

PCA/SME BANKING MARKET INVESTIGATION: SUPPLEMENTAL PAPER ON PRICE COMPARISON WEBSITES

1 INTRODUCTION AND SUMMARY

- 1.1 Following HSBC's bilateral remedies hearing with the CMA on 10 December 2015 (the *Hearing*), this submission explains how the CMA's proposed remedy package in aggregate can ensure the emergence of effective PCWs for PCAs and SME banking products. In turn, this will increase customer engagement and thereby deliver more competitive outcomes in these markets and address the concerns that the CMA has identified.
- 1.2 Compared to the scale of their activities in other categories, PCWs are underdeveloped in the PCA and SME banking markets. The virtuous circle required to facilitate the development of effective PCWs in these markets has – at least until now - not been operating well:
- (a) insufficient numbers of consumers are currently exploring online options to switch their PCA or BCA. This reflects a combination of current lower awareness of the benefits of shopping around and the difficulty of customers doing this on-line;
 - (b) the data that PCWs require in order to offer viewers genuinely useful information in order to direct them to PCA and BCA products delivering the best customer outcomes - a combination of (i) account suitability; (ii) account benefits; (iii) quality ratings; and (iv) potential financial gains based on their usage – are not currently available to PCWs in an efficient format or even at all. (Midata files are not comprehensive and are not easily accessible to consumers);
 - (c) of those customers who do visit PCWs' websites, only a small percentage actually proceed to make the switch; and
 - (d) given the three factors above, there are currently low prospects of sufficient remuneration to justify PCWs' investment in creating and optimising a PCA/BCA product and marketing it widely.
- 1.3 There are signs that consumers' increasing use of PCWs in other categories and consumers' increasing use of smart phones so as to be "continuously connected" will spur PCWs' activities in BCA and PCA markets.
- 1.4 However, by mandating a PCW for SMEs the CMA rightly intends to use its market investigation reference (*MIR*) remedy powers to accelerate these developments. In combination with Remedies 2, 3, 5, 14 and 15, the CMA will also spur greater focus for PCWs on developing effective comparison tools for PCAs and SME banking products. Once these developments are in place, there will be strong incentives for banks to list on multiple PCWs, thereby reinforcing their effectiveness.

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- 1.5 Moreover, with the right level of CMA intervention at the initial stages of functional and commercial design, the CMA can bring about a market-led PCW sector (covering BCAs as well as PCAs) that will produce good outcomes for consumers, yet without the need for high levels of regulatory prescription and oversight in the long-term. In particular, PCWs' incentives to compete amongst themselves in the "richness" of the comparison product they offer consumers (e.g. market coverage, customer-specific account suitability information, and wide-ranging quality ratings for rival providers) should ensure that market forces will deliver the "right" outcome for consumers without the need for detailed regulatory prescription or extensive CMA/FCA monitoring.
- 1.6 The broader context in which the CMA's remedies will operate should allow the CMA to draw further confidence that the market will evolve to this position sooner rather than later. Notable features of this broader context include:
- (a) The fact that the vast majority of banks' customers already: (i) use similar technology when buying household and/or car insurance and booking travel/hotels for holidays; and (ii) have internet access at home and/or work; and
 - (b) The expected continued acceleration in take up of mobile and internet banking – from levels that are already very high among PCA customers and SMEs;¹
 - (c) Ongoing investment in online account opening by the industry, and the emergence of digital only banks.
- 1.7 Finally, the implementation of Application Programming Interface (*API*)² standards and increase in customer engagement stemming from the CMA's proposed remedy package is also likely to incentivise the development of other money optimisation apps, such as budgeting apps, which will enable customers to manage their finances more efficiently across multiple providers.
- 1.8 Therefore, this paper is structured as follows:
- (a) **Section 2: competitive benefits** that PCWs can deliver in the PCA and SME banking markets, including how APIs (Remedy 3) are likely to optimise the efficacy of PCWs in offering PCA and BCA comparisons;
 - (b) **Section 3:** how the CMA's remedy package can underpin the necessary **commercial incentives** for PCWs, banks and developers to deliver effective price comparison services;

¹ 66% of PCA customers use internet banking and 37% use a tablet/smartphone application (see Figure 8, *GfK PCA Survey Report*) and 95% of SMEs use internet banking and 41% use mobile banking (see page 16 of the Phase 2 BDRC survey report. The frequency with which PCA customers use digital banking services also indicates a high level of engagement: see GfK PCA Survey Report (paragraphs 27 and 78).

² APIs effectively allow two pieces of software to talk to one another, and they are widely used in many markets. In banking, APIs can be used to enable financial technology (fintech) firms to make use of bank data on behalf of customers in innovative and helpful ways.

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- (c) **Section 4:** the **design parameters** the CMA should address with industry stakeholders to enable this market-led solution to develop effectively and quickly; and
 - (d) **Section 5:** PCW implementation and the broader potential of open APIs.

2 **PRICE COMPARISON WEBSITES CAN DELIVER LASTING COMPETITIVE BENEFITS IN THE PCA AND SME BANKING MARKETS**

- 2.1 As the CMA has noted, remedies which enhance customer engagement are likely to be the most effective type of remedies to further increase competition in the PCA and SME banking markets. CMA-mandated measures to increase PCWs' incentives and ability to (a) offer consumers meaningful comparisons between current accounts and (b) so deliver "frictionless" switching processes, will play an important role in enhancing customer engagement.
- 2.2 In a number of other markets (e.g. insurance and travel/hotel booking) PCWs have: rendered prices more transparent, substantially increased rivalry, and led to higher levels of customer switching. Across multiple markets, PCWs already:
 - (a) **actively promote the benefits of shopping around** through advertising,³ thus promoting searching (i.e. encouraging customers to "access" information under the CMA's framework);⁴
 - (b) **facilitate price/quality comparisons**, thus enabling customers easily to make informed decisions as to which product/service best meets their requirements⁵ (i.e. "assess"); and
 - (c) **facilitate switching** (i.e. "act"), by offering a more seamless switch – e.g. by initiating a switch or new application on the PCW, where relevant using information provided to the PCW for a comparison. A PCW's effectiveness is at its greatest if the customer can complete all or most of her/his comparison and switching "journey" within the PCW's own website, rather than being transferred to the end provider too early on in the process.

³ The four biggest UK PCWs spent £110 million on advertising in 2014, which demonstrates how PCWs spend substantial sums on ensuring that their services are ranked highly searches (reported in thisismoney.co.uk on 3 February 2015).

⁴ Customers are willing to invest time and effort in comparing products using PCWs when the benefits of using them are made clear. Private motor insurance (*PMI*) PCWs require consumers to fill in a material amount of information, but account for a substantial proportion of PMI sales despite this (23% of all PMI business (including renewals) and 55-65% of new PMI sales in 2012: see paragraph 53 of the CMA's final report in the PMI market study, dated 24 September 2014 (the *PMI Report*)).

⁵ They do so by (i) asking customers the right questions to identify appropriate products (e.g. for insurance policies); (ii) allowing customers to sort/filter results to meet their preferences (e.g. sort/filter by channel preferences); and (iii) leveraging transaction data to provide usage-based comparisons of potential monetary benefits (e.g. Midata enabled comparisons in the energy market).

PCWs will improve outcomes for PCA and SME banking customers in the foreseeable future – enabled, in particular, by the development of APIs

- 2.3 HSBC considers that these benefits are within reach for current accounts and will deliver benefits for all types of PCA and BCA customers. In particular, APIs can enable PCWs to make use of customers’ transactional data to facilitate genuinely useful comparisons (i.e. account suitability information (based on: account benefits, quality ratings and potential financial gains)).⁶
- 2.4 Such usage based comparisons will lead to increased competition for all customer groups, including those about which the CMA appears particularly concerned, such as heavy overdraft users. Here usage based comparisons will mitigate the impact of undesirable consumer biases in respect of overdraft usage, such as over-optimism. This would also address the issues that the CMA has raised as regards overdraft users in the provisional findings (*PFs*), and its questions of 18 December 2015 relating to unauthorised overdraft charges.
- 2.5 API-enabled PCWs may also drive further innovation and rivalry in the marketing of accounts to different customer groups. For example, heavy overdraft users using PCWs could be offered price comparisons that are specific to them – including indicative (in principle) offers of overdraft pricing and limits across lenders without leaving a credit footprint. Similarly, deposit holding customers could be attracted via potential gains in interest payments or cash back offers linked to expenditure or average balances.
- 2.6 APIs are also likely to improve the speed and ease of standardised and simplified BCA opening (Remedy 6), as PCWs are likely to develop interfaces which allow SMEs to switch BCA provider once they have searched for and found the best BCA.⁷

API-driven usage and balance comparisons will be a significant improvement on the current Midata arrangements – and should therefore be the focus of banks’ resources for SMEs

- 2.7 Although its uptake has been slow, the current Midata initiative represents a major innovation in UK banking markets by enabling PCA customers to make usage-based comparisons.⁸ However, the current Midata solution for PCAs requires both effort and IT confidence from customers to locate their Midata file on their bank’s internet banking website, download it, and then upload it to a PCW. This (in combination with limited

⁶ As regards SME loans, comparisons will be even more straightforward, as they would not rely on transactional data. While some credit scoring information is required, this will be readily accessible once the Small Business, Enterprise and Employment Act 2015 is implemented.

⁷ See HSBC’s response to the Remedies Notice, paragraph 110.

⁸ A Gocompare press-release (4 November 2015) noted that that “People who use midata are almost five times as likely to go on to switch as those who use standard ‘best buy’ tables”. It also highlighted the deficiencies of standard, non-usage based ‘best buy’ tables: (i) the top PCA when Midata is used is the seventh most popular in ‘best-buy’ tables, whereas (ii) the top PCA in ‘best buy’ tables is only the eight most popular in Midata-enabled comparisons.

marketing activity) may explain its relatively low take-up to date, despite the obvious benefits of usage-based price comparisons. APIs address these friction costs by further simplifying the steps required for customers to access price and service quality comparisons.

- 2.8 With APIs, a customer can click on a PCW's website, follow a link to their bank, and enter their internet banking security details to enable their usage data to be automatically transferred to that PCW for price/quality comparisons. The process could be even easier than that for comparing motor or household insurance via PCWs (which requires customers to input several details). CASS switching could similarly be implemented with only a few more mouse clicks, subject to banks agreeing common account opening standards. Reducing even small friction costs by reducing the number of mouse clicks required to get from A to B can materially enhance customer engagement.⁹
- 2.9 APIs and the data running through them will enable PCWs to offer a better product. It is somewhat telling that only one PCW currently uses the Midata mechanism: from the PCW's perspective, the process is "clunky" and the data quality/range needs to be improved.
- 2.10 HSBC therefore recommends that the CMA does not pursue the current Midata solution for BCAs, as APIs are likely to render the current Midata solution obsolete. Resources should instead be focused on implementing APIs. The CMA should take comfort from the fact that PCWs have already shown themselves able to process large, complex and fast moving datasets: in the mobile sector, PCWs commonly process and offer comparative information about more than a million different products and tariffs.
- 2.11 The API workstreams are well advanced: In addition, the Open Banking Working Group (**OBWG**) will shortly publish a report establishing a framework for the adoption of a standard API for the transfer of open and personal data in UK banking. In parallel, the revised Payment Services Directive¹⁰ will require banks to enable Payment Initiation Service Providers and Account Information Service Providers to access customers' accounts, view transaction histories, and/or make payments. It acts as a backstop date for the development of APIs through the OBWG.
- 2.12 While the ultimate goal of the OBWG is the development of open APIs,¹¹ Section 4 of this paper explains how these benefits can be achieved in the shorter term through a more limited ("closed") API framework, enabling banks to share data with a group of trusted partners, meeting certain minimum standards.

⁹ See page 4 of the Behavioural Insights Team's response to the Remedies Notice.

¹⁰ Directive (EU) 2015/2366 of 25 November 2015 on payment services in the internal market.

¹¹ An open API is a means of accessing data based on an open standard: it is a public interface, which would make relevant data accessible to all third parties.

3 THE CMA'S REMEDY PACKAGE CAN UNDERPIN THE NECESSARY COMMERCIAL INCENTIVES FOR PCWS, BANKS AND DEVELOPERS TO DELIVER EFFECTIVE PCWS FOR PCAs AND SME BANKING PRODUCTS

- 3.1 PCWs are interested in the opportunity presented by expanding their businesses in the financial services arena. Some have already developed substantial businesses comparing various products and services and many already offer comparisons of PCAs.¹²
- 3.2 However, to date, PCWs have not seen significant traffic for current accounts. This is principally due to: (i) the multi-faceted nature of current accounts and the lack of effective tools to compare accounts across heterogeneous usage patterns; as well as (ii) the absence of clear marketing about CASS, including references to potential monetary gains from switching. Without a sufficient base of customers accessing their comparison tools and going on to make the switch - and therefore, limited prospects for PCW remuneration - PCWs have to date had insufficient incentives to invest in developing and marketing their comparison services for PCAs and SME banking products.
- 3.3 The CMA's proposed package of remedies provides a unique opportunity to boost the development of effective PCWs for PCAs and SME banking products:
- (a) **Mandating a PCW for SMEs (Remedy 4)** will – given operational synergies - likely ensure the parallel development of effective PCWs for PCAs.
 - (b) **An improved CASS marketing campaign could effectively catalyse greater customer engagement with PCWs (Remedy 2).** HSBC understands (based on anecdotal evidence) that even the limited CASS marketing campaigns undertaken to date (principally for PCAs) produced a significant spike in consumer visits to PCWs. One PCW has also indicated to HSBC that such a marketing campaign would give it the comfort that customer traffic may increase, providing the impetus to invest in developing and marketing its comparison services for PCAs and SME banking products.
 - (c) **APIs and the richer data sets that flow through them will enable PCWs to optimise comparisons of PCA and BCA products and providers (Remedy 3).** By demonstrating savings and service benefits that customers could potentially realise based on their own usage and preferences, this would make comparisons for PCAs/BCAs more like other comparisons for other financial products, which customers rely on PCWs (e.g. credit cards or insurance).
 - (d) **PCWs are then likely to perceive a greater opportunity to drive significant amounts of traffic from PCA and BCA customers.** Therefore, PCWs will likely market these aspects of their services more aggressively. Many PCWs already have the expertise of marketing other products (including retail banking products, such as credit cards) and are constantly looking for opportunities to expand their offering and their client base. Existing PCW operators would also benefit from IT

¹² E.g. Gocompare, MoneySuperMarket.com, uSwitch.com, comparethemarket.com.

synergies and their umbrella branding across a range of financial products. As customer acquisition volumes through PCWs increase (thereby increasing PCW revenues), PCWs will be further incentivised to increase their spend on marketing/advertising – as a result, sharing the advertising costs of stimulating switching that are currently borne almost entirely by the banks.

- (e) **Banks will, therefore, be incentivised to make greater use of this cost-effective distribution channel.** There would be a reduction in banks’ fixed advertising costs, reducing banks’ fixed costs per customer acquired through national marketing campaigns, but offset by increasing the proportion of variable costs per customer acquired (e.g. through switching incentives and commission payments to PCWs). This is clearly a more effective way of marketing. Smaller / newer banks in particular will benefit from having a greater variable cost base rather than a fixed cost base. Banks will therefore be significantly incentivised to make ever greater use of this cost-effective distribution channel – just as insurers and providers in other markets have done.¹³
- (f) APIs are routinely used across an array of markets – **developers and innovators can therefore also be expected to develop a wide range of additional, value added services**, such as budgeting apps, aimed at optimising customers’ management of their finances.¹⁴

3.4 With the right level of CMA intervention at the initial stages of functional and commercial design, the CMA’s remedy package can constitute a point of inflection for the development of effective PCWs for PCAs and SME banking products. The remedies (and other market developments) will provide PCWs, banks and API developers strong individual incentives each to help develop the necessary framework of APIs and PCWs.

3.5 Even a small further increase in customer engagement resulting from these developments can be expected to further increase the competitive pressure on banks very significantly, as (i) barriers to entry and expansion are falling rapidly in the PCA and SME banking markets;¹⁵ (ii) technology is enabling banks to improve and differentiate their offerings;¹⁶ and market dynamics – both within and outside the banking sector – are increasing customer

¹³ The CMA compared PMI providers’ advertising costs and costs of acquisition in terms of PCW commission fees and found that: “... *PCWs were an efficiency-enhancing advertising platform for PMI providers, although there are some PMI providers which appeared able to attract customers more cheaply than through PCWs.*” (See paragraph 7 of Annex L of Appendix 8.1 of the PMI Report).

¹⁴ For example, a number of banks already offer their customers effective budgeting tools (e.g. American Express’ “My Card” app includes a number of visual and real-time spending indicators, to help budgeting). APIs could facilitate third party account aggregators developing similar tools for customers to manage finances across their portfolio of financial services products.

¹⁵ See paragraphs 4.78, 5.130, 9.44, 10.82, 10.266, 10.268 to 10.271, 10.273, 10.276 and 11.57 of the PFs. See also paragraphs 60 to 61 of the CMA’s summary of its PFs.

¹⁶ See paragraphs 5.130 & 7.9 of the PFs.

engagement within the PCA and SME banking markets.¹⁷ This is supported by economic theory¹⁸ as well as the CMA’s findings in the private motor insurance market study.¹⁹

4 WITH APPROPRIATE INITIAL CMA INTERVENTION, MARKET MECHANISMS WILL DELIVER EFFECTIVE PCWS FOR PCAS AND SME BANKING PRODUCTS

- 4.1 If designed properly, PCWs should develop well-functioning businesses, which will constitute an important and established distribution channel for banks. PCWs’ incentives to compete amongst themselves in the “richness” of the comparison product they offer consumers (e.g. market coverage, customer-specific account suitability information, and wide-ranging quality ratings for rival providers) should ensure that PCWs develop their comparison services, so as to keep them relevant in the face of changing customer requirements. Thereafter, market forces will deliver the “right” outcome for consumers without the need for detailed regulatory prescription or extensive CMA/FCA monitoring.
- 4.2 The CMA should use this MIR to consult with the industry (potentially via the OBWG) to design and mandate the initial parameters for addressing:
- (a) **data protection, security and liability risks** associated with the transfer and use of customer data via APIs – the risks in this regard vary depending on the number of PCWs with which banks are required to share customer data; and
 - (b) **the consistency and neutrality of price and service quality comparisons** of PCAs and SME banking products, which requires: (i) comprehensive and consistent data collection; and (ii) minimum standards to ensure the consistency of comparisons. The consistency and perceived neutrality of PCWs will be crucial to ensuring customers trust in, and adopt, these services for PCAs and SME banking services.
- 4.3 These factors will benefit from industry-wide consideration, as they cannot be addressed unilaterally by any single bank or PCW. These transitional, set-up issues can be addressed effectively within a reasonable timeframe, drawing on the regulatory and commercial experience from initiatives already underway in other markets (e.g. insurance and payday loans). We believe the CMA can play a central role in this process.
- 4.4 We set out below our views on how they can be best addressed below.

¹⁷ See paragraphs 5.130 & 7.9 of the PFs.

¹⁸ The “Lerner Condition” indicates that for profit maximising firms in a differentiated goods market – such as PCA and SME banking markets - firms’ profit margins are directly and proportionately related to customer price elasticity of demand. For example, a 10% increase in price elasticity of demand is likely to reduce price-cost margins by 10%. In other words, small increases in price sensitivity – resulting in customers displaying an increased propensity to switch (or consider switching) – can place significant pressure on banks to decrease prices or increase quality.

¹⁹ See paragraphs 5.32 and 8.6 of the PMI Report.

Technology and data protection/security risks

4.5 Data transfer via APIs is inherently more secure than requiring customers to download and upload Midata files: (i) the underlying data can be encrypted and anonymised; and (ii) customers can specify whether access is provided on an on-going or one-off basis.

4.6 However, “open” APIs, which seek to provide all third parties access to underlying data raise data protection and security risks. These issues could be addressed in the medium term through codes of conduct and/or legislation (covering, e.g. minimum standards for data management for data recipients). As noted at paragraph 1.3 above, the OBWG is considering these issues and the CMA should engage directly with it.

A “closed” framework of API-facilitated data transfers is necessary to offer a short term solution

4.7 In the short term, a closed framework of API-facilitated data transfer between banks and trusted third parties offers a more immediate solution to data protection concerns, obviating the need for an interim “Midata” solution.

4.8 To ensure this is achieved, the CMA (and/or FCA) together with banks and PCWs:

- (a) should develop **objective criteria which PCWs would have to meet in order for a bank to share data within this closed framework**: this approach would allow banks to choose between PCWs on the basis of legitimate commercial grounds (including the fees they charge);²⁰
- (b) may wish to **consider whether it is necessary to mandate initially banks to share data within the closed API framework with a minimum number of PCWs**²¹ meeting these criteria for a transitional period, to give impetus to the cycle of incentives described at paragraph 3.3 above.

4.9 These transitional measures should incentivise PCWs to develop sufficient systems and protocols to resolve data protection and security issues, so that they are more attractive to banks after the transitional period ends.

²⁰ PCWs could also commit contractually to the bank solely to use the data for the purpose permitted by the customer and then to destroy the data.

²¹ An obligation for banks to share customer data within the closed API framework on all PCWs is unnecessary and disproportionate: banks should retain control over which specific PCWs have access to this data, based on legitimate commercial and data security grounds, in order to ensure cost effective and responsible distribution partners. If banks were mandated to sell their accounts via all PCWs, then this position as compulsory trading partners would give PCWs substantial market power as to the fees that they charge banks and dampen PCWs’ incentives to compete.

Coherent design will underpin consumer confidence

- 4.10 To ensure significant customer adoption of PCWs for PCAs and SME banking products, customers must be given the confidence that the results generated are robust and fair measures of the comparative appeal of banks' prices and service quality.²²
- 4.11 Mandatory design principles can ensure customer confidence in using PCWs to compare current accounts. HSBC therefore recommends that an initial set of mandatory design principles are adopted by the CMA (or FCA), following consultation, so that banks compile usage data in a comprehensive and consistent manner and PCWs should be responsible for comparing products in a balanced and neutral manner. The FCA should oversee the application of these principles.
- 4.12 That said, HSBC would caution against CMA/FCA over-prescriptiveness in design detail,²³ either at the initial stage or, certainly, in the medium or longer term: competition among PCWs – and their overriding incentive to win and maintain customers' trust as a source of useful and impartial comparative information across their product portfolio – should ensure that PCA/BCA comparison services develop in a way that produces good outcomes to consumers and can adapt rapidly to consumers' ever-changing requirements and preferences.
- 4.13 We set out below the six factors which HSBC considers should be addressed. Other stakeholders, including PCWs and regulators, would also be able to draw on their significant experience from the regulatory and commercial initiatives already underway to achieve this balance relating to other product markets.²⁴ Therefore, these issues can be addressed effectively within a reasonable timeframe.

Proposed principles to ensure consumer confidence

- 4.14 HSBC proposes the following:
- (a) **A centralised directory of customer expenditure description categories across banks:** usage based price comparisons require consistent data to be collated by all banks, to ensure accurate comparisons across banks.²⁵ The information collated should also be sufficiently disaggregated (for example, identifying council tax bills

²² We are aware that Lloyds Banking Group is developing an enhanced Midata tool with Runpath (Midata 2.0) to allow comparisons: (i) between BCAs; (ii) across platforms (e.g. desktop, tablets and smart phones); and (iii) of service quality. HSBC agrees in principle to the aims of these improvements, but it is not clear how LBG and Runpath intend to ensure that PCWs will make meaningful and accurate comparisons of PCAs, BCAs and eventually SME loans.

²³ The FCA also acknowledged the risks of over-prescription in its thematic review of price comparison websites for general insurance. See TR14/11(July 2014) p. 18: “*We have considered whether we should be prescriptive in telling PCWs what information and the level of details they must provide in the quote results but believe this may not be appropriate as it could stifle innovation.*”

²⁴ E.g. the remedy design consultation in relation to payday loan PCWs and the FCA's thematic review of PCWs for general insurance products.

²⁵ HSBC is concerned that this may not currently be the case as regards current Midata information.

and utility bills) so that PCWs can accurately apply their account comparison algorithms using the data from banks' customer expenditure/usage files.²⁶ As a first step, we recommend that banks share their file formats, including their expenditure categories.

- (b) **A consistent basis for appraising account value added benefits:** price comparisons must have regard to the full range of benefits attached to PCAs and BCAs, including benefits associated with holding other products with the same bank (e.g. preferential rates on non-PCA products, such as HSBC's Advance PCA proposition, which offers preferential rates on mortgages and savings accounts). This ensures that price comparisons are accurate and product innovation is not stifled. These benefits can be captured by ensuring PCWs ask appropriate questions of potential switchers.²⁷
- (c) **Adopting certain standard principles for price comparison algorithms:** a series of modelling assumptions and factual information feed into price comparisons. Adopting certain standard principles for these factors can ensure that different PCWs generate similar results.²⁸
- (d) **Service quality comparisons should be included with any price comparisons:** There are a number of potential measures that could be considered, including customer reviews or surveys and objective measures of quality (e.g. channel functionality, relationship manager availability etc.).²⁹ The CMA should consult on this. No single measure will be perfect, but a series of key objective measures of service quality is better than none.
- (e) **Default price comparisons should either (i) exclude one-off incentives or (ii) show the results including incentives but over a five year period:** a key feature of competition between banks at present is the payment of one-off switching incentives relating to PCAs and offers of free banking to new and switching SME BCA customers. These incentives are and should be valued by customers but it

²⁶ For example, many PCAs offer cash back on various categories of expenditure, it is important that customer spend resulting in cash back is correctly identified. See **Annex 1** below for additional guidelines to ensure accurate usage specific comparisons of PCAs and BCAs.

²⁷ For example, for HSBC Advance's discounted mortgage administration fee, this benefit could be accounted for by asking the customer whether they will be taking out a mortgage in the near future.

²⁸ These issues particularly arise in relation to customers who are overdraft users, and heavy overdraft users that incur unarranged overdraft fees and costs. See **Annex 2** below for points of detail which would need to be considered in relation to the treatment of overdraft customers' usage data, to enable accurate comparisons of PCAs and BCAs. A further issue is that overdraft fees in themselves affect overdraft balances and thus the costs of accounts, but customers may also respond to such fees by adjusting their balances. As regards this latter point, HSBC suggests that the reconstruction should simply assume that customers who avoid unarranged overdraft fees will adjust their balances to achieve this.

²⁹ For example, MoneySuperMarket reports customer service rankings on PCAs provided by users on MoneySavingExpert.com. Airbnb offers reviews for both hosts and guests (guests can submit a primary star rating and a set of category ratings, offering them the opportunity to rank their stay based on a number factors. Each listing includes an aggregate of the primary star ratings, as well as an aggregate for each of the category ratings.

would be potentially misleading for PCWs to compare account prices over a short period of time and could lead to customers making short-sighted decisions rather than selecting the best products for their longer term needs.

- (f) **Liability for the accuracy of comparisons should be clearly defined:** PCWs should have sole responsibility for ensuring that their account comparisons are accurate and reliable; banks should be responsible for the accuracy of underlying data. The FCA should oversee this.

5 PCW IMPLEMENTATION AND THE BROADER POTENTIAL OF APIS

5.1 If designed properly, there are strong reasons to believe that once PCWs are established:

- (a) they will compete to offer the best and more accurate account comparisons, greater ease of customer use and greater functionality. They will evolve to meet changes in customers' requirements, new technology and product channel innovation by banks and other providers; and
- (b) effective competition between PCWs should ensure that banks would have even stronger incentives (than the already strong incentives) to win and retain business. Therefore, the CMA/FCA will be increasingly able to stand back from intervention in the PCWs' operations, as commercial dynamics (driven by the interplay between PCWs, customers and banks) will supersede regulatory intervention as the primary determinant of more useful and effective comparability.

5.2 Therefore, the CMA should use the opportunity afforded by the MIR to engage with stakeholders on the points highlighted in this paper and also address the transitional co-ordination factors that would enable this market-led solution to develop effectively and quickly.

5.3 These transitional coordination issues should not be exaggerated – a perfect solution does not need to be created immediately. A framework should be agreed so that a workable and effective solution can be implemented relatively quickly. This framework can then evolve (or be phased out) as competitive dynamics, technology and products evolve, supervised by the FCA as appropriate.

5.4 This approach reflects a key principle of the open data movement (of which Midata is a part), which seeks to avoid constraining improvements, which can develop in the future, by imposing rigid design now. The movement is characterised by the premise that once data is made easily available, the imagination and talent of the universe of apps developers will realise the value of the data across a range of applications. Data value is generally realised by one or more of the following:

- (a) **Accessibility** – when accessed via a mobile device, customers can generally access their data whenever and wherever they wish.
- (b) **Timeliness** – the data is up to date rather than being a legacy file.

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- (c) **Aggregation** – the data can be given depth and context by combining it with other data sets (e.g. comparison of an individual customer’s data with market averages).
 - (d) **Analysis** – for example, by running a price comparison algorithm.
 - (e) **Visualisation** – for example, by presenting data in charts and/or giving it a geographic dimension to enable displays on maps.

The competitive impact of these changes could extend beyond the PCA and SME banking markets

5.5 The future of retail banking is the source of much discussion and speculation. Whilst this paper does not seek to summarise all the key themes in this area, some trends related to consumer empowerment through data access are important to the CMA’s work on PCAs and SME banking:

- (a) The standardisation of APIs, coupled with providing transaction data, will spur a market in third party apps that will enable customers as a minimum to:
 - Run comparisons algorithms using customers’ own data (transferred via APIs) to obtain **advice on the most efficient use of their existing products** (e.g. transferring savings to reduce overdraft), **and best options for switching** to other products on the market.
 - Have a **single, real-time view of their financial position**, even if they hold a range of products from different providers. This should enable better management of overdraft costs and credit balance interest.
 - Receive **automated advice on how they can save money** (encompassing both financial services and utility products – among others)³⁰.
- (b) Third party apps developers could also develop **services that help customers with budgeting** (e.g. notifying a customer as they enter a coffee shop that they have spent their weekly budget) or offer **highly bespoke deals**, based on their previous spending habits and or location.
- (c) As the personal data market in financial services matures, the following could also become mainstream trends:
 - Customer **usage files** will become an important means of **augmenting credit scoring**. When this is coupled with third party providers offering strong, remote identity authentication, it may mean that **banks can sell products to new customers (e.g. savings accounts) remotely** and in very short timescales.
 - Further disintermediation may occur – for example, it is possible that **specialist financial service providers could offer overdraft facilities** at competitive rates, which customers could use rather than the overdraft provided as part of their current account.

³⁰ A good example is <http://savetastic.co/>.

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- 5.6 The market as described above is already starting to develop and, once consumer pressure to have straightforward data access grows, changes to the banking market are likely to occur rapidly.

ANNEX 1

Parameters for accurate comparison of PCAs and PCAs

- The most accurate method of comparing PCAs and BCAs is to use a customer's transaction history and to reconstruct that history using the different sets of terms and conditions of rival accounts.
- After reconstruction, the account leaving the customer with the highest closing balance would be considered the best account for that customer from a price perspective relating to that account only (with the 'gains from switching' measured as the difference between the original and reconstructed accounts closing balances).
- In order to undertake this reconstruction and comparison accurately customers' usage files should include:
 - (a) **Full, unredacted, transaction histories and narrations** – files must include the description of the transaction, but not the retailer/supplier involved. This is essential for identifying specific types of account charge (e.g. overdraft usage fees), but also essential when reconstructing accounts that have cash back on payments for utilities and council tax and so on.
 - (b) **Daily overdraft limits** – if the overdraft limit is only provided for the last day of the period, it can therefore only be assumed that this was the overdraft limit for the entire preceding year. If this is not correct, the impact on the account remodelling is significant.
 - (c) **Charges/benefits appearing next to the transactions to which they occur** – for accurate account remodelling purposes, charges like foreign currency transactions need to appear in statements immediately below the transaction to which they relate. All charges/benefits need to be captured, with the most important of these being: BCA specific charges (e.g. cheques written); interest rates (on both debit and overdraft balances); overdraft usage fees and over limit fees; account usage fees; foreign currency transaction fees; fee-free amounts and buffers in overdrafts; cash back offers on spend (e.g. specific retailers, utilities, council tax etc); and returned item fees.
- In addition, when reconstructing for customers who are already on a 'sweetener deal', a decision needs to be made as to whether account comparisons should be made based on the previous year's transactions (which will have been distorted by their existing sweetener deal), or based on what they would have paid had they not been on a sweetener deal. This issue is likely to be particularly relevant for BCAs, where initial periods of free banking are very common, but will also arise in PCAs due to incentive payments and short term discounts on borrowing rates. HSBC's suggestion is that one-off sweetener offers are excluded, but that this should be made explicit in presenting any comparisons.

ANNEX 2

- In calculating price comparisons, there are a series of modelling assumptions and factual information that need to be considered to make comparisons. These issues particularly arise relating to customers who are overdraft users, especially those customers who are heavy overdraft users and incur unarranged overdraft fees and costs.
- Points of detail which need to be considered include the following:
 - (a) **Including detailed information on changes in daily arranged overdraft limits** over time, not merely noting the limits at one point in time. These limits are a key driver of unarranged overdraft fees and charges;
 - (b) **Treatment of Returned Item Fees (RIFs)** – where customers have had a payment or cheque refused in their original account, it is possible that in a reconstructed account the same payment or cheque would have cleared (due to lower fees), increasing the overdraft balance. A policy decision is therefore required to state how RIFs should be treated in reconstructed accounts. HSBC’s view is that increases in overdraft balances due to such payments being made should be excluded in the account reconstruction;
 - (c) **Treatment of weekend withdrawals and use of closing balance for calculation** – banks have differing rules about the balance used for the calculation of interest on non-working days. For example, some banks calculate interest for a weekend based on the closing balance on the preceding Friday. Ideally, these differences would be incorporated. However, it is unlikely that PCWs would be able to capture this level of bank-specific detail and therefore, when remodelling accounts, it would potentially be useful to agree a generic set of rules to apply to all accounts for comparison purposes;
 - (d) **Treatment of collections policy** – banks have different approaches to customers whose accounts are subject to collections relating to monies owed to the bank. For example, some banks commence their collections procedure when a customer has been in breach of overdraft for more than 30 days. Whilst it is unlikely that many customers who have been in the collections process are likely to be undertaking account comparisons, it would potentially be helpful to agree a generic set of triggers for when the collections policy commences when undertaking account reconstruction.