

**CMA Retail Banking Market
Investigation: provisional findings and
possible remedies**

Response from the Money Advice Service
3 December 2015

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1. About us

- 1.1. The Money Advice Service is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.
- 1.2. Our core statutory objectives are set out in the Financial Services Act 2010. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.
- 1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, third sector, government and regulators to develop The Financial Capability Strategy for the UK. This 10 year Strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.4. We are responding to this consultation in light of our statutory roles to enhance understanding and knowledge of members of the public about financial matters (including the UK financial system), and to enhance the ability of members of the public to manage their own financial affairs.
- 1.5. Our response relates to Personal Current Accounts (PCAs) only. Our remit is limited to members of the public and we do not focus on small businesses.

2. Response to the provisional findings

- 2.1. Levels of financial capability in the UK are low¹ and this impacts consumers' ability and motivation to engage with the market for PCAs. If we are to realise the full potential of the remedies currently proposed to improve competition in the PCA market we need to improve financial capability.

Low financial capability affects competition in the PCA market

- 2.2. The 2015 UK Financial Capability Survey shows the importance of financial capability – skills, knowledge, attitudes, motivation and opportunity – on optimising financial behaviour such as managing money well day to day, planning ahead and avoiding financial difficulty.²
- 2.3. These findings are relevant to people's capability to shop around for products and services, including PCAs. We know that people with lower levels of skills and knowledge and people who lack confidence making decisions about financial

¹ [Financial Capability Survey](#) (Money Advice Service, 2015)

² [Financial Capability Survey](#) (Money Advice Service, 2015)

products and services are less likely to have changed PCA product or provider or done anything to check if they are getting the best deal in the last 12 months.³

People lack motivation to engage with the PCA market

- Only 48% of adults agree that there are things they can do that will influence their own financial situation.
- **People who felt there was nothing they could do that would influence their own financial situation were significantly less likely to have done anything to check if they were getting the best deal on their PCA in the last 12 months.**
- One in three (30%) do not discuss money openly with anyone.
- Around one in eight (13%) people agree that they are too busy to sort out their finances.

Money Advice Service, 2015 Financial Capability Survey

2.4. 45% of people we surveyed believed that it is very important to shop around to make money go further but far fewer said they actually did this for their PCA. When we asked people whether they had done anything to check if they were on the best PCA deal in the last 12 months only 37% had.⁴ This is compared to 46% checking their savings account and 68% checking their home building insurance.⁵ People who felt there was nothing they could do that would influence their own financial situation were significantly less likely to have done anything to check if they were getting the best deal on their PCA in the last 12 months.⁶

2.5. The evergreen nature of PCAs and a lack of triggers to compare may go some way to explaining why people are not shopping around. However, there are other fundamental demand-side issues that add to people's inertia and prevent them from engaging with the market that must be considered when designing remedies.

2.6. Many UK adults (42%) do not describe themselves as being confident managing their money (giving themselves a score of seven or less out of ten) and around half agree that their financial situation makes them anxious or don't see that they themselves can make a difference to their situation.⁷ CMA has identified that 55% of respondents agreed or strongly agreed that switching current accounts is too much of a hassle; and the Financial Capability Survey found that around one in eight people agree that they are too busy to sort out their finances. If people don't believe they can make a change

³ MAS, [Financial Capability Survey](#), 2015

⁴ Self-reported that they had done any of the following things in the past 12 months in order to get a better deal: changed provider; I didn't change provider but I changed product with my existing provider; I am in the process of gathering information and I haven't decided what to do yet; I found out some information about alternatives but I decided not to change provider or product.

⁵ MAS, [Financial Capability Survey](#), 2015

⁶ 69% compared to 63% of the UK population.

⁷ MAS, [Financial Capability Survey](#), 2015

for the better or don't consider the benefits outweigh the perceived risks then it is hard for interventions aimed at getting them to change their behaviour to succeed.

2.7. BIS consumer empowerment research looking at decision styles in relation to choice of supplier for services in regulated markets found that "choosing the lowest price was more prevalent in relation to car insurance but less prevalent for personal bank current accounts. Respondents answering about current accounts were less likely to be 'maximisers', and were more likely to choose a supplier they had used before" or "make a decision based on what friends and family use."⁸ This suggests that if people were forced to regularly choose a PCA they would probably stick with a product that they know. CMA's own research supports this, finding that while 85% of people trust their own bank, less than half trust other banks. If people perceive other banks to lack trustworthiness, they have no motivation to consider switching to them.

We should not overestimate people's ability to effectively distinguish between available options and choose the right PCA for them

- **People with lower levels of skills and knowledge are less likely to have changed PCA product or provider or done anything to check if they were getting the best deal in the last 12 months.**
- 1/5 of adults could not correctly read the balance on a bank statement.
- Only around 2/3rds knew that if they put £100 into an account with 2% interest per year, they would have £102 at the end of the first year.
- Fewer (60%) knew that if the inflation rate is 5% and the interest rate on their account is 3% they will have less buying power in a year's time.
- 14% of adults answered all three of these skills and knowledge questions incorrectly – equivalent to 7 million adults in the UK.
- Internet access, usage and willingness to use the internet for financial tasks such as banking are high within the working age population but drop off among older adults.

Money Advice Service, 2015 Financial Capability Survey

2.8. Supply side interventions, like midata, are important in improving the availability of information that can inform comparison. To maximise the impact of these interventions we need to invest in improving consumers' capability to access, digest and take actions on this information.

2.9. The low level of numeracy and literacy among UK adults is well documented.⁹ We have found that even simple measures of financial skills and knowledge, such as simple interest calculations and identifying the balance on a bank statement, are challenging for a significant minority of the population. This calls into question the ability of a significant minority of people to understand and compare available PCAs and to use online comparison sites and tools. We must invest in ensuring people have the basic skills needed to stay in control of their finances and make decisions about products and services.

⁸ BIS, [Consumer Empowerment Survey](#), 2015

⁹ [Employer Skills Survey](#) (UK Commission for Employment and Skills, 2013)

- 2.10. Financial products are complex and there is a known problem with their comprehension by consumers. Identifying which PCA presents best value for money or best suits an individual's needs requires them to be in control of their finances, not only to understand their past use but also how they expect to use their account in the future.
- 2.11. CMA's research has identified inconsistencies between the extent to which people believe they use overdrafts and how often they actually do. While an improved midata can help people compare accounts with an accurate view of their past 12 months use, optimism bias may cause people to downplay this as people are predisposed to believe that their financial situation will improve in the future.¹⁰ Without interventions to boost consumer capability, the evidence suggests inbuilt biases and common behaviours will limit the extent to which consumers will evaluate, make decisions and act on the clearer information they are provided with.

Many lack the confidence needed to switch provider

- **People who lack confidence making decisions about financial products and services are less likely to have switched current account or done anything to check they were getting the best deal in the past 12 months.**
- Only 47% feel confident making decisions about financial products and services.
- Confidence is notably lower amongst young adults as well as the lower social grades and income bands.
- Unsurprisingly people who had low skills and knowledge were much less likely to feel confident about their finances.

Money Advice Service, 2015 Financial Capability Survey

- 2.12. CMA has reported that one of the key reasons customers report for not switching is a fear that a problem could arise in the process. Improvements in the CASS process can address this issue if they are communicated to consumers in a way that allays their concerns. An advertising campaign may raise awareness of improvements to the CASS process and how it works but it is unlikely to prompt people who are not already engaged to switch. The campaign would need to be re-run regularly to reach people at times they were likely to consider switching. It is not clear that an ongoing campaign of this nature this would represent good value.
- 2.13. It is also necessary to address issues of people's low confidence in their own ability to choose the right product. This presents a significant barrier to consumers choosing to switch PCA. As many will view their existing PCA as a free or low-cost product they may not see that the possible benefits from switching outweigh the risk that the product they are switching to will not offer the same or better service or price than their current provider.
- 2.14. Separately, we should also consider that 5% of all adults (over 2 million people) have a combination of low skills and knowledge about financial products and high levels of confidence making decisions about financial services and products. While this group is more likely to be engaged with money and finances their lack of skills

¹⁰ [Financial Capability: A Behavioural Economics Perspective](#) (FSA, 2008)

and knowledge puts them at risk of making a decision that might leave them worse off.

3. Response to proposed remedies

Demand side remedies that seek to address low financial capability are necessary

- 3.1. In setting out remedies to address Adverse Effects on Competition (AEC) in the PCA market CMA should not ignore the role low levels of financial capability play in the weak demand side.
- 3.2. MAS has recently been given a new duty in the Payment Account Regulations to provide a '*website comparing fees charged by payment service providers*'¹¹ and we would welcome a recommendation that MAS consider what more it can do to facilitate consumers engaging in the PCA market.
- 3.3. We recommend that the proposed remedy to prompt consumers to review their PCA provider at times they may have higher propensity to consider change (Remedy 1) be designed to address issues presented by low financial capability. It should guide people through the benefits of switching, how to choose the right account for them and the switch itself. As the statutory body for money guidance already funded through a levy on financial services, including PCA providers, MAS is in an ideal position to offer this support. We would welcome a requirement on PCA providers to refer consumers to MAS for assistance in choosing the best PCA for their needs.
- 3.4. We support CMA's proposal to undertake user testing including Randomised Control Trials (RCTs) of remedies. There is a limited evidence base of 'what works' to improve financial capability and creating and using this evidence base is at the heart of the Financial Capability Strategy.¹² It is critical that time for designing and testing interventions is built into the timetable for implementation so that the remedy imposed is based on robust evidence of need and what works. Room for the industry to continue testing, learning and adapting its approach over time should also be built into the remedies imposed.

Response to specific consultation questions

Remedy 1 – Prompt customers to review their PCA or BCA provider at times when they may have a higher propensity to consider a change.

(a) Is the general approach of this remedy (making use of 'trigger points') likely to be effective in prompting customers to consider changes in current account provider?

¹¹ [Payment Account Regulations 2015 draft legislation](#) (HMT, 2015)

¹² [Evidence and Evaluation](#) (Financial Capability Strategy for the UK, 2015)

- 3.5. We support a remedy to prompt consumers to review their PCA or BCA provider at times when they may have a higher propensity to consider change. This will be essential to get people to engage with the market.
- 3.6. The evidence base for ‘what works’ to improve financial capability is still developing but we know that making financial capability interventions relevant to people’s current situation or using ‘teachable moments’ improves their effectiveness.¹³ It is therefore reasonable to expect that providing consumers with prompts to help them consider switching at times they may have a higher propensity to consider them would be more effective than providing the same prompts at other times.
- 3.7. The FCA has found that ‘considerers’ tend to drop out of the switching process at the point where they would need to action an account change due to both the hassles in the applications process and assumed risks of switching. For this reason we consider that prompts that both encourage people to consider switching but then also help them easily navigate the process would be more effective than a general awareness raising campaign of the CASS service.¹⁴

(b) Is there, nonetheless, merit in requiring periodic reminders or messages in respect of particular patterns of account usage, for example to bring to customers’ attention the cumulative costs to them of unarranged overdrafts?

- 3.8. We consider there is merit in testing different reminders for people at different points of the consumer journey.
- 3.9. We note that FCA has found that signing up to text alerts or mobile banking apps reduces the amount of unarranged overdraft charges incurred by 5% to 8% and that signing up to both services had an additional effect. Timely messages that draw attention to patterns of account usage giving rise to potentially avoidable charges, the cumulative impact of these, may have a similar effect.
- 3.10. Messages in this instance should focus on encouraging people to seek assistance to take charge of their finances and be actionable. We would welcome individuals being directed to Money Advice Service. As the Statutory body tasked with improving people’s ability to manage their money and for improve the quality, availability and consistency of debt advice across the UK we are best placed to help individuals to take control, including considering if they are using the best current account for their circumstances.

(c) Do the occasions or situations identified in paragraph 34 represent points at which BCA and PCA customers are likely to be receptive to messages prompting them to consider changing their banking arrangements?

¹³ Millstones and Milestones

¹⁴ [Occasional Paper No.12: Encouraging consumers to act at renewal: evidence from field trials in the home and motor insurance markets](#) (FCA, 2015)

(d) Are there any other trigger points at which customers would be especially disposed to consider changing their current account provider?

3.11. Various timing for prompts should be tested to get a view of what works best. We suggest testing prompts at the following times via various channels:

- Annually
- In response to an expression of dissatisfaction or a complaint
- When changes are made to Terms and Conditions
- At expiry of welcome discount or fee-free period.
- When a local branch is closed
- When a customer's account use changes resulting in fees and charges– for example, they start to use an overdraft for the first time or for the first time.
- When a customer incurs a penalty charge, for example for a bounced direct debit or an unauthorised overdraft.
- When a customer transitions between accounts, e.g. Student to Graduate account or Basic Account to Current Account.

(e) To what extent should messages advise customers to actively consider an alternative provider? Should they, for example, draw attention to specific better-value accounts available from other providers? Should they link to sources of comparative information such as price comparison websites (PCWs)?

3.12. Given lack of trust in financial services and low levels of capability, we expect that using eye catching prompts that guide people to access free and impartial information that can assist them to consider the options available to them, may be more successful than requiring PCA providers to provide detailed information about how to switch account. Messages should encourage consumers to actively consider alternative providers. The impact of different approaches should be tested.

3.13. There is merit in considering whether they should be referred to free, impartial source of advice that can guide them through:

- charges associated with PCAs and the types of product available – so they understand why they might want to shop around
- key things to consider when comparing products and providers - so they have the skills and knowledge they need to make a good decision
- different comparison services available in the market and services such as mi-data and how to use them and the switching process– to improve confidence.

3.14. As the statutory body to set up by government to improve people's understanding of money matters, and funded via a levy on financial services including PCA providers, we would welcome a remedy that required PCA providers to direct their customers to us for assistance considering their options. We are in a unique position to assist people to switch account since we have recently been given new duties (in the Payment Account Regulations 2015) to raise awareness of payment account with basic features, including the procedure for how to open an account, and to provide a website that compares charges associated with payment accounts.

- 3.15. As an independent, impartial organisation we are trusted by consumers to be unbiased and explain all of the available options. Through our own website and those of trusted partners, we can generate interest in differences between products in the market and guide people through the process of comparing, choosing and switching products.
- 3.16. The comparison tables we produce to comply with the Payment Account Regulations will allow consumers to see charges for services associated with different PCAs displayed in an impartial way. We can provide impartial guidance on what to consider when looking for PCA, help them to consider which charges are most important to them, and how to effectively use the comparison sites and midata services available in the market.
- 3.17. As the organisation leading delivery of the Financial Capability Strategy for the UK we understand the importance of addressing consumers' attitudes and mind-sets as well as giving them the skills and knowledge they need to switch. We are committed to working with the rest of the financial capability sector – financial services, third sector and Government – and adapting our offering to reflect the growing evidence base around what works.

(f) What types or combinations of customer communication, for example letters, texts, emails, are most likely to be effective in prompting customers to consider changing their banking arrangements? Is this likely to vary with the nature of the event or the type of customer?

(h) In situations where the provider is responsible for sending the message/prompt, should the content and presentation of the messages concerned be standardised, specified or approved by a regulator?

- 3.18. The right medium of communication will vary depending on customer preference and the situation requiring the prompt. Different approaches should be tested. Any message should allow customers to take easy and immediate action – for example click on a link or call a number to find out more. Communications should be eye catching and feature prominently on PCA communications and take account of distinctive features of the PCA market.
- 3.19. The FCA general insurance study recently found that while the impact of reminders to shop around at point of renewal was limited, displaying the previous year's price prompted more people to engage.¹⁵ As the majority of current accounts are provided on a free-in-credit basis this is not easily replicated for PCAs. We should however explore and test how different ways of portraying the relative costs and benefits of current accounts might prompt engagement in the market.
- 3.20. To ensure messages we know are effective are used we suggest, once tested, agreed messages are standardised and specified by the FCA. There is precedent in regulation requiring organisations to signpost to MAS. For example FCA requires high-cost short-term credit providers to display a warning message that 'Late

¹⁵ <https://www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-12>

repayment can cause you serious money problems. For help, go to moneyadviceservice.org.uk.¹⁶

3.21. Standardisation should not however, prevent the financial capability sector from testing new messages as the evidence base around what works develops. Provision to allow this should be built into regulations.

(i) Alternatively, would it be practicable and proportionate to require providers to facilitate access to relevant customers by the regulator(s), intermediaries or others?

3.22. We do not consider requiring providers to facilitate access to relevant customers would be proportionate. A third party contacting customers would not remove the need for consumers to take action on the information provided.

3.23. Customers need to be able to trust any organisation assisting them to switch and an unexpected approach from a third party they may not have an existing relationship with is unlikely to be a good basis for this. Data protection concerns may cause customers to take exception at being contacted by an organisation they have not shared their contact details with.

Remedy 2 – 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

(a) On what scale and over what period would it be necessary to conduct promotional activity to sufficiently increase awareness of the potential benefits of switching and confidence in the switching process?

3.24. An advertising campaign may raise awareness of improvements to the CASS process and how it works but it is unlikely to prompt people not already interested in the market to switch. The campaign would need to be re-run regularly to reach people at times they were interested in engaging with the market.

¹⁶ [Detailed rules for the FCA regime for consumer credit Including feedback on FCA QCP 13/18 and ‘made rules’ February 2014](#) (FCA, 2014)

Published: December 2015

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