

8th January 2015

Baringa Partners LLP response to the CMA's invitation to comment on additional remedy suggestions

To whom it may concern,

We have read with interest the responses provided on the remedies proposed to improve competition as part of the Retail Banking Market Investigation and are delighted to provide further comment on the additional remedy suggestions. As a consultancy in the UK financial services industry, this topic remains important to many of our clients to ensure end customers receive good outcomes through effective market competition.

Our banking practice has a wealth of experience working in collaboration with a range of clients from established financial institutions to new market entrants, to deliver upon their objectives to customers, investors and the regulators. We have provided our response based on our experience working within the industry, but also our understanding of customer behaviours.

Please find our responses below. Should you want to discuss in further detail then please do not hesitate to contact either of us.

Yours faithfully,

Claire Paisley
Head of Banking

Emily Farrimond
Director Banking

Retail Banking Market Investigation – Baringa Partners LLP response to the CMA's invitation to comment on additional remedy suggestions

January 2016

About Baringa Partners LLP

Baringa Partners LLP is an award-winning management consultancy that specialises in the energy, financial services, utilities and telecoms and media markets in the UK and continental Europe. Our banking practice works with a range of clients from established financial institutions to new 'challenger' market entrants to deliver upon their objectives to customers, investors and the regulator.

Scope of our submission

Based on our in-depth expertise and experience working across the financial services sector, we have provided a response into the CMA's 'Invitation to comment on additional remedy suggestions' as part of the wider Retail Banking Market Investigation.

The scope of our response is limited to those areas where we have in-depth knowledge or experience, and builds on our earlier response to the investigation dated November 2015.

We note the additional remedies seek to address improvement of competition and customer outcomes. Rather than comment on any specific suggestion, our response focuses on two key themes in this area:

- (1) Improving customer engagement to reduce the cost of banking for PCA customers with overdrafts;
- (2) Removing the barriers to switching for customers who regularly use overdraft facilities.

Feedback on key remedy themes

- (1) Improving customer engagement to reduce the cost of banking for PCA customers with overdrafts

Overdrafts are an important component of many current account propositions, as they support many customers to effectively manage their everyday finances. However, there has been ongoing discussion around the consequences of using both arranged and unarranged overdraft facilities, including customers incurring additional bank charges and negative impacts on credit ratings in the case of unarranged usage, and therefore their potential for future borrowing.

Many of the suggested remedies focus on enhancing customer engagement around overdraft usage. One such suggestion includes additional notifications at or near to the point of overdraft usage, enabling customers to make informed decisions about use of the facility. Other suggested remedies support improved transparency to better inform customer decisions around the use of overdrafts, thereby providing customers a better awareness and opportunity to avoid these charges. These include the ability for customers to actively opt-in to allow an unarranged overdraft to occur, and the ability to use linked accounts to fund the current account at the point of overdraft usage.

We welcome these suggestions to greater empower customers to actively manage their bank accounts, and any charges they may incur. However, we note that many of these suggested remedies are already established in many institutions, but not uniform across the industry.

Suggested considerations:

We believe that the benefits from improving customer engagement with their bank account can only be fully realised through enhancing their understanding of banking facilities. For example, a real-time notification where the customer is at the point of overdraft will only be meaningful if options available and their implications are fully understood. We believe that further consideration should be given to ensuring the public better understands their bank account and its facilities, for example through 'education in schools'.

(2) Removing barriers to switching for customers who regularly use overdraft facilities

Baringa supports the CMA's assertion in its provisional findings that PCA customers with overdrafts have the most to gain from switching and, therefore enabling and providing re-assurance to overdraft users that they can take advantage of the switching service is key to ensuring all customer groups can benefit and none are disadvantaged.

Our response to the CMA's provisional findings in November highlighted the need to ensure that no customer is disadvantaged through the switching process, with specific focus on credit searches, particularly for overdraft users. We note that one respondent's suggested remedy included the development of a 'credit passport' in order to better assist alternative PCA providers' decision to take on a new customer. Although this goes some way to addressing the challenge, we believe that this does not go far enough in enabling customers to search the entire market without resulting in multiple searches being made on customers' credit files. Our recommendation remains to work with the banks and credit reference agencies to develop an effective solution, and ensure that no customer is disadvantaged through the switching process.

Suggested considerations: As we described in November, our recommendation is to develop this solution in conjunction with the banks and credit reference agencies to enable customers to understand the different service propositions across the market, and what it means to them on an individual basis, without negatively impacting credit scores.