

RETAIL BANKING MARKET INVESTIGATION

Summaries of response hearings

Contents

	<i>Page</i>
Summary of hearing with Barclays Bank Plc (Barclays) on 10 December 2015.....	2
Summary of hearing with HSBC on 10 December 2015	3
Summary of hearing with Lloyds Banking Group on 8 December 2015	4
Summary of hearing with Nationwide on 9 December 2015.....	9
Summary of hearing with The Royal Bank of Scotland on 9 December 2015.....	10
Summary of hearing with Santander UK plc on 9 December 2015	12
Summary of hearing with TSB Bank plc on 10 December 2015.....	14
Summary of hearing with Ulster Bank on 4 December 2015.....	17

Summary of hearing with Barclays Bank Plc (Barclays) on 10 December 2015

1. Barclays emphasised certain developments which have changed the competitive landscape during the course of the market investigation, demonstrating the dynamism of the sector. In relation to the CMA's potential remedy 3, sharing transactional data via open APIs could facilitate real-time, convenient comparison services, replacing Midata's download/upload mechanism and delivering a better consumer experience. This would be likely to increase take-up so deliver a more sustainable, effective remedy. The Open Banking Working Group (OBWG) is currently working on this solution and will publish a report by year-end 2015. In Barclays' view, it would be preferable for the CMA to align any implementation of potential remedy 3 with the initiatives of the OBWG. To encourage customer confidence, it is important that suitable governance accompanies the launch of open APIs.
2. Given the importance of the sector it is critical that the CMA's findings are based on solid foundations. Barclays considered that insufficient evidence had been put forward in support of certain of the CMA's provisional findings, in particular:
 - (a) the allegation that established banks exercise unilateral market power (UMP) over their existing customer base, based solely upon a perception of weak customer response – in particular, the CMA has not given adequate weight to the countervailing evidence, especially in the absence of other indications of UMP (such as high profitability and discrimination between customers);
 - (b) the conclusions reached by the CMA based on its analysis of price and quality outcomes – the CMA draws an inverse relationship between price and quality when the evidence does not show a significant relationship between the two factors, and indeed shows that customers have differentiated services preferences;
 - (c) the CMA's findings in relation to the potential gains from switching – the CMA's analysis does not take account of the fact that switching gains are higher for heavy overdraft users and may be significantly lower for other customers; and
 - (d) the CMA's findings in relation to BCA and SME lending – there is a lack of sufficiently rigorous analysis to support the CMA's findings in relation to BCAs and SME lending.

Summary of hearing with HSBC on 10 December 2015

1. HSBC indicated that they wished to focus on three areas: (i) the impact that the development of APIs is going to have on MiData and the market generally; (ii) SME lending and the proposal for a loans price and eligibility calculator; and (iii) customer reactions to elements of the proposed trigger points identified by the CMA. HSBC indicated that it wished to spend most of the time discussing the first area.
2. As regards the first area, HSBC took the Panel through a range of examples of digital platforms currently operating in the travel industry, to illustrate the impact that APIs can have on a market, and discussed how this might then translate across into SME and retail banking. HSBC explained how a MiData powered by APIs would likely be significantly more effective than the current version (the current version requires customers to put in a lot of work, whereas the API powered version would enable platforms to pull customer data on behalf of the customer). HSBC took the Panel through the customer journey for SMEs, and which stages of that journey could be enhanced through the use of APIs. HSBC then took the CMA through the work of the Open Banking Working Group, and the impact that PSD2 would have on the market; in essence, HSBC consider that PSD2 will to a large extent act as a forcing mechanism for the development of many of the common standards necessary for APIs. PSD2 will be implemented by 2018.
3. As regards the second area, HSBC set out how they believed that an SME loan price and eligibility calculator could be developed in a relatively short space of time. APIs could then be applied in the future to enhance the customer experience, by allowing customers to consent to having their transaction histories and credit scores pulled into a PCW via an API.
4. As regards the third area, HSBC took the Panel through the output of its qualitative customer research into the CMA's provisional thinking on triggers. HSBC noted that customers were sceptical about banks providing them with recommendations for alternative banks' current accounts; and customers would have data security concerns if they were contacted by a third party (especially a PCW or another bank) at a particular trigger point, without having first explicitly consented to being contacted. The research indicated the type of triggers that customers would appreciate, for example branch closures and changes in terms.

Summary of hearing with Lloyds Banking Group on 8 December 2015

Introduction

1. Lloyds Banking Group (LBG) said that it agreed with much of content of the Provisional Findings Report (PFs), and had already made comments to this effect in the roundtable meeting it attended. It was also very supportive of the remedies package attached to the PFs.
2. However, there were certain key areas where LBG disagreed with the CMA's analysis. These were, in particular, the pricing and quality analysis reported in the PFs; and there were other aspects of the CMA's analysis (eg the potential gains from switching) which LBG believed created a misleading impression. LBG also said that it wished to offer further thoughts on the proposed remedies package.

Pricing and Quality Analysis

3. LBG explained that the CMA's analysis of pricing and quality was the most significant area of disagreement it had with the PFs. LBG said the conclusions presented by the CMA on this issue mattered because they would be likely to shape how commentators perceive the competitiveness of LBG's products and services going-forward. Moreover, LBG said that the CMA's analysis did not accurately or fairly reflect how LBG sets prices or responds to competition. Consequently, LBG believed that the analysis needed to be reconsidered ahead of publication of the final report.
4. LBG outlined four areas that, it argued, required reconsideration by the inquiry panel:
 - (a) First, satisfaction was not the same as quality. Quality was a concept which could be measured objectively, whereas satisfaction reflects each consumer's subjective assessment. For example, it was possible to observe high satisfaction for low price and low quality products/services; whilst also observing high satisfaction for high price and high quality products/services. Consequently, there was not necessarily a relationship between satisfaction and price. The averaging of measures used in the PFs misses this important factor.
 - (b) Secondly, the analysis did not take account of differences between credit interest and interchange revenue generated by different groups of customers. These items account for approximately 40% of all the revenues that current account providers generate on average. The level

of revenue that a provider derives from these sources would therefore have a very significant impact on the competitive strategy of each provider and the pricing, quality and service that they provided to their customers. LBG also noted that the analysis omitted recent significant price changes, which LBG stated should be taken in to account in the analysis.

- (c) Thirdly, it was not helpful to derive an ‘average’ price and average quality. LBG explained this issue by comparing the prices offered by two competing airlines. If one were to average the prices offered by these two airlines in order to compare their relative prices and quality, this would miss critical aspects of the competitive dynamic between them. For example, it could miss whether they served different routes; whether there were different classes of passenger (eg first or economy); or whether the times of the flights were at peak or off-peak times etc. A correct comparison would look at the prices where these airlines serve the same routes at similar times for the same class of passengers. In other words, in markets where providers were tailoring their pricing and service quality to selected target customer segments, the inquiry must look at the product propositions that were targeted at specific customer segments and at the price and quality offered within those segments. In LBG’s view, the inquiry had not done this and its analysis therefore compared apples with pears.
- (d) Finally, even if the three points summarised above were ignored, the price/satisfaction relationship identified in the PFs was not robust in a statistical sense.

5. LBG provided an illustrative revised analysis, corrected to take account of the above points, as well as removing from the analysis any value the CMA had attributed to additional benefits offered by some providers but not by all providers offering such benefits. LBG explained that the corrected analysis had a significant impact on the relative rankings of providers.
6. LBG offered to work with the inquiry in revising its analysis, which could be prepared by using disaggregated transaction data.

Other aspects of the analysis in the PFs

7. LBG suggested that it was necessary for the inquiry to reconsider its market share calculation by value as well as volume. LBG explained that a volume based share calculation failed to capture growth and expansion where providers target a small number of the most valuable customers. LBG provided an example of how this was also relevant to SME lending.

8. LBG then set out to show that the inquiry's analysis of potential gains from switching also created a misleading impression. Whilst LBG agreed that there were material gains from switching potentially available to customers in some segments (eg overdraft customers), there would also be a large group of customers for whom the gains would be relatively modest at best and may be non-financial (eg in terms of service or distribution). Accordingly, LBG emphasised that public statements which might lead to headlines suggesting that large potential gains from switching would be available to all customers (eg £70 per customer) would be inaccurate and misleading to customers.
9. In relation to free-if-in-credit (FIIC) accounts, LBG considered that it was important for the inquiry to tackle head on some of the myths around FIIC, in particular, whether FIIC created a competition problem or whether the impact of FIIC was limited to distributional effects. For example, FIIC may lead to lower charges for many customers than might otherwise be the case under alternative pricing models. It could also be explained more clearly by the inquiry that FIIC was not the only pricing model available in the market today. In fact, millions of customers were paying monthly fees for their bank accounts.
10. LBG then commented on the inquiry's proposed analysis in relation to capital surcharging, which LBG generally supported and was ready to assist where it could.

Comments on the Proposed Remedies Package

11. In general, LBG was supportive of the remedies proposed in the Notice of Possible Remedies (the Notice). LBG emphasised that there were some remedies that could be implemented quickly, and others that would require a proper set of multi-provider trials.
12. LBG suggested that it believed there was a self-reinforcing effect. For example, once remedies started to be implemented, this would create an environment within which other trials were likely to have greater impact.
13. LBG then considered the NESTA Prize Fund. It explained that the Prize Fund was ready to be launched and could help to address remedies 4 and 5, and indirectly a number of other remedies proposed by the inquiry. Some providers were ready to commit funding support whereas others were waiting to see whether the inquiry would be supportive.
14. LBG welcomed the inquiry's statement (in response to a question raised by LBG) that it was positive about the Prize Fund; that it saw it as a promising development; and that it generally supported market driven solutions. It also

said that it would not want the fact that it was looking at this market to hold back a positive industry response along these lines and would therefore ensure this was understood by the parties who may support it. The inquiry group said that it would look at Nesta in relation to the overall remedies package.

15. LBG then suggested that the inquiry should also be mindful of the competitive innovation that was currently taking place in the market place, some of which was aiming to offer solutions to exactly the kinds of issues identified in the PFs. The proposed remedies should not impede this competition because it was an important means by which providers could differentiate themselves and thereby compete more effectively.
16. LBG also noted that one of the proposed remedies envisaged a prompt to customers when applying for a BCA or a loan, to encourage these customers also to consider other providers at that point. LBG considered this to be unhelpful to customers, and suggested it would be better to provide a prompt at an earlier stage of the process than at the point of application, for instance to encourage shopping around when SMEs use formation companies to start their business.
17. LBG then covered APIs and midata. Midata was a customer's transaction history and APIs are the protocols which allow such data to be communicated between different parties. LBG believed that APIs and linked Midata services could be implemented in relation to PCAs and BCAs, for LBG at least, within 12 months. It believed that some of the new providers ought to be able to implement such measures at least as quickly because their IT systems are newer and would have less complexity and fewer legacy issues. The task would become much more challenging and complex, however, if APIs and Midata solutions were sought to be applied to all financial products and services. The Government's proposed initiative was much wider than current accounts, and it may be the scope of proposals that was causing concerns for some providers around implementation timescales.
18. LBG then covered data protection issues. It explained that it had read the submissions made to the inquiry on this topic, including the Information Commissioner's submission. LBG wanted to clarify two key points.
 - (a) The first was in relation to Midata and whether one has to redact customer data. LBG did not follow some of the concerns being articulated because all that was happening was that customers were being given data – in an electronic form - that was already in their current account statement. Moreover, Midata should present less risk of data theft because (i) APIs were a more secure interface than currently available; (ii)

there was less risk of things going wrong because the data transfer was automatic; and (iii) comparison services were covered by data protection laws.

(b) The second was in relation to 'non marketing indicators'. LBG explained that this was key to many of the prompting remedies under consideration because it governed whether providers were able to tell customers about the services available to them. LBG explained that, in many cases, its communications to customers were not 'marketing' because it was not trying to sell them a product. Instead, LBG was trying to inform them about servicing options available to them. This was an additional area where further discussion may be needed, and LBG would like to work with the inquiry and the Information Commissioner on this. It would be unfortunate if, say, 50 per cent of LBG's customers' needs were left unaddressed because of what the current rule says.

19. LBG emphasised a need to overcome these challenges and to ensure that the Information Commissioner was supportive of the approach suggested by the inquiry and the industry.

Summary of hearing with Nationwide on 9 December 2015

1. Nationwide told us that they have been in the PCA market since 1987 and, despite significant investment in product propositions and supporting infrastructure that deliver both high value and high service to their members, their share of main/package current accounts is only at 6.9%. It is Nationwide's view that a key challenge in gaining market share is the scale advantages of incumbent institutions which include:
 - benefiting from an inert customer group on profitable legacy products (either not advertised or no longer for sale); and
 - a cost of implementing change which is much lower than smaller institutions relative to the number of accounts serviced.
2. Nationwide also told us that they believed the move to greater levels of personalisation and more bespoke offerings would increase levels of inertia as customers become ever more embedded with their current provider. This trend would entrench incumbent advantage further.
3. Nationwide stated that, although they broadly support the remedies which have been proposed and accept that these may have some effect on engagement, further remedies were needed to significantly shift the current market dynamics. Nationwide proposed an additional remedy requiring incumbents to engage more proactively with legacy customers. In addition, Nationwide challenged the CMA's conclusion that divestment remedies were not proportionate by drawing the comparison to the time and cost challenges of organic growth.

Summary of hearing with The Royal Bank of Scotland on 9 December 2015

Non-price factors and comparison by PCWs

1. RBS highlighted the importance of non-price factors for customers. RBS explained that these factors must not be neglected in the design of the remedies package. An over-emphasis on pricing would be at odds with customer preference and could risk dampening innovation and competition, as well as prejudice relationship-focused providers.
2. RBS considered that this was particularly important in relation to price comparison websites (PCWs). RBS suggested that comparison websites should include a set of objective and selective (ie customer-chosen) non-price measures on which providers could be compared. As regards price comparison, RBS thought that more could be done by PCWs and providers to provide consumers with a meaningful comparison.

Unarranged overdrafts

3. RBS referred to the earlier roundtable discussion regarding unarranged overdrafts and suggested that more support could be given to overdraft customers as part of the remedies package.
4. RBS suggested that a useful addition to the remedies package would be for banks to require that customers actively opt in to an unarranged overdraft. It felt that this would improve customer understanding and could act as a lever to support a lower cost of overdraft as well as to lead to more transparent arranged borrowing.

Standardisation of BCA account opening

5. RBS explained that it thought that there was scope to simplify the current system of BCA opening for a large proportion of SMEs, although careful consideration would be needed regarding standardisation of anti-money laundering (AML) aspects. With respect to the latter, there was discussion regarding the need for involvement and support from the Financial Conduct Authority.
6. The CMA queried whether such standardisation could act as a constraint to competition. RBS considered that a distinction could be made between standardising the majority of the information being gathered where there was a significant amount of commonality, for example, banks asking for

identification information in the same way, as opposed to uniform risk assessment which would not be appropriate.

Summary of hearing with Santander UK plc on 9 December 2015

1. Santander UK plc (Santander) started the hearing by emphasising the importance of the customer switching journey, where one weak link in the design of the remedy package could undermine its overall effectiveness.
2. Santander then reiterated that some remedies, such as guaranteed partial switching and ANP, were unnecessary, risked unintended consequences and were disproportionate. Santander therefore emphasised the importance of prioritising a proportionate package of remedies and encouraged the CMA not to be distracted by other measures that would be costly to implement and place a disproportionate burden on challenger banks.
3. Santander raised two issues for more substantive discussion. The first was the need for additional measures to encourage greater levels of engagement by SMEs, where Santander told us that:
 - Intermediaries, such as accountants, play an important role as a trusted advisor to SMEs considering their finances, where they are often the first point of call and can reach the key decision maker. Accountants far outnumbered relationship managers (ICAEW has 144,000 chartered accountants, Santander estimated there are around 10,000-12,000 relationship managers in the UK), and so the potential role they have in prompting SMEs to consider switching is significant.
 - SMEs are increasingly using accounting software, which could be used to prompt SMEs to consider their banking arrangements.
 - Public bodies (such as HMRC, Companies House, and the GOV.UK website) could do more to encourage SMEs to consider their banking arrangements during the course of existing financial reporting interactions.
4. In the context of enabling SMEs to switch, Santander described the Business Data Initiative, which was designed to give SMEs control of their own financial information and as such make applications to financial institutions easier. In respect of Open APIs, Santander explained its role in the on-going work as part of the Open Banking Working Group and invited the CMA to lend its support to the need for appropriate governance and controls to help ensure the sustainable development of this important innovation.
5. The second issue concerned the role of regulation. Santander explained the impact of capital requirements on its business, and that there was a material advantage for lenders who use the IRB approach in SME lending.

Santander's position is that various capital requirements should not be 'offset' against each other, but rather that each requirement ought to be reasonable and proportionate on its own terms. Santander also mentioned that ring-fencing rules and the corporation tax surcharge have a disproportionate effect on challenger banks operating with lower margins which affects their ability to compete.

Summary of hearing with TSB Bank plc on 10 December 2015

Tackling the competition problems in UK retail banking

1. TSB opened by stating that the bank did not believe that the UK PCA market was competitive or working in the interest of consumers. TSB explained that this was because in 2014, 43 out of 45 million PCA customers did not switch despite 35 million being able to benefit from a better deal. TSB contended that the central problem is a lack of transparency in banking which prevents customers from having the necessary information to make informed choices about their PCAs. TSB cited CMA research which found that around 12 million customers incorrectly believe they earn interest on their PCA as a clear example of customers not being given the information they need to understand the value of their bank account.
2. TSB felt that its proposals for a Credit Passport and Monthly Bill, particularly when taken together, would empower customers at key stages of the customer journey (as identified by the CMA) and drive customer engagement in banking. TSB felt that these remedies would complement the CMA's existing proposals and would be effective, proportionate and deliverable within a short time-frame without the need for detailed and lengthy customer testing because the information and data needed for both proposals already existed.
3. TSB stated that the proportionality of the CMA's proposals should be taken in the context of the PCA market generating £8.7bn income in 2014 alone – despite many customers believing the services were free.

The Monthly Bill

4. TSB explained that a Monthly Bill, which would complement CMA's proposed remedy 1, would provide all customers, on a monthly basis, with all the costs associated with their PCA services, including the charges incurred, interest foregone (to help debunk the myth of free-if-in-credit banking), bank service score, and the benefits and rewards associated with the account, in a clear standardised format. It would act as a readily digestible snapshot of the cost of the PCA in a form with which customers would become familiar.
5. TSB argued that this would promote increased and sustained customer engagement as customers would regularly be given the tools they need to understand the true cost of their banking services and enable them to see how a change in their circumstances, or a deterioration of service, affected the cost of their banking over time. This, in turn, would act as a regular prompt

for customers to assess the value of their PCA, drive customers to comparison websites such as an improved Midata, and increase the likelihood of switching and engagement with CASS. TSB further noted that the standardised format of the Monthly Bill would make it easier for comparison websites to structure cost comparisons between PCA providers' products.

6. TSB said that its own customer research indicated a strong appetite for receiving a Monthly Bill. TSB argued that the clear consumer benefit would outweigh the costs of implementation and noted that, as banks already have the relevant data and the channels to communicate it to customers, it should not be overly expensive or difficult to deliver within a short time-frame.

The Credit Passport

7. TSB explained that a Credit Passport, which would complement CMA's proposed remedies 7 and 9, would enable PCA providers to make informed decisions about whether they can match a potential customer's existing overdraft limit at the point of application. This would specifically address a core problem in the PCA market, whereby overdraft customers – the customer segment that would benefit most from switching – feel trapped by their current provider, because they are unable to get the same level of overdraft with a new bank, since banks do not have enough data at the point of switching to make a fully informed lending decision. TSB noted that as well as benefiting overdraft users, it would also be advantageous to those customers who do not use their overdraft facility but prefer to have an overdraft marked on their account for reassurance purposes. TSB contended that these customers may also not feel able to switch as they will be concerned about the potential loss of their overdraft facility.
8. The Credit Passport would mandate PCA providers to supply a centralised resource, such as the credit reference agencies (CRAs), with information on customers' account usage and transactional history, including (but not limited to) evidence on income sources & sustainability, non-discretionary expenditure and overdraft usage. The CRA would then make this data available in a usable format to any prospective alternative PCA provider, when requested by the customer to do so. This would provide banks with more relevant and accurate transaction history data than currently available about customers interested in an overdraft. This, in turn, would provide a similar level of information to a potential new provider about the credit worthiness and affordability of a new customer as the incumbent provider has about that customer, and so breaking the information asymmetry that exists in the market today.

9. TSB considered that the Credit Passport would be easily deliverable at proportionate cost because the CRAs already have the channels to provide banks with secure and validated information. The clear benefits to an important group of customers would outweigh the costs of implementation.
10. TSB argued that while both the Credit Passport and the Monthly Bill would be effective remedies on their own, when taken together these remedies combine to provide the CMA with the opportunity to create a step change in a market that is demonstrably not delivering the best outcomes for consumers.

Summary of hearing with Ulster Bank on 4 December 2015

Ulster Bank Strategic Alignment

1. Ulster Bank provided an update on the strategic alignment with RBS following the initial background provided to the CMA in the hearing with RBS held on 30 June 2015. Specifically Ulster Bank outlined what had happened since the RBS hearing.

Northern Ireland PCA Order

2. Ulster Bank provided an overview of the changes which had taken place for retail banking in Northern Ireland since the Order came into force. Ulster Bank outlined various regulatory changes and developments in particular.
3. Ulster Bank suggested that the Order needed to be reviewed in light of the notice of possible remedies published as part of the Retail Banking Market Investigation.