⁶

31. In the analysis, we excluded observations where a value in the transaction data was missing, and observations from the GfK PCA consumer survey data where a customer responded 'do not know' or refused to answer the question.

Current level of multi-banking

32. The GfK PCA consumer survey found that nearly half (48%) of UK customers hold more than one current account at the same and/or a different bank. In more detail:
 - (a) 17% of customers have more than one PCA, but only with the same bank; and
 - (b) 22% of customers have more than one PCA, but only with a different bank;
 - (c) 9% of customers have both, ie more than one PCA with the same bank as well as with a different bank.³⁷
33. In the remainder of this paper we refer to multi-bankers, as the 31% of customers who have additional PCAs with more than one bank, which includes respondents who have more than one PCA with the same bank as well as with a different bank. The remaining 69% of customers are referred to as single-bankers.³⁸
34. The figure of 48% is slightly higher than data from GfK's Financial Research Survey (GfK FRS), which estimates that about 33% of customers have more than one account with the same and/or a different bank. The survey also finds that 21% of customers have additional PCAs with more than one bank, which compares to 31% of respondents in the GfK PCA consumer survey who multi-bank.³⁹ Research commissioned by Barclays (Tooley report) reports similar

³⁶ We believe that transaction data is more accurate than survey data, as survey data is based on respondents' memory, whereas transaction data is based on banks' collected electronic data that is less prone to mistakes than respondents' memory. We refer here to 'customers' for simplicity when considering transaction data. However, transaction data contains a sample of accounts rather than customers. Therefore, for customers who hold more than one PCA, we do not observe all their activity but only that associated with the account included in our sample. For example, a customer may have two accounts and only use an overdraft on one of them, while the chances for any of the two accounts being in the sample are the same.

³⁷ Sample base = All surveyed customers (4,546). Question B3 'Do you have any current accounts with anyone else apart from {bank}, either sole or joint accounts?', A7 'Can I just check, do you have any [other] single current accounts with {bank},?' Note: The sample is based on responses to questions in the GfK PCA consumer survey. For further details, see [GfK NOP PCA banking survey technical report](#).

³⁸ Our definition of single-bankers includes customers who only have one account (52%) as well as those who have more than one account, but all with the same bank (17%).

³⁹ GfK FRS, All Current Account holders, 12 months ending December 2014.

figures to the GfK PCA consumer survey with 28% of customers having two PCAs and 12% having three to five PCAs at the same and/or a different bank.⁴⁰

35. The GfK PCA consumer survey results also match with results from the Payments Council that found that 42% of the UK adult population hold more than one PCA at the same and/or a different bank, which increased from 36% in 2008.⁴¹
36. GfK FRS data shows that the proportion of customers who multi-bank has increased over time. GfK told us that there was a step change in the data between 2007 and 2008 as a result of a methodology change in the survey. Therefore, GfK suggested comparing data from 2008 to 2014. Multi-banking increased from 18% in 2008 to 21% in 2014. However, the growth occurred in the period 2008 to 2011; since 2011, the proportions of multi-bankers have remained broadly stable, as Figure 9 shows.⁴²

Figure 9: Proportion of PCA customers with more than one PCA relationship

[✂]

Source: GfK FRS, 12 months ending 2005–2014, about 56,000 account customers interviewed in each year.

Number and usage of additional PCAs

37. As noted above, the following statistics refer to multi-bankers - the 31% of customers who have additional PCAs with more than one bank.
38. According to the GfK PCA consumer survey, the majority of multi-bankers (75%) have one additional PCA, representing 23% of the whole population. Substantially fewer multi-bankers (20%) have two additional PCAs and 5% have three or more additional PCAs.⁴³
39. The majority of multi-bankers (73%) actively use their first additional PCA, representing 22% of the whole population.⁴⁴

⁴⁰ Tooley Street Research (2015), *Towards world class: The consumer view of current accounts and payments*, p9. Note: Questions placed in a YouGov omnibus poll, which is a representative sample of 2000 adults across GB.

⁴¹ Payments Council (2014), *UK Consumer Payments Trends*, p7. Note: Information gathered from 2,208 respondents in three steps: an initial telephone interview, a self-completion questionnaire and a self-completion diary system.

⁴² GfK FRS data 2008–2014.

⁴³ Sample base = All respondents that multi-bank (1,378). B4 'How many UK current accounts do you have with other banks apart from {bank}?'

⁴⁴ Of those who have a second additional PCA, a smaller proportion (62%) uses the second additional PCA. Sample base = All respondents that multi-bank (1,375). B4 'How many UK current accounts do you have with other banks apart from {bank}?', B6 'And do you use that account at all nowadays, or not?' Note: The sample size is too small for customers holding more than two PCAs to make a judgements about usage patterns.

40. This figure of 22% is in line with research by the Social Market Foundation (SMF) commissioned by Lloyds which finds that 25% of the whole population actively (within the last four months) use PCAs with more than one provider.⁴⁵

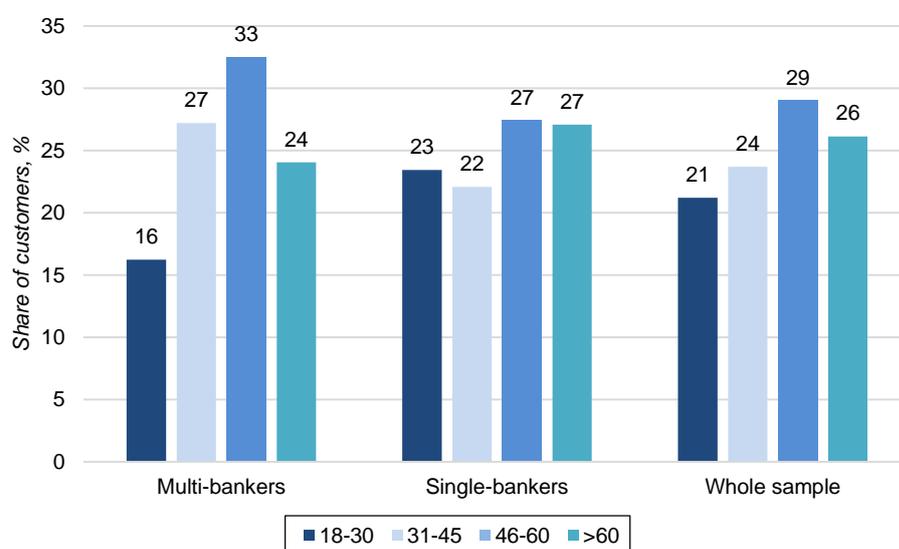
Characteristics of multi-bankers

41. We analysed different characteristics of multi- and single-bankers, in particular examining whether there are any significant differences between these two groups.
42. We highlight below only differences between multi- and single-bankers that are statistically significant at a 95% level. Detailed information on sample sizes and statistical significance of results can be found in Annex A.

Basic characteristics

43. More middle-aged customers (31 to 60 years old) and fewer young customers (18 to 30) multi-bank, as Figure 10 shows. These differences are statistically significant at a 95% level. There are no statistical differences between the oldest age group (>60 years).

Figure 10: Age profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data. Sample base: Multi-bankers (1,411), single-bankers (3,124), whole sample (4,535).

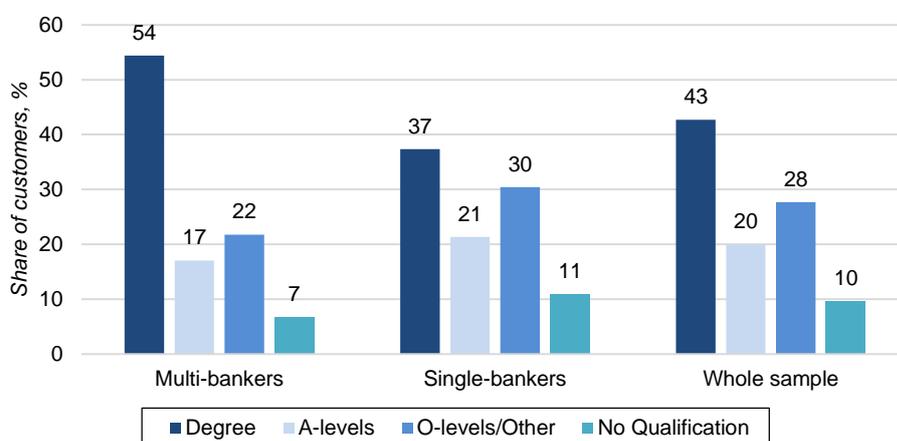
⁴⁵ Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p40. Sample base: All respondents who have a bank account (1,848). Note: Research based on online interviews carried out with 2,048 GB adults (aged 18+) with results weighted to be representative of all British adults. No further information on statistical significance of results is provided.

44. There is no significant difference between multi-bankers and single-bankers according to gender or devolved nation, for details see Annex A.
45. These results are generally in line with GfK FRS, which finds that multi-banking is more likely among the age of 25 to 44.⁴⁶ The SMF report confirms that older people are slightly more likely to be narrow multi-bankers than younger age groups.⁴⁷

Education

46. More than half of the multi-bankers (54%) have a degree, which is a considerably larger proportion than for single-bankers (37%) who tend to have a lower level of qualification, as Figure 11 shows. These differences are significant at a 95% level.⁴⁸

Figure 11: Education profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data. Sample base: Multi-bankers (1,382), single-bankers (2,996), whole sample (4,378).

Working status

47. More multi-bankers are in employment compared with single-bankers, as Figure 12 shows.⁴⁹ This difference is significant at a 95% level.

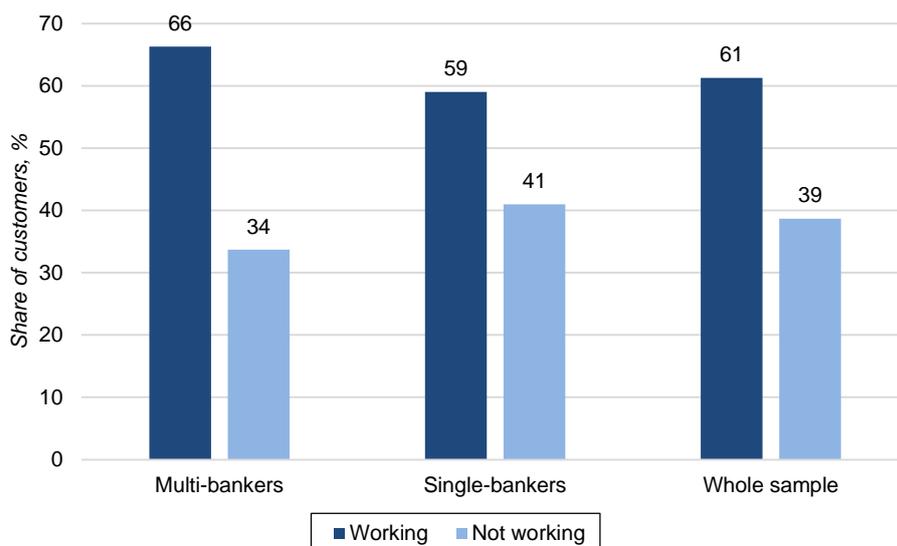
⁴⁶ GfK FRS, 12 months ending December 2014.

⁴⁷ Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p42.

⁴⁸ Note that the sample size for multi-bankers of the subgroup 'no qualification' is too small (<150) to make statistically meaningful comparisons.

⁴⁹ The subgroup 'working' includes customers who work full- and part-time. The subgroup 'not working' includes customers who do not work, who are retired, who are full-time students and who responded 'other' to the question in the GfK PCA consumer survey.

Figure 12: Working status profile of customers



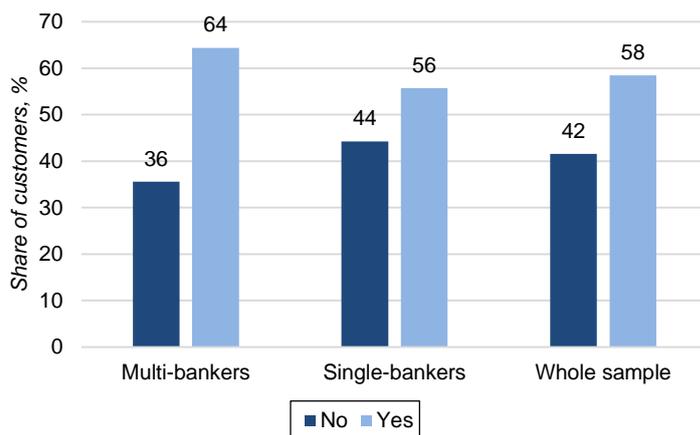
Source: CMA analysis based on banks' transaction data and GfK PCA consumer data. Sample base: Multi-bankers (1,414), single-bankers (3,132), whole sample (4,546).

48. The SMF report finds that multi-bankers are not more likely to be in employment than single-bankers.⁵⁰

Financial literacy

49. We asked respondents in the GfK PCA consumer survey a question to test their financial literacy.⁵¹ Multi-bankers were more likely to answer the question correctly than were single-bankers. These differences are significant at a 95% level.

Figure 13: Financial literacy profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.

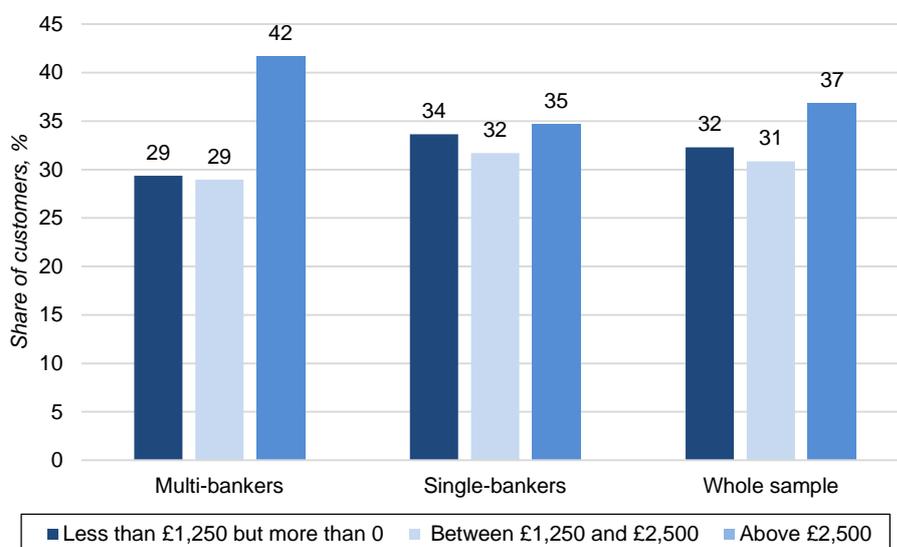
⁵⁰ Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p. 43.

⁵¹ Question K1 'Suppose you took out a loan of £500, and the interest rate you are charged is 10% per month. There are no other fees. At this rate how much money would you owe in total after one month, if you hadn't repaid any of the loan?'.

Income

50. Figure 14 shows that multi-bankers tend to have higher inflows into their account than single-bankers. These differences are significant at a 95% level. Inflows into main accounts is a proxy for income, and therefore this suggests that multi-bankers tend to have higher income than single bankers. Moreover, multi-bankers may have inflows into their additional accounts as well, hence this data is likely to underestimate the income gap between multi-bankers and single-bankers.

Figure 14: Monthly account inflows of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
 Sample base: Multi-bankers (1,413), single-bankers (3,131), whole sample (4,544).

51. GfK FRS distinguishes between personal and household income. Multi-banking is seen to be more prevalent among those with higher incomes (both personal and household).⁵²
52. These results are in line with results from the SMF report which finds that multi-bankers are relatively well off, with an average household income of £30,200 compared with £26,400 for a single-bank household.⁵³

Digital channel usage

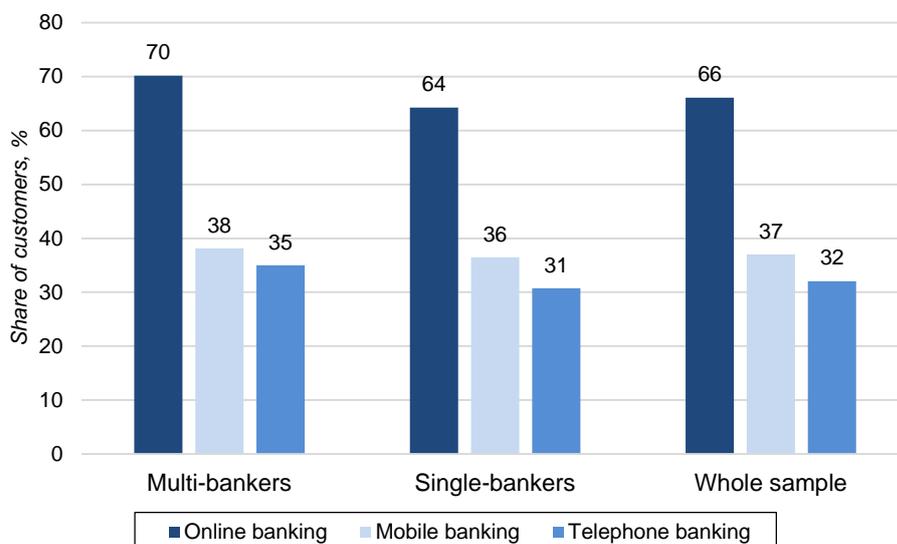
53. Multi-bankers are more likely to use online banking and telephone banking than single-bankers. These differences are statistically significant at a 95%

⁵² GfK FRS, 12 months ending December 2014.

⁵³ Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p43.

level. There are no statistically significant differences of using mobile banking between multi-bankers and single-bankers.

Figure 15: Digital channel usage profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data. Sample base: Multi-bankers (3,132), single-bankers (1,414), whole sample (4,546).

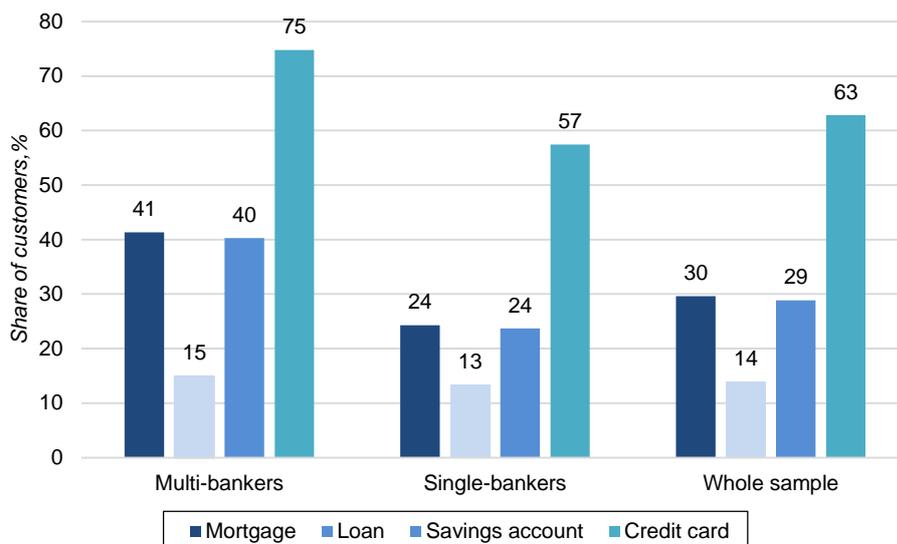
54. The SMF study reports that multi-bankers are more likely to use online banking and that there is no difference between multi- and single-bankers according to mobile banking usage. However, multi-bankers are less likely to use telephone banking than single-bankers.⁵⁴

Other financial products

55. Multi-bankers are more likely to have a mortgage, savings account or credit card than single-bankers. These differences are statistically significant at a 95% level. The proportion of multi-bankers having a loan does not significantly differ from the proportion of single-bankers.

⁵⁴ Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p44f.

Figure 16: Other financial products held by customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data. Sample base: Mortgage: Multi-bankers (1,406), single-bankers (3,112), whole sample (4,518). Loan: Multi-bankers (1,406), single-bankers (3,108), whole sample (4,514). Savings account: Multi-bankers (1,404), single-bankers (3,115), whole sample (4,519). Credit card: Multi-bankers (1,400), single-bankers (3,114), whole sample (4,514).

Banking relationship

56. We do not observe any differences between multi- and single-bankers in relation to the time they have been with their main bank.⁵⁵

Attitudes towards banking

57. Slightly fewer multi-bankers are satisfied with their main bank compared with single-bankers. This difference is statistically significant at a 95% level.⁵⁶

58. We analysed whether multi-bankers differ in their attitude towards banking compared with single-bankers. We tested whether there were differences between multi-bankers' and single-bankers' attitudes to the following statements:

- (a) Switching current accounts is too much hassle.
- (b) There are real differences between banks in the current accounts that they offer.

⁵⁵ For details see Annex A.

⁵⁶ Note that the sample size for multi-bankers of the subgroup 'not satisfied' and 'neither satisfied nor dissatisfied' is too small (<150) to make statistically meaningful comparisons. For details see Annex A.

59. Multi-bankers are less likely to think that switching current account is a hassle.⁵⁷ This difference is statistically significant at a 95% level. We find no differences between multi- and single-bankers regarding the second statement.⁵⁸

Reasons for multi-banking

GfK PCA consumer survey evidence

60. Respondents to the GfK PCA consumer survey were asked 'Why do you use more than one current account?' which includes accounts with the same or a different bank. The three most common reasons for active multi-bankers⁵⁹ were:

(a) to have different PCAs for different purposes⁶⁰ (62%);

(b) to get better rates, products and deals (16%); and

(c) to have a sole and joint account (15%).⁶¹

61. When asked a subsequent question on 'Why do you have more than one bank for your current accounts?'. The three most common reasons for active multi-bankers were:

(a) to get better rates, products and deals (26%);

(b) to have different PCAs for different purposes (16%); and

(c) a preference not to have multiple PCAs with the same bank (15%).⁶²

Other evidence on the reasons for multi-banking

62. These results are not inconsistent with external research analysing the reasons for having more than one PCA.

⁵⁷ 53% of multi-bankers think switching is a hassle compared with 59% of single-bankers. 36% of multi-bankers do not think switching is a hassle compared with 31% of single-bankers. 10% of multi- and single-bankers have no specific view and are indifferent.

⁵⁸ For details see Annex A.

⁵⁹ We refer to 'active multi-bankers' to the 73% of multi-bankers who actively use at least one additional PCA with a different bank, representing 22% of the whole population.

⁶⁰ We interpreted the response 'to have different PCAs for different purposes' as meaning that customers have different accounts to hold money for different purposes, such as personal spending, household bills, or saving, such as holidays, mortgages, children or other big spending.

⁶¹ Sample base: All who actively use at least one other account with a different bank (1,009). Question B8a 'Why do you use more than one current account?'

⁶² Sample base: All who actively use at least one other account with a different bank (1,009). Question B8 'Why do you have more than one bank for your current accounts?'

63. Research from the Payments Council shows that a third of consumers who switched PCAs in 2013 kept the old one open to mainly use it as a backup and have different accounts for different purposes, such as for paying bills and saving.⁶³
64. The SMF report finds that multi-bankers mainly use more than one account to manage their finances (57%).⁶⁴
65. The Tooley report also finds that the main reasons for having more than one current account are either to have a joint account with a partner or other family member (42%), or to use different accounts for different purposes such as paying different types of bills (39%) or saving (19%).⁶⁵
66. Whilst results from the SMF report and the Tooley report are broadly in line with results from the GfK PCA consumer survey, we are cautious about the robustness of the results from the SMF and the Tooley report. Both reports are based on online surveys, as a result of which the sample is not representative of the whole of the UK by excluding non-internet users. Additionally, sample sizes are about half the size of the GfK PCA consumer survey, which raises concerns about the representativeness of results for specific sub-samples, as sample sizes fall below 100 respondents for some subsamples. Lastly, the SMF and the Tooley report do not report on the statistical significance of results. In other words, it is unclear if differences between multi- and single-bankers, as found in the SMF report, are random or due to a pattern in the data that indicates that these groups are systematically different.

Evidence on banks' strategies

67. In order to assess the extent to which multi-banking is impacting on competition between banks, we also examined banks' strategies towards multi-banking.

⁶³ Payments Council (2014), Account Switching: Quantitative Market Research Results.

⁶⁴ 'Managing finances' refers to consumers who use current accounts at multiple providers for at least one of the following reasons: To help keep track of payments or direct debits, to keep household and personal expenses separate, one is a shared account with a partner or housemates, one is for my business, one is for a club or charity, one is a betting account. Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p41f. Base: All respondents with more than one active current account (362).

⁶⁵ Tooley Street Research (2015), *Towards world class: The consumer view of current accounts and payments*, p9. Base: All GB adults who have more than one current account (904).

Identifying multi-bankers

68. Many banks indicated that they did not identify customers with PCAs elsewhere.⁶⁶ A few banks identified if customers had their main PCA with them by observing account transactions.⁶⁷ One bank indicated that it measured the share of customers who operated secondary PCAs.⁶⁸

Banks' business strategy

69. The majority of banks focus their strategy on building primary relationships with customers and do not specifically focus on multi-bankers who may open an additional account with them.⁶⁹ Banks indicated that they do this by providing good customer service or reward customers for having their primary relationship with them (eg cashback, waiving monthly fees, free insurance etc, when paying in a minimum amount per month or setting up a certain amount of direct debits).
70. TSB is the only bank that indicated it had taken multi-banking into account in one of its marketing strategies, where it promoted one of its PCAs with an initial message of 'try before you buy'. Customers could open an account and switch their main bank account to TSB at a later stage, if they liked the service. Yet this strategy still focuses on encouraging the customer to switch PCAs, hence aims for the main banking relationship with customers.

⁶⁶ Nationwide, AIB, Santander, Danske, Clydesdale. RBSG told us that it does not actively monitor customers with PCAs elsewhere.

⁶⁷ LBG, TSB, Barclays, Bol. Barclays identifies primary and secondary account holders; primary account holders being those customers engaging with their Barclays PCA to perform the majority of their day-to-day transactional needs.

⁶⁸ [REDACTED].

⁶⁹ Nationwide, LBG, Barclays, Santander, Bol, Clydesdale, Danske. RBS also focuses its strategy on building primary relationships with customers, but still looks to continue to build relationships with all customers (both existing and potential) in the hope they will remain or become a primary customer.

Annex A: Customers' characteristics

Customers' characteristics

Segment	Subgroup	Number of respondents	Share of customers (%)			
			Total	Multi-bankers	Single-bankers	Significance*
Basic characteristics						
Gender	Male	2,343	52	53	51	
	Female	2,198	48	47	49	
Age	18-30	1,089	21	16**	23** ¹	Yes
	31-45	1,099	24	27** ²	22** ³	Yes
	46-60	1,266	29	33**	27** ⁴	Yes
	>60	1,081	26	24** ⁵	27** ⁶	
Nation	England	3,046	85	86**	84**	
	Wales	137	4	3** ⁷	5**	
	Scotland	661	8	8**	8**	
	NI	702	3	2** ⁸	3**	
Education						
Education	Degree	1,844	43	54**	37**	Yes
	A-levels	866	20	17**	21**	Yes
	O-levels/other	1,237	28	22**	30**	Yes
	No qualification	431	10	7**	11**	Yes
Working status						
Working status	Working	2,801	61	66**	59**	Yes
	Not working	1,745	39	34**	41**	Yes
Financial literacy						
Financial literacy	Incorrect	1,900	42	36**	44**	Yes
	Correct	2,603	58	64**	56**	Yes
Income						
Account inflows	High	1,492	37	42**	35	Yes
	Medium	1,426	31	29** ⁹	32	
	Low	1,626	32	29** ¹⁰	34	Yes
Digital channel usage						
Online banking	No	1,542	34	30**	36**	Yes
	Yes	3,004	66	70**	64**	Yes
Mobile banking	No	2,779	63	62**	64**	
	Yes	1,767	37	38**	36**	
Telephone banking	No	3,084	68	65**	69**	Yes
	Yes	1,462	32	35**	31**	Yes
Other financial products						
Mortgage	No	3,243	70	59**	76**	Yes
	Yes	1,275	30	41**	24**	Yes
Loan	No	3,914	86	85**	87**	
	Yes	600	14	15**	13**	
Savings account ⁷⁰	No	3,361	71	60**	76**	Yes
	Yes	1,158	29	40**	24**	Yes
Credit Card	No	1,858	37	25**	43**	Yes
	Yes	2,656	63	75**	57**	Yes
Banking relationship						
Duration with bank ⁷¹	up to 2 years	794	8	7**	8**	
	ca. 2–5 years	478	11	11** ¹¹	11**	
	ca. 5–10 years	615	16	14** ¹²	16**	

⁷⁰ Including Cash ISA accounts.

⁷¹ We use the year an account was opened as approximation for the time a customer has been with the bank.

Segment	Subgroup	Number of respondents	Share of customers (%)			Significance*
			Total	Multi-bankers	Single-bankers	
	ca. 10–20 years	1,001	25	27**	25**	
	more than 20 years	1,491	40	41**	40**	
Attitudes						
Satisfaction						
	No	164	4	4** ¹³	3**	
	Yes	4,160	91	89**	92**	Yes
	Indifferent	218	5	6** ¹⁴	5**	
There are real differences between banks in the current accounts that they offer						
	No	965	25	24**	25**	
	Yes	2,308	56	57**	55**	
	Indifferent	740	19	19**	20**	
Switching current accounts is too much hassle						
	No	1,591	33	36**	31**	Yes
	Yes	2,374	57	53**	59**	Yes
	Indifferent	467	10	10**	10**	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.

*Difference between multi- and single-bankers is statistically significant at 95% level.

**Significantly different from share of other subgroup in segment at 95% level.

¹except wrt to '31-45'.

²except wrt to '>60'.

³except wrt to '18-30'.

⁴except wrt to '>60'.

⁵except wrt to '31-45'.

⁶except wrt to '46-60'.

⁷except wrt to 'Northern Ireland'.

⁸except wrt to 'Wales'.

⁹wrt to 'high'.

¹⁰wrt to 'high'.

¹¹except wrt to '5-10 years'.

¹²except wrt to '2-5 years'.

¹³except wrt to 'indifferent'.

¹⁴except wrt to 'no'.

Quantitative analysis of searching and switching in personal current accounts

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Introduction

1. This appendix presents the quantitative analysis we carried out to study the searching and switching behaviour of customers in the market for PCA. The basis of the analysis is a comparison between searchers and non-searchers, and switchers and non-switchers, with the aim of understanding the relevant differences between these different groups of customers. This analysis constitutes one source of evidence to inform our assessment of theory of harm 1, which questions among others whether there is sufficient customer engagement to foster effective competition.

2. In our analysis, we use anonymised customer information coming from two sources: (1) the GfK PCA consumer survey and (2) current account usage data provided by the banks. We also use information on branch locations provided by the banks. This information allows us to compare searchers and switchers with non-searchers and non-switchers on a variety of dimensions including their demographic characteristics, their beliefs and perceptions and their use of their PCA.

3. We carry out this comparison through both a descriptive analysis of the data and an econometric analysis. The descriptive analysis consists of an analysis of each relevant factor separately and provides a first source of evidence of what are the main factors relevant to understanding the difference between groups. The econometric model, by considering all factors simultaneously, allows us to assess the relative importance of the various factors that might

drive searching and switching, and attach statistical significance to these results.

4. This appendix is structured as follows:
 - (a) The first section discusses the motivation for the analysis and key findings.
 - (b) The second section is a general description of the data sources and definitions used throughout the appendix.
 - (c) The third section presents the descriptive analysis of the factors that distinguish searchers and non-searchers, and switchers and non-switchers.
 - (d) The last section presents the results from the econometric analysis.

Summary of the analysis and key findings

5. In our analysis, we rely on observed customer characteristics and views, as expressed in the answers to the consumer survey, and analyse how these differ between searcher/switchers and non-searcher/non-switchers.
6. More specifically, in the analysis we look at the following broad categories of factors that may be related to the decision to search and/or switch:
 - (a) **Customer demographics:** including, age, gender, working status, income and level of education. Some of these characteristics are likely to be associated with the relative costs of searching and switching. So for example, someone with a higher level of education or better access to the internet may need less time to identify a good deal and be more likely to find the best option available to them.
 - (b) **Monetary features:** we use transaction data to look at customers' use of overdrafts and their level of credit holdings. We also rely on survey evidence regarding how important monetary aspects are for customers and their levels of satisfaction with charges. Monetary features are associated with expected gains or pull factors, so for example, customers that hold higher credit balances would benefit more from accounts offering better levels of credit interest and hence may be more likely to search and switch. However, monetary features may also be linked to barriers to searching and switching. For example, customers that use overdrafts could be less likely to search and switch if they are unable to transfer their overdraft facility to their new bank.

- (c) **Quality of service:** including customer service, branch services and network, and online services. In particular, we look at how important these services are for customers, how often they use them, and what is their level of satisfaction with the service received from their previous and current bank. This analysis intends to shed light on expected quality gains from switching, as well as trigger factors associated with reduced levels of service, eg errors not being appropriately dealt with by the bank or the closure of a local branch.
- (d) **Trigger factors:** we focus on a number of life events, including moving house, changing relationship or work status, and assess whether the probability of searching and switching is higher among customers who experienced such events. Changes in customers' personal circumstances may lead them to demand different services from their PCA and push them to search for, or switch to, a new PCA.
- (e) **Cost of searching and switching:** as explained above, some of the aspects we look at in the previous points are associated with costs of searching and switching. Here, we focus particularly on the perceptions expressed by customers in our consumer survey around the difficulties associated with searching and switching. We complement this by looking at other aspects of their PCA usage that may also be associated with costs of searching and switching, including the level of activity in their main PCA and multi-banking.

7. The main conclusions of our analysis can be summarised as follows:

- (a) The estimated annual rate of searching is 17%. However, 86% of them do not switch following searching. The estimated annual rate of switching is 3%. We also find that 25% of switchers do so without first looking around for alternatives.
- (b) The group of those that switched without searching present a different profile to other switchers in several dimensions.
- (c) Income: low-income customers are less likely to search, but no effect is found for switching.¹

¹ LBG pointed out to us that certain low-income customers will only hold and be eligible for BBAs and in consequence have lower expected gains from switching (due to the regulations mandating the functionality of BBAs), which will explain the lower level of searching within this group.

- (d) Age: customers aged between 55 and 64 are more likely to search but less likely to switch. Non-searcher/switchers are on average younger than non-searcher/non-switchers.
- (e) Education: searchers have on average higher levels of education and are more financially literate. This is not true for all switchers. In particular, the group of non-searcher/switchers do not present higher levels of education and financial literacy than non-searcher/non-switchers.
- (f) Use of the internet: Having confidence in the use of the internet has a positive effect on the probability of searching. Moreover, customers who use internet banking are more likely to search than those that do not. We also find evidence of an impact of confidence in the use of the internet on switching but results are less robust than for searching.
- (g) Overdraft usage: overdraft users are less likely to switch, while no effect is found on searching. However, it is important to note that information on overdraft usage comes from customers' current bank and therefore reflects usage after switching. The observed lower level of overdraft usage may be driven partly by customers who have not yet been able to secure an overdraft facility with their new bank. Also, the effect is not statistically significant in all our specifications.
- (h) Credit balances: those holding higher credit balances are more likely to search, while no effect is found on switching. As with overdraft usage, information comes from customers' current bank, and therefore for switchers it reflects usage after switching.
- (i) Satisfaction with quality of service: both searchers and switchers report higher levels of dissatisfaction with their previous bank regarding customer services than non-searcher/non-switchers.
- (j) Branches: there are no significant differences between searchers and switchers and non-searcher/non-switchers regarding the importance they attribute to branches and the frequency with which they use them. However, customers who have experienced the closure of a local branch are more likely both to search and to switch.
- (k) Trigger factors: customers who have changed work status are more likely to search, while no effect is found for switching.
- (l) Account usage: customers reporting a higher number of transactions (debits and credits) are less likely both to search and to switch.

(m) Multi-banking is correlated with observed levels of searching and switching.

Data and definitions

8. The analysis presented in this appendix is performed on a sample of 3,676 PCA customers,² which combines information from the GfK PCA consumer survey account usage data ('transaction data') and information on branch location ('branch data') provided by banks.
9. We have defined searchers and switchers on the basis of customers' response to the GfK PCA consumer survey as follows:
 - (a) **Searchers** are customers who responded that they had looked around for a new PCA in the last 12 months.³
 - (b) **Switchers** are customers who responded that they had switched their main current account to a different bank in the last 12 months.⁴
10. Therefore, we consider searching and switching activity during the 12 months prior to the GfK PCA consumer survey field work conducted in February and March 2015. Throughout the appendix we refer to this period as the '**switching period**'.
11. We exclude from the analysis customers who responded that they had searched or switched in the last two to three years, as well as those who responded that they had switched accounts within the same bank. Therefore, our '**reference group**' is the group of customers who have not searched or switched at any point in the last three years, and who have not switched accounts within the same bank.
12. In order to study the differences between searchers/switchers and non-searchers/non-switchers we need to establish a period of time in which to consider searching and switching activity. Since there is not *a priori* a clear rule on what would be the relevant period to consider, we consider three groups:
 - (a) action (those that have searched or switched within the last 12 months).

² The number of customers considered in specific parts of the analysis may be smaller due to missing information.

³ Identified on the basis of customers' response to survey questions F1 and F2.

⁴ Identified on the basis of customers' response to survey questions F3 and F4.

- (b) action (those that have searched or switched within the last two to three years); and
- (c) no action in the last three years.
13. We compare action (last 12 months) and no action whilst excluding action within the last two to three years.
14. There are also other methodological reasons to focus only on searching and switching in the last 12 months. One of the main challenges we face in our analysis is the reliance on information that is after the searching and switching period, including survey responses and transaction data. Any source of bias associated with this issue is likely to be much aggravated by extending the searching and switching period to three years.
15. We also have concerns regarding the definition and interpretation of internal switching. Whilst we recognise the importance of this group it is unclear to what extent the group of internal switchers includes customers that have taken an active decision to change their PCA. A share of internal users may be customers that engaged with the market and decided that the best product for them was offered by their current bank, and hence switched internally. However, this group is also likely to include customers that were upgraded by their bank or just took on a particular offer they received from their bank without engaging with the market. Given the difficulty interpreting this group, we did not include them in the analysis but consider the potential constraint separately within Section 7 of our provisional findings.
16. Throughout the analysis, we refer to customers' **'current bank'** as the bank where customers hold their main current account, which corresponds to the bank and account with which they were sampled. We refer to customers' **'bank of origin'** as the bank where customers held their main current account before the switching period. For switchers, this is the bank they switched from and for non-switchers it is the same as their current bank.
17. All quantitative evidence presented in the appendix has been calculated using sampling weights provided by GfK, with the exception of reported numbers of observations. Sample stratification is accounted for in the calculation of standard errors for hypothesis testing. Further details on data processing are provided in Annex A. A list of all variables used in the analysis and their definition is provided in Annex B.

Descriptive analysis

18. We first carry out a descriptive analysis of the differences between searchers and switchers, and non-searchers and non-switchers, looking in detail at each

of the factors listed in paragraph 6. The analysis provides a first source of evidence on the main factors that characterise searchers and switchers, and is a basis for selecting the factors to consider in the econometric model. In this section we present the main results of this analysis. Further details are presented in Annex C.

19. For the purpose of the descriptive analysis, we divide customers into four groups depending on whether they searched, switched or both:
 - (a) Searcher/switchers (SS).
 - (b) Searcher/non-switchers (SN).
 - (c) Non-searcher/switchers (NS).
 - (d) Non-searcher/non-switchers (NN).
20. As indicated in the previous section, the NN group constitutes our reference group to which we compare the other three.
21. Table 1 presents the unweighted number of customers in each of these groups and the weighted proportion of the sample they represent. In particular, switchers represent around 3% of the GfK PCA consumer surveyed sample, and searchers represent 17% of the GfK PCA consumer surveyed sample, with the majority of them (86%) not having switched following searching. We also note that around 25% of switchers do so without previously searching.⁵

Table 1: Customer groups and sample sizes

<i>Groups</i>	<i>Proportion of surveyed sample (weighted, %)</i>	<i>Number of observations (unweighted)</i>
Non-searcher/non-switchers	65.4	2779
Searcher/non-switchers	14.2	574
Searcher/switchers	2.3	208
Non-searcher/switchers	0.8	115
Excluded	17.4	873
Total	100	4,549

Source: CMA analysis based on GfK PCA consumer survey.

22. We first look at a series of customer demographic indicators in order to compare the profile of searchers and switchers to those that do not search or

⁵ The sample used in this analysis is a sub-sample of the customer survey. Therefore, it is not representative of the population of UK customers but only of a subset of these. Although this sample is suitable to carry out a comparison between particular groups of customers like we do in this appendix, reported switching and searching rates are underestimated. The adjusted numbers are reported in Table 1 of Appendix 7.1.

switch. As it will be noted below, some of these customer characteristics are related to potential drivers or barriers to searching and switching.

Basic demographic indicators

23. The basic demographic indicators we analyse are: age, gender, working status and level of income.
24. The most noticeable differences between searcher/switchers and those who did not search/switch concern their level of income. We find that searchers, whether they switched or not, have a higher level of income than the other two groups:
 - (a) Higher earners, those with income of £50,000 or above, represent around 25% of the group of searchers, and only 17% and 14% of the non-searcher/non-switchers and non-searcher/switchers respectively.
 - (b) Conversely, the group of customers with income below £24,000 represents approximately 43% of searchers and 56% of non-searchers groups.⁶
25. With respect to the other indicators, we do not observe large differences between groups:
 - (a) Age: there are no significant differences in the age profile of those that searched and switched compared to the reference group, though we do observe that those who switched without searching are on average younger than the other groups. Also, the group of searcher/non-switchers presents a larger share of customers aged between 55 and 64 as compared to the reference group.
 - (b) Gender: there is a slightly smaller share of women in the searching and switching group than in the reference group.
 - (c) Working status: in general, we do not find any important differences in the employment profile of the different groups.

⁶ These differences between these groups and the reference group NN are statistically significant at 1% for SN and at 5 to 10% for SS.

Education and financial literacy

26. We also look at three measures related to customers' level of education and financial literacy, namely: the highest level of education achieved, financial literacy and confidence in the use of the internet.
- (a) Level of education is measured using responses to the GfK PCA consumer survey. A higher level of education may make it easier to assess and process information regarding the relevant features of a PCA, and hence could imply lower costs of searching and switching.
 - (b) We measure financial literacy using answers to a question in the GfK PCA consumer survey that aimed to test customers' ability to make a simple interest calculation. The ability to understand financial information and how interest rates work on a basic level is essential in order to understand certain monetary features of PCAs, particularly around overdraft costs and credit interest.
 - (c) We measure confidence in the use of the internet using responses from the GfK PCA consumer survey on internet access and proficiency. Internet access and proficiency in its use is likely to be associated with lower costs of searching, as a large amount of information on PCA features is available online, potentially constituting an easily accessible source to gather information and make comparisons. In addition, many banks also offer the facility to open an account or even switch accounts on their websites, which means that internet confidence may also be associated with a lower cost of switching.
27. The three measures show a clear difference between searchers, whether they switched or not, and the rest of the sample:
- (a) We find that a larger proportion of customers who searched have a university degree compared to those who did not search (between 45 and 50% of searchers have a degree, compared to 37% for customers who did not search or switch).
 - (b) As for financial literacy, 68% of customers who searched gave the correct answer to the GfK PCA consumer survey question, compared to only 54% of those who did not search.
 - (c) Searchers also show higher levels of internet access and confidence in its use: around 90% of searchers report having confidence in the use of the internet, while this share is 74% for those who neither searched nor switched.

- (d) The group of those that switched without searching present similar levels of education and literacy than those who did not search or switch.

Monetary features

28. We next look at account usage and customers' views on the monetary features of PCAs.⁷ In particular, we focus on overdraft usage and costs, and credit interest.⁸

Customer views on monetary features

29. In terms of customers' views on monetary features, we look at two measures:
- (a) customers' responses on the importance of level of charges; and
 - (b) customers' responses on the importance of interest rate on credit balances.
30. We do not find any noticeable differences between searchers and switchers and those who did not search or switch in relation to the importance of level of charges. However, searchers seem to differ significantly regarding the importance they assign to the interest rate paid on credit balances: around 55% of searchers consider interest rates on credit balances to be very important or essential, compared to 42% for non-searcher/non-switchers. These results suggest that searchers may be more likely to respond to monetary pull factors associated with credit interest payments or other financial rewards.

Account usage

31. Customers with high credit balances, and/or those who tend to use overdrafts, may have more incentives to search and switch for different offers in the market as potential monetary gains from switching are likely to be higher for these customers. At the same time, having an arranged overdraft facility or the ability to use an unarranged overdraft could act as a barrier to switching if these facilities are not transferred across to the new bank.

⁷ In our methodology paper published on 10 March 2015, we indicated our intention to calculate the monetary gains from switching available to customers on the basis of transaction and price data submitted by the banks. However, after analysing the data we concluded that, given the complexity of the pricing structure of PCAs and the fact that we did not have information on the particular PCA products customers were on before switching, we would not be able to obtain reliable estimates of their potential gains from switching.

⁸ We also look at the level of usage of transactions abroad, however we do not find any statistically significant differences between groups.

32. Specifically, we look at the following measures:
- (a) Credit balances: average credit balances (when in credit) and share of high credit balance customers.
 - (b) Overdraft usage: share of overdraft users, average overdraft balance (when in overdraft), and average number of days in overdraft.
33. Results for credit balances are reported in Table 2 below.

Table 2: Credit balances

<i>Groups</i>	<i>Average credit balance (when in credit) (£)</i>	<i>Share of high credit balance holders (%)†</i>
Non-searcher/non-switchers	2,872	23.9
Searcher/non-switchers	4,745***	30.9***
Searcher/switchers	4,445**	39.0***
Non-searcher/switchers	1,687***	20.1

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

†High credit balance holders are defined as those holding an average credit balance equal or higher than the 75% percentile of the average credit balance of the complete transaction data for the last quarter of 2014 (£2,387.59).

***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

34. Searchers tend to have larger average credit balances than non-searcher/non-switchers. Also, a larger proportion of the customers in this group are high credit balance holders. The opposite is true for those who switched without searching, who actually have lower average credit balances than those who neither searched nor switched.
35. Results for overdraft usage are presented in Table 3 below. We find that overdraft users account for a significantly smaller proportion of switchers compared to non-switchers.⁹ There is a less clear story emerging from average overdraft balances, where the only significant difference with the reference group NN concerns those who switched without searching, who hold lower average overdraft balances. However, these results are likely to be correlated with the different income profile of customer groups and its impact on the ability to borrow. We also note that the number of days in overdraft does not vary significantly between groups.
36. These results suggest that overdraft users may be less likely to switch than non-overdraft users, which would support the idea that overdraft usage may act as a barrier to switching for some customers. However, we note that the information on overdraft usage comes from customers' current bank and reflects usage after switching. The observed lower level of overdraft usage

⁹ Barclays has pointed out to us that frequent overdraft users may differ in their switching behaviour to occasional overdraft users. We may consider exploring this further after provisional findings, however we believe that sample sizes may be too small to provide reliable evidence.

may therefore partly be driven by customers who have not yet been able to secure an overdraft facility with their new bank.¹⁰

Table 3: Overdraft usage

Groups	Overdraft users		Average overdraft balance (when in overdraft) (£)	Average number of days in overdraft
	Share (%)	Number		
Non-searcher/non-switchers	31.2	806	523	14
Searcher/non-switchers	29.0	152	577	12
Searcher/switchers	19.3***	42	662	16
Non-searcher/switchers	21.4**	31	177***	11

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence. Statistics are calculated using transaction data of the last quarter of 2014.

Satisfaction with the level of charges

37. We also look at customers' responses on satisfaction with the level of charges. We find that searchers and switchers report lower levels of satisfaction than those who did not search or switch regarding their bank of origin. If we look at the levels of satisfaction for switchers in their new bank, we find that the number of those that are dissatisfied is much smaller than for the reference group (8 and 11% for SS and NS respectively).
38. However, it should be noted that survey responses may be subject to ex-post rationalisation, that is, customers report levels of satisfaction that justify their past behaviour, and this may be driving the observed levels of satisfaction, particularly for switchers' new bank.

Quality of service

39. The analysis in this section focuses on the role of quality of service in the observed rates of searching and switching. Customers who search and switch may do so not just because of potential monetary gains but also to improve the quality of service they receive from their bank.
40. In particular, we focus on three dimensions of quality of service:
- (a) customer service;
 - (b) branch network and services; and
 - (c) online services (internet banking and mobile apps).

¹⁰ Barclays told us that another possible explanation of this result was that overdraft users had a higher propensity to multi-bank rather than switch banks completely.

Customer service

41. In the GfK PCA consumer survey, customers were asked about the importance of the following aspects of customer service:
 - (a) staff and customer service; and
 - (b) quality and speed of handling problems.
42. We find that both groups of switchers, SS and NS, report much higher levels of dissatisfaction than the reference group NN regarding their bank of origin. For example, with regard to staff and customer service, 20% of the SS group and 23% of the NS group express being dissatisfied, compared to only 2% in the NN group.
43. As for those who searched but did not switch, they also show significant differences compared to the NN group, although of a smaller magnitude. Among this group, 4% express being dissatisfied, compared to 2% for the NN group.
44. We note the same issues discussed in paragraph 38 regarding ex-post rationalisation also apply here.

Branch network and services

45. We do not find significant differences between the groups regarding the degree to which customers care about branches and the frequency in which they use them. The only significant difference is the proportion of customers indicating that they never use branches in the group of those who searched and switched, 14%, compared to the reference group NN, 7%.¹¹
46. We also look at survey results concerning a local branch closure. This is an important element for understanding searching and switching since a local branch closure could work as a trigger factor for switching. The proportion of searchers, both SN and SS, who have experienced a local branch closure is significantly higher than the reference group NN.¹²

Online services

47. We analyse survey results regarding the importance and frequency of use of online applications, in particular, internet banking and mobile apps. Overall,

¹¹ This difference is statistically significant at 5% confidence.

¹² The share for SN and SS groups is 10 and 14% respectively as compared to 6% for NN, and both differences are statistically significant at 5%. The share for NS is 8% but this difference is not statistically significant.

we find that online services seem to be more relevant for searchers and switchers than for the reference group NN:

- (a) The group of searcher/switchers consistently rate higher on both importance and frequency of use of these services compared to the reference group NN. In fact, 72% of customers in this group report internet banking as very important or essential and 40% say so about mobile apps, as opposed to 58 and 31% for NN respectively.¹³ Moreover, 57 and 36% report using internet banking and mobile apps weekly, compared to only 39 and 25% for NN.¹⁴
- (b) The results for searcher/non-switchers mirror those of SS for internet banking but not for mobile apps. As for non-searcher/switchers, mobile apps seem particularly relevant. In fact, 46% report mobile apps as very important or essential, and 40% use them weekly.¹⁵ As for internet banking, 64% indicate it is very important or essential, and 47% say they use it weekly.¹⁶ The predominance of mobile apps over internet banking is likely to be related with the younger profile of this group, as can be seen in Figure 1 of Annex C.

Trigger factors

48. In this section we focus on trigger factors associated with changes in customers' personal circumstances that may change their needs regarding banking services, and potentially push them to search and switch. We find that:
- (a) searcher/non-switchers and non-searcher/switchers present a higher proportion of customers reporting having changed work status compared to the reference group;
 - (b) non-searcher/switchers also present a higher share of customers reporting having moved house compared to the reference group; and
 - (c) we do not find significant differences in the frequency rate of these events for the searcher/switchers compared to the reference group.

¹³ These differences are statistically significant at 1% confidence.

¹⁴ These differences are statistically significant at 1 and 5% for internet banking and mobile apps respectively.

¹⁵ Both these shares are statistically significantly different from the NN shares at 5%.

¹⁶ Both these shares are not statistically significantly different from the NN shares.

Cost of searching and switching

49. In the previous sections we looked at certain customer characteristics and profiles that may be associated with costs or barriers to searching and switching, including the level of education and literacy, and overdraft usage. In this section, we extend this by looking at additional evidence relevant to this issue.

Customer perceptions regarding the difficulty to search and switch

50. We first look at customers' views on the ease or difficulty of searching and switching. In the GfK PCA consumer survey we asked customers about their perceptions on four dimensions of the process of searching and switching PCA, namely:
- (a) finding out about features and charges;
 - (b) understanding different options;
 - (c) making comparisons; and
 - (d) the process of changing PCA.
51. The first three dimensions are associated with searching while the last one concerns the difficulty of actually switching current accounts. We find that in general searchers present a higher proportion of customers reporting that they expected the process to be easy and a lower share of those indicating that they expected the process to be difficult, as compared to the NN group.
52. If we look instead at cost of switching, we observe that a larger share of searcher/switchers indicate they expected the process to be difficult as compared to the reference group. This is a counter-intuitive result and may be due to the biases these type of survey questions may be subject to; it is likely that respondents report their expectations in comparison to their actual experience of switching and, therefore, their responses are not really comparable to those of the reference group who have not had that experience. Indeed, we find that on average, switchers found the experience of switching easier than they expected. This could be due to a proportion of customers not being aware of CASS prior to switching.
53. Given the bias in customers' responses to these survey questions, for the purpose of the econometric analysis, we rely on objective customer characteristics that are related to difficulties in searching and switching, rather than reported perceptions.

Direct debits and other transactions

54. We also look at two indicators of PCA activity that may be associated with higher perceived costs of switching. We first look at the number of direct debits and standing orders in customers' main PCAs. The assumption behind this is that a customer who has more direct debits or standing orders may perceive switching accounts to be more difficult and time consuming, and hence be less willing to switch. The second indicator is the average number of transactions (debits and credits) in the current account per month. The assumption here is similar, a customer who uses their current account more intensively may perceive switching PCA to be more difficult or time consuming.¹⁷
55. We find that:
- (a) searcher/non-switchers have a higher number of direct debits on average than the reference group, while no difference is found for searcher/switchers;¹⁸ and
 - (b) searcher/switchers have on average a lower number of transactions than the reference group, while no difference is found for searcher/non-switchers.

Multi-banking

56. As part of the consumer survey, we asked customers whether they held PCAs or other products with other banks. In particular, we identify two types of multi-banking:
- (a) Narrow multi-banking: this is where a customer holds a PCA at more than one bank.
 - (b) Broad multi-banking: this is where a customer holds different financial products at different banks.
57. Table 4 summarises the results for PCAs held in other banks, both for all PCAs and active PCAs only.¹⁹ We first look at the share of customers in each group that indicate having at least one other PCA with a different bank.

¹⁷ Barclays has argued that a higher level of transactions could also be associated with a higher degree of confidence in the customer's bank and hence a lower likelihood of searching and switching.

¹⁸ A number of banks were unable to provide this information resulting in a large number of missing values. For this reason, we do not test the effect of direct debits on searching and switching in the econometric analysis.

¹⁹ In the GfK PCA consumer survey we asked customers to indicate whether they use each of their PCAs with other banks (question B6). We identify as active those accounts for which the customer answered yes to this question.

Searchers, both SN and SS, present significantly higher shares of customers reporting having PCAs in a bank different to their main bank, as compared to the reference group. As for the average number of extra accounts held by multi-bankers, only searcher/non-switchers are found to hold a significantly larger average number than the non-searcher/non-switchers, while non-searcher/switchers have a lower average number. This latter result may be correlated with the lower level of income and younger profile of this group.

Table 4: Narrow multi-banking – more than one PCA with different banks

Groups	Multiple PCAs			Multiple active PCAs		
	Customers			Customers		
	Share (%)	Number	Average number of accounts	Share (%)	Number	Average number of accounts
Non-searcher/non-switchers	26.5	728	1.24	19.3	521	1.16
Searcher/non-switchers	38.9***	220	1.43***	28.0***	156	1.38***
Searcher/switchers	50.7***	102	1.38	37.5***	76	1.22
Non-searcher/switchers	31.0	31	1.12*	21.0	19	1.05**

Source: CMA analysis based on GfK PCA survey consumer data.

***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

58. Table 5 presents the results regarding other banking products. There is no significant difference regarding the share of customers who have a mortgage with other banks. Switchers, both SS and NS, present larger shares of customers having loans with other banks. Searchers, both SN and SS, present a larger share of customers reporting having a savings product and credit card with another bank, while non-searcher/switchers present no significant differences compared to the reference group.

Table 5: Broad multi-banking – other products with different banks

Groups	Proportion of customers holding at least one of these products with another bank (%)				
	Mortgage	Loan	ISA	Other savings	Credit card
Non-searcher/non-switchers	17.2	3.2	15.8	19.1	29.7
Searcher/non-switchers	20.1	3.9	29.2***	29.7***	44.3***
Searcher/switchers	22.5	10.5**	28.5***	32.9***	50.6***
Non-searcher/switchers	16.9	17.0**	11.9	16.8	35.8

Source: CMA analysis based on GfK PCA survey consumer data.

***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

59. Beyond specific differences between subgroups, overall the evidence suggests that multi-banking is correlated with observed searching and switching rates.
60. Multi-banking can provide customers with better or easier access to information on products, services and charges offered by other banks. In this respect, it may reduce customers' costs of searching and switching. However, other interpretations are possible:

- (a) Information on multi-banking comes from the GfK PCA consumer survey, so reflects multi-banking after searching and switching. This is particularly problematic for switchers in that some of them may switch to a new PCA and leave the old account open.²⁰ We try to account for this by looking not just at all PCAs but also active PCAs.²¹
- (b) Customers that have more complex banking needs may be more likely to multi-bank, and the complexity of banking needs may be driving the observed levels of both searching/switching and multi-banking.
- (c) Related to the above, both searching/switching and multi-banking could be measuring the same thing, customer engagement. Customers may not only engage with the market by looking for the best options and potentially switching, but also by spreading their banking needs across different providers, taking advantage of the best deals or service available to them.²²

Econometric analysis

- 61. In this section we summarise the results of our econometric analysis. Further details are provided in Annex D.
- 62. Unlike the descriptive analysis presented in the first part of this appendix, the econometric model, by taking into account the interaction between different factors, allows us to isolate the relative importance of each factor and attach statistical significance to these results. For example, we find that there is a higher incidence of people moving house within the group of non-searcher/switchers, which may indicate that moving house is a push factor for switching. However, we also see that this group has a larger share of young customers, who are in general more likely to move house in a given year. Therefore, differences in the rate of customers that moved house between groups may just be reflecting the different age profile of each customer group and not be a relevant factor for switching. The econometric analysis allows us to overcome this problem by testing the effect of one factor, moving house, while keeping other factors fixed, ie age.

²⁰ Survey results show that among customers who switched their main current account in the last year, 63% closed the previous account, 15% left it open but do not use it, while 22% left it open and continue to use it.

²¹ Also, this issue does not apply to searchers, who also present larger shares than the reference group. Additionally, for non-searcher/switchers we do not observe any differences.

²² Given the difficulty in interpreting the role of multi-banking, we believe it would be inappropriate to include it in our econometric analysis. More precisely, as explained in point (c) multi-banking is likely to be another form of customer engagement, and therefore is measuring the same phenomena we are trying to capture with the model. This is what in econometrics is called a 'bad control', that is a control variable that mechanically explains most of the variability in the dependent variable that the model aims to explain.

Methodology

63. We observe searching and switching as binary choices, that is, we see whether customers searched or not, or switched or not. The standard econometric approach to study this type of phenomenon is to estimate binary choice models, namely logit or probit. The main advantage of these models is that they account for the binary nature of the dependent variable and, unlike the standard linear regression approach, do not predict probabilities that are outside the 0, 1 interval.
64. In practice, the model allows us to compare the differences between customers who searched/switched to the others who have not, and how these differences contribute to the probability of being among one group of customers or the other.
65. As a first step, we estimate separate models for searching and switching. However, for many customers searching is a pre-requisite to switching and the result of their searching efforts determines whether they switch or not. For this reason, we also estimate a model that links the two. In particular, we estimate a recursive bivariate probit in order to account for two issues: 1) the fact that the decisions of searching and switching are correlated, and 2) the fact that whether a customer searched or not will have an impact on their probability of switching.

Results

Results of the searching model

66. The results from the searching model can be summarised as follows:
 - (a) We find no statistically significant effect for gender.
 - (b) Customers with income below £24,000 are 3 percentage points less likely to search, although this effect is not significant in all specifications.
 - (c) Customers aged between 55 and 64 are 7 percentage points more likely to search.
 - (d) Customers with a degree are 3 percentage points more likely to search.
 - (e) Customers with higher financial literacy are 5 percentage points more likely to search.
 - (f) Customers who indicate having confidence in the use of the internet are 13 percentage points more likely to search.

- (g) We do not find a statistically significant effect of overdraft usage on searching, while high credit balance holders are 4 percentage points more likely to search.
 - (h) Customers who have seen the closure of a local branch are 10 percentage points more likely to search.
 - (i) Customers who have changed work status are 5 percentage points more likely to search.
 - (j) Customers who never use internet banking are 4 percentage points less likely to switch.
 - (k) Customers reporting a higher number of transactions (debits and credits) are less likely to search. The average estimated effect is 0.1 percentage points per additional transaction.
67. In order to get an idea of the magnitude of these impacts, we should compare it to the average frequency of searching in the subsample used in the estimation, which is 20%.²³ More precisely, if we were to pick one individual from our sample at random regardless of their characteristics, there is a 20% chance that this individual will be a searcher. If we randomly pick someone that presents that factor, say for example having a degree, the probability of them being a searcher, controlling for other factors which affect switching, is higher than 20%. If we randomly pick someone from those who do not hold a degree, then controlling for other variables which affect switching, the probability of them being a searcher is lower than 20%. The difference between these two probabilities, the average of those who have a degree and those who do not, is 4 percentage points.

Results of the switching model

68. The results from the switching model are summarised below. The incidence of switching in the subsample used in the estimation is 4%.²⁴
- (a) Women are 1 percentage point less likely to switch than men, although this effect is not statistically significant in all specifications.

²³ The analysis is not carried out on the entire survey sample, so this frequency represents the incidence of searching in the subsample used for the analysis and is not a measure of the frequency of searching in the population. This was reported in Table 1 of this appendix and is equal to 17%.

²⁴ As for the case of searching, this is not a measure of the frequency of switching in the entire population which is given by the share of switchers in the whole surveyed sample and is equal to 3% as reported in Table 1 in this appendix.

- (b) Customers aged between 35 and 54 are 1 percentage point less likely to switch, although this effect is not statistically significant in all specifications.
- (c) Customers aged between 55 and 64 are 2 percentage points less likely to switch.
- (d) We do not find a statistically significant effect for degree and financial literacy.
- (e) Customers who report having confidence in the use of the internet are 1 percentage point more likely to switch, although this result is sensitive to the model specification.
- (f) Overdraft users are 2 percentage points less likely to switch. This result is not significant in the joint model, which accounts for whether the customers searched or not.
- (g) No statistically significant effect is found for high credit balance holders.
- (h) Customers who have seen the closure of a local branch are 4 percentage points more likely to switch. This result is not significant in the joint model, which accounts for whether the customers searched or not.
- (i) Customers whose bank has a relatively larger branch network in their region, are less likely to switch. The estimated average effect is 2 percentage points. This effect is not statistically significant if we exclude the NS group from the estimation.
- (j) Customers who indicate never using mobile apps are 1 percentage point less likely to switch.
- (k) Customers reporting a higher number of transactions (debits and credits) are less likely to switch. The average estimated effect is 0.04 percentage points per additional transaction.

Annex A: Data processing and cleaning

Sources

1. The analysis presented in this appendix combines information from the consumer carried out by GfK and commissioned by the CMA, account usage data and information on branch location provided by banks.

Survey

2. The achieved sample consists of 4,549 telephone interviews with PCA customers. Section 1 of the PCA banking survey technical report²⁵ provides details of the sampling methodology.

Transaction data

3. Banks were asked to provide transaction data for the 120,000 accounts that were sampled by GfK for the PCA survey.²⁶ This data was directly sent to the CMA by banks.
4. We use information on account usage for the last quarter of 2014. We cannot use information on usage for the entire year because for switchers, we only have transaction data from their current bank, and the current bank will only hold information since they switched. Therefore, annual averages would be calculated for a different set of months for switchers and non-switchers, and would be an unsuitable measure for comparing these customer groups. Focusing on the last three months of data minimises this problem, while at the same time providing a representative measure of customer usage.

Branch data

5. Banks were asked to provide a list of their branches that were open to the public as on 1 January 2014 and 1 January 2015. For each branch, they were asked to provide the postcode and total opening hours during the working week and weekends.
6. To make the analysis comparable between switchers and non-switchers, we use information on branches as of 1 January 2014 regarding customers' bank

²⁵ [GfK NOP PCA banking survey technical report](#).

²⁶ These are described in the PCA survey technical report as the 'issued sample'. The achieved sample of 4,549 PCA customers is a subset of the issued sample.

of origin, ie customers' previous bank for switchers and customers' current bank for non-switchers.

Data processing and sample size

7. Survey results and transaction data are merged using a unique account identifier provided by the banks and a customer number for joint accounts. We exclude from the analysis customers for whom we find inconsistencies in their basic demographic characteristics as reported in the GfK PCA consumer survey and the transaction data (year of birth and gender).
8. Since our focus is on searching and switching in the last 12 months, we also exclude from the analysis customers who searched or switched in the last two to three years. We also exclude customers who switched accounts within the same bank or who could not indicate the specific period where they searched/switched.
9. This results in a sample of 3,676 customers. The size of the sample in specific sections of the analysis is reduced further due to missing values of specific variables.

Annex B: Definition of variables used in the analysis

Customer demographics

1. **Age:** Customers' age is calculated as the difference between 2015 and the customer's year of birth coming from the transaction data submitted by banks.
2. **Gender:** We use information on gender as recorded in the GfK PCA consumer survey results. When this information is not available, we use information coming from the transaction data submitted by the banks.
3. **Working status:** We use information on working status as recorded in customers' responses to survey question K4.
4. **Income:** A large number of customers did not provide information on their income in their responses to the GfK PCA consumer survey. For this reason, we rely on an alternative measure coming from the transaction data submitted by the banks. In particular, we use the average monthly total value of payments and transfers into the account.
5. **Highest level of education achieved:** We use information on education as recorded in customers' responses to survey question K6.
6. **Financial literacy:** We measure customers' financial literacy on the basis of survey question K1 where respondents were asked to do a simple interest calculation using information on the amount of a loan (£500) and an interest rate (10%). We consider as 'right' responses equal to £50 and £550.
7. **Confidence in the use of the internet:** We use information from customers' responses to survey questions K2 and K3 regarding internet access and confidence in its use. We consider customers to be confident if they indicated they feel fairly confident or very confident, and not confident if they indicated they feel not very confident or not at all confident.

Account usage

8. Information on account usage comes from transaction data. Monthly averages are obtained by averaging values for the last three months of 2014. For customers who opened their account after October 2014, we use information from the month after they opened their account to December.
9. **Average number of days in overdraft:** We calculate this as the average number of days the account was in an arranged and an unarranged overdraft.

10. **Average overdraft balance (when in overdraft):** Overdraft balances are obtained by multiplying each monthly overdraft balance and the corresponding number of days the account was in an arranged or an unarranged overdraft.
11. **Overdraft user:** We consider a customer to be an overdraft user if either their monthly average overdraft balance or the monthly average number of days in overdraft are positive.
12. **High credit balance holder:** We consider a customer to be a high credit balance holder if their monthly average credit balance is within the top 25% of the overall distribution of average monthly credit balances in the transaction data.
13. **Average credit balance (when in credit):** Credit balances are obtained by multiplying each monthly credit balance and the corresponding number of days the account was in credit in each month.
14. **Number of direct debits and standing orders:** Number of direct debits and standing orders set up on the account at the end of 2014, as reported in variable a123 of the transaction data.
15. **Number of transactions:** Monthly average number of credits and debits in the customer's PCA, calculated on the basis of the information reported in variable a122 of the transaction data.

Usage of services

16. **Frequency of branch visits:** We use information from customers' responses to question D1. Customers are grouped according to whether they report visiting a branch weekly (every day or once a week or more), monthly (two to three times a month or once a month), less often (once every two to three months, once or twice a year or less often), or never.
17. **Frequency of use of internet banking:** We use information from customers' responses to survey questions C2.1 and C3.1. Customers are grouped according to whether they report using internet banking weekly (every day or once a week or more), monthly (two to three times a month or once a month), less often (once every two to three months, once or twice a year or less often), or never (if they report not using it at all in question C2.1).
18. **Frequency of use of mobile/tablet app:** We use information from customers' responses to survey questions C2.2 and C3.3. Customers are grouped in the same way as for internet banking.

Opinions and perceptions

19. **Importance:** We use information on customers' opinions regarding the importance of different bank services and PCA features coming from their responses to survey questions E3, D3 and D4.
20. **Satisfaction:** Information on customers' level of satisfaction with their current bank comes from survey question E1. For switchers, we also use information on their level of satisfaction with their previous bank coming from responses to question F18. Customers are grouped according to whether they report they are satisfied (very satisfied or fairly satisfied), dissatisfied (fairly dissatisfied or very dissatisfied) or indifferent (neither satisfied nor dissatisfied).
21. **Cost of searching:** Information on customers' expectations and experience on the cost of searching comes from customers' responses to survey questions F11 and F13, respectively. We group customers according to whether they reported they find a specific dimension of searching easy (very easy or fairly easy), difficult (fairly difficult or very difficult) or indifferent (neither easy nor difficult).
22. **Cost of switching:** Information on customers' expectations and experience on the cost of switching comes from customers' responses to survey question F12 and F14a, respectively. Customer responses are grouped in the same way as for cost of searching.

Branches

23. **Local branch closed in the last 12 months:** We use information on local branch closure coming from customers' responses to survey question I5 for non-switchers and question I6 for switchers.
24. **Local branch:** We use information on customers' and branches' postcodes provided by the banks, and identified whether the customers' bank of origin had a branch in their local area open to the public as of 1 January 2014. We identify geographical locations on the basis of easting and northing coordinates available in the National Statistics Postcode Lookup (NSPL) dataset.²⁷ A customers' local area is defined as the 1-mile radius from their postcode for customers' living in areas with a population density equal or

²⁷ We use the version of the NSPL dataset published by the Office for National Statistics (ONS) in February 2015.

above 1.5 inhabitants per hectare, and the 3-mile radius for customers' living in areas with a population density below 1.5 inhabitants per hectare.²⁸

25. **Local branch extended hours:** We constructed this indicator in the same way as above but considering only branches that were open for extended hours during the week or weekends as of 1 January 2014.
26. **Number of local banks in local area:** Using the same information as above, we identify the branches of all banks located in each customers' local areas and counted the number of banks that had at least one branch in the customers' local area opened to the public as of 1 January 2014.
27. **Regional branch network:** Using information on customers' and branches' postcodes, we calculate the number of branches of the customers' bank of origin located in customers' city or region and open to the public as of 1 January 2014. Cities and regions were defined at the level of the LAUA²⁹ for Wales, Scotland and Northern Ireland, and to the immediately higher level of aggregation for England. Customers' and branches' postcodes were matched to each LAUA using the ONS NSPL dataset.
28. **Relative size of branch network:** We replicate the exercise above for all other banks and calculate the number of branches of each bank located in the customers' city or region. We then calculate the ratio of the number of branches of customers' bank of origin and the number of branches of the bank with the largest network in the city or region.

Trigger factors

29. We use information coming from customers' responses to survey question K6.

Multi-banking

30. **Customers with multiple PCAs:** We use information coming from customers' responses to survey question B3 to identify customers who have at least one PCA with a bank other than their current main bank.
31. **Average number of accounts with another bank:** We use information coming from customers' responses to survey question B4 and calculate the number of PCAs the customer holds with another bank. The average is

²⁸ This approach is in line with the first step of the OECD methodology to classify urban and rural areas at administrative level 2. See '[Urban-rural typology](#)' on the [eurostat website](#). Information on the density of population comes from the 2011 Census table on population density and local authorities available on the [Office for National Statistics website](#).

²⁹ Local Authority Unitary Authority.

calculated considering only customers that have at least one PCA with a bank other than their current main bank.

32. **Customers with multiple active PCAs:** We use information coming from customers' responses to survey question B6 to identify customers who have at least one PCA that they currently use with a bank other than their current main bank.
33. **Average number of active accounts:** We use information from customers' responses to survey question B6 to calculate the number of PCAs the customer has and uses with a bank other than their current main bank.
34. **Customers holding at least one other product with another bank:** We use information from customers' responses to survey questions I1 and I2 to identify customers that have at least one financial product with a financial institution other than their current main bank.

List of variables used in the econometric analysis

35. The variables used in the econometric analysis are defined as follows:
 - (a) Searcher: 1 if the customer has searched for another PCA in the last 12 months, 0 otherwise.
 - (b) Switcher: 1 if the customer has switched PCA in the last 12 months, 0 otherwise.
 - (c) Female: 1 if the customer is a woman, 0 otherwise.
 - (d) Income below £24,000: 1 if the customer has income below £24,000, 0 otherwise.
 - (e) Age 35 to 54: 1 if the customer is 35 to 54 years old, 0 otherwise.
 - (f) Age 55 to 64: 1 if the customer is 55 to 64 years old, 0 otherwise.
 - (g) Age 65 or above: 1 if the customer is 65 years old or older, 0 otherwise.
 - (h) Degree: 1 if the customer holds a degree, 0 otherwise.³⁰
 - (i) Financial literacy: 1 if the customer answered correctly the GfK PCA consumer survey question K1, 0 otherwise.

³⁰ The variable is set to zero for customers who indicate having a different level of education and to missing if they did not respond to the question.

- (j) Internet confidence: 1 if the customer is confident in the use of the internet, 0 otherwise.
- (k) Overdraft user: 1 if the customer has used an overdraft, 0 otherwise.
- (l) High credit balance: 1 if the customer holds high credit balances, 0 otherwise.
- (m) Local branch closed: 1 if the customer's bank of origin's local branch closed in the last 12 months, 0 otherwise.
- (n) Relative size of branch network: Ratio of the number of branches that the customer's bank has in their region and the number of branches of the bank with the largest network in the region.
- (o) Moved house: 1 if the customer has moved house in the last 12 months, 0 otherwise.
- (p) Changed work status: 1 if the customer started or stopped working in the last 12 months, 0 otherwise.
- (q) Changed relationship status: 1 if the customer has married or divorced in the last 12 months, 0 otherwise.
- (r) Never uses internet banking: 1 if the customer does not use internet banking, 0 otherwise.
- (s) Never uses mobile app: 1 if the customer does not use mobile/tablet app, 0 otherwise.
- (t) Number of transactions: Monthly average number of credits and debits in the customer's PCA.

Annex C: Details of descriptive analysis

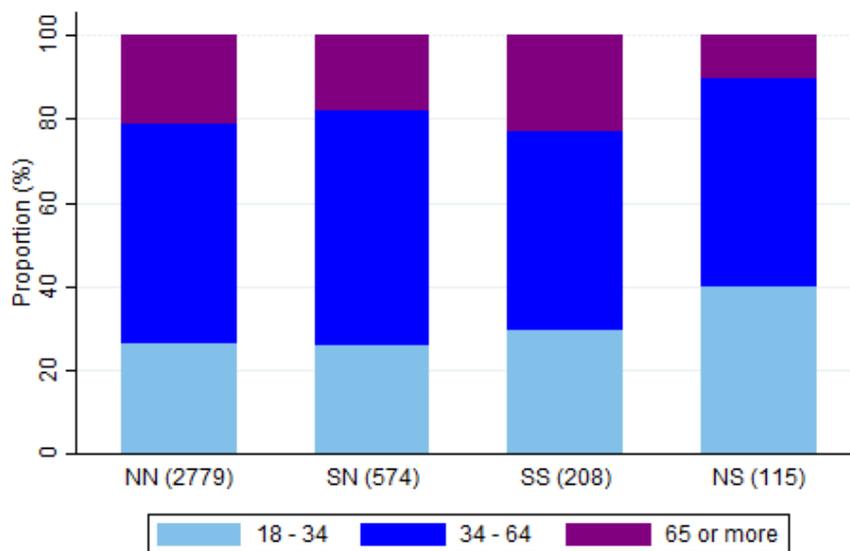
1. This annex presents further details of the descriptive analysis summarised in paragraphs 18 to 60 of this appendix.

Customer demographics

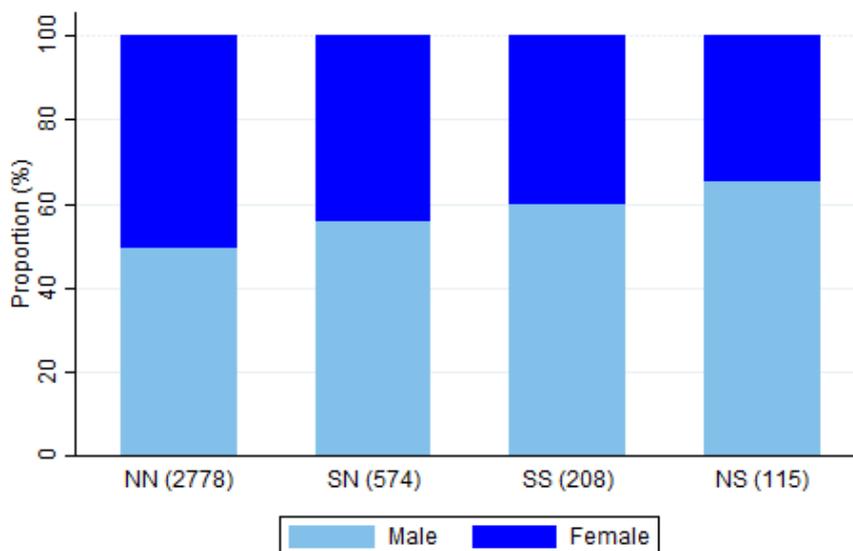
2. Figure 1 shows the distribution of customers within each group according to basic demographics, namely age, gender, working status and level of income. Each bar in a graph represents one of the customer groups defined in paragraph 19 of this appendix.

Figure 1: Basic demographics

Age



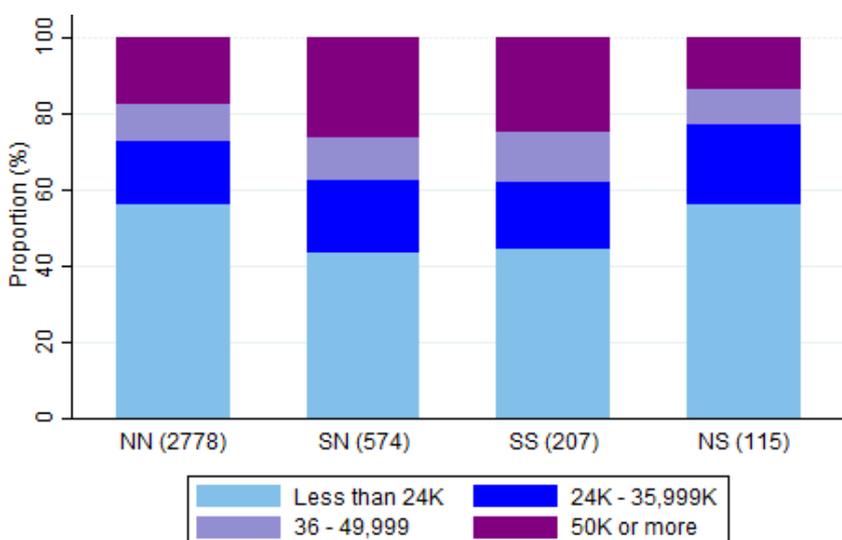
Gender



Working status



Income



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

3. The most noticeable differences among the groups seem to concern their level of income. Searchers, whether they switched or not, have a higher level of income than the other two groups. Higher earners, those with income of £50,000 or above, represent around 25% of the group of searchers, and only 17 and 14% of the NN and NS groups respectively. Conversely, the group of customers with income below £24,000 represents approximately 43% of searchers, both SN and SS, and 56% of non-searchers, both NN and NS.³¹

³¹ The differences between these groups and the reference group NN are statistically significant at 1% for SN, and at 5 and 10% for SS.

4. If we look at age, the group of non-searcher/switchers have a younger profile than the other groups. The share of customers in this group below 35 years of age is about 40%, compared to only 26% for the reference group (NN). At the same time, the share of those above 55 is only 11% compared to 21% in the reference group (NN).³² The group of searcher/non-switchers does not present significant differences in age profile with respect the NN group. However, customers aged between 55 and 64 are particularly overrepresented in this group, although this is compensated by a smaller share of those aged 65 or more.³³ As for the group of searcher/switchers, they do not present any significant differences in their age profile to the reference group NN.
5. There seems to be a slightly smaller share of women in the searching and switching group than in the reference group, and this seems to be particularly the case for switchers who did not search.³⁴
6. Working status may be important for switching behaviour in that it gives a measure of the relative costs of time. Someone that has more free time may have more time to search and switch for a new PCA. However, it is also correlated with the level of education and the financial position of the person. Therefore, its impact is difficult to measure in isolation. In general, we do not find significant differences regarding the work status of customers between the different groups. The only exception is the share of those 'not working' which is significantly lower in the SN and SS groups than the reference group.³⁵
7. Figure 2 shows three measures related to customers' level of education and literacy, as used in our consumer survey, namely the highest level of education achieved, financial literacy and confidence in the use of the internet.

³² These difference are statistically significant at 5 and 1% confidence respectively.

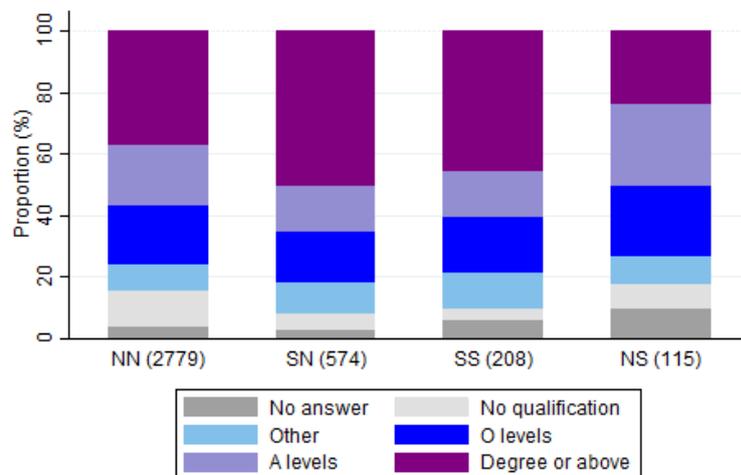
³³ These difference are statistically significant at 5 and 10% confidence respectively.

³⁴ These differences are all statistically significant at least at 5%.

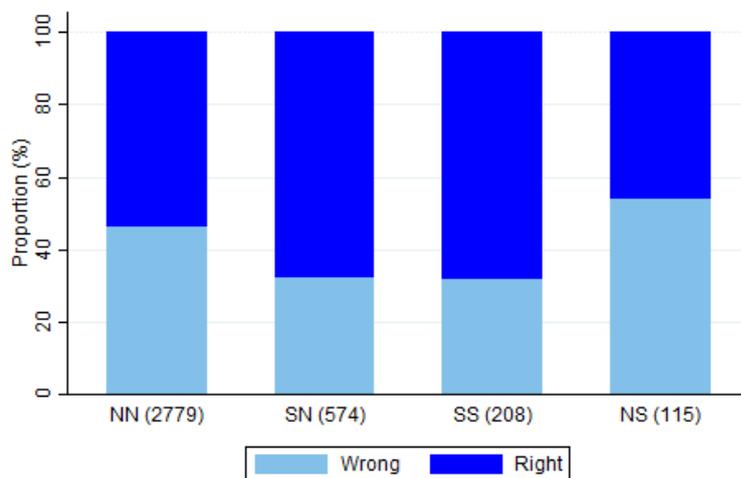
³⁵ They represent 5% of the SN group and 2% of the SS group, while they represent 8% of the NN group. These differences to the NN group are statistically significantly different from zero at 5 and 1% for SN and SS respectively.

Figure 2: Level of education, financial and internet literacy

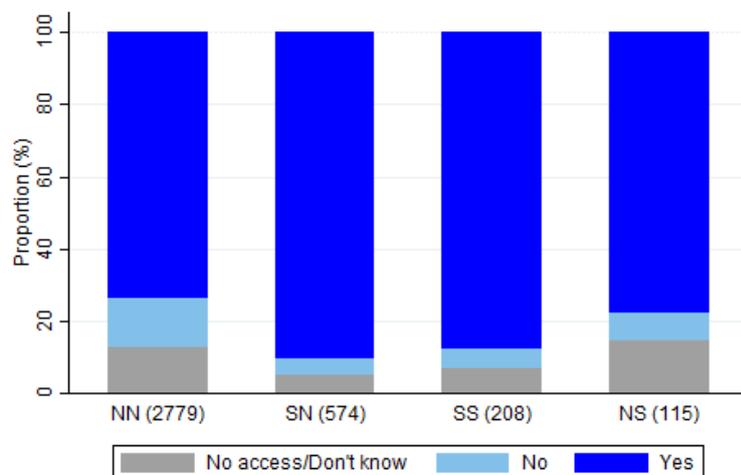
Highest level of education achieved



Financial literacy



Confidence in the use of the internet



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

8. The three measures show a clear difference between searchers, whether they switched or not, and the rest of the sample. Customers holding a university degree represent 50 and 46% of the SN and SS groups respectively, while they represent only 37% of the reference group NN. As for financial literacy, 68% of customers in these two groups gave the correct answer to the GfK PCA consumer survey question, as compared to only 54% of the NN group. These groups also report higher levels of internet access and confidence in its use: 90 and 87% of the SN and SS groups respectively report having confidence in the use of the internet, while this share is 74% for the NN group.³⁶ The group of those who switched without searching present similar levels of education and literacy than the reference group NN.³⁷

Monetary features

9. Figure 3 shows consumer survey responses to the question of how important monetary features of PCAs are for them. There are no significant differences in customers' responses regarding the level of charges. Overall, around 40% of all customers report that this aspect is very important or essential to them. However, searchers seem to differ significantly regarding the importance they assign to the interest rate paid on credit balances: 56 and 55% of customers in the groups of searchers, SN and SS respectively, indicate that they consider this aspect to be very important or essential, compared to 42% for the reference group NN.³⁸ These results suggest that searchers may be more likely to respond to monetary pull factors associated with credit interest payments or other financial rewards.

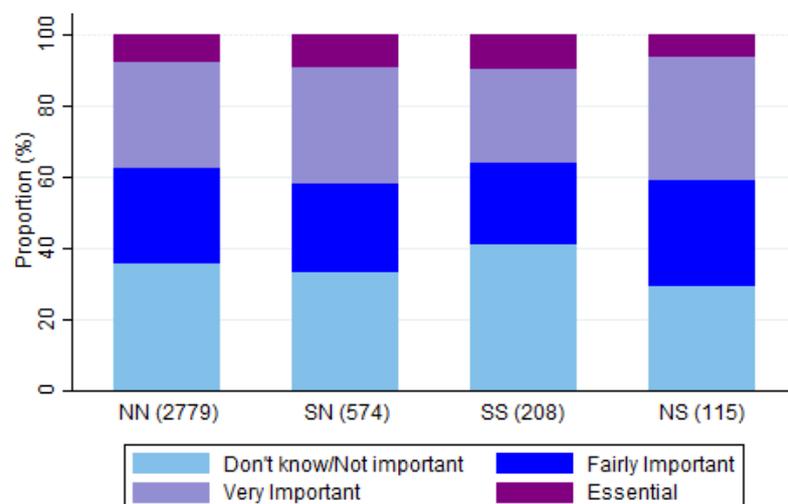
³⁶ The reported differences between searchers and the reference group NN are all statistically significantly different from zero at 1%, with the exception of the share of those holding a degree which is only significant at 10% for the SS group.

³⁷ They present a lower level of people holding a degree, but this is likely to be correlated with the age profile of this group.

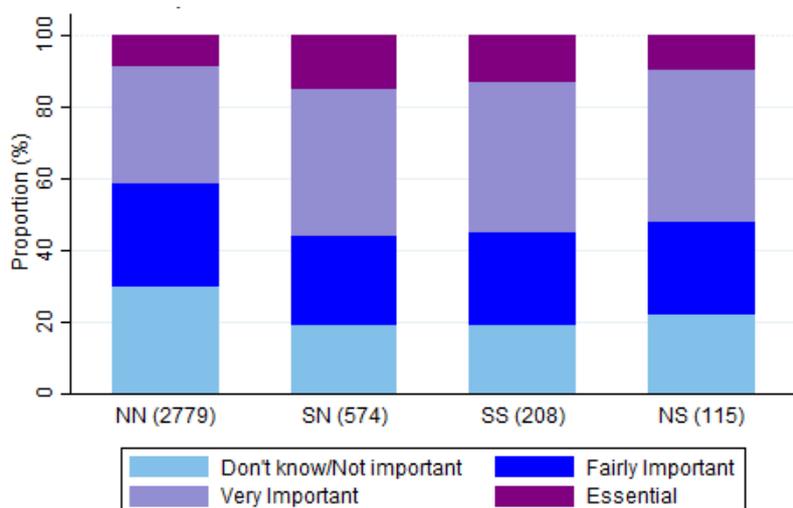
³⁸ The differences between SN and SS with respect to NN are statistically significantly different from zero at 1% confidence. For the NS group the share of those reporting credit interest rates is 52%. Although, this is still larger than the NN group the difference is not statistically different from zero (p-value of 0.12).

Figure 3: Importance of monetary features of PCA

Importance of level of charges (eg overdraft charges)



Importance of interest rate on credit balances



Source: CMA analysis based on GfK PCA consumer survey data.

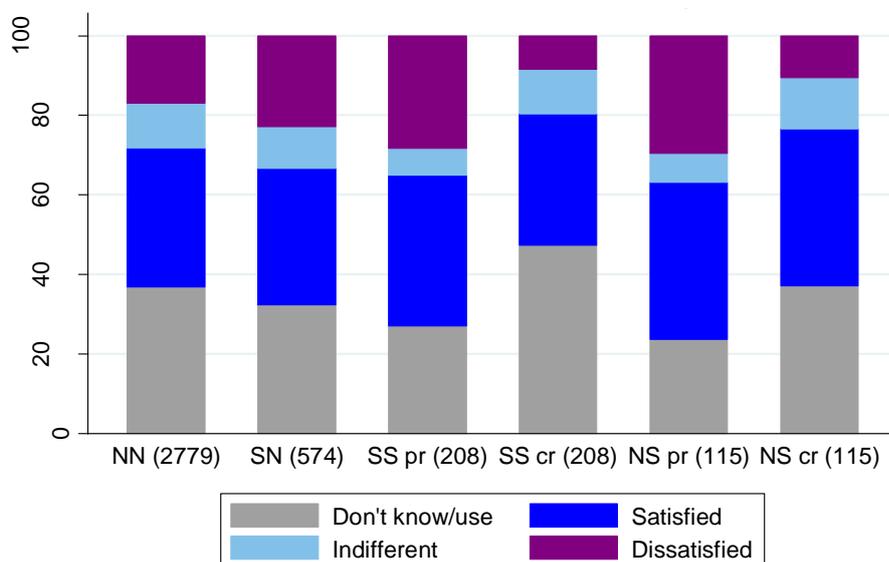
10. Figure 4 shows the level of satisfaction of customers regarding charges. These include, but are not limited to, overdraft charges. We present the results for the whole sample and for overdraft users only. For switchers we present results for both their previous and current bank. Both searchers and switchers report lower levels of satisfaction than the reference group NN regarding their bank of origin. In particular, customers reporting to be dissatisfied represent 23% of the SN group, 28% of the SS group and 30% of the NS group compared to only 17% of the NN group.³⁹ If we look at the levels of satisfaction for switchers with their new bank, the number of those that are

³⁹ All these differences are statistically significantly different to zero at the 5% confidence level.

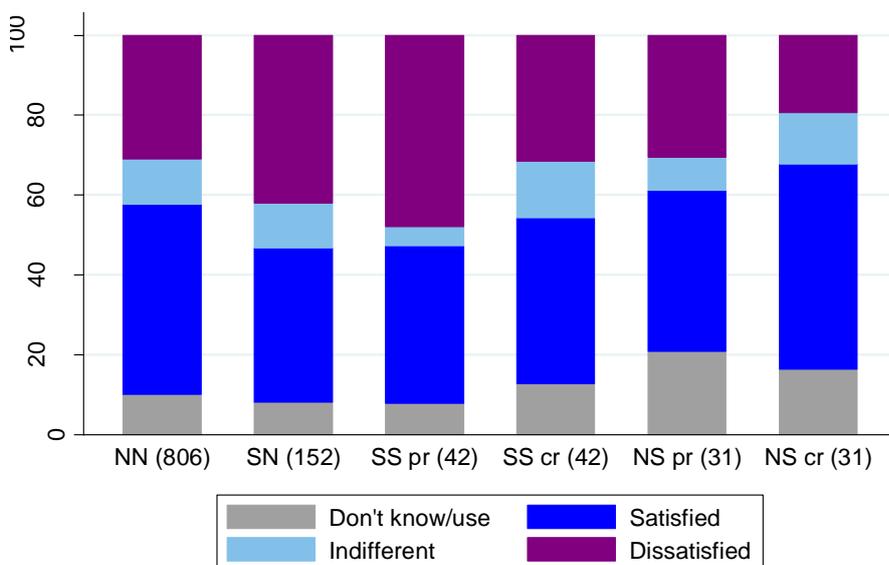
dissatisfied is much smaller than for the reference group (8 and 11% for SS and NS respectively).⁴⁰

Figure 4: Satisfaction with level of charges

Satisfaction with level of charges



Overdraft users only



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

Note: For switchers (SS and NS), we report the levels of satisfaction with customers' previous bank (pr) and current bank (cr).

11. However, it should be noted that survey responses may be subject to ex-post rationalisation, that is, customers report levels of satisfaction that justify their

⁴⁰ The difference between NN and SS is statistically significant at 1% confidence level, however the difference for the NS group is not.

past behaviour, and this may be driving the observed levels of satisfaction, particularly for switchers' new bank.

12. The second panel in Figure 4 (overdraft users only) shows the level of satisfaction for overdraft users only. We find that the levels of dissatisfaction are in general higher for this group. These results should be taken with caution given the small number of observations left within each subgroup once we restrict the sample to overdraft users only.

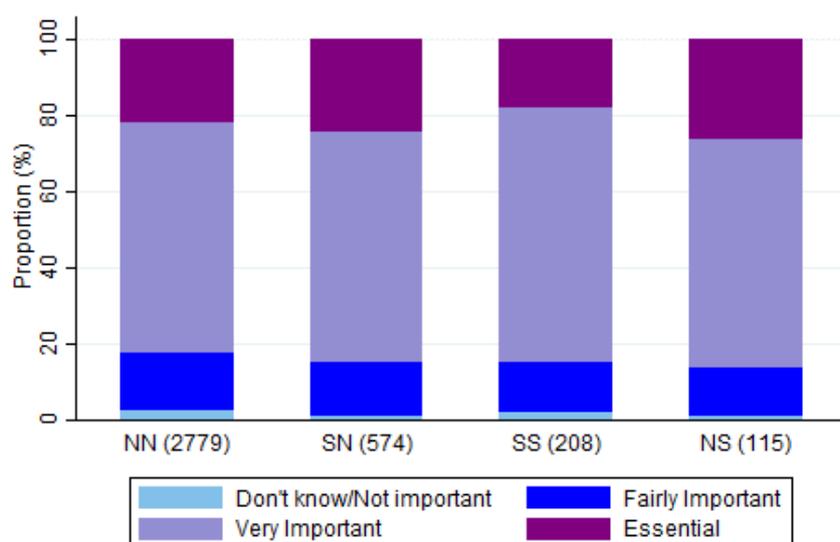
Quality of service

Customer service

13. Figure 5 presents indicators of customers' opinions around two aspects of customer service: (1) staff and customer service, and (2) quality and speed of handling problems. The first two panels of the figure show customers survey responses to the question of how important these aspects are for them. The two panels at the bottom of the figure show customers' responses regarding their level of satisfaction with their bank in these two aspects.
14. The results do not show significant differences between the different groups of customers regarding the importance of staff and customer service. However, the SN and NS report a larger proportion of customers who consider quality and speed of handling problems to be very important or essential.⁴¹

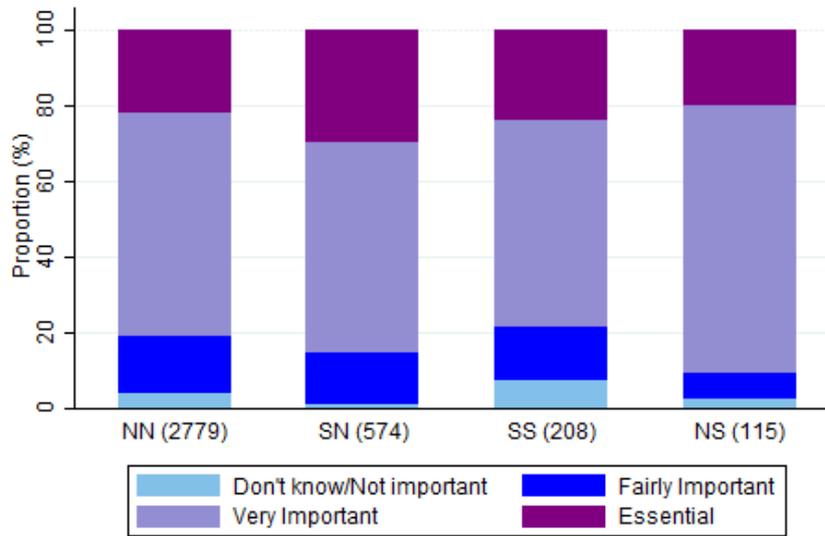
Figure 5: Customer service

Importance of staff and customer service

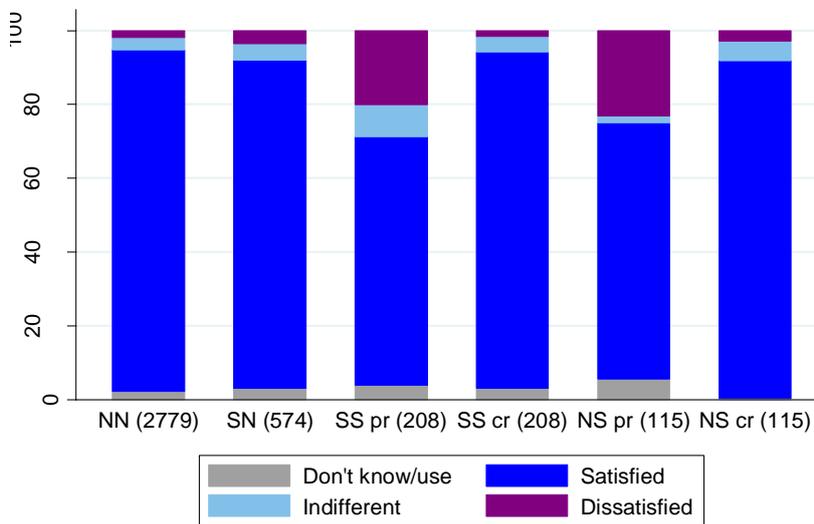


⁴¹ The differences between these groups and the reference group are statistically significant at 1 and 5% respectively.

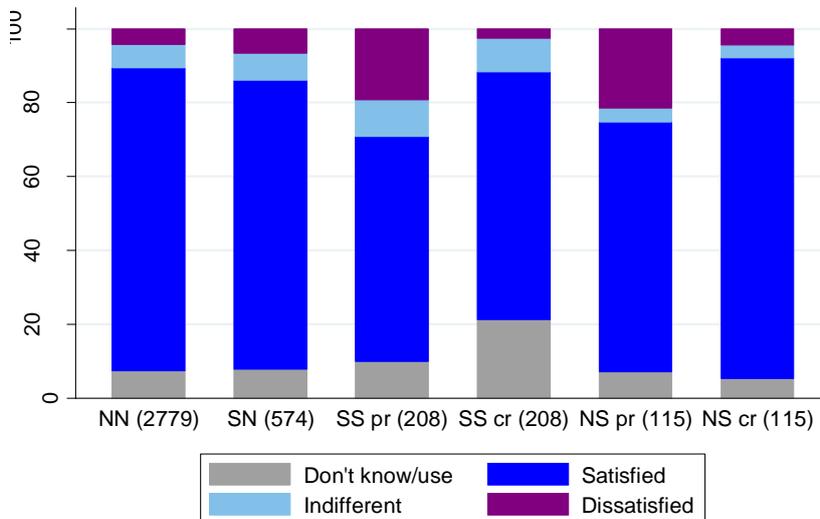
Importance of quality and speed of handling problems



Satisfaction with staff and customer service



Satisfaction with quality and speed of handling problems



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
 Note: For switchers (SS and NS), we report the levels of satisfaction with customers' previous bank (pr) and current bank (cr).

15. Both groups of switchers, SS and NS, report much higher levels of dissatisfaction than the reference group NN regarding their bank of origin. For example, with regard to staff and customer service, 20% of the SS group and 23% of the NS group express being dissatisfied, compared to only 2% in the NN group. Also, the share of those expressing to be satisfied is 68 and 69% for SS and NS respectively, compared to 93% for the NN group.
16. As for the SN group, they also show significant differences compared to the NN group, although of a smaller magnitude. Among this group, 4% express being dissatisfied and 89% express being satisfied.⁴² If we look instead at the level of satisfaction of these customers with their current bank, they are not significantly different to degrees of satisfaction reported by the NN group. Similar results are found for the levels of satisfaction regarding quality and speed of handling problems.⁴³
17. The same issues discussed in paragraph 118 regarding ex-post rationalisation also apply here.

Branch network and services

18. Figure 6 presents survey results concerning branches. Overall, we do not find any significant differences between the groups in the degree to which customers care about branches and the frequency with which they use them.
19. The first two panels in Figure 6 show how important local branches and branch networks of own bank are for customers. Overall, we do not observe significant differences between searchers and switchers and the reference group NN in relation to the degree to which they consider branches to be important.⁴⁴
20. The third panel in Figure 6 shows the frequency of branch usage (as reported by customers in the GfK PCA consumer survey). In all groups, most customers visit branches once a month or less, and both searchers and switchers show patterns similar to the reference group NN. The only

⁴² The differences between SS and NS with respect to NN are statistically significant at 1%, while for SN they are significant at 5% (satisfied) and 10% (dissatisfied).

⁴³ The only exception is the share of SS customers reporting being satisfied with their current bank which is still lower than the share for the NN group. This difference is statistically significant at 1%.

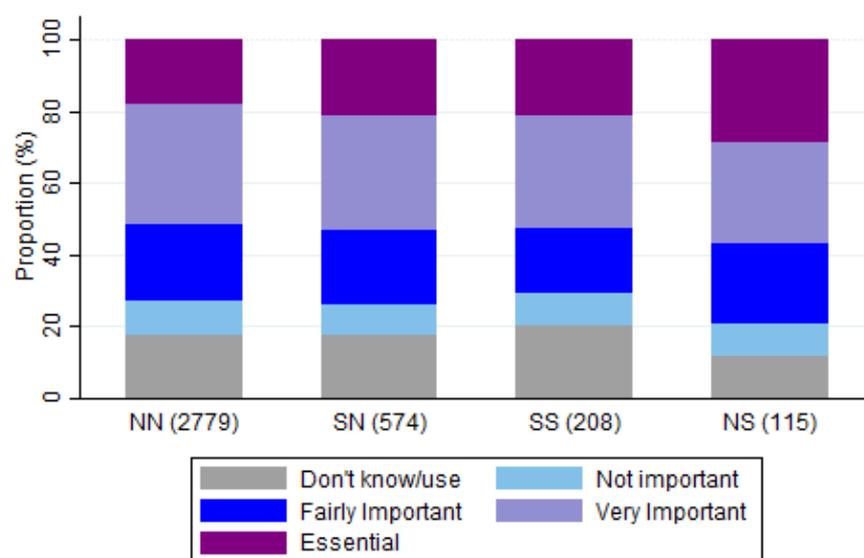
⁴⁴ An exception is the NS group, 29% of which report that a local branch of their bank is essential as compared to the 18% share for the NN group (statistically different from zero at the 10% confidence level). Also, within the SN group the share of customer indicating that the national network of own bank is very important or essential is 6% lower than for the NN group (statistically different from zero at the 5% confidence level).

significant difference is the share of customers indicating that they never used branches in the SS group, 14%, compared to the reference group NN, 7%.⁴⁵

21. The fourth panel in Figure 6 presents the GfK PCA consumer survey results concerning a local branch closure. This is an important element for understanding searching and switching since a local branch closure could work as a trigger factor for switching. The share of searchers, both SN and SS, who have experienced a local branch closure is significantly higher than the reference NN.⁴⁶ The evidence suggests that this may be a factor for some customers.

Figure 6: Local branches and branch network

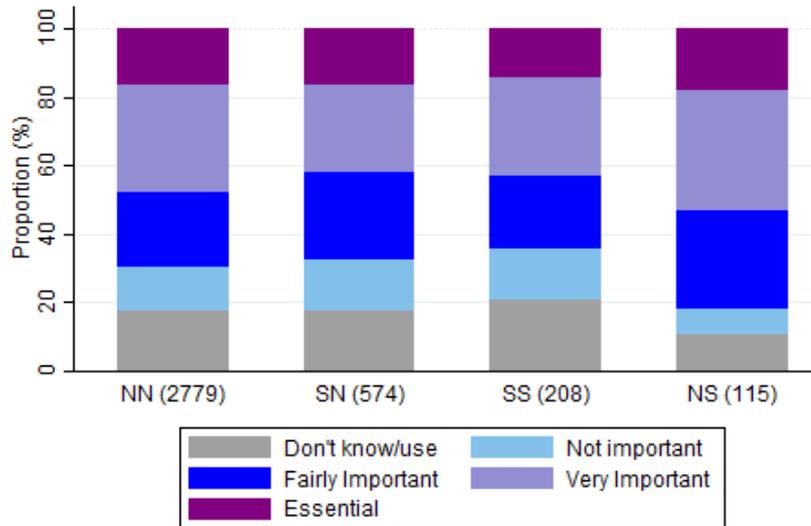
Importance of having a local branch of own bank



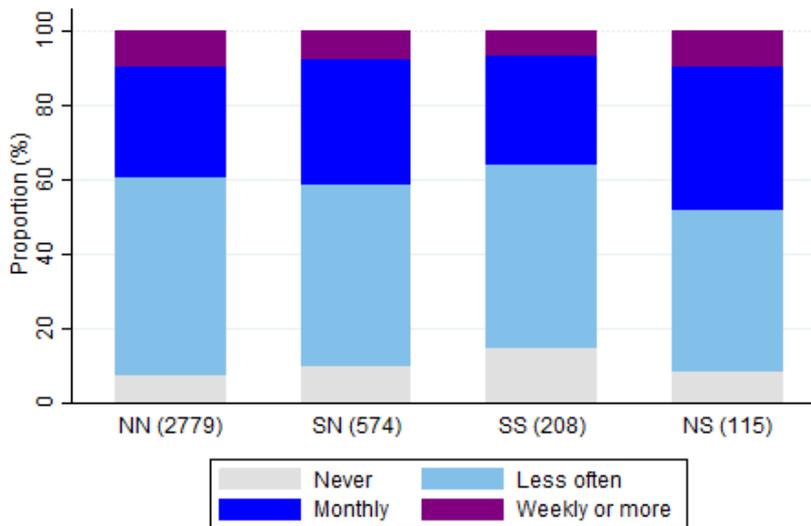
⁴⁵ This difference is statistically significant at 5% confidence.

⁴⁶ The share for SN and SS groups is 10 and 14% respectively as compared to 6% for NN, and both differences are statistically significant at 5%. The share for NS is 8% but this difference is not statistically significant.

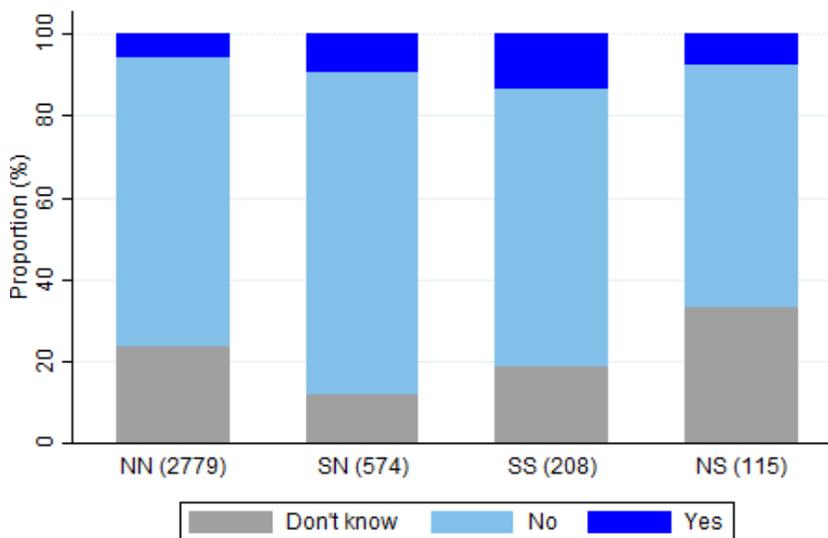
Importance of own bank's national network



Frequency of branch visits



Local branch closed in the last 12 months



Source: CMA analysis based on GfK PCA consumer survey data.

22. Table 1 summarises indicators of the level of branch service available to customers of each group. These were constructed using information on branch location provided by banks and customers' postcodes. In particular, we use information on branch location of customers' bank of origin and other banks as on 1 January 2014. Therefore, the measures intend to capture the level of service available to customers before searching and switching.

Table 1: Local branches and branch network of bank of origin

<i>Groups</i>	<i>Local branch (%)†</i>	<i>Local branch extended hours (%)‡</i>	<i>Number of banks in local area</i>	<i>Regional branch network§</i>	<i>Relative size of branch network (%)¶</i>
Non-searcher/non-switchers	50.5	34.8	3.6	40.6	67.6
Searcher/non-switchers	44.1**	30.9	3.4	29.6***	65.4
Searcher/switchers	47.1	31.1	3.2	30.4*	62.6
Non-searcher/switchers	47.2	27.0	3.5	34.0	60.6*

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.

†Proportion of customers who have a branch of their own bank in their local area.

‡Proportion of customers who have a branch of their own bank with extended opening hours in their local area.

§Number of branches of customers' bank in the region where they live.

¶Ratio of the number of branches of customer's bank in the region where they live with respect to the bank with the largest network of branches in the region.

***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

23. The first three columns focus on the availability of branches in customers' local area.⁴⁷ We first look at the share of customers in each group that had a branch of their bank in their local area. Although both searchers and switchers present lower levels than the reference group NN, the difference is only statistically significant for the SN group. We then consider the share of customers that have a local branch of their bank with extended opening hours, ie opens weekends or longer hours during the week. Again, calculated shares are smaller in magnitude but the differences are not statistically significant.
24. The third column presents the average number of banks that have at least one branch in the customers' local area. The presence of local branches of other banks may work as a pull factor for switching. However, we do not observe significant differences in this respect between searcher/switchers and non-searcher/non-switchers.
25. Not all customers may visit a bank close to where they live, but may prefer to visit branches in another location, for example, in the area where they work. To address this, the last two indicators consider the size of customers' bank

⁴⁷ As indicated in Annex B, we define customers' local area as the one- and three-mile radius from their postcode for customers living in high and low population density areas respectively.

network in the region where they live.⁴⁸ The first simply counts the number of branches in the region, while the second is a relative measure that compares the size of the customers' network with respect to the size of the network of the bank with the largest network in the region. The results do not show significant differences between the groups.

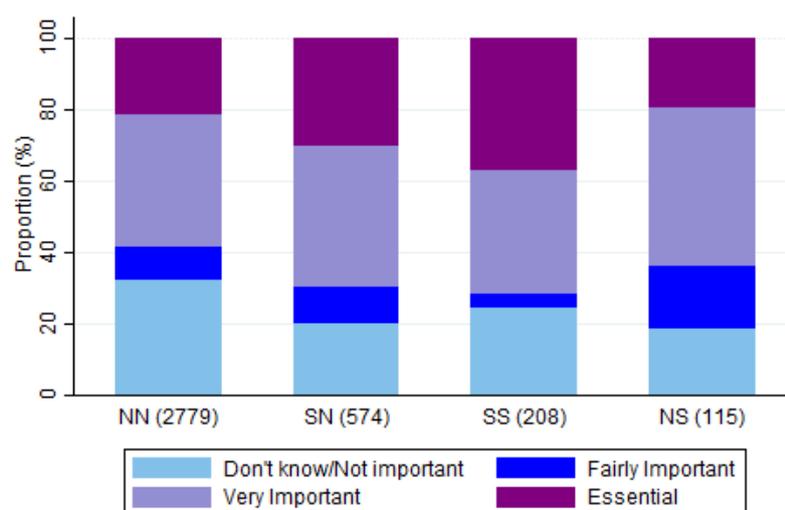
26. In summary, the evidence on branches indicates that searcher/switchers do not show significant differences in terms of the importance they attribute to branches, the frequency with which they use them and the services available to them, as compared to non-searcher/non-switchers. However, the results suggest that the closure of a local branch could act as a trigger factor for searching and switching for some customers.

Online services

27. Figure 7 summarises survey results regarding the importance and frequency of use of online applications, in particular, internet banking and mobile apps. Overall, online services seem to be more relevant for searchers and switchers than for the reference group NN. The group of searcher/switchers consistently rate higher on both importance and frequency of use of these services compared to the reference group NN. The results for SN mirror those of SS for internet banking but not for mobile apps. As for non-searcher/switchers, mobile apps seem particularly relevant.

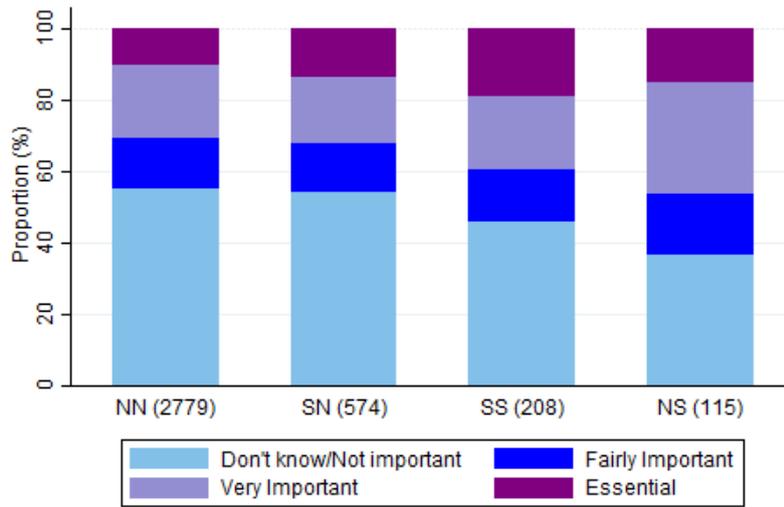
Figure 7: Importance of online services and frequency of use

Importance of internet banking

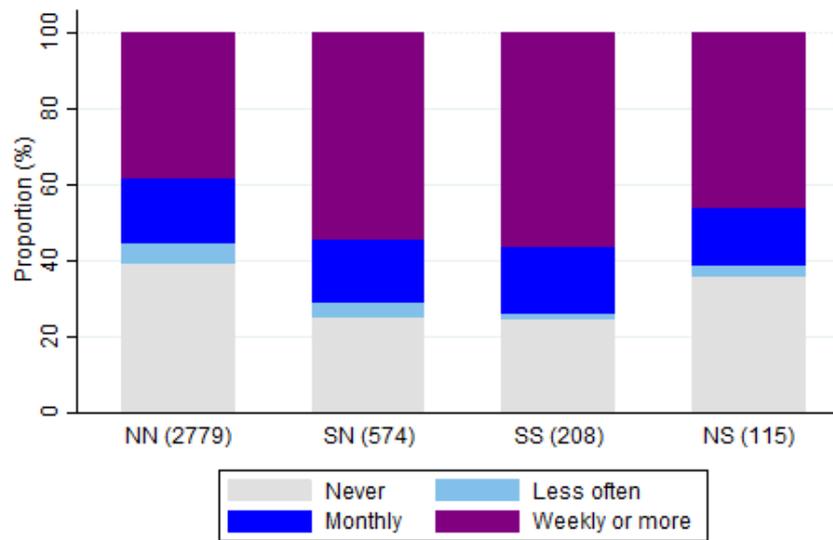


⁴⁸ Regions were defined at the level of the local authority (LAUA) for Wales, Scotland and Northern Ireland, and to the immediately higher level of aggregation for England, as shown in the 2011 Census table on population density.

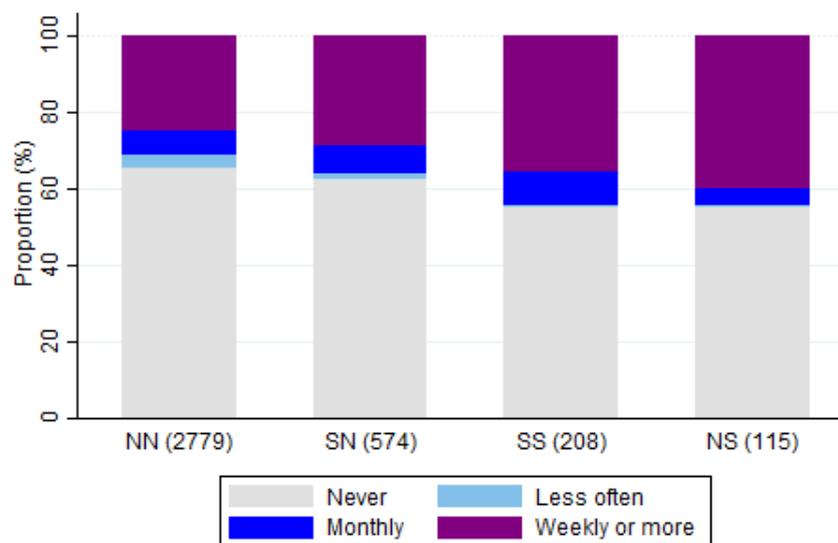
Importance of apps for smartphones and tablets



Frequency of use of internet banking



Frequency of use of bank mobile/tablet apps



Source: CMA analysis based on GfK PCA consumer survey data.

Trigger factors

28. In this section we focus on trigger factors associated with changes in customers' personal circumstances that may change their needs regarding banking services, and potentially push them to search and switch.
29. In the consumer survey we asked respondents to indicate whether a series of life events happened to them in the last 12 months. Table 2 shows the share of customers per group that answer yes to this question for each life event. The SN and NS groups present a higher share of customers reporting having changed work status compared to the reference group, while the NS also presents a higher share of customers reporting having moved house, suggesting that moving house or changing work status could act as a trigger factor for some customers. We do not find significant differences in the frequency rate of these events for the SS group.

Table 2: Life events in the last 12 months

	Proportion of customers (%)			
	NN	SN	SN	NS
Moved house	13.3	15.6	17.2	30.1***
Started or stopped working	13.6	17.6*	15.1	23.4*
Got married/started living with someone else	4.8	5.1	6.0	6.4
Got divorced/separated/widowed	3.8	1.5***	4.0	2.0

Source: CMA analysis based on GfK PCA consumer survey data.

***/**/* Statistically significantly different from the share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

Cost of searching and switching

Customer perceptions regarding the difficulty to search and switch

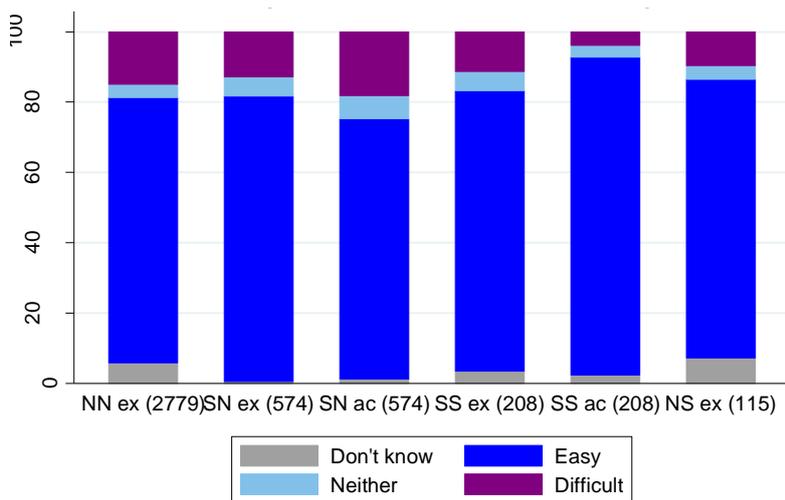
30. Figure 8 summarises the results for the four dimensions of the process of searching and switching considered in the GfK PCA consumer survey. As explained in paragraph 50 of this appendix, the first three dimensions concern costs of searching, while the fourth relates to cost of switching.
31. If we compare the level of expectations of searchers before they searched ('SN ex' in bar 2 and 'SS ex' in bar 4 in the first three panels) with the reference group ('NN ex' in bar 1), we find that in general searchers present a higher share of customers reporting that they expected the process to be easy and a lower share of those indicating that they expected the process to be difficult, as compared to the NN group.⁴⁹

⁴⁹ For all three dimensions of searching the share of customers in SN responding 'easy' was statistically significantly larger than the NN group at 1% confidence, while the share of those responding 'difficult' was statistically significantly smaller for the last two dimensions only at 5 and 1% respectively. For the SS we only find

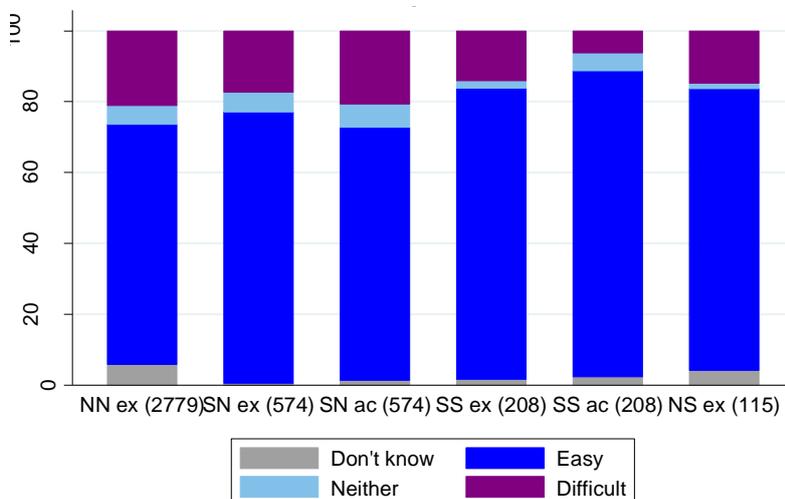
32. If we look at cost of switching, presented in the fourth panel, we observe that searcher/switchers (SS ex, bar 3) shows a larger share of customers indicating they expected the process to be difficult as compared to the reference group (NN, bar 1).⁵⁰ This is a counter-intuitive result and is illustrative of the type of bias these type of survey questions may be subject to, as explained in paragraph 52 of this appendix.

Figure 8: Perceptions of costs of searching and switching

Finding out about features and charges



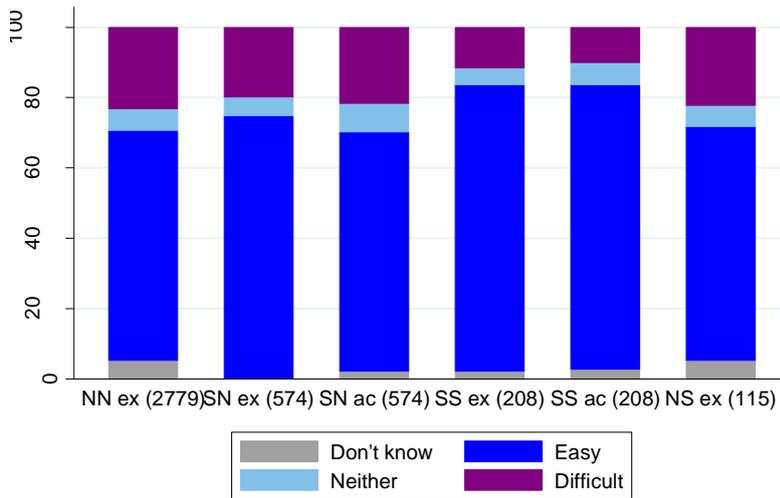
Understanding different options



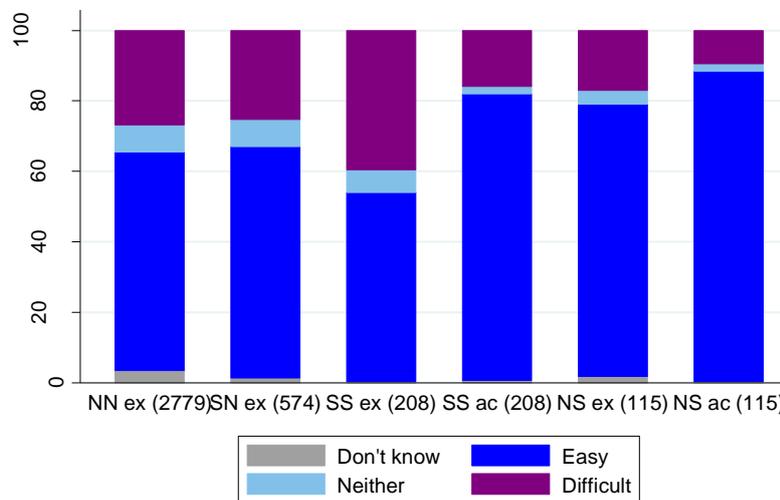
statistically significant differences for the second dimension, and only for the share of customers responding 'easy' for the third dimension.

⁵⁰ This difference is statistically significant at 5%.

Making comparisons



Process of changing PCA



Source: CMA analysis based on GfK PCA consumer survey data.

Note: NN are 'non-searcher/non-switchers'; SN are 'searcher/non-switchers', SS are 'searcher/switchers'; and NS are 'non-searcher/switchers'. For searcher/switchers we report both their expectations before they searched/switched (ex), and their perceptions regarding the actual experience of searching/switching (ac).

33. If we compare instead switchers' level of expectation ('SS ex' in bar 3 and 'NS ex' in bar 5) to their actual experience ('SS ac' in bar 4 and 'NS ac' in bar 6), we see that they found on average the actual experience easier than what they expected, and the difference is particularly pronounced for the SS group.
34. Similar differences between expectation and actuals are found for the SS concerning the first two dimensions of searching, while there is no difference between expectation and actuals in the 'Making comparisons' panel. Finally,

unlike the case of switching, they report higher degrees of difficulty in the actual process of searching than they expected.⁵¹

35. In summary, this evidence suggests that people who have switched PCAs during 2014 have found on average the process easier than they expected. This could be due to a share of customers not being aware of CASS prior to switching. As to the comparison of expectations across customer groups, we find that survey responses for this particular question may not be comparable due to the reasons set out in paragraph 11 above. For this reason, for the purpose of the econometric analysis, we rely on objective customer characteristics that are related to difficulties in searching and switching, rather than reported expectations.

Direct debits and other transactions

Table 3: Direct debits and transactions

<i>Groups</i>	<i>Number of direct debits and standing orders†</i>	<i>Number of transactions‡</i>
Non-searcher/Non-switchers	11	39
Searcher/Non-switchers	12**	40
Searcher/Switchers	10	34***
Non-searcher/Switchers	6***	38

Source: CMA analysis based on banks' transaction and GfK PCA consumer survey data.

†As at the end of 2014, number of observations 2,824.

‡Average number of debit and credits per month calculated using transaction data of the last quarter of 2014, number of observations 3,640.

***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

36. Next we look at two indicators of PCA activity that may be associated with higher perceived costs of switching, namely the number of direct debits and standing orders in the account and the average number of monthly transactions. The group of searcher/switchers have a similar level of direct debits to the reference group, while the SN have a higher number on average. As for NS, their level of direct debits is much lower than that of the reference group. This could suggest that for some customers, the number of direct debits could work as a barrier to switching. However, the difference observed for the NS is likely to be driven by the higher share of younger people and students in this group, who are likely to have less direct debits than older customers.

⁵¹ In fact, a larger share of customers in this group indicate that they expected the process to be “easy” as compared to the share indicating that the process was actually “easy”. This is true in all three dimensions of switching and the differences are statistically significant at 1%. The share of those reporting that they expected the process to be “difficult” as opposed to those that thought the actual process was “difficult” is smaller for all three dimensions but the difference is only statistically significant for the first dimension “finding out about features and charges”.

37. As for the number of transactions, the searcher/switchers present a significant difference with respect to the reference group NN, while not statistically significant differences are found for searcher/non-switchers and non-searcher/switchers. These results suggest that a higher level of intensity of the use of a PCA may constitute a barrier to switching for some customers.

Annex D: Details of the econometric analysis

1. In this annex we present the econometric analysis we carried out to analyse the main factors explaining the difference between searchers and switchers, as compared to other customers.

Methodology

2. We observe searching and switching as binary choices, that is, we see whether customers search or not, or switch or not. Mathematically, we can express searching and switching as follows:

$$Pr(Searching_i|X_i) = f(\beta_i'X_i)$$

$$Pr(Switching_i|Z_i) = f(\delta_i'Z_i)$$

3. The equations above indicate that the probability that a customer i searches or switches, denoted $Pr(Searching)$ and $Pr(Switching)$, is a function of a set of drivers and deterrents indicated by X_i and Z_i respectively. We estimate these models using a probit model.
4. The coefficients in a binary choice model lack a direct interpretation due to the non-linear nature of the model. In order to obtain an estimate of the effect of each factor on the probability of searching or switching, we need to calculate the average marginal effects.⁵² These allow us to understand not only whether the variation in one of the factors has a statistically significant impact on the probability of searching/switching, but also its magnitude.
5. As a first step, we estimate separate models for searching and switching. However, for many customers searching is a prerequisite to switching and the result of their searching efforts determines whether they switch or not. For this reason, we also estimate a model that links the two. More specifically, we estimate the following system:

$$\begin{aligned} Pr(Searching_i|X_i) &= f(\beta_i'X_i) \\ Pr(Switching_i|Z_i, Searching_i) &= f(\delta_i'Z_i, Searching_i) \end{aligned}$$

6. This type of model is called the 'recursive bivariate probit' model.⁵³ This model allows us to account for two issues: 1) the fact that the decisions of searching

⁵² Average marginal effects are obtained by evaluating the average effect of a change in the variable of interest at the observation level and then averaging these across the sample.

⁵³ Given that we estimate a recursive bivariate probit model when modelling jointly searching and switching, in order to compare results more easily, we estimate a probit model rather than a logit when modelling separately searching and switching. Probit and logit models are both standard in the literature and in general produce very similar results.

and switching are correlated, and 2) the fact that whether a customer searched or not will have an impact on their probability of switching.

Results of separate models for searching and switching (probit)

7. Table 1 presents the results of the estimation of the searching model. We present four alternative specifications to illustrate the sensitivity or robustness of the results. For each specification, the table shows in the first column the estimated coefficients and in the second column the average marginal effects.
8. As we discussed above, the coefficients are not directly interpretable and therefore, we need to look at average marginal effects to be able to obtain a measure of the magnitude of the effect of each factor. The average frequency of searching in the subsample used in the estimation is 20%.⁵⁴
9. The results from the searching model can be summarised as follows:
 - (a) We find no statistically significant effect for gender.
 - (b) Customers with income below £24,000 are 3 percentage points less likely to search, although this effect is not significant in all specifications.
 - (c) Customers aged between 55 and 64 are 7 percentage points more likely to search.
 - (d) Customers with a degree are 3 percentage points more likely to search.
 - (e) Customers with higher financial literacy are 5 percentage points more likely to search.
 - (f) Customers who indicate having confidence in the use of the internet are 13 percentage points more likely to search.
 - (g) We do not find a statistically significant effect of overdraft usage on searching, while high credit balance holders are 4 percentage points more likely to search.
 - (h) Customers who experienced a local branch closure are 10 percentage points more likely to search.

⁵⁴ The analysis is not carried out on the entire survey sample, so this frequency represents the incidence of searching in the subsample used for the analysis and is not a measure of the frequency of searching in the population. This was reported in Table 1 in this appendix and is equal to 17%.

- (i) Customers that have changed work status are 5 percentage points more likely to search.
 - (j) Customers that never use internet banking are 4 percentage points less likely to switch.
 - (k) Customers reporting a higher number of transactions (debits and credits) are less likely to search. The average estimated effect is 0.1 percentage points per additional transaction.
10. We also tested whether working status had an impact on searching but did not find a statistically significant effect.

Table 1: Searching model (probit)

	(1) Coefficients	(2) Marginal effects	(3) Coefficients	(4) Marginal effects	(5) Coefficients	(6) Marginal effects	(7) Coefficients	(8) Marginal effects
Female	-0.076 (0.061)	-0.020 (0.016)	-0.082 (0.061)	-0.022 (0.016)	-0.075 (0.061)	-0.020 (0.016)	-0.064 (0.062)	-0.017 (0.016)
Income below £24,000	-0.135** (0.065)	-0.036** (0.017)	-0.106 (0.067)	-0.028 (0.018)	-0.122* (0.067)	-0.032* (0.018)	-0.155** (0.074)	-0.041** (0.019)
Aged 35 to 54	-0.023 (0.079)	-0.006 (0.021)	-0.049 (0.079)	-0.013 (0.021)	-0.003 (0.081)	-0.001 (0.021)	-0.014 (0.082)	-0.004 (0.021)
Aged 55 to 64	0.242*** (0.091)	0.069** (0.027)	0.185** (0.092)	0.052* (0.027)	0.235** (0.095)	0.066** (0.028)	0.235** (0.098)	0.066** (0.029)
Aged 65 or above	0.152 (0.096)	0.042 (0.028)	0.064 (0.102)	0.017 (0.028)	0.121 (0.106)	0.033 (0.030)	0.117 (0.110)	0.031 (0.030)
Degree	0.151** (0.064)	0.041** (0.017)	0.140** (0.065)	0.038** (0.018)	0.132** (0.065)	0.035** (0.018)	0.113* (0.066)	0.030* (0.018)
Financial literacy	0.207*** (0.065)	0.055*** (0.017)	0.205*** (0.066)	0.054*** (0.017)	0.201*** (0.066)	0.052*** (0.017)	0.193*** (0.067)	0.050*** (0.017)
Internet confidence	0.618*** (0.095)	0.141*** (0.018)	0.617*** (0.096)	0.140*** (0.018)	0.616*** (0.096)	0.139*** (0.018)	0.563*** (0.101)	0.128*** (0.019)
Overdraft user			-0.084 (0.071)	-0.022 (0.018)	-0.082 (0.071)	-0.022 (0.018)	-0.047 (0.074)	-0.012 (0.019)
High credit balance			0.153** (0.077)	0.042* (0.022)	0.152** (0.077)	0.041* (0.022)	0.170** (0.077)	0.046** (0.022)
Local branch closed			0.322*** (0.112)	0.095*** (0.036)	0.326*** (0.112)	0.095*** (0.036)	0.305*** (0.112)	0.088** (0.035)
Moved house					0.134 (0.091)	0.037 (0.026)		
Changed work status					0.184** (0.084)	0.051** (0.024)	0.189** (0.084)	0.052** (0.024)
Changed relationship status					-0.116 (0.120)	-0.030 (0.029)		
Never uses internet banking							-0.176** (0.084)	-0.045** (0.021)
Never uses mobile app							-0.000 (0.072)	-0.000 (0.019)
Number of transactions							-0.003** (0.001)	-0.001** (0.000)
Constant	-1.509*** (0.127)		-1.518*** (0.132)		-1.584*** (0.137)		-1.355*** (0.156)	
Observations	3,537	3,537	3,537	3,537	3,537	3,537	3,502	3,502
F-statistics	13.193		11.000		9.339		9.034	
P-value	0.000		0.000		0.000		0.000	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.

***/**/* indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.

Note: Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

11. Table 2 presents the results of the switching model. As above, we report for each alternative specification the estimated coefficient and the marginal effects. The incidence of switching in the subsample used in the estimation is 3.8%.

12. In summary, the results of the switching model show that:
- (a) Women are 1 percentage point less likely to switch than men.
 - (b) Customers aged between 35 and 54 are 1 percentage point less likely to switch.
 - (c) Customers aged between 55 and 64 are 2 percentage points less likely to switch.
 - (d) We do not find a statistically significant effect for degree and financial literacy.
 - (e) Customers who report having confidence in the use of the internet are 1 percentage point more likely to switch. This result is sensitive to the model specification.
 - (f) Overdraft users are 2 percentage points less likely to switch, while no statistically significant effect is found for high credit balance holders in the model including all switchers.
 - (g) Customers who have seen the closure of a local branch are 4 percentage points more likely to switch.
 - (h) Customers whose bank has a relatively larger branch network in their region, are less likely to switch. The estimated average effect is 2 percentage points.
 - (i) Customers who indicate never using mobile apps are 1 percentage point less likely to switch.
 - (j) Customers reporting a higher number of transactions (debits and credits) are less likely to switch. The average estimated effect is 0.04 percentage points per additional transaction.
13. We also tested the following factors but did not find a statistically significant effect on switching:
- (a) Life events, such as moving house, or changing relationship status or work status.
 - (b) Working status, namely being retired, a full time student or not working.

Table 2: Switching model (probit)

	(1) Coefficients	(2) Marginal effects	(3) Coefficients	(4) Marginal effects	(5) Coefficients	(6) Marginal effects	(7) Coefficients	(8) Marginal effects
Female	-0.186** (0.077)	-0.014** (0.006)	-0.179** (0.076)	-0.014** (0.006)	-0.178** (0.080)	-0.013** (0.006)	-0.158** (0.080)	-0.012** (0.006)
Income below £24,000	-0.115 (0.085)	-0.009 (0.007)	-0.080 (0.083)	-0.006 (0.007)	-0.080 (0.087)	-0.006 (0.007)	-0.134 (0.097)	-0.010 (0.008)
Aged 35 to 54	-0.127 (0.096)	-0.010 (0.007)	-0.157* (0.094)	-0.012* (0.007)	-0.174* (0.099)	-0.013* (0.007)	-0.122 (0.099)	-0.009 (0.007)
Aged 55 to 64	-0.195 (0.120)	-0.014* (0.008)	-0.284** (0.118)	-0.019*** (0.007)	-0.305** (0.122)	-0.020*** (0.007)	-0.255** (0.123)	-0.017** (0.007)
Aged 65 or above	-0.046 (0.125)	-0.004 (0.009)	-0.197 (0.138)	-0.014 (0.009)	-0.154 (0.142)	-0.011 (0.009)	-0.152 (0.143)	-0.011 (0.009)
Degree	-0.045 (0.078)	-0.004 (0.006)						
Financial literacy	0.112 (0.082)	0.009 (0.006)						
Internet confidence	0.171 (0.112)	0.012* (0.007)	0.183* (0.108)	0.013* (0.007)	0.154 (0.110)	0.011 (0.007)	0.112 (0.128)	0.008 (0.008)
Overdraft user			-0.261*** (0.089)	-0.019*** (0.006)	-0.234** (0.092)	-0.016*** (0.006)	-0.190** (0.094)	-0.013** (0.006)
High credit balance			0.159* (0.096)	0.013 (0.009)	0.128 (0.101)	0.010 (0.009)	0.175* (0.101)	0.014 (0.009)
Local branch closed			0.367*** (0.140)	0.038** (0.019)	0.398*** (0.143)	0.041** (0.019)	0.333** (0.146)	0.032* (0.017)
Relative size of branch network					-0.310** (0.140)	-0.024** (0.011)	-0.400*** (0.142)	-0.030*** (0.011)
Never uses internet banking							-0.083 (0.115)	-0.006 (0.008)
Never uses mobile app							-0.173** (0.084)	-0.013** (0.007)
Number of transactions							-0.005*** (0.002)	-0.0004*** (0.000)
Constant	-1.757*** (0.152)		-1.676*** (0.150)		-1.473*** (0.181)		-1.099*** (0.205)	
Observations	3,537	3,537	3,675	3,675	3,585	3,585	3,549	3,549
F-statistic	2.534		4.728		3.673		4.397	
P-value	0.009		0.000		0.000		0.000	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.

***/**/* Indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.

Note: Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

14. The descriptive statistics presented in the first part of this annex show that the group of non-searcher/switchers differs in many dimensions to the group of searcher/switchers. We next analyse how the results change if we estimate the model excluding this group from the sample. The incidence of switching in that subsample is 3%. The results are presented in Table 3.

15. Some results change once the NS group is excluded. These changes are in line with the differences between the SS and NS groups found in the descriptive analysis. In particular:
- (a) The effect of gender is no longer significant.
 - (b) The effect for those aged between 35 and 54 is no longer significant.
 - (c) The effect for customers aged between 55 and 64 is not significant in all specifications.
 - (d) We find an average effect of 1 percentage point for financial literacy, although this is not significant in all specifications.
 - (e) Customers who hold high credit balances are 1 to 2 percentage points more likely to switch.
 - (f) The effect of the relative size of the banks' regional branch network is no longer significant.
 - (g) Customers who indicate never using internet banking are 1 percentage point less likely to switch (the effect for mobile apps is unchanged).
 - (h) Customer who report their working status as 'not working' are 2 percentage points less likely to switch.

Table 3: Switching model (probit) excluding non-searcher/switchers

	(1) Coefficients	(2) Marginal effects	(3) Coefficients	(4) Marginal effects	(5) Coefficients	(6) Marginal effects	(7) Coefficients	(8) Marginal effects
Female	-0.146 (0.090)	-0.009 (0.006)	-0.118 (0.089)	-0.007 (0.005)	-0.125 (0.092)	-0.008 (0.006)	-0.086 (0.091)	-0.005 (0.005)
Income below £24,000	-0.111 (0.101)	-0.007 (0.006)	-0.080 (0.100)	-0.005 (0.006)	-0.098 (0.102)	-0.006 (0.006)	-0.134 (0.111)	-0.008 (0.007)
Aged 35 to 54	-0.105 (0.115)	-0.006 (0.007)	-0.141 (0.114)	-0.009 (0.007)	-0.172 (0.118)	-0.010 (0.007)	-0.074 (0.113)	-0.004 (0.007)
Aged 55 to 64	-0.145 (0.136)	-0.008 (0.007)	-0.243* (0.137)	-0.013** (0.007)	-0.246* (0.140)	-0.013** (0.007)	-0.161 (0.137)	-0.009 (0.007)
Aged 65 or abov	0.097 (0.141)	0.006 (0.010)	-0.062 (0.158)	-0.004 (0.009)	-0.040 (0.161)	-0.002 (0.009)	-0.012 (0.159)	-0.001 (0.010)
Degree	0.030 (0.089)	0.002 (0.006)						
Financial literacy	0.197* (0.102)	0.012** (0.006)	0.158 (0.099)	0.010* (0.006)	0.149 (0.102)	0.009 (0.006)	0.143 (0.102)	0.008 (0.006)
Internet confidence	0.285* (0.147)	0.015** (0.006)	0.277* (0.141)	0.015** (0.006)	0.260* (0.143)	0.014** (0.007)	0.205 (0.167)	0.011 (0.008)
Overdraft user			-0.237** (0.109)	-0.013** (0.006)	-0.227** (0.111)	-0.013** (0.006)	-0.180 (0.111)	-0.010* (0.006)
High credit balance			0.219** (0.107)	0.015* (0.008)	0.193* (0.111)	0.013 (0.008)	0.292*** (0.108)	0.020** (0.008)
Local branch closed			0.404** (0.159)	0.035* (0.018)	0.415** (0.162)	0.035* (0.018)	0.347** (0.164)	0.027* (0.017)
Relative size of branch network					-0.266 (0.163)	-0.016 (0.010)		
Never uses internet banking							-0.214 (0.133)	-0.012* (0.007)
Never uses mobile app							-0.204** (0.094)	-0.013** (0.006)
Number of transactions							-0.006*** (0.002)	-0.0003*** (0.000)
Constant	-2.131*** (0.191)		-2.081*** (0.195)		-1.872*** (0.217)		-1.681*** (0.226)	
Observations	3,427	3,427	3,560	3,560	3,486	3,486	3,524	3,524
F-statistic	2.954		4.271		3.452		5.819	
P-value	0.003		0.000		0.000		0.000	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.

***/**/* Indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.

Note: Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

Results of joint model of searching and switching (recursive bivariate probit)

16. In this section we present the results of estimating the recursive bivariate probit model. As explained in paragraph 65, this model accounts for the fact

that the decision to search may precede switching and therefore has an impact on its probability. The model results are presented in Table 4.⁵⁵

17. For the case of the switching model, the reported coefficients correspond to the impact of the factor on switching once we account for whether the customer has searched or not.
18. The main results are in line with what we found with the separate models above. The new results emerging from this model are:
 - (a) the effect of gender on switching is not significant in all specifications;
 - (b) the effect for customers aged between 35 and 54 on switching is no longer significant;
 - (c) confidence in the use of the internet has a negative effect on switching conditional on searching. This is in line with the differences we find for the SS and NS groups in the descriptive analysis;
 - (d) overdraft usage is not statistically significant; and
 - (e) local branch closure is not statistically significant for switching conditional on searching.

⁵⁵ The calculation of marginal effects for this type of model is more complex than for a standard bivariate probit model. We are currently working on obtaining these estimates and plan publish them in the final report.

Table 4: Joint model of searching and switching (recursive bivariate probit)

	(1) <i>Searching</i>	(2) <i>Switching</i>	(3) <i>Searching</i>	(4) <i>Switching</i>
Searching		-0.199 (1.228)		2.020*** (0.634)
Female	-0.079 (0.0609)	-0.189** (0.0861)	-0.063 (0.0622)	-0.143 (0.0922)
Income below £24k	-0.136** (0.0648)	-0.124 (0.0825)	-0.157** (0.0748)	-0.054 (0.107)
Aged 35–54	-0.022 (0.0789)	-0.123 (0.0960)	-0.036 (0.0814)	-0.086 (0.109)
Aged 55–64	0.241*** (0.0918)	-0.147 (0.234)	0.230** (0.0958)	-0.449*** (0.138)
Aged 65 or above	0.145 (0.0963)	-0.063 (0.156)	0.116 (0.108)	-0.241* (0.140)
Degree	0.151** (0.0641)	-0.031 (0.117)	0.117* (0.0666)	-0.215** (0.0927)
Financial literacy	0.205*** (0.0653)	0.108 (0.107)	0.191*** (0.0674)	-0.075 (0.0951)
Internet confidence	0.619*** (0.0954)	0.218 (0.347)	0.575*** (0.106)	-0.267* (0.143)
Overdraft user			-0.044 (0.0738)	-0.163 (0.106)
High credit balance			0.187** (0.0779)	0.052 (0.107)
Local branch closed			0.309*** (0.114)	0.080 (0.169)
Relative size of branch network				-0.307** (0.151)
Changed work status			0.165* (0.0872)	
Never uses internet banking			-0.163** (0.0802)	
Never uses mobile app				-0.184** (0.0899)
Number of transactions			-0.002* (0.00139)	-0.003* (0.00196)
Constant	-1.506*** (0.127)	-1.661*** (0.483)	-1.372*** (0.156)	-1.406*** (0.230)
Observations	3,537		3,416	
F-statistics	7.228		10.299	
P-value	0.000		0.000	
Rho	0.936 (1.150)		-0.458 (0.412)	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.

***/**/* Indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.

Note: The table reports estimated coefficients. Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

Personal current account transparency

1. In this appendix we provide evidence on:

- (a) account charges;
- (b) account rewards; and
- (c) price comparison websites.

Account charges

2. Table 1 summarises different account charges customers may incur. We provide further details on overdraft charges, monthly account fees and foreign transaction charges below.

Table 1: Overview of PCA charges

<i>Cost</i>	<i>Description</i>
Overdraft charges	Cost for entering either an arranged or unarranged overdraft, which may include daily/monthly charges, debit interest and un/paid item charges.
Foreign transaction fees	Fees for foreign transactions, such as using debit cards to withdraw cash from cash machines, make purchases while abroad or buy foreign currency from anywhere else. Currency conversion charges may also be added. Fees may also apply when receiving transactions from abroad above a certain amount.
Monthly account fees	Fees that occur monthly for maintaining the account.
Same-day domestic payment fees	Fees that apply to transfer large amounts into an account on the same day.
Cash machine (ATM) fee	Fees that apply to withdraw cash in general and/or at certain cash machines, eg inside small shops, on garage forecourts or in nightclubs.
Fees for one-off items	Charges for one-off items, such as: <ul style="list-style-type: none"> - special presentation of a cheque (finding out quickly if the cheque will be paid) - obtaining a banker's draft - obtaining copies of paid cheques - ordering duplicate statements - stopping a cheque - requesting a reference from the bank.
Transaction fees	Fees for transactions such as contactless payments, debit card purchases, standing orders, direct debits, etc.

Source: [Money Advice Service website](#).

Overdraft charges

3. Overdraft charges may include:

- (a) daily fees charged for each day a customer uses an overdraft;
- (b) monthly fees charged for each month a customer uses an overdraft;

- (c) debit interest charged on daily overdraft balances;
 - (d) unpaid item fees charged for each item that is returned unpaid by the PCA provider; and
 - (e) paid item fees charged for each item that is paid by the PCA provider that leaves the customer in, or extends the overdraft.
- 4. The daily fee, monthly fee and debit interest charges may vary depending on whether a customer has an arranged or unarranged overdraft.
- 5. PCA providers also have additional charge policies in place that vary across providers. These include:
 - (a) buffer zones, where charges are only incurred once a customer has become overdrawn by a certain amount;
 - (b) grace periods, where customers can avoid charges by transferring money to balance the account before a set deadline; and
 - (c) fee caps on paid and unpaid item fees.
- 6. Tables 2 and 3 illustrate how pricing structures vary between different banks, using the example of the most common account offered by each provider.¹

¹ These PCAs are the most commonly used accounts of each bank, and together account for about 50% of all active accounts at the end of 2014. We have derived the most common accounts from banks' responses to our market questionnaire.

Table 2: PCA providers' overdraft charging structure I*

UK/GB PCA brands	Account name	Arranged overdraft			Unarranged overdraft			Unpaid item	Paid item
		Daily fee	Monthly fee	Debit interest (EAR)	Daily fee	Monthly fee	Debit interest (EAR)		
Barclays	Bank account	£0.75 if >£15–1,000, £1.5 if £1,000–2,000, £3 if £3,000–5,000. Emergency Borrowing†: if more than £15, first 7 days £5, then £0.75–3 as for an arranged overdraft	–	–	–	–	–	£8	–
Clydesdale	Current account plus	–	£6	18.85%	£6‡	–	–	£15	–
Co-op	Standard current account	–	–	18.9%	£10	£10	18.9%	–	–
HSBC	Bank account	–	–	19.90%	£5	–	19.90%	–	–
First Direct	1 st account	–	–	15.9% if >£250	£5	–	15.9% if >£250	–	–
M&S Bank	Current account	–	–	15.9% if >£100	–	–	–	–	–
Lloyds	Classic	–	£6	19.94% if >£25	£5 if >£10–24.99 £10 if >£25	£6	19.94%	£10	–
BoS	Classic	–	£6	19.94%	£5 if >£10–£24.99, £10 if >£25	£6	19.94%	£10	–
Halifax	Current account	£1 if >£10–1,999.99, £2 if £2,000–2,999.99, £3 if >£3,000	–	–	£5	£10	–	£10	–
Metro	Current account	–	–	15%	–	–	15%	£10	£10
Nationwide	Flex Account	–	–	18.9%	–	–	18.9%	£15	£15
RBS	Select	–	£6	19.89%	£6	–	–	£6	–
NatWest	Select	–	£6	19.89%	£6	–	–	£6	–
Santander	Everyday	£1 if >£12	–	–	£6	–	–	£10	£10
TSB	Classic	–	£6	19.94% if >£25	£5 if £10–25, £10 if >£25	£6	19.94%	£10	–

NI-focused brands									
AIB/First Trust Bank	Classic account	–	£15	base rate + 12%	–	£15	Arranged overdraft debit interest rate + excess interest 1.5% a month (minimum £2)	£25	£22
BOI/Post Office	Standard account	–	–	14.9%	–	–	14.9%	£15	£15
Danske	Choice	–	£12 if >£100	16.06%	–	£25 if >£5	22.54%	£28	£25
Ulster¶	Current account	–	–	14.88%	–	£20	21%	£10. £15 'Paid Referral Fee' if transaction >£15#	–

Source: Information provided by banks.

*Charges listed in the table may differ for certain sub-groups of customers (eg for student, graduate, higher education or staff accounts).

†Barclays does not offer an unarranged overdraft, but offers Emergency Borrowing. Emergency Borrowing lets customers borrow an extra arranged amount if they need to go over their overdraft limit once in a while.

‡Please note that the unarranged overdraft fee is only charged per working day (ie Monday–Friday excluding weekends and bank holidays).

§TSB Unauthorised Borrowing Fee: The first time a customer enters an unarranged overdraft by £50 or more, an Unauthorised Borrowing Fee (UBF) of £15 is chargeable. After that, the UBF is chargeable every time the customer increases the unarranged overdraft by £50 or more from the previous day's closing balance, unless a higher limit is agreed, or until the account is within its existing limit or in credit. The UBF is charged a maximum of once a day.

¶Ulster Bank is in the process of aligning its product offering with RBS.

#If the transaction (of whatever amount) creates an unarranged excess of more than £15 at the end of the day in question the fee will be levied. This is also a 'per day fee' with a cap of £90 per charging period.

Table 3: PCA providers' overdraft charging structure II

UK/GB PCA brands	Account name	Buffer limit	Fee caps	Waiving conditions	Other
Barclays	Bank account	£15 arranged overdraft, £15 Emergency Borrowing	Emergency Borrowing fees capped at 7 days per charging period, unpaid item fees charged maximum of once per day	–	Maximum arranged overdraft limit £5,000
Clydesdale	Current account plus	£25 arranged overdraft, £10 unarranged overdraft, £15 unpaid items	£100 per calendar month (does not apply to debit interest)	–	–
Co-op	Standard current account	£20 unarranged overdraft	£60 quarterly unarranged overdraft charges	If accidentally overdrawn by >£20 without an agreed overdraft customer has 6 days to return the agreed balance before a fee is charged and provided an informal overdraft has not been requested in the last 12 months (debit interest is still applied)	–
HSBC	Bank account	£10	£80 monthly for unarranged overdraft fees (or the maximum the account has been in informal overdraft in that month)	Unarranged overdraft charges waived if covered by end of day or value £10, not charged after account has been in overdraft for >30 days consecutively, if the account is in unarranged overdraft because an overdraft charge or interest has been deducted	–
First Direct	1 st account	£10	£80 monthly for unarranged overdraft fees (or the maximum your account has been in informal overdraft in that month)	Unarranged overdraft charges waived if covered by end of day or value ≤£10, not charged after account has been in overdraft for >30 days consecutively, if the account is in unarranged overdraft because an overdraft charge or interest has been deducted	–
Lloyds	Classic	£10 unarranged overdraft, £10 unpaid items	Maximum of 8 daily unarranged overdraft fees charged in a month, maximum of 3 returned fees charged per day	Grace period up to 3.30pm the same day for overdrafts	–
BoS	Classic	£25 arranged overdraft	Maximum of 8 daily unarranged overdraft fees charged in a month, maximum of 3 returned fees charged per day	Do not charge unpaid item fees if value of item is ≤£10	–
Halifax	Current account	£10 arranged overdraft, £10 unarranged overdraft	£100 per month charged for unarranged overdrafts	Arranged overdraft fees waived for first 3 months if NI customer who has switched to Halifax	–
Metro	Current account	–	Maximum of 6 paid/unpaid item fees per month	–	–

Nationwide	Flex Account	£15 unarranged overdraft	£75	–	First 3 months of arranged overdraft is interest-free Refund of overdraft fees the first time you go into unarranged overdraft
RBS	Select	£10 unarranged overdraft	Maximum charge of £90 per charging period for unarranged overdraft fees, maximum charge of £60 per charging period for unpaid items	–	£10 interest-free threshold for arranged overdraft
NatWest	Select	–	£90 in any charging period for unarranged overdraft fees	Unarranged overdraft fees waived if item <£10	£10 interest-free threshold for arranged overdraft
Santander	Everyday	£12	£95 fee cap in each monthly statement period	Arranged overdraft fees waived for the first 4 months if the customer has switched to Santander	–
TSB	Classic	£10 arranged overdraft, £10 unarranged overdraft	Charges a maximum of 8 daily unarranged overdraft fees in any charging period	–	First £25 of arranged overdraft interest and fee-free
NI-focused brands					
AIB/First Trust Bank	Classic account	Paid item fee not charged if balance is less than £15 overdrawn	Paid item: £22 for each day up to a maximum of 5 fees charged in a month Unpaid item: £25 for each unpaid item up to a maximum of 5 fees charged in a month	–	–
BOI/Post Office	Standard account	–	–	–	–
Danske	Choice	£5	Paid transaction fees are capped at 1 per calendar day and maximum 5 per calendar month.	Customers should refer to the bank's payment table to find cut off times for ensuring that there are funds in their account to facilitate payments. Cut off times vary depending upon the type of transaction potentially causing the overdraft position (ie standing order, direct debits etc)	Maximum arranged overdraft amount without a fee for setting it up = £7,500, beyond this charged 1% of the extra amount
Ulster	Current account	–	£100 fee cap on unpaid items	–	£15 'Guaranteed Card Payment Fee**

Source: Information provided by banks.

**This is a 'per transaction' fee (with a cap of £90 per period) where Ulster has to accept a debit card payment.

7. Table 4 shows how some banks have amended their overdraft charging structures between 2011 and 2014. The changes range from introducing or removing single charges to the introduction of completely new charging structure.

Table 4: Changes in PCA overdraft charging structure

<i>Date</i>	<i>PCA provider</i>	<i>Change in overdraft charging structure</i>
February 2011	NatWest	Introduced charges of £6 per day if exceeded overdraft limit and started providing free texts when nearing the limit
December 2010	Lloyds	Introduced £5 monthly charge for agreed overdrafts over £10 and reduced unarranged usage fee from £15 to £5 per month. Fee cap introduced so max unplanned fees are £80 (plus the £5 usage fee)
September 2012	Halifax	Introduced £3 daily fee for planned overdrafts over £3,000
December 2012	HSBC and First Direct	Removed arranged overdraft set-up fee of £25
December 2012	Barclays	Introduced a £15 buffer for customers with a Personal Reserve facility (Personal Reserve ceased in June 2014)
July 2013	RBS/NatWest	Simplified overall pricing structure to give customers more control, including capping daily fees at 15 days
November 2013	HSBC and First Direct	Removed unpaid item fee
January 2014	Barclays	Reduced volume of unpaid transaction fee charges which a customer can be charged in a single day from five (£40) to one (£8), and introduced text alerts
June 2014	Barclays	Significantly changed overdraft proposition – went from interest based to tiered and daily fees. Replaced Personal Reserve with Emergency Borrowing and removed a £8 fee which previously existed for paid transactions
July 2014	Nationwide	Removed unarranged overdraft fee
August 2014	Santander	Increased unarranged overdraft fees (from £5 to £6 per day), Increased maximum number of days from 20 to 30 for which customers can be charged for using either an arranged or unarranged overdraft. Reduced paid and unpaid item fees
November 2014	HSBC and First Direct	Unarranged overdraft fee of £25 for each instance replaced with a daily unarranged overdraft usage fee of £5
December 2014	Clydesdale	Changed charging structure, including removing debit interest for unplanned borrowing and consolidation of other fees into a 'Daily Unplanned Borrowing Fee' of £6 with a £10 Buffer
April 2015	Co-op	Removed the annual service charge for an arranged overdraft and the unpaid item fee. Reduced the monthly and daily unarranged overdraft service charge ² from £20 to £10. Reduced the maximum amount customers can be charged in overdraft fees from £150 to £60 per quarter

Source: Information provided by banks.

Unarranged overdraft charges

8. For the purpose of developing an overview of the cost of unarranged overdrafts we collected data on the charging scenarios set by the OFT. In

² Monthly service charge: When an account is overdrawn or has exceeded an existing overdraft limit without having agreed with the bank in advance, a monthly service charge will be incurred. Daily service charge: Each subsequent day the account's informal overdraft increases, a daily service charge will be incurred.

2009, the banks³ agreed that they would publish information showing how much would be charged in a series of unarranged overdraft scenarios. Figures 1 and 2 provide basic information on dispersion between the providers and give us an idea of the scale of charges as of October 2015. This further illustrates complexity of PCA charges structures.⁴

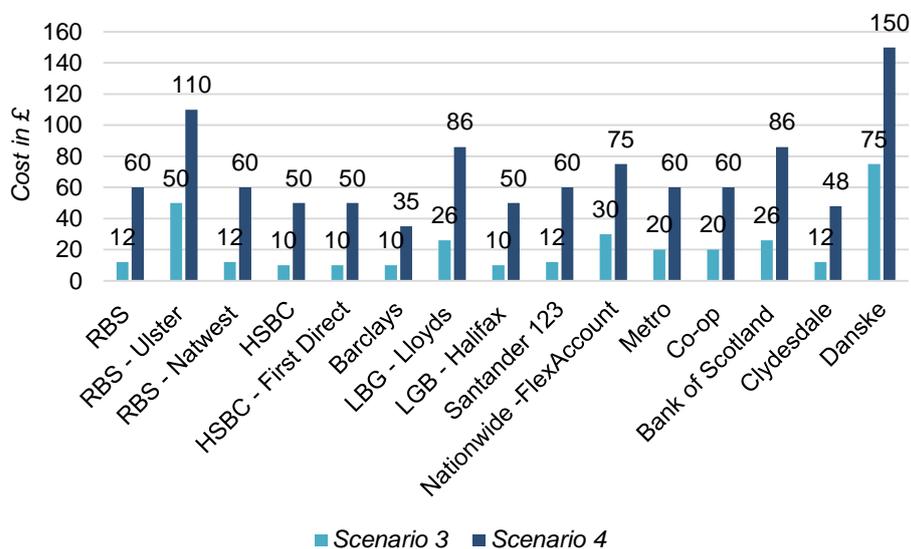
9. The scenarios are as follows:
 - (a) Scenario 1: provider refuses a payment from your account because there is not enough money in your account.
 - (b) Scenario 2: a payment from your account takes you into an unarranged overdraft by less than £10. You are overdrawn for one day during the month.
 - (c) Scenario 3: A payment from your account takes you into your unarranged overdraft and you make another payment from the account while you are overdrawn. You use your overdraft for two days in a row during the month.
 - (d) Scenario 4: A payment from your account takes you into your unarranged overdraft, and you make nine more payments from the account while you are overdrawn. You use your unarranged overdraft for 10 days in a row during the month.
 - (e) Scenario 5: A payment from your account takes you into an unarranged overdraft. You are overdrawn for one day. However, on three more occasions during the month, a payment takes you into an unarranged overdraft. On each of these occasions you are overdrawn for three days in a row.
 - (f) Scenario 6: A payment from your account takes you into an unarranged overdraft. You are overdrawn for 21 days in a row during the month and you make 12 more payments from the account while you are overdrawn
10. Figure 1 shows how monthly costs of an unarranged overdraft vary between banks in scenario 3 and 4, as described above. In scenario 3, most of the banks charge customers £20 or less except Lloyds, Nationwide, and BoS who charge slightly more. Additionally, two banks have significantly higher costs

³ Barclays, HSBC, LBG, Clydesdale Bank and Yorkshire Bank, Nationwide, RBSG (excluding Ulster Bank) and Santander.

⁴ The CMA phase 1 report noted a number of limitations to these scenarios (a) the charging scenarios do not give a full picture of how charges can be applied because of their complexity (b) relatively few consumers use these scenarios (c) they do not cover arranged overdrafts and (d) charging structures are not prominent on banks' websites.

with Ulster charging £50 and Danske charging the highest fee of £75. In scenario 4, Danske and Ulster again are charging the highest fee of £150 and £110 respectively. All other banks charge £60 or less, except Lloyds, Nationwide, and BoS who charge slightly more. Overall, customers at Barclays incur the lowest cost with £35.

Figure 1: Monthly cost of an unarranged overdraft – scenarios 3 and 4



Sources: Information provided by banks.

Notes:

RBS = Graduate Royalties, Select Account, Select Silver Account, Royalties Gold Account, Select Platinum Account, Black Account, R21 Account, Royalties Premier.

RBS Ulster = Current Account, Current Plus, ufirstgold, Private Current, ufirst Private.

RBS NatWest = Graduate Account, Select Account, Select Silver, Advantage Gold, Select Platinum & Black Account.

Barclays - does not offer an unarranged overdraft, but offers Emergency Borrowing. Emergency Borrowing lets customers borrow an extra arranged amount if they need to go over their overdraft limit once in a while.

LBG Lloyds = Classic, Silver and Platinum Accounts; Student and Graduate Accounts; Club Lloyds, Club Lloyds Silver, Club Lloyds Gold, Club Lloyds Platinum and Club Lloyds Premier Accounts.

LBG Halifax = Reward Account, Current Account.

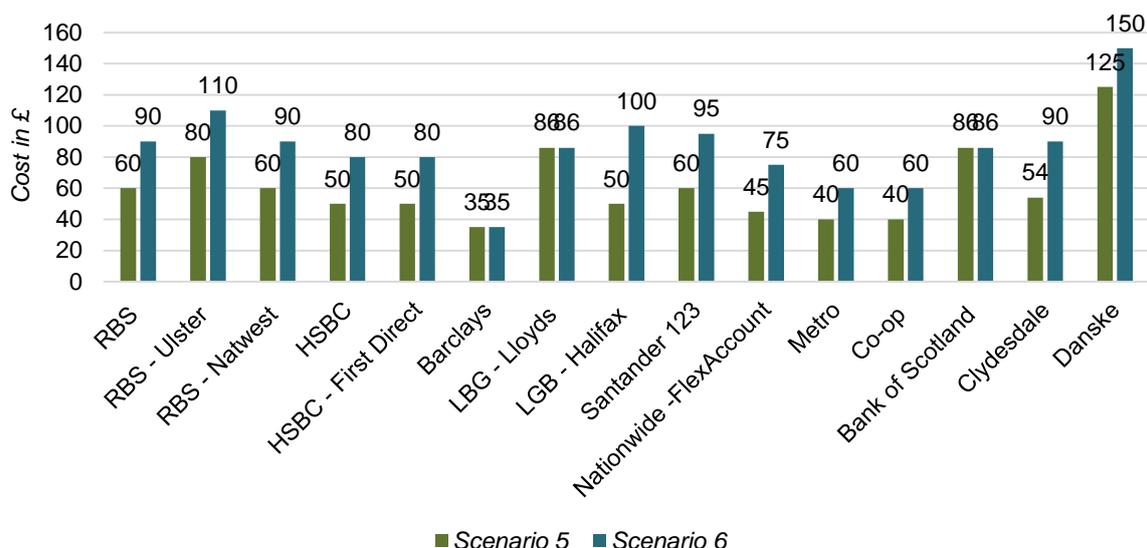
Co-op = Current Account Plus, Privilege Current Account, Privilege Premier Current Account.

Bank of Scotland = Classic Account, Added Value Accounts Student and Graduate Accounts.

Clydesdale = Signature Current Account, Current Account Plus, Current Account Direct.

- Figure 2 shows how monthly costs of an unarranged overdraft vary between banks in scenario 5 and 6, as described above. In scenario 5, most banks charge £60 or less. Customers at Ulster, Lloyds and BoS pay slightly higher fees and Danske charges the highest fees of £125. In scenario 6, most banks charge £90 or less with Halifax and Santander charging slightly more. Ulster charges a bit more (£110) and Danske charges the highest fee of £150. Customers at Barclays pay in both scenarios the lowest fees of £35.

Figure 2: Monthly cost of an unarranged overdraft – scenarios 5 and 6



Source: Information provided by banks.

Notes:

RBS = Graduate Royalties, Select Account, Select Silver Account, Royalties Gold Account, Select Platinum Account, Black Account, R21 Account, Royalties Premier.

RBS Ulster = Current Account, Current Plus, ufirstgold, Private Current, ufirst Private.

RBS NatWest = Graduate Account, Select Account, Select Silver, Advantage Gold, Select Platinum & Black Account.

Barclays - does not offer an unarranged overdraft, but offers Emergency Borrowing. Emergency Borrowing lets customers borrow an extra arranged amount if they need to go over their overdraft limit once in a while.

LBG Lloyds = Classic, Silver and Platinum Accounts; Student and Graduate Accounts; Club Lloyds, Club Lloyds Silver, Club Lloyds Gold, Club Lloyds Platinum and Club Lloyds Premier Accounts.

LBG Halifax = Reward Account, Current Account.

Co-op = Current Account Plus, Privilege Current Account, Privilege Premier Current Account.

Bank of Scotland = Classic Account, Added Value Accounts*, Student and Graduate Accounts.

Clydesdale = Signature Current Account, Current Account Plus, Current Account Direct.

Monthly account fees

12. The majority of banks offer accounts that incur a monthly fee.⁵ We researched the most common monthly fee accounts per bank online and found that all banks advertise the monthly fee on their homepage. When determining the most used monthly fee account, we did not distinguish by type of account, but, for each bank, we chose the most used account that incurs a monthly fee (highest number of accounts provided by banks in their response to our market questionnaire). Where information on account numbers was not available, we chose the account with the lowest monthly fee. We only included monthly fee accounts that were available to new customers in October 2015.
13. Information on account features and conditions are also transparently available on the banks' homepage. Table 5 and 6 provide a comparison of the

⁵ AIB, Barclays, Bank of Ireland, Co-op, Metro and Danske do not currently have on sale a fee paying account. Customers with a Barclays bank account which does not incur a monthly fee in itself, can apply to join Blue Rewards entitling them to additional benefits associated with use of the account, which in return incur monthly fees.

most common monthly fee accounts on offer. It shows accounts vary in the level of monthly fee, the features they offer and the conditions that apply.

Table 5: Monthly fee accounts I

PCA provider	Account name	Account type ⁶	Monthly fee	Special conditions to waive monthly fee	Credit interest		Preferential overdraft conditions
					Credit interest (AER)	Balance	
Clydesdale	Signature	Packaged account	£13.5	–	0%	–	Preferential Planned Debit Interest Rate: 12.50% EAR
First Direct	First Directory	Packaged account	£15	–	–	–	Automatic £500 formal overdraft. First £250 is free of overdraft interest
HSBC	Pay Monthly	Standard account with control feature	£10	–	–	–	£50 buffer. Payments which would cause the account to exceed the formal overdraft limit and buffer are usually declined. No overdraft usage fees, debit interest is charged
BoS	Silver	Packaged account	£9.95	Vantage is a free add-on to all available customers*	1.5% 2% 3%	£1+ £1,000+ £3,000–5,000	Up to £50 Interest and fee-free arranged overdraft
Lloyds	Club Lloyds ⁷	Reward account	£5	Fee is waived, if £1500 or more is paid into account.	1% 2% 4%	£1+ £2,000+ £4,000–5,000	First £100 of an arranged overdraft (subject to status) is free of cost.
M&S	Premium	Packaged account	£10	–	–	–	First £100 of an arranged overdraft (subject to status) is free of cost
Nationwide	Flex Plus	Packaged account	£10	–	3%	Up to £2,500	3 month fee-free overdraft and a £100 fee-free limit after that
RBS	Select Silver	Packaged account	£10	–	–	–	–
NatWest	Select Silver	Packaged account	£10	–	–	–	–
Santander	123	Reward account	£2	–	1.0% 2.0% 3.0%	£1,000+ £2,000+ £3,000–20,000	–
TSB	Silver Standard	Packaged account	£9.95	–	–	–	First £50 of an arranged overdraft (subject to status) is free of cost
Ulster	UFirst Gold	Packaged account	£9	–	–	–	First £500 of an arranged overdraft (subject to status) is free of cost
Halifax	Ultimate Reward	Packaged account	£15	Monthly fee reduces to £10 if customer pays in £750, has 2 direct debits and stays in credit throughout month	–	–	First £300 of an arranged overdraft (subject to status) is free of cost

Source: Information provided by banks.
*40-50% of BoS Silver customers have Vantage.

⁶ We define reward and packaged accounts in section 4, paragraph 4.15.

⁷ LBG told us that around 96% of its customers do not pay a monthly fee as they meet the criteria for the fee to be waived. LBG told us Lloyds Platinum is the most popular on-sale Lloyds bank monthly fee account. We have included Club Lloyds to ensure a consistent approach across banks.

Table 6: Monthly fee accounts II

<i>PCA provider</i>	<i>Account name</i>	<i>Account type</i>	<i>Cashback/discounts</i>	<i>Insurance</i>	<i>Other benefits*</i>
Clydesdale	Signature	Packaged account	Discounts at certain major high street stores and supermarkets, and on some holidays, concert tickets and events	- Worldwide travel insurance (incl. family) - UK car breakdown cover - Mobile phone insurance - Gadget insurance	- Access to credit reports, ability to check if personal details are being used online, and getting support and advice when needed. - £150 switch incentive
First Direct	First Directory	Packaged account	Discounts at certain restaurants, hotels and on days out	- Worldwide travel insurance - UK car breakdown cover - Mobile phone insurance	- Commission-free travel money - No ATM transaction fees by First Direct
HSBC	Pay Monthly	Standard account with control feature	-	-	Pay Monthly money calendar (tool to help manage money)
BoS	Silver	Packaged account	Up to 15% cashback with selected retailers	- European travel insurance (incl. partner) - UK car breakdown cover - Mobile phone insurance	-
Lloyds	Club Lloyds	Reward account	-	-	Lifestyle benefit (cinema tickets, magazine subscription, gourmet society membership)
M&S	Premium	Packaged account	M&S loyalty points for M&S reward vouchers with your M&S Debit Card in M&S	-	- £40 a year in M&S vouchers - £45 worth of treats and delights vouchers - £127 worth of hot drinks vouchers for the M&S Café - Birthday gift - Access to exclusive M&S offers
Nationwide	Flex Plus	Packaged account	-	- Worldwide family travel insurance - UK & EU breakdown and recovery assistance - Worldwide family mobile phone insurance - Extended warranty on appliances	- Commission-free cash withdrawals abroad - Identity theft assistance - Worldwide emergency card assistance
RBS	Select Silver	Packaged account	25% cashback on tickets for theatre, dance, opera, concert performances	- European travel insurance - Mobile phone insurance	tastecard membership
NatWest	Select Silver	Packaged account	25% cashback on tickets for theatre, dance, opera, concert performances	- European travel insurance - Mobile phone insurance	tastecard membership
Santander	123	Reward account	Cashback on bills (1% on water, council tax & Santander mortgage, 2% on energy, 3% on telecoms)	-	-
TSB	Silver Standard	Packaged account	-	- European travel insurance (incl. partner) - UK car breakdown cover - Mobile phone insurance	-
Ulster	UFirst Gold	Packaged account	15% cash-back on concerts, shows and sporting events	Worldwide travel insurance (incl. family) Mobile phone insurance	-
Halifax	Ultimate Reward	Packaged account	Up to 15% cashback with selected retailers	- Worldwide travel insurance - UK car breakdown cover - Mobile phone insurance - Home emergency cover	Card cancellation service

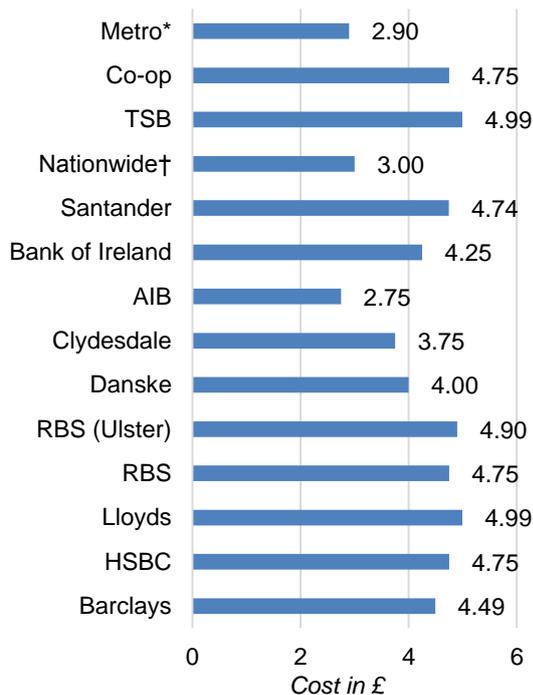
Source: Information provided by banks.

* This table does not include information on access to or preferential rates for other financial products.

Foreign transaction fees

14. A cash withdrawal abroad incurs a cash fee and a foreign transaction fee. Banks may also apply a minimum and maximum fee. Figure 3 illustrates that the cost of a £100 withdrawal varies between £2.75 and £4.99, with AIB charging the lowest fee and Lloyds and TSB the highest.

Figure 3: Cost of £100 cash withdrawal abroad



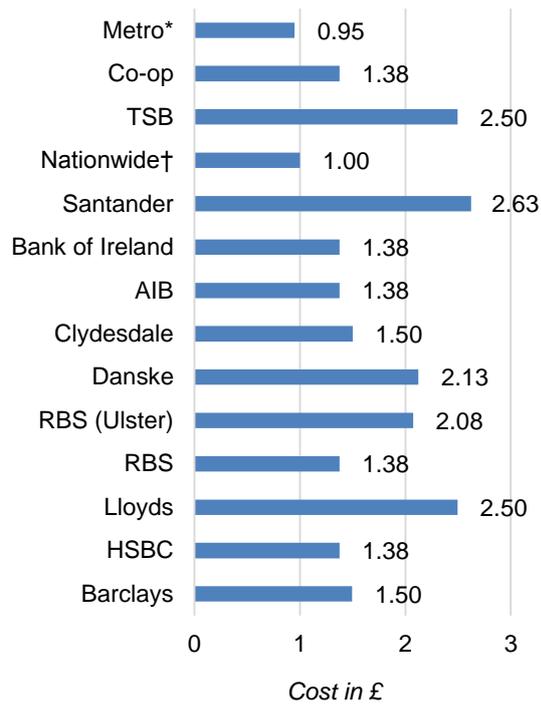
Source: Information provided by banks.

*Metro offers £0 cash fee and foreign transaction fee for withdrawals in Europe.

†The charging structure applies to all of Nationwide's accounts except the FlexPlus account.

15. Figure 4 shows that for a £50 foreign transaction, for example purchasing an item in euros or dollars valued at £50, the fees range from less than £1 to £2.63, with Metro charging the lowest and Santander the highest fees.

Figure 4: Cost of £50 foreign debit card transaction



Source: Information provided by banks.

*Metro offers £0 cash fee and foreign transaction fee for withdrawals in Europe.

†The charging structure applies to all of Nationwide's accounts except the FlexPlus account.

Account rewards

16. The number of reward accounts has increased. Banks may offer higher rates of interest, joining incentives and other rewards such as cashback. Table 7 provides a comparison of the reward accounts on offer.

Table 7: Details of reward accounts*

Reward account	Credit interest rates		Other rewards	Switching incentives	Eligibility			[X]	
	Rate	For balances†			Monthly deposit	No of direct debits	Other	[X]	[X]
Bank of Scotland Vantage§	1.5% 2.0% 3.0%	£1+ £1,000+ £3,000– 5,000	Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	–	£1,000	–	Stay in credit To receive cashback, registering for online banking is mandatory	[X]	[X]
Bank of Scotland Reward	0.0%	–	£5 per month Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	–	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[X]	[X]
Bank of Scotland Ultimate Reward	0.0%	–	£5 per month Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	–	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[X]	[X]
Barclays Blue	0.0%	–	Monthly cashback: £7 plus £5 for Barclays mortgage, £3 for Barclays home insurance & cashback as a percentage of transaction value for some online purchases	–	£800	2	£3 fee	[X]	
Clydesdale Current Account Direct	2.00%	Up to £3,000	–	£150 cashback¶	£1,000 (excluding internal transfers)	–	–	[X]	[X]
Halifax Reward	0.0%	–	£5 per month Up to 15% cashback	£100	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[X]	[X]
Halifax Ultimate Reward	0.0%	–	£5 per month Up to 15% cashback	£100	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[X]	[X]

Club Lloyds	1.0% 2.0% 4.0%	£1+ £2,000+ £4,000– 5,000	Cinema tickets, magazine subscription or Gourmet Society membership, access to preferential offers of other financial products Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	None	£1,500	2	Incurs a £5 monthly fee if customer does not pay £1,500 into their account To receive cashback, registering for online banking is mandatory	[X]	[X]
Nationwide FlexDirect	1.0% (after first year)	Up to £2,500	Access to Nationwide offers	5.0% on balances up to £2,500 for first year & 1 year fee-free overdraft; £100 referral scheme#	£1,000	–	–	[X]	[X]
Santander 123	1.0% 2.0% 3.0%	£1,000+ £2,000+ £3,000– 20,000	Cashback on bills (1% on water, council tax & Santander mortgage, 2% on energy, 3% on telecoms), access to Santander offers	None	£500	2	£2 monthly fee	[X]	[X]
TSB Classic Plus	5.0%	£1–£2,000	5% cash back on first £100 of contactless spend each month (until end 2016))	3-month interest & fee-free overdraft	£500	–	Signup for internet banking & paperless statements and correspondence	[X]	[X]

Source: Information provided by banks.

*This table only includes on-sale products.

†No credit interest is paid on amounts above the upper threshold.

‡Excluding student/graduate, youth and packaged accounts.

§Vantage is an add-on benefit that customers can choose to add to their current account.

¶Direct debit criteria relates to eligibility for the £150 switching incentive and is not a feature of Current Account Direct per se.

#£100 is given to the customer switching their account, an additional £100 is offered to the customer who referred them.

Price comparison websites (PCWs)

17. We are aware of eight PCWs that hold information on PCAs to date. We outline below the information displayed on these PCWs; recent PCW entry and exit; and customer usage rates compared with other sectors.

Information displayed on PCWs

18. Table 8 summarises the PCA features that can be filtered and ranked in the comparison tables on PCWs and highlights what information is displayed only without the facility to filter.

Table 8: Information displayed on comparison tables

<i>PCW</i>	<i>AER</i>	<i>Overdraft fees</i>	<i>Maintenance fee</i>	<i>Account benefits*</i>	<i>Switching incentive</i>	<i>Account type</i>	<i>Other</i>
Confused	Ranked	Ranked	Ranked	Displayed	Ranked		
comparethemarket.com	Displayed	Displayed	Ranked	Displayed		Ranked	
Gocompare.com†	Ranked	Ranked	Ranked	Displayed	Ranked	Ranked	
Lovemoney.com	Ranked	Ranked	Ranked	Displayed	Ranked	Ranked	More details section
Moneysupermarket.com	Ranked	Ranked	Ranked	Ranked			Customer service‡
money.co.uk	Ranked	Displayed	Ranked	Displayed	Displayed		Eligibility
Moneyfacts	Ranked	Ranked	Ranked	Displayed	Shown in product details link	Displayed§	
uSwitch	Ranked	Ranked	Ranked	Displayed	Displayed		

Source: Information provided by PCWs.

*Any other benefits, such as rewards, cash incentives, initial offers etc.

†This service is provided by a third party provider, Lovemoney.com Financial Services Limited which hosts the comparison tables and provides the relevant data. (PCW Q response Gocompare.com, p1).

‡Customer service ratings are provided by users of MoneySavingExpert.com.

§Best Buy tables for different account types and product search available by account type.

19. The default variables by which PCWs rank PCAs in their comparison tables are marked with an 'x' in Table 9. The majority include AER as a default.

Table 9: Default variables

PCW	AER	Overdraft fees	Popularity	Alphabetically
Confused	x			
Gocompare.com*	x†			
Lovemoney.com	x‡			
money.co.uk	x§	x	x¶	x#
Moneyfacts	x~	x★		
uSwitch			x	

Source: Information provided by PCWs.

*This service is provided by a third party provider, Lovemoney.com Financial Services Limited which hosts the comparison tables and provides the relevant data.

†Products are ranked by a combination of AER and proposition headlines.

‡Products are ranked by a combination of AER and proposition headlines.

§For high interest PCAs.

¶For PCAs with an overdraft facility.

#For all PCAs except high interest PCAs.

~For high interest PCAs, basic bank accounts, free PCAs without a monthly fee, and PCAs that can be managed online.

★For PCAs with an overdraft facility.

20. Additionally, money.co.uk and Moneyfacts told us that promoted products are displayed at the top of the comparison table.

PCW entry and exit

21. In 2015, Google Compare⁸ and the Money Advice Service (MAS)⁹ withdrew their PCA comparison services whilst Gocompare.com launched the first PCA Midata comparison tool. Until the launch of Gocompare.com in March 2015, MAS was the only site enabling customers to receive a personalised quote.¹⁰ MAS told us that it withdrew on the basis of duplicating services of other providers, low usage of their tool (around 1% of market share) and cost.¹¹ However it should be noted that HM Treasury recently consulted on draft regulations to implement the EU Payment Accounts Directive (see Appendix 3.1) which would place a duty on MAS to provide access to a website comparing fees charged by payment services providers. Google Compare exited [X].
22. Gocompare.com launched its Midata current account comparison tool in parallel with the launch of the Midata initiative.¹² Customers can upload their Midata file into the Midata comparison tool on Gocompare.com's website, which uses the customer's PCA usage profile to compare accounts. This

⁸ Google told us that from February 2015 it withdrew current accounts comparison tables from Google Compare [X].

⁹ MAS is an independent service set up by the government providing impartial advice.

¹⁰ Customers could enter information, such as type of account, average income per month, average minimum balance at the end of the month and average unarranged overdraft usage each year.

¹¹ Other providers listed GoCompare.com, Moneyfacts, MoneySavingExpert.com, moneysupermarket.com. MAS

¹² The technology is developed by Runpath, which has built an algorithm using curated data. Runpath Digital Limited, *Response to HMT's Open Consultation*, p2.

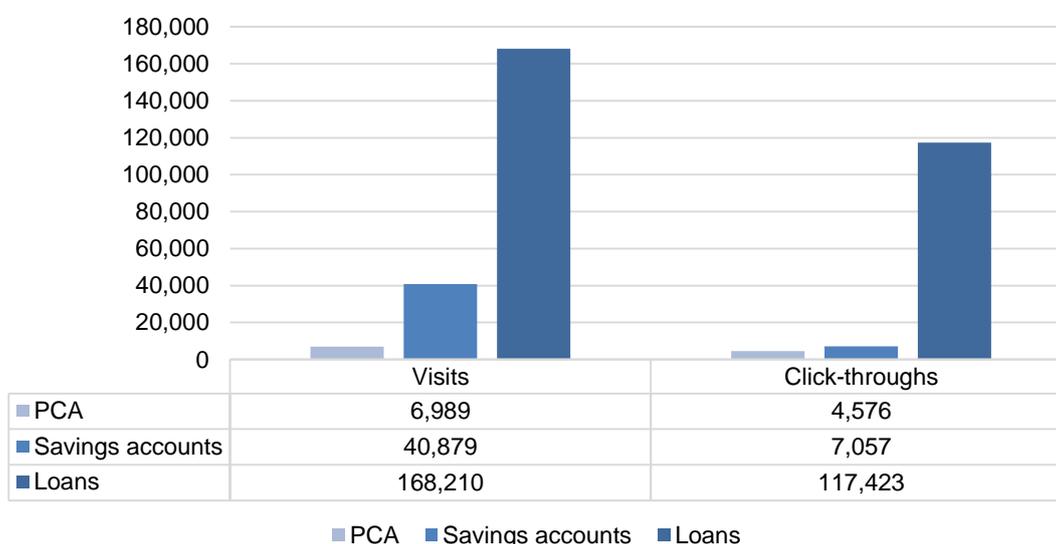
enables customers to get detailed comparisons of which PCA is best for them based on how they use their bank account. In the first three weeks since the launch of the Midata initiative, Gocompare.com reported to us that there had been about [X] with the comparison page and [X]. Further, [X] who started uploading their Midata completed the process and saw the comparison.

23. Gocompare.com is to date the only PCW that is committed to the Midata project. money.co.uk told us that they may offer comparison tools using Midata files but have no concrete plans in place. MoneySavingExpert.com told us it would like to offer comparison tools via Midata or similar technologies but that – due to banks redacting information, using inaccessible formats for mobiles, and blocking use of aggregation technology – it feels a meaningful tool isn't currently possible. Defaqto and [X]. Moneyfacts, and Which? said that they have no current plans to launch a Midata comparison site.

Comparisons with other product comparison services

24. Figure 3 shows data from Confused.com about which products are most often compared on its website. Comparisons of PCAs are made substantially less often than comparisons of other financial products such as savings or loans (based on visits and click-through rates).¹³

Figure 3: Total visits and click-through rates for PCAs, saving accounts and loans on Confused.com in 2014



Source: Information provided by confused.com.

25. A comparison of PCA banking with other products, such as motor insurance or energy, shows the differences in site visits and click-through rates.

¹³ Data submitted by confused.com.

According to confused.com, PCAs had about 7,000 visits, compared [X] visits to energy PCWs and [X] million unique visitors comparing motor insurance.

Table 8: Visits to Confused.com for PCAs, energy and motor insurance, 2014

<i>Product</i>	<i>Visits</i>	<i>Click-throughs</i>
PCAs	6,989	4,576
Energy	[X]	[X]
Motor insurance	[X]	[X]

Source: Information provided by confused.com.

Actual and perceived behaviour of personal current account customers

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1. In this appendix we summarise the results from our analysis of the actual and perceived behaviour of PCA customers. The aim of the analysis is to help us assess whether consumers are engaged in the market, and whether they are aware of their account usage and the associated charges and benefits.

Introduction

2. As set out in our *Proposed approach for comparing actual and perceived behaviour of personal current account customers*, published on 10 March 2015 (methodology paper),¹ we used anonymised current account usage data from 2014 as provided by the banks (transaction data) and combined it with the results of a GfK PCA consumer survey. This survey was drawn from the same customer base as the transaction data and asked customers about their usage of current accounts. This allowed us to compare actual past usage and charges (using transaction data) with the perceived usage and charges (from survey responses) on a customer-by-customer basis.
3. Significant differences between customers' perceptions of their account usage and their actual behaviour, as well as between actual and perceived charges, may indicate a lack of engagement for a number of reasons. First, it gives some indication that customers may not engage with or may not understand their bank account usage. A large discrepancy between actual and perceived

¹ [Comparing actual and perceived behaviour](#).

charges may also indicate that customers find the pricing complex, opaque or otherwise difficult to understand. Second, if customers do not engage with, or do not understand their current account usage and charges, they may have difficulties shopping around and identifying the best offer for their needs. This could lead to them exercising little pressure on banks to improve their current product offer. Third, if customers underestimate their usage, they might incur costs inadvertently.

4. While we do not expect customers to know their usage and charges to the day and penny,² the presence of large discrepancies and the direction of the misperception will be informative for the reasons set out in paragraph 3, in particular if there are significant differences between customer groups.
5. This appendix is structured as follows:
 - First, we set out our research questions and summarise the main results.
 - Second, we describe our analysis in detail.
 - Third, we discuss limitations and how sensitive results are to our assumptions.
 - The annexes provide further details on customer segmentation, the data set, some additional results and sensitivities.

Summary of analysis and key findings

6. As set out in our methodology paper, we concentrated on a number of specific research questions:³
 - Overdraft usage: Does customers' perception of their usage of overdrafts (months in overdraft, days in overdraft and debit balance), match their actual usage?

² In response to our methodology paper three banks told us that some of the hypotheses were not relevant for understanding customers' engagement. They told us that, although customers might not know their overdraft usage behaviour and the amount of charges they incurred off the top of their head, customers did have access to this information when needed. While we appreciate that consumers may be able to retrieve information on their overdraft usage in the event they decide to compare fees across accounts, we consider that this analysis also provides insight on how engaged consumers are with their PCA, in the sense of being aware of how they use their account and charges they incur. If consumers have limited awareness of usage and charges incurred, they may not even think of searching/switching in the first place.

³ We do not test the hypothesis set out in Section E of our methodology paper, which aims to test customers' awareness of charging structures applying to their overdrafts, as the transaction data does not allow us to distinguish whether charges referred to arranged or unarranged overdraft usage.

- Overdraft limit: Does customers' awareness of their arranged overdraft limits match the limits actually provided by their banks?
- Overdraft charges: Does customers' perception of the costs paid for overdrafts match their recent charges?
- Credit balances: Does customers' awareness of interest payments on credit balances match the payment features provided by their banks?

7. Our main findings are as follows:

Overdraft usage

- In 2014, slightly less than half (44%) of PCA customers used arranged and unarranged overdrafts to varying degrees.
- 39% of overdraft users responded that they did not use an overdraft when they actually did.
- Few assessed their usage correctly. 49% correctly estimated the number of months they used their overdraft within a margin of error of around two months. 38% correctly estimated the average number of days in overdraft in those months in which they went into overdraft within +/- three days. The survey asked customers to place their debit balances (ie the amount by which they are overdrawn) within set bands. 27% of customers correctly estimated the band within which their debit balance lay.
- Overdraft users more often underestimated their usage than overestimated. This result held both for how often they used it (months in overdraft and days in overdraft per month) as well as for their overdraft balances. For example, 63% of customers who used overdrafts underestimated the number of months they used it by more than a month.

Overdraft limits

- 89% of all customers, and 91% of those who used overdrafts, knew whether or not they had an arranged overdraft limit. 63% of all customers who used overdrafts,⁴ and 57% of those who used overdrafts and had an arranged limit, knew exactly what their overdraft limit was.

⁴ This figure includes customers who did not have an arranged overdraft limit, but used an unarranged overdraft. For these customers the arranged limit was zero.

- 32% of customers who used overdrafts and had an arranged overdraft limit underestimated that limit. However, a non-negligible share (12%) of them overestimated it, potentially leading to unexpected unarranged overdraft charges or returned item fees.
- Half of customers who either exceeded their arranged overdraft limit or went into an unarranged overdraft were not aware that they used an unarranged overdraft. They also tended to underestimate their unarranged overdraft usage.

Overdraft charges

- Half of customers were charged £5 or less per month for their overdraft. In aggregate, customers broadly estimated their average overdraft charges per month correctly. Only a small proportion of customers stated that their charges were considerably different from what they were actually charged. However, at the individual customer level, only 50% of customers estimated their charges correctly within +/- £5, with a slight tendency towards underestimating their charges. However, due to a larger measurement error⁵ in responses to the survey question about charges, the findings on charges are less robust than other findings.

Interest payments and cashback (revenue on balances)

- With respect to credit balances, we found that 60% of customers correctly knew whether or not they received any revenue on their balances, and over one third falsely thought that they received revenue while they did not.

Customer segmentation⁶

8. We analysed whether certain customer segments had a higher awareness of their overdraft usage,⁷ charges and limits, and whether they received payments on credit balances. We found no evidence of one group outperforming any other groups regarding all research questions.
 - Basic characteristics. Women were slightly better at assessing the number of months in overdraft. Although younger customers assessed

⁵ The error arises because respondents were asked to perform rather complex calculations when responding to the survey question about charges (see paragraph 46 for more details).

⁶ More details on customer segmentation can be found in Annex A.

⁷ For analysing overdraft usage, we concentrate on the months in overdraft. This is because (a) the results for the days in overdraft are comparable to the results for months, and (b) debit balances are less accurately estimated as respondents were asked to estimate a band instead of a value.

their overdraft limit correctly more often than the rest of their group, they were more often incorrect about whether they received payments on credit balances. Slightly more customers in Northern Ireland perceived correctly that they received payments compared to customers in Scotland.⁸

- Education. Customers with a degree were more likely to assess their monthly usage correctly, when allowing for a tolerance of two months.
- Banking needs. A higher share of regular overdraft users underestimated their usage, compared to non-regular users. Unarranged overdraft users correctly assessed their limits more often than arranged overdraft only users.
- Other segments. Approximately half of customers banking with either [✂] incorrectly perceived that they receive payments on credit balances compared with 25-30% of [✂] customers.

Sensitivities

9. Customers may misrepresent their usage when responding to a survey. For example, customers may not want to admit how high their overdraft usage is.⁹ This could partly explain why people tended to under- rather than overestimate their usage. We therefore re-ran our analysis excluding those customers that actually used overdrafts but stated in their survey response that they did not.¹⁰ While this does not fully control for misrepresentation, it gives an indication of how sensitive the results are. We found that the results were broadly similar when we exclude this group of customers from the analysis.
10. Some customers might also have found it difficult to answer certain questions due to the difficulties of recalling usage over a whole year.¹¹ As a result of these difficulties, some customers might have based their responses on their recent usage instead of reflecting the usage over the past year, as requested in the survey. We therefore re-ran our analysis, comparing survey responses to actual usage in the last quarter of 2014. We found that the differences are

⁸ For this analysis, we cannot compare results to Wales, as our sample size for Wales is below 150 respondents (see Table 3, Annex A).

⁹ In response to our methodology paper two banks told us that customers may under-report certain aspects of usage or charges compared with their true expectations, which could reflect their fear of being judged as having a lack of control over their finances.

¹⁰ Under the assumption that customers who say that they did not go into overdraft at all when they actually did are more likely to be those who were not willing to admit to their overdraft usage.

¹¹ In response to our methodology paper three banks told us that asking respondents over a timeframe of one year is too long, as quality of recall diminishes significantly over this timeframe and it is unreasonable to expect customers to recall accurately specific details of charges in such circumstances.

small and, as such, did not represent a challenge to the validity of our main qualitative results.

11. Finally, if usage is cyclical, the transaction data may not accurately reflect yearly usage for those who opened an account with their current bank during the course of 2014 (as we do not have information on their usage with their previous bank). We therefore also tested whether our results changed if we excluded customers who opened their account with their current bank in 2014. There were no significant changes to our results in doing so.

Banks' responses to our findings

12. Santander told us that the existence of a disparity between actual and perceived overdraft limit and credit interest was most likely to arise from lack of engagement, because these are key account features that could be easily checked and do not require any calculations or recall. Furthermore, in light of steps taken by the industry to increase transparency of charges, Santander did not support the view that, in general, customers' inability to recall charges and usage shows that customers do not understand charges and usage.
13. LBG agreed that customer engagement with PCAs could be improved. LBG also said that the results should be viewed in the context of current, and improved, levels of market engagement. Barclays said that differences between actual and perceived behaviour did not necessarily indicate lack of engagement (customers did not need to recall information about their account usage when this information was easily accessible). Barclays considered that the more important aspect was the extent to which customers were able to access the information easily. Similarly, HSBCG told us that customers were becoming better informed and more engaged with their account usage as the uptake of digital tools was increasing. LBG also said that engagement with PCAs has improved.^{12,13} Furthermore, RBS said that customers were able to check their usage and charges easily if required rather than rely on memory. We consider that an important aspect of engagement is also the extent to which customers will consider searching and switching. If customers have limited awareness of their account usage and the associated charges and benefits, they are unlikely to consider searching and switching.
14. HSBCG also noted that errors in recalling should not be equated with low customer engagement as it was not realistic to customers to have high

¹² It said that the uptake of digital tools is increasing, further enhancing engagement, and switching (both externally and internally) has also increased, along with multi-banking, demonstrating that customers' engagement with PCAs is improving. LBG also noted that mobile banking apps and text alerts enables customers to get information on their account usage instantaneously when this information is most relevant.

product recall on all dimensions of their PCA. We agree that it is not realistic for customers to remember their usage, limits and charges to every detail (as acknowledged in paragraph 4) and therefore we provided results within a margin of error.

15. RBS said that the analysis showed that customers were well aware of the key parameters of their overdraft product (eg limits and charges), which was consistent with its experience. Virgin Money, on the other hand, said that the results indicated that customers were not engaging with or might not understand their personal account usage, as well as they might find pricing difficult to understand.
16. HSBCG stated that customers were generally well informed on overdraft limits, charges and credit balances. Similarly, Barclays said that the analysis demonstrated that customers were relatively well aware of overdraft charges and what their overdraft limit was, which was more important information than how many days on average they had been in debit. The results on charges were less robust, given the larger measurement error (see paragraph 46), and therefore we considered that usage (months in overdraft), overdraft limits and credit interest were more reliable.

Detailed analysis

17. The following analysis is based on a data set of 2,938 PCA customers (full sample), which contains information on their actual account usage provided by banks¹⁴ (transaction data) and their responses to the GfK PCA consumer survey (survey data) which we used to assess how they perceived their account usage.¹⁵ The data allowed us to compute, for each respondent, the difference between the actual and perceived value of their overdraft usage, overdraft limit, overdraft charges and whether they received any credit interest. We considered both the sign of the differences (eg whether customers under- or overestimated their usage) as well as the absolute values of the differences, as these reveal the extent to which customers misjudged their usage, ie are wrong in either direction.
18. To find out whether certain types of customers misjudged their usage more often, we looked at these differences again by customer segment and tested whether the mean (absolute difference) for one group differed significantly from the mean (absolute difference) for another group. We also tested whether there were any differences between the shares of customers who

¹⁴ Barclays, BoS, First Direct, Halifax, HSBC, Lloyds, RBS, Santander, NatWest, M&S Bank.

¹⁵ More details on how the data set was constructed and how it was cleaned can be found in Annex B.

correctly reported their actual usage and whether the direction of the error was different on average.¹⁶

19. In particular, we looked at basic customer characteristics (gender, age, nation), education, proxy for financial knowledge (whether the respondent provided a correct answer to a basic financial calculation), their banking needs (account incomings, type of overdraft user), which and how many banks they used, whether they switched PCA recently, and whether they used digital banking. Annex A provides further details on the segments and how they are defined.

Overdraft usage

20. We started by looking at various measures of overdraft usage. Lack of awareness of overdraft usage may indicate a lack of engagement with PCAs. It may also make it more difficult for customers to compare tariffs across banks insofar as tariffs will vary depending on the extent to which customers make use of overdrafts.
21. In 2014, slightly less than half (44%) of the customers in the full sample used an overdraft (arranged or unarranged) to varying degrees. Of those who used overdrafts, 39% of customers said that they did not use overdrafts when in fact they did. The remainder of our analysis of overdrafts focuses on customers who actually went into overdraft in 2014. This overdraft sample comprises 1,181 respondents, representing 43% of the customers in the full sample.¹⁷ More details on how we constructed the overdraft sample can be found in Annex B.

Main results: months in overdraft

22. As Figure 1 indicates, customers typically either used their overdraft rarely (26% were overdrawn for one or two months in 2014) or were overdrawn in every month of the year (28%).¹⁸ However, only 11% of those customers who actually went into overdraft in the past 12 months said that they were

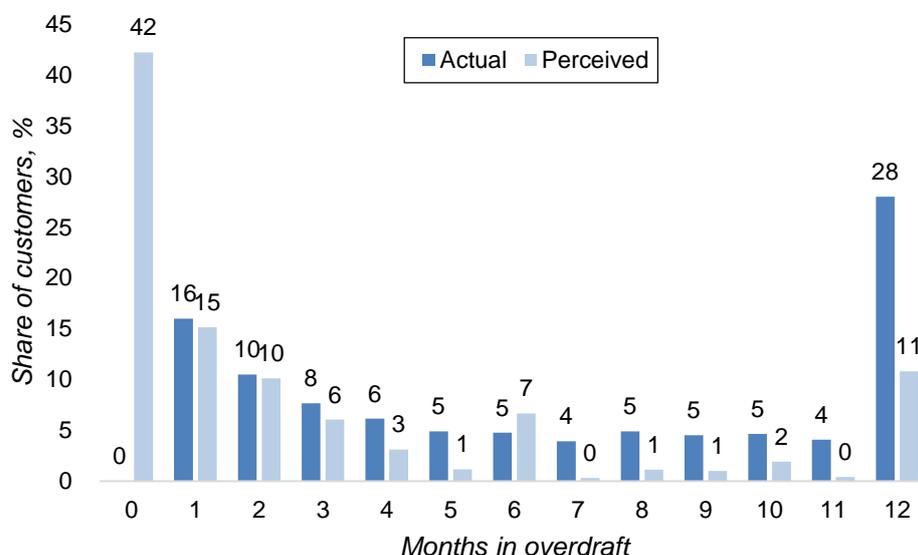
¹⁶ Significance is used in a statistical sense and is judged at the 95% level. For example, two means are said to be significantly different if the chance that the difference between them is purely random, is below 5%.

¹⁷ The sampling structure allows us to draw conclusions on all customers based on the answers by the respondents of the survey. In the following we use 'respondents' when referring to the number of customers answering our questions. This figure is important when looking at sample sizes for our tests. Shares will be reported as shares of the customer base.

¹⁸ We define a month in overdraft when a customer was overdrawn by at least one day in that month.

overdrawn in every month. Most customers perceived that they were not in overdraft at all (42%¹⁹) or just for one or two months (25%).

Figure 1: Distribution of actual and perceived number of months in overdraft (overdraft sample*)



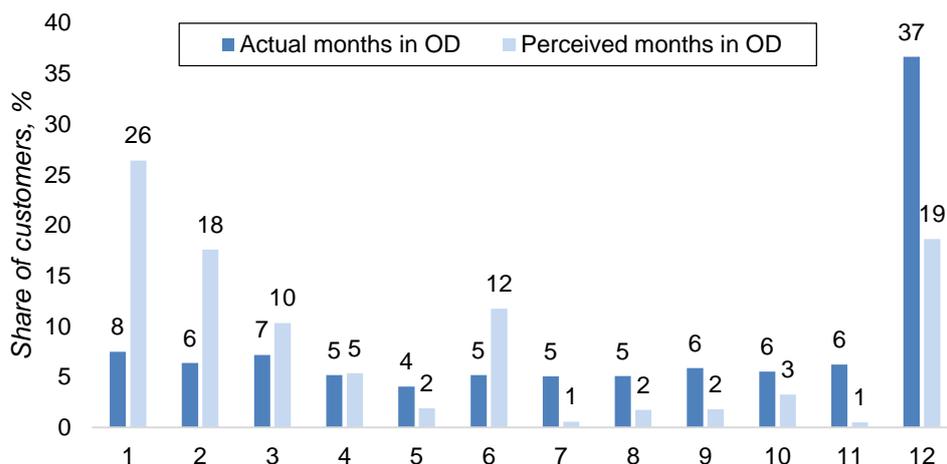
Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*80 observations are excluded from the overdraft sample as customers responded that they did not know how many months they were in overdraft or refused to say, leading to a total of 1,101 observations.

23. When we excluded the 42% of respondents who said they had not used overdrafts from the analysis (Figure 2 below), the distribution of the actual number of months in overdraft changed slightly. The proportion of those who had been in overdraft for one or two months decreased, whereas the proportion of those who had been in overdraft for all 12 months increased.
24. This is because most of the respondents who said they had not used an overdraft used it for one or two months. Additionally, fewer of the respondents had used an overdraft for all 12 months in comparison to the main specification. The distribution of actual overdraft usage of the respondents who said they had not used an overdraft can be found in Annex D, Figure 3.

¹⁹ This share slightly deviates from the percentage in the overdraft sample, as some customers did not know the months they go into overdraft or refuse to answer, thereby reducing the sample to 1,101 respondents.

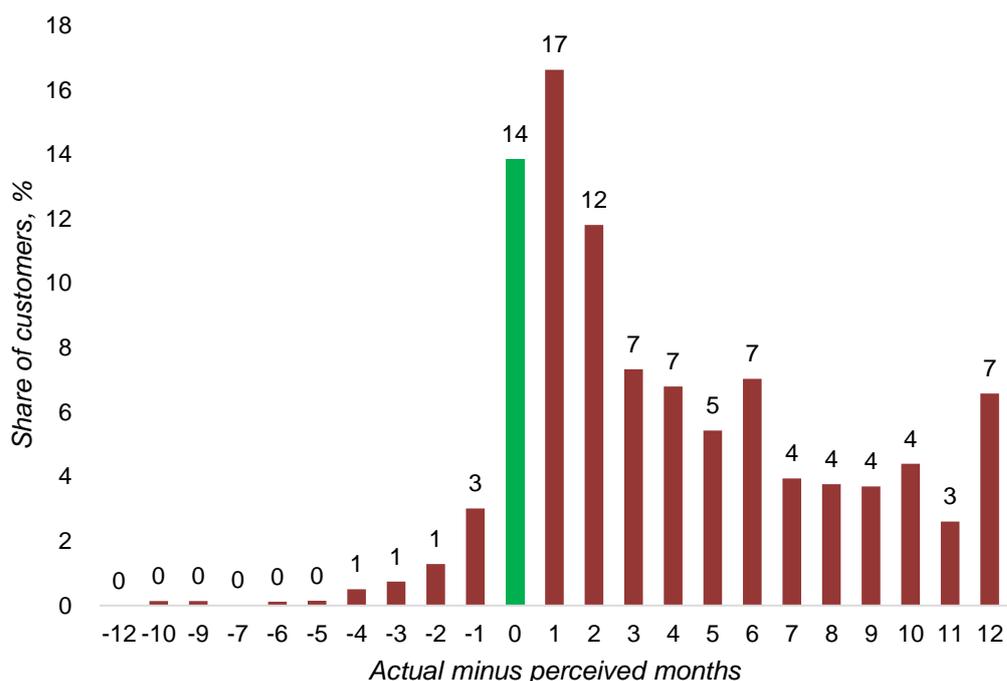
Figure 2: Distribution of actual and perceived number of months in overdraft (OD) (overdraft sample excluding those who said they did not use overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
 *466 observations are excluded from the overdraft sample because they say they do not use overdrafts; 80 observations are excluded because respondents did not know for how many months they used an overdraft or refused to say, resulting in a total of 635 observations.

25. A customer-by-customer comparison reveals (Figure 3) that only 14% of customers were correct when answering how many months they were overdrawn. This figure increases to 33% if we allow for a tolerance of one month. Nearly half of customers estimated the number of months they went into overdraft within a tolerance of two months. In total, 80% underestimated their overdraft usage, 63% by more than one month, and 52% by more than two months. Around 7% of customers said that they did not go into overdraft, but actually did in every month of the year. Customers rarely overestimated their usage.

Figure 3: Difference between actual and perceived number of months in overdraft (overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
 *80 observations are excluded from the overdraft sample as customers responded that they did not know how many months they went into overdraft or refused to say, resulting in a total of 1,101 observations.

26. On average, customers misjudged the number of months they used their overdraft by four months. Customers who underestimated their usage estimated it incorrectly on average by five months, while those who overestimated it estimated it incorrectly by two months.

Customer segmentation

27. We found that certain subgroups of customers more often assessed their months in overdraft correctly. We only reported groups where the differences are statistically significant. Annex A provides further details of this analysis.
- Basic characteristics. Women were somewhat better at assessing their usage (17% of women were correct, compared to 11% for men) and were less likely to underestimate.
 - Education. Customers with a degree were more likely to assess their usage correctly, when allowing for a tolerance of two months. On average they misjudged their usage by slightly less; four months for those with a degree compared to four and a half months for those without a degree.
 - Banking needs. Unarranged overdraft users correctly estimated the number of months in overdraft more often than arranged only overdraft

users (there was no difference between the two groups when allowing for a two month tolerance). A higher share of regular overdraft users underestimated their usage, compared to non-regular users. On average they misjudged by six months, while infrequent users misjudged by two and a half months.

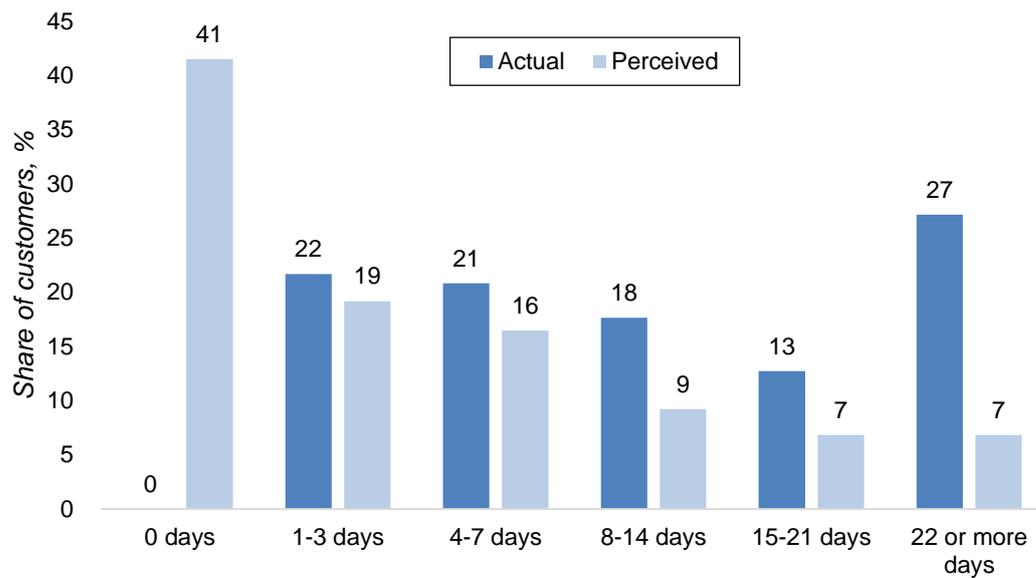
Main results: days in overdraft

28. Respondents were also asked to estimate how many days they went into overdraft on average per month for those months in which they used overdrafts.
29. Asking about the number of days in overdraft allows a better assessment of whether a respondent can judge the intensity of their overdraft usage. However, as it required respondents to calculate averages, it was a more complex question to answer compared to their overdraft limit or number of months overdrawn. In addition, this question was likely to be more difficult for those customers whose number of days in overdraft varied a lot from month to month.
30. 27% of customers used their overdraft for 22 or more days in the months where they went into overdraft (see Figure 4). The second most likely usage was low usage, with one to three days (22%).²⁰ There was a strong difference in perceptions; 41%²¹ of those who used overdrafts said they did not use it on any day of the year. Only 7% of customers believed that they used it for more than 22 days.

²⁰ We observed a strong positive correlation between actual number of months and days in overdraft, in the sense that customers who went into overdraft for many days per month also tended to be those who went into overdraft for a large number of months in the year, and vice versa. See Figure 1 in Annex C.

²¹ This share slightly deviates from the percentage in the overdraft sample, as some customers did not know the number of months they went into overdraft or refused to answer, thereby reducing the sample to 1,114 respondents.

Figure 4: Distribution of actual and perceived average number of days per months in overdraft (average over months in which customer went into overdraft; overdraft sample*)



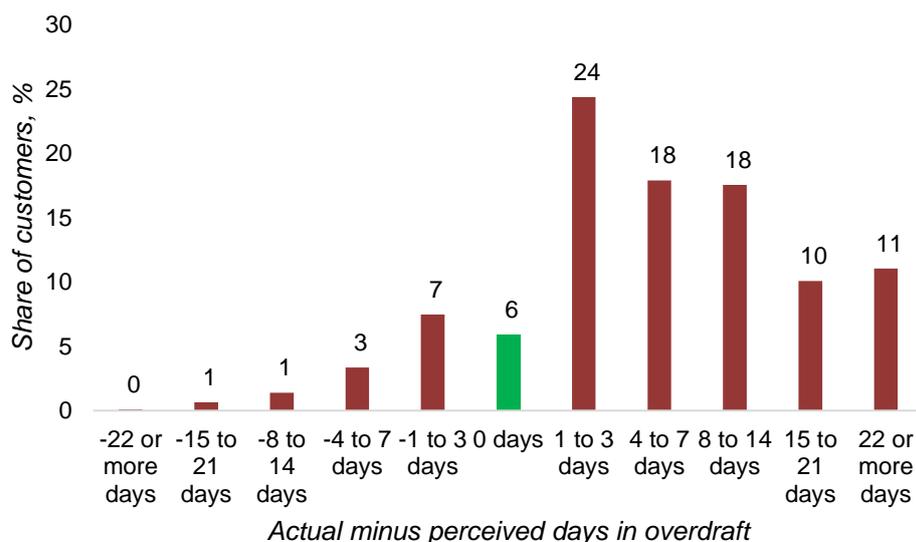
Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*67 observations are excluded from the overdraft sample as customers responded that they did not know how many days they went into overdraft or refused to say, leading to a total of 1,114 observations.

31. Figure 5 shows that only 6% of customers correctly assessed their average daily overdraft usage. The figure increases to 38% when allowing for a tolerance of three days. Furthermore, 81% of customers underestimated their usage in terms of number of days in overdraft and 57% by more than three days. This is comparable to the share of customers who underestimated the number of months in overdraft. In the other direction, 13% overestimated the number of days in overdraft.²²

²² The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 5 therefore does not necessarily lead to exactly the same results.

Figure 5: Difference between actual and perceived number of days per months in overdraft (average over months in which customer went into overdraft; overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*67 observations are excluded from the overdraft sample as customers responded that they did not know how many days they were in overdraft or refused to say, leading to a total of 1,114 observations.

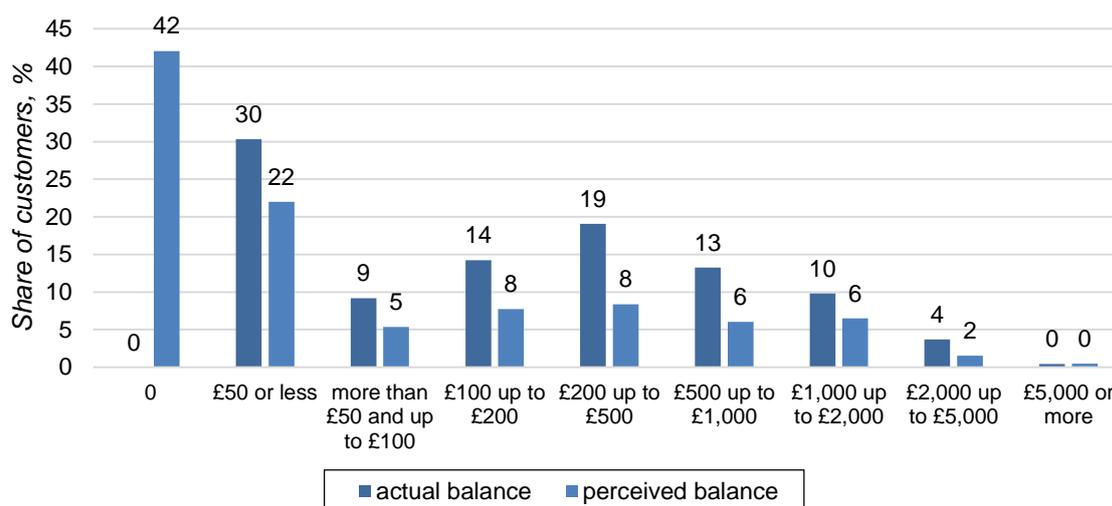
32. On average, customers misjudged their actual overdraft usage per month by nine days, with those who underestimated it misjudging it by more (ten days) than those who overestimated it (five days).

Main results: debit balances

33. We found that 54% of customers in our overdraft sample had an average debit balance on the days they went into overdraft of below £200.²³ Furthermore, 14% of customers had debit balances of £1,000 or more. We found again that 42% of customers think that they were not in debit when in fact they actually were and 77% of customers believed that their debit balance was below £200 (see Figure 6).

²³ The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 6 therefore does not necessarily lead to exactly the same results.

Figure 6: Distribution of actual and perceived debit balance (overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*78 observations are excluded from the overdraft sample as customers responded that they did not know their overdraft balances or refused to say leading to a total of 1,103 observations.

34. The survey asked respondents to place their debit balance within pre-defined bands rather than the actual value of the debit balance. We therefore compared whether customers were able to estimate the correct band into which their debit balances fell.

35. We found that most customers (64%) underestimated usage and some of them did so severely (10% thought they had a balance of zero or less than £50, while actually having a debit balance of £500 or more). 27% of customers correctly estimated the band in which their debit balance lay.

36. The table below shows further details on the difference between customers' actual and perceived debit balances.

Table 1: Difference between actual and perceived credit balance (overdraft sample*)

Transaction data (%)	Survey results (%)						
	£0	£50 or less	£51 to less than £100	£100 to less than £200	£200 to less than £500	£500 to less than £1,000	£1,000 or more
£50 or less	17	11	1	1	0	0	0
£51 to less than £100	5	3	1	1	0	0	0
£100 to less than £200	6	3	1	2	1	0	0
£200 to less than £500	6	3	2	2	4	1	0
£500 to less than £1,000	3	1	0	1	2	3	2
£1,000 or more	4	1	0	1	1	1	5

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*78 observations are excluded from the overdraft sample where customers responded that they did not know their overdraft balances or refused to say, leading to a total of 1,103 observations. Note that the results in the individual cells are indicative only as sample sizes for some of these categories are quite small (below 150 respondents).

Overdraft limits

37. Next we investigated whether customers were aware of their arranged overdraft limits. A lack of awareness could indicate a lack of engagement by

customers. In addition, overestimation of available limits may lead to the use of unarranged overdrafts and additional charges.

38. We also analysed whether customers were aware of how often they exceeded this limit or went into an unarranged overdraft when they did not have an arranged overdraft limit.

Main results: overdraft limits

39. The transaction data showed that 36% of surveyed customers (ie full sample) and 22% of the customers who went into overdraft did not have an arranged overdraft limit.²⁴ This did not differ from perceptions, as 37% of surveyed customers (ie full sample), and 25% of those who went into overdraft, stated that they did not have an arranged overdraft limit.²⁵ 89% of all customers, and 91% of those who went into overdraft, were correctly aware of whether or not they had a limit.

Table 2: Availability of overdraft limit, share of customers

Actual (transaction data)	%					
	Perceived (survey results)					
	Full sample			Overdraft sample		
	No	Yes	Total	No	Yes	Total
No	31	5	36	19	3	22
Yes	6	58	64	6	73	78
Total	37	63	100	25	75	100

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

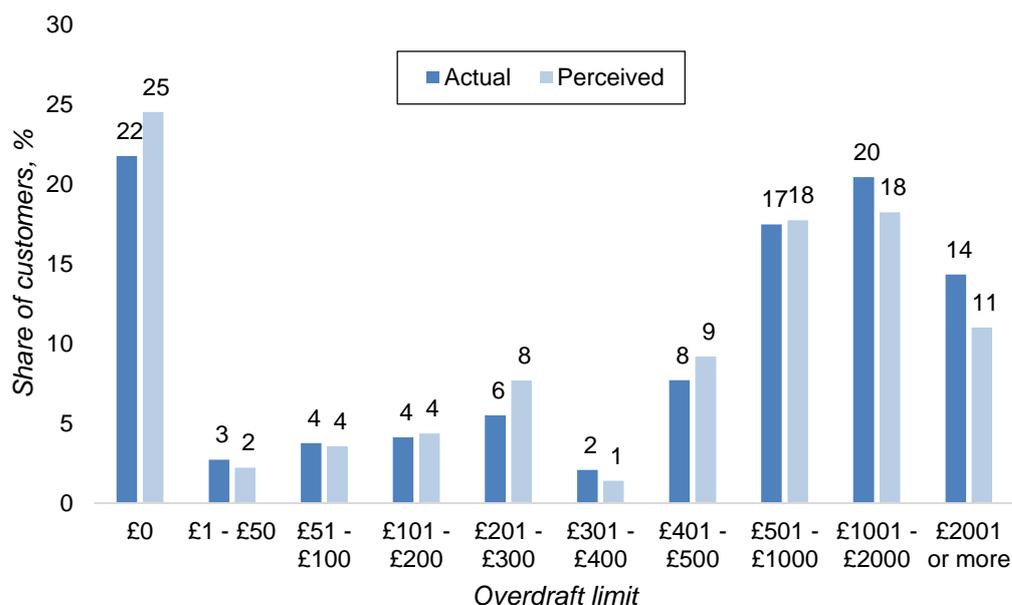
*162 observations are excluded from the overdraft sample as customers responded that they did not know whether they had an overdraft limit or how high it was or refused to say, leading to a total of 1,019 observations. Incorrect responses are highlighted in red.

40. Of the customers in the sample who had an arranged overdraft, 55% had an overdraft limit of £1,000 or below (Figure 7 below). Overdraft limits above £5,000 and below £100 were rare and this roughly matched perceptions.

²⁴ The transaction data provides the arranged overdraft limit at the end of 2014. It is zero if the customer had not agreed a limit.

²⁵ Base = All. Question G2 'Do you have an authorised overdraft on your main current account – that is an agreement that you are allowed to go up to a certain amount overdrawn?' Note: The sample is based on responses to questions in the GfK PCA consumer survey. For further details, see [GfK NOP PCA banking survey technical report](#).

Figure 7: Distribution of actual and perceived overdraft limit (overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

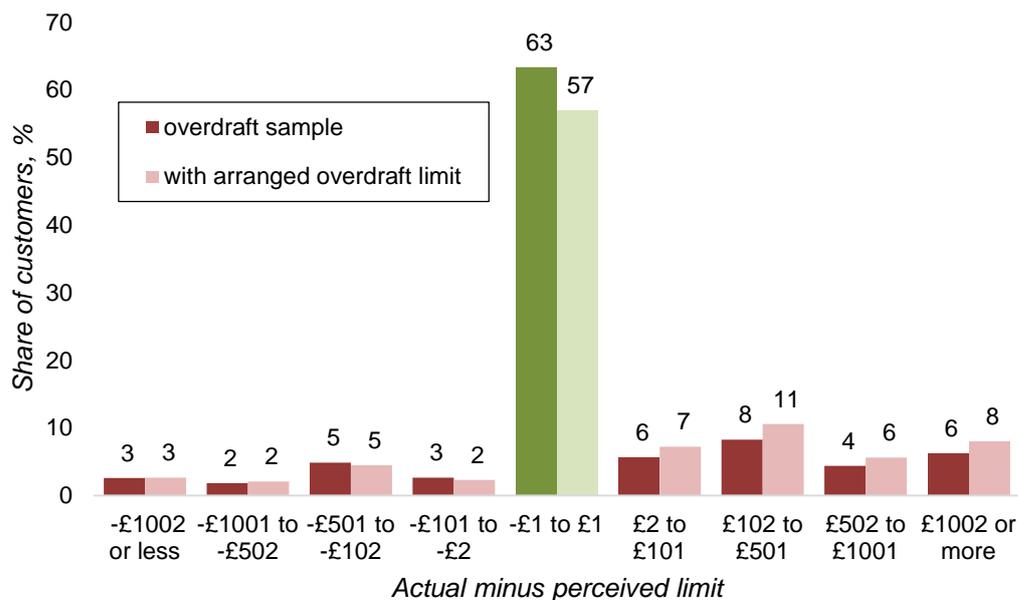
*162 observations are excluded from the overdraft sample as customers responded that they did not know whether they had an overdraft limit or how high it was or refused to say, leading to a total of 1,019 observations.

41. Next, we looked at the difference between the actual and perceived values of the overdraft limit for each customer in the overdraft sample. Of the customers who used overdrafts²⁶ 63% correctly judged their limits within a margin of error of £1, and 73% judged their limits correctly within a margin of error of 25% of their current limit.²⁷ The corresponding figures for customers who used overdrafts and who had an arranged overdraft limit was 57% and 70%. However, there were customers who significantly misjudged their actual overdraft limit, as Figure 8 indicates. Of the customers who went into overdraft, 25% underestimated the limit and 12% overestimated the limit. For those who had an arranged overdraft limit, 32% underestimated it, while 12% overestimated it.

²⁶ This group also includes customers who did not have an arranged overdraft limit but used an unarranged overdraft.

²⁷ Barclays noted that if users did not typically approach their arranged overdraft limit, being aware of the precise limit at all times was not important from the customer's perspective. We have therefore included an additional statistic in the paragraph 41, which indicates the share of customers who correctly judged their limits within 25% of their actual limit.

Figure 8: Difference between actual and perceived overdraft limit



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*162 observations are excluded from the overdraft sample as customers responded that they did not know whether they had an overdraft limit/how high it was or refused to say. This results in a total of 1,019 observations. The sample with an arranged overdraft limit is a subset of this sample, excluding a further 253 respondents with zero overdraft limit.

42. Customers who used overdrafts, either arranged or unarranged, misjudged their limit on average by approximately £350. Customers who had an arranged overdraft limit and used overdrafts, misjudged their limit by approximately £430.
43. We also analysed how often customers overstepped their limit or used an overdraft even though they did not have a limit agreed (unarranged overdraft). We found that 51% of all overdraft users and 39% of those with an arranged limit used an unarranged overdraft. Similarly to the above analysis on overdrafts in general, we found that customers very often perceived that they did not use unarranged overdrafts when in fact they actually did (31% of those who used an overdraft and 23% of those with an arranged limit) and, on average, underestimated their usage. Further details on unarranged overdraft usage is provided in Annex C.

Customer segmentation

44. We found that certain subgroups of customers within a given segment correctly assessed their overdraft limits more often than other subgroups in that segment:
 - Basic characteristics. 18 to 24 year olds assessed their limits correctly more often than 35 to 64 year olds.

- Degree. Customers with no degree were more likely to assess their limit correctly (there was no difference between the two groups when allowing for a 25% tolerance).
- Financial literacy. Customers who responded correctly to our financial literacy question in the survey were more likely to estimate their limit correctly, within a 25% tolerance.
- Banking needs. Unarranged overdraft users correctly assessed their limits more often than arranged overdraft only users (71% unarranged overdraft users were correct compared to 54% of arranged only overdraft users). Customers with low inflows judged their limits correctly more often than medium and high inflow customers (there was no difference between the groups when allowing for a 25% tolerance).
- Other segments. [X] customers assessed their limits correctly more often than [X] customers. Switchers misjudged their limits less than non-switchers (there was no difference between the two groups when allowing for a 25% tolerance).

Overdraft charges

45. We also looked at overall overdraft charges to test whether customers were (to varying degrees) aware of the amount of charges they were paying for overdraft usage. If customers are not aware of the charges they incur on overdrafts, the level of charges may not prompt them to search for better value offers. Even if customers do engage in search, a lack of knowledge of the charges they currently incur will make it more difficult for them to compare other available options.
46. The transaction data gives (a) the total interest paid for overdraft, and (b) the total value of non-interest charges paid in the use of the overdraft, in each month of 2014. We compared the sum, averaged over the months in which a customer was in overdraft in 2014, to the total overdraft charges as estimated by respondents of the survey.^{28,29} Respondents were asked to perform rather complex calculations when responding to the survey question about

²⁸ Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G11 'Thinking about the x months (from G5) that you were overdrawn, what was the average amount that you were charged for your overdraft in a month, whether authorised or not?'

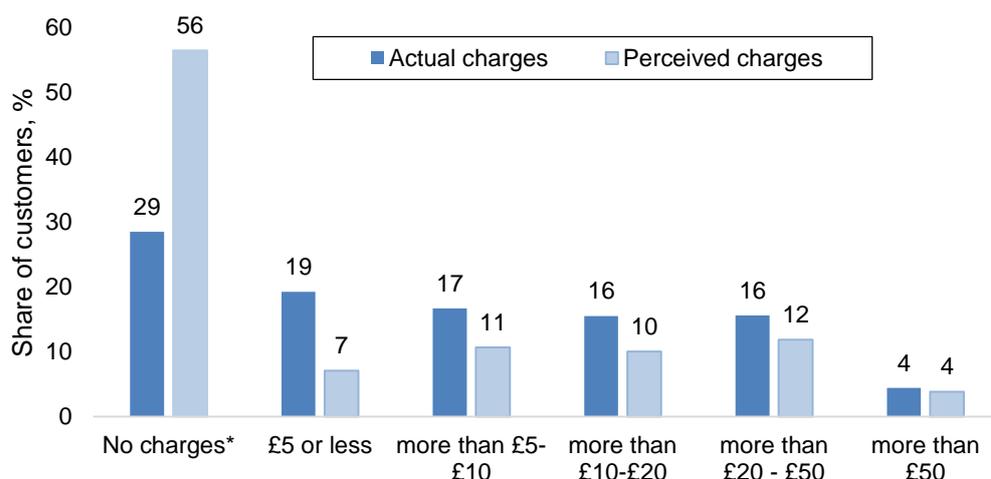
²⁹ HSBC noted that as the transaction data included both interest and non-interest charges, while the survey question referred to the amount charged, a proportion of survey respondents might have referred to their overdraft charges only, leading to a lower estimate than would have been the case if the survey question had more explicitly asked about interest and charges.

charges.³⁰ Therefore, due to a larger measurement error in these responses, the findings on charges were less reliable compared to other findings (see paragraphs 63–65 for more details).

Main results

47. Roughly a third of overdraft users were not charged or pay less than £0.50 for their overdraft usage, and about another third, were charged between £0.50 and £5 per month on average. The survey data indicated that 56% of customers perceived that they did not incur any charges at all and 7% believed that they were charged between £0.50 and £5. As it was likely to be difficult to estimate average monthly charges very accurately, especially if there were many months when customers did not use overdrafts at all, we analysed all customers who were charged £5 or less as one group.³¹ When we did so, perceptions of charges (64%) appeared to correspond more accurately to actual values (48%).³² Only 4% of customers incurred charges above £50, which was consistent with respondents' perceptions (see Figure 9).

Figure 9: Distribution of actual and perceived overdraft charges (overdraft sample†)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*This includes customers who pay between zero and up to £0.5.

†89 observations are excluded from the overdraft sample as respondents did not know or refused to provide their overdraft charges, leading to a total of 1,092 observations.

³⁰ Respondents not only had to calculate averages over a 12-month period, but they also might need to take into consideration multiple charges applied for the use of an overdraft (eg interest, monthly or daily fee). Furthermore, respondents who used an arranged and unarranged overdraft had to recall different charges for both overdrafts.

³¹ By doing so, we allow for a tolerance of up to £5 of incorrect assessment for customers who were charged £5 or less.

³² The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 9 therefore does not necessarily lead to exactly the same results.

48. On average, customers who went into overdraft paid £12 per month for use of the overdraft. However, customers believed that they were charged on average £11 per month for an overdraft.
49. 30% of customers estimated their charges within +/- £1, and 50% within +/- £5. Table 3 below compares customers' responses to their actual charges. Values further off the diagonal are more problematic as they show large discrepancies between actual and perceived values. We found that a very small percentage of customers reported a charge which was considerably lower or higher than their actual charges.

Table 3: Difference between actual and perceived overdraft charges (overdraft sample*)

<i>Actual (transaction data)</i>	<i>Perceived (survey data)</i>				%
	<i>No charges†</i>	<i>£5 or less</i>	<i>more than £5–£20</i>	<i>more than £20</i>	
No charges†	23	1	2	1	
£5 or less	11	3	4	2	
more than £5–£20	14	2	11	5	
more than £20	8	1	4	8	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*89 observations were excluded from the overdraft sample as respondents did not know or refused to provide their overdraft charges, leading to a total of 1,092 observations.

†This includes customers who paid between zero and up to £0.5.

Note: the results should be taken as indicative as most subgroups have very low sample sizes.

50. Customers that were not charged for an overdraft (29%) might be less aware of their overdraft usage. Hence, we analysed whether customers correctly estimated their usage (in terms of number of months per year) more often if we excluded those customers who were not charged. We found that there were no significant differences in the results. Detailed information of the analysis can be found in Annex D.

Interest payments and cashback (revenue on balances)

51. In addition to overdrafts, we also analysed whether customers were aware if they received interest on credit balances or cashback from their bank. Lack of awareness of whether or not they received credit interest or cashback could indicate a lack of engagement with PCAs.

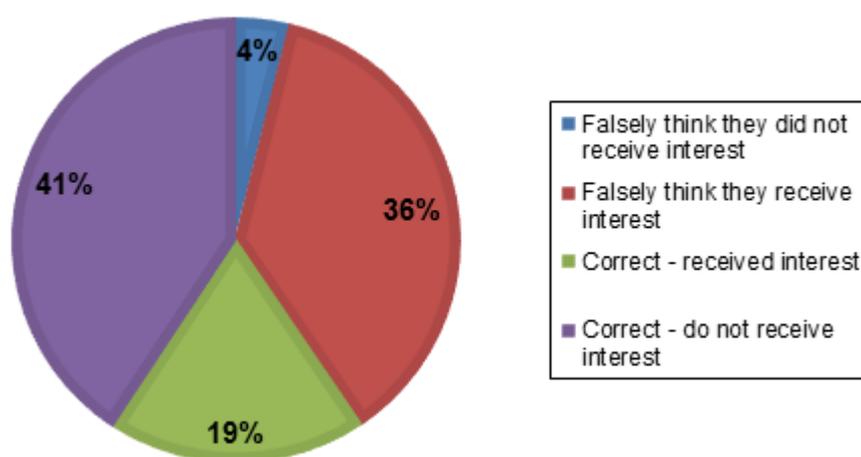
Main results

52. The transaction data provided, for each month in 2014, information on whether a customer received any interest and non-interest revenue, while the

survey asked customers if they received any interest on balances on their account or any cashback on bills/purchases.³³

53. We found that 23% of customers actually received interest and/or cashback payments on their credit balances, although approximately half of customers perceived that they received payments (see Figure 10 below). Most of the customers (60%) correctly knew whether they received payments on their credit balances or not. However, 37% of customers falsely thought that they were receiving payments when actually they were not.³⁴

Figure 10: Proportion of consumers that were correct and incorrect³⁵



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*We exclude 113 observations from the full sample from respondents who did not know whether they received payments on their balances. We exclude a further 62 observations from respondents who did not have information on whether the customer actually received payments on credit balances, leading to a sample of 2,763 which is used for this analysis.

54. HSBC stated that it was difficult to reach a conclusion on credit payments. Customers could falsely think that they receive payments on credit balances because of other rates-based benefits or savings accounts held with the same bank. Barclays noted that some customers might have responded that their main account allowed them to earn interest, even if they did not meet the qualifying conditions to receive interest and therefore did not actually earn any revenues on their balances. The questions in the survey made it clear that the questions related to the customers' main PCA. Whilst it is possible that some

³³ Base=All. Question C1 'I would now like you to think just about your main current account with {bank}. Which of these features, if any, does your main current account have? 1. Pays interest on money in account; 2. Includes insurance, such as for travel or mobile phones; 3. Free overdraft so you don't pay if you are overdrawn; 4. Pays cashback on bills/purchases.'

³⁴ From the transaction data we are unable to distinguish what the source of the revenue on balances that customers receive was. This means that we are unable to distinguish whether customers received interest or cashback payments on their credit balance or both. Therefore, we can only test whether customers received any type of revenue on balances versus none.

³⁵ The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 10 therefore does not necessarily lead to exactly the same results.

customers might have misunderstood the question, we consider this is unlikely to be the explanation for most responses.

Customer segmentation

55. We found that certain subgroups within a given segment perceived that they received payments on their balances incorrectly more often than other subgroups.
- Basic characteristics. More customers in the 18 to 34 age group incorrectly perceived that they received payments compared with the proportion of customers in other age groups. Slightly more customers in Northern Ireland perceived correctly that they received payments compared to customers in Scotland.³⁶
 - Banking needs. Slightly fewer customers who did not use an overdraft perceived that they received payments incorrectly compared to those who used overdrafts. Slightly fewer customers with high inflows incorrectly perceived that they received payments compared to those with medium and low inflows.
 - Other segments. Switchers less often incorrectly perceived that they received payments compared to those who have not switched. Slightly fewer customers with more than one account incorrectly perceived that they received payments than those with a single current account. Slightly more non-digitally engaged customers correctly perceived that they received payments compared to digitally engaged customers.
 - Other segments: Approximately half of customers banking with [X] incorrectly perceived that they received payments on credit balances. The smallest proportion of customers incorrectly perceiving that they receive payments on credit balances were among those banking with [X]. These differences may suggest that some banks were better at informing their customers about payments, as well as having different proportions of accounts with and without interest payments.

³⁶ For this analysis, we cannot compare results to Wales, as our sample size for Wales is below 150 respondents (see Table 3, Annex A).

Sensitivity analysis and limitations

Data limitations

56. Customers were asked about their perceived overdraft usage in the last year. As only five banks – Barclays, HSBC, LBG, RBS and Santander – provided usage figures for a full calendar year (the others reported usage over the last quarter), we concentrated on customers of these banks.³⁷
57. In our methodology paper, we suggested using the last quarter of 2014 as a proxy for the whole year for those banks that could only provide data from October to December 2014. We decided not to pursue this approach further, because, with only a few exceptions, our analysis did not reveal statistical differences between perceptions of customers of the different banks included in the analysis. This indicated to us that customer perception (eg unawareness of actual number of days/months in overdraft) was unlikely to differ significantly if we were to include more banks in our analysis.
58. As our survey was carried out in early 2015, we have slightly different time periods for the actual (January to December 2014) and perceived (February 2014 to February 2015) data.³⁸ This should not materially affect the analysis which uses yearly averages as we used 12 months data in both cases, and therefore captured any cyclicalities within the year.
59. HSBC told us that customer perceptions were likely to be disproportionately influenced by recent customer experiences, leading to inconsistencies between the survey and transaction data. We have sensitivity checked our results using data for the last quarter of 2014 (see paragraph 70). As we did not find significant differences from our main results, we considered that our results were robust.
60. For the arranged overdraft limit, the transaction data gave the value at the end of 2014. This was compared with the value of the arranged overdraft limit for each customer as of February 2015 obtained from the GFK PCA consumer survey. As the actual value of the overdraft limit was taken as of 31 December 2014, while the perceived value was taken in February 2015, it might be the case that the actual value had changed for some customers between 31

³⁷ Three banks noted in response to our methodology paper that smaller banks did not report data for the full year, which could bias our results. These banks question the approach to use the last quarter as a proxy for the whole year for this group due to potential differences in disposable income and spending habits at this time of the year in comparison to other periods. If data is not available for all banks, this could lead to overall findings that are not reflecting the market as a whole.

³⁸ In response to our methodology paper two banks told us that our transactional data refers to 2014 (account usage) or end of 2014 (account pricing and overdraft limits), however the survey data for customers' perceptions relates to February 2015 (or year to February 2015), leading to inconsistencies.

December 2014 and March 2015. The banks confirmed that this was the case for only a small set of surveyed customers (as overdraft limits do not change often). Therefore, this was unlikely to have influenced the results.

Survey data limitations

61. As we used survey data, we recognised that there were particular limitations that should be taken into account when interpreting survey data. These are discussed below.
62. Respondents might have been unwilling to talk about sensitive topics, such as the use of an overdraft or their true debit balance, and, instead of answering truthfully, might deliberately have misstated or denied their true usage altogether.
63. In addition, some of the research questions required respondents to undertake mental arithmetic in order to calculate average values over a year's period. This might have been particularly difficult when an overdraft was not used in every month of the year or was used in different frequency over the months. Additionally, respondents might have felt under time pressure, since the interviewer was waiting on the line, which might have further influenced their ability to calculate averages correctly.
64. For example, looking at usage, respondents were likely to have found the question on whether they used an overdraft easiest to answer; the question on the number of months would have been slightly more difficult as it relied on recall; the questions on the number of days per month and on debit balance would have been most difficult as they relied not only on recall but also the ability to calculate an average over a 12-month period in their head and under time pressure.
65. This might be reflected in the proportions of respondents who answered these questions correctly, as 61% of respondents correctly stated that they were using an overdraft, 49% and 38% of respondents correctly estimated the number of months (within +/- two months) and days (within +/- three days) they used an overdraft respectively, and 27% of respondents correctly estimated the band within which their debit balance lay.

Sensitivities

66. Overall, we found that the results from the various sensitivities we ran produced broadly similar results to those from the main specification,³⁹ and

³⁹ We refer to the overdraft sample, described in detail in Annex B, as the main specification.

therefore we believe that our qualitative results are robust. Further details of the sensitivity analyses are reported in Annex D.

Excluding customers who opened a new account with their current bank in 2014 from the analysis

67. If usage is cyclical (either across the year or over the time a customer stays with a bank), yearly averages will be different for customers who were with the bank only for a few months (eg because the customer is new to banking or because he/she switched from one bank to another).⁴⁰ We therefore re-ran our analysis excluding those who opened their account during 2014 (3% of those who used overdrafts in 2014) and found that the impact on the results was small.

Excluding respondents from the analysis that may not wish to talk about their usage

68. It may be the case that respondents who stated that they did not use an overdraft in the previous 12 months when in fact the transaction data shows they did, might not have wished to talk about their usage (as opposed to genuinely not knowing that they were in overdraft). We therefore tested whether our results were sensitive to these respondents.
69. We found that differences in results were very small for most of our research questions. Slightly more customers correctly estimated the band within which their debit balances lay, slightly fewer customers who either exceeded their arranged overdraft limit or went into an unarranged overdraft did not say that they used an unarranged overdraft, and slightly fewer customers were able to estimate their overdraft charges within +/- £5. However, overall we found that differences were small and did not present a challenge to the validity of our main results.

Using data for the last quarter of 2014 only⁴¹

70. Finally, as respondents might have thought of more recent months when responding to the survey and therefore their responses might have reflected their overdraft usage, charges incurred and credit interest in the last three months, we repeated our analysis using transaction data for only the last

⁴⁰ In response to our methodology paper, one bank noted that we have 12 months of transactional data for non-switchers, but only one to 12 months of data for switchers, as we do not have data from their previous bank.

⁴¹ Two banks note that the difference between perceived and actual values could be caused by a survey response bias relating to the most recent (pre-) notification of charges they have received.

quarter of 2014.⁴² Overall, we did not find significant differences from our main results.

Further banks' comments

71. HSBCG and Barclays noted that the analysis did not appear to have recognised estimation errors arising from the requirement for customers to undertake calculations, as well as from customers' limited ability to recall accurately overdraft usage and charges over a 12-month period. RBS also observed that the analysis does not appear to have been able to control for these estimation errors. Barclays further noted that changes to the customer's overdraft might have taken place during 2014 for a number of customers surveyed, which might introduce an additional error.⁴³ LBG stated that customers might have guessed the answer or consciously reported that they did not use overdrafts to avoid further questioning on this. They might also fail to make an effort to estimate their usage correctly as they might think there are no consequences if they estimate incorrectly. LBG argued that the sensitivity analyses did not control for these biases and therefore results should be interpreted cautiously.
72. We acknowledged the errors arising from calculations as well as customers' ability to recall and provided the results within a margin of error.^{44,45} In one of our sensitivity analyses (see paragraphs 68 and 69), we excluded customers who responded that they did not use overdrafts. As the differences in results were small, we concluded that the possible presence of customers who deliberately reported no overdraft usage did not materially influence our results.
73. Santander said there was some merit in the concern, raised in the CMA's working paper, that consumers may deliberately understate their overdraft usage. HSBC noted that we had not addressed the survey bias of customers deliberately understating their overdraft usage for fear of being judged. In the 'survey data limitations' section above, we acknowledged that this limitation should be taken into account when interpreting results. We also provided results within a margin of error to account for this bias.

⁴² This sensitivity is not performed for the analysis of the actual versus perceived months in overdraft, as we cannot calculate average months per year, based on three months of data.

⁴³ Barclays told us that the slightly different time period between the actual account usage and the perceived usage introduced an additional margin of error. Barclays specifically noted that due to changes in its overdraft pricing in June 2014, its customers may have difficulties in accurately recalling over the 12-month period.

⁴⁴ We believe that customers who guessed their answer or did not make an effort to estimate their usage, made their best guess of what their true usage was and therefore their error relates to customers' limited ability to recall.

⁴⁵ We have also added the share of customers who underestimate the months in overdraft by more than two months in Annex A, Table 1.

74. HSBC noted that we should have looked at how digital banking was changing PCA customers' behaviour and the PCA market by segmenting data to reflect different levels of digital engagement. We have considered this segmentation (see Annex A for further details) to account for different levels of digital engagement among customers.
75. Barclays stated that we did not report results by customer bank. Barclays also noted that drawing conclusions at an aggregate level might be potentially misleading because the structure of overdraft charges might affect how well customers could recall their limits, balances and usage. The main aim of this analysis was to look at overall behaviour of overdraft users rather than how this varied between different banks. We have considered whether there were any differences between different bank brands and segmented customers according to their bank (see Annex A). However, most sample sizes for banks were too small to rely on the results.
76. LBG stated that the analysis is based on customer volumes but not on the value of any potential gains from greater engagement. Customers for whom a PCA is a higher-spend item might focus more attention to it and be better at recalling charges. We acknowledge that overdraft value is a possible extension to the analysis. However, we do not consider using survey responses as a reliable estimate of income. If we use inflows to approximate incomes, we consider this would add to the margin of error.

Annex A: Customer segmentation

1. We analysed whether there were differences between the actual and perceived values of overdraft usage (in months), overdraft limits, and credit interest across different customer segments. In particular, we tested (at a 95% confidence level):
 - Months in overdraft: (a) whether the number of months by which customers misjudged their usage was significantly different for one subgroup compared to another and (b) whether certain subgroups correctly assessed their usage more often or were more likely to underestimate it than others.
 - Overdraft limits: whether certain subgroups correctly assessed their limits more often or were more likely to overestimate it than others.
 - Credit interest: whether some groups were incorrect more often in their response to whether they receive payments on their balances.

Customer subgroups

2. We analysed differences between the following subgroups of customers.
3. Basic customer characteristics:
 - Gender.
 - Age: 18 to 34; 35 to 64; 65 and over (based on transaction data).
 - Nation: England; Wales; Scotland; Northern Ireland.⁴⁶
 - Education: higher education degree; no degree (includes no qualifications, A levels and any other qualifications).
4. If banking products are perceived as difficult to understand or complex, customers who have more experience with financial questions might engage more with them. We therefore used a proxy for financial literacy, based on information provided in the survey:
 - Financial literacy (as per survey question): correct answer to the financial question; incorrect answer to the financial question.⁴⁷

⁴⁶ This category is based on a customer's home region as given in the survey data.

⁴⁷ Base = All: Question K1 'I would like to ask you a question to do with working out things like bank charges. Suppose you took out a loan of £500, and the interest rate you are charged is 10% per month. There are no other

5. We also split customers by their banking needs, as shown in the transaction data. Customers with higher needs might engage more with the market:
- Regular overdraft users: regular overdraft users (those who used an overdraft for nine months or more in 2014); non-regular overdraft users (those who used an overdraft for eight months or less in 2014).⁴⁸
 - Arranged only overdraft users: those who only used an arranged overdraft in 2014; those who used an unarranged overdraft (which may include both those using arranged and unarranged and those using unarranged only).
 - Inflows into the account: high (more than £2,500 per month); medium (between £1,250 and £2,500 per month) and low (less than £1,250 per month).⁴⁹ Inflows are likely to be positively correlated with income.
6. Finally, we defined the following additional segments relating to how and with which bank(s) a customer engaged:
- PCA bank (of customer): Barclays; BoS; First Direct; Halifax; HSBC; Lloyds; NatWest; RBS; Santander.⁵⁰
 - Multiple PCAs: multiple PCA holders (those who had two or more PCAs at different banks); single PCA holders.
 - Switcher: switchers (those who switched their main account from one bank to another or changed to a different tariff with the same bank in the last three years); non-switchers (those who had not changed banks or tariffs in the last three years).
 - Digital engagement: digitally more engaged (those who used internet banking, an application on a smartphone or a tablet, or telephone

fees. At this rate how much money would you owe in total after one month, if you hadn't repaid any of the loan?' We assumed that those who said £50 or £550 were correct in answering this question. We judge those who said 'do not know' as having answered incorrectly but exclude those who refused to answer the question.

⁴⁸ We include overdraft usage in response to one bank's response to our methodology paper, as we agree that correct recognition of limits may be more likely for customers that use the overdraft facility on a regular basis. Two other banks noted that we should also consider segments by financial decision maker, digital engagement and by behavioural segments using a recognised segmentation model such as Consumer Spotlight (FCA's segmentation model of retail customers). Due to data limitation and prioritisation we decided not to include financial decision maker and behavioural subgroups in our segmentation analysis.

⁴⁹ We use inflows into the account (defined as total value of payments and transfers into the account) between October and December 2014 to estimate yearly incomings as we did not receive data for January to September.

⁵⁰ Two banks noted in response to our methodology paper that the overdraft charging structure of banks may have changed during the 12 months considered, which may lead to discrepancies in transaction and survey data. To check whether this may be the case, we have carried out segmentation by banks. Unfortunately most sample sizes for banks are too small to rely on results.

banking); less digitally engaged (those who did not use internet banking, an application on a smartphone or a tablet, or telephone banking).^{51,52}

7. We did not perform tests where the sample size was below 150.
8. Barclays noted that there would be natural variation in recall across the customer segments given the different levels of monitoring required by different types of PCA usage and the diversity of personal preferences and interest in banking. It noted that the CMA did not comment why these differences might be expected and were not an indication of certain segments' disengagement. In this analysis, we found no evidence of a certain customer segment being consistently better at recall regarding all research questions. Our quantitative analysis of switching (see Appendix 7.5) was aimed at understanding further the customers' engagement by analysing the searching and switching behaviour of customers.

⁵¹ Base= All: Question C2 'Which, if any, of the following services do you currently use with this account? 1) Internet banking; 2) An app on a smartphone or tablet; 3) Telephone banking; 4) Text alerts about your account balance; 5) Cashpoint machines or ATMs; 6) Getting cash through cashback when you buy something; 7) Direct debits or standing orders; 8) None of these; 9) Don't know'.

⁵² We have also considered whether customers who used internet banking, an application on a smartphone or tablet, telephone banking or text alerts were better aware of their usage, limits and whether they received payments on their balances compared to those who did not use any of the listed tools. We found that the results were the same as in the main specification of digitally engaged customers.

Table 1: Overdraft usage (number of months in overdraft) by segments (overdraft sample*)

Segment	Subgroup	Number of respondents	Share of customers, (%)			Mean absolute difference (months)†
			Total	Who correctly assess their usage (correctly within +/- 2 months)	Who underestimate their usage (more than 2 months)	
Basic characteristics						
Gender	Male	585	53	11‡ (44)	83‡ (55)	4.4
	Female	516	47	17‡ (50)	76‡ (48)	
Age	18-34	427	36	15 (50)	77 (48)	3.9
	35-64	586	56	14 (44)	81 (54)	
	65+	87	9			
Nation	England	817	88	14 (46)	80 (52)	
	Wales	46	5			
	Scotland	158	6	17 (52)	78 (48)	
	Northern Ireland	80	1			
Education						
Education	No degree	603	55	14 (43‡)	81 (55)	4.5
	Degree	472	45	14 (50‡)	79 (48)	3.8
Financial knowledge						
Financial literacy	No	435	40	13 (50)	81 (49)	
	Yes	653	60	14 (45)	80 (53)	
Banking needs						
Regular OD user	No	682	59	8‡ (59‡)	84‡ (39‡)	2.7
	Yes	419	41	22‡ (29‡)	75‡ (70‡)	6.2
Overdraft type user	Arranged only	528	49	11‡ (45)	80 (52)	
	Unarranged	573	51	16‡ (48)	80 (51)	
Inflows	Low	342	30	12 (50)	82 (50)	
	Medium	354	31	17 (44)	78 (55)	
	High	405	39	13 (46)	80 (50)	
Other segments						
Bank brand of respondent	Barclays	[X]	[X]	[X]	[X]	
	BoS	[X]	[X]	[X]	[X]	
	FD	[X]	[X]	[X]	[X]	
	Halifax	[X]	[X]	[X]	[X]	
	HSBC	[X]	[X]	[X]	[X]	
	Lloyds	[X]	[X]	[X]	[X]	
	Natwest	[X]	[X]	[X]	[X]	
	RBS	[X]	[X]	[X]	[X]	
Santander	[X]	[X]	[X]	[X]		
Switcher	No	895	88	14 (46)	80 (52)	
	Yes	206	12	10 (50)	80 (46)	
Multi-banking	No	871	78	13 (45)	81 (53)	
	Yes	230	22	16 (51)	77 (48)	
Digital engagement	No	183	16	11 (45)	84 (53)	
	Yes	918	84	14 (47)	79 (51)	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*The analysis is based on the overdraft sample minus those respondents who did not know how many months they went into overdraft or refused to say, which comprises 1,101 respondents. Customers who did not know the answer/refused to respond to a question which we use to define the segment or for which the value is missing in the transaction data are excluded from a specific segment.

†We only report the value if the difference for a subgroup is significantly different from at least one other subgroup in the segment.

‡Significantly different from share of other subgroup in segment at 95% level.

Table 2: Overdraft limits by segments (overdraft sample*)

Segment	Subgroup	Number of respondents	Share of customers, (%)		
			Total	Who correctly assess their limit (correctly within +/- 25%)	Who over-estimate their limit
Basic characteristics					
Gender	Male	533	52	62 (73)	13
	Female	486	48	65 (74)	11
Age	18-34	411	37	71† (78†)	10
	35-64	532	55	60† (72†)	12
	65+	75	8		
Nation	England	754	87	62 (73)	12
	Wales	47	6		
	Scotland	141	6		
	Northern Ireland	77	1		
Education					
Education	No degree	565	57	67† (75)	11
	Degree	427	43	58† (70)	14
Financial knowledge					
Financial literacy	No	401	40	61 (68†)	13
	Yes	606	60	64 (77†)	12
Banking needs					
Regular OD user	No	617	57	65 (72)	13
	Yes	402	43	61 (75)	10
Overdraft type user	Arranged only	471	46	54† (67†)	13
	Unarranged	548	54	71† (79†)	11
Inflows	Low	312	30	72† (76) (Medium and High)	12
	Medium	341	32	62† (73) (Low)	13
	High	366	38	57† (71)(Low)	11
Other segments					
Bank brand of respondent	Barclays	[X]	[X]	[X]	[X]
	BoS	[X]	[X]	[X]	[X]
	FD	[X]	[X]	[X]	[X]
	Halifax	[X]	[X]	[X]	[X]
	HSBC	[X]	[X]	[X]	[X]
	Lloyds	[X]	[X]	[X]	[X]
	Natwest	[X]	[X]	[X]	[X]
	RBS	[X]	[X]	[X]	[X]
	Santander	[X]	[X]	[X]	[X]
Switcher	No	815	87	62† (73)	12
	Yes	204	13	72† (76)	11
Multi-banking	No	816	79	65 (75)	12
	Yes	203	21	58 (67)	13
Digital engagement	No	160	15	65 (73)	8
	Yes	859	85	63 (73)	13

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*The analysis is based on the overdraft sample minus those respondents who did not know how many months they went into overdraft or refused to say, which comprises 1,019 respondents. Customers who did not know the answer to a question, which we use to split the segment, refused a response or for which the value is missing in the transaction data, are excluded for a specific segment.

†Significantly different from share of other subgroup in segment at 95% level (subgroup indicated in the brackets if more than one subgroup in a segment).

Table 3: Interest payments and cashback (revenue on balance) by segments (revenue on balance sample*)

Segment	Subgroup	Number of respondents	Share of customers (%)		
			All	Who are correct	Who falsely thinking they receive interest
Basic characteristics					
Gender	Male	1,454	53	59	37
	Female	1,307	47	61	36
Age	18–34	922	29	52‡ (35–64 and 65+)	46‡ (35–64 and 65+)
	35–64	1,340	51	61‡ (18–34 and 65+)	35‡ (to 18–34 and 65+)
	65+	496	20	67‡ (18–34 and 35–64)	29‡ (to 18–34 and 35–64)
Nation	England	2,020	87	60	36
	Wales	103	5		
	Scotland	441	7	54‡ (NI)	40‡ (NI)
	Northern Ireland	199	1	64‡ (Scotland)	31‡ (Scotland)
Education					
Education	No degree	1,501	57	60	36
	Degree	1,162	43	59	37
Financial knowledge					
Financial literacy	No	1,120	41	58	38
	Yes	1,614	59	60	36
Banking needs					
Regular overdraft user	No	689	60	54	42
	Yes	407	40	53	43
Overdraft type user	No overdraft	1,642	57	63‡ (arranged only and unarranged)	32‡ (arranged only And unarranged)
	Arranged only	543	21	53‡ (no overdraft)	43‡ (no overdraft)
	Unarranged	578	22	55‡ (no overdraft)	42‡ (no overdraft)
Inflows	Low	920	31	58	39‡ (high)
	Medium	885	31	56‡ (high)	39‡ (high)
	High	958	38	63‡ (medium)	32‡ (medium and low)
Other segments					
Bank brand of respondent	Barclays	[X]	[X]	[X]	[X]
	BoS	[X]	[X]	[X]	[X]
	FD	[X]	[X]	[X]	[X]
	Halifax	[X]	[X]	[X]	[X]
	HSBC	[X]	[X]	[X]	[X]
	Lloyds	[X]	[X]	[X]	[X]
	Natwest	[X]	[X]	[X]	[X]
	RBS	[X]	[X]	[X]	[X]
	Santander	[X]	[X]	[X]	[X]
Switcher	No	2,196	86	58‡	38‡
	Yes	567	14	67‡	26‡
Multi-banking	No	2,155	78	58‡	38‡
	Yes	608	22	65‡	31‡
Digital engagement	No	679	26	66‡	31‡
	Yes	2,084	74	57‡	39‡

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*The analysis is based on the revenue on balance sample minus those respondents who refused to say whether they knew if they received interest or cashback, which comprises 2763 respondents. Customers who did not know the answer to a question, which we use to split the segment, refused to answer or for which the value is missing in the transaction data, are excluded for a specific segment.

†We only report the value if the difference for a subgroup is significantly different from at least one other subgroup in the segment.

‡Significantly different from share of other subgroup in segment at 95% level (subgroup indicated in the brackets if more than one subgroup in a segment).

Annex B: Data sets and cleaning

Sample source

1. We used the transaction data provided by banks to obtain the actual value of customers' overdraft usage, limits, charges and credit payments. We used the GfK PCA consumer survey data to obtain the customers' corresponding perceived values.

Survey data

2. Chapter 1 of the PCA banking survey technical report⁵³ explains how the survey sample was constructed and stratified.

Transaction data

3. Banks were asked to provide transaction data for the 120,000 accounts that were sampled by GfK in the second stage of the survey sampling process on a customer-by-customer basis. This data was sent directly to the CMA by banks.

Data cleaning and sample size

4. For our analysis we combined the survey data provided by GfK with the transaction data provided by the banks. The information for the two data sources was merged using a unique account identifier provided by the banks and a customer number for joint accounts.
5. We removed from the data set customers that were with the bank for less than two months in 2014. For customers who joined the bank during 2014 and were with the bank for at least two months, we excluded from the analysis the usage data for the month of joining as this might not have represented typical usage.
6. Some banks only provided data for the last quarter of 2014. We excluded these banks from the analysis. Hence, our analysis was based on the brands of those banks that provided data for the full year. These were Barclays, BoS, First Direct, Halifax, HSBC, Lloyds, M&S Bank, NatWest, RBS and Santander.

⁵³ [GfK NOP PCA banking survey technical report](#).

- This resulted in a sample of 2,938 respondents, which we referred to as the full sample.

Construction of the overdraft sample

- Table 1 showed the actual and perceived overdraft usage of the full sample. In 2014, 44% of respondents used overdrafts to varying degrees. There were more people who actually went into overdraft than those who said they did in the survey. According to the survey, 70% of customers said that they never went into overdraft. This would suggest that 17% of the customers did not remember that they went into overdraft.
- A small proportion of customers responded that they either went into overdraft (even though they did not) or did not know whether they went into overdraft, or refused to say.

Table 1: Actual and perceived overdraft usage (full sample)

<i>Actual usage (transaction data)</i>	<i>Perceived usage (survey results)</i>			<i>Total</i>
	<i>Used overdraft</i>	<i>Did not use overdraft</i>	<i>Not available*</i>	
Used overdraft	26	17	1	44
Did not use overdraft	3	53	1	56
Total	29	70	1	100

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*This includes respondents who refused to respond or did not know whether they went into overdraft in the last 12 months.

Note: The analysis is based on the full sample (2,938 respondents). The 'overdraft sample', which is used for the following analysis, is marked in green and comprises 1,181 respondents. Incorrect responses are highlighted in red.

- In order to exclude those for whom overdrafts were not relevant because they did not go into overdraft, we constructed a sub-sample of respondents, who according to the transaction data had used an overdraft for at least one day in 2014. We also excluded the small share of respondents who refused to respond to this question or responded that they did not know whether or not they used overdrafts even though they actually did.
- HSBC noted that potential concerns about limited awareness of usage should be considerably lessened because the findings were skewed by the exclusion of non-overdraft users who had correctly identified themselves as such. We only considered customers who used overdrafts in the analysis of account usage, limits and charges because this information was only relevant to overdraft users.
- This overdraft sample is marked in green in Table 2 and is the basis for our analysis on overdrafts. It comprises 1,181 respondents and represents 43% of

the customers in the full sample.⁵⁴ 39% of customers in this sample said that they did not use overdrafts when in fact they actually did.

Table 2: Actual and perceived overdraft usage (overdraft sample*)

Actual usage (transaction data)	Perceived usage (survey results)	
	Used overdraft	Did not use overdraft
Used overdraft	61%	39%

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*1,181 respondents. The 'overdraft sample', which is used for the following analysis, is marked in green and comprises 1,181 respondents. Incorrect responses are highlighted in red.

Construction of variables

13. The following describes how we constructed the actual and perceived variables for overdraft usage, limits, charges and credit payments. All actual variables were based on transaction data, whereas all perceived variables were based on survey data. We excluded observations where a customer responded 'do not know' or refused to answer the question.

Account usage

Months in overdraft

- Actual number of months in overdraft: The number of months the account had been in overdraft in 2014. A month was counted as a month in overdraft if the customer went in overdraft for at least one day in that month.
- Perceived number of months in overdraft: The number of months that respondents said that they had been in overdraft in 2014.⁵⁵ Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given the value zero.⁵⁶

Days in overdraft

- Actual number of days in overdraft: The average number of days per month the account had been in overdraft in 2014. The average number of

⁵⁴ The sampling structure allows us to draw conclusions on all customers based on the answers by the respondents of the survey. In the following we use 'respondents' when referring to the number of customers answering our questions. This figure is important when looking at sample sizes for our tests. Shares will be reported as shares of the customer base.

⁵⁵ Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G5 'In how many months in the last year were you overdrawn?'

⁵⁶ Base = All. Question G4 'Have you gone overdrawn on your main current account at any time in the last twelve months?'

days was constructed by dividing the total number of days in overdraft by the number of months the account is in overdraft.

- Perceived number of days in overdraft: The average number of days per month that respondents said that they had been in overdraft in 2014, for those months when they were in overdraft.⁵⁷ Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given a value of zero.

Debit balance

- Actual debit balance: The actual average value an account had been in debit in 2014. The variable was built by multiplying the average overdraft balance in a month with the total number of days in overdraft in this month; this figure was then summed up over the year and divided by the total number of days in overdraft in the year.
- Perceived debit balance: The average amount that respondents said that their account had been in debit in 2014.⁵⁸ Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given the value zero.

Overdraft limits

- Actual overdraft limit: Value of the arranged overdraft limit at the end of 2014.
- Perceived overdraft limit: The arranged overdraft limit that respondents said that they had on their main current account at the time the survey was carried out (February/March 2015).⁵⁹ Respondents who stated that they did not have an arranged overdraft limit were given the value zero.⁶⁰

Unarranged overdraft usage

- Actual use of unarranged overdraft: Number of months in an unarranged overdraft, where the customer either exceeded their arranged overdraft

⁵⁷ Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G8 'And how many days in the month were you usually overdrawn?'

⁵⁸ Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G7 'Thinking about the x months (from Question G5) that you have been overdrawn in the last year, what is the average amount you were overdrawn in a month?'

⁵⁹ Banks reported that overdraft limits had changed between December 2014 and February 2015 on average for less than 1% of customers across banks.

⁶⁰ Base=All. Question G2 'Do you have an authorised overdraft on your main current account – that is an agreement that you are allowed to go up to a certain amount overdrawn?'

limit or went into overdraft (for those that did not have an arranged overdraft limit).

- Perceived use of unarranged overdraft: For those who said they did not have an arranged overdraft limit, the number of months in unarranged overdraft was the same as the number of months in overdraft. For those who said they had an arranged overdraft limit, we used the number of months the respondents said that they exceeded their arranged overdraft limit.

Overdraft charges

- Actual overdraft charges: Average monthly overdraft charges incurred in 2014. The variable was built by summing the interest component and the non-interest component of charges. Both were constructed by summing up monthly charges over the year and then dividing by the number of months the customer was in overdraft in 2014.
- Perceived overdraft charges: The average monthly amount of overdraft charges that respondents said that they had paid for being overdrawn in 2014.⁶¹ Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given the value zero.

Credit balances

- Actual credit balance: Average monthly interest and non-interest revenue received on the credit balance of an account.
- Perceived credit balance: Dummy variable that takes the value of 1, if the respondent said that he/she received either credit interest or cashback on credit balances, and zero otherwise.

⁶¹ Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G11 'Thinking about the x months (from Question G5) that you were overdrawn, what was the average amount that you were charged for your overdraft in a month, whether authorised or not?'

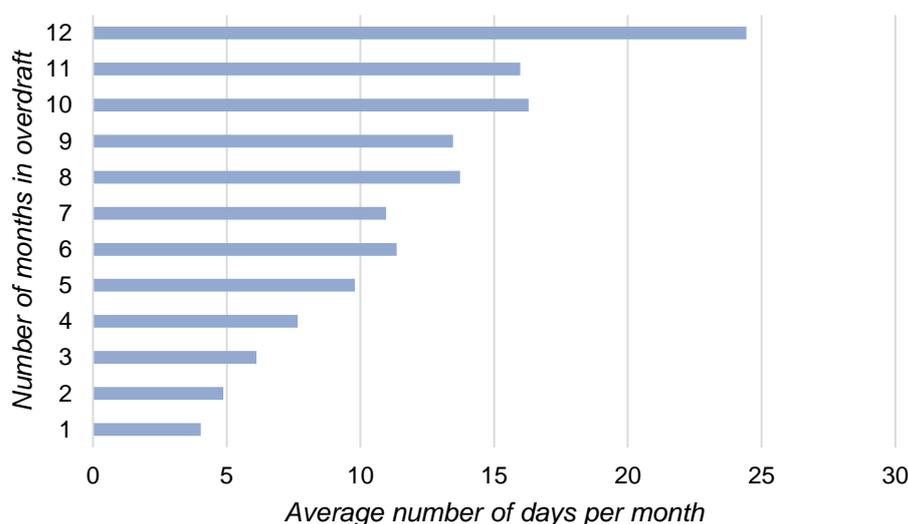
Annex C: Further results

1. This Annex provides further details on:
 - the correlation between number of months and days in overdraft, and
 - unarranged overdraft usage.

Correlation between number of months and days in overdraft

2. Among overdraft users, there was a strong positive correlation between number of months and number of days in overdraft (Figure 1 below). For example, those who used overdrafts in each of the 12 months in 2014 remained in overdraft on average 24 days per month, while those who used it for just one month remained in overdraft for four days on average.

Figure 1: Number of days versus number of months in overdraft, 2014 (overdraft sample)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
Note: The sample includes 1,181 observations.

Unarranged overdraft usage

3. 51% of overdraft users went into an unarranged overdraft, either because they did not have an arranged overdraft limit or because they exceeded their arranged limit. The proportion drops to 39% when only looking at those with an arranged overdraft limit. 31% of customers were not aware that they went into unarranged overdraft, even though they did (23% of those with an arranged overdraft limit).⁶²

⁶² In response to our methodology paper, one bank told us that customers may not properly understand the survey questions, as the terminology used in the survey (eg 'arranged' and 'unarranged' overdrafts) is not always

Table 1: Usage of unarranged overdraft, share of customers

%

Perceived (survey results)

<i>Actual (transaction data)</i>	<i>Overdraft sample*</i>			<i>Overdraft sample with arranged overdraft limit†</i>		
	No	Yes	Total	No	Yes	Total
No	46	4	49	57	5	61
Yes	31	20	51	23	16	39
Total	76	24	100	80	20	100

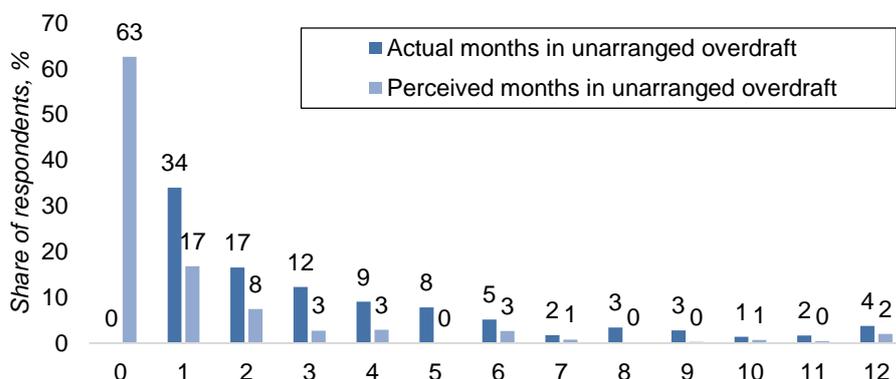
Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*51 observations are excluded from the overdraft sample as where customers who use overdrafts responded that they: 1) do not know (or refuse to say) whether they have an arranged overdraft limit; 2) do not know (or refuse to say) whether they exceed their arranged overdraft limit; leading to a total of 1,130 observations.

†51 customers who used overdrafts are excluded where they responded that they: 1) did not know (or refuse to say) whether they had an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit. A further 266 observations are excluded from the overdraft sample for customers did not have arranged overdraft limits, leading to a total of 866 observations. Incorrect responses are highlighted in red.

- Figure 2 shows that about half of the overdraft users who went into unarranged overdraft did so for just one or two months in the year. However, regular use of unarranged overdrafts was not rare; 10% used it in nine months or more. Those who used an unarranged overdraft went into an unarranged overdraft for three and a half months on average.

Figure 2: Actual and perceived months in unarranged overdraft per year (users of unarranged overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

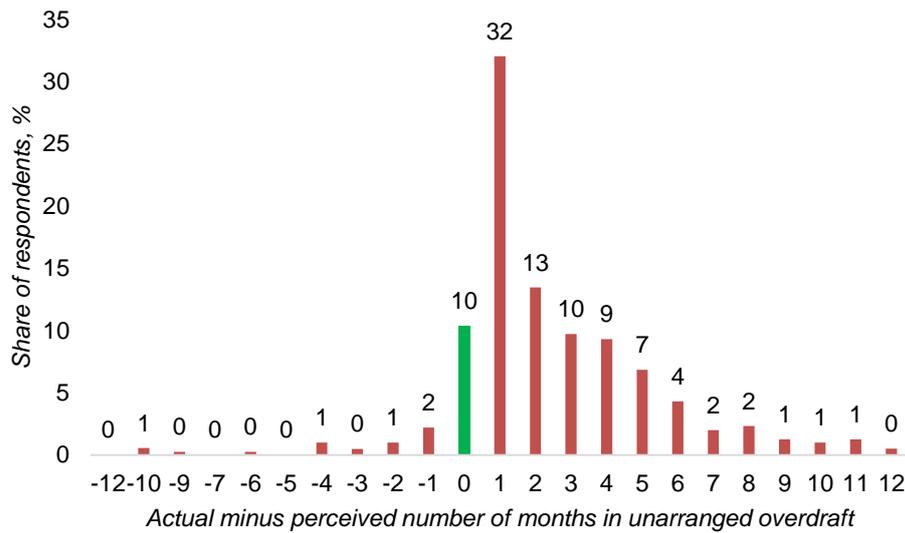
*104 observations are excluded from the overdraft sample where customers who used overdrafts responded that they: 1) did not know (or refused to say) whether they have an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit; and 3) did not know (or refused to say) how many months they were in overdraft. A further 522 observations are excluded from the overdraft sample for respondents that did not go into unarranged overdraft on at least one day in 2014, leading to a total of 555 observations.

- Similarly to the previous analysis, customers perceived that they used unarranged overdrafts less often than they actually do, as well as perceiving

consistent with customer experience. It also told us that customers may not appreciate the distinction between days in overdraft versus days beyond their overdraft limit. We cannot exclude that the high share of those who are not aware that they went into unarranged overdraft could be influenced by the survey questions. However, we believe that the question was framed clearly.

that they did not use it at all when actually they did. As Figure 3 shows, users of unarranged overdrafts underestimated their usage much more often than they overestimated their usage. In particular, 55% misjudged their overdraft usage by two or more months. On average, unarranged overdraft users, misjudged their unarranged usage by three months. The same group also misjudged the number of months they were in overdraft by four months.

Figure 3: Difference between actual and perceived months in unarranged overdraft (users of unarranged overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*104 observations are excluded from the overdraft sample where customers who used overdrafts responded that they: 1) did not know (or refused to say) whether they had an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit; and 3) did not know (or refused to say) how many months they were in overdraft. A further 522 observations are excluded from the overdraft sample as respondents did not go into unarranged overdraft on at least one day in 2014, leading to a total of 555 observations.

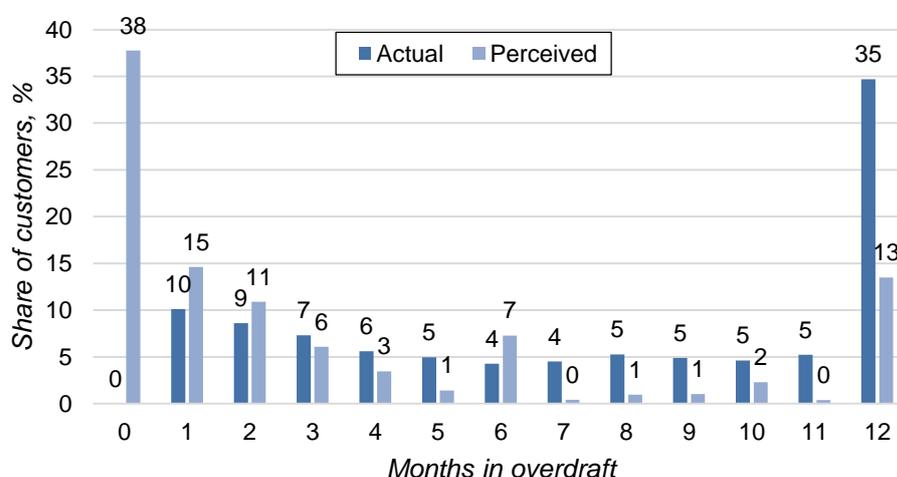
Annex D: Sensitivities

1. This annex provides further details on some of the sensitivity analyses we conducted.

Excluding respondents who have not been charged for using an overdraft

2. When excluding those respondents who had not incurred any charges from the analysis, Figure 1 shows that we did not observe any differences in the perceived number of months in overdraft compared to the main specification (see Figure 1 in the 'overdraft usage' section).

Figure 1: Distribution of actual and perceived number of months in overdraft excluding respondents that have not been charged for an overdraft (overdraft sample excluding free overdrafts*)

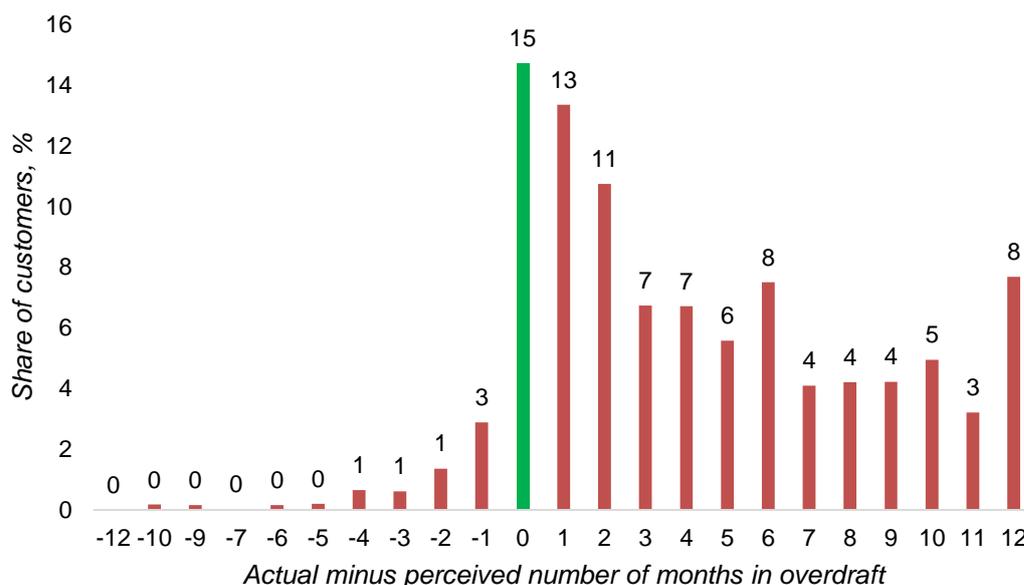


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*278 customers are not charged and are therefore excluded. A further 73 are excluded from the overdraft sample where customers responded that they did not know how many days they went into overdraft or refused to say, leading to a total of 830 observations.

3. Similarly, we did not observe significant changes in the difference between actual and perceived number of months in overdraft, as shown in Figure 2, compared to the main specification (see Figure 3 in the 'overdraft usage' section).

Figure 2: Difference between actual and perceived number of months in overdraft excluding respondents who have not been charged for an overdraft (overdraft sample excluding free overdrafts*)



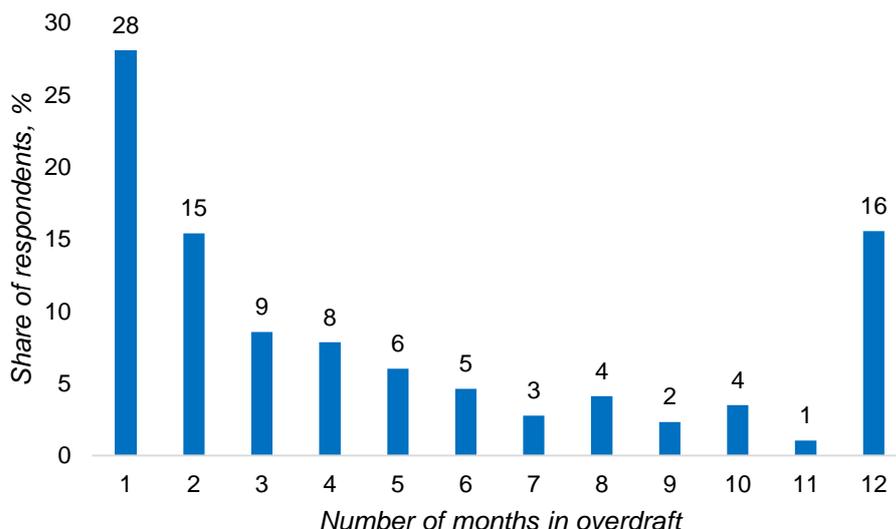
Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
 *278 customers are not charged and are therefore excluded. A further 73 are excluded from the overdraft sample where customers responded that they did not know how many days they went into overdraft or refused to say, leading to a total of 830 observations.

Excluding respondents who may not wish to talk about their usage

- When we compare the distribution of actual overdraft usage of the overdraft sample (see Figure 1 in the 'overdraft usage' section) with the distribution of actual overdraft usage of respondents who said they did not use overdrafts even though the transaction data shows that they did⁶³ (see Figure 3 below), we note that more respondents had used overdrafts for one or two months and less respondents had been overdrawn in all 12 months compared to the main specification.

⁶³ Those are the 42% of respondents of the overdraft sample who said that they had not used an overdraft, shown in Figure 1 in the 'overdraft usage' section.

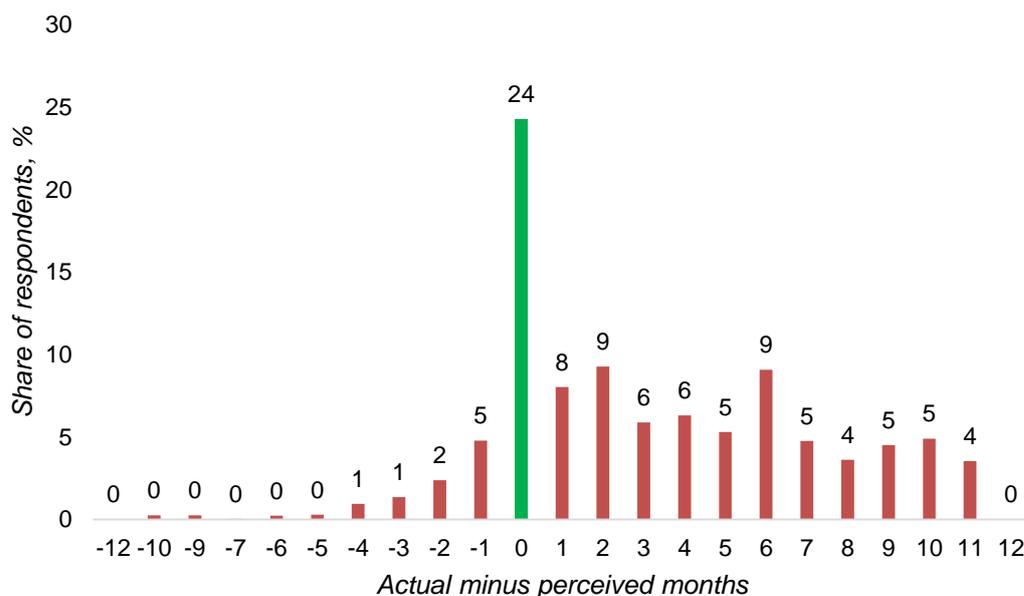
Figure 3: Distribution of actual number of months in overdraft of those who said they were not in overdraft*



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*The sample size includes 466 respondents who said they were not in overdraft although they actually were in overdraft.

5. Figure 4 below shows results on actual and perceived number of months in overdraft when we exclude from the analysis the 42% of respondents who said they did not go into overdraft at all even although the transaction data shows that they did. We found that 49% of customers estimated the number of months they used their overdraft with a tolerance of two months compared to 47% from the main specification (see Figure 3 in the 'overdraft usage' section). Similarly, 40% estimated the average number of days in overdraft with a tolerance of three days compared to 38% from the main specification.

Figure 4: Difference between actual and perceived number of months in overdraft (overdraft sample excluding those who said they did not use overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

*466 observations are excluded from the overdraft sample because they said they did not use overdrafts; 80 observations are excluded because they did not know for how many months they used an overdraft or refused to say, leading to 635 observations.

6. When we excluded from the analysis respondents who said that they had not used an overdraft, we further found that:
 - (a) 46% of customers correctly estimated the band within which their debit balances lay compared to 27% in the main specification.
 - (b) Overdraft users continued to underestimate their usage much more often than they overestimated it. For example, 57% of customers who used overdrafts underestimated the number of months they used it by more than a month. This compares to 63% from the main specification.
 - (c) 64% of customers who used overdrafts, and 60% of those who used overdrafts and had an arranged limit, knew their limit exactly compared to 63% and 57%, respectively, from the main specification.
 - (d) 40% of customers who either exceeded their arranged overdraft limit or went into an unarranged overdraft reported that they had not used an unarranged overdraft compared with about half in the main specification.
 - (e) 38% of customers were charged £5 or less per month for their overdraft and 42% of customers correctly estimated their overdraft charges within £5, compared to 50% in the main specification.

Using data for the last quarter of 2014 only

7. When using data for the last three months in 2014 only, we found that 36% of respondents estimated the average number of days in overdraft per month to a tolerance of three days, compared with 38% from the main specification. On average, customers misjudged the number of days per month by nine, the same as in the main analysis.
8. 29% of customers correctly estimated the band within which their debit balances lay, compared with 27% from the main specification.
9. As in the main specification, customers tended to underestimate their usage. The same proportion of customers underestimated (57%) the average number of days per month in overdraft with a tolerance of three days as in the main specification. Similarly, the same proportion (60%) of customers underestimated their debit balances, compared to the proportion in the main specification.
10. As in the main specification, roughly half of customers were charged £5 or less per month for their overdraft and 48% of correctly estimated their overdraft charges within a tolerance of £5, compared to 50% in the main specification.

Personal current account overdraft customer characteristics

1. In our analysis of PCA customer engagement, we have specifically considered the subgroup of customers who use overdrafts and the following is the analysis of demographic characteristics of this subgroup of PCA customers.
2. This demographic analysis is primarily based on the 2014 anonymised current account usage data, as provided by the banks (transaction data). When considering transaction data, we refer here to 'customers' for simplicity. However, transaction data contains a sample of accounts rather than customers. Therefore, for customers who hold more than one PCA, we do not observe all their activity but only that associated with the account included in our sample.¹ Where a customer characteristic was not available from the transaction data, we used the GfK PCA consumer survey data responses, which came from customers who were a subsample of the transaction data. Our analysis was based on the brands of those banks that provided data for the full year.²
3. For the purpose of the analysis, we divided customers into different groups based on overdraft used.
 - (a) Non-users – customers who did not use an overdraft in 2014.
 - (b) Arranged only – customers who only used arranged overdrafts in 2014.
 - (c) Unarranged – customers who used unarranged overdrafts in 2014. This group includes both those who used unarranged only and those who used arranged and unarranged overdrafts.
4. To analyse any differences between customers who use overdrafts regularly and customers who use overdrafts occasionally, we further divided overdraft users into different groups based on how regularly they used overdrafts.
 - (a) Light users – customers who used either an arranged or unarranged overdraft for eight months or fewer in 2014.³

¹ For example, a customer may have two accounts and only use overdraft on one of them, while the chances for any of the two accounts being in the sample are the same.

² These banks were Barclays, LBG (for its brands: BoS, Halifax and Lloyds), HSBCG (for all its brands: HSBC, First Direct and M&S Bank), RBSG (for its brands: RBS and NatWest) and Santander.

³ We define a customer as being in overdraft for a month if the customer was in overdraft for at least one day in that month.

(b) Heavy users – customers who used either an arranged or unarranged overdraft for nine months or more in 2014.

5. Table 1 below shows the distribution of customers in the transaction data, as well as in the survey data, based on the type of overdraft used and the frequency of overdraft usage. The shares of the different groups of overdraft users drawn from the survey data reflects the shares observed in the transaction data. In the analysis, we excluded observations where a value in the transaction data was missing, and we excluded from the survey data observations where a customer responded ‘do not know’ or refused to answer the question.

Table 1: Distribution of customers by overdraft type used and frequency of overdraft usage

	<i>Non-users</i>	<i>Arranged only</i>	<i>Unarranged</i>	<i>Light user</i>	<i>Heavy user</i>	<i>Full sample</i>
Transaction data (share of the full sample), %	55	22	24	26	19	100
Transaction data, number of observations	44,796	15,616	17,987	20,441	13,162	78,399
Survey data (share of the all surveyed customers), %	56	21	23	25	18	100
Survey data, number of observations	1,729	576	633	737	472	2,938

Source: CMA analysis based on banks’ transaction data and GfK PCA consumer survey data.

Overdraft users based on overdraft used

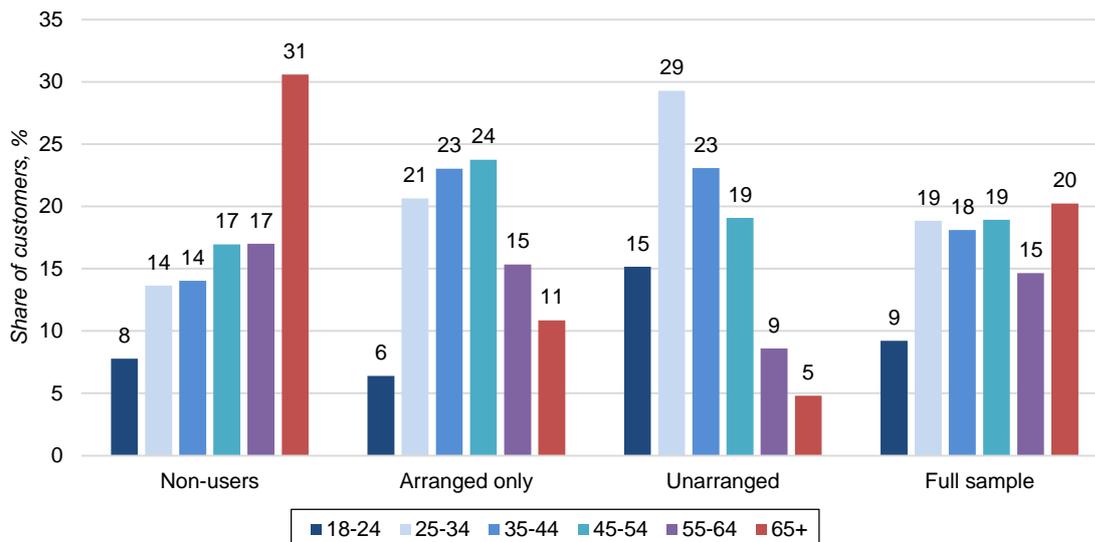
6. In the following section we analyse different characteristics of customers based on overdraft used. We only highlight differences that are statistically significant at a 95% level.⁴ Further details on the results of statistical significance tests are provided in [Annex A](#).

Age

7. The age distribution of the different groups is shown in Figure 1 below. Customers in the arranged only and unarranged groups tend to be younger than those in the non-users group, of which 31% are 65 or more years old. Customers in the unarranged group are more likely to be aged 18 to 34 (44%), than customers in the arranged only group (27%). The higher proportion of those aged 65 or more in the non-users group is consistent with other characteristics of this group, such as inflows and working status, which we consider below.

⁴ We do not perform statistical significance tests when the sample size falls below 150.

Figure 1: Age profile of customers

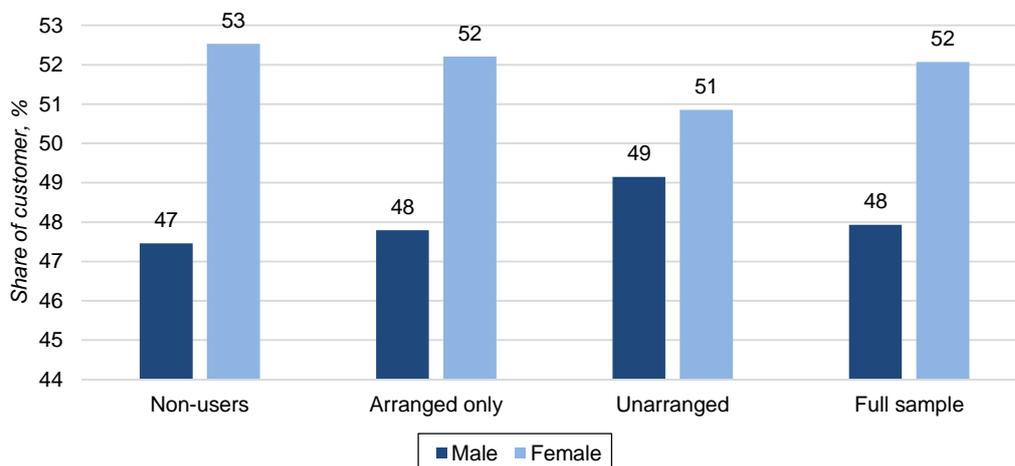


Source: CMA analysis based on banks' transaction data (sample base: non-users (44,438), arranged only (15,609), unarranged (17,963)).

Gender

- Figure 2 below shows the gender split of the different groups. Although the share of males in the unarranged group is statistically significantly different from the share of males in the non-users group, the difference is not substantial.

Figure 2: Gender profile of customers

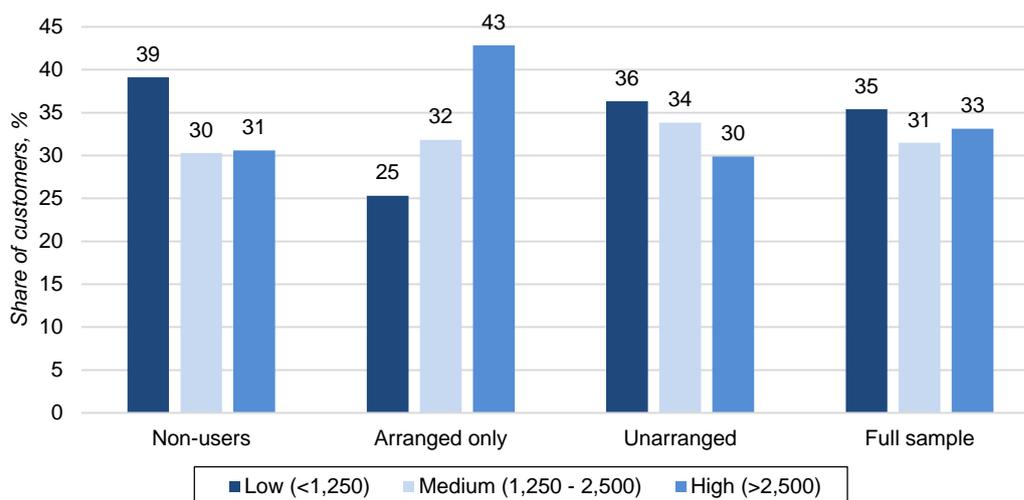


Source: CMA analysis based on banks' transaction data (sample base: non-users (44,669), arranged only (15,614), unarranged (17,986)).

Income

9. Figure 3 below shows the distribution of income (defined by inflows⁵) in the different groups. Customers in the arranged only group are more likely to have high income (43%), while only 25 % in this group have low income. This contrasts with those in the non-users group, where 39% have low income. Among the unarranged group, the highest share (36%) have low income, but this share is slightly lower than the share in the non-users group.⁶

Figure 3: Income profile of customers



Source: CMA analysis based on banks' transaction data (sample base: non-users (44,228), arranged only (15,456), unarranged (17,549)).

Education

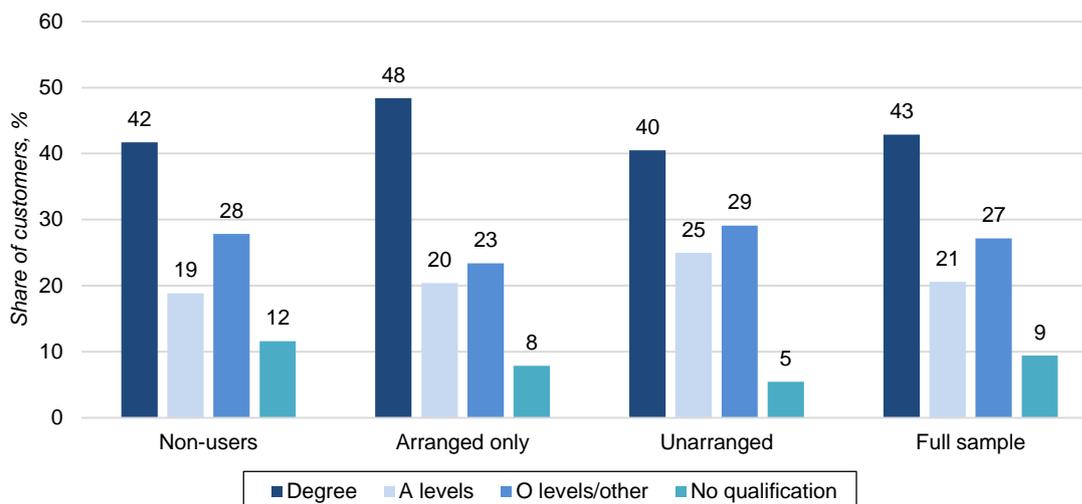
10. Figure 4 below shows the education levels across the different groups. Customers in the arranged-only group, compared to non-users and unarranged overdraft users, are more likely to have a degree-level education.⁷

⁵ We use inflows into the account (defined as total value of payments and transfers into the account) as a proxy for customer income. We excluded accounts with zero inflows and calculated the average inflows based on three months from October to December in 2014.

⁶ As the transaction data includes accounts that are used as secondary accounts, we sensitivity checked the results by considering only the main accounts as indicated by surveyed customers. The sensitivity results indicated the same distribution pattern in the different groups, except from the slightly lower share of low income customers in no overdraft group.

⁷ The numbers of observations of customers who used an arranged overdraft and have A levels as well as O levels/other qualifications are too small to perform statistical significance tests. The number of observations of customers without qualification are also too small to perform statistical significance test.

Figure 4: Education profile of customers

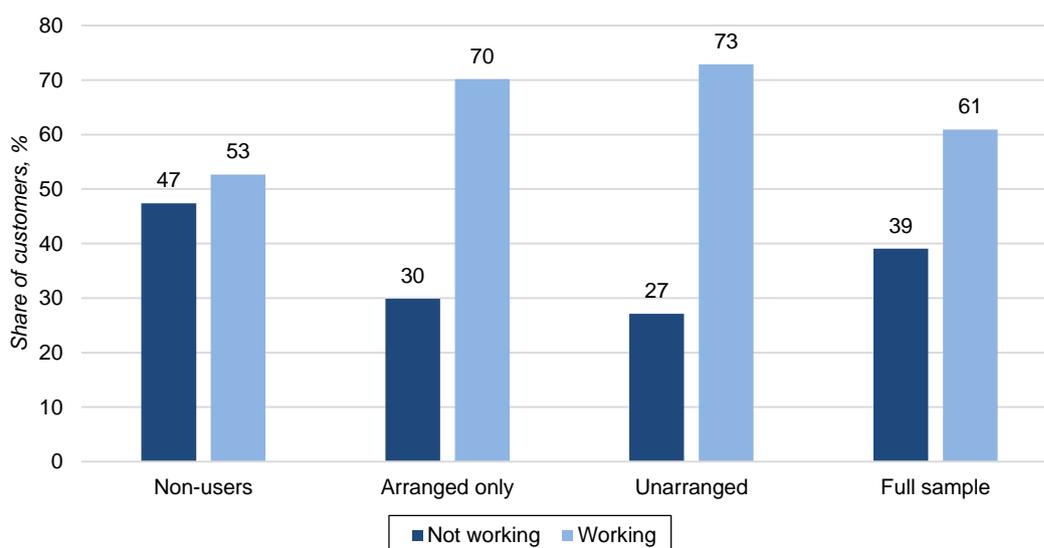


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey (sample base: non-users (1,658), arranged only (563), unarranged (610)).

Working status

11. The working status of customers is shown in Figure 5 below. Customers in the arranged-only group (70%) and customers in the unarranged group (73%) are more likely to be working full time, compared with customers in the non-users group (53%). The share of working customers in the unarranged group is not statistically significantly different from the share of working customers in the arranged only group.

Figure 5: Working status profile of customers

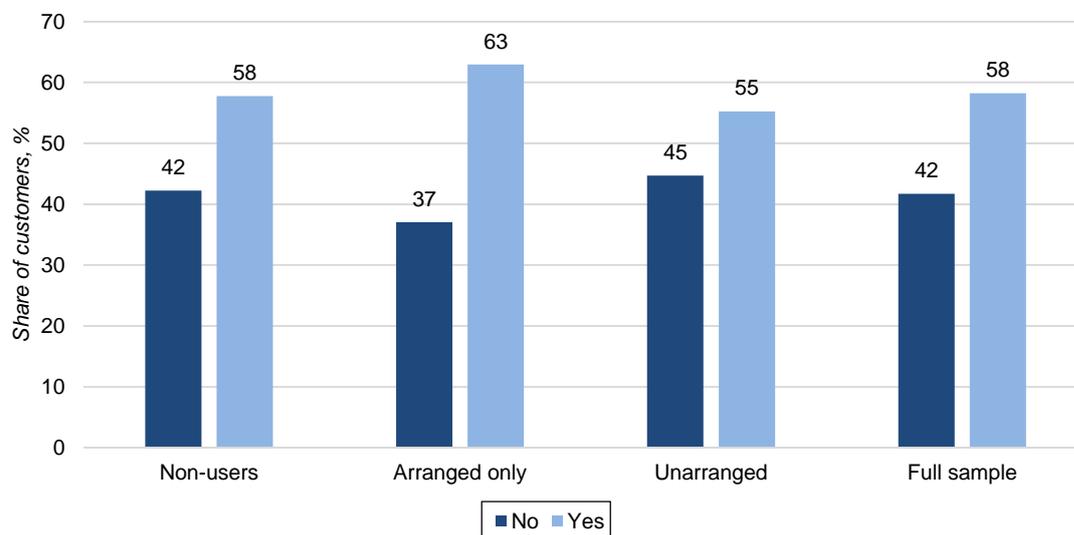


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey (sample base: non-users (1,729), arranged only (576), unarranged (633)).

Financial literacy

12. Figure 6 below shows the financial literacy of customers.⁸ Customers in the arranged-only group are more likely to be financially literate, compared with the other groups.

Figure 6: Financial literacy profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey (sample base: non-users (1,713), arranged only (568), unarranged (627)).

Overdraft users based on frequency of overdraft usage

13. We compared the characteristics of heavy overdraft users with the characteristics of light overdraft users. We found that customers in the heavy users group are less likely to have low income (27%), compared with light users (34%).⁹ Apart from this difference, we did not find any other substantial differences between light and heavy users. Further details on characteristics between light and heavy overdraft users, as well as results of the statistical significance tests, are provided in Annex B.

⁸ We define a customer as financially literate if she/he correctly answered the financial literacy question in the GfK PCA consumer survey. Base = All: Question K1 'I would like to ask you a question to do with working out things like bank charges. Suppose you took out a loan of £500, and the interest rate you are charged is 10% per month. There are no other fees. At this rate how much money would you owe in total after one month, if you hadn't repaid any of the loan?'

⁹ Low income is defined as net inflows of less than £1,250 per month.

Annex A: Overdraft used

Results of statistical significance tests

Group	Pair	Statistically significant at 95 % level
Age		
18-24	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
25-34	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
35-44	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
45-54	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
55-64	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
65+	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
Gender		
Male	No overdraft-authorised	
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
Female	No overdraft-authorised	
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
Income		
Low	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
Medium	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes
High	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Yes

Group	Pair	Statistically significant at 95 % level
Education		
Degree	No overdraft-authorised	Yes
	No overdraft-unauthorised	
	Authorised-unauthorised	Yes
A levels	No overdraft-authorised	Values too small
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	Values too small
O levels/other	No overdraft-authorised	Values too small
	No overdraft-unauthorised	
	Authorised-unauthorised	Values too small
No qualification	No overdraft-authorised	Values too small
	No overdraft-unauthorised	Values too small
	Authorised-unauthorised	Values too small
Working status		
Working	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	
Not working	No overdraft-authorised	Yes
	No overdraft-unauthorised	Yes
	Authorised-unauthorised	
Financial literacy		
No	No overdraft-authorised	Yes
	No overdraft-unauthorised	
	Authorised-unauthorised	Yes
Yes	No overdraft-authorised	Yes
	No overdraft-unauthorised	
	Authorised-unauthorised	Yes

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey.

Annex B: Light and heavy overdraft user

Details on the characteristics of light and heavy overdraft users

<i>Group</i>	<i>Light users (%)</i>	<i>Light users, number of observations</i>	<i>Heavy users (%)</i>	<i>Heavy users, number of observations</i>	<i>Share of light users statistically significant at 95 % from the share of heavy users</i>
Age					
18-24	12	2,862	9	1,298	Yes
25-34	24	5,306	27	3,522	Yes
35-44	22	4,495	24	3,246	Yes
45-54	20	3,798	23	3,009	Yes
55-64	13	2,315	11	1,378	Yes
65+	9	1,641	6	702	Yes
Gender					
Male	48	9,927	49	6,437	
Female	52	10,512	51	6,724	
Income					
Low	34	7,038	27	3,559	Yes
Medium	31	6,427	35	4,670	Yes
High	35	6,571	37	4,740	Yes
Education					
Degree	46	320	42	192	
A levels	23	167	23	99	Values too small
O levels/other	26	188	27	129	Values too small
No qualification	5	38	8	40	Values too small
Working status					
Working	69	512	76	351	Yes
Not working	31	225	24	121	Values too small
Financial literacy					
No	41	301	41	192	
Yes	59	425	59	277	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey.

Banks' competitive PCA strategies

[✂]

Cross-product holdings

1. In this appendix we present evidence on the cross-product holding strategies adopted by the banks and on the level of cross-product holdings by PCA customers.

Banks strategies

2. Barclays told us that it used a range of channels and approaches for marketing financial products and services. Regular and ongoing 'above the line' campaigns covering a mix of television, radio, print and digital media targeted a broad cross-section of existing and potential customers for mortgages, savings and credit cards. [REDACTED]
3. Clydesdale Group told us that it offered discounts on its mortgage products to Signature PCA holders.
4. Danske Bank told us that [REDACTED].
5. HSBC told us that that it targeted existing customers using [REDACTED]. It was primarily used for mortgage offers, personal loan offers and credit card offers). These helped HSBC to identify which of its customers were most likely to have a need for other products. [REDACTED] HSBC told us that it aimed to build continuing relationships with customers and to ensure its PCA propositions continued to meet their needs over time. Furthermore, with the exception of mortgages and (recently) credit cards and selected savings products, HSBC only marketed and sold other banking products to its PCA customers. HSBC told us that it had only had modest success in its strategy of using the PCA relationship to cross-sell other HSBC products to the PCA customer base: for example, [REDACTED] of primary-banked PCA customers held an HSBC mortgage, and [REDACTED] held an HSBC credit card. This was because the majority of PCA customers shopped around and readily used their non-PCA provider for mortgages and credit cards.
6. LBG told us that its levels of cross holdings in loans reflected the fact that, for at least 10 years prior to 2014, Lloyds did not sell loans to non-Lloyds' customers (Halifax and Bank of Scotland lent more widely, prior to the integration of Lloyds and HBOS). LBG told us that after the divestment of TSB, Lloyds now lends more widely and can now offer loans to customers without a PCA. LBG's strategy with its new Club Lloyds account, was to offer customers access to savings accounts and mortgages at preferential rates.

7. Metro told us that it offered a range of products but did not refer to its approach as cross-selling, as its staff were not incentivised to do so.
8. Nationwide told us that its ability to understand customers' data across products (for example, a customer's financial needs and creditworthiness) enabled Nationwide to offer customers products tailored to their needs and take prudent/reasonable lending decisions. It also said it was appropriate that it rewarded members for the length of time they had been with the Society and also for the breadth of their relationship.
9. [REDACTED] Tesco [REDACTED].
10. TSB's Prospectus noted that the main driver of TSB's growth, along with its re-entry into the mortgage intermediary channel, was its share of PCA flow and associated cross-sales of savings accounts and unsecured lending products to these PCA customers.¹

Cross-product holding rates

11. We requested information from the banks on their PCA customers' holdings of other products with the same bank in order to understand the extent of cross-holdings.² Figure 1 below shows the results of our analysis. This shows that [REDACTED]. It is difficult to interpret these figures, however, as different banks adopted different definitions of cross-holdings when responding to this question. For example, [REDACTED].

Figure 1: 2014 Cross selling rates by PCA provider

[REDACTED]

Source: [CMA analysis of parties' market questionnaire responses](#).

12. We also investigated the average number of PCA customers' holdings of other products by analysing the responses to the GfK PCA consumer survey.^{3,4} Figure 2 indicates that cross-holding rates vary significantly across different banks. [REDACTED]

¹ [TSB case study](#), paragraph 26.

² We asked the banks to provide information on their PCA customers' holdings of business current accounts, credit cards, insurance, investments, mortgages, personal loans, savings accounts (instant access and other) and other financial products.

³ GfK PCA consumer survey Q12 'Which of the following do you have with any provider?' 1. Mortgage; 2. Personal loan; 3. Cash ISA/NISA; 4. Other cash savings; 5. Credit card.

⁴ This analysis includes customers who have their main account with one of the banks listed in Figure 2.

Figure 2: Cross selling rates by PCA provider, survey based



Source: CMA analysis based on GfK PCA consumer survey.

Dutch case study

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Executive summary

1. This appendix is a review of recent regulatory studies in the Netherlands which looked at the retail banking market. The aim is to identify any relevant insights which may be useful for the CMA's investigation in the UK.

2. The three studies we considered were carried out by the Netherlands Authority for Consumers & Markets (ACM) and the Dutch Central Bank (DNB) in 2014 and 2015, on the Dutch retail banking market, specifically:
 - (a) *Barriers to Entry in the Dutch Retail Banking Sector* (ACM, June 2014);
 - (b) *Competition in SME Loans* (ACM, June 2015); and
 - (c) *Structure of the Dutch Banking Sector* (DNB, June 2015).

3. The Dutch retail banking market displays many similar characteristics to the retail banking market in the UK, including:
 - (a) high level of concentration in key product markets (eg PCAs and SME loans);
 - (b) a number of large, systemically important banks, some of which required government assistance following the financial crisis;

- (c) low levels of customer switching in the PCA, savings, and SME loans markets;
 - (d) complex national and European regulatory frameworks; and
 - (e) high levels of consumer technological savvy and an increasing use of digital banking.
4. When comparing the Dutch and UK markets at a more granular level, there are clear differences (eg the Netherlands does not use the FIIC PCA model, political interventions such as the Dutch giving tax relief on mortgages, and higher population density in the Netherlands), but the Dutch market remains a reasonable comparator to the UK, and this view appears to be corroborated by the Dutch regulators (ACM and DNB), who have closely observed recent initiatives implemented in the UK.
5. In their studies, the regulators considered a number of areas which may be reducing the level of competition in the Dutch market, resulting in worse outcomes for customers. A number of the findings provide useful insight for our investigation:
- (a) customers who pay for their current accounts remain relatively price insensitive;
 - (b) new entrants are not providing sufficient competitive constraint on incumbents;
 - (c) there are distortions from the implicit government guarantee provided to the large banks ('too big to fail') and capital holding requirements (limiting supply for loans); and
 - (d) there is poor transparency of information for customers, particularly SMEs, which results in lower searching/switching activity.¹ At the same time, the publishing of some partial information risks tacit coordination occurring between the major banks.
6. There were also a number of relevant areas which were found not to represent significant barriers to entry:
- (a) a national branch network is not a barrier to entry in the market due to the increasing digitalisation of banking and digital operating model of some new entrants;

¹ The ACM has launched a cost-benefit analysis into European account number portability, which it believes could improve switching.

- (b) IT and marketing costs are relatively high, but not prohibitive, and therefore, they do not constitute a barrier to entry; and
 - (c) third parties can provide credit information on SMEs, and therefore, access to this information is not a barrier to entry.
7. We intend to consider the work of ACM and the DNB in the context of our market investigation, remaining particularly aware of the different circumstances which may exist in the UK compared with the Netherlands.

Introduction

8. The purpose of this appendix is to review the recent work of the ACM² and the DNB³ on the Dutch retail banking market, in order to assess the extent to which (if any) of its findings and recommendations may be relevant to the UK retail banking market and our market investigation.
9. In June 2014, ACM reported that the financial crisis had led to increased concentration in an already concentrated Dutch retail banking market.⁴ It was concerned that this indicated a lack of competition which would have a detrimental impact on personal banking customers and SMEs, so it carried out a study to investigate the level of barriers to entry or expansion.⁵
10. More recently, ACM conducted another study looking specifically at the SME loans market (including overdrafts from BCAs), which it published in June 2015.
11. The DNB also recently published (June 2015) a report considering the structure of the Dutch banking sector, and its effects on diversity and competition.
12. This appendix will mainly focus on the first ACM report published in June 2014, whilst considering the findings from the other two reports where relevant to our investigation.

² ACM ([Autoriteit Consument & Markt](#)) is the primary competition authority in the Netherlands, providing consumer protection and market oversight.

³ DNB ([De Nederlandsche Bank](#)) acts as both the central bank of the Netherlands (with duties regarding monetary policy), but has additional regulatory duties such as banking license authorisation.

⁴ ACM (June 2014), [Barriers to Entry into the Dutch Retail Banking Sector](#), p11.

⁵ ACM defined barriers to entry as 'that which causes a smaller margin between the expected profits of entry and the sunk costs [cost incurred that can no longer be recovered]', as defined in ACM report (June 2014), p15 and the accompanying footnote.

Outline

13. In this appendix, we:
 - (a) give an overview of the Dutch retail banking market, in particular its size, the levels of concentration, consumer behaviour and relevant trends in price and margins;
 - (b) summarise the findings of ACM's June 2014 study with respect to barriers to entry and expansion in the Dutch retail banking market;⁶
 - (c) discuss the relevance of these barriers to entry and expansion to our current market investigation, as well as the relevance of ACM recommendations to reduce or eliminate these barriers to entry and expansion for the consideration of remedies if appropriate;
 - (d) summarise the findings from ACM's study into the SME loans market in the Netherlands; and
 - (e) summarise the findings from DNB's study into the structure of the Dutch banking sector.

Overview of the Dutch retail banking market

Overall market features

14. The Dutch banking market is large relative to the country's gross domestic product (GDP). For example, ACM's report estimated that the combined balance sheet of Dutch banks was four times the GDP of the Netherlands, whilst the average for Europe was approximately three times.⁷
15. It is also highly concentrated, with the three largest participants (ABN AMRO,⁸ ING Bank, and Rabobank) being designated as 'systemically important'⁹ and estimated as having over 80% share of the total retail banking market in 2011 (and 94% of PCA market from 2002 to 2012). Following the financial crisis, a

⁶ This summary includes those barriers to entry that ACM considered but subsequently dismissed.

⁷ UK equivalent is roughly five times; DNB (June 2014), *Structure of the Dutch Banking Sector* (in Dutch), p13 ('Verenigd Koninkrijk' = UK).

⁸ The RFS (a consortium of banks including RBS, Santander, and Fortis) acquisition of ABN AMRO in 2007 resulted in the Dutch assets of ABN AMRO largely being acquired by Fortis. RBS received some small components which were subsequently sold or closed. After the nationalisation in October 2008, the Dutch government merged the Dutch activities of ABN AMRO and Fortis. In 2009 the merged entity continued under the name ABN AMRO.

⁹ The report describes a systemically important bank as one where its bankruptcy would endanger the financial system and cause considerable damage to the real economy; *ACM report (June 2014)*, footnote 6. A fourth, smaller bank (SNS Bank) was also designated as systemically important, primarily due to the large amounts of (guaranteed) Dutch savings it holds.

number of prominent subsectors, such as mortgages, appear to have become even more concentrated due to a combination of mergers, bankruptcies and international banks scaling back their activities.¹⁰ See Annex A for estimated market shares of the different banks in the Netherlands.

16. ACM noted that in the period 1990 to 2007, Dutch banks became increasingly active internationally by acquiring foreign banks (eg British Barings Bank acquired by ING Bank).
17. Dutch consumers are generally digitally-savvy, having one of the highest percentage of internet users in Europe (94%) vs an average of 77% for the EU and 90% in the UK. In banking, online penetration in the Netherlands was the highest in the world at around 66% in 2012, with the UK reaching 53%, and the European average at 39%.¹¹
18. There is significant public and political interest in the level of remuneration which senior management at these banks receive, for example, the recent announcement of large pay rises for state-owned ABN AMRO's management caused such a public outcry that it even delayed a potential IPO (initial public offering).¹²

Impact of financial crisis

19. The financial crisis had a particularly adverse impact on the Dutch retail banking market.¹³ For example:
 - (a) the state nationalised the Dutch segments of Fortis/ABN AMRO;¹⁴
 - (b) domestic banks have reduced their range of services, partly driven by a decline in demand for products such as mortgages and SME loans. The domestic banks' combined balance sheets declined by 18.7% from 2008 to 2013;¹⁵
 - (c) foreign banks which had a presence in the Netherlands have also scaled back operations to concentrate on their domestic markets (with more

¹⁰ [ACM report \(June 2014\)](#), p11.

¹¹ KPMG (April 2014), [Barriers to Entry, Growth and Exit in the Retail Banking Market in the Netherlands](#), p14; internet penetration figures updated to December 2013 using the same source (Internet World Stats) and used to obtain comparison figures for other countries UK and Europe online penetration retrieved from the [same article](#) as used by the ACM.

¹² Reuters (March 2015), [ABN AMRO remuneration committee head resigns over pay row](#).

¹³ Based on [European Commission approved state aid for the financial crisis](#), the Netherlands requested 53.8% of its 2013 GDP in recapitalisation, asset relief, and guarantees/liquidity measures. This compares with 46% for the UK, and 44.1% average for the EU.

¹⁴ [ACM report \(June 2014\)](#), p8; remains 100% owned by the state, but is considering an initial public offering (IPO).

¹⁵ [ACM report \(June 2014\)](#), p20.

stringent capital holding requirements resulting in deleveraging, often through reduction of international activities);¹⁶ and

(d) there has been an increase in regulatory and legal requirements to mitigate a reoccurrence of the crisis.¹⁷

20. The Dutch government had to step in with a number of measures, such as nationalising certain assets, creating a capital injection facility for distressed banks and implementing a guarantee scheme for lending.¹⁸

Personal current accounts

21. **Overview:** Like much of Europe, and unlike the FIIC banking model in the UK, PCAs in the Netherlands require the account holder to pay a monthly fee. This can vary from €15/year to €160/year, but averages as around €70/year.¹⁹ ACM also stated that European studies have shown that PCAs act as a gateway for other functional products, allowing for cross-sell opportunities.²⁰ ACM's own survey appeared to corroborate this by showing that consumers deposited the majority of their savings in the same banks as their PCA.
22. **Size:** There are 15.5 million adult PCAs in the Netherlands (compared to an adult population of around 13.4 million).²¹ This implies an average of 1.16 PCAs per adult, although 70% of adults only had a single account.
23. **Concentration:** The PCA market in the Netherlands is highly concentrated, with the three major banks having an estimated 94% of the market (the largest four providers have a 98% market share). Figure 1 shows average market share estimates for 2002 to 2012.

¹⁶ [ACM report \(June 2014\)](#), p21.

¹⁷ [ACM report \(June 2014\)](#), pp5 and 22.

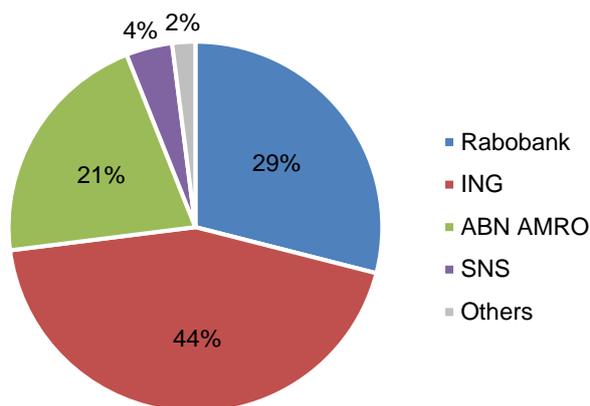
¹⁸ The European Commission allowed this state aid subject to a range of conditions (eg ING Bank was compelled to split into a separate bank and insurer, whilst other supported institutions had price leadership restrictions placed on them).

¹⁹ €15/year based on ASN bank (part of SNS); €160/year based on Knab; estimates provided by ACM in response to CMA working paper. Average estimated as cost of a current account by users (those who did not answer 'do not know'), GfK (April 2014), [Consumer Survey on Personal Current Accounts](#), p26. It should also be noted that there is some limited evidence that the cost of other PCA-associated services may be lower to offset this, for example, overdraft costs – see CEG (June 2014), [Overdrafts on Personal Accounts: A Study into Market Power](#) (on behalf of [ACM report \(June 2014\)](#)), paragraph 30.

²⁰ ACM quotes the Competition Commission, Office of Fair Trading (OFT), and European Commission as sources for this characteristic.

²¹ [Dutch population by age pyramid](#).

Figure 1: Dutch PCA market shares based on number of existing accounts, 2002–12



Source: ACM (June 2014), *Barriers to Entry into the Dutch Retail Banking Sector*, Figure 21, p75.

24. **Margins:** Due to cost allocation issues, the margins on PCAs are very difficult to determine. ACM referenced some older analysis²² which indicated that PCAs were loss making (estimated as €642 million across the industry), although it commented that even in this analysis some of the cost allocation assumptions were unclear, and that across PCAs and BCAs combined, the banks appeared to break even.
25. **Consumers:** Numerous studies have shown that consumers rarely switch their PCAs. In its 2014 study, ACM stated that 73% of PCA customers had never switched banks, whilst another 24% had only switched once. On top of this, 35% of PCA customers stated that they would not switch PCAs for any price discount.
26. **Entrants:** There have been two recent notable entries into the PCA market, Triodos Bank (2006) and Knab (2012). However, combined, these players still have less than 2% of the market.
27. **Policy:** In 2004, the Dutch banks introduced an Interbank Payment Switching Service (IPSS) which aimed to ensure that direct debits and payments were forwarded to the switcher's new current account for 13 months. ACM stated that usage of the switching service is low, with only 60,000 to 100,000 PCA customers (ie less than 1% of all PCA customers) using the service per annum. It believes that this is partially driven by relatively low levels of awareness (only 37% of consumers are aware of the service, and half of these only know it by name), as well as ambiguity as to whether a customer's old current account needs to be kept open for the switching period (incurring a

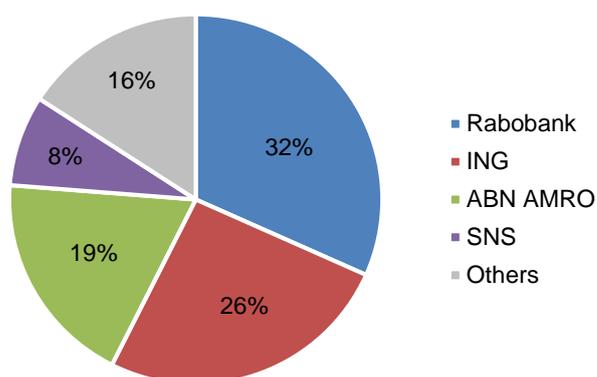
²² [ACM report \(June 2014\)](#), p75. In 2006, on the instructions of the Netherlands Bankers' Association (NVB) and DNB, [McKinsey conducted research](#) into the expenses and revenues of providing current accounts. In 2010, the NVB performed an update on the basis of an extrapolation of the information from 2006 which reached roughly the same conclusions as the original study.

monthly charge for doing so). The IPSS was introduced instead of account number portability due to the alleged high costs of implementing the latter. However, ACM reported that advice at the time (2002) from NIP Capital²³ implied that account number portability could be implemented relatively easily and at low cost, and has launched a cost-benefit analysis of European account number portability.

Personal savings

28. Although not included in our market investigation, personal savings were considered by ACM in its study on barriers to entry, and any conclusions were included in its recommendations. Therefore, this section is provided both to aid understanding of ACM's report and recommendations and to provide a more complete view of the overall similarity (or not) of retail banking in the Netherlands compared with the UK.
29. **Size:** The total value of Dutch savings is around €320 billion, which has been growing at approximately 6% per annum since 2004 (slightly slower since the financial crisis). The majority of this is held in instant-access accounts rather than fixed term products.
30. **Concentration:** The savings market is relatively concentrated with the three major banks having around a 77% share (the largest four providers have around an 84% share). Figure 2 shows market share estimates from 2011.

Figure 2: Dutch savings market shares, 2011



Source: ACM report (June 2014), Figure 18, p67.

31. **Price:** The interest rate in the Netherlands is relatively high compared with neighbouring countries (eg on average 60 basis points higher than Germany), and has remained so over the past 10 years. This is usually linked to the large

²³ Analysed the ease of implementation of account number portability, to provide evidence to the market forces, deregulation and legislative (Marktwerking, dereguleren en wetgevingskwaliteit) parliamentary working group.

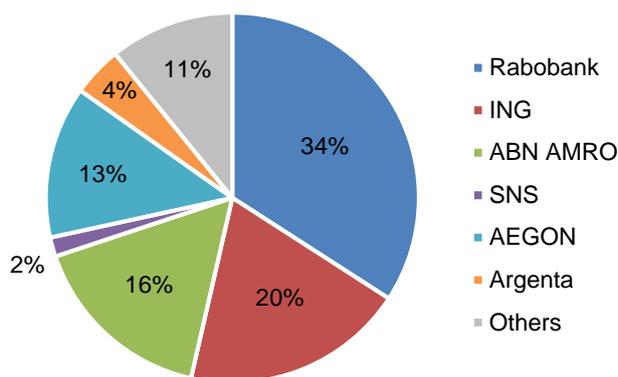
'funding gap' in the Netherlands (the outstanding balances on mortgages and loans is greater than the value of customer deposits). ACM also noted that the interest rates offered by the major banks is 'structurally lower' than that offered by smaller banks (around 50 basis points).

32. **Consumers:** Consumer behaviour appears polarised; there is a large group of consumers who are not price sensitive and rarely switch (most are with the major banks), and a small group who actively look for the highest rates and will switch regularly to get these.
 - (a) A survey showed that half of consumers had never switched their savings accounts.
 - (b) When questioned, one major consideration consumers had around switching was concern for the safety of their savings.
33. **Entrants:** Although there have been some new entrants into the market, the combined share of these players remains below 2%.
34. **Policy:** The Dutch government has a deposit guarantee in place which almost all banks in the Netherlands are subject to. This protects up to €100,000 of savings. However, many consumers are not aware that the deposit guarantee scheme applies to (almost) all banks in the Netherlands. Furthermore, national legislation limits banks from promoting the deposit guarantee scheme in their marketing material.

Mortgages

35. As with personal savings, mortgages are not included in our market investigation, but were considered by ACM in its study on barriers to entry. Again, we are including this section to aid understanding of ACM's report, and to provide a more complete view of the overall similarity (or not) of retail banking in the Netherlands compared with the UK.
36. **Size:** The outstanding mortgage loans to Dutch households was about €540 billion in February 2014, which accounted for approximately 30% of total lending in the Netherlands.
37. **Concentration:** The market is relatively concentrated, with the three major banks granting around 70% of all mortgage loans (the largest four providers grant over 80%). Figure 3 shows market share estimates.

Figure 3: Mortgage market share in Oct 2012 based on new mortgages

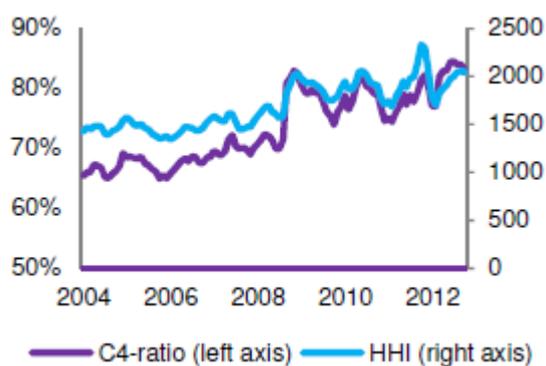


Source: ACM report (June 2014), Figure 13, p61.

38. **Price:** ACM noted that compared to its European neighbours, the Netherlands has relatively high mortgage rates, which have also dropped significantly less than neighbouring countries over the past 10 years. ACM acknowledged that interest rates depend on many factors rather than just competition.
39. **Margins:** In an earlier report (2013), ACM specifically investigated how mortgage margins had evolved in the past 10 years, finding that these had increased since the beginning of the financial crisis. It concluded that a combination of capacity constraints and lack of threat of new entrants had allowed incumbents to increase their margins.²⁴
40. **Consumers:** ACM has also carried out an investigation into consumer switching behaviour which found that although switching costs were considerable, 60% of respondents believed that switching was easy or very easy, whilst only 9% considered it difficult or very difficult.
41. **Entrants:** Despite increasing margins, there have been barely any new providers entering the mortgage market whilst a number have withdrawn (eg GMAC and BNP Paribas) resulting in increasing levels of concentration, as can be seen in Figure 4 below.

²⁴ [ACM report \(June 2014\)](#), p62; ACM specifically noted: 'The margins in oligopolistic markets with capacity restrictions are generally higher, as the capacity restrictions limit the opportunities for competitors to discipline each other'.

Figure 4: Evolution of concentration ratios²⁵ in the Dutch mortgage market



Source: ACM report (June 2014), Figure 16, p62.

42. **Policy:** In the Netherlands, it is common to have high LTV mortgages due to incentives such as interest tax relief and a National Mortgage Guarantee. There is ongoing political debate around whether this is significantly distorting the market, and whether the laws should be changed to address this (eg by reducing this incentive or place a cap on LTV).

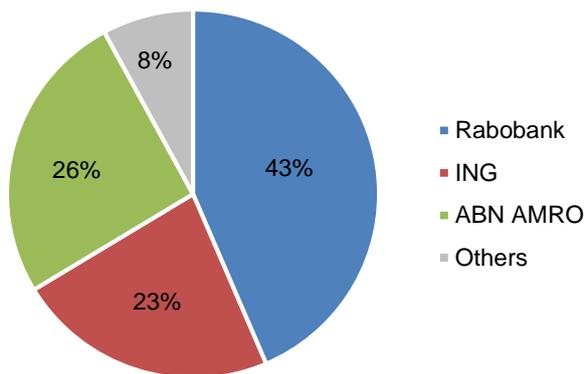
SME lending²⁶

43. **Size:** Since the financial crisis, SME lending has been declining, with an estimated drop of 12% in loans by value from the start of 2010 to the end of 2012. Possible reasons for this are that credit risk may have been increasing, and/or that there has been increasing capacity constraints on supply.
44. **Concentration:** 80% of Dutch SME lending is provided by a bank. Of this lending, the three major banks have a 92% share. Figure 5 shows market share estimates for SME lending in 2014. The share of BCAs appears very similar, with the three major banks having a 94% share, as can be seen in Figure 6.

²⁵ The C4 ratio is defined as the sum of the market shares of the four largest lenders. The Herfindahl-Hirschmann Index (HHI) is defined as the sum of the squares of the market shares of all providers in the market.

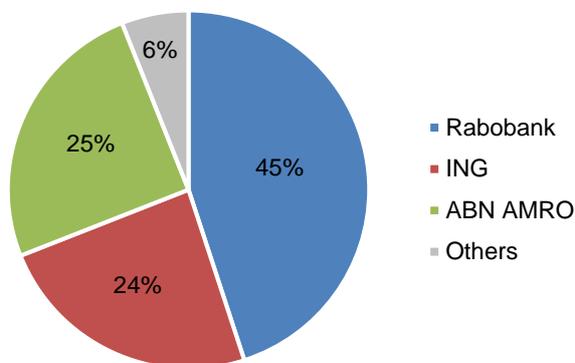
²⁶ SME lending was the only area of SME banking considered in depth in the [ACM report \(June 2014\)](#). ACM did not focus on BCAs or other SME banking products, although the survey they conducted did include questions about BCAs.

Figure 5: Dutch SME bank lending market shares, 2014



Source: ACM report (June 2014), Figure 8, p53.

Figure 6: Dutch SME BCA market share, 2014



Source: GfK (April 2014), *Survey on Lending and Current Accounts for SMEs*, p21.

45. **Price:** ACM obtained data on the interest rates of newly provided business loans worth less than €1 million, which it states as being most relevant to SMEs. The data shows a decline in price since 2009.²⁷ However, ACM also investigated the expected profit margins made on these loans, and concluded that these have increased since 2011 and are relatively high in 2013 and 2014.
46. **SMEs:** There is no direct data available on levels of switching of SME loans. Instead, ACM relied on the fact that most SMEs opt for financing from their BCA provider, and 71% of SMEs have never switched their main BCA. This implies that SMEs rarely switch their loan provider. This is corroborated by the fact that around 75% of SMEs only ask for one offer, indicating little searching and switching behaviour.

²⁷ [ACM SME loans report](#), p17 (in Dutch).

47. **Entrants:** There have been a very limited new entrants into traditional bank SME lending,²⁸ however, there have been some exits from the market, such as Deutsche Bank mostly withdrawing from this service (only targeting specific niches). The ACM report specified that there had been growth in the form of new financing options – such as crowdfunding, credit unions and angel investors – however this growth was limited.
48. **Policy:** ACM noted that current laws do not differentiate between credit unions and traditional banks. Therefore credit unions were encumbered with the same regulatory burdens (eg capital requirements) as banks, which was not reflective of the level of associated risk. Following ACM's publication, the Dutch government introduced new, less strict regulation for credit unions, and is in the process of considering the regulatory framework for other alternative finance providers such as crowdfunding.

ACM's June 2014 study on 'Barriers to Entry into the Dutch Retail Banking Sector'

Purpose of the study²⁹

49. ACM stated that the degree of competition in the Dutch banking sector was already suboptimal before the financial crisis and became worse from then on. It believed that the entry of new market participants in the Dutch banking sector, or the threat thereof, could encourage more competition.
50. Since removing or lowering the barriers to entry makes it easier for such new entrants to become active in the Dutch banking sector, ACM conducted its study to identify the main barriers to entry.
51. ACM believed that ultimately, additional competition would result in lower prices, better quality, increased innovation, and more lending to consumers and firms.
52. Annex B includes details on ACM's approach and methodology when completing its study.

Summary of findings and recommendations

53. ACM made nine official recommendations. However, there was also significant additional detail and discussions within the report both on these

²⁸ For example, Svenska Handelsbanken became active on a national scale in 2012, but chose to grow at a very slow rate.

²⁹ [ACM report \(June 2014\)](#), p23.

areas and other areas which were considered as potential barriers, but ultimately determined not to be.

54. Table 1 (below) provides a summary of ACM's nine recommendations, and the issues they were intended to address. Annex C includes a full list of potential barriers which ACM considered, details on why it believed these might be an issue, and its rationale in reaching a conclusion on whether they represented a barrier to entry or not.
55. The report also highlighted that stability and competition were not mutually exclusive, and that they could coexist, provided there was adequate prudential regulation.³⁰

³⁰ [ACM report \(June 2014\)](#), Box 1 and p10.

Table 1: ACM perceived barriers to entry, and recommendations

	<i>Barrier</i>	<i>Impact on competition</i>	<i>ACM recommendation</i>
1	Implicit guarantee for systemically important banks	The implicit guarantee lowers financing costs vs competitors (estimated as 67 to 121 basis points)	Advocate for the improvement of the European resolution mechanism
2	Lack of single European deposit-guarantee scheme	Concern around whether domestic taxpayers of the headquartered country would be required to pay out for foreign national guarantees (eg Icesave)	Advocate for a European deposit-guarantee scheme
3	Complexity of regulations	High sunk (and often fixed) costs of regulatory compliance, which is continuing to increase	Strive for simplicity in laws and regulations at a national and European level
4	Banking license application process	Complex application process, with limited guidance available. Also some perception that the regulator is not very supportive	Simplify, increase transparency of banking license application process
5	Disproportionate regulatory requirements on small banks	Lack of regulatory differentiation results in new/smaller competitors being as heavily regulated as incumbents, despite the more limited associated impact of a default	Differentiate regulation depending on risk of institution
6	Barriers to SME lending including concentration, low switching, and possible capacity constraints	Large incumbency advantage for major banks	Less stringent supervision of credit unions
7	Regulatory uncertainty (particularly in the mortgage market)	Uncertainty around the regulatory environment increases risks, resulting in a lower likelihood of new entrants	Minimise uncertainty around regulatory changes
8	Consumer inertia in savings, with consumer concern around safety of savings being a major contributory factor	Concern around safety of savings gives major banks a perceived (but false) advantage over other competitors	Greater publicity about Deposit Guarantee Scheme
9a	Consumer inertia in PCAs	Lack of consumer switching restricts ability for new entrants to grow to sufficient scale, particularly where there are high fixed costs	Review account number portability (using independent assessment, and including additional products for which PCAs act as a gateway)
9b			Improve and publicise switching service

Relevance to UK investigation

56. In its report, ACM made numerous comparisons and/or references to the UK when discussing its views, including on:

(a) Licence application process (example of better process).³¹

(b) Differentiated regulatory frameworks for credit unions (example of better practice in England).³²

³¹ ACM report (June 2014), p45.

³² ACM report (June 2014), p57.

- (c) Switching service familiarity (higher levels of awareness).³³
 - (d) Consumer inertia (potential to be a barrier).³⁴
 - (e) The potential need for branch networks (potential to be a barrier).³⁵
57. This could imply that ACM saw the UK not only as a useful comparator, but potentially also as a leader in some areas.
58. In addition, the Dutch retail banking market appears to display a number of similar characteristics to the UK (eg large size and high levels of concentration), albeit with some differences (eg policy in certain areas such as mortgages³⁶ and smaller geographic size than the UK).
59. There are a number of specific findings which may be useful to consider in our market investigation, particularly regarding potential barriers to entry/expansion:
- (a) Concerns around the implicit guarantee of major banks (too big/important to fail).
 - (b) Price sensitivity remains low, even when paying for PCAs (rather than FIIC). Similarly, the banks rarely compete in this area.
 - (c) ACM's view that a branch network may not be a requirement for entry into banking services for PCAs or SMEs.
 - (d) ACM's view that, although an IT platform and marketing spend can represent relatively large costs, they are not prohibitive and are a fundamental part of entering the market. Therefore ACM did not feel the need to make any recommendations for these.
 - (e) Access to SME customer information was not seen as a significant barrier to entry, as this information is available to buy from third party providers.

ACM's June 2015 study on SME loans

Purpose and scope of the study

60. SMEs are an important part of the Dutch economy and, since the financial crisis, the monetary value of SME lending appears to have decreased, leading

³³ [ACM report \(June 2014\)](#), p83.

³⁴ [ACM report \(June 2014\)](#), pp69 and 76.

³⁵ [ACM report \(June 2014\)](#), pp55 and 62.

³⁶ For example: interest tax relief and national mortgage guarantee.

to concerns from economic observers and politicians of a lack of competition in the market.³⁷

61. The ACM's investigation aimed to assess the degree of competition in the SME loan market, focusing on traditional loans and BCA overdrafts, between January 2007 and September 2014.³⁸

Summary of findings

62. ACM made a number of observations regarding the market:
 - (a) 92% of SME bank loans and 85% of total SME financing were provided by the three major banks (ABN AMRO, ING Bank, Rabobank). These market shares had remained relatively consistent over the past 10 years.³⁹
 - (b) 70% of small business and 55% of medium business only applied for a loan to their main bank (defined as the bank where the company has its primary BCA).⁴⁰
 - (c) The bank loan application process took around one month to be approved and issued. It was only near the end of this process that the SME saw the full terms of the loan (including the price).⁴¹
 - (d) The SME's primary goal was to secure funding, so they tended to accept the offer from their main bank. There was little evidence of shopping around for a better deal.
 - (e) Many SMEs valued the relationship they had with their account manager/adviser, although this was less important than it used to be, due to the increase in the number of clients that each adviser managed and the higher likelihood of being switched between advisers in their current bank.⁴²
63. ACM noted that many banks had scaled back their SME operations since the financial crisis (eg Deutsche Bank) or even exited the sector entirely (eg SNS Bank).⁴³ Those that did remain, had adopted niche positions. They were not

³⁷ ACM stated that there was no unique definition of an SME. In this study, ACM tried to follow the definition of SME which the banks use themselves. Microenterprises (one employee) were excluded from the study because they often used their PCAs instead of a dedicated business account or business loan.

³⁸ [ACM SME loans report](#), p3 (in Dutch).

³⁹ [ACM SME loans report](#), pp3 and 8 (in Dutch).

⁴⁰ [ACM SME loans report](#), p33 (in Dutch).

⁴¹ [ACM SME loans report](#), p32 (in Dutch).

⁴² [ACM SME loans report](#), p34 (in Dutch).

⁴³ [ACM SME loans report](#), p26 (in Dutch).

overly ambitious in terms of growth, appearing content with growing slowly. Three banks were specifically mentioned:⁴⁴

- (a) Deutsche Bank was focused on larger/international businesses.
- (b) Triodos was considered a 'Green Bank', supporting what it sees as socially responsible projects.
- (c) Svenska Handelsbanken operated by giving its 25 branches significant autonomy, and acting as a local lender. It was believed to be particularly risk averse.

64. ACM conducted analysis on the expected profit margins on SME loans across this period, and found that they had been increasing from 2011 to 2014.⁴⁵

65. This led ACM to conclude that competition amongst banks in SME loans was suboptimal and, in fact, had decreased in the past few years. In particular, it highlighted the following sources of market power:

- (a) The existence of high barriers to entry and expansion, as highlighted in ACM's previous study (although some progress had been made, such as the introduction of a separate regulatory framework for credit unions).⁴⁶
- (b) Individual capacity constraints of the banks were acting to limit the supply of loans and hence reducing competitive pressure, particularly as a result of increased regulatory capital holding requirements.⁴⁷
- (c) Low levels of shopping around and switching by SMEs due to: a lack of transparent information to allow for comparisons, the requirement to change account numbers, and high financial penalties for switching during the 'fixed rate' period of the loan (often 1% of the loan).⁴⁸
- (d) Limited competitive pressure from alternative forms of financing such as crowdfunding, credit unions, and NPEX (a Dutch dedicated SME stock exchange).⁴⁹
- (e) Risk of tacit coordination between the three major banks due to the limited number of major banks, the existence of barriers to entry and expansion,

⁴⁴ Based on interview with ACM, 26/02/2015.

⁴⁵ [ACM SME loans report](#), pp4 and 25 (in Dutch).

⁴⁶ [ACM SME loans report](#), pp3, 4 and 37–39 (in Dutch).

⁴⁷ [ACM SME loans report](#), pp3, 4 and 27–30 (in Dutch).

⁴⁸ [ACM SME loans report](#), pp3, 4 and 30–37 (in Dutch).

⁴⁹ [ACM SME loans report](#), p4 and 47–50 (in Dutch).

and the publication on websites of overdraft 'base rates' which are tracked and compared by the three major banks.⁵⁰

66. These limitations had resulted in SMEs paying higher interest rates on their loans.
67. ACM also made some comments on areas it saw which did not represent high barriers to entry, largely based on its interviews with smaller lenders. Specifically, it stated that the following did not represent prohibitive barriers:⁵¹
- (a) access to payments systems;
 - (b) establishing a branch network; and
 - (c) credit information on SMEs.

Summary of recommendations

68. ACM laid out a series of recommendations to help address its concerns:
- (a) Lower barriers to entry by continuing to implement recommendations from its 2014 study (eg improve licence application process), which should increase total financing capacity (lowering supply issues) as well as introducing innovative competitors.⁵²
 - (b) Reduce costs associated with searching and switching. Searching costs could be reduced through improving information transparency ahead of the application process, while switching costs could be lowered through an improved switching service for business accounts, and examining the current penalty structure for early repayment/switching. Account number portability may also reduce switching costs.⁵³
 - (c) Encourage growth of alternative forms of finance by setting out clear proportionate regulatory frameworks. Removing the bias of government guarantees towards bank funding would also provide a more competitive environment.⁵⁴
 - (d) Reduce the risk of tacit coordination naturally through introducing new competitors (lowering barriers to entry), as well as adopting a more transparent fee structure where it is clear for SMEs whether increases in

⁵⁰ The publishing of these rates provides enough information for the other banks to track changes in pricing, but not enough for an SME customer to estimate its final price; [ACM SME loans report](#), pp4 and 39–44 (in Dutch).

⁵¹ [ACM SME loans report](#), p39 (in Dutch).

⁵² [ACM SME loans report](#), pp5 and 52 (in Dutch).

⁵³ [ACM SME loans report](#), pp5, 35 and 52 (in Dutch).

⁵⁴ [ACM SME loans report](#), pp5, 6 and 50 (in Dutch).

the 'base rate' represent cost pass-through or increased margin for the banks.⁵⁵

69. ACM also launched a study into the possible introduction of European bank account number portability (ANP). ACM is intending to gather further information on the associated costs and benefits in order to support the European Commission when it conducts a new cost-benefit analysis of ANP in 2019.⁵⁶

Relevance to UK investigation

70. As discussed with regard to the previous study, the Netherlands appears to be a relatively good comparison point for the UK. However, as one looks at a more granular level, social and political differences in the markets are likely to emerge. Therefore, some of the more specific findings in this study may not be relevant to the UK (such as the impact of publishing 'base rates' leading to a higher risk of tacit coordination).
71. There are also potential issues with the definitions of 'SMEs' used by the different banks and those used by the ACM and the CMA.
72. The 2015 ACM study builds on ACM's findings in 2014. Particular areas it highlighted, which may warrant further consideration during our investigation of barriers to entry are:
- (a) The impact of regulatory capital holding requirements acting to reduce supplies of capital used for lending (such as SME loans), and leading to higher prices.
 - (b) A lack of pricing transparency acting as one potential barrier for SMEs to fairly compare potential providers.
 - (c) Smaller/niche competitors may only provide a limited competitive constraint on the major banks if they are reluctant to expand.
 - (d) Reiterating views that a branch network is not necessary to enter the SME banking market in the Netherlands, in part due to its limited geographic size.

⁵⁵ [ACM SME loans report](#), pp5 and 52 (in Dutch).

⁵⁶ [Directive 2014/92/EU](#) on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, Article 28.

DNB's June 2015 study on the 'Structure of the Dutch Banking Sector'

Purpose and scope of the study

73. As an independent financial regulator (as well as central bank), DNB has duties with regard to the ongoing efficiency and stability of the financial markets in the Netherlands. It therefore conducts regular studies to assess the current state of the sectors, and suggest recommendations for improvements.^{57,58}
74. This particular report aimed to describe the current structure of the Dutch banking sector and assessed its development with a view to the stability and efficiency of banking services.⁵⁹

Summary of findings

75. DNB highlighted a number of concerns it had regarding the current structure of the Dutch banking sector.⁶⁰ Many of these are similar to concerns voiced by ACM in its previous studies and discussed previously in this paper; as such these points are only summarised here:
- (a) The Dutch banking sector is large, with the Dutch bank balance sheet being roughly four times the national GDP.⁶¹
 - (b) The Dutch banking sector is concentrated, with the top five banks' balance sheets encompassing >80% of the total banking balances sheets.⁶²
 - (c) The Dutch banking sector shows little diversity, particularly due to the emergence of so-called 'universal banks', growing from around a 35% share of banking balance sheet assets in 1960, to 65% in 1985, to over 90% in 2010.⁶³ This loss of diversity has resulted in a greater likelihood of multiple banks becoming unstable at the same time (since shocks to the market will affect all of these banks in a similar way, rather than varying from bank to bank as it would if they differed from one another more);⁶⁴

⁵⁷ [DNB mission statement](#).

⁵⁸ [DNB summary of duties](#).

⁵⁹ [DNB summary of report](#), 'Contributing to sustainable prosperity' section.

⁶⁰ [DNB summary of report](#) and [DNB report](#), p7 (index, in Dutch).

⁶¹ UK equivalent is roughly five times; DNB (June 2014), [Structure of the Dutch Banking Sector](#) (in Dutch), p13 ('Verenigd Koninkrijk' = UK).

⁶² Compared with around 44% for the UK; [DNB report](#), p18 (in Dutch).

⁶³ [DNB report](#), p21 (in Dutch).

⁶⁴ [DNB summary](#), 'Banking landscape shows little diversity' section.

- (d) Foreign banks are not very active in the Netherlands, hence providing little competitive pressure on the domestic banks.⁶⁵
- (e) Domestic banks scaled back their international activities following the financial crisis, with associated activities halving since 2007.⁶⁶ This limits the potential for economies of scale/scope from integrating domestic and international activities.⁶⁷

Summary of recommendations

76. DNB provided the following recommendations to help address these concerns:⁶⁸
- (a) **Size/scope:** Remove/minimise political interventions which are artificially distorting the market (eg implicit bank guarantees, mortgage interest tax relief).⁶⁹
 - (b) **Concentration:** Reduce market concentration through promoting new entrants into the market (including those using technological innovation), simplifying legislation where possible, reducing government guarantees for incumbents, and making products more comparable for consumers.⁷⁰
 - (c) **Limited diversity:** Encourage banks to specialise more to introduce more diversity, for example by placing more emphasis on risk management or prudent lending standards, and by banning ‘double leverage’.⁷¹
 - (d) **Foreign banks in the Netherlands:** Encourage the entry of foreign banks, particularly those ready to invest in local customer relationships, and which are able to fall back on financially healthy parent companies if needed.⁷²
 - (e) **Domestic bank’s international activities:** Do not impose any advanced restrictions on the foreign activities of Dutch banks.⁷³
77. DNB added two additional regulatory points in its report:

⁶⁵ DNB summary, ‘Foreign banks operating in the Netherlands’ section.

⁶⁶ DNB report, p24 (in Dutch).

⁶⁷ DNB summary, ‘Dutch banks operating abroad’ section.

⁶⁸ DNB summary (in English) and DNB report, pp4–5 (in Dutch).

⁶⁹ DNB report, p34 (in Dutch).

⁷⁰ DNB report, p44 (in Dutch).

⁷¹ DNB has launched a study into the most the significant technical innovations and their consequences for the business models and strategies of Dutch financial institutions (due to be published by the end of 2015); DNB report, p51 and Box 1 (in Dutch).

⁷² DNB report, p54 (in Dutch).

⁷³ DNB report, p57 (in Dutch).

- (a) It believed that the introduction of a 'financial stability' criterion into European legislation when assessing banking mergers and acquisitions would be appropriate.⁷⁴
- (b) It highlighted the importance of anticipating potential developments in the sector structure, such as the ongoing integration of the European banking market, and the increasing role of technological innovation.⁷⁵

78. DNB ended by stating that, whilst these suggested policies may be detrimental to individual banks, they would be positive to society as a whole. It believed that they would lead to increased competition in the sector, as well as increasing both the efficiency and the stability of the sector overall.⁷⁶

Relevance to UK investigation

79. As with the ACM studies, it appears that the Netherlands is a useful comparator for the UK in terms of its banking sector.
80. However, the study is relatively high level and is referred to as acting as a 'compass' for assessing future developments rather than a blueprint.
81. Therefore, we believe that this report provides limited specific insight which we can draw on for the purposes of our own market investigation.

Conclusions

82. We consider that the Dutch retail banking market represents a reasonable comparator for the retail banking market in the UK, with many similar characteristics, such as:
- (a) large relative size;
 - (b) high level of concentration in key product markets (eg PCAs and SME loans);
 - (c) a number of large, systemically important banks, some of which required government assistance following the financial crisis;
 - (d) low levels of customer switching in the PCA, savings, and SME loans markets;

⁷⁴ DNB summary, 'A compass for assessing future developments' section.

⁷⁵ DNB report, p58 (in Dutch).

⁷⁶ DNB report, pp5 and 59 (in Dutch).

- (e) complex national and European regulatory frameworks; and
 - (f) high levels of consumer technological savvy and an increasing use of digital banking.
83. Some differences between the markets do remain, although these are generally seen when considering a more granular level of detail, such as:
- (a) use of FIIC PCA model;
 - (b) specific initiatives already introduced (eg banking licence application process);
 - (c) specific market features caused by political intervention (eg tax relief on mortgages); and
 - (d) geographic differences.
84. Therefore, a number of the issues which ACM and DNB identified as representing competition concerns within the Dutch retail banking market could provide insight for our investigation:
- (a) a highly concentrated market, dominated by non-diverse universal banks;
 - (b) overly complex regulation, which was particularly disproportionate for smaller banks/alternative funding sources where there was lower risk to the overall financial system;
 - (c) distortions from the implicit government guarantee provided to the large banks ('too big to fail') and capital holding requirements (limiting supply for loans);
 - (d) price sensitivity remaining low, even when paying for PCAs (rather than FIIC). Similarly, the banks rarely competed in this area;
 - (e) new entrants not providing sufficient competitive constraint on incumbents; and
 - (f) poor transparency of information for customers (particularly SMEs) which resulted in lower searching/switching activity, and the publishing of some partial information risking tacit coordination between the major banks.
85. We could also further consider areas which ACM and the DNB found not to represent barriers to entry, and the rationale supporting these conclusions:

- (a) a national branch network was not a barrier to entry in the market due to the increasing digitalisation of banking and digital operating model of some new entrants;
- (b) IT and marketing costs were relatively high, but not prohibitive, and therefore, they did not constitute a barrier to entry;
- (c) inter-bank payment systems were considered to work well in the Netherlands, with participants seeing them as low cost and efficient; and
- (d) third parties could provide credit information on SMEs and, therefore, access to this information was not a barrier to entry.

86. The existence (or not) of these issues in the Netherlands does not in themselves indicate that there are equivalent concerns in the UK. Instead, we intend to consider any findings from ACM and the DNB in the context of our market investigation, remaining particularly aware of the different circumstances which may exist in the UK compared with the Netherlands.

Annex A: Updated retail banking market shares in the Netherlands

1. The table below shows estimated market shares in different sectors for banks operating in the Netherlands (please note that these values may differ from those in the rest of this paper as they will not necessarily be estimated on the same basis).

	%				
	<i>PCAs</i>	<i>SME BCAs</i>	<i>SME loans</i>	<i>Savings</i>	<i>Mortgages</i>
Rabobank	35	45	44	32	28
ING Bank	41	24	23	26	20
ABN Amro	20	25	26	19	22
SNS Bank	5	n/a	n/a	8	2
Aegon/Knab	< 1	< 1	n/a	< 1	13
Argenta	n/a	n/a	n/a	< 1	5
Triodos Bank	< 1	1	1	< 1	< 1
Deutsche Bank	n/a	1	1	n/a	n/a
Svenska Handelsbanken	< 1	< 1	1	n/a	n/a
Eureko (Achmea)	n/a	n/a	n/a	< 1	2
Delta Lloyd	n/a	n/a	n/a	< 1	< 1
Other banks	n/a	1	3	6	5
Other non-banks	n/a	n/a	n/a	n/a	3

Source: ACM, GfK Surveys on PCAs and lending and current accounts for SMEs, Netherlands Ministry of Finance.

Annex B: Methodology and process for ACM's June 2014 study

1. ACM conducted a thorough process, using a wide range of sources to draw conclusions from, including:⁷⁷
 - (a) a review of academic, legal, and regulatory literature;
 - (b) a survey of a wide range of potential entrants, as well as interviewing other interested parties (such as existing banks, the Dutch central bank, and Ministry of Finance);
 - (c) data-gathering and analysis on market participants; and
 - (d) a consumer survey to investigate consumer behaviour.
2. Four different types of new entrant were specifically identified and considered when coming to findings and recommendations:
 - (a) existing banks expanding their offerings;
 - (b) other financial services institutions (eg insurance companies) offering banking services such as mortgages;
 - (c) international competitors entering the Dutch market; and
 - (d) new startup banks.
3. When coming to its recommendations, ACM had regard to two key questions, designed to test materiality and practicality:
 - (a) Is the barrier designated as important by (potential) entrants?
 - (b) Is it possible to formulate a specific recommendation for reducing the barrier?

⁷⁷ ACM report (June 2014), pp15–16.

Annex C: Details on potential barriers identified in ACM's June 2014 study

1. This annex includes additional details on potential barriers to entry identified by ACM in their 2014 market study.

List of potential barriers identified, and rationale for inclusion/exclusion

	<i>Potential barrier</i>	<i>Rationale</i>
<i>Addressable barriers</i>	Implicit guarantee for systemically important banks	The implicit guarantee lowers financing costs vs competitors (estimated as 67 to 121 basis points)
	Lack of single European deposit-guarantee scheme	Concern around whether domestic taxpayers of the headquartered country would be required to pay out for foreign national guarantees (eg Icesave)
	Complexity of regulations	High sunk (and often fixed) costs of regulatory compliance, which is continuing to increase
	Banking licence application process	Complex application process, with limited guidance available. Also some perception that the regulator is not very supportive
	Disproportionate regulatory requirements on small banks	Lack of regulatory differentiation results in new/smaller competitors being as heavily regulated as incumbents, despite the more limited associated impact of a default
	Regulatory uncertainty (particularly in the mortgage market)	Uncertainty around the regulatory environment increases risks, resulting in a lower likelihood of new entrants
	Consumer inertia	Lack of consumer switching restricts ability for new entrants to grow to sufficient scale, particularly where there are high fixed costs
<i>Potential barriers to consider</i>	Economic conditions	Although the depressed economy has substantially lowered the likelihood of new entrants, remedies to this cannot sensibly be considered to be in scope of this report
	IT investment	Recognised as a large cost, but ACM believed that the cost was inextricably linked to entering the market
	Initial marketing spend	Recognised as a large cost, but ACM believed that the cost was inextricably linked to entering the market
<i>Not barriers</i>	Inter-bank payment systems	New (potential) entrants were not concerned, and KPMG reported that the Dutch systems were efficient and low cost
	Access to SME customer information	New (potential) entrants were not concerned, mainly due to option to buy large amounts of information from private providers
	Need for an extensive branch network	May not represent a significant barrier in either personal or SME banking due to the presence of third party intermediaries (eg mortgage brokers) and increasing use of digital channels
	Pricing structures	The level of interest rates and associated risks can be priced into the cost of the relevant products

Source: CMA analysis.

Areas highlighted as addressable barriers

*Implicit guarantees for systemically important banks*⁷⁸

2. These banks are considered 'too big to fail', so have an implicit government guarantee.
3. This results in a lower cost of financing (estimated as 67 to 121 basis points), as well as potentially incentivising riskier behaviour than otherwise.

Capital restrictions and lack of single deposit-guarantee scheme⁷⁹

4. During and after the financial crisis, national regulators generally imposed more pressure (formal and informal) on banks around restricting their exposure to international markets, primarily to limit the impact of potential bankruptcies of foreign banks on the home country (eg cross-border interbank loans in the euro area declined by €670 billion). This included concerns around national deposit guarantees being compelled to pay out to foreign savers.

Complexity of regulations⁸⁰

5. Laws and regulations for banks are highly complex, change often, and are costly to comply with. The interaction between European and national requirements adds an additional layer of complexity.
6. In particular, these requirements are becoming even more complex over time (eg Basel III guidance has 20 times as many pages as Basel I).
7. This results in increased overheads (since majority of compliance costs are fixed), higher sunk costs, and depressed profitability, all of which increase the barriers to entry and expansion.

Banking licence application process⁸¹

8. The process of applying for a banking licence is seen as relatively difficult/complex, and the regulator provides limited assistance either formally or informally. It is likely to have become even more complex since November 2014 when the European Central Bank (ECB) became the formal issuing body.

⁷⁸ [ACM report \(June 2014\)](#), p24.

⁷⁹ [ACM report \(June 2014\)](#), p30.

⁸⁰ [ACM report \(June 2014\)](#), p39.

⁸¹ [ACM report \(June 2014\)](#), p43.

- (a) The Dutch authorities now act as an initial screener, proposing that the ECB issues a licence. This is likely to result in an additional layer in the application process.
9. Three areas of the process were specifically highlighted as being issues:
- (a) The length of the process. Although this is formally limited to 13 weeks, the applicants believe it takes a total of 12 to 18 months including business plan preparation etc.
 - (b) Uncertainty of the process itself, such as assessment criteria and likelihood of success.
 - (c) The unforthcoming attitude of the regulators: 'DNB [Dutch central bank] is focused more on preventing future bankruptcies than on the positive impact of new entries, in part due to statements made by politicians'.
10. Finally, ACM pointed out that if the regulator is castigated by society every time a bankruptcy occurs (even if it is a correct and controlled bankruptcy), it will naturally adopt a risk-averse stance, increasing barriers.

Limited differentiation in regulation to account for different risk⁸²

11. Not all credit agencies represent the same risk to the economy if a bankruptcy was to occur. In particular, there are large differences between systemically-important banks and others (eg small banks or credit unions). Some of the regulatory requirements are determined by Europe, but there is also a degree of national control/discretion.
12. The Netherlands does currently differentiate slightly based on risk (in a framework called FOCUS!), however all new entrants are classified as 'high risk' and so exposed to increased regulatory burdens compared to an equivalent incumbent. This results in disproportionate levels of regulation for new entrants, increasing barriers.
13. In particular, ACM highlighted the fact that the Netherlands does not have a specific framework for credit unions hence they are considered as banks, and regulated as such. This limits their ability to enter the Netherlands market (vs in Canada where they supply 15% of SME lending).⁸³

⁸² [ACM report \(June 2014\)](#), p49.

⁸³ [ACM report \(June 2014\)](#), p57.

*Regulatory uncertainty*⁸⁴

14. ACM particularly highlighted that there is significant regulatory uncertainty in the mortgage market, which will generally result in a lower likelihood for new players to enter the market until this is resolved.
15. There is a tension between attempts to stimulate the housing market following the financial crisis, whilst minimising competitive distortions. In particular, questions around an LTV cap, the current allowance of tax relief on mortgage interest, and the potential for a national mortgage guarantee are being discussed.

Consumer inertia

16. ACM conducted a survey to examine the major reasons for the limited levels of consumer switching in both PCAs and savings. Based on these, it provided a number of conclusions (in a rough order of importance):
 - (a) **High perceived hassle of switching:** 37% of consumers believed that switching PCAs took too much time/effort.⁸⁵ This is despite a switching service being introduced in the Netherlands to attempt to ease this. There was relatively low awareness of the switching service,⁸⁶ and some concerns about the lack of government/regulatory involvement had left the banks to implement the switching service poorly (eg have to keep the old account open during the switch, so are paying for both).⁸⁷
 - (b) **Concern around the safety of savings:** 53% of non-switchers with savings accounts mentioned that 'diminished confidence in their current bank' would be a reason to switch banks and recent switchers highlighted safety as an important factor in picking their new bank. ACM therefore believed that the safety of savings was a major consideration around switching.⁸⁸ This was despite a national guarantee scheme for up to €100,000, of which consumers had poor awareness.⁸⁹
 - (c) **Relatively low price sensitivity:** 31% of consumers indicated that switching PCAs yielded too few financial advantages.⁹⁰ ACM said that 31% of consumers told them they would only switch for a discount of at

⁸⁴ [ACM report \(June 2014\)](#), p65.

⁸⁵ [ACM report \(June 2014\)](#), p81.

⁸⁶ Only 37% of consumers have heard of the switching service, with only around 12% actually knowing what it does; [GfK Consumer survey on personal current accounts](#) (April 2014), pp22–23

⁸⁷ [ACM report \(June 2014\)](#), p83.

⁸⁸ [ACM report \(June 2014\)](#), p71.

⁸⁹ 61% of non-switchers say they are familiar with the deposit guarantee scheme, but only 30% of non-switchers actually know what it is; [GfK Consumer survey on personal savings accounts](#), pp19–20.

⁹⁰ [ACM report \(June 2014\)](#), p80.

least €50, whilst an additional 35% would not switch for any discount.⁹¹ In savings, interest rates were generally stated as being important, but around 25% of recent switchers and about 50% of non-switchers were unsure of their current rate.⁹²

- (d) **Mixed levels of satisfaction:** 27% of respondents indicated that they were not motivated to switch banks as they were satisfied with their current bank's PCA offering.^{93,94} This appears potentially inconsistent with an NPS of -11 in PCAs.⁹⁵

Potential additional barriers to consider

*Economic conditions*⁹⁶

17. ACM stated that the current adverse macroeconomic circumstances in the Netherlands were one of the most important reasons for not entering the Dutch banking sector.
18. However, it made no recommendation on this as it was difficult to formulate a recommendation for this barrier that consisted of more than meaningless generalisations.

Other potential barriers

19. In passing, ACM also mentioned a number of potential further barriers, but ultimately concluding that these did not represent significant barriers to entry or expansion:
 - (a) **IT investment:** This was referenced as being a major cost, and hence an important consideration/potential barrier during the licence application process. However, ACM stated that it was not making a recommendation in this regard, as it believed that these investment costs were inextricably connected to entering the market.⁹⁷

⁹¹ [ACM report \(June 2014\)](#), p76.

⁹² GfK (April 2014), [Consumer Survey on Personal Savings Accounts](#), pp17 and 30

⁹³ This was the second most popular reason for not switching accounts, after "I have no reason to switch account" (41%).

⁹⁴ [ACM report \(June 2014\)](#), pp79 and 81; GfK (April 2014), [Consumer Survey on Personal Current Accounts](#), p16.

⁹⁵ Net promoter score is calculated by asking on a scale 0–10 "how likely is it that you will recommend [company X] to a friend or colleague?", and is then calculated as the difference between the percentage of promoters (answering 9 to 10) and the percentage of detractors (answering 0 to 6); GfK (April 2014), [Consumer Survey on Personal Current Accounts](#), p15.

⁹⁶ [ACM report \(June 2014\)](#), p23.

⁹⁷ [ACM report \(June 2014\)](#), pp43, 45 and 78.

- (b) **Initial marketing spend required:** Similarly this was mentioned in passing as being a potentially large cost, but ACM made no recommendation as it believed this was inextricably connected to entering the market.⁹⁸

Areas highlighted as not being a significant barrier

Inter-bank payment systems

20. Although there are a number of potential payment systems available for the Single Euro Payments Area (SEPA), the largest provider is Equens which is owned by several Dutch and non-Dutch banks.
21. ACM claimed to have investigated the possibility of this representing a barrier, but received no specific reports that this was a concern.⁹⁹
22. KPMG also identified the Dutch systems as being efficient and low cost.¹⁰⁰

Access to SME customer information¹⁰¹

23. ACM acknowledge that some recent studies have shown this as a barrier, but determined that it did not have a substantial impact in the Netherlands.
24. This was due to (potential) new entrants not highlighting it as a key concern, as well as the existence of private companies such as Dun & Bradstreet and Graydon that provide a large amount of the information relevant to new entrants (for a surcharge).

The need for an extensive branch network

25. **Personal:** ACM highlighted a 2010 Office of Fair Trading (OFT) report which mentioned the requirement for a branch network, however, it also referenced a 2011 NMa (ACM's predecessor) report which concluded that the large number of intermediaries¹⁰² (at least in the mortgage market) allowed new entrants to gain significant market share without a network of branches.¹⁰³ It also references the increasing use of the internet, and the recent entry of two competitors (eg Knab) with no branch network as further evidence for this.¹⁰⁴

⁹⁸ ACM report (June 2014), p78.

⁹⁹ ACM report (June 2014), p77.

¹⁰⁰ KPMG (April 2014), *Barriers to Entry, Growth and Exit in the Retail Banking Market in the Netherlands*, p15.

¹⁰¹ ACM report (June 2014), p55.

¹⁰² Such as mortgage brokers; NMa (2011), p43 (in Dutch).

¹⁰³ ACM report (June 2014), p63.

¹⁰⁴ ACM report (June 2014), p78.

26. **SMEs:** ACM again highlighted the OFT report which referenced the importance of a branch network for serving SMEs, however ACM declined to investigate this further.¹⁰⁵

Pricing structures

Poor interest rates on lending¹⁰⁶

27. Parties indicated that low interest levels offered a poor return compared to the associated risks. They asserted that banks compensated for this through cross-selling of additional products.
28. ACM noted that interest rates had recently been increasing, and had become more commensurate with underlying risk.

High loan-to-value (LTV) mortgages¹⁰⁷

29. High LTV mortgages in the Netherlands create the perception for foreign banks that the risk of an investment in the Dutch mortgage market is considerable, but ACM believed that this would simply be reflected in the mortgage rates.

¹⁰⁵ "Pursuant to this report, ACM will not formulate a recommendation in this regard"; [ACM report \(June 2014\)](#), p55.

¹⁰⁶ [ACM report \(June 2014\)](#), p56; [ACM SME loans report](#), p39 (in Dutch).

¹⁰⁷ [ACM report \(June 2014\)](#), p63.