

20 November 2015

Retail Investigation Team
Competition and Markets Authority
Victoria House
37 Southampton Road
London
WC1B 4AD

Dear Sir/Madam

Tesco Bank is one of the UK's leading challenger banks, serving over 6 million customers across the UK. We have been actively engaged throughout the Competition and Markets Authority's (CMA's) investigation, sharing insight from our experience as a new entrant into the Personal Current Account (PCA) market, as well as findings from our own consumer research. We have been and remain determined to do everything we can to ensure its investigation delivers meaningful improvements for customers.

We take this opportunity to respond to the provisional findings as set out in the CMA publication on October 28th 2015, however before we comment on the provisional findings specifically, we would comment generally as follows.

It is clear, in our view, that the current account market is not serving customers well and we agree with many of the conclusions the CMA has reached. There are low levels of switching in the market while the increasing complexity in charging models makes it extremely difficult for customers to know both what they are paying, and how it compares to alternatives from other banks. Together, these reduce the motivation for banks to improve the value and service offered to customers.

This damaging combination of characteristics has led to a poor deal for millions of customers, with the most vulnerable customers often paying the highest price. While we agree with the CMA's assessment of the PCA market weaknesses, and can see some value in the remedies they have proposed, we are concerned that they will fall a long way short of addressing the core issues. There is far more that could be done to improve outcomes for customers.

The majority of the remedies directed at the PCA market relate to improvements in the switching service. And while it may be good to increase confidence in the switching service, it isn't the solution in itself. We should not underestimate the depth and complexity of the relationships customers have with their current account. What is on the surface a simple transactional product, is in fact anything but. It is invested with both historic and practical emotions which make it unlike almost any other service or utility. And as a result, the majority of customers retain the same account for most of their adult lives.

If, therefore, we wait for increased switching levels to drive better outcomes for customers, we should expect a very long wait. Furthermore, we will not overcome the aforementioned factors through improvements to the switching service alone.

We must therefore look beyond switching and find other ways to incentivise the banks to serve customers well. The CMA has gone some way to do that and we welcome their proposals to improve the Midata service. However, it is noted at point 26 of the CMA Notice that "the switching journey begins when customers who have not previously considered a change in provider become engaged in the market". That is why we have argued throughout that we must increase transparency around the true cost to customers of using their current account; to engage customers in the market.

During the investigation we submitted proposals to mandate banks to adopt a standardised labelling approach for current accounts, using traffic light colour coding to make it clear to customers both the cost of their account, and how it compares to others in the market. Further details are provided in Appendix 1.

We believe such a proposal carries a number of benefits to customers and would address several of the concerns raised by the CMA. The benefits include:

- Providing a clear and simple description of what they pay for their account in overdraft charges and what they receive in return in credit interest.
- Providing a clear and simple snapshot of how the cost/benefits compare to other accounts in the market.
- Acting as a 'trigger' to encourage customers to consider switching

As you may be aware, similar measures have been successful in the grocery industry in both helping customers understand nutritional values of food they are consuming, while also contributing impetus to the moves food manufacturers have themselves made to reduce salt and saturated fat levels in many foods and drinks.

We see no reason why such a measure could not be adopted in the current account market and believe it would help customers gain a better understanding of the true cost of their accounts, while also providing a strong incentive for the banks to treat customers well – whether they are likely to switch or not.

At Tesco Bank we have already taken a number of steps to address these issues. We are one of the few banks in the UK to pay credit interest to all our current account customers, whether old or new. We are also the only bank in the UK to let our customer know when they could have earned more interest by transferring money into a savings account. Further, unlike many of the large banks and building societies, we do not charge expensive monthly or daily overdraft usage fees – a key driver in disparities in value across accounts. However, with the largest four banks holding 70% of the market, there is only so much that any single bank can achieve without more radical, industry wide interventions.

Tesco Bank Commentary on Provisional Findings

Turning to the provisional findings and proposed remedies we have set out our commentary on these individually below.

Proposed remedy	TB commentary
<p>Prompt customers to review their PCA or BCA provider at times when they may have a higher propensity to consider a change.</p>	<p>We agree that we should identify remedies to encourage customer engagement. A prompt to review their account would be useful, however, we should find other ways to engage customers, including providing customers with a clear and simple understanding of the value offered by the account they hold, and how it compares to the market.</p>
<p>Increase public awareness of the potential savings or rewards that could be obtained by changing one’s current account provider and of the benefits of using the Current Account Switch Service to do so in terms of security and convenience</p>	<p>We agree that public awareness campaigns have potential to change the market, but in itself this will not have a substantial impact without customers understanding the features and benefits of their account in a clear, transparent manner. Any marketing considerations must therefore be fully focused on how they will engage customers in understanding the true benefits of the PCA. If awareness campaigns merely offer a headline grabbing approach we are unlikely to see desired outcomes.</p>

<p>Facilitate price comparisons between providers by making customer-specific transaction data more easily available and usable, including by PCWs</p>	<p>As we have already outlined these developments have some merit. While we also recognise the shortcomings of MiData in its current form, we do believe it is an important step in making it easier for customers to compare accounts. Having said that, MiData will only help customers who are already considering switching and will not provide a trigger to engage customers in the switching process.</p> <p>We would encourage the CMA to give consideration to how the industry can provide customers with clear and simple information regarding the value of their account and how it compares to others in the market.</p>
<p>A PCW for SMEs</p>	<p>N/A</p>
<p>Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality</p>	<p>Evaluating service quality would inform the opinion of customers looking to switch, alongside greater transparency on what the different features of a PCA are.</p>
<p>Standardise and simplify BCA opening procedures</p>	<p>N/A</p>
<p>Make it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider</p>	<p>We agree that this would help improve the switching process for customers.</p>
<p>Require payments into the old account to be redirected to the new one for a longer period than at present</p>	<p>While we do see value in improving the switching service, measures to improve the switching services are unlikely to have the transformational impact on the market that is desired.</p> <p>The CMA also invited views on ANP. We believe that this is another example of changing payments architecture in a way that will not change consumer behaviour. Our research shows that enabling consumers to differentiate between their accounts is the fundamental issue.</p>

Require Bacs to transfer continuous payment authorities on debit cards when switching through CASS	As above
Require all banks to support the partial switching service and to provide an equivalent guarantee to that offered as part of CASS	As above
Changes to CASS governance	We welcome governance changes that empower the management committee to initiate new developments in the interests of consumers. There is scope to introduce an element of independent oversight of CASS, but this must be representative of the industry to incorporate the views across the spectrum of the market.

We look forward to discussing our views further at the roundtable later this month.

Yours sincerely

David McCreddie
Managing Director, Banking

Appendix 1: Traffic Light Labelling

Why are we proposing a traffic light labelling system?

Over the last 12 months we have conducted extensive research into the current account market, speaking to more than 1,000 customers. The research highlighted a number of barriers to effective competition in the current account market, some of which have been addressed by the industry (for example, ease of switching) and some of which have not.

The research found that current accounts are more than just a simple transactional product. The practical and emotional ties which customers hold in their current accounts are significant and should not be underestimated. It should not, therefore be surprising that switching levels are low.

One of the most significant barriers customers face when they do decide to switch is being able to understand which account is right for them. Tiered interest rates, complex overdraft charging structures and a multitude of different reward and cash back initiatives makes it extremely difficult for customers to understand the value offered by the account they currently have, let alone how it compares to others on the market. And thus far the industry has failed to find a way of effectively communicating this information in a way that makes it easy for customers to make the right choice for them.

As a result, many millions of customers pay more for their bank account than they need to - with the CMA estimating that the average customer stands to save as much as £70 by switching, and heavy overdraft users standing to save as much as £260.

While we recognise that for many customers price considerations are only one factor in deciding where to bank, we believe that customers have the right to understand exactly what they are paying, and what they get in return. Our research shows that for the majority of customer this is not currently the case and we have proposed the traffic light labelling system as a means of addressing this issue.

What does the traffic light system cover?

The traffic light system has been designed to provide clear and concise information to customers regarding pricing - specifically credit interest and overdraft charges. It focuses on these factors because customers have told us they believe they are the most important considerations when comparing accounts. Furthermore, they are typically the areas where customers can stand to gain the most by switching.

How does the traffic light proposal work?

The traffic light labelling systems we have proposed covers three key price indicators: credit interest, arranged overdraft charges; and unarranged overdraft charges. Credit interest and arranged overdraft charges are both split into three tiers to give customers the best indication of account value based on how they use their account. Each price

indicator is assigned a red, amber or green colour code depending on how it compares to other accounts on the market. Figure 1 shows how the traffic light system would be applied to three popular accounts currently available in the market.

The ratings system included in our proposal was designed by Andrew Hagger at Money Comms.

Figure 1.



Where would this be displayed?

The labelling system would only have value for customers if it was displayed prominently in customer communications. We would propose that it be included in all marketing materials, as well as appropriate communications with existing customers.

Has this been tested with customers?

Yes. The system we propose has been designed based on insight from our own customer research and has been tested and refined based on customer feedback.

Who would manage the ratings?

Customers told us that any ratings system would need to be set independently and could not be set by an individual bank. Within grocery sector ratings are required by the UK Government in compliance with EU Food labelling regulations.

Why does it not cover other benefits like cashback schemes?

Customers told us that most banks already invest significantly in communicating the details of any benefit schemes associated with accounts. The traffic light scheme has therefore been designed to focus on the aspects of account pricing customers feel are most important but also most difficult to compare.

How would it be implemented?

Customers told us that any rating system would need to be independently managed and could not be set by an individual bank or banking industry body. The independent body would be required to work with the industry to establish the red, amber, green rates. Individual ratings would need to be update when products change and the rating scheme would need to be reviewed at regular intervals.

What was the research methodology?

Tesco Bank commissioned TNS to conduct a programme of quantitative and qualitative research during the summer of 2016. The research included 7 focus groups which took place in Glasgow, Birmingham and London and a quantitative study which was conducted amongst a nationally representative sample of 1061 current account holders.

