RETAIL BANKING MARKET INVESTIGATION

Notice of intention to undertake a second iteration of the personal current account pricing analysis using transactions data

Provisional findings

1. In our provisional findings we undertook an analysis of personal current account (PCA) pricing.

2. We used anonymous transactions data collected from a number of banks operating in the UK as part of the market investigation. This data contains information for a sample of anonymous PCAs on account usage including average credit balance, average debit balance, number of days in arranged and unarranged overdraft usage, inbound payments and transfers into the account (excluding charges).

3. Using a sample of the transactions data collected we calculated:

    (a) the net cost per month of each account using prices at a particular date; and

    (b) the net cost per month for that account if the account holder switched to another PCA.

4. We used the outputs of these calculations to:

    (a) **Estimate potential savings from switching**. This provided evidence on the scale of the lack of customer engagement with PCAs and evidence on the types of customers who would have most to gain from switching. We note in the provisional findings that, although we do not expect that all financial gains from switching can be realised in a well-functioning market, in particular given that quality of service is also important to PCA consumers, the magnitude of the potential financial gains from switching does cast doubt as to whether most consumers have sufficient awareness of alternatives available.

(b) **Estimate average prices**. We compared prices across banks, and assessed whether larger banks charge higher prices, on average, controlling for customer mix.

Intention to undertake second iteration

5. We consulted on our provisional findings, and as a result of this, we intend to undertake a second iteration of the analysis in order to refine and update the analysis.

6. In this section we outline the updates and refinements we intend to make to the pricing analysis. Apart from the updates and refinements detailed here, all other aspects of our methodology will remain the same as with the first iteration (see 'PCA pricing analysis using transactions data: invitation to comment' and provisional findings, Appendix 5.4).

Samples

7. In addition to the sample provided to Runpath Digital Ltd (Runpath) in the first iteration, we will provide a second sample of records where the corresponding account holder was surveyed as part of the PCA consumer survey. This will allow us to have price and quality information at the individual customer level to use in our analysis of price-quality trade-offs.

Prices

8. We used August 2015 prices in the original analysis. We are aware that some banks have made changes to their prices since then. In the second iteration we will use the most up-to-date prices available.

Valuation of other benefits and cashback

9. We have requested updated data from banks on the benefits and cashback for their products, which we will use to incorporate benefits and cashback in the analysis.

Back book customers

10. Some account holders (around 2,000 out of around 11,000) were dropped from the Runpath analysis because it was not possible to match them with a currently available account, mostly because the account was off sale (back book customers).

11. We intend to check the sensitivity of our analysis by including the back book customers under various assumptions.

Transactions data

12. The transactions data contains some aggregation, which means that the Runpath analysis may lose some precision due to some transactions not being included. However, using more disaggregated transaction-level data would require a substantial new data request to all banks and significant data processing, and we do not think the scale of the inaccuracy materially alters the results.

13. To further increase precision, we intend to include paid and unpaid items in the second iteration, by using the average cost of paid and unpaid items submitted by banks for each product.

14. We were informed by a bank that the transactions data it submitted to us contained errors. In the second iteration of the analysis, we will use corrected data.

Interpretation of the analysis from the second iteration

15. In interpreting the results of the analysis from the second iteration, we will consider in more detail how prices vary across banks at the product level, and the differential prices and gains across various customer types.

How we propose to undertake the analysis

16. We intend to contract with Runpath again for the update of the analysis.

Data

17. The data we will use will be a sample of the anonymous transactions data collected from a number of banks operating in the UK. We will also use the data received from banks in response to our information requests dated 22 December 2015 (Account Benefits) and 14 January 2016 (Northern Ireland PCA) respectively.

Data security

18. The Competition and Markets Authority (CMA) intends to use its powers under the Enterprise Act 2002 to transfer the transactions data to Runpath, in order for it to carry out this analysis for the purpose of the market investigation. The data will be supplied to Runpath in anonymised format; the

CMA does not hold the name, contact details or account number/sort code of the account holders to whom the transactions data relates, so it is not be possible for either the CMA or Runpath to identify individuals from the transactions data.

19.   All data will be transferred securely to Runpath, which will be contractually obliged to hold it securely in accordance with the CMA's IT security policy, and to take appropriate technical and organisational measures against accidental loss or destruction of, or damage to, the transactions data.