Retail banking market investigation final report

Appendices 1.1 to 6.9

Appendix 1.1: Terms of reference and conduct of our investigation

Terms of reference

1. On 6 November 2014, the CMA referred the market investigation into the supply of retail banking services to PCA customers and to SMEs in the UK.

> The Competition and Markets Authority (CMA) in the exercise of its power under sections 131 and 133 of the Enterprise Act 2002 hereby makes an ordinary reference to the Chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 for an investigation of the supply of retail banking services to personal current account customers and to small and medium-sized enterprises.
>
> The CMA has reasonable grounds to suspect that a feature or a combination of features of the market for the supply of those services in the United Kingdom prevents, restricts or distorts competition.
>
> For the purposes of this reference:
>
> - 'retail banking services' means:
>   - in respect of personal current account customers, provision of an account marketed to individuals rather than businesses, which provides the facility to hold deposits, to receive and make payments by cheque and/or debit card, to use automated teller machine facilities and to make regular payments by direct debit and/or standing order, but does not include:
>   - an account in which money is held on deposit in a currency other than the official currency of the United Kingdom or
>   - an account in which credit funds are held and offset against mortgage debt or a loan (other than an overdraft facility), ie a current account mortgage
>   - in respect of small and medium-sized enterprises, the provision of banking services, which includes, but is not limited to, the provision of business current accounts, overdrafts, general purpose business loans and deposit accounts, but which excludes the provision of other non-

lending products such as insurance, merchant acquiring, hedging and foreign exchange

- ‘small and medium-sized enterprise’ means a business that, in respect of a given financial year applying to it, has annual sales revenues (exclusive of VAT and other turnover-related taxes) not exceeding £25 million. For this purpose a ‘business’ shall have the same meaning as an ‘undertaking’ under the Competition Act 1998.

Conduct of our investigation

2. This appendix provides a more detailed chronological description of the conduct of our investigation from the reference to the publication of the final report.

3. On 6 November 2014, the CMA board made the reference for a market investigation into the supply of retail banking services to PCA customers and to SMEs. On 10 November 2014, the CMA appointed a group of five independent members[1] from its panel for the investigation. On 12 November 2014 the issues statement, setting out the areas of concern on which the investigation would focus, was published. We received 26 responses from banks, trade associations and consumer groups in response to the issues statement. Non-confidential versions of responses to the issues statement have been published on our website.

4. An administrative timetable for the investigation was published on 12 November 2014. Revised versions were published on 28 August 2015 and 7 March 2016. On 22 December 2014 we published our first investigation update. Subsequent updates were published on 19 March 2015, 19 June 2015, 28 August 2015, 17 November 2015, 29 January 2016, 7 March 2016 and 24 May 2016.

5. Between November 2014 and January 2015, we held meetings with a large number of parties to help identify data and information held by each relevant party which could assist us in our investigation. At this time, we sent out market and financial questionnaires to 17 banks and other key parties. Many of these information and data requests were followed up with further written requests, telephone calls and/or meetings.

6. Between January and March 2015, we visited 12 banks throughout the UK. We also held a number of meetings with regulators including the FCA, PRA,

[1] Market investigation reference group appointed.

and PSR. During the investigation, we made contact with a large number of other third parties including other financial service providers, IT providers, government departments (including the Scottish, Welsh and Northern Ireland governments), PCWs, academics, SMEs, consumer representative bodies and a number of trade associations.

7. On 22 December 2014, we announced our intention to commission GfK NOP Ltd to carry out a customer survey and to undertake qualitative research into PCA customers. On 15 and 16 January 2015, we invited comments on the design of the survey and the draft of the questionnaire respectively. The results of this survey were published on our website on 21 May 2015. Revised survey data tables were published on 19 June 2015 but these were replaced by a further revised set of survey data tables on 24 September 2015.

8. On 15 January 2015, we announced our intention to use data held by Charterhouse to assist with our understanding of SME customers. In addition to acquiring data held by Charterhouse, we also commissioned it to carry out additional surveys on our behalf. Draft questionnaires were published on our website on 2 February 2015.

9. On 16 April 2015, we published a Notice of appointment confirming that Research Works had been appointed to conduct qualitative research into the behaviour of SMEs on our behalf. Its report was published on 10 July 2015.

10. We also announced our intention to carry out a number of case studies on market entry and expansion and invited comments on the proposed list. These case studies[2] were published in May and June 2015. Between March and September 2015 we also consulted on our approach to a number of key pieces of other analysis including on profitability, BCA and PCA pricing, PCA switching and our analysis of the actual behaviour of PCA customers versus their perceived behaviour. We also consulted on the commissioning of a report on the impact of innovation in the UK which was undertaken by Deloitte and published on 31 July 2015.

11. On 21 May 2015, we published our updated issues statement. We received 23 responses from banks, other market participants, trade associations and consumer groups and have published non-confidential versions of their responses on our website.

12. Between June and August 2015 we held 14 hearings, four of which were roundtable hearings held with members of the BBA ‘challenger bank’ group, the Welsh government and SME representatives in Wales, consumer

[2] One case study has not been published due to confidentiality.

organisations, and SME representative bodies respectively. Summaries of those hearings and roundtables have been published on our website.

13. In July and August 2015, we disclosed data into a confidentiality ring relating to the SME Charterhouse survey. These sets of data were accessed by the representatives of eight parties.

14. Prior to the publication of our provisional findings, and in order to facilitate contributions from parties, we published our views on a range of issues at various stages and, where appropriate the results of our analysis. Our intention was to assist the parties in understanding our concerns and our position during the investigation, to encourage comments and to air transparency generally. This material included the following working papers:

(a) Regulatory framework applicable to the retail banking industry in the UK

(b) Relationship between concentration and outcomes: review of empirical literature

(c) Summary of entry and expansion in retail banking

(d) Barriers to entry and expansion: capital requirements, IT and payment systems

(e) Dutch retail banking market case study

(f) BCA and PCA pricing analysis

(g) Barriers to entry and expansion: branches

(h) Retail banking financial performance

(i) Actual and perceived behaviour of PCA customers (revised)

(j) Quantitative and qualitative analysis of searching and switching in PCAs

15. On 22 October 2015, we notified our provisional findings and published our provisional findings in full on 28 October 2015. As we had provisionally concluded that our investigation had led to us finding AECs in the market, we also published a Remedies Notice on 22 October 2015. Interested parties were invited to comment on both of these documents. On 20 November 2015, we disclosed certain redacted sections of our provisional findings into a confidentiality ring.

16. On 28 October 2015, in order to allow parties, through their external advisers, to review and understand further our analysis and/or modelling and to prepare submissions and representations concerning the analyses, we disclosed the

following data in a disclosure room (in each case including the raw data, cleaned data, CMA analysis and coding programs together with the means of reproducing the full set of results from the CMA analysis):

(a) the anonymised current account usage data provided by banks and anonymised responses of individual customers to the questionnaire used in the GfK Customer Survey which underlay our Actual versus Perceived analysis;

(b) the data received from banks on branches, which together with the data listed above underlay our switching analysis; and

(c) the sample of the anonymised current account usage data and the data provided to us by Runpath on the cost of each PCA for this sample of customers underlying the Runpath Analysis.

These sets of data were accessed by the representatives of eight parties.

17. We received over 60 written submissions from parties including banks, trade associations and members of the public commenting on our provisional findings and Remedies Notice. Non-confidential versions of responses to our provisional findings and Remedies Notice have been published on our website.

18. On 4 November 2015 the Chair of the inquiry group and senior CMA officials appeared before the Treasury Select Committee to answer questions on the provisional findings and Remedies Notice.

19. During November and December 2015 we held 15 response hearings, six of which were roundtable hearings, with parties to discuss our provisional findings and Remedies Notice and their responses to these documents. Summaries and transcripts of those hearings and roundtables have been published on our website.

20. On 25 November 2015, we appointed Optimisa to conduct qualitative research to inform the development of some of the proposed remedies aimed at increasing engagement in the retail banking market. A copy of the Optimisa report was published on our website on 7 March 2016.

21. On 8 December 2015, we appointed BDRC and GfK to conduct quantitative research (Omnibus survey) to guide the development of the measures aimed at improving the account opening and switching process (remedies 6 to 11 in our Remedies Notice), building on the qualitative and quantitative evidence from the FCA CASS review. The results of the Omnibus survey were published on our website on 7 March 2016.

22. On 18 December 2015, further to consideration of the responses received to our Remedies Notice, we published an invitation to comment on additional remedy suggestions. A number of respondents had raised some concerns regarding the extent to which our proposed remedies may address difficulties faced by arranged and/or unarranged PCA overdraft users. In addition, some respondents suggested alternative remedies or further variants on our proposed remedies that may address issues faced by PCA customers with overdrafts. Non-confidential versions of responses to our invitation to comment were published on our website.

23. On 22 January 2016 we published a Notice of intention to undertake a second iteration of the PCA pricing analysis using transactions data in order to refine and update the analysis. This work was again undertaken by Runpath.

24. On 26 February 2016 we published a working paper setting out our assessment of the potential impacts of the changes to the tax regime for banks which came into effect from January 2016. Non-confidential versions of responses to our corporation tax surcharge and bank levy working paper were published on our website.

25. On 7 March 2016 we announced that we would be extending the reference period under section 137(2A) of EA02. In taking this decision the inquiry group had considered the further work required to develop the analyses and the further work required to develop a suitable package of remedies that would be reasonable and comprehensive in addressing any findings of AECs in the retail banking markets for PCA customers and SMEs. As a result, the reference period was extended until 12 August 2016.

26. On 7 March 2016 we also published a supplemental notice of possible remedies which looked at a number of proposed remedies targeted at PCA overdraft users, a working paper setting out our further thinking on our proposed remedy for a PCW for SMEs (remedy 4 in our Remedies Notice) and the results of our remedies research: qualitative research conducted by Optimisa and the SME and the PCA Omnibus surveys conducted by BDRC and GfK, respectively. Non-confidential versions of responses to our supplemental notice of possible remedies and the role of comparison sites for SMEs in addressing the AEC working paper were published on our website.

27. Further to the publication of our provisional findings, we further investigated whether there were features of the UK retail banking markets arising from the regulatory capital requirements regime that were restricting competition in the provision of PCAs, BCAs and SME lending in each of GB and NI by creating a barrier to entry and expansion in retail banking. On 15 April 2016 we published an addendum to our provisional findings on the capital

requirements regulatory regime. Non-confidential versions of responses to the addendum to our provisional findings have been published on our website.

28. We considered responses to our Remedies Notice and the evidence we had gathered to allow us to publish a provisional decision on remedies on 17 May 2016.

29. In parallel to this investigation we conducted reviews of the 2002 SME Undertakings and the 2008 NI Order to see whether these older remedies will still be needed in light of market changes and the new remedies that we proposed. Our provisional decisions on both reviews were published on 17 May 2016 alongside our provisional decision on remedies.

30. We received over 60 written submissions from parties, including banks, trade associations, consultants and members of the public in response to our provisional decision on remedies. Non-confidential versions of responses have been published on our website.

31. On 24 May 2016 we published a working paper presenting the updated results of our PCA pricing analysis and a notice of intention to operate a confidentiality ring to release an unredacted version of the working paper. Non-confidential versions of responses to our update on PCA pricing working paper have been published on our website.

32. On 25 May 2016, in order to allow parties, through their external advisers, to review and understand further our analysis and/or modelling and to prepare submissions and representations concerning the analyses, we disclosed the following data in a disclosure room (in each case including the raw data, cleaned data, CMA analysis and coding programs together with the means of reproducing the full set of results from the CMA analysis):

(a) the cleaned sample of the anonymised current account usage data and the data provided to us by Runpath on the cost of each PCA for this sample of customers underlying the analysis;

(b) the anonymised current account usage data provided by banks underlying the analysis;

(c) the cleaned anonymised responses of individual customers to the questionnaire used in the GfK Customer Survey that were used in the our analysis; and

(d) LBG's output data provided to it by Runpath on disaggregated data on the individual transactions for the same sample of customers that LBG previously provided the CMA with aggregated data on.

These sets of data were accessed by the representatives of four parties and we received submissions from three parties.

33. We would like to thank all those who have assisted in our investigation.

Appendix 2.1: Market participants

Contents

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Introduction

1. This appendix provides an overview of the main market participants in the UK retail banking sector.[1] The appendix is structured as follows:

   (a) Overview of retail banking.

   (b) Larger established banks with national presence: Barclays, HSBCG, LBG, RBSG and Santander.

   (c) NI-focused banks: AIB, BoI and Danske.[2]

   (d) Other banks, including new entrants and banks with more limited geographical coverage or which focus on particular product, customer segment and/or distribution channels. These include: Co-op Bank, Clydesdale, TSB, Handelsbanken, Metro Bank, Post Office Money, Tesco Bank, Virgin Money, Aldermore and other small banks.

   (e) Building societies including Nationwide, Yorkshire, Coventry, Skipton and Leeds.

   (f) Other alternative finance providers.

Overview of retail banking

2. Retail banking generally refers to the provision of products and services that banks provide to personal customers and businesses, including SMEs,

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[1] Where branch numbers are quoted in this appendix they exclude Isle of Man and Channel Islands. Further details of branch numbers are in Appendix 9.4.
[2] Ulster Bank (Ulster) also operates in NI and is wholly owned by RBSG.

through a variety of channels including branches, telephony, internet and mobile technology.

3. The term ‘retail banking’ is generally used to distinguish these banking services from investment banking or wholesale banking. Many large UK banks have separate retail banking divisions or business units, with their own management and reporting structures, although there are differences in the way these banks define, organise and describe their retail activities.

Larger UK banks with a national presence

4. The following includes background information, the financial results and key performance metrics of the five largest UK retail banks during the period 2012 to 2014.

Barclays Bank plc

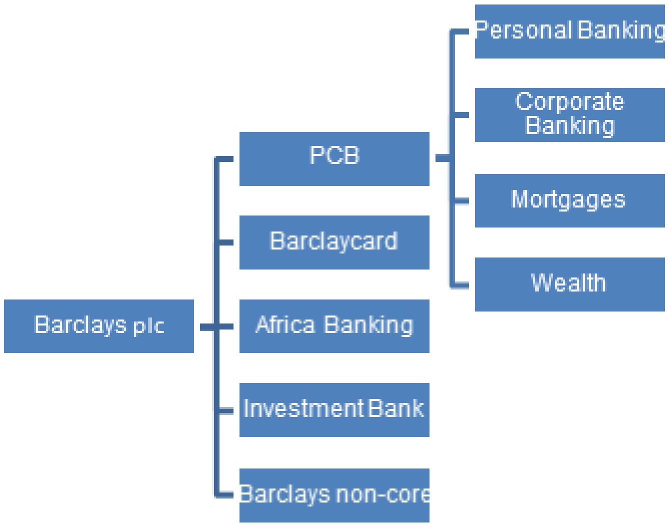
5. Barclays Bank plc (Barclays) is a transatlantic consumer, corporate and investment bank offering products and services across personal, corporate and investment banking, credit cards and wealth management. It has operations in over 40 countries, and has around 48 million customers worldwide.

6. Barclays traces its origins in the UK back to 1690. Its first major expansion came in 1896 when a number of UK banks amalgamated under the name of Barclays and Co. Further major expansion occurred between1905 and 1936 with further acquisitions and mergers of a number of English and overseas banks. Since the 1930s there have been a number of further acquisitions and divestments.

7. Today Barclays operates its UK business as a single market brand, ‘Barclays’. It had 1,362 branches in the UK at the end of 2015.

8. Since May 2014, Barclays has run its operations through five divisions: Personal and Corporate Banking (PCB), Barclaycard, Africa Banking, Investment Bank and Barclays Non-Core (see Figure 1 below).

Figure 1: Barclays divisional structure 2014*



Source: Barclays plc 2014 Annual Report.
*We refer to banks' reporting segments or business units as divisions. Barclays' non-core division includes non-strategic business units, including European Retail and Corporate operations. Barclays plc 2014 Annual Report, p17.

9. However, as announced in its 2015 Annual Report, Barclays restricted itself as follows to prepare early for UK ring-fencing requirements:

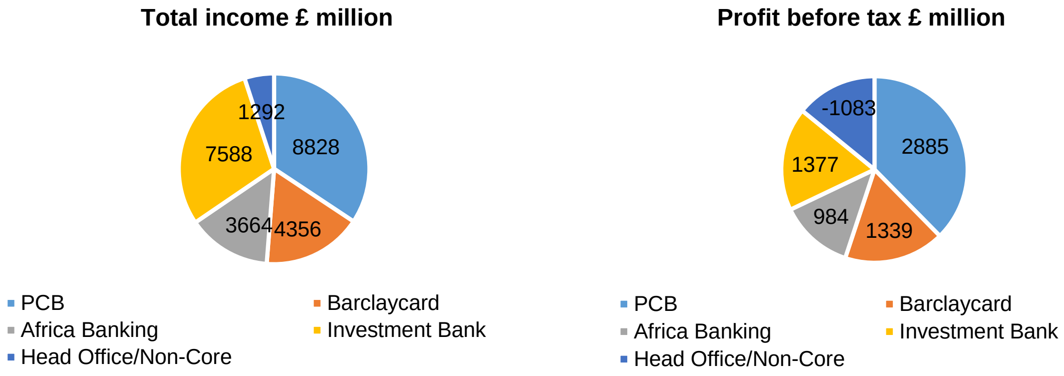
Figure 2: Barclays divisional structure 2015*

Barclays UK	Barclays Corporate & International
Focused UK consumer and business bank with scale	**Diversified transatlantic wholesale and consumer bank**
Personal Banking Barclaycard UK Wealth, Entrepreneurs and Business Banking	Corporate and Investment Bank Barclaycard International Payments and Merchant Acquiring

Source: Barclays plc 2015 Annual Report.
*See note in Figure 1 above.

10. Figure 3 provides a breakdown of Barclays' total income and profits by main division.

Figure 3: Barclays total income and profit before tax by business



Source: Barclays plc 2014 Annual Report, pp229–230.
Note: Total income and profit before tax exclude group level statutory adjustments.

11. As Figure 3 shows, PCB is Barclays' largest business unit, and reported total income of £8.8 billion and profit before tax of £2.9 billion in 2014 which constituted 34% and 52% of the group's total.[3] PCB provides banking services to individuals and businesses in the UK and selected international markets, and is subdivided into four main businesses: Personal Banking, Mortgages, Corporate Banking and Wealth.[4]

12. Personal banking customers, including PCA customers, are served by the Personal Banking division. Barclays has recently announced a change to the structure of how it will manage business customers in the future, with small business customers being managed by a new Business Banking Unit within Barclays UK. All other business customers will be managed by Barclays Corporate & International.

13. Table 1 summarises PCB's recent financial performance.

[3] Excluding group level statutory adjustments.
[4] Personal Banking and Mortgages businesses constitute Barclays' 'UK retail banking' operations. Barclays plc 2015 Annual Report, pp17 & 18.

Table 1: Barclays PCB financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	5,730	5,893	6,298	7	3
Net fee and commission income	2,777	2,723	2,443		
Other income	72	107	87		
Total income	**8,579**	**8,723**	**8,828**	**1**	**2**
Credit impairment charges and other provisions	–626	–621	–482	–22	–1
Net operating income	7,953	8,102	8,346		
Operating expenses	–5,456	–5,460	–5,005		
UK bank levy	–49	–66	–70		
Costs to achieve Transform	–	–384	–400		
Total operating expenses	**–5,505**	**–5,910**	**–5,475**	**–7**	**7**
Other net income	7	41	14		
Profit before tax	**2,455**	**2,233**	**2,885**	**29**	**–9**

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	NA	2.9	3.0	0.1	NA
Cost/income ratio*	64.1	67.4	61.9	–5.5	3.3
Impairment and other provisions % to total income†	7.3	7.1	5.5	–1.6	–0.2
Net interest income % to total income‡	66.7	67.2	71.2	4.0	0.5

Source: Barclays plc 2014 annual report, p232, CMA analysis.
*Total operating expenses (total income + other net income). The cost/income ratio reported in Barclays' annual reports (which does not include other net income in the denominator) was 64%, 68% and 62% for 2012, 2013 and 2014 respectively.
†Credit impairment charges and other provisions/(total income + other net income).
‡Net interest income/(total income + other net income).
Note: NA means not available or reported in published accounts.

14. Key points from PCB's 2014 performance included the following:[5]

(a) Profit before tax grew 29%, which was driven by growth in personal banking income, lower impairments due to the improving economic environment in the UK, and the continued reduction in operating expenses due to progress on the Transform strategy.[6]

(b) Net interest income (NII) increased 7% to £6.3 billion driven by lending and deposit growth and margin improvement. NII made up around 71% of total income (the rest was accounted for mainly by fees and commission income).

(c) Net interest margin (NIM) improved to 3% primarily due to the launch of a revised overdraft proposition. This recognised the majority of overdraft income as NII as opposed to fee income, and higher saving margins with personal banking and wealth.

(d) Credit impairments and other provisions were 5.5% of total income (compared with 7.1% reported in 2013), due to the improving economic

[5] Based on Barclays plc 2014 Annual Report, p232. Comparisons are with 2013 results.
[6] Barclays launched its 'Transform' programme in 2013 to generate sustainable returns and to meet the needs of all its stakeholders – Barclays plc 2014 Annual Report, p8.

environment in the UK. This particularly impacted Corporate Banking, which benefited from one-off releases and lower defaults from large UK corporate clients.

(e) Cost/income ratio was lower, at 62% in 2014, compared with 67% reported in 2013. This reflected savings in total operating expenses realised from restructuring of the branch network, and technology improvements to increase automation.

HSBC Group

15. HSBC Group (HSBCG) is a British multinational banking and financial services company headquartered in London. HSBCG has over 6,000 offices in 71 countries and territories across the Middle East and Northern Africa, Asia, Europe, North America and Latin America. It has around 47 million customers.

16. HSBC Bank plc (HSBC) is a wholly owned subsidiary of HSBCG. The business ranges from traditional personal finance and commercial banking, to private banking, consumer finance as well as corporate and investment banking.

17. HSBCG acquired a 14.9% equity interest in Midland Bank in 1987. In 1989 Midland Bank launched first direct. In 1992, HSBCG acquired full ownership of Midland Bank (including first direct). Midland Bank was renamed HSBC Bank in 1999 as part of the adoption of the HSBC brand throughout the HSBCG. In 2004, Marks and Spencer Bank became a wholly owned subsidiary of HSBC but with its own banking licence and a profit-sharing agreement with Mark and Spencer plc. HSBC currently, therefore, trades across three brands: HSBC, first direct and M&S Bank.

18. At the end of 2014 HSBC had 1,108 branches (including M&S Bank branded branches) in the UK.

19. HSBC Bank plc is structured into four divisions: Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Global Banking and Markets (GB&M) and Global Private Banking (GPB).

20. The RBWM division takes deposits and provides transactional banking services to customers in the UK and Europe.[7] Its main types of services

[7] HSBC Bank plc 2014 Annual Report, p5.

include personal banking, HSBC Premier, HSBC Advance and Wealth Solutions & Financial Planning.[8]

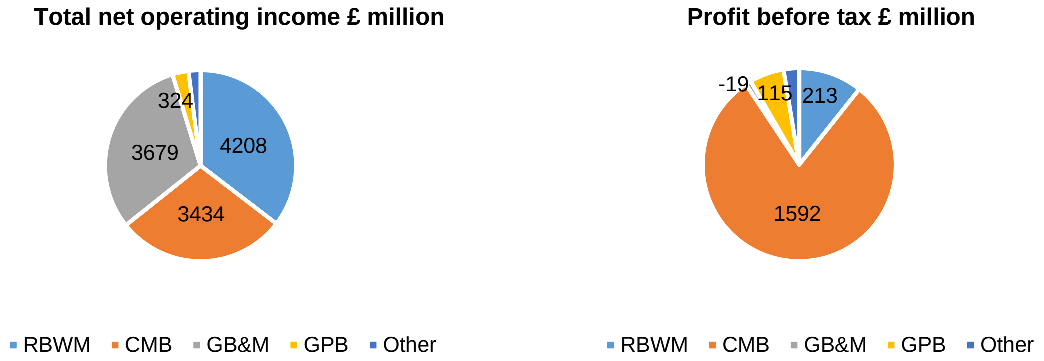
21. The CMB division provides a broad range of banking and financial services to business customers ranging from small businesses to large corporates operating both in the UK and internationally.

22. HSBC's GB&M division is a global business that provides wholesale capital markets and transaction banking services to major governments, corporate and institutional clients.[9]

23. The GPB division provides private banking, investment and wealth management services to high net worth individuals.[10]

24. Figure 4 shows HSBC's 2014 net operating income[11] and profit before tax by division. As can be seen, RBWM, CMB and GB&M are HSBC's largest divisions by revenue.

Figure 4: HSBC 2014 total net operating income and profit before tax by division



Source: HSBC Bank plc 2014 Annual Report, p135.

25. HSBC provides PCA and SME banking services in the UK through its RBWM and CMB business units respectively. These business units have operations across Europe including the UK, Channel Islands and Isle of Man, France, Germany, Turkey and Malta. Therefore, HSBC's financial performance metrics in this section refer to HSBC's total UK and certain European operations.

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[8] HSBC Premier provides a dedicated relationship manager to its mass affluent personal customers. HSBC Advance offers its emerging affluent customers access to a range of preferential products, rates and terms. HSBC Bank plc 2014 Annual Report, p5.
[9] ibid, p6.
[10] ibid, p7.
[11] Net operating income before loan impairment charges and other credit provisions.

26. Table 2 summarises the recent financial performance of HSBC's RBWM division. Key points from the 2014 performance included the following:[12]

(a) Reported profit before tax was £213 million, which was £964 million or 82% lower than in 2013. HSBC also estimated 'adjusted profits' by adjusting reported results for effects of significant items, which could distort year-on-year comparisons.[13] On an adjusted basis, RBWM profit before tax was £1.3 billion compared with £1.7 billion in 2013. UK revenue reduced marginally due to spread compression, primarily on mortgages. In addition, fee income fell as a result of higher fees payable under partnership agreements and lower fee income from investment products and overdrafts. These factors were partly offset by improved spreads on savings products and higher current account balances.

(b) A fall in loan impairment charges mainly in the UK as a result of improved delinquency rates in the improved economic environment, and reduction in outstanding credit card and loan balances.

Table 2: HSBC RBWM financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	3,394	3,569	3,158	–12	5
Net fee and trading income	1,564	1,649	1,207		
Other income	–52	–147	–157		
Total income	**4,906**	**5,071**	**4,208**	**–17**	**3**
Loan impairment charges and other credit risk provisions	–248	–223	–162		
Net operating income	4,658	4,848	4,046		
Total operating expenses	**–4,248**	**–3,673**	**–3,834**	**4**	**–14**
Other net income	1	2	1		
Profit before tax	**411**	**1,177**	**213**	**–82**	**186**

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	[✂]	[✂]	[✂]	[✂]	[✂]
Cost income ratio*	86.6	72.4	91.1	18.7	–14.2
Impairment and other provisions % to total income†	5.1	4.4	3.8	–0.5	–0.7
Net interest income % to total income‡	69.2	70.4	75.0	4.7	1.2

Source: *HSBC Bank plc 2014 Annual Report* p19, 2013 *Annual Report* p15, information provided by HSBC. CMA analysis.
*Total operating expenses/total income.
†Loan impairment charges and other credit risk provisions/total income.
‡Net interest income/total income.
Note: The data reflects the results for HSBC's Europe focused RBWM operations. UK profit before tax was £381 million in 2014.

[12] Based on HSBC Bank plc 2014 Annual Report, pp19–20 and information provided by HSBC. Comparisons are with 2013 results.
[13] The main adjustments to the reported profits related to UK customer redress programmes and provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK. HSBC Bank plc 2014 Annual Report, pp18–19.

27. Table 3 summarises the recent financial performance of HSBC's CMB division. Key highlights included the following:[14]

(a) Profit before tax was £1.6 billion which was £259 million or 19% higher than 2013. On an adjusted basis, CMB profit before tax was £1.7 billion reflecting an increase of 28% over 2013.

(b) The increase in profit on an adjusted basis was primarily in the UK due to a reduction in loan impairment charges reflecting lower levels of individually assessed provisions, together with increased levels of deposits and effective cost efficiency through the benefits arising from re-engineering of business processes which offset inflationary pressures.

Table 3: HSBC CMB financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	2,037	2,144	2,195	2	5
Net fee and trading income	1,073	1,166	1,174		
Other income	70	60	65		
Total income	**3,180**	**3,370**	**3,434**	**2**	**6**
Loan impairment charges and other credit risk provisions	–699	–601	–308		
Net operating income	2,481	2,769	3,126		
Total operating expenses	**–1,715**	**–1,437**	**–1,535**	**7**	**–16**
Other net income	-	1	1		
Profit before tax	**766**	**1,333**	**1,592**	**19**	**74**

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	[✂]	[✂]	[✂]	[✂]	[✂]
Cost/income ratio*	53.9	42.6	44.7	2.1	–11.3
Impairment and other provisions % to total income†	22.0	17.8	9.0	–8.9	–4.1
Net interest income % to total income‡	64.1	63.6	63.9	0.3	–0.4

Source: HSBC Bank plc 2014 Annual Report p20, 2013 Annual Report, p16, information provided by HSBC. CMA analysis.
*Total operating expenses/total income.
†Loan impairment charges and other credit risk provisions/total income.
‡Net interest income/total income.
Note: The data reflects the results for HSBC's CMB activities that consolidate into the UK operating entity. UK profit before tax was £1,377 million in 2014.

Lloyds Banking Group

28. Lloyds was originally founded in 1765. It expanded during the nineteenth and twentieth centuries and took over a number of smaller banking companies. In 1995 it merged with the TSB Group plc to form Lloyds TSB Group plc between 1999 and 2013.

[14] Based on HSBC Bank plc 2014 Annual Report, p21 and information provided by HSBC. Comparisons are with 2013 results.

29. Lloyds Banking Group (LBG) was formed in January 2009 through the acquisition of HBOS plc (which included the Halifax and Bank of Scotland (BoS) brands) by the then Lloyds TSB Group plc. That year, following the UK Bank rescue package, the UK government took a 43.4% stake in LBG. The EU decided that the stake taken by the government was to be considered as state aid, and required LBG to divest some of its business. Later that year (November 2009), LBG announced that it would create a new stand-alone retail banking business, made up of a number of Lloyds TSB branches and those of Cheltenham & Gloucester.[15] Lloyds TSB was subsequently renamed Lloyds Bank (Lloyds) on 23 September 2013, and TSB was demerged via an initial public offering (IPO) to the London Stock Exchange in June 2014.

30. Following the divestment of TSB, there are no Lloyds branches in Scotland, and no BoS branches in England and Wales. LBG has recently opened three Halifax branches in Scotland. As a result, at the end of 2014 LBG had 1,290 Lloyds branches in England and Wales, 665 Halifax branches (of which 16 were in NI and three in Scotland), and 293 BoS branches in Scotland – totalling 2,248 branches.

31. LBG is predominately UK-focused, and operates through four business divisions: Retail, Commercial Banking, Consumer Finance and Insurance.[16] Its Retail, Commercial Banking and Consumer Finance divisions provide retail banking services within the CMA's terms of reference:

(a) Retail is responsible for providing PCAs, savings accounts, personal loans and mortgages. It also distributes insurance, protection and credit cards, as well as serving retail business banking (RBB) customers.

(b) Commercial Banking supports business clients (SMEs through to large corporates) with their banking, financing and risk management requirements. SME Banking is part of Commercial Banking and serves SMEs with an estimated annual turnover of between £1 million and £25 million or borrowing more than £50,000 and clients with more complex and broader needs (eg multiple products).

(c) The Consumer Finance division is divided into the following business units: Asset Finance, Consumer and Commercial Cards, and European Online. Asset Finance is subdivided into LBG's Black Horse (motor

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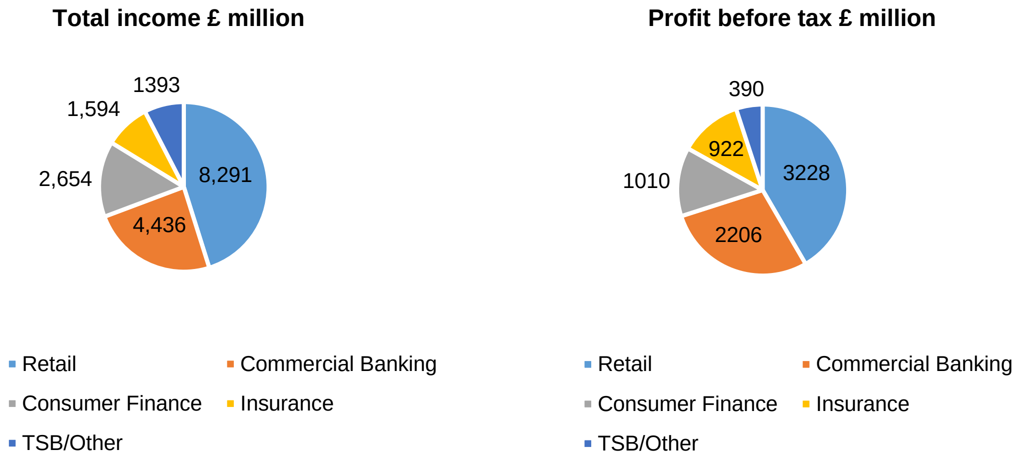
[15] Cheltenham & Gloucester is a former building society which was acquired by Lloyds TSB in 1997.
[16] In addition, it also separately reports financial results for Central Items/Run-offs. LBG describes these divisions as follows. Central Items: includes assets held outside the main operating divisions, including exposures relating to Group Corporate Treasury which holds the Group's liquidity portfolio and Group Operations. Run-offs: includes assets that are outside of the Group's risk appetite, and were previously classified as non‑core.

finance loans) and Lex Autolease (vehicle leasing and fleet management services) brands.

32. Figure 5 provides a breakdown of LBG's total income and profit before tax in 2014 by main business divisions. Retail was the largest division, contributing £8.3 billion (45% of LBG total) of revenue and £3.2 billion (42% of LBG total) of profits.

Figure 5: LBG 2014 Total income and profit before tax by division*



Source: Based on data presented in LBG's 2014 Annual Report, p41.
*LBG's results are presented in its accounts on an underlying basis excluding items that in its management's view would distort the comparison of performance between periods. LBG 2014 Annual Report, p41.

33. LBG's PCA business sits within its Retail division, while LBG's SME client base is split between RBB, which serves smaller customers with more straightforward needs (and is in the Retail division), and the SME Banking business unit, which serves larger customers with more complex needs (and is in the Commercial Banking division).

34. Table 4 summarises the financial performance of LBG's Retail division in 2014. Key points included:[17]

(a) Underlying profit increased 7% to £3.2 billion.

(b) NII increased 9%. Margin increased 20 basis points to 2.29%, driven by improved deposit mix and margin, more than offsetting reduced lending rates.

(c) Other income was down 16%, with lower protection income partly due to the decision to close the face-to-face advised protection role in branches, and lower wealth income due to regulatory changes.

[17] Based on LBG 2014 Annual Report, p46. Comparisons are with 2013 results.

(d) Total costs increased 7% to £4.5 billion, reflecting higher indirect overheads previously absorbed in the TSB segment and costs associated with ongoing investment in the business.

(e) Impairment reduced 21% to £599 million, with unsecured charges decreasing consistent with lower impaired loan and arrear balances. Secured coverage strengthened to 37%, resulting in a 13% increase to the impairment charge.

Table 4: LBG Retail financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	6,037	6,500	7,079	9	8
Other income	1,406	1,435	1,212		
Total income	**7,443**	**7,935**	**8,291**	**4**	**7**
Total costs	**–4,236**	**–4,160**	**–4,464**	**7**	**–2**
Impairment	–914	–760	–599	–21	–17
Underlying profit	**2,293**	**3,015**	**3,228**	**7**	**31**

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	[✂]	2.1	2.3	0.2	[✂]
Cost/income ratio*	56.9	52.4	53.8	1.4	–4.5
Impairment and other provisions % to total income†	12.3	9.6	7.2	–2.4	–2.7
Net interest income % to total income‡	81.1	81.9	85.4	3.5	0.8

Source: LBG 2014 annual report, p45, p204-205, CMA analysis.
*Total costs/total income.
†Impairment/total income.
‡Net interest income/total income.
Note: Retail is responsible for providing PCAs, savings accounts, personal loans and mortgages. It also distributes insurance, protection and credit cards, as well as serving RBB customers (ie SMEs with an estimated annual turnover of less than £1 million and borrowing less than £50,000; start-ups; and customers with straightforward banking needs).

35. Table 5 summarises the financial performance of LBG's Commercial Banking division in 2014. Key highlights include:[18]

(a) Underlying profit of £2.2 billion was 17% higher than in 2013, driven by income growth in SME, mid-markets and financial institutions and lower impairments.

(b) Income increased by 1% to £4.4 billion as a result of increased NII in all client segments offset by declining performance in other income reflecting challenging market conditions and lower income from Lloyds Development Capital.

[18] Based on LBG 2014 Annual Report, p48. Comparisons are with 2013 results.

(c) NIM increased by 46 basis points to 2.67% as a result of pricing of new lending, customer repricing in deposits and a reduction in funding costs helped by the increase in Global Transaction Banking Deposits.

(d) Other income decreased by 13% driven by lower client income in Debt Capital Markets and Financial Markets due to the continued low interest rate and low volatility environment in 2014 and a lower level of revaluation gains in Lloyds Development Capital.

Table 5: LBG Commercial Banking financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	1,971	2,113	2,480	17	7
Other income	2,254	2,259	1,956		
Total income	**4,225**	**4,372**	**4,436**	**1**	**3**
Total costs	**–2,011**	**–2,084**	**–2,147**	**3**	**4**
Impairment	–664	–398	–83	–79	–40
Underlying profit	**1,550**	**1,890**	**2,206**	**17**	**22**

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	[✂]	2.2	2.7	0.5	[✂]
Cost /income ratio*	47.6	47.7	48.4	0.7	0.1
Impairment and other provisions % to total income†	15.7	9.1	1.9	–7.2	–6.6
Net interest income % to total income‡	46.7	48.3	55.9	7.6	1.7

Source: LBG 2014 Annual Report, p47, pp204–205, CMA analysis.
*Total costs/total income.
†Impairment/total income.
‡Net interest income/total income.
Note: Commercial Banking supports business clients (SMEs through to large corporates) with their banking, financing and risk management requirements. SME Banking sits in Commercial Banking and serves SMEs with an estimated annual turnover between £1 million and £25 million or borrowing greater than £50,000 and clients with more complex and broader needs (eg multiple products).

Royal Bank of Scotland Group

36. Royal Bank of Scotland traces its origins back to 1707 and its first London branch opened in 1874.

37. Royal Bank of Scotland Group (RBSG) now incorporates Royal Bank of Scotland (RBS), NatWest (acquired in 2000) and Ulster Bank (Ulster)[19] (previously part of NatWest). It provides banking facilities throughout the UK and Republic of Ireland.

[19] Ulster Bank operates in the Republic of Ireland and NI, through Ulster Bank Ireland Limited and Ulster Bank Limited.

38. Following the 2007/08 financial crisis the UK government took an 81% shareholding in RBSG. RBSG was required by the European Commission to sell a portion of its business, as the shareholding was regarded as state aid.

39. As a condition of the state aid received by RBSG, the group was required to divest its RBS-branded branches in England and Wales and NatWest-branded branches in Scotland, with the associated personal and SME customers, Direct SME customers and a portfolio of mid-corporate customers (the Williams & Glyn business). On 27 September 2013, RBSG announced that it had agreed a £600 million pre-IPO investment in its Williams & Glyn business with a consortium of investors led by global financial services specialists Corsair Capital and Centerbridge Partners, with a view to this investment being exchangeable for a significant minority investment in Williams & Glyn at the time of its expected IPO. However, and while RBSG continues to work to achieve separation and divestment by the EC-mandated deadline of full disposal by 31 December 2017, RBSG recently announced that there is a significant risk that divestment will not be achieved by this date and that it is currently exploring alternative means to achieve separation and divestment.[20] It has been recently reported that Santander has submitted an offer to acquire the Williams & Glyn business from RBS. However, at the time of finalising this report, no sale has been agreed between Santander and RBS.

40. At the end of 2014 RBSG had 1,923 branches in the UK (including 74 Ulster Bank branches).

41. Since a group restructure in February 2014, RBSG has the following divisions:

(a) Personal and Business Banking (PBB) – provides a range of banking products to personal and private banking customers and smaller businesses with an annual turnover of £2 million or less. It includes UK PBB and Ulster Bank. In 2014, PBB contributed 38% of RBS's total income and 59% of its statutory operating profit before tax.

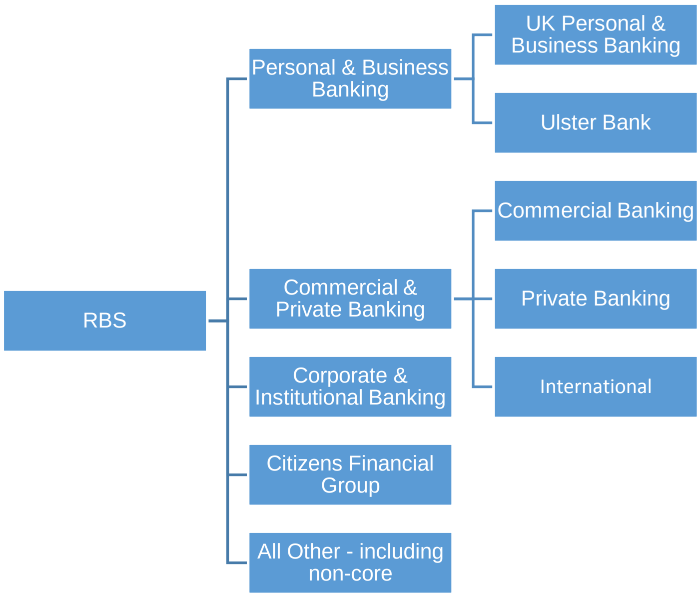
(b) Commercial and Private Banking (CPB) – serves all of RBS's commercial and corporate customers other than the smaller business customers (£2 million or less turnover) and the very largest corporates, which are served by Corporate and Institutional Banking. It also includes the similar element of the Ulster Bank business. In 2014, Commercial and Private Banking contributed 23% of RBS's total income, and 41% of its statutory operating profit before tax.

[20] This describes the position as at 28 July 2016.

(c) Corporate and Institutional Banking (CIB) – the wholesale banking business. Contains two businesses: Markets and Transaction Services, which both provide a range of banking services to large UK and international corporates and financial institutions.

42. In 2014, RBSG implemented a new organisational design for a more UK-centred bank with focused international capabilities.[21] Its divisional structure is shown in Figure 6.

Figure 6: RBS divisions

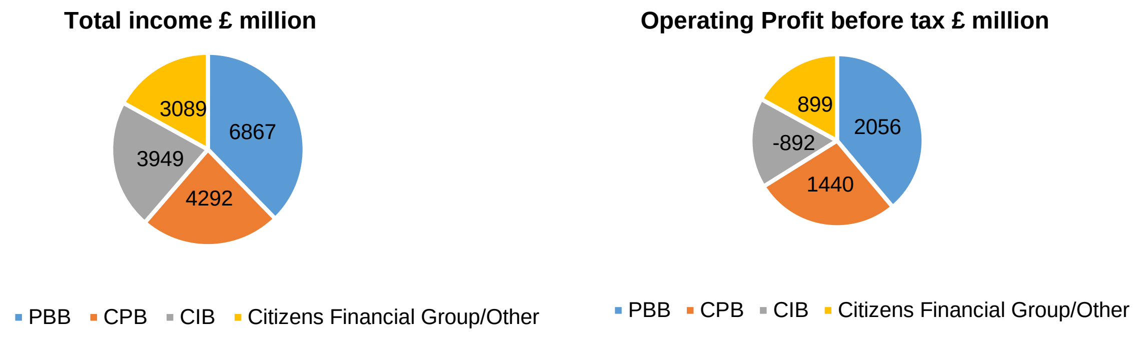


Source: Based on RBS 2014 Annual Report.

43. RBSG 2014 total income and operating profit/loss by division are shown in Figure 7.

[21] RBSG 2014 Annual Report, p3.

Figure 7: RBS total income and profit before tax by division*



Source: *RBS 2014 Annual Report*, p443.
*Total income and operating profit/loss reported by segment exclude group level statutory adjustments. 'Other' includes RBS Capital Resolution (RCR) and Central Items.

44. The UK PBB's financial results (which include PCAs, and SMEs up to £2 million) 2012 to 2014 are shown in Table 6. Key points include:[22]

(a) Operating profit of £1.45 billion increased by £631 million, while adjusted operating profit (excluding restructuring and conduct costs) totalled £2.47 billion compared with £1.906 billion in 2013.

(b) Increase in NII of £193 million or 4%, which was driven by improvement in NIM of 12 basis points, and volume growth.

(c) Decrease in operating expenses of £174 million or 4%, reflecting lower restructuring and litigation and conduct costs. This resulted in an improved cost income ratio of 72% as against 77% reported in 2013.[23]

(d) Net impairment charge was down 47% to £268 million driven by a further decrease in new default charges together with release of provisions and recoveries on previously written off debt.

[22] Based on RBSG 2014 Annual Report, p131. Comparisons are with 2013 results.
[23] On an adjusted basis, reported cost income ratio in 2014 was 55% compared with 59% in 2013.

Table 6: UK PBB financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	4,532	4,490	4,683	4	–1
Net fees and commissions	1,349	1,309	1,287		
Other non-interest income	3	14	67		
Total income	**5,884**	**5,813**	**6,037**	**4**	**–1**
Direct expenses					
- staff costs	–998	–928	–892		
- other costs	–284	–524	–380		
Indirect expenses	–1861	–1954	–2027		
Restructuring costs					
- direct	–140	–118	–10		
- indirect	–104	–109	–92		
Litigation and conduct costs	–1,085	–860	–918		
Operating expenses	**–4,472**	**–4,493**	**–4,319**	**–4**	**–**
Profit before impairment losses	1,412	1,320	1,718	30	–7
Impairment losses	–741	–501	–268		
Operating profit	**671**	**819**	**1,450**	**77**	**22**
Operating expenses – adjusted	–3,143	–3,406	–3,299		
Operating profit – adjusted	2,000	1,906	2,470		

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	3.57	3.56	3.68	0.12	–0.01
Cost/income ratio*	76	77	72	–5	1
Impairment and other provisions % to total income†	12.6	8.6	4.4	–4.2	–4.0
Net interest income % to total income‡	77.0	77.2	77.6	0.3	0.2

Source: RBS 2014 Annual Report, pp130–131, CMA analysis.
*Operating expenses/total income.
†Impairment losses/total income.
‡Net interest income/total income.
Note: Adjusted operating expenses and adjusted operating profit exclude restructuring costs and litigation and conduct costs.

45. Financial information on Commercial Banking financial performance in 2014 is shown in Table 7. Key points include:[24]

(a) Operating profit increased to £1.29 billion compared with £530 million in 2013. This was driven by lower net impairment losses, lower operating expenses and higher income. Adjusted operating profit increased by £663 million to £1,495 million.

(b) NII increased by £79 million or 4%, largely reflecting repricing activity on deposits partly offset by the impact of reduced asset margins. The NIM improved to 2.74% from 2.64% achieved in 2013.

(c) Operating expenses were down £131 million or 7% reflecting lower litigation and conduct costs, and lower underlying direct costs.

(d) Net impairment losses declined £576 million to £76 million as 2013 included the impact of the creation of RBS Capital Resolution (RCR) on

[24] RBS 2014 Annual Report, p139, information provided to the CMA by RBSG. Comparisons are with 2013 results.

1 January 2014. Excluding RCR charges, underlying impairments declined by £453 million with fewer individual cases across the portfolio, reduced collectively assessed provisions and higher latent provision releases, reflecting improved credit conditions.[25]

Table 7: Commercial Banking financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	1,969	1,962	2,041	4	–
Net fees and commissions	981	944	885		
Other non-interest income	370	251	284		
Total income	**3,320**	**3,157**	**3,210**	**2**	**–5**
Direct expenses					
- staff costs	–533	–513	–508		
- other costs	–261	–269	–249		
Indirect expenses	–780	–891	–882		
Restructuring costs					
- direct	–71	–18	–40		
- indirect	–39	–37	–53		
Litigation and conduct costs	–343	–247	–112		
Operating expenses	**–2,027**	**–1,975**	**–1,844**	**–7**	**–3**
Profit before impairment losses	1,293	1,182	1,366	16	–9
Impairment losses	–545	–652	–76		
Operating profit	**748**	**530**	**1290**	**143**	**–29**
Operating expenses – adjusted	–1,574	–1,673	–1,639		
Operating profit – adjusted	1,201	832	1495		

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	2.66	2.64	2.74	0.10	–0.02
Cost income ratio*	61	63	57	–5	2
Impairment and other provisions % to total income†	16.4	20.7	2.4	–18.3	4.2
Net interest income % to total income‡	59.3	62.1	63.6	1.4	2.8

Source: *RBSG 2014 Annual Report*, pp137–138, CMA analysis.
*Operating expenses/total income.
†Impairment losses/ total income.
‡Net interest income/total income.
Note: Adjusted operating expenses and adjusted operating profit exclude restructuring costs and litigation and conduct costs.

Santander UK

46. Santander UK (Santander) is wholly owned by Banco Santander, SA. Santander manages its affairs autonomously and independently from its Spanish owner, with its own local management team solely responsible for its performance.

47. Santander has been operating in the UK since November 2004 when it acquired Abbey National plc. It acquired Alliance & Leicester plc in 2008. Also during 2008, Santander acquired the deposits and branches of Bradford & Bingley plc from the UK government. In January 2010 Santander combined

[25] RCR was established to separate and wind down RBSG's high capital intensive assets. Targets were set to remove 55–75% of these assets from the balance sheet by the end of 2015 and 85% by the end of 2016. RBSG 2014 Annual Report, p69.

Abbey National plc with the savings business and branches of Bradford & Bingley, and renamed it Santander UK plc. Santander subsequently merged the Alliance & Leicester business into the renamed business in May 2010. It now operates solely under the Santander brand throughout the UK.

48. At the end of 2014 Santander had 920 branches in the UK.

49. Santander's business is managed and reported on the basis of following divisions: Retail Banking, Commercial Banking and Global Corporate Banking.[26] Indirect income, expenses and charges which cannot be allocated to those segments are reported under the 'Corporate Centre' reporting segment.

50. Retail Banking's main products are residential mortgage loans, savings and current accounts, credit cards, personal loans and insurance policies as well as Santander Consumer Finance (predominantly a vehicle finance business).

51. The PCA business, and a part of the SME business (SMEs with less complex business banking needs), is included in Retail Banking. Retail Banking is Santander's main business, and contributed 82% of its total income and 94% of profit before tax in 2014.

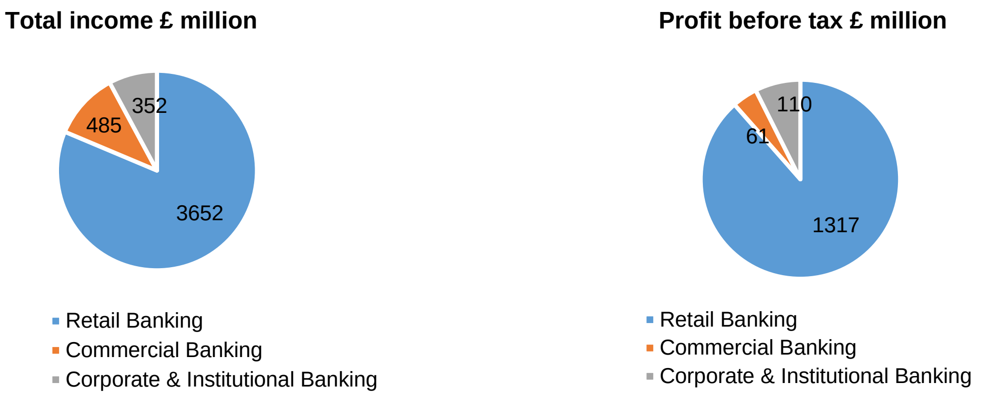
52. Commercial Banking division provides banking services to businesses with a turnover of between around £250,000 and £500 million per year.[27] Its products include loans, bank accounts, deposits, treasury services, invoice discounting, cash transmission, trade finance and asset finance.

53. Global Corporate Banking is a financial markets business, which provides risk management and added-value financial services to large corporates – with an annual turnover above £500 million – and financial institutions.[28]

54. Santander's total income and profit before tax in 2014 by main division is provided in Figure 8.

[26] Formerly known as Corporate & Institutional Banking (until February 2016).
[27] Based on Santander UK plc 2014 Annual Report, p245. This historical turnover threshold has now been removed and segmentation of business customers into Retail or Commercial Banking is based upon the complexity of their needs.
[28] Based on Santander UK plc 2014 Annual Report, p245.

Figure 8: Santander UK – total income and profit before tax by division*



Source: Santander UK 2014 Annual Report, p192. 'Corporate & Institutional Banking' was renamed 'Global Corporate Banking' in February 2016 as per footnote 25.
*This Figure includes Santander's business divisions but excludes the Corporate Centre.

55. Table 8 summarises the financial performance of Santander's retail banking division in 2014. Key points include:[29]

(a) NII increased by £354 million to £3.1 billion in 2014, largely driven by increased lending and reduction in cost of funding.

(b) Non-interest income decreased by £39 million to £560 million in 2014. This reflected reduced banking fees including higher cashback on 123 World products, and reduced overdraft fees. The decrease was partially offset by an increase in credit cards business and continued growth in 123 World product balances.[30]

(c) Impairment losses on loans and advances decreased by £172 million to £187 million in 2014. This was largely due to lower impairment losses as a result of improving economic conditions; rising house prices; prolonged low interest rates; and collection efficiencies introduced both in 2013 and 2014. Provision for other liability charges increased by £169 million to £395 million in 2014, predominantly due to higher Financial Services Compensation Scheme costs, UK Bank Levy, branch de-duplication and conduct charges.

[29] Based on Santander UK plc 2014 Annual Report, p193. Comparisons are with 2013 results.
[30] A Santander 123 World customer is someone who holds one or more of the following products: 123 Current Account, 123 Student Current Account, 123 Postgraduate Account, 123 Credit Card, 123 Graduate Current Account, 123 Mini Current Account or 123 Mini (in Trust). See Santander's website.

Table 8: Santander Retail Banking financial results, 2012–2014

	2012 (£m)	*2013 (£m)*	*2014 (£m)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest income	2,519	2,738	3,092	13	9
Other income	632	599	560		
Total income	**3,151**	**3,337**	**3,652**	**9**	**6**
Total operating expenses	**–1,696**	**–1,750**	**–1,753**	**–**	**3**
Impairment losses on loans and advances	–420	–359	–187	–48	–15
Provisions for other liability and charges	–312	–226	–395		
Profit on continuing operations before tax	**723**	**1,002**	**1,317**	**31**	**39**

	2012 (%)	*2013 (%)*	*2014 (%)*	*Change 2014 vs 2013 (%)*	*Change 2013 vs 2012 (%)*
Net interest margin	1.4	1.6	1.8	0.3	0.2
Cost/income ratio*	53.8	52.4	48.0	–4.4	–1.4
Impairment and other provisions % to total income†	23.2	17.5	15.9	–1.6	–5.7
Net interest income % to total income‡	79.9	82.0	84.7	2.6	2.1

Source: *Santander 2014 published accounts*, p193, and CMA analysis.
*Total operating expenses/total income.
†Impairment losses on loans and advances and provisions on loans and advances/total income.
‡Net interest income/total income.
Notes:
1. These results do not cover larger SMEs, which Santander reports under Commercial Banking.
2. Retail Banking services personal banking customers and SMEs with straightforward banking needs. Retail Banking's main products are residential mortgage loans, savings and current accounts, credit cards, personal loans and insurance policies as well as Santander Consumer Finance (predominantly a vehicle finance business).

Northern Ireland-focused banks (AIBG, BoI and Danske)

AIB Group (UK) Plc

56. AIB Group (UK) Plc (AIBG) is a subsidiary of Allied Irish Banks plc in the Republic of Ireland, and trades under the name First Trust Bank in NI. First Trust Bank offers a full service to business and personal customers, across the range of customer segments, including personal customers, SMEs, and the corporate sector.

57. At the end of 2015 First Trust Bank had 30 branches in NI providing services to PCA and BCA customers.

58. For the year ended 31 December 2015, AIBG reported turnover of £254 million and a profit of £111 million.

Bank of Ireland UK

59. Bank of Ireland UK (BoI) is owned by Bank of Ireland of the Republic of Ireland.

60. It provides PCAs and SME banking services in NI. It also provides banking services for the Post Office in the UK.

61. At the end of 2014, BoI had 37 branches in NI.

62. For the year ended 31 December 2014, BoI reported an operating income of £545 million and an underlying profit before tax of £103 million for its UK operations.[31]

Danske Bank

63. Danske Bank (Danske) (the trading name of Northern Bank Limited) operates in NI and is part of the Danske Bank Group, which is headquartered in Denmark. Danske provides PCAs, loans, mortgages, savings products and wealth planning to personal customers. For business customers, it provides BCAs, financing, trade finance, savings, treasury services and cash management services.

64. At the end of 2014 Danske had 46 branches in NI.

65. For the year ended 31 December 2014, for its NI operations, Danske Bank Group reported total income of £223.6 million and profit before tax of £117.5 million.[32]

Other banks

66. Descriptions of Metro, Tesco Bank, Virgin Money and TSB are in Appendix 9.1 in our case studies on entry and expansion.

67. Aldermore was established in 2009 and is a specialist lender and savings bank. Aldermore specialises in secured lending to SMEs and homeowners in four market segments. These are:

    (a) Asset finance: Aldermore offers asset finance loans on single transactions between £5,000 and £1 million in value primarily to fund capital investment in assets including plant and machinery, commercial vehicles, cars, IT equipment and business equipment. As at 30 June 2015 it had net loans of £1.2 billion and an estimated 3% share of the total UK asset finance market.

    (b) Invoice finance: Aldermore provides working capital for SMEs by lending against outstanding invoices. At 30 June 2015 it had net loans of around £0.2 billion, which it estimated represented 0.9% of the total UK invoice finance market.

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[31] Bank of Ireland Annual Report – for the year ended 31 December 2014.
[32] Danske Bank in Northern Ireland: Financial results – 12 months to end December 2014.

(c) SME commercial mortgages: Aldermore offers SME commercial mortgages of up to a maximum of £2 million on a single property and £5 million on multiple properties. At 30 June 2015 it had net loans of £1.1 billion, an estimated 0.9% of the total UK SME commercial mortgage market.

(d) Residential mortgages: Aldermore offers residential mortgages of up to £1 million and as at 30 June 2015 had net loans of £2.9 billion or 0.6% of the UK residential mortgage market.

68. Aldermore also offers a range of SME and personal savings products including deposit-based easy access, notice accounts and fixed-term bonds which it launched in 2012. In November 2013, it launched its Customised Fixed Rate Business Savings Account.

69. It listed on the London Stock Exchange in March 2015. For the year ended 31 December 2014 it reported total operating incomes of £165 million and profit before tax of £56.3 million.[33]

The Co-operative Bank plc

70. The Co-operative Bank plc (Co-op Bank) is owned by the Co-operative Group, strategic investors and other institutional and individual shareholders.

71. Co-op Bank provides a full range of banking products and services to around four million retail and SME customers. Co-op Bank is committed to values and ethics in line with the principles of the co-operative movement. At the end of 2015 Co-op Bank operated 164 branches in the UK.

Clydesdale Bank plc

72. Clydesdale Bank plc (Clydesdale) operates under the Clydesdale and the Yorkshire brands in the UK. Clydesdale provides PCAs and SME banking services.

73. It is ultimately owned by CYBG PLC (CYBG), which acquired Clydesdale's holding company from National Australia Bank Limited on 8 February 2016 as part of a demerger from the National Australia Bank Limited Group. On the same day CYBG completed an IPO to become an independent company listed on the London Stock Exchange and the Australian Securities Exchange.

[33] Aldermore Annual Report and Accounts 2014. Profit before tax excludes IPO costs of £6 million.

74. At the end of 2014 Clydesdale had 294 retail branches in the UK. Clydesdale also had a further 40 Business & Private Banking Centres (including 23 sites co-located with its retail branches). It does not have any branches in NI.

Handelsbanken

75. Handelsbanken is the trading name of Svenska Handelsbanken AB (publ), incorporated in Sweden. It has 207 branches in the UK and provides private and corporate customers with a range of services. Services for personal customers include: PCAs, mortgages, personal loans, savings and wealth management services. Services for corporate customers include: asset and trade finance, cash management, mortgages, loans, invoice discounting and BCAs.

Post Office Money

76. The Post Office provides credit cards, current accounts, insurance products, mortgages and personal loans through the Post Office Money brand which was launched in 2015. Most Post Office Money branded products are provided by Bank of Ireland (UK) plc with Post Office Ltd acting as an appointed representative and credit broker.

77. Personal banking services are offered by Post Office Money on behalf of a number of other banks. Although different services are available on behalf of different institutions, these may include: cash withdrawals, paying-in cash and cheques, balance enquiries and cheque encashment. Some post offices also have cash machines, mainly provided by BoI. Business banking services are also offered, mainly through Santander UK.

78. The Post Office has around 11,500 branches in the UK.

Other smaller banks

79. Other smaller banks include:

   (a) **Paragon Bank** is a wholly owned subsidiary of The Paragon Group of Companies. The Group was established in 1985 and is one of the UK’s largest specialist lenders. Paragon Bank offers buy-to-let mortgages, car finance, consumer loans, property development finance and asset finance for SMEs, together with a range of online savings accounts.

   (b) **Shawbrook** is an independent specialist lending and savings bank serving UK SMEs and consumers with tailored products designed to address a selection of high-growth sub-sectors of the overall lending

industry. The Group's lending activities are primarily funded by a stable retail deposit book consisting of easy access and ISA accounts, variable-rate long-dated notice accounts (mostly 95 to 120 days' notice) and fixed-rate fixed-term accounts (mostly one to five years).

(c) **SecureTrust Bank** was established in 1952 and provides a range of lending and deposit services as well as a fee-based current account to personal and business customers. It does not have any branches, although customers can pay money in at Barclays' branches.

Building societies

80. We provide details here on the five largest building societies in the UK.[34]

Coventry Building Society

81. Coventry Building Society is the third largest building society in the UK. It provides a range of personal accounts, including PCAs, mortgages, insurance, and savings and investments. It has 70 branches and 19 agencies[35] in the UK.

Leeds Building Society

82. Leeds Building Society is the fifth largest building society in the UK and provides savings, mortgages, investments and a range of ancillary products. It has over 60 branches, mostly in England.

Nationwide Building Society

83. Nationwide is the UK's largest building society as well as one of the largest savings providers and the second largest provider of mortgages in the UK. It offers a range of financial products, including:

(a) Personal products: PCAs, residential mortgages, personal savings, personal financial planning, insurance products, personal lending, and other general personal banking services.

(b) Other products: commercial lending.

[34] By assets as at 31 December 2014 (as at 4 April 2015 for Nationwide).
[35] For example, in estate agents.

84. At the end of 2014 Nationwide had 696 branches in the UK serving personal customers. It does not provide BCAs.

85. For the year ended 4 April 2015, Nationwide generated underlying income of £3.15 billion and underlying profit of £1.2 billion.[36]

Skipton Building Society

86. Skipton Building Society is the fourth largest building society in the UK. It provides savings, mortgages, investments and insurance products but does not provide PCAs. It has over 90 branches in England and Scotland.

Yorkshire Building Society Group

87. Yorkshire Building Society Group (YBS Group) is the UK's second largest building society with over 3 million members. YBS Group's primary business areas are deposit-taking activities (savings), mortgage sales and administration and mortgage-related insurances. YBS Group offers current account payment services through its Norwich and Peterborough Building Society (N&P) brand only.

Other market participants

Crowdfunding

88. Crowdfunding is the raising of funds for a project, venture or initiative by seeking contributions from a wide range and usually large number of contributors. It is typically internet-based and comprises a proposal or project idea, those that wish to provide funds to support it, and is usually facilitated by an intermediary website. Funds are usually raised for specific projects.

89. There are a number of different types of crowdfunding, including equity-based, donation-based, rewards-based, and revenue/profit-sharing crowd-funding, depending on the expected type of return on investors. Market participants include Indiegogo (launched 2008) which has funded more than 275,000 campaigns, and Kickstarter (launched 2009) which has funded around 100,000 projects globally.[37]

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[36] Nationwide Building Society Preliminary Results year ending 4 April 2015.
[37] Kickstarter website.

Peer-to-peer lending

90. This is a variant of crowdfunding where an intermediary matches investors with those looking for loans and usually spreads investments across a large number of borrowers. Funds invested in a peer-to-peer company usually receive a guaranteed percentage return but are not usually protected by the FSCS.[38] Some peer-to-peer lenders offer the option to bid to invest on specific projects at a rate chosen by the investor, whereas others have simpler models offering a fixed rate of return based on the lending period. Market participants include Zopa (launched 2005), Crowdcube (launched 2009), Funding Circle (launched 2010), Rate Setter (also launched 2010) and Thincats (launched 2011).

Invoice trading/finance

91. Firms sell their invoices or receivables to a pool of individual or institutional investors, which is similar to invoice discounting offered by banks. Market participants include Bibby (founded 1982, with around £500 million of lending per year), Market Invoice (launched 2011 with £450 million of invoice finance to date) and Platform Black (launched 2011 with £100 million of invoice finance to date).

Community shares

92. This is a form of share capital that can only be issued by co-operative societies, community benefit societies and charitable community benefit societies. It is used for community purposes such as financing shops, pubs, community buildings, renewable energy initiatives, local food schemes, along with other community-based ventures.[39]

Pension-led funding

93. This allows SME owners/directors to use their accumulated pension funds in order to re-invest in their own businesses. Intellectual property can also be used as collateral.

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[38] Financial Services Compensation Scheme.
[39] Community shares.

Debt-based securities

94. Lenders receive a non-collateralised debt obligation typically paid back over an extended period of time. This is similar to purchasing a bond, but with different rights and obligations.

Appendix 2.2: Financial performance

Contents

Page

Introduction

1. This appendix provides details on the financial performance of the UK retail banking sector. It includes some background information, and an analysis of the financial results and key performance metrics of the five largest UK retail banks during the period 2012 to 2014.[1]

Retail banking financial performance

2. In this section, we have relied upon selected research reports and banks' annual reports to provide an overview of the financial performance of UK retail banks during the period 2012 to 2014. Following the publication of our provisional findings, we also reviewed a few more recent industry reports, which analyse the financial performance of UK retail banks in 2015.

Background

3. Retail banking generally refers to the provision of products and services that banks provide to personal customers and businesses, including SMEs, through a variety of channels including branches, telephony, internet and mobile technology.

4. Many large UK retail banks have separate retail banking divisions or business units, with their own management and reporting structures, although there are differences in the way these banks define, organise and describe their retail activities.

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[1] The information and data we gathered was from the published annual reports and accounts of Barclays, HSBCG, LBG, RBSG and Santander.

5. We reviewed selected industry publications, reports by equity analysts and consulting firms to understand key profitability drivers of the retail banks in the UK, as well as emerging trends from their recent financial performance. Key findings from these are discussed below.

6. In a 2014 report on European retail and business banking, Oliver Wyman noted that:

> …despite 2013 profits being slightly lower compared to 2012 profits, we see a good return on equity (ROE) – after adjusting for the many one-off Profit and Loss (P&L) impacts and regulator fines – in the retail and business banking market as a whole, and opportunities for further improvement. We also observe widening differences across markets, ranging from rising returns in the UK and Swedish markets to weakening returns in Spain and Italy.[2,3]

7. A 2014 Credit Suisse report on UK retail banking concluded that based on reported ROE,[4] mortgages were the most profitable lending product, followed by credit cards, with SME lending and consumer credit having lower returns – see Figure 1 below.[5]

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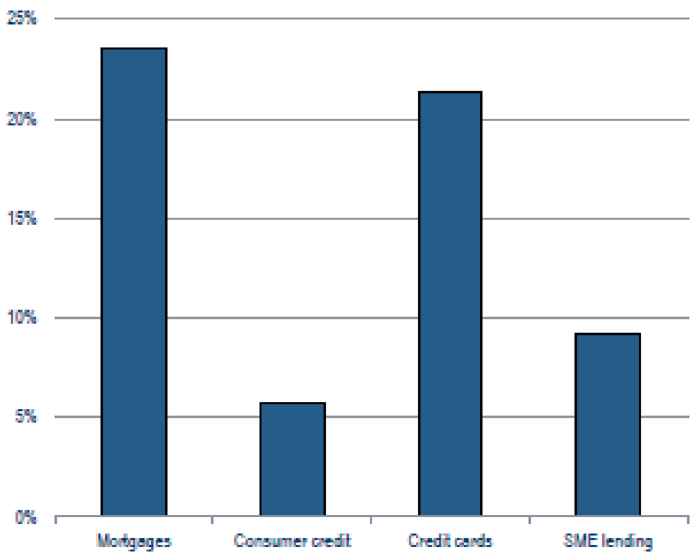
[2] Oliver Wyman (2014), *European Retail and Business Banking: Laying the Foundations for Recovery*, p1.
[3] An earlier report (Oliver Wyman, 2012, *Perspectives on the UK Retail Banking Market*, p3) stated that 'Leaving aside Payment Protection Insurance (PPI) compensation provisions, banks' core returns in UK remain high and stable…'.
[4] ROE is a common financial measure used to assess financial performance in banking and other industries. The typical formula for calculating ROE is profit for the year/shareholders' equity. The ROE can be compared to the cost of equity to determine the relative profitability of a business or an industry.
[5] Credit Suisse UK Retail Banking Seminar (July 2014), slide 10. This report covered 13 UK retail banks.

Figure 1: Aggregate 'clean' return on equity by product – 2013*



Source: Credit Suisse Retail Banking Seminar, 2014, slide 10.
*'Clean' ROE refers to what was reported by banks for 2013, excluding the so-called below-the-line items: bank levies, customer redress and litigation, reinvestment spend and higher capital requirements. ibid, slide 7.

8. Credit Suisse concluded that the level of a retail bank's profitability depended on a combination of the following:[6]

   (a) Scale, although that alone was not enough.

   (b) Weight of mortgages – since mortgages were the most profitable product for many banks, alongside credit cards, albeit on a much smaller scale.

   (c) Funding structure – having a proportion of low interest bearing accounts was an advantage, as well as having a purely deposit-funded retail banking franchise.

9. According to a recent report by Credit Suisse, these trends continued in 2015.[7]

10. A 2012 report by the ABI pointed out that retail banking profitability was a function of (i) product mix, including the secured nature of mortgage lending versus the unsecured nature of credit card lending, (ii) efficiency ratios, and (iii) charges and provisions (eg PPI claims).[8]

11. According to a 2014 Deutsche Bank report, the key drivers of the retail banking profitability in the UK were mortgages and customer deposits, the

[6] Credit Suisse UK Retail Banking Seminar (July 2014), slide 8. This report covered 13 UK retail banks.
[7] Credit Suisse UK Retail Banking Seminar 2015 update (July 2015), slide 10.
[8] ABI (2012), *Investibility of UK Banks*, p16.

former of which consumed fairly little capital and delivered fairly stable returns over time.[9] Based on its analysis, Deutsche Bank concluded that UK retail banking was a 'high return, stable industry', which produced an underlying Return on Tangible Equity (ROTE) of 22% over the 14 years 2000 to 2013.[10,11,12] Deutsche Bank stated that since 2009, retail banks' returns had been lower, producing an average underlying ROTE of 17% between 2009 and 2013.[13] It also reported that the actual ROTE for the sector including PPI and re-structuring costs was much lower at 10% between 2009 and 2013.[14]

12. KPMG, in an analysis of the 2014 financial results of five UK headquartered banks (Barclays, HSBC, LBG, RBSG and Standard Chartered Bank (SCB)), stated that while these banks were organisationally very different,[15] there were a few general themes emerging from their recent financial performance. These included the following:[16]

(a) some signs of improvement in NIMs;

(b) continuing effect of customer remediation and conduct charges; and

(c) reduction in impairment charges, as a result of strengthening economic conditions.

13. A T Kearney, in a 2015 report on retail banking in Europe, concluded that although profitability was rebounding as retail banks recovered from the financial crisis, the future success depended on building a banking model that captured new revenues and increased cost efficiency.[17] It also stated that tightened regulations were likely to continue to drive up equity requirements and the cost of doing business while limiting revenues.[18] Further, the report noted that persistent low interest rates, slow economic growth together with deflationary pressures could continue to limit profits, even as banks' risk provisions declined from the 2012 historical highs.[19] A T Kearney pointed out

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[9] UK Retail Banking 2014: Bank to the Future, Deutsche Bank Equity Research (September 2014), p8.
[10] In general terms, ROTE is computed using profit attributable to shareholders and shareholder equity less intangible assets. ROTE typically is higher than ROE.
[11] UK Retail Banking 2014: Bank to the Future, Deutsche Bank Equity Research (September 2014), p5.
[12] ibid. Deutsche Bank defined ROTE (based on historical capital) as Underlying Profit before tax ÷ (Risk Weighted Assets X Core Tier 1 capital ratio average that year) or an estimate of equity base. Underlying Profit before tax excludes exceptional items such as PPI and restructuring costs, p5.
[13] ibid, p5.
[14] ibid. Deutsche Bank did not state a benchmark cost of tangible equity in its report.
[15] KPMG (2015), *A paradox of forces. Banking results: What do they mean for you?*, p17.
[16] ibid, pp11–13.
[17] A T Kearney, *The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model,* cover page.
[18] A T Kearney, *The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model,* p1. See Annex A for A T Kearney summary of the effect of regulation on profitability in Europe's retail banking sector.
[19] A T Kearney, *The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model,* p1.

that retail banks in the UK still struggled due to spread compression, primarily on mortgages.[20]

14. According to A T Kearney, UK retail banks faced a competitive market and growing regulatory intensity, resulting in the lowest income per customer in the Western Europe region, about €300 in 2014.[21]

15. In a more recent report, A T Kearney noted that in 2015, retail banks in the UK focused on top-line growth to increase income per customer by 2% (net of exchange rate variation), in line with a stronger need for loans. Further, together with a slightly better cost-to-income ratio due to headcount reduction and slightly lower risk provisions, profit per customer rose by 11% in real terms.[22] According to this report, despite the performance improvements of European retail banks, only when banks profoundly change their traditional banking models and transform their operating models can they boost profits.[23] In particular, to achieve ROE of 15% or more will require 'Total Efficiency Ratio' (TER)[24] of less than 60%; for the UK the ratio was 65%.[25]

16. In a recent update based on 2015 annual results of the top five UK headquartered banks, KPMG noted that the recovery seen in the previous year had faltered, and low interest rates and high costs continued to put downward pressure on profits. The reduction in profit contributed to low ROE ranging from –4.7% to 7.2% with four of the five banks reporting a fall in ROE.[26] Further, according to KPMG, there was little evidence of revenue growth even though the NIM had remained stable in 2015 in an environment dominated by low interest rates and fiercer competition, both between banks and from new challengers.[27]

17. According to EY's 2016 European Banking Barometer, which is based a survey/interviews with senior bankers across 12 European markets, bankers in the UK (and Spain) expected the ROE to increase by about 2.5%.[28]

18. A recent Deutsche Bank research report notes that key risks for UK domestic banks are regulatory change around mortgage lending and industry structure,

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[20] ibid p4.
[21] ibid p8.
[22] A T Kearney, *The 2016 Retail Baking Radar: The Retail Banking Champions step up Their Game,* p10.
[23] ibid, p16.
[24] It calculated TER by adding cost-to-income ratio plus loan loss provisions/income.
[25] A T Kearney, *The 2016 Retail Baking Radar: The Retail Banking Champions step up Their Game,* pp13–14.
[26] KPMG (2016), *The search for growth*. This report summarised and made reference to the 2015 results of the following UK headquartered banks: Barclays, HSBC, Lloyds, RBS and SCB.
[27] ibid.
[28] EY (2016), European Banking Barometer, p7.

conduct risk liabilities, industry margins, loan loss performance and lower economic growth.[29,30]

19. Based on the reports we looked at, UK retail banking performance and its outlook paint a mixed picture. The reports suggest that although banks appear to be benefiting from lower impairments and improved NIM, they continue to face high customer remediation and conduct costs, which has an adverse impact on profitability. They are also becoming more reliant on NII rather than fees to increase their total income. Mortgages appear to be the most profitable business segment within UK retail banking, although it faces some pressure on margins.

Key financial metrics – UK retail banks

20. In this section, we present some data and metrics on the recent financial performance of the five largest UK retail banks, using their most recent published annual reports and accounts.[31,32] Although using data from published reports and accounts has the advantage of having been reviewed by the banks' management, and being largely based on audited financial information, it also has many limitations, including the following:

    (a) Each bank is organised differently, and there is no common definition of retail banking followed. Banks' divisions include businesses that are not relevant, or exclude the ones, which are relevant to understand financial performance of their UK retail banking operations.

    (b) Some banks allocate their common/central costs to their main business divisions or units, while others keep them in a central division.

    (c) Where banks have undergone organisational changes, they have not always reported or re-stated prior years' financial data at a divisional level.

    (d) Lastly, reported results are affected by the accounting policies and definitions of metrics, each bank follows; some banks present profits and

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[29] It also mentioned the uncertainties around the EU in-out referendum during 2016. Deutsche Bank Markets Research. UK Banks (May 2016).
[30] Based on Deutsche Bank's report, *Brexit & Beyond: navigating the sector from here*, published after the referendum on 27 June 2016, the key 'upside risks' for UK banks are better-than-expected growth, margins, credit quality, distributions; greater political/economic certainty; regulatory easing. Key 'downside risks' are political and economic uncertainty post-Brexit, margin compression, heightened cost of risk, cost inflation, lower distributions.
[31] The information and data we gathered was from the published annual reports and accounts of Barclays plc, HSBC Bank plc, LBG plc, RBSG plc and Santander UK plc.
[32] Appendix 2.1 provides a summary of the recent financial performance of the retail banking divisions in scope of our analysis.

financial metrics net of what their management considers exceptional or non-recurring items, while others do not.[33]

21. Due to these limitations, financial data and metrics reported in annual reports and accounts are not be directly comparable between banks. That said, financial accounts provide a useful overview of the banks' performance, especially of the evolution of a bank's financial metrics over time. For our analysis, we present financial data for three years 2012 to 2014.[34]

Divisional structures

22. Table 1 shows the business divisions or segments of the five largest UK banks that provide retail banking services, including PCA and SME banking. It shows that banks' divisional structures vary considerably, and do not align with the definitions of PCA and SME banking services in our terms of reference. For our analysis, we report results of the main banking divisions in Table 1 that provide retail banking services in the UK.[35]

[33] These exceptional items can be large (eg PPI remediation), thus increasing the difficulty in comparing financial results across banks.
[34] We would have liked to present data across a wider time period/full economic cycle, but this was not possible due to the lack of comparability between years and banks due to changes in the banks' reporting structure, as the time period increases.
[35] From the divisions listed in Table 1, we exclude from our analysis, LBG's consumer division and Santander's commercial banking division. These divisions contribute a relatively lower proportion to these banks' total income.

Table 1: Divisions/business segments included in 'retail banking'

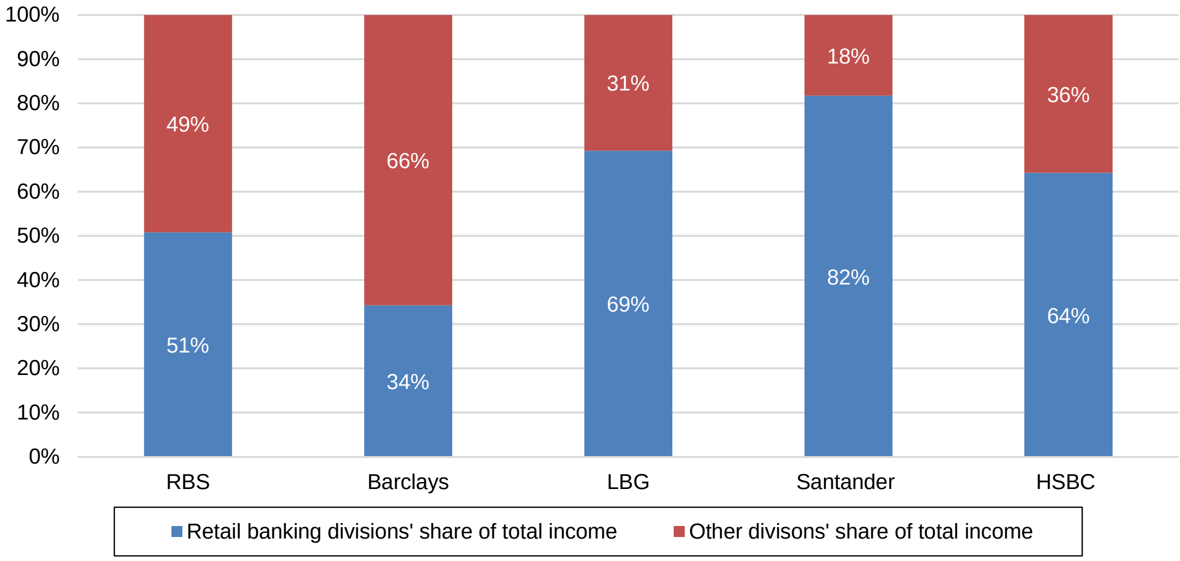
Bank	*Division/segment*	*Activities*	*Geographical focus*	*Comments*
Barclays plc*	PCB	• Personal banking including PCAs • Corporate banking (including SME banking services) • Mortgages • Wealth management	UK & selected international markets	New divisions implemented in May 2014; earlier UK retail banking a separately reported segment
HSBC Bank plc	RBWM	• PCAs, deposits, lending, advisory, broking, insurance, investment services	UK/Europe	
	Commercial Banking (CMB)	• Banking services to businesses, including SMEs and large corporates	UK/Europe	
Lloyds Banking Group plc	Retail	• PCAs, savings, loans and mortgages to personal customers, and SMEs with an estimated annual turnover of less than £1 million and borrowing less than £50,000	UK	LBG introduced a new divisional structure in January 2014
	Commercial Banking	• Lending, deposits and transaction banking services to large corporates and SMEs with an estimated annual turnover between £1 million and £25 million or borrowing greater than £50,000	UK	
	Consumer	• Asset finance, credit cards to consumer and commercial customers including SMEs	UK	
Royal Bank of Scotland Group plc	UK PBB	• Range of banking products to personal and private banking customers and smaller businesses with annual turnover of £2 million or less	UK	New divisional structure implemented in February 2014
	Commercial Banking (within Commercial & Private banking (CPB)	• Banking services to UK business customers with an annual turnover of at least £2 million	UK	
Santander UK plc	Retail banking	• Serves mainly personal banking customers, but also covers SMEs with straightforward banking needs/annual turnover of up to around £250,000	UK	New reporting segments introduced in March 2015
	Commercial Banking	• Serves businesses with an annual turnover of between around £250,000 and £500 million†	UK	

Source: Banks' 2014 annual reports, CMA analysis.
*In its 2015 Annual Report, Barclays announced that it will be restructuring itself to prepare early for UK ring-fencing requirements. See Appendix 2.1 for details.
†Based on Santander UK plc 2014 Annual Report, p245. This historical turnover threshold has now been removed and segmentation of business customers into Retail or Commercial Banking is based upon the complexity of their needs.

23. Figure 2 shows that the 'retail banking' divisions constituted an important source of income for the five largest UK banks. In 2014, these banks on

average, derived close to 60% of their total revenues from their retail divisions.[36]

Figure 2: Share of 'retail banking' divisions' income in 2014

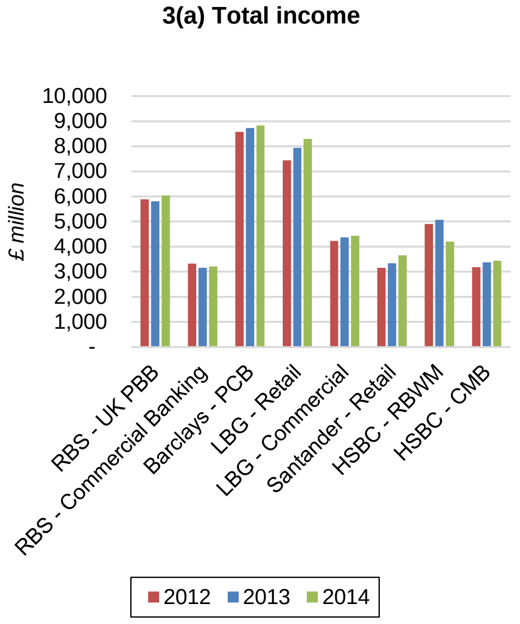


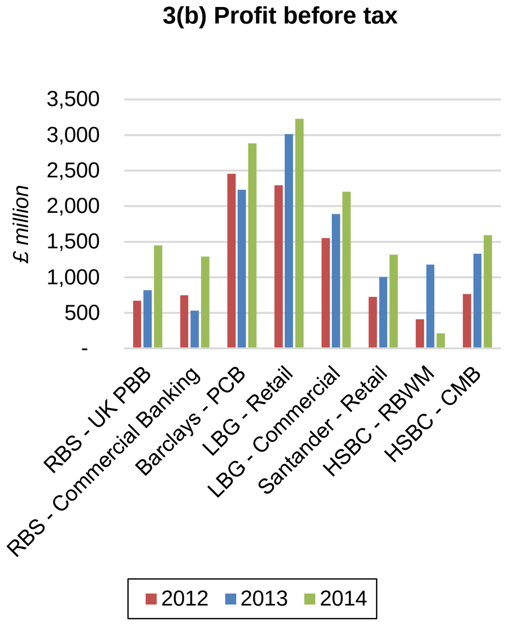
Source: Collated by the CMA based on banks' annual reports.

24. The retail banking divisions across the five banks reported a total income of £42.1 billion and profit before tax of £14.2 billion in 2014.[37] Figures 3(a) and 3(b) show that, while total reported income of the banks has remained relatively stable between 2012 and 2014, the reported profit has, in general, shown an upward trend during this period.[38]

[36] The share of retail banking income is calculated by dividing total income of retail banking divisions in scope by the total income of the individual banks.
[37] Based on the banks' 2014 annual reports.
[38] Profit before tax reflects the following in banks' published annual reports and accounts: RBSG plc – Operating profit; Barclays plc – Profit before tax; LBG plc – Underlying profit; Santander UK plc – Profit on continuing operations before tax; HSBC Bank plc – Profit before tax.

Figure 3: Income and profit before tax – retail banking divisions*



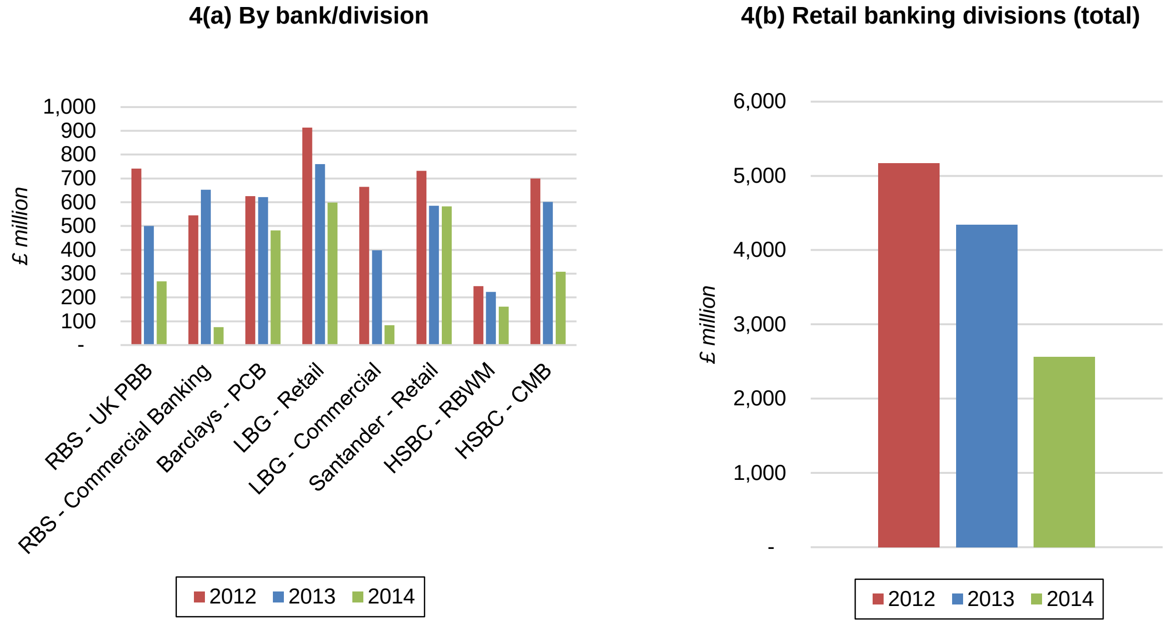


Source: Collated by the CMA based on the banks' annual reports.
*Due to different business activities and geographies included in these divisions, the absolute level of the reported total income and profits are not directly comparable between banks.

25. Figure 4(a) shows that impairments and other provisions for the retail banking divisions declined sharply during 2012 to 2014. As shown in Figure 4(b), in aggregate, impairments of these divisions fell by 50% from around £5.2 billion in 2012 to around £2.6 billion in 2014.[39]

[39] 'Impairments and other provisions' represent the following in banks' published annual reports and accounts: RBSG plc – Impairment losses; Barclays plc – Credit impairment charges and other provisions; LBG plc – Impairment; Santander UK plc – Impairment losses on loans and advances, provisions for other liability and charges; HSBC Bank plc – Loan impairment charges and other credit risk provisions. Source: Banks' annual reports.

Figure 4: Impairments and provisions, 2012 to 2014



Source: Banks' annual reports, CMA analysis.

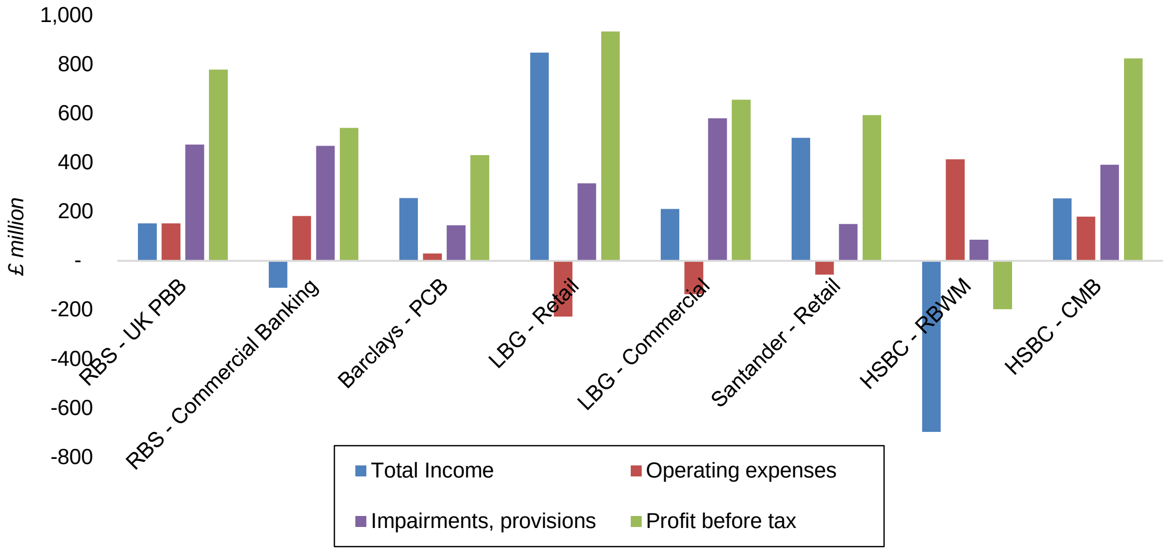
26. Figure 5 shows the components of change in the retail banking divisions' reported profits during 2012 to 2014.

27. Figure 5(a) shows that all banks gained because of lower impairments during this period. Figure 5(b) shows that in aggregate, the £4.6 billion increase in profits between 2012 and 2014 for the retail banking divisions was largely contributed by lower impairments and provisions (£2.6 billion), and to a lesser extent by higher total income (£1.4 billion) and lower operating costs (£0.6 billion).

28. Thus, changes in impairment charges accounted for over half of the profit changes during this period.

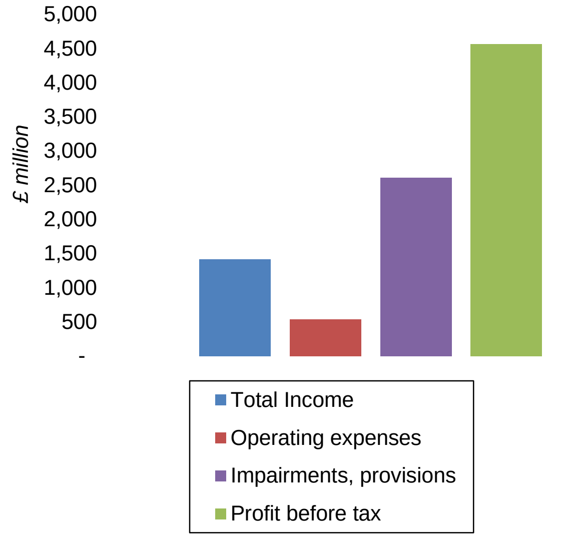
Figure 5: Components of change in profit before tax between 2012 and 2014

5(a) Change in profit before tax by bank/division



Source: Banks' annual reports, CMA analysis.
Note: Positive values in the chart represent higher income, lower operating expenses and impairments, provisions, in 2014 compared to 2012 (and vice versa for negative values).

5(b) Change in profit before tax for retail banking divisions (total)



Source: Banks' annual reports, CMA analysis.

29. We now present summary charts showing financial metrics during the period 2012 to 2014 for the main divisions of the five largest UK retail banks:[40]

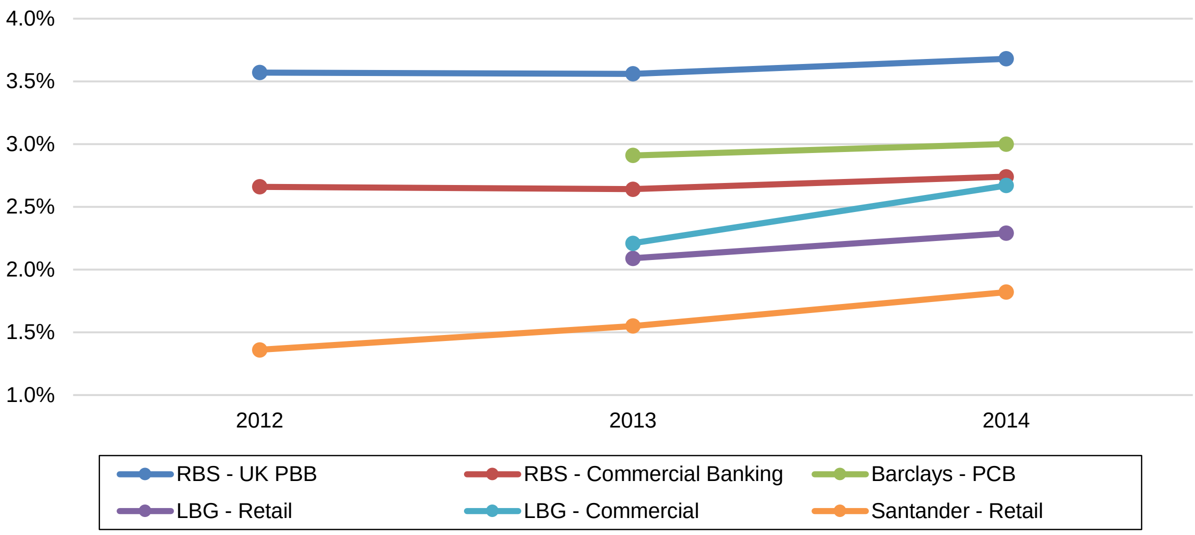
[40] From the divisions listed in Table 1, we exclude from our analysis, LBG's consumer division and Santander's commercial banking division. These divisions contribute a relatively lower proportion of these banks' total income.

30. As noted, due to the limitations in respect of the financial data, these metrics may not be directly comparable between banks, but the observed trend can provide an insight into banks' financial performance during this period.

Net interest margin[41]

31. Figure 6 shows that average NIM ranged between 1.5% and 3% during the period 2012 to 2014 except for RBS UK PBB, which had an average NIM of 3.6% during this period. NIM for the banks was either stable or showed an upward trend, with an increase in the overall average for all banks from 2.5% in 2012 to 2.7% in 2014.

Figure 6: Net interest margin



Source: Banks' annual reports, CMA analysis.
Note: NIM for HSBC RBWM and CMB not reported in published accounts. 2012 NIM for Barclays PCB not reported in published accounts. 2012 NIM for LBG Retail and Commercial Banking not reported in published accounts. NIM for Santander Retail is for Santander UK plc.

32. The average NIM presented here are broadly similar to those reported by Deutsche Bank, which found the UK retail banking average NIM to be 2.4% during 2012 and 2013.[42]

33. KPMG in its analysis of 2014 financial results of the five large UK-headquartered banks (Barclays, HSBC, LBG, RBSG and SCB) reported that the predominantly UK-focused banks achieved an improvement in NIM due to re-pricing deposits and targeting specific customer portfolios.[43] According to

[41] NIM is a key performance metric used in retail banking, and in general terms, refers to the spread earned between lending and borrowing costs. The reported data is based on each bank's definition of NIM.
[42] UK Retail Banking 2014: Bank to the Future, Deutsche Bank Equity Research, September 2014. p5. This report did not cover 2014 performance.
[43] KPMG (2015), *A paradox of forces. Banking results: What do they mean for you?,* p11.

KPMG, the average NIM of the five banks it analysed was 2.13% in 2014 compared to about 2.1% in 2013 and about 2.07% in 2012.[44]

34. In a recent update on the top five UK banks' financial performance in 2015, KPMG stated that average NIM during 2015 remained stable (falling one basis point) in an environment dominated by low interest rates and stronger competition both between established banks and new challengers.[45]

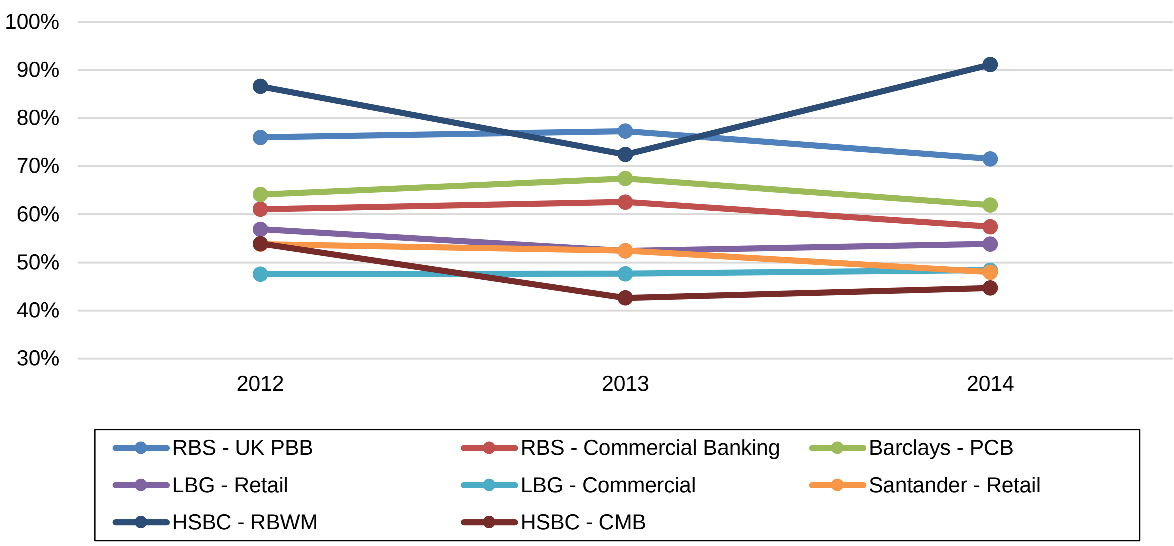
35. A 2015 report by A T Kearney noted that interest margins for retail banks in Western Europe had been affected by low interest rates, and should remain so as long as the central banks keep the reference rates at historical lows.[46] Similarly, a BoE working paper found that high interest rates were associated with large interest income margins.[47]

Cost to income ratio

36. As Figure 7 below shows, there was a general downward trend in the cost-to-income ratio, which declined for all retail banking divisions except HSBC's RBWM and LBG commercial divisions during the period 2012 to 2014. The average of cost-to-income ratios of all retail divisions, declined from about 63% in 2012 to about 60% in 2014.[48]

[44] ibid. KPMG reported average NIM in basis points (bps), a unit that is equal to 1/100 of 1%. The reported NIMs in bps were 213.0 for 2014, 209.9 for 2013 and 206.6 for 2012.
[45] KPMG (2016). *The search for growth (Annual results from the top five UK banks in 2015)*.
[46] A T Kearney, *The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model,* p7.
[47] According to the paper, 'In the long run, both level and slope of the yield curve contribute positively to [banks'] profitability. In the short run, however, increases in market rates compress interest margins, consistent with the presence of non-negligible loan pricing frictions'. Bank of England (2012), Working Paper No. 452: Simple banking: profitability and the yield curve. Abstract to the paper.
[48] Based on 'adjusted' results reported in the annual reports of HSBC Bank plc, the adjusted cost-to-income ratio for its RBWM division was much lower than the reported ratio – 66%, 62% and 68% in 2012, 2013 and 2014 respectively. The adjustments mainly related to customer redress costs, and provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK. HSBC Bank plc annual reports 2014 (p18) and 2013 (p16).

Figure 7: Cost-to-income ratio



Source: Banks' annual reports, CMA analysis.
Note: Cost reflects the following in banks' published accounts: Barclays plc – Total operating expenses; HSBC Bank plc – Total operating expenses; LBG plc – Total costs; RBSG plc – Operating expenses; Santander UK plc – Total operating expenses.

37. According to a 2015 KPMG report, the average cost-to-income ratio for the 'Big Five' UK banks (as characterised by KPMG), was 63% in 2014, which was similar to that of 'Challengers' (excluding NAB) at 64%.[49] Further, the report stated that 'Smaller Challengers' produced a much lower cost-to-income ratio of 53% in 2014, which according to the report could be down to a range of factors, including a number of one-off costs offset by a simpler business model and product set.[50]

38. A more recent KPMG report on 'Challenger banking' 2015 financial results presented similar findings, ie the 'Challengers' had outperformed the 'Big Five' banks on costs, with an average cost-to-income ratio of 59.6% (excluding Clydesdale) compared with 80.6%. Excluding conduct-related costs, the differential was, however, much smaller (63.4% cost-to-income ratio for the 'Big Five' banks in 2015).[51] Further, according to KPMG, the 'Smaller Challengers' produced a cost-to-income ratio of 48.5% in 2015 as against

[49] Large challengers included in the analysis were Bank of Ireland UK (Post Office), National Australia Bank, TSB and Virgin Money. Small challengers were Aldermore Group, Handelsbanken, Metro, OneSaving Bank, Shawbrook Group and Secure Trust Bank. 'Big Five' UK banks included in the study were Barclays, HSBC, Lloyds Bank, RBS and Santander (UK subsidiary). The KPMG (2015), *The game changers – Challenger Banking Results*, pp3 & 22.
[50] ibid, p3.
[51] For this report published in 2016 based on banks' published 2015 reports, KPMG categorised the banks in following categories: The Big Five banks: Barclays, HSBCG, LBG, RBSG and Santander; Larger Challengers: Clydesdale and Yorkshire Banking Group, Handelsbanken (UK division), Paragon, TSB, Virgin Money and Williams & Glyn; Small Challengers: AIB (UK division), Aldermore, Close Brothers, Metro, OneSavings Bank, Shawbrook Group and Secure Trust. The banks included in 'Large Challengers' and 'Small Challengers' are different in this analysis compared to KMPG report on Challenger banking results published in 2015, which was based on banks' 2014 results. KPMG (May 2016), *A new landscape: Challenger banking annual results*, p4.

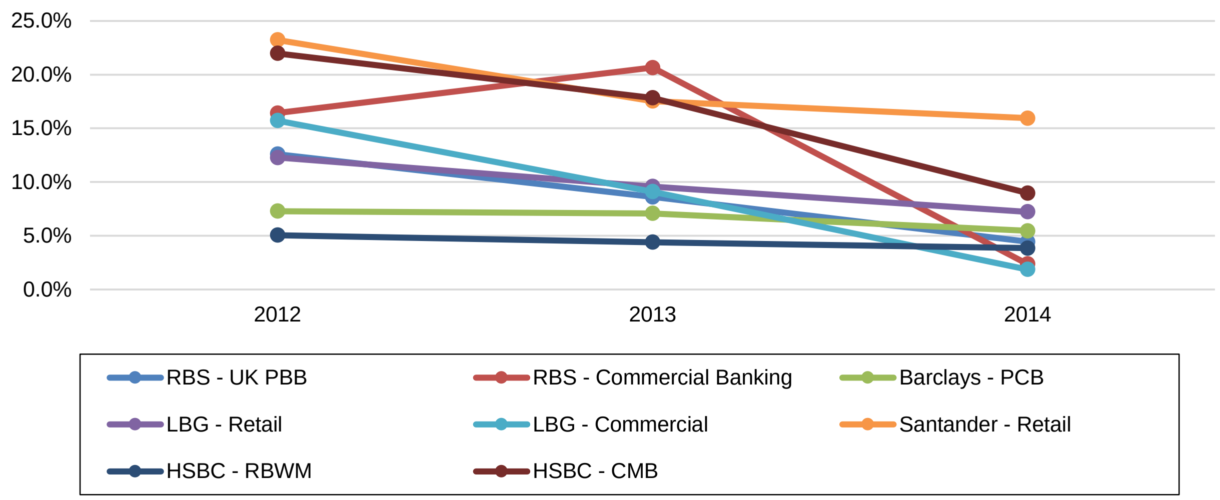
52.1% in 2014 (both excluding Metro), which was significantly better than the market, while the ‘Larger Challengers’ tracked much more closely to the overall sector average.[52]

39. A 2015 report by A T Kearney concluded that bringing European retail banks’ profitability to pre-crisis level would require a significant reduction in their cost-to-income ratios.[53] In a recent update, Kearney stated that costs dropped in the UK (and in Portugal and the Nordics) as retail banks cut payroll budgets and other administrative expenses.[54]

Impairments and other provisions

40. As Figure 8 shows, the percentage of impairments and other provisions to total income saw a decline for all banks during 2012 to 2014. For all retail banking divisions taken together, this percentage declined from an average of 14% in 2012 to about 6% in 2014.[55]

Figure 8: Impairments and other provisions as percentage of total income*



Source: Banks’ annual reports, CMA analysis.
*[✂] told us that this measure was an uninformative metric; it told us that impairments were driven by customers’ credit quality and lending balances, whereas total income was driven by customers’ credit and debit balances. We considered that, given the data we had to hand, our measure was nonetheless a useful metric, especially to understand impairment trend for a bank over time.
Note: Impairments and other provisions reflect the following in banks’ published accounts: Barclays plc – Credit impairment charges and other provisions; HSBC Bank plc – Loan impairment charges and other credit risk provisions; LBG plc – Impairment; RBSG plc: Impairment losses; Santander UK plc – Impairment losses on loans and advances, provisions for other liability and charges.

[52] KPMG (2016), *A new landscape: Challenger banking annual results*.
[53] A T Kearney,*The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model,* p12.
[54] *The 2016 Retail Baking Radar: The Retail Banking Champions step up Their Game.* p6.
[55] After excluding ‘provisions for other liability and charges’, Santander Retail’s ‘impairment losses on loans and advances’ were much lower at 5.1% of total income in 2014, and about half of what it reported for 2013. Figures are based on Santander UK plc 2014 annual report, p193.

41. The trend of decline in impairments was also observed by KPMG which stated that 'This year's [2014] [annual] reports confirm that strengthening economic conditions have helped to reduce the impairment charges…'[56]

42. As we noted earlier, lower impairments driven by economic recovery in the UK, were the biggest contributor to improved reported profits of the UK retail banking divisions between 2012 and 2014.

43. According to a recent KPMG report analysing the 2015 financial results of the top five UK banks, impairment charges showed little change from 2014 for the majority of the banks. The report noted that this continued stabilisation came at the end of a five-year period in which impairment charges had seen a dramatic increase.[57]

44. In a recent report, A T Kearney has pointed out that risk provisions relative to total income for European banks have declined, and for the first time since 2007, this indicator has dropped below 10%. For the banks in the UK (and in Germany, Austria, Switzerland, the Nordics and Benelux), this metric was below 5%.[58]

45. However, in its December 2015 Financial Stability Report, the BoE stated that while the misconduct costs reduced banks' pre-tax profits by 40% on average between 2011 and June 2015, given the number of ongoing investigations and redress actions, it was likely that misconduct costs will remain high in the near future.[59]

Share of net interest income

46. Figure 9 shows that NII to total income ratio for the retail banking divisions increased from an average of 68% in 2012 to about 72% in 2014.

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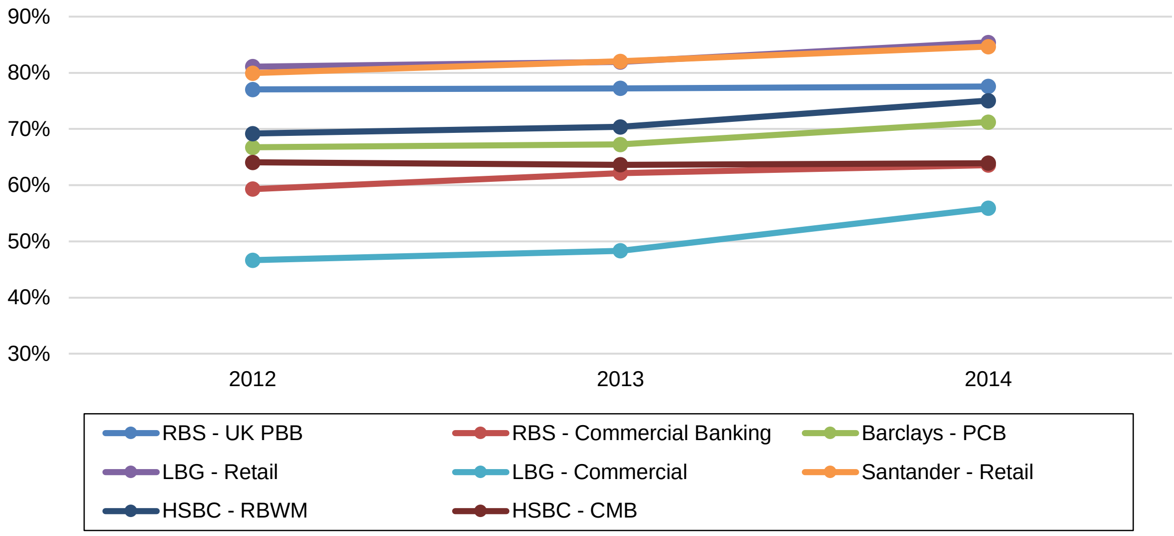
[56] KPMG (2015), *A paradox of forces. Banking results: What do they mean for you?*, p13.
[57] SCB was a notable outlier, seeing a steep rise in impairments due to challenges in emerging markets and commodities. KPMG (April 2016), *The search for growth*. This report summarised and made reference to the 2015 results of the following UK-headquartered banks: Barclays, HSBC, Lloyds, RBS and SCB.
[58] A T Kearney. *The 2016 Retail Baking Radar: The Retail Banking Champions step up Their Game*, p7.
[59] Bank of England, *Financial Stability Report, December 2015*, p46. See in particular Charts B.3 and B.4.

Figure 9: Net interest income as % of total income



Source: Banks' annual reports, CMA analysis.

47. This upward trend was corroborated by a 2014 Credit Suisse report, which stated that the share of interest income in UK retail banks' total income had increased significantly – from 65% in 2008 to around 75% in 2013.[60] According to Credit Suisse, beyond cyclical trends, 'there has been a more structural shift in the industry's ability to generate peripheral revenues beyond pure interest-related income.'[61]

48. A T Kearney made a similar point in a 2015 report, noting that the share of NII relative to total income for European retail banks continued to be above pre-financial crisis level, as banks struggled to increase fee-based revenues.[62] It stated that 'Different regulations, such as free current accounts, lending fee limitations, and caps on interchange fees, have impacted (and will continue to impact) banks' ability to generate fee-based revenues.'[63]

49. A more recent report by A T Kearney made the point that NII relative to total income has remained relatively stable in the past seven years for European retail banks at about 69%. It also pointed out that this metric was already above 80% of total income in the UK.[64]

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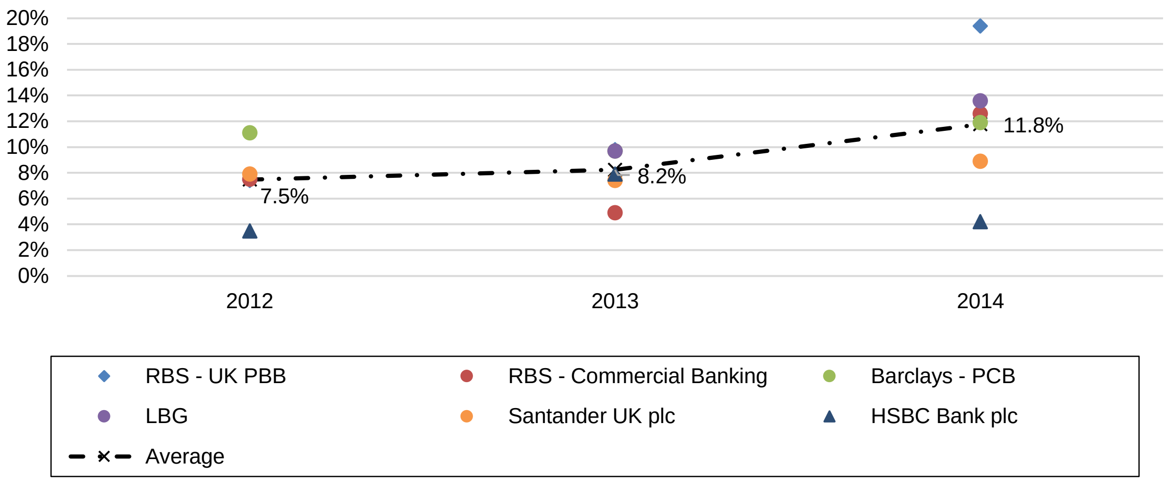
[60] Credit Suisse UK Retail Banking Seminar (July 2014), slide 14.
[61] ibid.
[62] A T Kearney,*The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model,* pp8–9.
[63] ibid.
[64] A T Kearney, *The 2016 Retail Baking Radar: The Retail Banking Champions step up Their Game,* p7.

Return on equity

50. ROE is a commonly used performance metric used by many retail banks in the UK. However, the methodology used to calculate the ROE, and the disclosure of ROE at divisional level in the published accounts varies across banks. Some banks report ROE only at the group rather than divisional level. Some banks report ROE on a statutory basis, while others also report ROE after making adjustments for exceptional or non-recurring items. As a result, there are comparability issues regarding the ROE reported by banks.[65]

51. Despite these limitations, the trend of ROE can provide an insight into banks' financial performance over a given period. In Figure 10, we present ROE of the five largest UK retail banks during 2012 to 2014, as reported in their annual reports. The reported ROE is for the retail banking divisions where available, or for the bank as a whole.[66]

Figure 10: Return on equity



Source: Banks' annual reports.
Note: LBG ROE for 2012 not available in published accounts.

52. Figure 10 shows that reported ROE for retail banking divisions improved during 2012 to 2014. The average reported ROE for all divisions increased from 7.5% in 2012 to 11.8% in 2014.

[65] We also note that ROE is an accounting based performance measure, and only one of the indicators of the banks' underlying profitability.
[66] We present data as presented by banks in published annual reports, which reflects their definition and calculation methodology. Barclays ROE reflects PCB's 'Return on average equity', Barclays plc 2014 annual report, p233. HSBC ROE reflects HSBC Bank plc's 'Return on average shareholders' equity of the parent company', HSBC Bank plc 2014/2013 annual reports, p1. LBG ROE reflects LBG plc's 'Underlying return on required equity', LBG plc 2014 annual report, p39. RBS ROE reflects respective division's 'Return on equity', RBSG plc 2014 annual report, pp130, 138. Santander ROE reflects Santander UK plc's 'Return on ordinary shareholders' funds', Santander UK plc 2014 annual report, p355.

53. We also looked at estimates of ROE in selected industry and analyst reports. These are discussed below.

54. According to Oliver Wyman, the ROE for retail and business banking in the UK (after excluding PPI redress costs) in 2013 was 20.9%, which was higher than ROE of 19.6% in 2012.[67,68] Oliver Wyman reported that there were notable differences between the ROE for 'individuals' and 'small business' segments within retail banking; in the UK, the 2013 ROE (excluding PPI redress) for these segments was 24% and 15% respectively.[69] Oliver Wyman stated that cost reduction provided the main lever for profit improvement in the near term in many markets.[70]

55. According to Credit Suisse, the 'adjusted' ROE of UK retail banks was approximately 9.9% in 2013 compared to the reported 'clean' ROE of 13.2%, after including the below-the-line items of which a significant portion had become a more recurrent feature of UK retail banking.[71] In an update, Credit Suisse reported that the 'adjusted' UK retail banking ROE for 2014 was 12.3% compared with reported headline ROE of 16%.[72]

56. KPMG in its analysis of 2014 financial results of five UK-headquartered banks stated that although profitability of the five banks had increased in 2014 compared to 2013 driven by lower loan impairments and conduct costs, none of the banks achieved a ROE of higher than 8%. It also pointed out that costs remained high on the agenda for UK banks, and that banks were going through optimisation programmes.[73]

57. In a recent update, KPMG stated that four of the five top UK headquartered banks reported a fall in ROE in 2015 compared with 2014, with ROE figures ranging from –4.7% to 7.2%.[74]

[67] Oliver Wyman defined ROE as total profit after tax divided by equity. ROE was normalised with capital calculated as a percentage of risk-weighted assets, represented by the average of the Top 5 banks Core Tier 1 ratio. Oliver Wyman (2014), *European Retail and Business Banking: Laying the Foundations for Recovery*, pp3–4, p24.
[68] In a 2012 report, *Perspectives on the UK Retail Banking Markett*, Oliver Wyman stated that major, full-service retail banking providers were returning about 20% on equity (when removing exceptional charges), p4. Annex B provides ROE from 2004 to 2011 as calculated by Oliver Wyman for UK retail and small business banking. 2011.
[69] Oliver Wyman (2014), *European Retail and Business Banking: Laying the Foundations for Recovery*, p5.
[70] ibid, p4.
[71] These items included bank levies, customer redress and litigation, reinvestment spend and higher capital requirements. Credit Suisse UK Retail Banking Seminar, 14 July 2014, slides 6 & 7.
[72] Credit Suisse UK Retail Banking Seminar 2015 update (July 2015), slide 4.
[73] The ROE represented return on average shareholder's equity for all banks except for RBS, which represented return on tangible equity, Lloyds which reported return on required equity and SCB, which reported ROE on an underlying basis, KPMG (2015), *A paradox of forces. Banking results: What do they mean for you?,* pp9–10.
[74] The search for growth, KPMG, April 2016.

58. Regarding the ‘Challenger’ banks’ financial performance, a KPMG report stated that ‘Challenger banks continued their growth in 2015. The ‘Small Challengers’[75] average ROE[76] reached 17% (against 15.8% in 2014), which contrasted with a 4.6% average ROE for the ‘Big Five’. The ‘Larger Challengers’ (excluding Clydesdale) also had improved returns with an average ROE of 9.5% (against 8.8% in 2014).[77]

59. Thus, the ROE estimates in different reports we referred to, varied substantially. The 2014 Oliver Wyman report stated that the retail banking industry in the UK has earned high (around 20%) ROE in the recent years after excluding exceptional items such as PPI redress costs. Estimates provided by other reports (eg EY, Credit Suisse and KPMG) were relatively lower, in the range of about 7% to 13%.[78] Some of the reasons for the differences between these estimates could be due to a combination of the following:

(a) Treatment of conduct penalties and charges; for example Oliver Wyman’s report excluded PPI redress, while KPMG used the reported results of the banks, which would have included the effect of conduct penalties and charges.

(b) Coverage: for example Credit Suisse’s report covered 13 UK retail banks, while Oliver Wyman’s report covered ‘the total retail and small business banking activity [in the UK]…provided by both local and foreign banks’ in a country.[79]

(c) Methodology: for example, Oliver Wyman reported ROEs ‘normalised’ with capital calculated as a percentage of risk-weighted assets, represented by the average of the Top 5 banks Core Tier 1 ratio in each country; other reports did not appear to make a similar adjustment.

60. Due to the differences in definitions and methodology to calculate the banks’ ROE in different reports, we cannot make any definitive conclusions about the relative profitability of the retail banks in the UK from the data presented here. However, we note from our analysis that the retail banks’ reported ROE (and therefore profitability) has improved during 2012 to 2014, as banks continued to recover from the financial crisis and gained from lower impairments.

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[75] Excluding AIB UK.
[76] Pre-tax return on tangible equity.
[77] See footnote 51.
[78] Our analysis (Figure 10) showed that UK retail banks’ average reported ROE during 2012 to 2014 was about 9%.
[79] Oliver Wyman (2014), *European Retail and Business Banking: Laying the Foundations for Recovery*, p23.

Conclusion on retail banking financial performance

61. Overall, the general highlights of the financial performance of the retail banking divisions of the largest five UK banks during 2012 to 2014 were:

(a) stable total income;

(b) stable or increasing NIM;

(c) declining cost-to-income ratio and impairments;

(d) improving profits and returns; and

(e) declining share of non-interest income in banks' total income.

Annex A: Impact of regulation on profitability

Tighter regulation is impacting overall profitability in Europe's retail banking sector

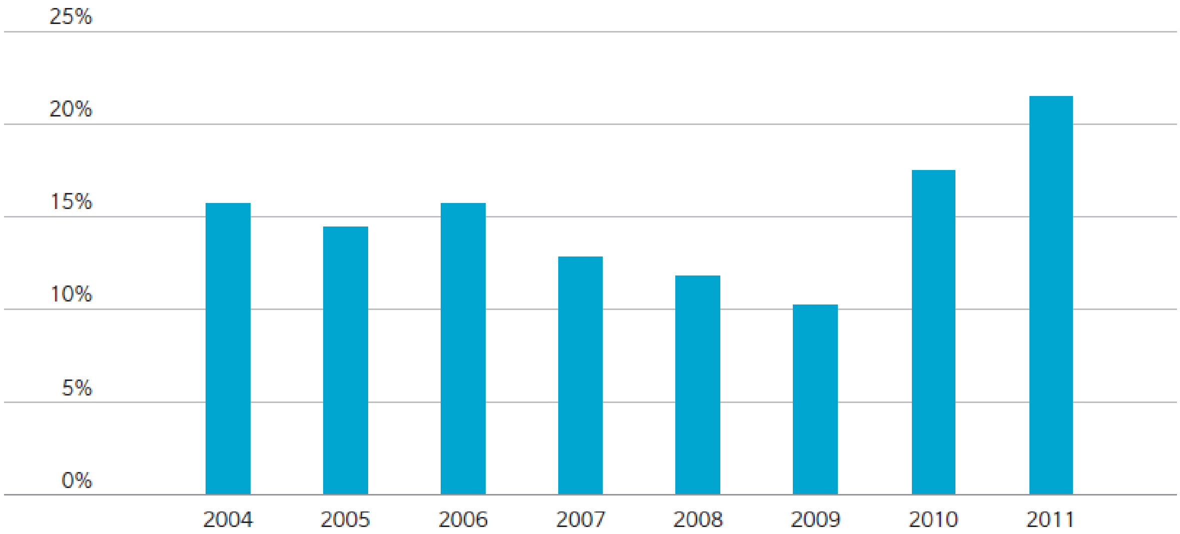
Not exhaustive

Category	*Main regulatory measures*	*Impact on returns*
Capital and liquidity requirements	• Increase minimum common equity capital ratio • Introduce conservation buffer in 2016 (increasing in 2019) • Introduce mandatory leverage ratio in 2018 • Introduce liquidity coverage ratio in 2015 (increasing in 2019) • Introduce the net stable funding ratio in 2018	• Increased equity requirements • Decreased exposure to more risky products • Possible forced divestment from capital-intensive businesses • Increased cost of funding
Consumer protection requirements	• Implement policies to guarantee fair client treatment (consumer protection legislation) • Implement know-your-customer guidelines and anti-money laundering standards • Review deposit guarantee schemes by the European Union • Implement the EU's Consumer Credit Directive • Implement the Markets in Financial Instruments Directive II (MiFID II) • Implement Payment Services Directive and regulations on interchange fees	• Limited revenue generation potential • Increased costs to adjust IT systems and operations to guarantee compliance
Operational requirements	• Implement proposals on operational continuity in resolution • Implement proposals for separating retail and corporate investment bank activities	• Increased costs of doing business and restructuring costs • Possible forced business divestment

Source*:* A T Kearney, *The 2015 Retail Banking Radar: Time to Reinvent Your Banking Model*, p11.

Annex B: Return on equity, 2004 to 2011 – UK retail and small business banking

Figure 1: Average UK retail banking returns*†



Source*:* Oliver Wyman (2012), *Perspectives on the UK Retail Banking Market,* p3.
*Market ROE weighted across banks by asset size. ROEs normalised with capital calculated as 11% of risk-weighted assets and tax rate of 30%. Institutions included: A&L, Barclays, B&B, Co-op Bank, HBOS, HSBC, LBG, Nationwide, Northern Rock, Northern Rock Asset Management, RBS, Santander, Tesco, Yorkshire Building Society. Note that different banks report on different bases, therefore inclusion and definition of small business banking dependent upon institution specific reporting structures.
†Excludes exceptional items and charges (eg PPI charges).

Appendix 3.1: Regulatory framework applicable to the retail banking industry in the UK

Contents

Page

Introduction

1. This appendix describes the key aspects of banking regulation affecting retail banks operating in the UK market. It is not intended to be a comprehensive description of every piece of legislation or rule by which banks are required to abide, but provides an overview of the principal institutions that regulate the industry in the UK, and a high-level description of the most significant forms of regulation with which banks must comply. The appendix also provides a description of some of the key initiatives currently being carried out by UK financial industry regulators, the UK government and the EU, affecting the retail banking industry.

2. Understanding the regulatory framework applicable to the industry is particularly important to the CMA's consideration of barriers to entry to the retail banking market, and of the feasibility of potential remedies. For further information on the CMA's consideration of whether banking regulation might form a barrier to entry and expansion in the retail banking market, refer to Section 9 on barriers to entry and expansion.

3. This appendix is split into four main parts:

   - An overview of the bodies that regulate the retail banking industry in the UK, and how legislation affecting the banking industry is developed at both EU and UK level.
   - Some of the current and recent regulatory and government initiatives (UK, international and EU) affecting the retail banking industry.
   - The application of consumer law to the retail banking industry.
   - An overview of previous CC reviews of the retail banking industry that gave rise to remedies.
   - Data protection rules applicable in the banking sector.

Part I: UK regulatory authorities – overview

4. In July 2010, in response to the financial crisis, the government outlined proposals to overhaul the UK financial regulatory system in favour of more specialised and focused regulators. The consultation document identified a number of problems with the existing regime:

   - FSA had too broad a remit and insufficient focus to identify and tackle issues early.

- BoE did not have the tools or levers to fulfil its responsibility for ensuring financial stability.

- HMT had responsibility for maintaining the institutional framework but no clear responsibility for dealing with a crisis which put public funds at risk.

- No single institution had the responsibility or authority to monitor the system as a whole, to identify risks to financial stability and act decisively to tackle them.

5. Following the consultation, a White Paper was published in June 2011,[1] including a draft Financial Services Bill, which came into force as the Financial Services Act 2012 (FS Act) on 1 April 2013.

6. The FS Act implemented a new regulatory framework for financial services in the UK. It is primarily concerned with the institutions that oversee the industry, rather than with the subject matter of the rules and regulations for which those institutions are responsible.

7. Changes introduced by the FS Act include separating the prudential and conduct regulation of banking operations. Both forms of regulation were previously carried out by the FSA. From 1 April 2013, prudential regulation of banking operations has been carried out by the PRA, which was established by the FS Act, and conduct regulation by the FCA, which replaced the FSA. The roles performed by the PRA and FCA respectively are considered in greater detail in this appendix in paragraph 18 onwards and paragraph 91 onwards.

8. In addition to the changes to the regulatory framework brought about by the FS Act, the Financial Services (Banking Reform) Act 2013 (FSBRA) enacted a number of further reforms related to the UK's banking sector. In particular, FSBRA gave HMT and the relevant regulators, primarily the PRA, powers to implement some of the recommendations made by the ICB[2] – in particular, the ICB's recommendations for ring-fencing requirements for banks (see paragraph 185 onwards of this appendix).

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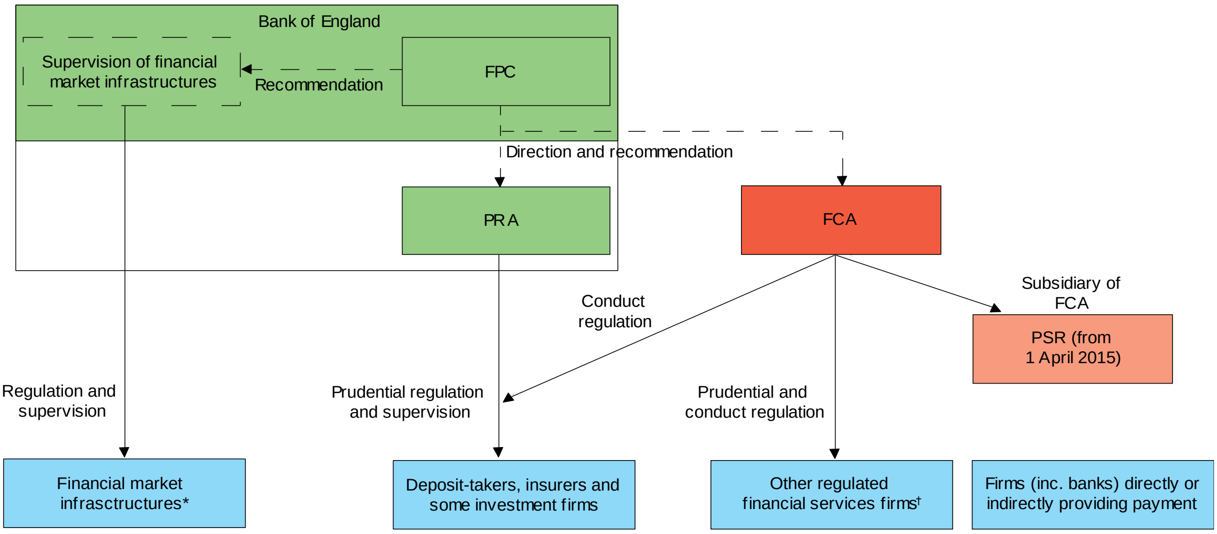
[1] A new approach to financial regulation: the blueprint for reform.
[2] The ICB was a UK government inquiry looking at possible reforms to the banking industry in the wake of the financial crisis of 2007–08. It was established in June 2010 and published its final report and recommendations in September 2011. It was chaired by Sir John Vickers. Its headline recommendation was that banks should 'ring-fence' their retail banking divisions from their investment banking arms, to safeguard against riskier banking activities. The UK government announced the same day that it would introduce legislation to implement the recommendations.

9. It also provided for the establishment of the PSR. The role of the PSR is considered in detail in this appendix from paragraph 133 onwards.

Figure 1: Overview of regulatory landscape



Source: PRA.
*Excludes regulation of trading platforms, which is the responsibility of the FCA.
†Includes asset managers, hedge funds, exchanges, insurance brokers and financial advisers.
Note: FPC = Financial Policy Committee.

Bank of England

10. The BoE is the central bank of the UK. Its stated mission is to 'promote the good of the people of the UK by maintaining monetary and financial stability'. The FS Act brought about a major expansion of the BoE's main responsibilities, which are now clearly defined by Parliament.

11. The BoE performs its main functions through the following committees and authorities:

- Financial policy (eg looking out for future risks and weaknesses in the financial system) – the FPC.
- Monetary policy (eg setting interest rates, decisions on quantitative easing) – the Monetary Policy Committee.[3]
- Safety and soundness of banks and other financial institutions – the PRA.

12. The FS Act established both the FPC and the PRA, and gave each of these bodies new responsibilities for the supervision of financial institutions.

[3] The activities of the Monetary Policy Committee are not relevant to the CMA's investigation so are not discussed further in this appendix.

13. The BoE also plays a role in the regulation of payment systems, which is discussed further at paragraph 85.

Financial Policy Committee

14. The Financial Policy Committee's (FPC's) primary role is to identify, monitor, and take action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system as a whole. It comprises the Governor, three Deputy Governors of the BoE and the Executive Director of Financial Stability, the CEO of the FCA, four external members and a non-voting HMT member. The FPC has a secondary objective to support the economic policy of the government.

15. The FPC can issue directions and make recommendations to the PRA and the FCA, and can make recommendations to other bodies. For banks, the FPC has the power to set the rate of the countercyclical capital buffer under the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) (see further at paragraph 52).

16. The FPC meets quarterly to a published schedule. Each quarterly round comprises a briefing on financial system developments, focused discussions of key threats to stability and potential macro-prudential policy interventions, and a formal meeting to agree on policy decisions, for example to make directions and/or recommendations.

17. The FPC must explain any decisions it has taken, review progress against previous recommendations and directions, and, twice a year, publish a Financial Stability Report, setting out its assessment of risks and weaknesses in the financial sector.

Prudential Regulation Authority

18. The Prudential Regulation Authority (PRA) is responsible for the prudential regulation and supervision of all deposit-taking institutions (banks, building societies and credit unions), insurers and major investment firms. The PRA works alongside the FCA creating a 'twin peaks' regulatory structure in the UK,[4] with the FCA carrying out conduct regulation of deposit-takers, and prudential and conduct regulation of other financial firms. In total the PRA regulates around 1,700 financial firms. Under the Bank of England and

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[4] The FCA is a separate institution and not part of the BoE.

Financial Services Act 2016,[5] the PRA will become the Prudential Regulation Committee of the BoE, following the integration of the PRA into the BoE, ending its status as a subsidiary of the BoE. The PRA's most significant supervisory decisions are taken by its Board – comprising the Governor of the BoE, the CEO of the PRA, the Deputy Governor for Financial Stability, the Deputy Governor for Markets and Banking, the Deputy Head of the PRA, and five independent non-executive members. The Board is accountable to Parliament.

19. The PRA derives its responsibilities and powers from the Financial Services and Markets Act 2000 (FSMA) (as amended by the FS Act)[6] and the relevant EU Directives and directly applicable EU Regulations, for which it is a competent authority (eg the Capital Requirements Directive (CRD) and the CRR – see further at paragraph 52).

20. The PRA has two primary statutory objectives (set out in FSMA): to promote the safety and soundness of the firms it supervises and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders. FSMA requires the PRA to pursue the first objective primarily by:

- seeking to ensure that the business of the firms it authorises is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and

- seeking to minimise the adverse effect that the failure of one of the firms it regulates could be expected to have on the stability of the UK financial system.

21. The PRA prioritises its resources to focus on those firms with the greatest potential to affect financial stability adversely, whether through the failure of those firms or through the way in which they carry on their business.

22. The PRA has a secondary objective to facilitate effective competition in relevant markets, so far as reasonably possible. The PRA has no concurrent competition powers, and this secondary objective only applies when the PRA is advancing its primary objectives and therefore does not operate as a self-

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[5] Sections 12–13, Bank of England and Financial Services Act 2016, amending the Bank of England Act 1998 and FSMA, an Act of Parliament from 4 May 2016. Apart from those provisions that have a commencement date specified in the Act, the other provisions of the Act will come into force (or have come into force) on a day or days to be appointed in commencement orders. On 7 June 2016, the *Bank of England and Financial Services Act 2016 (Commencement No. 3) Regulations 2016 (SI 2016/627)* were published. These Regulations bring into force the majority of the provisions of the Act on 6 July 2016. However, the date that the reforms to the status of the PRA will come into force has not yet been announced.

[6] References to FSMA in this appendix are to be read as references to the FSMA as amended by the FS Act.

standing objective. For example, the PRA would consider possible effects on competition when introducing new rules for authorised firms, but it would not on its own initiative introduce rules aimed purely at promoting competition.[7]

23. One of the PRA's key functions is the authorisation of new banks, which is considered in detail below.

Authorisation as a bank by the PRA, under Part 4A FSMA

24. A firm can only carry on a regulated activity in the UK if it is authorised or exempt.[8] Firms based in the EEA may obtain authorisation from the PRA in a variety of ways. Some may obtain a passport from their home state regulator on the basis of an EEA right, eg to establish a branch in the UK, which the PRA then endorses.

25. Firms that are incorporated and have their head office or registered office in the UK must apply to either the PRA or the FCA (depending on the activities they plan to carry out) for authorisation under Part 4A of FSMA.

26. The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001[9] sets out those activities for which PRA authorisation is required (PRA-regulated activities). These are:

- accepting deposits;
- effecting a contract of insurance as principal;
- carrying out a contract of insurance as principal; and
- managing the underwriting capacity of a Lloyd's syndicate as a managing agent.

27. The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 also lists other regulated activities, for which FCA authorisation is required, such as consumer credit lending.

[7] The obligation on the PRA is only to facilitate competition, not to behave as a competition advocate, promoting competition in markets.
[8] Section 19, FSMA. This is referred to as the 'general prohibition'.
[9] Financial Services and Markets (Regulated Activities) Order 2001.

Application process

28. As a dual-regulated entity, a firm seeking authorisation as a bank will have its application considered by both the FCA and the PRA.[10] However, it must apply initially to the PRA. The PRA will assess applicant firms from a prudential perspective and the FCA will assess applicants from a conduct perspective. The PRA will lead on the authorisation process, although it must obtain the consent of the FCA before granting authorisation.

29. Following publication of the ICB's report in 2011, HMT asked the FSA and the BoE to review the prudential and conduct requirements for new entrants to the banking sector to ensure that they do not pose excessive barriers to entry or expansion. In March 2013, the FSA and the BoE published a review of requirements for firms entering or expanding in the banking sector[11] also commonly referred to as the barriers report. This report led to a number of changes to the process. The three main features of the changes were:

- reduced capital requirements at the authorisation stage;
- removal of the new bank liquidity premium; and
- a changed authorisation process to ease business start-up (the so-called 'mobilisation' approach – see further at paragraph 31).

30. The information to include in an application for a Part 4A permission is not set out in FSMA, but is set out on both the PRA and FCA's websites.[12] Applicants are currently required to pay a fee of up to £25,000 for authorisation.

31. The FCA has published a guide[13] to the banking authorisation process. Among other things, it explains the two options available for banking applications:

- Option A: this approach is also referred to as the 'straight-through' authorisation and is designed for firms that already have the staffing, capital and infrastructure to allow them to set up a bank. For example, this

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[10] The term 'FCA-authorised firm' means a financial firm (ie an insurance firm) that is regulated solely by the FCA, and the term 'PRA-authorised' means a firm that is dual-regulated by the FCA (for conduct purposes) and the PRA (for prudential purposes). All firms which accept deposits within the UK must be PRA-authorised, therefore all banks are PRA-authorised.
[11] FSA (2013), *A review of requirements for firms entering or expanding in the banking sector*.
[12] This includes information such as the firm's business plan, the scope of permission for which it is applying, details of its financial resources, recovery and resolution plans, details of its compliance, HR and internal audit policies, and details of its infrastructure. For more information, see the PRA website.
[13] The FCA's guide to authorisation as a bank.

approach would be used for the subsidiarisation[14] of branches of foreign banks and where firms are able to use existing IT and other infrastructure.

- Option B: this option is also referred to as the 'mobilisation' route. Under mobilisation, firms are authorised, but with a restriction, to enable them to have the certainty of being authorised before committing to costly infrastructure builds and staff hire. It is intended to address barriers to entry that some applicants face, such as having the necessary capital or costly hire and IT build. Option B enables firms to submit a shorter application, which focuses on essential elements such as business case, capital, liquidity and key senior appointments. The remaining documentation, such as detailed policies and procedures, is submitted during the mobilisation period.

32. The authorisation process for applicants applying to be a bank or building society is separated into three stages:

33. Pre-application.[15] This is designed to help the prospective applicant understand the authorisation process and to receive some feedback from the PRA and FCA on its proposals. This stage will include a number of structured discussions with the PRA and FCA as appropriate. To initiate pre-application, a prospective applicant must send a slide-pack to the PRA, including high level details of:

- the proposed business model;
- ownership structure;
- details of any proposed board members and senior members already identified; and
- the applicant's capital and liquidity strategy.

34. Assessment. The PRA and FCA will assess new applications against the threshold conditions (see further at paragraph 36) and where judged by both that an applicant meets the threshold conditions and regulatory requirements (eg capital and liquidity), the PRA, following receipt of the consent of the FCA, will grant authorisation to the applicant firm. For those going through the

[14] For example, where banks regulated in other jurisdictions seek to convert pre-existing branches in the UK to legal subsidiaries.
[15] A full description of the process for applying for PRA authorisation is set out on the PRA's website: BoE guide to authorisation process.

mobilisation option (Option B), this authorisation will include a restriction on the activities they can carry on until fully mobilised.

35. Mobilisation. This stage applies to 'Option B' applicants and is primarily designed to deal with the operational elements of becoming a fully functioning bank (for example, seeking additional capital or implementing full IT infrastructure). Mobilisation will normally be discussed at the pre-application stage.

Satisfying the threshold conditions

36. When authorising a firm, the PRA and the FCA must ensure that the applicant firm will currently satisfy, and will continue to satisfy, the threshold conditions for which each regulator is responsible. Where a firm is seeking to become a dual-authorised firm, the PRA and FCA are responsible for separate threshold conditions. The PRA and the FCA's threshold conditions are set out in statute,[16] but in summary judging new firm applications against the PRA and FCA threshold conditions will include consideration of the following matters:

- Viability of the business plan.
- Capital and liquidity.
- Governance arrangements (including ownership, legal structure and management).
- Risk management and controls.
- Resolvability[17] of the applicant firm (relevant to the PRA's assessment of an applicant bank, building society or credit union).[18]

Granting or refusing a firm's application

37. The PRA and the FCA are required by statute to assess an application within six months from the date they receive a complete application.[19] For dual-regulated firms, the FCA must also give consent within the same timeframe.

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[16] Set out in Schedule 6 to FSMA, as amended by the Financial Services and Markets Act 2000 (Threshold Conditions) Order 2013.
[17] For example, how easy it would be to put the bank into bankruptcy or restructuring while inflicting the minimal damage possible on the rest of the UK financial system.
[18] Firms judged to be resolvable are eligible for lower capital requirements.
[19] If the application is judged incomplete on receipt, the statutory deadline for assessment is 12 months from the date of receipt, however the regulators have given a voluntary undertaking to reach a decision on incomplete

38. If the PRA grants an application for Part 4A permission, it will send the firm a scope of permission notice that sets out the regulated activities the firm has permission to carry on, and any requirements or limitations placed on the firm's permission.

39. If proposing to refuse an application, the PRA will issue a warning notice to the applicant prior to issuing a decision notice of refusal. Such decisions are appealable to the Upper Tribunal (Tax and Chancery Chamber).[20]

Ongoing compliance: PRA Rulebook and the Fundamental Rules

40. Firms must ensure they are compliant with all applicable PRA rules and directly applicable EU regulations,[21] including the Fundamental Rules[22] as set out in the PRA Rulebook. The Fundamental Rules require firms to act in accordance with the PRA's 'safety and soundness' objective, by setting specific high-level requirements:

- Fundamental Rule 1: A firm must conduct its business with integrity.
- Fundamental Rule 2: A firm must conduct its business with due skill, care and diligence.
- Fundamental Rule 3: A firm must act in a prudent manner.
- Fundamental Rule 4: A firm must at all times maintain adequate financial resources.
- Fundamental Rule 5: A firm must have in place effective risk strategies and risk management systems.
- Fundamental Rule 6: A firm must organise and control its affairs responsibly and effectively.
- Fundamental Rule 7: A firm must deal with its regulators in an open and cooperative way, and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice.

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applications within six months of submission, provided that the missing information is sent reasonably promptly after submission.

[20] The appeal body for decisions in financial services cases made by the FCA, PRA, The Pensions Regulator, BoE, HMT or Ofgem.

[21] The term 'directly applicable' in the context of EU legislation means that it applies directly to firms and/or individuals within the EU, without first having to be transposed into domestic law.

[22] BoE policy statement outlining Fundamental Rules.

- Fundamental Rule 8: A firm must prepare for resolution[23] so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services.

41. The Fundamental Rules are supported by more detailed rules, contained in the PRA Rulebook,[24] and directly applicable EU regulations. The Rulebook contains rules and directions issued under the PRA's FSMA powers. Supervisory statements issued by the PRA provide additional general guidance where necessary.

Reporting to the PRA

42. The PRA works closely with the FCA in the collection and management of regulatory data, most of which is collected by the FCA through its GABRIEL[25] online system.

Supervision and intervention by the PRA

43. The PRA supervises firms to judge whether they are 'safe and sound', and whether they meet, and are likely to continue to meet, the threshold conditions. Its approach is forward-looking; it assesses firms not just against current risks, but also against those that could plausibly arise in the future.

44. Where the PRA judges it necessary to intervene, it generally aims to do so at an early stage. It focuses on those issues and those firms that pose the greatest risk to the stability of the UK financial system, and the frequency and intensity of supervision applied by the PRA to a particular firm increases in line with the risk it poses.

45. The PRA works closely with the FPC, which is able to make recommendations and give directions to the PRA. The PRA also cooperates closely with the rest of the BoE on, for example, market intelligence and oversight of critical financial infrastructure, and with the BoE's Resolution Directorate on resolution planning, contingency planning for firm failure and operational resilience.

46. The FS Act requires the PRA to investigate and report to HMT on events which indicate possible regulatory failure.

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[23] Resolution is the process by which the authorities can intervene to manage the failure of a firm, with minimum impact on the rest of the financial market. The BoE seeks to ensure that firms can fail without causing the type of disruption that the UK experienced in the recent financial crisis, without exposing taxpayers to loss.
[24] PRA Rulebook.
[25] GABRIEL website.

Regulatory capital framework

Basel Accords I, II & III

47. The Basel Accords – Basel I, Basel II and Basel III – is a set of recommendations for regulations in the banking industry. They are issued by the Basel Committee on Banking Supervision (BCBS), a committee made up of representatives of banking supervisory authorities from major economies and banking hubs, providing a forum for regular cooperation on banking supervisory matters, and to encourage convergence toward common standards. It is expected that member authorities and other nations' authorities will take steps to implement BCBS recommendations in their own national regulatory frameworks, whether in statutory form or otherwise. The BCBS is part of the Bank for International Settlements.

48. Basel I – issued by the BCBS in 1988 – set out for the first time minimum capital adequacy requirements for banks (see further at paragraph 57). Basel II was issued in June 2004, building on and extending the recommendations first introduced by Basel I. It has since been extended and now (mostly) superseded by Basel III.

49. Basel II defined the 'three pillars concept' underlying effective banking regulation, which divides types of regulation into three categories:

(a) Pillar 1: minimum capital requirements.

(b) Pillar 2: supervisory review.[26]

(c) Pillar 3: market discipline.

50. Basel III places new capital, leverage and liquidity requirements on banks. It was scheduled to be introduced by 2015; however implementation into domestic regulation has twice been extended, most recently to 31 March 2019. The EU CRD IV (see further below) imposes the standards set out in Basel III on EU member states, and that Directive has been transposed into UK law by the PRA,[27] which will also be responsible for ongoing compliance with its requirements.

51. Basel III also introduces a net stable funding ratio (NSFR). Taking effect from 1 January 2018, the NSFR reduces funding risk over a longer time horizon by

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[26] In the UK, this is reviewed by the PRA and FCA (as appropriate).

[27] The provisions of the CRD were transposed into UK law by inclusion in the PRA Rulebook. Under paragraph 16 Schedule 1ZB FSMA, the PRA is able to legislate through the making of rules. The CRR is directly applicable to firms, so did not need to be transposed into UK law.

requiring banks to fund their activities with sufficiently stable sources of funding to mitigate the risk of future funding stress. The BCBS published standards[28] for the NSFR in October 2014.

The EU Capital Requirements Directive IV

52. The CRD IV is an EU legislative package covering prudential rules for banks, building societies and investment firms. The EU text was published in the Official Journal of the EU on 27 June 2013. The majority of the rules contained in the legislation have been applicable since 1 January 2014.

53. CRD IV comprises:

- the CRR, which is directly applicable to firms across the EU, and implements the Basel III standards on capital, leverage ratios, liquidity and related matters such as large exposures and standardised regulatory reporting; and

- the CRD, which must be implemented through national law, and which makes changes to rules on corporate governance, remuneration and introduces capital buffers.

54. CRD IV is a maximum harmonisation directive,[29] meaning national authorities have little discretion to apply standards other than those set out in CRD IV, to create a level playing field in banking regulation across all EU member states.

55. The PRA implemented most CRD IV provisions in relation to credit institutions (banks and building societies) and investment firms that it prudentially supervises. The PRA consulted only on proposals required to transpose provisions in the CRD IV Directive and to exercise certain discretions in the CRR.[30] The PRA amended the PRA Handbook to reflect changes made by

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[28] NSFR standards.

[29] Most EU legislation is not directly applicable, and instead has to be transposed by the governments of the member states into domestic law, in order to be binding on the citizens of those member states. If a piece of EU law is described as 'maximum harmonisation', this means that when a member state transposes it into domestic law, the resulting domestic law must meet the standards set out in the Directive, but must not exceed the terms of the original EU legislation. This creates a level playing field between member states. 'Minimum harmonisation' means that the original piece of EU legislation contains only the minimum requirements that must be transposed into domestic law; member states are free to include more onerous requirements if they wish (but cannot 'water down' the original EU law). It is common for EU legislation to consist of a mixture of maximum harmonisation and minimum harmonisation clauses.

[30] Transposition included deletion by the PRA of BIPRU from its Handbook, apart from the liquidity rules in BIPRU 12. The PRA also disapplied GENPRU to firms in the scope of CRD IV, with the exception of GENPRU 3. The provisions in GENPRU 3 and BIPRU 12 were subsequently deleted and their contents replaced by material in the PRA Rulebook: the Financial Conglomerates Part and the Liquidity Coverage Requirement - UK Designated Investment Firms Part respectively.

CRD IV including passporting, reporting, remuneration and governance.[31] These provisions have subsequently been moved from the PRA Handbook to the PRA Rulebook.

56. With the exception of the Capital Buffers Part, these Parts were finalised in its December 2013 policy statement[32] and came into force on 1 January 2014. The Capital Buffers Part was finalised in an April 2014 policy statement[33] and came into force in two separate tranches, namely on 1 May 2014 and 1 January 2016.

Capital adequacy, leverage and liquidity requirements

57. The aim of the capital adequacy regime is to require banks always to hold a certain amount of 'safe' capital resources (ie capital that is not owed to anybody) to absorb some or all of its losses in the event of a crisis. As explained above, these requirements derive from the Basel Accords via CRD IV.

58. The Basel Accords identify two types of capital that make up a bank's 'capital resources' – ie classes of capital which can be used by the bank to shore itself up in the event of crisis:

- Tier 1 capital – this is the safest form of capital, and is, essentially, shareholders' equity, which does not have to be repaid except at the bank's discretion and therefore can absorb losses without the bank becoming bankrupt.

- Tier 2 capital – this will absorb losses only in the event that a bank is wound up, and so provides a lesser degree of protection to depositors than Tier 1 capital.

- *Tier 1 and Tier 2 capital*

59. Tier 1 (or 'core') capital is the core measure of a bank's financial strength from a regulatory point of view. It is composed of capital that ordinarily does not need to be repaid to anyone, and so is the safest source of funding to absorb a bank's losses, while allowing the bank to continue in operation.

60. Tier 1 capital is formed of two types of capital:

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[31] SUP (Supervision) and SYSC (Senior Management Arrangements, Systems and Controls).
[32] Policy statement on transposing CRD IV.
[33] Policy statement on Implementing CRD IV: capital buffers.

(a) Common Equity Tier 1 Capital (CET1) (ie shareholders' equity: ordinary shares, reserves, retained earnings, share premiums). CET1 is subordinate to all other claims on a bank's capital and there is no obligation to pay a dividend. CET1 provides the front line of defence in a banking crisis, as it does not have to be repaid to anyone.

(b) Additional Tier 1 Capital (AT1): AT1 is senior only to ordinary shares, with discretion to pay a coupon, and usually callable only after five years. AT1 is formed of securities that are a hybrid of debt and equity. Because in certain circumstances AT1 must be repaid to the holder of the security, it is the second line of defence in a crisis.

61. Tier 2 capital represents 'supplementary capital'. This comprises debt-like instruments, with mandatory coupon payments, senior to Tier 1 instruments and subordinate only to senior creditors. Tier 2 capital will therefore only absorb losses in the event a bank is wound up. In regulatory terms, Tier 1 and Tier 2 together are referred to as a bank's 'Capital Resources'.

62. CET1 deals with a smaller insolvency crisis by wiping out shareholder equity. In a larger crisis, AT1 is wiped out. In both cases, the bank would survive (albeit in a weakened state). In a still bigger crisis which renders the bank insolvent, Tier 2 capital should be sufficient to absorb the insolvency losses without threatening customer deposits.

- *Capital Adequacy Ratio*

63. The Capital Adequacy Ratio (CAR) is, broadly speaking, the ratio of a bank's capital to its risk. Maintaining a sufficiently high ratio of capital to assets (including investments, loans and other financial instruments, as well as physical assets), weighted according to the level of risk each asset carries, is key to ensuring that a bank can absorb any losses that stem from those assets, protecting depositors and promoting the stability of financial systems.

64. National regulators (in the UK, the PRA) monitor a bank's CAR to ensure that it can absorb a reasonable amount of loss should a crisis event arise.

$$Capital\ Adequacy\ Ratio = \frac{Capital\ Resources}{Risk\ weighted\ Assets}$$

65. In calculating the CAR, a bank's 'Capital Resources' (ie the numerator) comprises CET1, AT1 and Tier 2 capital (as explained at paragraph 61).

66. Risk-weighted Assets ('RWA' – the denominator in the equation above) are the total of assets held by the bank, each weighted for risk. Risk weights can

reflect credit risk, market risk and operational risk. Typically, credit risk[34] represents by far the largest component in firms' RWA bases. For example, a bank will need to hold a greater level of capital resources to cover a high-risk mortgage than it will to cover investments in low-risk sovereign debt (ie debt of EEA nations).

67. In order to apply a risk weight to each asset it holds, a bank has two approaches available:

- Standardised approach (SA) – using standardised risk weights set out in CRD IV.[35]
- Internal ratings based (IRB) – risk weights based on a firm's own estimates of risk parameters.[36] Firms are responsible for validating IRB parameters. The PRA is responsible for reviewing firms' IRB models and granting approval for their use where the IRB requirements are met.[37]

68. As an example, using the SA, cash-in-hand usually has zero risk weight, while the riskiest loans will carry a risk weight of 150% of their face value.

69. Banks are required to have a CAR of at least 8%, comprising a minimum of 6% Tier 1 capital (made up of a minimum of 4.5% CET1 and 1.5% AT1) and 2% Tier 2 capital.

- *Pillar 2: supervisory review*

70. On 29 July 2015, the PRA issued a policy statement[38] on how it will assess capital adequacy under a new framework for the Pillar 2 regime, which came into force on 1 January 2016.

71. The policy statement sets out changes to rules and supervisory statements and finalises a separate statement of policy: *The PRA's methodologies for*

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[34] Credit risk is the risk of losses arising from a borrower or counterparty failing to meet its obligations to pay as they fall due.
[35] In December 2014, the Basel Committee published a consultation on proposed revisions to the risk weights. The consultation closed on 27 March 2015. In December 2015, BCBS published a second consultative document differing in several ways from its initial proposals. The consultation ended on 11 March 2016. BCBS has published the comments received but, at the date of publication of this appendix, has not responded (for more detail see below paragraphs 182–183).
[36] For more detail on IRB, see BCBS (2005), *An Explanatory Note on the Basel II IRB Risk Weight Functions*.
[37] In March 2016, the Basel Committee also published a consultative document proposing changes to the advanced IRB approach and the foundation IRB approach. The consultation was open for comments until 24 June 2016. This would complement the proposed revisions in the standardised approach. The Committee intends to complete the final design and calibration of the proposals by conducting a comprehensive quantitative impact study (see also below paragraph 184).
[38] Assessing capital adequacy under Pillar 2 - PS17/15, as updated on August 2015.

setting Pillar 2 capital.[39] The policy statement is relevant to banks, building societies and PRA-designated investment firms.

72. The Pillar 2 capital framework for the banking sector is intended to ensure that firms have adequate capital to support the relevant risks in their business, and that they have appropriate processes to ensure compliance with CRD IV.

73. The new framework requires PRA-regulated firms to carry out an Internal Capital Adequacy Assessment Process in accordance with the PRA's Internal Capital Adequacy Assessment rules. These require firms to have in place sound, effective and comprehensive strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources they consider adequate to cover the nature and level of the risks to which they are or might be exposed. The PRA expects a firm's Internal Capital Adequacy Assessment Process to be the responsibility of a firm's management body and to be an integral part of the firm's management process and decision making. The PRA's methodologies inform the PRA's setting of Individual Capital Guidance alongside supervisory judgement and a firm's own assessment.

- *Leverage ratio*

74. The leverage ratio is designed to complement the risk-weighted framework (ie the CAR calculation) by abstracting from any distinctions in riskiness of different asset types, as it treats all assets on the balance sheet equally. The leverage ratio limits banks' ability to expand their operations in just one asset class.[40] The leverage ratio places a floor on the minimum capital that banks must hold.

75. An FPC consultation[41] published in October 2014 on the review of the leverage ratio gives significant detail on the differences between the capital (ie risk-weighted) regime and the leverage regime, and explains their relative merits and flaws.

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[39] Statement of Policy - The PRA's methodologies for setting Pillar 2 capital.

[40] For example, a bank might wish to focus on riskier loans, as these have the potential to be more profitable than other asset classes. In conjunction with the capital adequacy ratio, the leverage ratio requirements would act to constrain the bank's ability to focus its operations too heavily on such loans. However, absent the capital adequacy ratio the leverage ratio may incentivise institutions to have high-risk rather than low-risk portfolios, as it is not sensitive to risk weight.

[41] FPC review of leverage framework.

76. In summary, the leverage ratio measures Tier 1 capital over the Leverage Exposure Measure,[42] which is a measure of assets not weighted for risk:

$$Leverage\ Ratio = \frac{Tier\ 1\ Capital}{Leverage\ Exposure\ Measure}$$

77. The FPC's consultation explains (page 14 onwards) that below a certain average risk weight[43] (35%), only the leverage ratio will bind a firm. However, when a bank's average risk-weight reaches 35%, the risk-weighted requirements begin to have a noticeable effect, and further increases in measured risk will increase a bank's capital requirement.[44] The leverage ratio requirement will consequently have a relatively greater impact on certain types of banking business models that attract relatively low-risk weights.[45]

78. The leverage ratio can be described as a guardrail against risks arising from errors in the SA and IRB described above, as well as unforeseeable events, and to prevent unsustainable bank balance sheet stretch (eg in a particular asset class).

79. Following on from the publication of the FPC's consultation paper, on 6 April 2015 the Statutory Instrument[46] giving the FPC the Power of Direction over the leverage ratio framework came into force. Under that Statutory Instrument, the FPC can make a direction to the PRA to impose a minimum leverage ratio on banks.

80. On 1 July 2015, the FPC directed the PRA to implement a UK leverage ratio framework, as follows:

- A 3% minimum leverage ratio requirement that is to apply immediately to UK global systemically important institutions (G-SIIs)[47] and major UK banks and building societies on a consolidated basis.

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[42] The Leverage Exposure Measure is very similar to total accounting assets.

[43] Average risk weight is measured as risk-weighted assets/total assets.

[44] The FPC's average risk-weight indicator for a peer group of major UK banks stood at 39.9%, as of the latest reading. This suggests a 3% minimum requirement is consistent with the FPC's leverage ratio framework playing a strong complementary role alongside the risk-weighted framework, but with risk-weighted requirements forming the binding constraint for a majority of UK firms most of the time (see p16 of the FPC's review of the leverage ratio, October 2014).

[45] By and large there are two types of business models most likely to be impacted by the introduction of the leverage ratio, specifically: banks and investment firms that have a high proportion of investment banking activities, such as trading in intra-financial sector products (ie securities, repo and derivatives market activity); and banks and building societies that have PRA permission to use internal models to determine risk-weighted capital requirements for their mortgage books (see p26 of the FPC's review of the leverage ratio, October 2014).

[46] The Bank of England Act 1998 (Macro-prudential Measures) (No.2) Order 2015.

[47] Defined in the consultation paper as 'global systematically important institutions and other major domestic UK banks and building societies, including ring-fenced bodies (ie under the new ring-fencing regime'). The FPC has further signalled that it intends to expand the scope of the leverage framework to all PRA-regulated firms from 2018, subject to a review in 2017. This review will take into account developments on an international leverage

- A G-SII additional leverage ratio buffer (ALRB) that is to apply to UK G-SIIs identified by the PRA, also on a consolidated basis. The rate of the G-SII additional leverage ratio buffer is to be calibrated at 35% of a relevant firm's G-SII buffer rate. This buffer will be phased in from 2016, alongside the risk-weighted G-SII buffer.

- A countercyclical leverage ratio buffer (CCLB) that is to apply immediately to UK G-SIIs and major UK banks and building societies on a consolidated basis. The rate of countercyclical leverage ratio buffer is to be calibrated at 35% of a relevant firm's countercyclical capital buffer rate, and rounded to the nearest 10 basis points. It comes into force on the same timescale as the minimum leverage ratio requirement.

81. The PRA issued a consultation paper[48] the same day, setting out how the PRA intends to achieve the new leverage ratio framework. The consultation is relevant to PRA-regulated banks and building societies with consolidated retail deposits equal to or greater than £50 billion. The consultation closed on 12 October 2015. In December 2015, the PRA issued its policy statement setting out the final rules for the UK leverage ratio framework, requiring banks within scope to calculate their leverage ratio accordingly from 1 January 2016 and publicly disclose those ratios from 1 January 2017.[49] The method of calculating averages for the purpose of disclosure will move from the use of monthly to daily figures from the end of 2017.

- *Liquidity requirements*

82. Basel III introduced a new liquidity[50] ratio, which came into force within the EU on 1 October 2015. The 'Liquidity Coverage Ratio' requires a bank to hold

ratio framework. In line with the Financial Stability Board and BCBS, the FPC's review of the leverage ratio refer to global systemically important banks (G-SIBs). In European legislation and the FPC's Direction, these institutions are referred as global systemically important institutions (G-SIIs). Current UK banks meeting the threshold for G-SIB/G-SII status are HSBCG, Barclays, RBSG and Standard Chartered. The list will be again updated in November 2016.

[48] PRA consultation paper: Implementing a UK leverage ratio framework.

[49] PRA policy statement: Implementing a UK leverage ratio framework. The PRA confirms that it will ensure that banks hold the minimum leverage ratio requirement, and sufficient CET1 to satisfy the CCLB, requiring that at least 75% of the minimum leverage ratio requirement be met by CET1 capital and that 100% of the buffers be met by CET1. Rules for the G-SII ALRB will be set specifically for individual banks by the PRA under separate powers under the FSMA Act 2000 (section 55). The accompanying Supervisory statement sets out the PRA's expectations for banks regulated under the CRD, and provides some clarification on the PRA's rules.

[50] Liquidity refers to a firm's ability to meet its short-term financial commitments and/or its ability to sell assets quickly to raise cash. Solvency refers to a firm's ability to meet its long-term financial commitments. A solvent company is one that owns assets (eg cash, property, plant and equipment) worth more than it owes; in other words, it has a positive net worth and a manageable debt load. A firm with adequate liquidity may have enough cash available immediately to pay its bills, but it may nonetheless be insolvent if its total assets are worth less than the overall amount it owes. Solvency and liquidity are equally important, and healthy companies are both solvent and possess adequate liquidity.

sufficient high-quality liquid assets to cover its total net cash outflows over 30 days.

83. In June 2015 the PRA issued[51] a policy statement setting out the PRA's final rules and supervisory statement to accommodate the introduction of the new liquidity coverage ratio. The rules came into force on 1 October 2015.

- *Capital adequacy buffers*

84. Basel III included recommendations for the introduction of capital adequacy buffers, which offer an additional layer of protection beyond the basic Tier 1 capital adequacy requirements. All capital buffers must be provided solely out of CET1 capital. A firm can use the CET1 capital set aside to cover the buffers for other purposes, however where a firm does so it will become subject to increasing restrictions on distributions of earnings (dividends, payment of coupons, variable remuneration etc) and must compile and implement a plan to restore its capital position. Five capital buffers are required for PRA-regulated firms:

- Conservation buffer: a buffer of 2.5% CET1 to RWA.

- Countercyclical buffer: the size of this buffer alters through economic cycles, based on policy decisions made by the FPC and PRA.

- Global systemically important institutions buffer: imposed on G-SIIs,[52] providing extra protection in the event of a crisis.

- The systemic risk buffer: imposed to prevent or mitigate long term cyclical risks posed by 'systemic risk buffer institutions' (which are identified using an FPC framework and PRA discretion). HMT has exercised the discretions allowed by the CRD to enable the application of this buffer only to ring-fenced bodies (RFBs) to protect 'core services' (following the ICB's recommendations, see further at paragraph 320) and large building societies.

- Capital planning buffer: this is a Pillar 2 buffer (referred to as 'Pillar 2B'),[53] which is determined by stress-testing individual firms, to ensure a firm has

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[51] PRA policy statement: CRD IV: liquidity.
[52] On 15 December 2015, in accordance with the CRD, the PRA disclosed the 2015 list of UK headquartered G-SIIs and their respective subcategories. The PRA also disclosed the applicable G-SII buffers. These are: HSBCG (2.5%); Barclays (2%), RBS (1%) and Standard Chartered (1%). These buffers will be phased in from 1 January 2016, coming into full force by 1 January 2019 in line with the CRD. The list of G-SIIs will be updated annually.
[53] Under Basel II and III, supervisory authorities may set requirements for additional funds where they deem it necessary given firm-specific risks. The PRA implements this via its Pillar 2 regime which consists of a Pillar 2A requirement and a Pillar 2B buffer (currently referred to as the capital planning buffer).

enough capital to continue to meet its minimum capital requirements through a severe stress over the next three to five years. This is set at the PRA's discretion.[54]

The BoE's role in payment systems supervision

85. The BoE has responsibility for overseeing certain payment systems, as well as securities settlement systems and central counterparties. Its oversight powers derive from Part 5 (Interbank Payment Systems) of the Banking Act 2009 (the Banking Act).[55]

86. Payment systems are not automatically supervised by the BoE, and there is no authorisation process. HMT specifies which payment system should be recognised and therefore fall within the scope of the BoE's regime, in accordance with section 185 of the Banking Act.

87. Current recognised payment systems are:[56]

- Bacs;[57]
- CHAPS;[58]
- CLS;[59]
- CREST;[60]
- LCH.Clearnet Ltd;[61]
- Visa Europe;[62]

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[54] From January 2016 the capital planning buffer became the PRA buffer, which must be met with CET1 capital.
[55] Part 5 (Interbank Payment Systems) of the Banking Act.
[56] BoE - payment systems
[57] Bacs (Bankers' Automated Clearing Services) is a scheme for the electronic processing of financial transactions within the UK. Direct debits and direct deposits are made using the Bacs system. The payments take three working days to clear: they are entered into the system on the first day, processed on the second day, and cleared on the third day. The system is owned and controlled by a group of UK banks, and operated by Bacs Payment Schemes Limited.
[58] CHAPS offers same-day sterling fund transfers. It tends to be used for high-value transactions, such as property purchases (including residential mortgages).
[59] CLS (originally Continuous Linked Settlement) is a specialist US financial institution that provides settlement services to its members in the foreign exchange market.
[60] CREST is a UK-based central securities depository that holds UK equities and UK gilts as well as Irish equities and other international securities, in electronic form. It is owned and operated by Euroclear. The name is not an acronym for anything. CREST also assists in the payments of dividends to shareholders.
[61] LCH.Clearnet is a European independent clearing house that serves major international exchanges, as well as a range of over-the-counter markets. It is a major clearer of financial assets such as bonds, repurchase agreements (repos), interest rate swaps, commodities, securities, exchange traded derivatives, credit default swaps, energy contracts, freight derivatives.
[62] Operated jointly by Visa Europe and Visa UK.

- FPS;[63] and

- ICE Clear Europe.[64]

88. For recognised payment systems, the international CPMI-IOSCO principles for financial market infrastructure form the basis for oversight and supervision.[65] These Principles apply to financial market infrastructures (ie including payment systems) that facilitate the clearing, settlement, and recording of monetary and other financial transactions.

89. The BoE's oversight regime concerns only the stability of recognised payment systems and does not give rise to any responsibility for relationships between members of payment systems and individual users or consumers; these responsibilities fall to the FCA and PSR.

90. The BoE has entered into a joint memorandum of understanding (MoU)[66] with the FCA, PRA and PSR, covering payment systems regulation. In July 2016, the BoE, FCA, PRA and PSR reviewed the joint MoU, under the FSBRA requirement for an annual review.[67]

The Financial Conduct Authority

91. The FCA replaced the FSA on 1 April 2013. It is accountable to HMT and Parliament, but operates independently of government and is funded entirely by the firms it regulates. The Board of the FCA is appointed by HMT,[68] and sets FCA's strategic aims and policy, but day-to-day decisions and staff management are the responsibility of the Executive Committee.

92. The FCA's strategic objective is to ensure that the relevant markets function well. To support this, it has three statutory objectives:[69]

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[63] FPS is a UK banking initiative to reduce payment times between different banks' customer accounts from three working days using the Bacs system, to a few hours. In contrast to CHAPS (which also offers a same-day service), FPS is focused on smaller value transactions – individual banks sets the upper limit for FPS payments, with some allowing up to £100,000.
[64] ICE Clear Europe provides central counterparty clearing services for ICE's global energy markets. It provides secure clearing, risk management and physical delivery services for ICE markets across interest rate, equity index, agricultural and energy derivatives, as well as European credit default swaps.
[65] The Committee on Payments and Market Infrastructures (CPMI) is part of the Bank for International Settlements. The CPMI promotes the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. In April 2012, the CPMI and the Technical Committee of the International Organization of Securities Commissions (IOSCO) published *Principles for financial market infrastructures*. These principles are part of a set of 12 key standards that the international community considers essential to strengthen and preserve financial stability.
[66] MoU outlining how the PSR will interact with the BoE, the FCA and the PRA.
[67] Statement by the FCA, BoE, PSR and PRA (July 2016).
[68] Jointly with BEIS in the case of two of the non-executive director positions.
[69] Set out in section 1B FSMA.

- to secure an appropriate degree of protection for consumers;
- to protect and enhance the integrity of the UK financial system; and
- to promote effective competition in the interests of consumers.

93. The FCA is responsible for the prudential regulation of those financial services firms not supervised by the PRA, such as asset managers, payment service providers (PSPs) (except those that are also credit institutions) and independent financial advisers.

94. The intensity of the FCA's approach to supervising the conduct of firms will differ depending on the firm's size and other factors, such as the nature of its business. The supervision approach includes:

- a sector-based risk assessment approach to identify, analyse and prioritise conduct risks;
- a firm-specific continuous conduct assessment approach for larger firms and a programme of sector/market-based assessment for smaller firms;
- ongoing monitoring of products to ensure firms treat customers fairly and do not compromise consumer interests;
- risk-based processes to respond quickly and decisively to significant events or problems that threaten the integrity of the industry; and
- ensuring firms compensate consumers when necessary.

95. The FCA supervises firms differently depending on their size and the nature of their business. This includes:

- continuous conduct assessment for large firms and regular assessment for smaller firms;
- monitoring products to ensure firms play fairly and do not compromise consumer interests;
- responding quickly and decisively to events or problems that threaten the integrity of the industry; and
- ensuring firms compensate consumers when necessary.

96. Under section 137A of the FS Act, the FCA has very broad powers to make rules that apply to authorised persons: the FCA may make such rules as

appear to it necessary or expedient for the purpose of advancing one or more of its operational objectives.[70]

FCA rule-making procedures

97. The FCA is required to consult before making rules. In general, it must take the following steps, though in certain circumstances some of the requirements may be dispensed with:

(a) Consult with the PRA about the proposed rules.

(b) Publish a draft of the proposed rules, accompanied by:

- a cost benefit analysis (CBA);
- an explanation of the purpose of the proposed rules;
- a statement setting out whether or not the impact of the proposed rules will affect mutual societies (such as building societies, credit unions and friendly societies) differently from other authorised persons;
- an explanation of the FCA's reasons for believing that making the proposed rules accords with its duties *(a)* to exercise its general functions (which include rule-making) in a way that is compatible with its strategic objective and to advance one or more of its operational objectives and *(b)* to have regard to the regulatory principles set out in section 3B of the FSMA. The regulatory principles include, for example, the principle that a burden or restriction which is imposed on a person, or the carrying on of an activity, should be proportionate to the benefits, considered in general, which are expected to result from the imposition of that burden or restriction; and
- a notice that representations about the proposals may be made to the FCA within a specified time.

(c) Have regard to any such representations received.

(d) Publish the rule-making instrument.

[70] Briefly the FCA's operational objectives are consumer protection, market integrity and promoting effective competition in the interests of consumers.

(e) Publish an account, in general terms, of the representations made to the FCA about the proposed rules and the FCA's response to those representations.

The FCA Handbook

98. Firms regulated by the FCA are bound by the rules contained in the FCA Handbook.[71] The Handbook was developed out of the FSA Handbook, which was split between the FCA and the PRA to form the FCA Handbook and the PRA Rulebook.[72] The FCA Handbook contains rules applicable to banks, and sits alongside those provisions that are imposed and monitored only by the PRA. Dual-regulated firms have to attend to the provisions of both the FCA Handbook and the PRA Rulebook.

Concurrent competition powers of the FCA

99. One of the FCA's operational objectives is to promote competition in the interests of consumers. As a result it can, for example, make rules and exercise certain firm-specific powers to advance that objective. In addition, the FCA must, so far as is compatible with acting in a way that advances its consumer protection or integrity objectives, discharge its general functions (broadly: making rules or codes, giving general guidance and determining its general policy and principles) in a way that promotes competition in the interests of consumers. The FCA has concurrent powers with the CMA to:

- enforce the competition law prohibitions under Chapters I and II of the Competition Act 1998 (CA98) and Articles 101 and 102 of the Treaty on the Functioning of the European Union in relation to the provision of financial services; and

- conduct market studies and make market investigation references to the CMA under the EA02, for detailed review of a particular financial services market.

100. The same concurrent powers, and a competition objective, were also granted to the new PSR (see further at paragraph 152).

101. The FCA's concurrent competition law powers vested on 1 April 2015. In line with the changes to the wider competition law concurrency regime which came into force on 1 April 2014, and which were designed to ensure that sector regulators make greater use of their competition powers, the FCA is

[71] FCA Handbook.
[72] PRA Rulebook Online.

required to consider whether it would be more appropriate to use its CA98 powers before using certain of its regulatory powers.

102. The procedures set out in the Competition Act 1998 (Concurrency) Regulations 2014[73] (the Concurrency Regulations) and the CMA's guidance[74] on the concurrent application of competition law to regulated industries also became fully applicable to the FCA on 1 April 2015. The Concurrency Regulations and guidance deal with issues such as case allocation between the CMA and concurrent regulators (based on whether the CMA or the relevant regulator is better placed to deal with a particular case), the transfer of cases between the CMA and the regulators, information sharing and use of staff and resources.

103. The FCA and CMA entered into a MoU on 12 June 2014,[75] setting out the framework for cooperation between the two authorities in relation to competition issues, consumer protection and access to payment systems. The FCA and CMA entered into a revised MoU related to the concurrent competition on 21 December 2015 and a revised MoU related to concurrent consumer protection powers on 12 January 2016.[76]

104. The new MoUs set out arrangements relating to the allocation of cases, the sharing of information and confidentiality constraints, and the pooling of resources in relation to these powers, which are held concurrently by the CMA and those regulators respectively. These new MoUs have been revised to reflect practical experience of the enhanced concurrency arrangements since they took effect in April 2015.

105. In January 2015, the FCA consulted on draft guidance on its functions and procedures under CA98, on market studies under the EA02 and the FSMA and on market investigation references. It also consulted on a draft legislative instrument that introduces minor amendments to the Supervision Manual (part of the FCA Handbook), to be adopted by the FCA Board, so as to reinforce the obligation that FCA-regulated firms are required to notify the FCA of any competition law infringements that have or may have occurred.[77]

106. In July 2015, the FCA published its policy statement, setting out the feedback received on its consultation and its response.[78] The FCA has published guidance on market studies and market investigations[79] explaining how it will

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[73] The Competition Act 1998 (Concurrency) Regulations 2014.
[74] *Regulated industries: Guidance on concurrent application of competition law to regulate industries (CMA10)*.
[75] MoU between CMA and FCA.
[76] Revised MoUs on concurrent competition and consumer protection powers between CMA and FCA.
[77] FCA Consultation Paper.
[78] FCA Policy Statement: FCA Competition Concurrency Guidance and Handbook Amendments.
[79] FCA guidance.

conduct market studies under either its FSMA powers or under the EA02, the differences between these two types of market study, and how the FCA might choose which of its powers to use. It also explains the factors that the FCA will take into account in deciding whether to make a market investigation reference to the CMA.

107. The FCA and the CMA must consult each other before exercising any of their concurrently held functions under the EA02 or CA98, and must not exercise the same functions in relation to the same matter if the other has already exercised those functions.

108. Where the FCA exercises any of its concurrent competition functions, its general duties under FSBRA do not apply. This is to ensure that the FCA is free to exercise its new competition functions without being bound by general duties to which the CMA would not itself be bound when exercising those functions.

Anti-money laundering provisions

109. In the UK, the Money Laundering Regulations 2007 (MLR) provide the legal framework requiring banks and firms in specified sectors to detect and prevent money laundering. The FCA is the competent authority for supervising compliance with the MLR for most credit and financial institutions. The Joint Money Laundering Steering Group (JMLSG) is an industry-led body that gives practical assistance in the interpretation of the MLR and defines good industry practice. It is made up of the leading UK trade associations in the financial services industry.

110. The MLR are the UK's implementation of the EU's Third Money Laundering Directive. The European directive primarily implements recommendations made by the Financial Action Task Force (FATF). FATF is an inter-governmental policy making body to set standards and promote effective implementation of anti-money laundering (AML) measures.

111. The FCA Handbook provides some detail about the systems and controls that banks must ensure are in place. These are high level, affording banks a wide discretion as to how to implement them in practice. In addition to the AML rules set out in the Handbook, the FCA also sets out what firms can do to reduce their financial crime risk and brings together all its guidance on financial crime, from thematic reviews and other work.[80] The MLR require the FCA to have regard to guidance issued by the JMLSG when deciding whether

[80] *Financial Crime: A guide for firms*, April 2015.

a firm has failed to comply with a requirement of these regulations. Firms must ensure the policies and procedures they establish in accordance with the requirements of the FCA Handbook include systems and controls that:

- enable firms to identify, assess, monitor and manage money laundering risk; and
- are comprehensive and proportionate to the nature, scale and complexity of a firm's activities.

112. A firm must carry out a regular assessment of the adequacy of its systems and controls to ensure that they continue to comply with the Handbook.

113. A firm should ensure that its AML systems and controls include:

- appropriate training for its employees in relation to money laundering;
- appropriate provision of information to its governing body and senior management, including a report at least annually by that firm's money laundering reporting officer on the operation and effectiveness of those systems and controls;
- appropriate documentation of its risk management policies and risk profile in relation to money laundering, including documentation of its application of those policies;
- appropriate measures to ensure that money laundering risk is taken into account in its day-to-day operation, including in relation to:
  - the development of new products;
  - the taking-on of new customers; and
  - changes in its business profile;
- appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to its services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.

114. Firms must ensure that their systems and controls enable them to identify suspicious transactions. They are required under the Proceeds of Crime Act 2002 to submit a suspicious activity report (SAR) to the National Crime Agency where they know or suspect that a person is engaged in, or

attempting, money laundering. Having reported a SAR the bank must be mindful of not committing 'tipping off'.[81]

115. Firms must ensure that they are able to demonstrate the extent of their customer due diligence (CDD) measures is appropriate in view of the risks of money laundering and terrorist financing. All firms that are subject to the AML rules must allocate overall responsibility for AML systems and controls to a director or senior manager. They must also appoint a money laundering reporting officer, who should act as a focal point for the firm's AML activity.

Identification requirements

116. The need for banks to identify and verify customers through CDD is the aspect of money laundering compliance that is most likely to affect the opening of new accounts.

117. Regulation 7 requires banks to undertake CDD on new customers and under certain circumstances existing customers. This includes identifying the customer and understanding the purpose and intended nature of the business relationship. It is, however, left to the individual bank to 'determine the extent of CDD measures on a risk-sensitive basis depending on the type of customer, business relationship, product or transaction'. Banks are nonetheless required to demonstrate to the FCA that the extent of the measures adopted is appropriate in view of the risks of money laundering.

118. For PCAs, identification is normally the customer's name, date of birth and address.[82] For verification of this information much weight is placed on identity documents such as passports, driving licences and utility bills. It is, however, possible to be reasonably satisfied as to a customer's identity based on other evidence. However, firms must apply enhanced CDD measures where they believe there is a risk of commission of money laundering/terrorist financing.

119. For business customers banks need to gather more information. This is summarised in paragraph 5.3.125 of the JMLSG guidance:

> To the extent consistent with the risk assessment … the firm should ensure that it fully understands the company's legal form, structure and ownership, and must obtain sufficient additional

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[81] Section 333 of the Proceeds of Crime Act 2002 provides that a person commits an offence if they know or suspect a SAR has been filed and that they make a disclosure that is likely to prejudice any investigation which might be conducted following the making of that SAR.
[82] JMLSG guidance, paragraph 5.3.59.

information on the nature of the company's business, and the reasons for seeking the product or service.

This includes details of the business and, for unlisted companies, names of all directors, individuals who control or own over 25% of voting rights or who otherwise exercise control over the management of the company. These should then be verified as for personal customers. Companies with limited publically available information may, but will not necessarily, require the application of a more rigorous CDD process.

120. The MLR also require banks to apply enhanced CDD in a number of circumstances. This includes where the customer is 'not physically present for identification purposes'. Consistent with its risk-based approach the MLR do not specify measures required when conducting enhanced customer due diligence. Banks must, however, take 'specific and adequate measures to compensate for the higher risk'.

Reliance on existing due diligence

121. Regulation 17 of the MLR provides for a bank to rely on the CDD measures undertaken by another bank. The logic behind this is expressed in the JSMLG guidance: 'several firms requesting the same information … not only does not help in the fight against financial crime, but also adds to the inconvenience of the customer'.

122. There are, however, two conditions placed on this:

(a) The party being relied upon must provide both its consent to being relied upon and, as soon as reasonably practicable, any information about the customer including copies of identification and verification data obtained during CDD.

(b) A bank that does not undertake its own CDD but relies on another party's remains liable for a failure of that party to apply the measure properly.

Future changes

123. FATF published revised standards in February 2012. These form the basis of a new set of European AML directives – the Fourth Money Laundering Directive (4) – which came into effect on the 25 June 2015 and must be implemented into UK law within two years. HMT anticipates laying a replacement to the MLR in autumn 2016 with the intention that they come into effect by the end of the two-year implementation period. 4MLD is a minimum

harmonisation directive which allows the UK to implement 4MLD in a way that is more stringent or specific. Consultation on draft implementing regulations is due to begin in the second half of 2016.

124. The implementation of 4MLD is unlikely to result in a significant change to the money laundering framework as it applies to the opening of current accounts. The recitals to 4MLD emphasise the need for a risk-based approach and the need to take into account the characteristics of smaller entities made subject to the directive. This is already a feature of money laundering regulation in the UK.

125. One minor change is that 4MLD provides that enhanced customer due diligence is not required in non-face-to-face verification where there are 'certain safeguards, such as electronic signatures'. This may help provide certainty for firms applying a risk-based approach.

126. 4MLD also includes provisions relating to the sharing of information regarding beneficial owners. Member states will be required to keep central registers of the ultimate beneficial owners of corporate and other legal entities, which are accessible to authorities, financial intelligence units, entities subject to the 4MLD including banks, and persons with a legitimate interest.[83]

Other relevant AML initiatives/considerations

127. On 28 August 2015, the Better Regulation Executive launched an evidence gathering exercise on the implementation of the AML regime. The deadline for comments passed on 23 October 2015 and the response by BEIS is currently being developed. The government launched this initiative to improve the effectiveness of rules designed to prevent money laundering and terrorist financing as part its Cutting Red Tape review programme.[84]

128. This review seeks evidence of the impact on business of the current anti-money laundering and terrorist finance regime, and specifically the role of supervisors in that regime. The aim is to examine the potential to improve compliance and efficiency, by identifying aspects of the regime that appear to businesses in the regulated sector to be unclear, unnecessarily cumbersome, conflicting or confusing.

129. The review seeks evidence in relation to the role of all supervisors in the implementation of the current Money Laundering Regulations (2007). It seeks

[83] BEIS has been consulting on how to implement this in the UK.
[84] Cutting Red Tape.

to identify any aspects of regulatory activity that could be made more efficient including impacts:

- on banks, financial institutions and other businesses that are affected directly by the regime; and
- on businesses who in turn are asked to comply with the anti-money laundering requirements of those banks and financial and other businesses.

130. Evidence gathered by the review will be shared with relevant government departments, authorities and regulators. Relevant findings from this exercise will be fed into the analysis of responses received regarding the implementation of the 4MLD.

Immigration provisions

131. Under the Immigration Act 2014 and subsequent Immigration Act (Bank Account) Regulations 2014, banks and building societies are prohibited from opening bank accounts for people who are known not to have leave to remain in or to enter the UK, unless they have undertaken a status check that indicates the individual concerned is not a 'disqualified person'.[85] The FCA has a duty to monitor and enforce compliance with this prohibition.

132. To ensure they are complying, banks and building societies can carry out an immigration status check with a specified anti-fraud organisation or data-matching authority before opening a new current account.

Payment Systems Regulator

133. FSBRA also created a new economic regulator, the PSR with concurrent competition powers in relation to the participation in payment systems. In April 2014, the PSR was incorporated as a subsidiary of the FCA, but has its own statutory objectives and governance, including a managing director and board. It has been fully operational since 1 April 2015.

134. FSBRA provides that the PSR will regulate those domestic payment systems that are designated by HMT. HMT may designate any payment system where deficiencies in the design of the system or any disruption of its operation would be likely to have serious consequences for current or prospective

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[85] Under the Immigration Act 2014 and subsequent Immigration Act (Bank Account) Regulations 2014 a 'disqualified person' is a person who is in the UK, who does not have the required leave to enter or remain in the UK, and whom the Home Secretary considers should not be permitted to open a current account.

users. The PSR can consider commercial disputes in the payment systems sector, using the powers described below.

135. Following consultation,[86] on 19 March 2015 HMT designated interbank and card payment systems for regulation by the PSR from 1 April 2015, which are:

- Bacs;
- CHAPS;
- FPS;
- LINK;[87]
- C&C (Cheque & Credit);
- Northern Ireland Cheque Clearing;
- MasterCard;[88] and
- Visa Europe.

136. For each designated system, all the 'participants' in that payment system will fall under the PSR's regulatory remit.[89] Participants in a payment system include the operator that manages or operates that system, the PSPs (eg credit institutions like banks and building societies, Authorised Payment Institutions, Electronic Money Institutions) using that system, and the infrastructure providers to the payment system. The PSR's concurrent competition powers apply more broadly to participation in any payment system, including non-designated payment systems.

137. The PSR has published a series of guidance documents[90] setting out how it intends to act, the expectations it has and the procedures and processes it will typically follow.

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[86] HMT consultation on designation of payment systems.
[87] LINK is a shared interbank network of ATMs operating in the UK. Its members are banks and building societies issuing LINK ATM cards, and independent ATM operators that do not issue cards. Virtually every ATM in the UK is connected to LINK. The LINK network infrastructure is operated by VocaLink. The LINK ATM scheme is a separate entity which is run by the scheme members.
[88] Operated by MasterCard Inc.
[89] Save for functions falling to the FCA's regulatory remit under the Payment Services Regulations 2009.
[90] PSR's written guidance.

PSR's relationship with other financial regulators

138. Sections 98 to 102 of FSBRA[91] govern the PSR's relationship with the other financial regulators (the FCA, PRA and BoE). Those sections provide the BoE, PRA and FCA a limited right of veto over the PSR's actions, and also place a general obligation on all four authorities to coordinate the exercise of their relevant functions. Relevant functions means, in relation to the PSR, its functions under Part 5 of FSBRA; in relation to the BoE, its functions under Part 5 of the Banking Act; and in relation to the FCA and the PRA, their respective functions under FSMA.

Power of veto

139. The veto power can only be exercised where certain conditions are fulfilled. The detailed conditions are specific to each authority, and are set out in the legislation, but in general terms, the veto can be exercised where the authority exercising it believes it is necessary to prevent an action by the PSR adversely affecting the vetoing authority's ability to achieve its own objectives. The veto cannot however be used to prevent the PSR taking an action that is required by EU law or any other international obligation of the UK.

Duty to coordinate exercise of functions

140. The PSR, the BoE, the PRA and the FCA are under a general obligation contained in FSBRA to coordinate the exercise of their regulatory functions. As part of this they must consult each other in connection with any proposed exercise of a relevant function in a way that may have a material adverse effect on the advancement by another of the authorities of any of its own objectives. The obligation to coordinate does not, however, apply where it would be incompatible with the advancement of the relevant authorities' objectives, or would impose a burden on them that is disproportionate to the benefits of doing so.

141. The PSR has entered into a memorandum of understanding[92] with the BoE, FCA and PRA, setting out how it expects the statutory duty to coordinate to apply. The duty to coordinate will reduce the likelihood that the veto powers will be used.

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[91] Sections 98–102 FSBRA.
[92] MoU on statutory cooperation between regulators. The MoU will be reviewed annually.

Interaction with Payment Services Regulations

142. PSPs are currently covered by the Payment Services Directive (PSD), while the PSR is the competent authority for the access provisions contained in the PSD. The FCA is the competent authority for most aspects of the PSD. The UK implemented the PSD through the Payment Services Regulations 2009, which came into effect on 1 November 2009. There is some overlap between the firms subject to FCA supervision and participants to payment systems which come within the purview of the PSR. The PSD and the Payment Services Regulations 2009 are dealt with in greater detail at paragraph 293 and onwards.

The PSR's general duties

143. In discharging its general functions relating to payment systems, the PSR must, so far as is reasonably possible, act in a way that advances one or more of its payment systems objectives:[93]

- The competition objective – to promote effective competition in:
  - the market for payment systems;
  - the markets for services provided by payment systems; and
  - in the interests of those who use, or are likely to use, services provided by payment systems.
- The innovation objective – to promote the development of, and innovation in, payment systems in the interests of users of services provided by payment systems, with a view to improving the quality, efficiency and economy of payment systems – this includes in particular promoting the development of, and innovation in, infrastructure to be used for the purpose of operating payment systems.
- The service-user objective – to ensure that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by payment systems.

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[93] S 49(1) FSBRA. For the PSR's objectives, see SS 50–52 FSBRA.

The PSR's regulatory powers

144. The PSR's regulatory powers as set out in FSBRA are wide-reaching and are summarised below.

Directions

145. The PSR can give participants in regulated payment systems written specific or general directions under section 54 FSBRA:

- requiring or prohibiting the taking of specified action in relation to a system; and/or
- setting standards to be met in relation to a system.

System rules

146. The PSR has the power under section 55 FSBRA to require a system operator to establish rules for its system or to change existing rules. It may also require operators to notify it if they propose to change their rules or may require them not to change their rules without the PSR's approval. Requirements to notify changes to rules and to prohibit changes without prior approval may be general or relate to specific systems or categories of systems.

Access to payment systems

147. If a person applies to the PSR for access to a regulated payment system, the PSR can require:

- the system operator to enable the applicant to be a PSP in relation to the system (section 56 FSBRA); and
- any PSP with direct access to a system to enter into an agreement with the applicant to enable the applicant to become a PSP in relation to the system (section 57 FSBRA). This allows smaller financial institutions or other PSPs to obtain indirect access to a payment system through a 'Sponsor Bank' (who is a direct member of the payment system in question).

Variation of agreements relating to payment systems

148. The PSR has power to vary the terms and conditions in existing agreements as follows:

- The PSR may vary the terms and conditions relating to the PSP's participation in the payment system (including fees or charges payable under the agreement) for any agreement between the operator of a regulated payment system and a PSP (ie varying an agreement relating to existing direct access to the system).

- The PSR may vary the terms and conditions relating to the PSP's participation in the payment system (including fees or charges payable under the agreement) for any agreement between a PSP with direct access to a regulated payment system and another person for the purpose of enabling that other person to become a PSP (ie varying an agreement relating to existing indirect access to the system). The PSR may vary the fees or charges payable under the agreement for any agreement relating to fees or charges payable in connection with participation in a regulated payment system or the use of services provided by a regulated payment system.

149. The PSR is only able to exercise this power on the application of one of the parties to the agreement (typically the access-seeker or fee-payer).

Disposal of interest in payment systems

150. The PSR has the power to require a person who has an interest in the operator of a regulated payment system, or an infrastructure provider in relation to such a system, to dispose of all or part of that interest. The PSR is only able to do this if it is satisfied that, if it does not exercise its power, there is likely to be a restriction or distortion in competition in the market for payment systems or the market for services provided by payment systems. This power is subject to the consent of HMT. It is enforceable by civil proceedings brought by the PSR. The Small Business Enterprise and Employment Act 2015 (SBEE Act) extends the PSR's powers of disposal to require a person who has an interest in an infrastructure provider of a regulated payment system to dispose of all or part of that interest.

Reports

151. The PSR may prepare and publish a report into any matter that it considers relevant to the exercise of its functions if it considers that it is desirable to do so in order to advance any of its payment systems objectives.

Concurrent competition powers of the PSR

152. The PSR, like the FCA, has enforcement powers under Chapters I and II of the CA98 and market study and market investigation reference powers under

Part 4 of the EA02, as far as these powers relate to participation in payment systems. These powers will be exercised concurrently with the CMA.

153. The following principles apply to the PSR in relation to its concurrent competition powers:

- The PSR has a duty to consider whether it would be more appropriate to take action under its powers in the CA98 before exercising the certain of its regulatory powers under FSBRA. This duty does not arise in all circumstances. For example, it does not arise where the PSR is considering imposing a general direction or a generally-imposed requirement.

- In relation to its EA02 concurrent powers, the PSR and the CMA must consult each other before exercising any of their concurrently held functions, and must not exercise the same functions in relation to the same matter if the other has already exercised those functions. The same rules apply to exercise by the PSR and FCA of their concurrent functions.

- Where the PSR exercises any of its concurrent competition functions, its general duties under FSBRA do not apply. This is to ensure that the PSR is free to exercise its new competition functions without being bound by general duties to which the CMA would not itself be bound when exercising those functions.

154. The PSR has had competition powers under the EA02 to conduct market studies and make market investigation references to the CMA since 1 April 2014, and it obtained its competition powers under the CA98 on 1 April 2015. In August 2015, the PSR published guidance relating to the exercise of its concurrent competition powers under both the EA02[94] and the CA98.[95]

Legislating for the banking industry

The position in the EU

155. Under the Lisbon Treaty the European Commission has the right of legislative initiative. The Directorate General for Financial Stability, Financial Services

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[94] PSR's market studies guidance.
[95] PSR's CA98 guidance.

and Capital Markets Union (DG FISMA) is responsible for initiating and implementing policy in the area of banking and finance.[96]

156. The European Parliament may also request the European Commission to submit a proposal for new legislation. Generally, a European Parliament Committee will have prepared an own-initiative report that forms the basis of the request. The Economic and Monetary Affairs Committee deals with reports on banking and financial services. A Member in the European Parliament may also initiate a proposal.

Committees and expert groups

- *European Supervisory Authorities*

157. The European System of Financial Supervision consists of the European Systemic Risk Board (ESRB) and the three European Supervisory Authorities: the European Securities and Markets Authority (ESMA) based in Paris, the European Banking Authority (EBA) based in London and the European Insurance and Occupational Pensions Authority based in Frankfurt.

158. The ESRB monitors and assess potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole.

159. ESMA contributes to the work of the ESRB, by providing data and undertaking stress tests in close coordination with the fellow European Supervisory Authorities and the ESRB.

160. The EBA was established in January 2011 as an independent EU authority. The EBA has assisted the European Commission in the development of the European Single Rulebook in banking.[97] The Single Rulebook will set out a single set of harmonised prudential rules for financial institutions in the EU (ie those contained in CRD IV), aiming to ensure uniform application of Basel III in all member states. The EBA works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.[98]

[96] In specific cases, provided for by the EU Treaties, a legislative act can also be initiated by a group of member states, the European Parliament, or on a recommendation from the European Central Bank, or at the request of the Court of Justice of the European Union or the European Investment Bank.
[97] European Single Rulebook in banking.
[98] EBA website.

- *DG FISMA*

161. The DG FISMA is one of the Directorates-General and specialised services that make up the European Commission. DG FISMA is responsible for initiating and implementing policy in the area of Banking and Finance.

162. It is based in Brussels and is managed by Director General Olivier Guersent. Until recently it worked under the political authority of EU Commissioner Jonathan Hill. After his resignation from the European Commission, the financial services portfolio has been transferred to the Vice-President, Valdis Dombrovskis.

- *High Level Expert Group on reforming the structure of the EU banking sector*

163. In 2012 the European Commission set up a High Level Expert Group (also named the Likaanen Group after its chairman), intended to emulate the UK's ICB. Its mandate was to determine whether structural reforms of EU banks would strengthen financial stability, improve efficiency and consumer protection in addition to the regulatory reform of the EU bank sector. The Group presented its final report to the Commission in October 2012.[99]

164. The proposal has been hotly debated both in the ECON Committee and the Council and is facing a great deal of criticism. The vote in Committee which took place on 26 May 2015 resulted in the ECON Committee rejecting the report by one vote. On 19 June 2015, the Council agreed its negotiating stance and published the text of its general approach.[100]

165. On 7 January 2016, the Netherlands Presidency of the Council of the EU has published its work programme for 1 January to 30 June 2016. The programme stated that the trilogue negotiations will begin as soon as the European Parliament has determined its position on the proposed Regulation. Until the time of publication of this appendix, there has not been any other reported development.[101]

- *European Banking Committee*

166. The European Banking Committee was set up by the European Commission in November 2003. The Committee provides advice to the European Commission on banking policy issues. The Committee is composed of high-

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[99] Final Report.
[100] Restructuring risky banks: Council agrees its negotiating stance.
[101] The programme of the Slovak presidency of the Council of the EU for 1 July 2016 to 31 December 2016 includes no further reference on this.

level representatives from the member states, mainly from Ministries of Finance, and observers from the European Central Bank and the EBA.

- *Expert Group on Banking, Payments and Insurance*

167. The Expert Group on Banking, Payments and Insurance is composed of experts appointed by the member states. The Expert Group provides advice to the European Commission in its preparation of draft delegated acts.

The position in the UK

HM Treasury

168. HMT is the government's economic and finance ministry, maintaining control over public spending, and setting the direction of the UK's economic policy. The majority of legislation affecting the banking sector is drafted by HMT.

HM Treasury Select Committee

169. The HMT Select Committee is appointed by the House of Commons to examine and hold to account the expenditure, administration and policy of HMT, HM Revenue & Customs, and associated public bodies, including the BoE, FCA and PSR.

170. The committee chooses its own subjects of inquiry. Depending on the subject, external deadlines, and the amount of oral evidence the committee decides to take, an inquiry may last for several months and give rise to a report to the House; other inquiries may simply consist of a single day's oral evidence which the committee may publish without making a report.

Independent Commission on Banking

171. The ICB was set up in June 2010, with Sir John Vickers as its Chair, in response to the financial crisis. The ICB's task was to examine the UK banking sector and to make recommendations on structural and non-structural measures to promote stability. The ICB published its final report (the ICB Report), including recommendations for reform of the banking sector, in September 2011. The FSBRA gave HMT and some regulators power to implement several recommendations made by the ICB including its recommendations on ring-fencing requirements (see further at paragraph 185).

Parliamentary Commission on Banking Standards

172. The Parliamentary Commission on Banking Standards (Parliamentary Commission) was established in July 2012, as a joint parliamentary committee chaired by Andrew Tyrie MP. The Parliamentary Commission makes recommendations for legislative action. On 19 June 2013 the Parliamentary Commission published its final report *Changing banking for good*. Many recommendations made by the Parliamentary Commission were incorporated into FSBRA.

Department for Business, Energy and Industrial Strategy[102]

173. The Department for Business, Energy and Industrial Strategy (BEIS) is the department that brings together responsibilities for business, industrial strategy, science, innovation, energy, and climate change. BEIS is responsible, amongst others, for developing and delivering a comprehensive industrial strategy and leading the government's relationship with business and ensuring the UK remains at the leading edge of science, research and innovation

174. The department invests in skills and education to promote trade, boost innovation and help people to start and grow a business. BEIS also protects consumers and reduces the impact of regulation. BEIS has supported HMT in drafting and consulting on secondary legislation applicable to the banking industry.

Part II: Current and recent EU and UK Initiatives affecting the banking industry

175. The following section summarises current and recent key initiatives and actions taken by UK regulators, the UK government, and/or deriving from EU legislation that have an impact on the retail banking industry within the UK.

176. Of these initiatives, the CMA considers Midata, PSD2, the Payment Accounts Directive (PAD) and open APIs to be of particular relevance to the issues it is considering. Many of the developments discussed below, and their potential impact on competition in the sector, are considered in more depth in other sections of the report, the following in particular:

- Midata, PSD2, PAD and APIs are considered in Sections 6, 13 and 15 of this report.

[102] In July 2016, the UK government announced the merger of the Department of Energy and Climate Change (DECC) with the Department for Business, Innovation and Skills (BIS) to create the Department for Business, Energy and Industrial Strategy (BEIS).

- Some of the PRA initiatives are considered in Section 9 on barriers to entry and expansion.

Current PRA initiatives

177. The following is a list of current key projects relevant to the retail banking sector being undertaken by the PRA. The PRA is providing UK input on a number of international initiatives:

Pillar 2: supervisory review

178. On 29 July 2015, the PRA issued a policy statement[103] on how it will assess capital adequacy under a new framework for the Pillar 2 regime, which came into force on 1 January 2016. See paragraph 70 for further information.

Total Loss Absorbing Capacity for systemically important firms

179. On 10 November 2014, the Financial Stability Board[104] published a consultation on a proposed standard for TLAC for G-SIBs and on 9 November 2015, it published its final TLAC standard.[105] The final standard reflects changes made following the public consultation and comprehensive impact assessment studies. TLAC requires G-SIBs to be funded by a minimum amount of capital and unsecured, uninsured liabilities with a residual maturity of more than one year. These requirements are additional to the capital requirements placed on all banks (detailed at paragraph 47 onwards).

180. Additional regulation of G-SIBs reflects the fact that they are of such size and importance that their failure would likely have severe consequences for the economy as whole.

181. The TLAC standard proposed by the Financial Stability Board will apply to G-SIBs no earlier than 1 January 2019.[106] Within the EU, equivalent TLAC standards (known as minimum requirements for own funds and eligible liabilities – MREL) apply from 1 January 2016, and will be set on a case-by-case basis for each banking entity in the EU. On 3 July 2015, the EBA

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[103] BoE policy statement.
[104] The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system.
[105] Final Total Loss-Absorbing Capacity Standard. The Financial Stability Board will monitor implementation of the TLAC standard and will undertake a review of the technical implementation by the end of 2019.
[106] G-SIBs will be required to meet a Minimum TLAC requirement of at least 16% of the resolution group's risk-weighted assets (TLAC RWA Minimum) as from 1 January 2019 and at least 18% as from 1 January 2022. Minimum TLAC must also be at least 6% of the Basel III leverage ratio denominator (TLAC Leverage Ratio Exposure (LRE) Minimum) as from 1 January 2019, and at least 6.75% as from 1 January 2022. G-SIBs headquartered in emerging market economies will be required to meet also specific requirements.

published its final draft Regulatory Technical standards on the criteria for determining the minimum requirement for own funds and eligible liabilities.[107]

Risk weightings in capital adequacy requirements: IRB and SA review

182. The PRA is feeding into a BCBS exercise to review the IRB and SA. The BCBS published a consultation paper on 22 December 2014[108] with proposals for substantial revisions to the SA risk weights. Under the proposals, the risk weights for residential mortgages would be assigned by reference to the exposure's loan-to-value and debt service coverage ratios, rather than the current 35% or 100% flat risk weight, with a risk weights range from 25% to 100%. In April 2015 the BCBS published comments received in response to the consultation.

183. Moreover, in December 2015, BCBS published a second consultative document differing in several ways from its initial proposals.[109] The Committee has decided to reintroduce the use of ratings, in a non-mechanistic manner, for exposures to banks and corporates. The revised proposal also includes alternative approaches for jurisdictions that do not allow the use of external ratings for regulatory purposes. The proposed risk weighting of retail and commercial real estate loans has also been modified, with the loan-to-value ratio as the main risk driver. The use of a debt service coverage ratio as a risk driver for residential real estate has been dropped. Instead, the Basel Committee now proposes requiring the assessment of a borrower's ability to pay as a key underwriting criterion, with higher risk weights on real estate exposures where repayment is materially dependent on the cash flows generated by the property securing the exposure. BCBS has published comments received but has not yet produced a response to these.

184. The BCBS is also consulting[110] on the design of a standardised floor to be applied to banks using the IRB, to replace the current transitional floor, which is based on Basel I risk-weighted assets. The floor would be a percentage of standardised capital charges, but this calibration is yet to be discussed. As at the date of publication of our final report, the BCBS has not yet responded to the consultation, although it has stated that it intended to publish the final standard, including calibration and implementation arrangements, by the end of 2015.

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[107] See EBA's Final Draft Regulatory Technical Standards.
[108] BCBS consultation on revisions to SA risk-weights.
[109] BCBS Second Consultative document: Revisions to the Standardised Approach for credit risk.
[110] BCBS consultation on a standardised floor for IRB.

Implementation of ICB recommendations: ring-fencing of retail banking functions

185. The PRA is responsible for the implementation of the ICB recommendations. See paragraph 320 onwards for a detailed consideration of the new ring-fencing regime.

DG FISMA consultation on CRR and CRD IV

186. DG FISMA was consulting[111] on the potential impact of the CRR and CRD IV on bank lending to the economy. The PRA fed into this exercise. The consultation closed on 7 October 2015 and on 18 December 2015 DG FISMA published a summary of the responses received.[112]

Current and recent FCA initiatives

187. The following is a list of projects currently being undertaken by the FCA, or which have recently been concluded, which are relevant to the retail banking sector.

Current Account Switch Service review

188. On 12 March 2015, the FCA published its findings on its review of the effectiveness of CASS (for more information also see Section 14).[113]

189. It found that CASS addresses the main concerns expressed by consumers about switching, such as having to transfer salary payments and utility bills. The vast majority of switches are completed within seven days and without error, and most consumers who have used the service rated it positively. However it also found that consumers lack awareness and confidence in CASS, and uncovered a small number of operational issues associated with CASS and the switching process more broadly. The FCA has recommended the following measures to address these points:

Awareness and confidence

- Given the relatively low levels of awareness of and confidence in CASS, the FCA recommends that Bacs develops proposals to:
  - raise awareness of the service, such as a targeted marketing campaign or greater prominence of the service in branches;

[111] DG FISMA consultation on the possible impact of the CRR and CRD IV on bank financing of the economy.
[112] DG FISMA Summary of responses.
[113] FCA's review of the Current Account Switching Service and account number portability.

- identify ways to raise confidence levels in the service via the marketing campaign (for example by publicising customers' positive experiences); and
- refining the targets around consumer confidence to better reflect customers' concerns (such as an error-free switch).

Redirection service

- The FCA recommends that Bacs develops a proposal to mitigate the risk of the end of the redirection service undermining confidence in CASS, and that Bacs considers the technical feasibility of an unlimited extension to the redirection service.[114]

Other operational issues

- The FCA found evidence of a problem experienced by some consumers requesting an overdraft on a new current account to which they plan to switch, whereby the switch takes place before the customer has received approval for their new overdraft.[115]

- The FCA has contacted relevant PCA providers to understand exactly which providers are affected, and begin developing a solution with those banks and building societies that have not already addressed these issues.

190. In considering its effect more broadly, the FCA found that there has been only a small increase in switching volumes since CASS was launched, although this must be seen in the context of the other significant barriers to switching which the FCA considers still exist, such as consumer inertia. The FCA also found there have been some limited changes in provider behaviour, particularly in relation to the development of new current account products.

Study of account number portability (ANP)

191. Alongside its review of CASS, the FCA also gathered evidence on other measures that may help make switching current accounts simpler and easier for consumers, including account number portability. For more information on ANP, see also Section 14 of this report.

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[114] On the length of the redirection period, see also Section 14 and Appendix 14.2 on the current account switching remedies package.
[115] See also, Section 15 of this Report on additional overdraft remedies.

192. The FCA found that being able to keep bank account details (ie account number and sort code) increases consumer confidence in the bank account switching process and that a significant number of individual and small business customers would be more likely to switch if they could retain their account details.

193. The FCA found that the evidence gathered indicates that further work to quantify the potential benefits and costs of account number portability would be appropriate and has provided the PSR the evidence it gathered in relation to account number portability to consider, alongside other possible innovations in payment systems, as part of the PSR's future programme of work.

194. The Payments Strategy Forum, which was set up by the PSR, in considering a wider set of strategic initiatives for payment systems in the UK, has considered ANP. The Forum believes that the expected time, resource and funding required to deliver ANP would be better focussed elsewhere. This position was articulated in the Forum's draft strategy published on 13th July 2016.[116]

Cash savings market study

195. The FCA carried out a study to examine competition in the cash savings market. The FCA published its final findings and proposed remedies on 20 January 2015.[117]

196. The FCA concluded that the cash savings market is not working well for many consumers, and developed a package of remedies aimed at:

- giving consumers sufficiently clear and targeted information at the right time so that they can easily and quickly compare their savings accounts with alternative ones and know how to switch if they want to do so;

- making the switching process as easy as possible so that it does not put consumers off moving their money to another savings provider or to another savings account with the same provider;

- removing some of the advantages of the large providers by making it easier for firms to provide a way for consumers to view and manage current accounts and savings with different providers in one place; and

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[116] Payment Strategy Forum: A draft strategy for consultation (July 2016).
[117] FCA Cash savings market study report.

- being more transparent about the way in which providers are reducing interest rates on variable rate savings accounts the longer a consumer holds the account.

197. In July 2015, the FCA issued a feedback statement and consultation paper[118] summarising the responses it received on the proposed remedies, giving further information on the proposed remedies, and setting out intended next steps. The consultation closed on 12 October 2015. In December 2015, the FCA published its policy statement, which made rules and guidance final.[119] They will come into force in December 2016.

Credit card market study

198. The FCA published its credit card market study terms of reference on 25 November 2014.[120] The study was intended to ascertain whether the market is working well and in the interests of consumers. The FCA has published its interim report[121] outlining its initial findings and details of actions as well as potential remedies.[122] The FCA's interim findings showed strong competition on some features, a range of products offered to consumers as well as recent market entry. Consumers shop around, switch and value flexibility, and firms do not target particular groups of consumers to cross-subsidise other groups. Consumers in default are unprofitable and firms are active in contacting consumers who miss payments and triggering forbearance at this point. However, consumers with persistent levels of debt or those who make minimum payments are profitable, and firms do not routinely intervene to address this behaviour.

199. On 25 July 2016 the FCA published the final findings of its study of the credit card market, and set out a package of measures, which includes a series of industry led proposals.[123]

200. The FCA carried out further analysis on consumers in problem credit card debt. This analysis has reinforced the FCA's concerns for those consumers who are carrying a significant level of credit card debt for a long period.

201. The FCA proposes to take forward a package of remedies that will enable consumers to shop around more effectively, budget more efficiently and repay

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[118] FCA (2015), *Cash savings remedies: Part 1: Feedback on proposed remedies, Part 2: Discussion & Consultation paper*.
[119] FCA policy statement: Cash savings remedies.
[120] FCA credit card market study.
[121] FCA Credit card market study: interim report.
[122] FCA Potential remedies.
[123] FCA Credit card market study: Final findings report.

debt faster. For consumers in problem credit card debt, the FCA is proposing further action so firms address this specific issue and contact consumers before they get into financial difficulties. Some of these remedies will be delivered through FCA rules, subject to consultation; others through industry voluntary agreements or taken forward through supervisory work.[124]

Monitoring of overdrafts

202. The FCA is, as part of its supervisory work, continuing to monitor a number of trends that have a bearing on overdraft charges. Separately, on 11 March 2015 the FCA published an occasional paper[125] on the impact of annual summaries, text alerts and mobile banking apps on consumers.

203. As a result of its analysis, the FCA concluded that annual summaries provide no measurable benefit for customers, in terms of reducing overdraft charges, encouraging more active management of balances or encouraging switching. In contrast, signing up to text alerts or mobile banking apps reduces the amount of unarranged overdraft charges incurred by 5% to 8%, and signing up to both services has an additional effect, resulting in a total reduction of 24%. The FCA also found that text alerts and mobile banking apps also reduce current account balances, which is beneficial for consumers as they reduce the cost of holding funds in accounts with low credit interest rates. These services also appear to encourage consumers to switch without closing their original account.

Review of unauthorised transactions

204. On 28 July 2015, the FCA published its findings[126] on a thematic review of whether consumers are protected in the event of fraudulent or other unauthorised transactions on their current account and/or credit card by provisions in the Payment Services Regulations 2009, the Consumer Credit Act 1974 and, in some cases, the FCA Handbook.

205. The review found that firms are generally meeting their legal obligations and are making a good effort to deliver fair outcomes for their customers. Firms tend to err on the side of the customer when reviewing claims and the FCA did not find evidence of firms declining claims on the basis of customer 'non-

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[124] For instance, industry-led actions will include: *(a)* timely prompts before promotional periods end, *(b)* timely information to prompt consumers to take into account how much they are borrowing and avoid charges for exceeding the limit and *(c)* giving consumers the ability to choose the payment due date.
[125] FCA paper on annual summaries, text alerts and mobile banking apps.
[126] FCA thematic review: Fair treatment for consumers who suffer of unauthorised transactions.

compliance' with prescriptive security requirements in the terms and conditions.

Packaged bank accounts

206. The FCA will review how banks have implemented the packaged bank account rules introduced in March 2013 and how the banks are dealing with complaints. The FCA has stated that it plans to complete this review by the third quarter of 2016.[127]

Project Innovate

207. In October 2014, the FCA launched Project Innovate and in July 2015, the FCA announced next steps, which include:

- provision of end-to-end support to new market entrants from initial pre-authorisation support to dedicated supervisory support, normally for one year;
- international engagement with foreign regulators; and
- proactive engagement with large incumbents.

208. The FCA has also adopted initiatives that will enhance the pro-competitive impact of Project Innovate:

(a) Regulatory sandboxes: regulatory 'sandbox'-safe space in which businesses, both authorised and unauthorised, small and large, can experiment with innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of engaging in the activity in question.

(b) Themed weeks: In September 2015, the FCA held its first series of themed weeks, designed to stimulate engagement between the FCA and stakeholders with an interest in a particular area of innovation.

(c) RegTech: The high level of interest in RegTech and importance to the market was demonstrated by the volume and quality of responses to the FCA's Call for Input (CFI). The FCA will publish its CFI findings in summer 2016. It was evident early on from the CFI responses that there is a definite desire for the regulator to play an active role in RegTech, especially with regard to improving the interface between the regulator

[127] FCA business plan 2016/2017.

and regulated firms, hence the FCA convened a TechSprint event (often referred to in the industry as a 'hackathon') in April 2016.

(d) The cloud: In November 2015 the FCA consulted on guidance to clarify the requirements on firms when outsourcing to the 'cloud' and other third party IT services. On 7 July 2016, the FCA published finalised guidance.[128]

(e) Call for input on barriers to digital and mobile solutions: The FCA published a call for input on 17 June 2015 to learn about specific rules and policies that are restricting innovation or that should be introduced to facilitate innovation in digital and mobile solutions for financial services.[129] On 8 March 2016, the FCA published a feedback statement outlining the next steps to address the issues raised.[130]

(f) On 23 March 2016 the FCA and the Australian Securities and Investments Commission entered into a co-operation agreement. On 11 May 2016 the FCA signed another co-operation agreement with the Monetary Authority of Singapore's Financial Technology and Innovation Group. The agreement was signed as part of the UK-Singapore Financial Dialogue and forms part of the first 'FinTech Bridge' between the UK and an overseas market. The agreements will help innovative firms from Australia and Singapore that want to bring new ideas to the UK. At the same time, this agreement will give those UK firms with new ideas who want to expand into Australia and Singapore support, making them potentially more sustainable challengers in the UK.

Market study into investment and corporate banking

209. On 22 May 2015, the FCA published terms of reference[131] for a market study into investment and corporate banking. This followed the FCA's review of wholesale markets, launched in July 2014, in which the FCA heard evidence of potential competition issues in investment and corporate banking services.

210. The FCA published an interim report in April 2016, setting out its views and a package of potential remedies. It also published a separate discussion paper in relation to the availability of information in the initial public offerings' (IPO) process. The FCA expects to publish its final report setting out its findings and conclusions in the summer of 2016.

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[128] FCA proposed guidance for firms outsourcing to the 'cloud' and other third-party IT services.
[129] FCA call for input: Regulatory barriers to innovation in digital and mobile solutions.
[130] FCA feedback statement on call for input: Regulatory barriers to innovation in digital and mobile solutions.
[131] FCA terms of reference for investment and corporate banking market study.

211. More specifically, the FCA found that lending and corporate broking are typically supplied at a low rate of return or below cost in exchange for a flow of transactional business, which is typically more lucrative. The provision of cheap lending and corporate broking makes it harder for those banks providing only transactional services to compete and pressure to award transactional business to a lending bank or corporate broker can be exacerbated by the use of contractual clauses in client engagement letters, restricting future choice of supplier. The FCA also found little evidence of emerging technology-driven disruption or disintermediation of primary market activities.

212. The FCA also looked at a range of other market practices and found concerns related to the ‘blackout’ period in the UK IPO process, allocations of shares in IPOs, and the league tables that rank investment banks. The FCA also analysed the practices of reciprocity and syndication and found no issues of concern.

213. Based on these findings, the FCA proposes a targeted package of potential measures aiming to:

- remove the practice of banks using contractual clauses that restrict client choice;
- improve the IPO process to ensure more diverse and independent information is available earlier;
- investigate further with individual banks where its analysis raised questions about conflict management in IPO allocations; and
- improve the credibility of league tables.

SMEs as users of financial services

214. In December 2015, the FCA published a discussion paper on the treatment of SMEs as users of financial services under its rules, which included a review of the current treatment of firms’ dealings with SMEs throughout the FCA Handbook.[132] The paper seeks evidence on outcomes for firms’ SME customers and stakeholders’ views regarding the remit of the Ombudsman Services. The FCA will use responses to this paper alongside evidence from discussions and roundtables with stakeholders, to consider whether to consult on changing its rules or take other action.

[132] FCA: Our approach to SMEs as users of financial services.

Sharing of SME credit information

215. The Small Business, Enterprise and Employment Act contains measures aimed at improving access to SME credit information and helping to match SMEs seeking finance with alternative finance providers. Detailed provisions are set out in regulations that require the FCA to monitor and enforce relevant requirements.[133] The SME credit information sharing measures came into effect in April 2016 following designation of the relevant parties by HMT. Further measures relating to the provision of information regarding SMEs seeking finance with designated finance platforms will come into effect when the relevant parties are designated by HMT. The FCA consulted on its proposed approach to its duties under this legislation in the summer of 2015.[134]

Mortgage market

216. Further to the announcement in its Business Plan 2015/16 of its intention to review whether there are any barriers to competition in the mortgage sector, on 7 October 2015, the FCA published a Call for Inputs[135] asking those with an interest in the mortgage sector to help the FCA identify potential areas where competition may not be working well and could be improved.

217. In May 2016, the FCA published its feedback statement setting out the key themes that have emerged, providing a summary of the responses received and outlining the further competition work it intends to undertake in the mortgage sector.[136]

218. The responses received can be categorised into four main themes:

- Consumers face challenges in making effective choices, particularly when it comes to assessing and acting on information about mortgage products, with intermediaries being key to the process.

- There are opportunities to make more effective use of technology in the provision of information and advice.

[133] On 1 January 2016, the Small and Medium Sized Businesses (Credit Information) Regulations 2015 came into force imposing a duty on designated banks to provide information about SME customers to designated CRAs, and imposing a duty on designated CRAs to provide information about SME customers to lenders. At the same date, the Small and Medium Sized Businesses (Finance Platform) Regulations 2015 came into force imposing a duty on banks to forward on details of SMEs they decline for finance to platforms that will help them be linked up with alternative lending opportunities (see also paragraphs 244–253 of this Appendix).
[134] FCA Consultation Paper.
[135] Call for Inputs.
[136] FCA Feedback Statement: Call for Inputs on competition in the mortgage sector.

- Commercial relationships between different players in the sector's supply chain – in particular the use of panels – might give rise to competition concerns.

- Certain dimensions of the regulatory framework might have a negative impact on competition.

219. Following the feedback statement, the FCA decided to undertake a targeted market study focused on consumers' abilities to make effective choices, with a view to improving how competition works in consumers' best interests.

220. In May 2016, the FCA published its Responsible Lending review, summarising key findings of its market-wide thematic review of how firms are applying the responsible lending rules introduced in April 2014 following the Mortgage Market Review (MMR).[137]

Current PSR initiatives

221. In May 2015 the PSR launched two market reviews.[138] The first aims to assess the ownership and competitiveness of infrastructure provision in payment systems in the UK and consider whether the current provision of infrastructure services in UK interbank payment systems delivers a good outcome for service users.[139]

222. The second aims to assess indirect access to payment systems, and whether competition is working well for service users.[140]

[137] FCA Embedding the Mortgage Market Review: Responsible Lending Review.
[138] Terms of reference of PSR market reviews.
[139] On 28 July 2016, the PSR published its final report on this market review. The PSR found that there is no effective competition for the provision of UK payments infrastructure for three payment systems- Bacs, Faster Payments Service and LINK. As a result of these findings, the PSR is consulting on a series of changes to remedy the current situation. These include adopting a common international messaging standard to encourage new entrants, and creating a competitive procurement process that addresses consumer needs. In addition, the regulator has identified the common ownership and control of both the payment systems and the infrastructure provider as a key concern. Payment system operators are currently controlled by a relatively small number of large banks, which also own and control VocaLink – the single infrastructure provider that the operators use to process payments. The regulator is proposing that the four largest banks that have common control of the payment system operators and the infrastructure provider should sell all or part of their stakes in VocaLink, in order to open up the market and allow for more effective competition and innovation .
[140] On 21 July 2016, the PSR published the final report of its market review into the supply of indirect access to regulated payment systems. After considering the feedback it received on its interim report, it found that competition in the supply of indirect access is generating increasingly positive results. However, it has specific concerns about the quality of access, limited choice for some PSPs, and barriers to switching providers. PSR is seeing developments that may address these concerns so will be focusing its efforts on encouraging those rather than intervening directly. It will monitor and support these developments as part of its ongoing access program. It has also published a consultation on its proposed approach to assessing applications it receives under sections 56 and 57 of FSBRA. These powers enable it to require a payment system operator or indirect access provider to provide access or vary the terms of existing access.

223. HMT has indicated in a recent consultation paper on the application of the EU Interchange Fee Regulation (IFR) that it intends to designate the PSR as the competent authority to monitor and enforce the IFR in the UK (discussed further in paragraph 311). The PSR has announced a programme of work in relation to card payment systems to examine the implications of the interchange fee caps and business rules introduced by the IFR, taking into account the wider characteristics of card payment systems.

224. Ahead of its launch on 1 April 2015, the PSR published a policy statement alongside its planned programme of policy work. This work included the establishment of a Payments Strategy Forum (a new strategy setting process for the payments industry), and a programme of work in relation to card payment systems to examine the implications of the interchange fee caps and business rules introduced by the IFR, taking into account the wider characteristics of card payment systems.

UK government initiatives and actions

225. In March 2015, HMT published a document setting out the range of actions the government has taken to increase competition in banking, and announcing further measures to build on this. It also illustrates the positive effects this programme of work has had on the level of competition in UK banking, to the benefit of consumers and businesses.[141]

226. Also recently, as part of the Queen's Speech, the Better Markets Bill was announced. This legislative reform aims to boost competition and reduce unnecessary burdens on business. On 25 May 2016, BEIS published a series of proposals seeking views on the best way to deliver them, including:

- proposals for a 7 day period within which people can switch providers across a range of key services, and exploring what more can be done to give consumers the power to compare products and switch quickly.

- considering whether or not the landscape in regulated sectors can be improved to help consumers when things go wrong, and looking at measures to enhance the current system promoting competition and opening up markets to make the UK's competition regime even faster and more decisive.[142]

[141] HMT, *Banking for the 21st century*.
[142] BEIS Consultations.

The Midata project

227. The Midata project is a programme of work being carried out by the UK government, together with businesses and consumer groups, to give consumers more control over, and better access to, personal data that companies hold about them. The programme was launched by BEIS in 2011 as part of the government's consumer empowerment strategy 'Better Choices: Better Deals'. The aim of the Midata programme is to give consumers access to their transaction data in an electronic, portable and safe way, so that consumers can make more informed choices.[143]

228. Since its launch the Midata initiative has been on a voluntary basis, though BEIS has said it intends to keep this position under review.

229. Led by HMT the most recent progress has been made in the PCA market where a number of retail banks have signed up to the Midata initiative, allowing their customers to download their own transactional data (eg transactions, interest, charges) for their current account(s) over the previous 12 months which they can then upload to the Gocompare.com price comparison website (PCW), to compare and identify the best value account for them based on their actual banking behaviour.

Open API standard in banking

230. The government has announced[144] its intention to deliver an open API standard in UK banking. The aim is to increase consumer engagement by making it easier for customers to see where they could get a better deal. It also aims to increase competitive intensity by supporting the growth of technology that can be adopted by banks and non-bank providers to compete to offer new products. In March 2015, HMT published its response to the call for evidence[145] and in September 2015 the Open Banking Working Group (OBWG) was set up at the request of HMT to explore how data could be used to help people transact, save, borrow, lend and invest their money.

231. The OBWG has set out an Open Banking Standard to guide how open banking data should be created, shared and used by its owners and those who access it (for more details see also Section 13 of this report on open API standards and data sharing).[146]

[143] BEIS (2012), *Better Choices: Better Deals: Report on progress on the Consumer Empowerment Strategy*.
[144] Call for evidence on API in banking.
[145] HM Treasury: Data sharing and open data in banking.
[146] The Open Banking Standard.

Project Verde – TSB state aid divestiture

232. In November 2009, the European Commission approved, under state aid rules, a restructuring plan for LBG, following the bail-out of LBG by the UK government in January 2009.

233. To ensure that LBG re-emerged as a stable, profitable bank, the restructuring plan envisaged measures to re-focus on core activities within the historical risk profile of Lloyds TSB.

234. In order to limit the impact of the state aid on competition, the restructuring plan required LBG to divest part of its UK retail banking operations, code-named Verde, and subsequently re-branded as TSB. Under the restructuring plan, the divested entity was to have a 4.6% market share in the PCA market, gained through a network of at least 600 branches. The deadline for the divestment was 30 November 2013.[147]

235. Co-op Bank planned to acquire TSB, but pulled out in April 2013. As no other buyer could be found, LBG established TSB as a standalone bank.

236. As a result of Co-op Bank's withdrawal seven months before the divestment deadline of 30 November 2013, the UK government requested an extension for the disposal until 31 December 2015, with the possibility of further extending the deadline if the state of the UK capital markets did not allow for an orderly disposal by that date. The UK government also sought authorisation to change the scope of the divestment, to remove certain assets and liabilities, to improve TSB's ability to compete and the viability of the divestment process.

237. The European Commission accepted the UK's requests, and was satisfied that TSB's viability and competitiveness would not be endangered. Overall, the European Commission concluded that the amendments satisfied the objectives on limiting distortions on competition and ensuring that the bank and its owners adequately contributed to the cost of LBG's restructuring.[148]

238. The new TSB Bank began operations on 9 September 2013. TSB Banking Group plc was listed on the London Stock Exchange in June 2014, at which time LBG sold 38.5% of TSB's ordinary shares in issue. On 26 September 2014, LBG announced that it had sold a further 11.5% of TSB's shares. As a result, LBG held approximately 50% of TSB's shares. On 20 March 2015,

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[147] European Commission, 'State aid: Commission approves restructuring plan of Lloyds Banking Group' (IP/09/1728) (18 November 2009).
[148] European Commission, 'State aid: Commission approves amendments to restructuring plan of UK bank Lloyds Banking Group' (IP/14/554) (13 May 2014).

LBG announced that it had agreed to sell a 9.99% interest in TSB to Sabadell (this has now taken place), and had also entered into an irrevocable undertaking to accept the offer in respect of its entire remaining 40.01% shareholding in TSB. The sale of the stake in TSB has been approved by the European Commission from a merger control perspective and on 30 June 2015 the acquisition was approved by the PRA and FCA. The sale was completed on 8 July 2016.

Project Rainbow – RBSG state aid divestiture

239. In December 2009 the European Commission approved, under state aid rules, a restructuring plan for RBSG, which had also been bailed out by the UK government in October 2008.

240. Under the restructuring plan, RBSG was required to divest certain insurance, merchant acquiring and commodity trading operations and also (through Project Rainbow) a part of its UK retail, SME and mid-corporate banking operations based around the RBS branch network in England and Wales and the NatWest branch network in Scotland. The Rainbow entity was initially required to have a 5% market share in the SME and mid-corporate banking markets.[149]

241. RBSG initially sought to divest Rainbow to a buyer with existing banking operations in the UK retail and SME market but an agreed sale to Santander fell through in October 2012. In 2013 RBSG established Rainbow as a standalone bank, in due course to be branded as Williams & Glyn, the name of a high street bank that was absorbed by RBSG around 30 years ago. RBSG was unable to meet the committed deadline for the divestment.

242. The UK government requested a postponement of the Rainbow divestment, and in April 2014, the European Commission granted RBSG an extension to the end of 2016 to begin any IPO of Williams & Glyn, and required the disposal to be completed by the end of 2017. The revised agreement contained provisions intended to ensure the viability and competitiveness of the Williams & Glyn business would be preserved until divestment.

243. RBSG had stated[150] that Williams & Glyn would begin operating by the end of 2016. However, RBSG recently mentioned[151] that due to the complexities of Williams & Glyn's customer and product mix, the programme to create a cloned banking platform continues to be very challenging and the timetable to

[149] European Commission, 'State aid: Commission approves impaired asset relief measure and restructuring plan of Royal Bank of Scotland' (IP/09/1915) (14 December 2009).
[150] RBSG information on Williams & Glyn launch.
[151] RBSG Update on the disposal of Williams & Glyn.

achieve separation is uncertain. Therefore, RBSG concluded that there is a significant risk that the separation and divestment will not be achieved by 31 December 2017. RBSG will be exploring alternative means to achieve separation and divestment. It has been recently reported that Santander has submitted an offer to acquire the Williams & Glyn business from RBS. However, at the time of finalising this report, no sale has been agreed between Santander and RBS.

Small Business, Enterprise and Employment Act 2015

244. The SBEE Act received royal assent on 26 March 2015 and comes into force in stages from 2015. It aims to:

- enhance the transparency in the ownership of UK companies and increase trust in UK businesses;
- simplify company filing requirements and reduce red tape;
- improve the ability of SMEs to access finance; and
- reform aspects of the UK restructuring and insolvency regime.

245. The SBEE Act contains provisions on access to finance for SMEs, and from an SME banking perspective, these are the most significant provisions contained in the SBEE Act. The SBEE Act introduces a power for the BEIS Secretary of State to make regulations intended to tackle barriers to the ability of SMEs to access invoice finance and other forms of receivables financing.

246. The SBEE Act includes a range of measures intended to improve the ability of SMEs to access finance generally. The SBEE Act provides for the sharing of credit information on SMEs by, among other things:

- requiring banks (meeting a certain market share threshold) to share data on their SME customers with other lenders through CRAs, and requiring those CRAs to ensure equal access to that data for all lenders;
- obliging banks that refuse to grant finance to a customer to offer the customer a referral to an online finance platform. These platforms will give alternative finance providers the opportunity to offer viable businesses the finance they need;
- providing for SME data protections, such that data will only be provided to CRAs where the business has signed terms and conditions allowing that data to be shared.

247. These measures are designed to improve the ability of newer banks and alternative finance providers to conduct accurate risk assessments on SMEs and to make it easier for SMEs to seek a loan from a lender other than their bank.

248. On 7 September 2015, the HMT laid before Parliament the Small and Medium Sized Businesses (Credit Information) Regulations 2015, which came into force on 1 January 2016.[152] The regulations impose a duty on designated banks to provide information about SME customers to designated CRAs, and impose a duty on designated CRAs to provide information about SME customers to lenders.

249. At the same time, the HMT laid before Parliament the Small and Medium Sized Businesses (Finance Platform) Regulations 2015, which came into force on the same date.[153] The regulations impose a duty on banks to forward on details of SMEs they decline for finance to platforms that will help them be linked up with alternative lending opportunities (subject to the SME's consent).

250. The British Business Bank, acting as HMT's agent, has invited expressions of interest from CRAs and finance platforms that wish to be designated by the HMT to receive SME data from banks under the powers contained in the SBEE Act. The ultimate aim is for new finance platforms to be created so that lenders can find viable businesses that are looking for a loan, but have been rejected by a designated bank the first time around.[154] On 1 April 2016, HMT designated nine banks and three CRAs that will be required to share, with the SME's permission, the credit information they hold on SMEs equally with all finance providers.[155]

251. The legislation also addresses restrictions that may be included in business contracts preventing the assignment of debts. This is intended to tackle barriers to the ability of SMEs to access invoice finance and other forms of receivables financing.

252. Much of the detail, and therefore the potential impact of these provisions, is left to the regulations that may be made under section 1 of the Small Business, Enterprise and Employment Act 2015. On 6 December 2014, BEIS

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[152] Small and Medium Sized Businesses (Credit Information) Regulations 2015 (SI 2015/1945).
[153] Small and Medium Sized Businesses (Finance Platforms) Regulations 2015 (SI 2015/1946).
[154] The government announced at the 2015 Autumn Statement that it plans to designate Experian, Equifax and Creditsafe and is now focused on the implementation of the policy. Matters of designation are for HMT and it aims to communicate a process for the second round of designations in due course.
[155] The nine banks are: AIBG, BoI, Barclays, Clydesdale, Northern Bank (t/a Dankse Bank), HSBCG, LBG, RBSG and Santander UK. The three CRAs are: Creditsafe Business Solutions Limited, Equifax Limited and Experian Limited.

published a consultation and draft regulations (the Business Contract Terms (Restrictions on Assignment of Receivables) Regulations 2015 (Draft Restrictions on Assignment of Receivables Regulations) on the proposal to nullify the ban on invoice assignment. BEIS, after analysing the submissions received, published its response in August 2015 setting out its plan to stop bans on invoice assignment clauses in business to business contracts.[156] It is understood that the proposals were to be progressed, presumably in the form of revised draft regulations, by the end of 2015. Separately a BEIS press release on 10 August 2015 indicated that the ban on anti-invoice finance terms in contracts will come into force early in 2016. As of July 2016, no further information has been published. Enquiries with BEIS have informally indicated that the regulations will be implemented in autumn 2016.

253. The SBEE Act also introduces cheque imaging, which will allow banks to exchange images of cheques in order to clear them, rather than having to exchange the physical cheque. Banks that offer this service will allow businesses the option of depositing cheques remotely via a smartphone or tablet thus enabling a faster clearing cycle, meaning businesses receive their funds more quickly. Secondary legislation to implement this change has not yet been put in place.

Funding for Lending Scheme

254. The BoE and HMT launched the FLS on 13 July 2012. The FLS is designed to incentivise banks and building societies to boost their lending to SMEs. It does this by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance. The FLS allows participants to borrow UK HMT Bills in exchange for eligible collateral. The FLS scheme has been extended until January 2018.

Improved compensation arrangements through the Financial Services Compensation Scheme

255. The Financial Services Compensation Scheme (FSCS) is a statutory fund of last resort for customers of financial services firms, run by an independent body set up under FSMA, which in the case of insolvency of banks, building societies or credit unions will automatically refund savings in an individual

[156] BEIS government response. Invoice finance: nullifying the ban on invoice assignment contract clauses.

account up to £75,000[157] within seven days.[158] A hierarchy of creditors exists, with priority given to households and small business depositors under the FSCS.[159]

EU initiatives

256. Following the recent UK referendum on whether the UK should leave the European Union (EU) it is possible that there could be significant changes to the regulatory framework that applies to retail banking in the UK in the future. However, the CMA notes that the UK currently remains bound by its EU treaty obligations and that Article 50 of the Treaty on European Union contemplates a process under which, from the date the UK gives notice under that Article, the UK would remain a member of the EU for a period of at least two years. It also notes that many of the relevant European laws have been transposed into UK law and would not be automatically repealed on the UK leaving the EU.[160]

257. This means that the UK government is expected to comply with EU law until such time as it exits and firms must continue to abide by their obligation under UK law, including those derived from EU law.[161] For the purposes of this market investigation, the CMA is operating on the basis that the directives with a transposition date within the next two years (PSD2, 4MLD and the proposed Directive on the protection of personal data in police and judicial co-operation in criminal matters) will be implemented into UK law.

The Payment Accounts Directive (PAD)

258. In May 2013, the European Commission adopted a legislative proposal for a directive to address issues it had identified in the payment accounts market, and the PAD[162] was adopted in September 2014 to address these issues. The FCA is expected to be the lead competent authority under the PAD, with a specific limited role for the PSR in relation to certifying that alternative payment account switching services permitted by the directive are compliant with the requirements in the PAD.

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[157] £150,000 for joint accounts. See FSCS publication on compensation limits.
[158] This builds on the Deposit Guarantee Schemes Directive (Directive 2014/49/EU), which sets a €100,000 limit which was originally translated to an FSCS compensation limit of £85,000 for individual accounts. However, from 1 January 2016 this limit will change to £75,000 due to material changes in the exchange rate since the original limit was set.
[159] See Part 2 of the FSBRA.
[160] Changes are mainly expected in relation to 'directly applicable' legislation (ie EU legislation that applies directly to firms and/or individuals within the EU, without first having to be transposed into domestic law).
[161] EU referendum outcome: PM Statement (24 June 2016).
[162] Directive 2014/92/EU.

259. The PAD has three main aims:

- to make it easier for consumers to compare the fees charged on payment accounts by banks and other payment services providers (PSPs) in the EU;
- to establish quick and easy procedures for switching from one payment account to another, with a different bank or PSP; and
- to enable all EU consumers, irrespective of their country of residence in the EU or financial situation to open a payment account that allows them to perform essential functions.

260. The PAD applies to payment accounts through which consumers are able to:

- place funds in a payment account;
- withdraw cash from a payment account; and
- execute and receive payment transactions, including credit transfers, to and from a third party.

261. This covers most PCAs. Business accounts fall outside the scope of the PAD, unless they are held as a personal account.

Fee information

262. Banks will be legally required to provide more detailed information on fees to consumers than is presently the case and will have to do so in a standardised format. The PAD requires each member state to create a standard list of ten to 20 of the most representative services for which a fee might be applied. These services have to be those that are most commonly used by consumers, or which generate the highest costs for consumers.

263. Banks will be required to provide consumers two new standardised documents, which are:

- a pre-contractual fee information document; and
- a statement of fees (at least annually).

264. The statement of fees must include at least the following information:

- the unit fee charged for each service and the number of times the service was used;

- the total amount of fees incurred for each service, each package of services provided and services exceeding the quantity covered by the packaged fee;
- the overdraft interest rate applied and the total amount of interest charged relating to the overdraft (where applicable);
- the credit interest rate and the total amount of interest earned; and
- the total amount of fees charged for all services.

265. Where a payment account is offered as a packaged account, PSPs need to inform customers whether the account can be bought separately, and if so, provide customers separate information on the costs and fees of the different products and services when purchased separately.

Standardised terms

266. Member states will establish a provisional list of at least ten to 20 of the most representative services linked to a payment account and subject to a fee. Member states will have regard to services that are most commonly used by consumers in relation to their payment account and generate the highest cost for consumers.[163]

267. Each member state should submit its list to the European Commission and the EBA by 18 September 2015. Based on the lists of all member states, the EBA will develop EU standardised terms and definitions. According to EBA's 2016 Work Programme, the list will be published by September 2016.Following the adoption of the EU standardised terms and definitions, each member state must integrate these into their provisional national list.[164]

268. Payment providers will be required to use the standardised terminology in the pre-contractual fee information document and statement of fees. A glossary of at least the EU standardised terms, including their definitions, should be made available to consumers on request.

[163] Both overall as well as per unit. See Articles 3 and 4 of the PAD.
[164] This will mean that some terms and definitions contained on the provisional national list may have to be replaced, while others will remain unchanged. See Article 3 of the PAD. If none of the services that appear in the UK's provisional list of services linked to a current account are also common to at least a majority of member states, and do not appear on the EBA's list of EU standardised terms, then the changes to terminology required in the UK will be minimised. However, if all the services that appear in the EBA's list are in use in the UK, then the change required will be more burdensome. See HMT, 'Implementation of the EU payment accounts directive', (23 June 2015).

Comparison websites

269. The PAD requires member states to ensure that consumers have access, free of charge, to at least one independent PCW comparing fees charged by PSPs, for at least those services included in each national list of ten to 20 of the most representative banking services.[165]

270. Member states may choose to require the comparison website also to compare other information, such as customer service levels or number of branches.

Payment account switching

271. Banks must put in place a switching service for payment accounts held in the UK and falling within the scope of the PAD. The PAD stipulates the duties on both the old and new bank conducting the switch, including maximum periods within which certain elements of the switching process must be completed.

272. Member states can maintain or put in place switching arrangements that depart from the PAD provided they are not less beneficial for consumers. The UK's CASS exceeds most of the standards in the PAD and the European Commission has confirmed that member states would not need to establish a new account switching service if, subject to certain conditions set out in Article 10(1) of the PAD, existing account switching schemes guarantee comparable rights to consumers.

Basic bank account provision

273. Anyone legally resident in the EU will have a right to open a basic bank account in any EU member state. Member states can limit the entitlement to those who do not already have an account in that country. Member states can choose to require either all or a sufficient number of banks to provide these accounts.

274. The PAD stipulates some basic features that the account must have, such as ATM access and the ability to perform basic payment transactions, and stipulates that the accounts can be made available either free of charge, or for a reasonable fee.

[165] Article 7 of the PAD. Recital 23 of the PAD specifies that the 'comparison website should compare the fees payable for services contained in the list of most representative services linked to payment accounts, integrating Union-level terminology'. See also Regulation 12 of the Payment Accounts Regulations 2015.

Implementation of PAD

275. The PAD came into force on 17 September 2014 and member states must transpose most of its provisions into national law by 18 September 2016.

276. HMT carried out a consultation on draft Payment Accounts Regulations (PAR), which will implement the directive in the UK. The consultation closed on 3 August 2015.[166] On 16 December 2015, the Payment Accounts Regulations 2015 were published[167] and will come into force on 18 September 2016.

277. Member states have discretion to extend the PAD's application in a number of areas. The UK government's starting position was not to extend the application of the PAD beyond what is strictly required. The exceptions to this are the provisions on payment accounts with basic features (ie basic bank accounts) and the switching services CASS, where UK policy is more developed than that set out in the PAD. As a result, the government implemented the PAD in such a way as to preserve the UK's existing basic bank account policy and CASS as far as possible, while creating the necessary legal certainty for consumers required by the PAD.

- *Fee information*

278. The PAR set out which information must be provided in the pre-contractual fee information document and the statement of fees, as well as some requirements on how the information must be presented. These requirements do not go further than the provisions in the PAD.

279. The regulations clarify that where a payment account is offered as a packaged account, PSPs need to inform customers whether the account can be bought separately from the same provider, and if so, provide customers separate information on the costs and fees of the different products and services when purchased separately. PSPs would not be obliged to inform consumers of similar additional services offered by other providers.

- *Standardised terms*

280. The FCA has undertaken work to establish the UK's provisional list of services as described in paragraph 265. The FCA published a feedback statement[168]

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[166] HMT PAD consultation.
[167] Payment Accounts Regulations 2015.
[168] FCA feedback statement.

on 15 September 2015. This statement summarised the feedback received on its call for input[169] earlier this year and explained how this feedback was used to finalise the provisional UK list of services and the terms and definitions for these services that was subsequently sent to the EBA.

- *Price comparison websites*

281. The PAD requires that consumers have access to at least one PCW. In the UK, the Money Advice Service (MAS) is currently responsible for enhancing consumer understanding and knowledge of financial matters and the ability of consumers to manage their financial affairs. On 16 March 2016, the government announced its intention to replace MAS with a new organisation from April 2018.

282. Separately, HMT has stated that ‘the government will press ahead with its Midata programme, which will allow consumers to use their own personal account usage data to generate comparisons that are more meaningful to them’.[170]

- *Switching services*

283. CASS exceeds most of the PAD requirements for a switching service.

284. In considering the appropriate competent authority for the switching requirements in PAD, the government has decided that the PSR and FCA should take complementary roles. The PSR will consider applications from operators of alternative switching services and make a determination on whether any alternative arrangements meet the criteria set out in Article 10(1) of the PAD.[171] Although it may be possible for other switching services to emerge over time, the government expects that for the foreseeable future the only switching service in the UK will be CASS.

285. The FCA will have responsibility for monitoring whether all PSPs that seek to rely on participation in an alternative arrangement to discharge their obligations under regulation 14 of the Payment Accounts Regulations (PARs) are in fact a party to such an arrangement. If a PSP is not a participant in an alternative arrangement or is a participant but does not comply with the arrangements, then the PSP must instead offer consumers a switching service which complies with the switching procedure set out in Schedule 3 of

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[169] FCA call for input.
[170] HMT (23 June 2015), Implementation of the EU payment accounts directive.
[171] On 15 March 2016, the PSR published its Draft guidance on its approach for designation of alternative switching schemes.

the PARs. In March 2016, the FCA published a consultation paper on proposed changes to its Handbook and proposed guidance on certain aspects of the PARs.[172] The deadline for response was on 3 May 2016. The FCA intend to publish a Policy Statement, its final Handbook changes and finalised guidance at the beginning of August 2016.

286. Any PSPs offering payment accounts falling within the scope of the PAD which is not a member of CASS will be required to provide a switching service for their customers that at least meets the requirements in the PAD. Other switching services (eg the Bacs 'partial only' switch) may continue to be offered alongside either CASS or a PAD-compliant switching service.

- *Basic bank accounts*

287. The UK already had provision for basic bank accounts prior to the introduction of the PAD, introduced in April 2003, initiated by the Cabinet Office Social Exclusion Unit, to allow 'unbanked' consumers – ie anyone who did not already have a bank account or who could not use their existing account due to a poor financial record – access to mainstream banking by making it easier for them to have an account into which they could pay wages and any benefits. In 2014, there were an estimated nine million users of basic bank accounts in the UK, at an estimated costs to the banking industry of £300 million[173] while basic bank accounts represented approximately 11% of all UK PCAs (and 7% of main PCAs).

288. However, there were no minimum standards applied to the provision of basic bank accounts, and no guarantee of their continuing provision. So, for example, in 2012, RBS and Lloyds withdrew access for basic bank account holders to the LINK ATM network, and Co-op Bank stopped offering basic bank accounts to undischarged bankrupts. Likewise, as there was no consensus on charges, basic bank account holders were at risk of quickly accumulating large debts, as banks were levying charges of up to £35 per failed item.

289. The Parliamentary Commission recommended in its report of 12 June 2013 that the major banks come to a voluntary agreement on minimum standards for the provision of basic bank accounts, including access to the payment system and money management services, and free use of the ATM network, within 12 months of the date of the report.

[172] FCA Consultation paper.
[173] 2014 HMT statement.

290. On 15 December 2014 HMT published its revised basic bank account agreement with nine[174] UK banks. From the end of 2015, participating banks offer basic bank accounts that are fee-free for standard operations, including a failed payment, and remove the risk that customers run up overdraft charges. Basic bank account customers are offered services on the same terms as other PCAs, including access to all the standard over-the-counter services at bank branches and at the Post Office, and access to the entire ATM network.

291. The government has concluded that the voluntary agreement does not fully implement the PAD and that secondary legislation is necessary to achieve this. In particular, the government considered that the 2014 agreement did not establish a clear legal right of access to a basic bank account and a route to challenge a bank's decision not to grant that access with sufficient legal certainty. The Payment Accounts Regulations seek to achieve this.

292. There are four areas where the legislation either departs from the UK's existing voluntary agreement to align with PAD, or maintains an existing UK domestic policy that is more advantageous to consumers than is set out in PAD. These areas are the following:

- The eligibility criteria for a basic bank account.[175] According to the regulations, participating banks will offer a basic bank account where the consumer is legally resident in the EU, and either does not have a bank account with any UK credit institution or is ineligible for all bank accounts offered by the participating bank that are not basic bank accounts. The directive offers member states the option to require that consumers who wish to open a basic bank account in the UK 'show a genuine interest in doing so', provided demonstration of that genuine interest is not made too burdensome or difficult. The regulations do not include a requirement to demonstrate a genuine interest.

- The grounds for refusal to open a basic bank account or terminate a framework contract for a basic bank account.[176] Member states are free to identify limited and specific additional cases where firms may be required or may choose to refuse an application for a basic bank account. These cases need to be based on domestic law, and be aimed at either facilitating access, or avoiding abuses by consumers of their right to a basic bank account. The government considered that the 2014 agreement included criteria that are insufficiently limited and specific to ensure full

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[174] Barclays, Co-op Bank, HSBCG, LBG, National Australia Group, Nationwide, RBSG, Santander and TSB.
[175] Regulation 23.
[176] Regulations 25 and 26.

compliance with PAD. To correct this, the regulations stipulate in more detail the cases whereby participating credit institutions may refuse to open an account or terminate a framework contract.

- Basic bank account fees and charges.[177] PAD sets out a policy that is less advantageous to basic bank account consumers than the one that currently operates in the UK. While PAD allows member states the option of deciding between no fees and ‘reasonable fees’ for the standard features of a basic bank account, it anticipates that credit institutions will invariably charge a ‘reasonable’ fee for breaches of the accounts’ terms and conditions by the consumer. The government considered that it would be consistent with existing UK policy and practice to not allow participating credit institutions to charge a fee not only for the standard features of the account but also in the case of a breach of the account’s terms by the consumer. The legislation therefore reflects and maintains the existing position, except for the case where a credit institution provides a service in a currency other than sterling in which case the fee charged should be reasonable.

- Participation in and costs of basic bank accounts.[178] PAD does not require every credit institution in the UK to offer basic bank accounts. Instead, member states must ensure that basic bank accounts are provided to consumers by a sufficient number of firms to guarantee access for all consumers and prevent distortions of competition. The government set the threshold for participation in the 2014 agreement on the basis of firms’ personal current account market share at the start of negotiations. Firms with a market share greater than 1% of the market were invited to participate. In order to retain flexibility to reflect changes in the market in future and ensure sufficient access for consumers in the UK, the government intends to keep the market for basic bank accounts under review. HMT will take a power to designate banks that will be required to offer basic bank accounts, based on criteria designed to ensure access to basic bank accounts for all consumers and prevent distortions of competition as required by PAD. Article 1(4) of the directive allows member states to extend the application of PAD’s basic bank account provisions to PSPs other than credit institutions, but the UK did not use this flexibility. However, if credit institutions or other PSPs wish to offer basic bank accounts in line with the requirements set out in the

[177] Regulation 20.
[178] Regulation 21.

regulations, the government would regard this as a welcome development.

The Payment Services Directive (and Payment Services Regulations 2009)

293. The PSD[179] harmonises the regulatory regime for payment services across the EU. The aim of the directive is to make cross-border payments as easy, efficient and secure as national payments. The directive further seeks to improve competition between banks and other types of payment institutions in the provision of payment services. The directive supports the creation of a Single Euro Payment Area. The PSD introduced an EU licensing regime for certain large payment institutions and harmonised conduct of business rules, which regulate the rights and obligations for PSPs and their customers. The PSD is a maximum harmonisation directive; however, several provisions of the PSD leave a margin of discretion to member states.

294. The Payment Services Regulations (PSRs) 2009[180] implement the PSD. They came into force on 1 November 2009 and are monitored and enforced by the FCA. The principles in the PSRs are reflected in the FCA Handbook called Banking: Conduct of Business and Sourcebook (BCOBS).[181]

295. The PSRs define key terms used throughout the regulations. The primary regulated payment services activities are:

- cash deposits and withdrawals;
- the execution of payment transactions;
- credit transfers, including standing orders;
- all direct debits;
- payment card transactions;
- issuing payment instruments (eg debit cards) or acquiring payment transactions;
- money remittance; and

[179] Payment Services Directive (2007/64/EC).
[180] Payment Services Regulations 2009 (SI 2009/209).
[181] FCA BCOBS.

- payments sent through the intermediary of a telecom, IT system or network operator.

296. The Regulations currently apply to payments where the PSPs of both the payer and the payee are in the European Economic Area (EEA) and the transaction is being made in euro or another member state currency. Also, the PSRs apply in full to consumers, micro-enterprises[182] and small charities, whose annual income is less than £1 million and meet the legislative definition of a 'charity' in England, Wales, Scotland or NI.

297. The legislation sets out information which must be provided to payment service users, including micro-enterprises and consumers. Information has to be provided whenever a payment occurs, but different rules apply depending upon the nature of the relationship between the payment service user and the PSP. As between a consumer and their bank, the information will almost always be provided through the bank's terms and conditions (framework contract).

298. Under a framework contract, information has to be provided about the PSP, the service, charges and interest, how information will be transmitted, the safeguards and corrective measures, the length of the contract, and how it can be varied and terminated.

299. Certain information requirements are disapplied in the case of low-value payment instruments. The parties can also agree to disapply any or all of the information provisions unless the payment service user is a consumer, a charity or a micro-enterprise.

300. Except for provision related to the authorisation or registration process of a payment institution, the regulations also include detailed provisions on the rights and obligations of both the PSPs and users in intra-EU payment transactions in euros or another EEA currency including the charges that can be levied for the service, the obligations of the parties in relation to payment instruments and the liabilities of the parties for defective or non-performance of a payment transaction or for an unauthorised transaction.

[182] A micro-enterprise is defined as an enterprise which, at the time of the contract is entered into, employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed €2 million.

Second Payment Services Directive

301. The European Commission published a proposal for the PSD2[183] in July 2013. The directive was published on 23 December 2015 and came into force on 12 January 2016, repealing the current PSD.[184] The deadline for member states to transpose PSD2 into their national laws and regulations is 13 January 2018. The UK currently plans to initiate a formal consultation in the summer of 2016 and publish implementing regulations in the beginning of 2017, which will come into force in January 2018.

302. Like the current PSD, the PSD2 is a maximum harmonisation directive.

303. The PSD2 updates the current framework on payment services, extending its scope to PSPs that were previously unregulated, and to improve the transparency and security of payment services. The updated rules aim to stimulate competition to provide payment services and foster innovative payment methods, especially for online payment services.[185] Some of the changes brought about by the PSD2 are described below.

304. The PSD2 removes or restricts a number of exemptions under the PSD. Independent ATMs are still exempted under the PSD2, but they will be required to provide customers with information on withdrawal charges prior to the transaction and on the customer's receipt.

305. The PSD2 introduces new rules aimed at increasing competition by facilitating the use of third party PSPs. Banks will be required to allow customers who have an online account to use new payment initiation[186] and account information[187] services provided by third party PSPs. Banks will also be required to provide appropriate access and information to third party PSPs

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[183] Proposal for a Directive of the European Parliament and of the Council on payment services in the internal market and amending Directives 2002/65/EC, 2013/36/EU and 2009/110/EC and repealing Directive 2007/64/EC.
[184] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.
[185] European Parliament, 'Updating payment service rules: MEPs do deal with the Council' (05 May 2015).
[186] A payment initiation service is defined as a 'payment service enabling access to a payment account provided by a third party payment service provider, where the payer can be actively involved in the payment initiation or the third party payment service provider's software, or where payment instruments can be used by the payer or the payee to transmit the payer's credentials to the account servicing payment service provider' (the account holder's bank). Essentially, a payment initiation service provider enables a payment by populating the transaction details and confirming that the payer has sufficient funds in his/her account to complete the transaction. The payment initiation service provider will not receive or handle customer funds at any stage and will not provide a statement of account balance; it will simply give a yes or no answer as to whether the payer has sufficient funds to complete the payment. Payment initiation services, such as Zapp and Apple Pay, offer more innovative and often cheaper ways of paying for goods online without the need for a credit or debit card.
[187] An account information service is defined as a 'payment service where consolidated and user-friendly information is provided to a payment service user on one or several payment accounts held by the payment service user with one or several account servicing payment service providers'. This includes services that enable users to have a consolidated view of their online bank accounts.

acting for payers, and to treat payment orders transmitted through the services of third party PSPs in a non-discriminatory way.

306. The EBA will develop regulatory technical standards which will provide how banks will need to allow third party payment providers access to accounts. To offer these services, third party PSPs that do not execute fund transfers themselves, but offer predominantly online banking based payment initiation or account services, are required to be licensed or registered and supervised as payment institutions.

307. The PSD2 requires banks to apply strong customer authentication measures where a user accesses their online account or initiates a payment transaction. PSPs will be liable for unauthorised payment transactions. Where a third party PSP is involved, each provider will take responsibility for the respective parts of the transaction under its control.

308. The information and transparency conditions pre-contract and before and after a transaction are maintained in the PSD2. The PSD2 will require all framework contracts to include a condition that the payer may require the information to be provided or made available periodically at least once a month free of charge and in an agreed manner. Under the current PSD this is optional. The PSD2 maintains the option for member states to require PSPs to provide information on paper or another durable medium at least once a month free of charge.

309. The PSD2 introduces a derogation from the information requirement for low value payment instruments and e-money payments. For payment transactions that do not exceed €30 or that either have a spending limit of €150 or store funds that do not exceed €150, PSPs must provide the payer only with information on the main characteristics of the service, including liability and charges levied. Member states may double or decrease these amounts for national payment transactions. For prepaid payment instruments, member states may increase the amount to €500.

310. As under the current PSD, the PSD2 provides that where the user is not a consumer, the user and the PSP may agree that the transparency and information requirements do not in whole or in part apply. Member states may again provide that the provisions are applied to micro enterprises in the same way as consumer.[188,189]

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[188] Article 54(3) of the PSD2.
[189] The UK has adopted this approach under the current Payment Services Regulations 2009.

311. The IFR imposes a cap on the level of interchange fees for transactions based on consumer debit and credit cards of 0.2% and 0.3% respectively. It also bans the imposition of surcharges on transactions using these types of cards. The caps reflect those accepted in the European antitrust cases against Visa and MasterCard.

312. The IFR also sets out the rules that can be imposed on such card schemes. The IFR, combined with the PSD2, aims to foster competition, innovation and security in the payment systems industry. The IFR was passed by the European Parliament on 10 March 2015, and came into force on 8 June 2015. The PSR has been designated as the competent authority for enforcing the terms of the regulation within the UK. The PSR, following initial consultation in December 2015, published in March 2016 its finalised guidance on its approach in monitoring compliance with the IFR provisions, its powers and procedures under the IFR and as well as guidance on penalties for non-compliance.[190]

313. On 27 July 2015 HMT issued a consultation paper[191] setting out the government's proposed steps to meet the UK's obligation to put in place an adequate and efficient regulatory regime to supervise compliance with the IFR. It also seeks views on exercising the national discretions the IFR affords to member states; namely the way in which member states apply and set caps to interchange fee rates, and, based on an assessment of market shares, the application of a time-limited exemption period of up to three years to three-party card systems that use issuers or acquirers. The consultation closed on 28 August 2015 and the consultation response was published in October 2015.[192]

314. On 9 December 2015, the Payment Card Interchange Fee Regulations 2015 (SI 2015/1911) came into force.[193] In particular, the Regulations:

- appoint competent authorities, the FCA and the PSR, to monitor and enforce compliance with the IFR and enable non-compliance to be penalised;

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[190] PSR Guidance on the PSR's approach as a competent authority for the EU Interchange Fee Regulation.
[191] HMT interchange fee regulation consultation.
[192] HMT interchange fee regulation consultation response.
[193] *Payment Card Interchange Fee Regulations 2015 (SI 2015/1911)*.

- exercise options available to the UK on some of the requirements of the IFR;
- give the PSR power to publish guidance relating to the IFR. PSR published its final guidance on 24 March 2016;[194] and
- require HMT to review the Regulations every five years and publish a report, setting out its conclusions, following each review.

Bank Recovery and Resolution Directive

315. The Bank Recovery and Resolution Directive (BRRD) establishes a recovery and resolution framework for EU credit institutions and investment firms. As of 1 January 2015 all member states have to apply a single rulebook for the resolution of banks and large investment firms, as prescribed by the BRRD. The BRRD provides national authorities with harmonised tools and power to tackle crises at banks and investment firms early on, and to minimise costs for taxpayers. These include the following:

- Preparatory and preventative measures. The BRRD requires firms to prepare recovery plans and national authorities to prepare resolution plans. The BRRD reinforce authorities' supervisory powers to address to remove impediments to firm's resolvability.
- Early supervisory intervention. The BRRD gives authorities powers to take early action to address emerging problems.
- Resolution. The BRRD gives authorities resolution powers and tools to ensure the continuity of essential services and to manage the failure of a firm.

316. Within the UK, amendments to primary and secondary legislation were made to implement the BRRD. The PRA's rules on recovery and resolution are based on and implement parts of the BRRD. The FCA's rules on recovery and resolution implement the BRRD in relation to FCA-authorised firms.

The Technical Standards and Regulations Directive (TSD)

317. The TSD[195] is a codified replacement for Directive 98/34/EC and came into force on 7 October 2015.

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[194] PSR Final guidance.
[195] Directive of the Council and Parliament of 9 September 2015 laying down a procedure for the provision of information in the field of technical regulations and of rules on Information Society services (No 2015/1535/EU).

318. Under the TSD member states are required to inform the European Commission and other member states of certain new technical regulations and technical standards whilst they are in draft and before they are adopted in national law. This includes mandatory rules, guidance or any document which it is intended users should in practice follow which apply in the UK or a major part of it and regulate services provided on a commercial basis over the internet or through any similar medium.

319. Once notified, the draft measures enter a 'standstill period' that usually lasts for 3 months, during which the measures cannot be laid. The standstill period enables the European Commission and other member states to raise any concerns about whether the proposed measure is a potential barrier to trade.

Implementation of ICB recommendations: ring-fencing of retail banking functions

320. FSBRA sets out a number of requirements intended to implement the core recommendations of the ICB, contained in the ICB Report.

321. It introduces a ring fence around core deposits (mainly retail and SME) held by UK banks, with the aim of separating certain core banking services critical to individuals and SMEs, from other banking services. The ring-fencing regime will be established through amendments to FSMA made by FSBRA, as well as statutory instruments made by HMT setting out the detail of the ring-fencing regime, specifying which entities will be RFBs and the activities and services that RFBs can, and cannot, carry out.

322. The primary and secondary legislation will be supported by ring-fencing rules to be made by the PRA,[196] intended to achieve legal, economic and operational separation between RFBs and other members of their groups (ie the parts of banking groups that fall outside the ring fence). The FCA will also make rules relating to disclosures that non-RFBs should make to consumers.

323. Banking groups will be required to organise themselves to comply with the ring-fencing requirements by 1 January 2019.

Purpose of ring-fencing

324. The ICB made recommendations on how the UK banking system could be reformed to improve financial stability and increase competition. The ICB issued its final report in September 2011. It proposed, among other measures, the ring-fencing of vital banking services from risks elsewhere in the financial

[196] In October 2014, the PRA published its first consultation paper (CP19/14) on these rules.

system. This is intended to protect retail banking from risks unrelated to the provision of that service and ensure that banking groups that get into trouble can be resolved in an orderly manner, thereby avoiding taxpayer liability and ensuring the continuous provision of necessary retail banking services.

Core services

325. The ring fence is intended to protect the uninterrupted provision of critical banking services to retail and SME depositors. These services are defined in FSBRA as core services.

326. FSBRA uses the term core services to refer to those banking services that are considered so important that their uninterrupted provision must be protected through the ring fence. Core services are defined as:

- facilities for the accepting of deposits or other payments into an account that is provided in the course of carrying on the core activity of accepting deposits;
- facilities for withdrawing money or making payments from such an account; and
- overdraft facilities in connection with such an account.

Core activities

327. The only firms that will fall within the definition of a ring-fenced body are those that carry out core activities.[197]

328. The only activity currently designated as a core activity under FSBRA is the regulated[198] activity of accepting deposits (whether carried on in the UK or elsewhere). Furthermore, the activity of accepting deposits will only be a core activity if it relates to core deposits. Most retail customer deposits will be classed as core deposits.[199]

329. In addition there is secondary legislation which sets out further the UK institutions which HMT exempts from the ring-fencing requirements of the Act. These Orders include the Financial Services and Markets Act 2000 (Ring-

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[197] The ICB Report referred to these activities as ‘mandated activities’.
[198] For example, regulated by the PRA under Part 4A FSMA.
[199] FSBRA includes extensive detail on the definition of ‘core deposits’, but for the purposes of this appendix it is sufficient to note that the overwhelming majority of deposits made into UK banks by individual and SME customers would be classed as ‘core deposits’. Examples of deposits that would not be core deposits include deposits from high net worth individuals and large companies that have chosen to deposit outside the ring fence.

fenced Bodies and Core Activities) Order (the Core Activities Order) 2014[200] and the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order (the Excluded Activities Order) 2014.[201]

330. The Core Activities Order provides that small banks, regulated insurance companies, credit unions and industrial and provident societies are exempted.

Ring-fenced bodies[202]

331. A UK institution that carries on the regulated activity of accepting deposits (see core activities above) for which it has a Part 4A FSMA permission (see section on authorisation by the PRA, paragraph 24) will be a 'ring-fenced body', unless one of the following applies:

- It is a type of institution that has been exempted from ring-fencing (see institutions exempted from ring-fencing below).

- It falls within the exemption for small banks (see further below).

- Its deposit-taking activity is not deemed to be a core activity, because it does not relate to core deposits.

332. Under current proposals, the only firms that will be ring-fenced bodies are deposit-takers, as the only activity designated in FSBRA as a core activity is the PRA-regulated activity of accepting core deposits.

Institutions exempted from ring-fencing

333. Certain exemptions from the ring-fencing requirements are available, which are:

- firms that are exempt from ring-fencing because of their form, eg building societies and credit unions;

- firms that are exempt as a consequence of the operation of powers under the special resolution regime;[203]

[200] FSMA Core Activities Order 2014 (SI 2014/1960).
[201] FSMA Excluded Activities Order 2014 (SI 2014/2080).
[202] Currently the only UK banks that would meet the threshold requiring them to ring-fence their retail activities are HSBCG, Barclays, Santander's UK arm, Co-op Bank, LBG and RBSG. However, this list is subject to change, as any bank with deposits of £25 billion or more by 2019 could also be expected to become subject to the ring-fencing requirements in due course, which has implications for smaller banks.
[203] For failing banks which are being 'bailed in', see government consultation on bail-in powers.

- situations where a firm's operations are small enough to fall within the *de minimis* exemption for small banks;[204] and

- situations where a firm has structured its operations so that it does not accept core deposits.

Excluded activities

334. RFBs are not permitted to carry out certain excluded activities. These activities are activities that the government considers can pose a risk to the provision of core services. FSBRA and the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (Excluded Activities Order) specify that the following activities are excluded activities:

    - Dealing in investments as principal, whether carried on in the UK or elsewhere. This includes buying, selling, subscribing for or underwriting securities or contractually based investments. This means that RFBs cannot engage in proprietary trading or hold trading assets unless there is a specific exemption allowing them to do so.

    - Dealing in commodities.

    - RFBs are also prohibited from certain conduct, such as having exposures to certain financial institutions and having non-EEA branches and subsidiaries carrying on regulated activities.

335. There are certain exemptions to the list of excluded activities, to reflect the ICB's recommendation that RFBs should be permitted to carry out certain ancillary activities that would otherwise be prohibited under the ring-fencing requirements, as well as manage the risks associated with their businesses.

Prohibitions

336. The new regime will also allow HMT to place specific prohibitions on RFBs, in addition to the concept of excluded activities, to capture conduct by banks that cannot easily be defined as an 'activity', such as the banning of transactions by reference to the counterparty, rather than the type of transaction. For example, the Excluded Activities Order prohibits RFBs from having exposures to other financial institutions, and from having a branch or a subsidiary in a

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[204] The following institutions will fall within the *de minimis* exemption: deposit-takers that are not members of a group and whose core deposits do not exceed £25 billion; and deposit-takers that are members of a group where the sum of the average core deposit totals for each deposit-taker in the group do not exceed £25 billion. This measure is intended to prevent large banks from avoiding ring-fencing by splitting their deposits across multiple entities, each individually below the £25 billion threshold.

country or territory outside the EEA, other than a subsidiary that does not carry out any activities which would be regulated under FSMA if they were carried on in the UK.

Breaches of the ring fence

337. If an RFB carries on an excluded activity, or purports to do so, or contravenes a prohibition, the PRA may take enforcement action, such as imposing financial penalties or exposing the RFB to public censure. A breach will not however be a criminal offence, or make a transaction void or unenforceable, or give rise to a claim for breach of statutory duty.

Legal, operational and economic separation

338. FSBRA requires the PRA to exercise its power to make rules governing the legal, economic and operational independence of RFBs, ensuring that they interact with the rest of their group on a third party basis. These rules were intended to implement the ICB's recommendations on the 'height' of the ring fence.

339. The requirements concerning the legal, operational and economic separation of RFBs will primarily be set out in PRA rules and supervisory statements.

340. The PRA will therefore play a key role in establishing the ring fence, by making ring-fencing rules and supervising the ring fence. It will be required to carry out annual reviews of the operation of the ring fence, and a review of the ring-fencing rules every five years.

341. In October 2014, the PRA issued its first consultation paper[205] on rules and policy proposals relating to the ring fence. On 27 May 2015, the PRA issued a policy statement[206] providing feedback on the responses received to that consultation paper, and some amendments to the draft rules and supervisory statements included therein. The policy statement covers three areas:

- legal structure arrangements of banking groups subject to ring-fencing;
- governance arrangements of ring-fenced bodies; and
- arrangements to ensure continuity of services and facilities to ring-fenced bodies.

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[205] PRA consultation on ring-fencing policy proposals.
[206] PRA policy statement on ring-fencing.

342. The PRA does not consider that the responses to the consultation necessitate major changes to its proposed approach to implementing ring-fencing, however it has made a number of amendments to the draft rules and supervisory statements published therein, mainly to add clarity and certainty. Updated ‘near final’ versions of the rules and supervisory statements are included in the policy statement.

Legal structure

343. One of the most crucial aspects of the new ring-fencing regime is the legal separation of a ring-fenced body (RFB) from the rest of its group, as recommended by the ICB and enshrined in the Banking Reform Act 2013. The effect of the definition of a ‘ring-fenced body’ is that an RFB must be a separate legal entity from any other entity carrying on ‘excluded activities’, as defined in the legislation, and must not the legislation’s prohibitions; a single legal entity cannot carry out core activities and activities which are excluded or prohibited.[207]

344. In its October 2014 consultation paper, the PRA set out policy proposals on legal structure issues intended to supplement these legislative provisions. Its aim is to ensure that banking groups are structured so that RFBs are protected adequately from risks arising from other group entities. It commented that particular risks may arise if RFBs are owned by entities carrying out excluded or prohibited activities or if they own such entities. It expects that banking groups containing RFBs will instead adopt a ‘sibling structure’.[208]

345. The PRA does not intend to propose rules on legal structure issues, but will consider using existing powers to impose requirements on firms or to give directions to parent undertakings to implement its policy.

346. The PRA published a supervisory statement on legal structure issues in its July 2016 Policy Statement, which set out the PRA’s expectations in relation to the ownership structure of banking groups containing one or more RFBs.

347. On 15 October 2015, the PRA published a second consultation paper[209] on the implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures.

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[207] For clarification, only ‘excluded activities’ must be kept outside the ring fence; activities which are neither excluded or prohibited may be retained inside the ring fence.
[208] RFBs and entities that can conduct excluded or prohibited activities are expected to be structured as separate clusters of subsidiaries beneath a UK holding company. This is known as a ‘sibling structure’.
[209] PRA consultation paper.

348. The paper sets out PRA policy proposals in three areas, which are:

- the capital and liquidity requirements applicable to a ring-fenced body and how the PRA will determine the adequacy of its financial resources;
- the management of intragroup exposures and arrangements; and
- the use of financial market infrastructures.

349. The paper also includes a preliminary discussion on potential reporting requirements, setting out the PRA's initial thinking ahead of future consultation.

350. In this consultation paper, the PRA requested that all firms that expected to be subject to ring-fencing requirements by 2019 to submit near-final plans by 29 January 2016 of their anticipated legal and operating structure to their PRA and FCA supervisors.

351. These plans should build on firms' initial plans for ring-fencing (which the PRA required to be submitted by 6 January 2015) and any subsequent updates submitted by firms during 2015. Firms' supervisors will contact firms directly to specify the level of information the PRA expects to receive in the plans.[210] Following the receipt of these plans, the PRA continues to discuss with firms their plans for the implementation of ring-fencing. Final versions of the PRA's rules and supervisory statements included in the first two consultations were published in the PRA's Policy Statement of July 2016.[211]

352. The PRA also published a third consultation paper in July 2016. This included proposals relating to reporting requirements to allow it to monitor firms' compliance with the ring-fencing requirements, as well as a number of residual issues that it needs to consult on to complete the ring-fencing rules.[212]

Other key elements of the ring-fencing regime

353. Other elements of the ring-fencing regime include the following:

- The ring-fencing transfer scheme. FSBRA introduces a ring-fencing transfer scheme, allowing all or part of a bank's business to be transferred

[210] The PRA has stated that the initial plans should ideally include: the provisional UK holding company and UK regulated entity balance sheets and profit and loss statements, a project plan showing how firms will transition to the preferred legal and operation structures, details of any new authorisations, permissions or waivers likely to be required and any part 7 transfers requiring regulatory attestations.
[211] PRA July 2016 (PS 20/16 and 21/16) Policy statements.
[212] PRA July 2016 Consultation paper (CP 25/16).

to another body in order to comply with the ring-fencing regime without needing to obtain the consent of all those affected by the transfer.

- Group restructuring powers. The PRA will have the power to further strengthen the ring fence by requiring banking groups to restructure their operations if it considers that the operation of the ring fence in a group is proving to be ineffective. This may lead to groups being required to split their retail and investment banking operations into separate banking groups. Such a move by the PRA would require HMT consent.

Part III: Application of consumer law to the banking industry

354. The following section provides an overview of key consumer law relevant to the retail banking market investigation, to the extent that this has not been covered earlier in this appendix.

355. Infringements of consumer law can be dealt with in a number of ways. Enforcers, including the CMA and Trading Standards Services (TSS), may be able to take civil action, either under specific legislation or Part 8 of the EA02, or criminal action. In relation to breaches of the consumer credit provisions, the FCA may also be able to impose sanctions, such as financial penalties, under the FSMA.

The consumer credit regime

356. Consumer credit in the UK is regulated by the Consumer Credit Act 1974 (CCA 1974) and the FSMA, together with various statutory instruments made under each and the rules set out in the sourcebooks contained in the FCA Handbook, notably the Consumer Credit sourcebook (CONC).

357. These statutory instruments and sourcebooks also implement the Consumer Credit Directive[213] (CCD) and the Distance Marketing of Financial Services Directive[214] (DMD) into UK law (although it should be noted that the UK consumer credit regime also regulates some areas which fall outside the scope of these directives). Some provisions of the CCD and DMD are ‘maximum harmonisation’, while others are minimum ‘harmonisation’.

358. Under the UK consumer credit regime, lenders offering credit to personal customers are subject to certain disclosure obligations in advertising and

[213] Directive of the Council and Parliament on credit agreements for consumers (No 2008/48/EC).
[214] Directive of the Council and Parliament of 23 September 2002 on distance marketing of consumer financial services (No 2002/65/EC).

financial promotions,[215] as well as in pre-contractual information[216] and quotations.[217] The detailed requirements depend on the nature of the financial product, for example there are lighter touch requirements in relation to overdrafts.

359. One feature of this regime is that, in a number of cases, lenders must include a representative example when an advertisement indicates a rate of interest or an amount relating to the cost of credit whether expressed as a sum of money or a proportion of a specified amount. This is to enable customers to have a full understanding of the total cost of credit and to compare products. The CONC sets out the information which must be included in the representative example and how the different elements should be calculated.

360. In some cases the example must include the representative APR, although it should be noted that this requirement does not apply in relation to overdrafts.[218] The aim of providing a representative APR in advertising is to provide consumers with an estimate of the total cost of credit including fees and charges and to make it easier for consumers to compare the cost of credit across providers. The representative APR is the APR at or below which the firm communicating or approving the financial promotion reasonably expects, at the date on which the promotion is communicated or approved, that credit would be provided under at least 51% of the credit agreements which will be entered into as a result of the promotion.[219]

361. The consumer credit regime described above is primarily focused on personal lending.[220] However, the provision of credit under £25,000 to a) a partnership consisting of two or three persons not all of whom are bodies corporate, or b) an unincorporated body of persons which does not consist entirely of bodies corporate and is not a partnership, is also regulated under the consumer credit regime.[221] In these case lenders are subject to similar obligations in

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[215] See CONC 2 and CONC 3, Consumer Credit Sourcebook, FCA, 2014, the Financial Services (Distance Marketing) Regulations 2004.
[216] See section 55 of the CCA 1974, the Consumer Credit (Disclosure of Information) Regulations 2004, the Consumer Credit (Disclosure of Information) Regulations 2010 and CONC 4, Consumer Credit Sourcebook, FCA, 2014.
[217] See CONC 4, Consumer Credit Sourcebook, FCA, 2014.
[218] Authorised non-business overdrafts fall within the scope of CONC 3 but the representative example for authorised non-business overdrafts does not have to include a representative APR. There are also pre-contractual information requirements in relation to authorised non-business overdrafts, which are similar to those for other products.
[219] See CONC 3, Consumer Credit Sourcebook, FCA, 2014.
[220] SME lending falls outside the scope of the CCD, but is some cases, it is caught by provisions in national legislation (ie the small subset of SMEs described in the following paragraphs).
[221] See sections 60B, 60C(3) and 60L(1) of the Financial Services and Markets (Regulated Activities) Order 2001, as amended.

relation to the provision of information about the total charge for credit and the APR in pre-contractual information.

362. The provision of credit to other SMEs falls outside the scope of the consumer credit regime. When offering credit to these companies there are no requirements on lenders to provide the same level of information about interest rates or any other rates regarding the total cost of the loan.

The Consumer Protection from Unfair Trading Regulations 2008 (CPRs)

363. The CPRs implement the Unfair Commercial Practices Directive[222] (UCPD) into UK law. The UCPD is a 'maximum harmonisation' directive. However, the UCPD contains a specific exception that allows member states to impose higher levels of protection in relation to financial services.

364. The CPRs provide consumers with protections against a range of unfair commercial practices that distort their decision making. They introduce a general duty not to trade unfairly, and ban certain specified practices in all circumstances. The CPRs apply to commercial practices that occur before, during and after a transaction (if there is one).

365. Regulation 3 of the CPRs contains a general prohibition of unfair commercial practices. A commercial practice is unfair if it is not professionally diligent and it materially distorts, or is likely to materially distort, the economic behaviour of the average consumer.

366. Regulations 5 to 7 of the CPRs prohibit commercial practices that are misleading (whether by action or omission) or aggressive, and that cause or are likely to cause the average consumer to take a transactional decision they would not otherwise have taken.

367. Schedule 1 of the CPRs lists 31 commercial practices that are unfair in all circumstances and are prohibited.

The Consumer Rights Act 2015 (CRA)

368. The CRA consolidates and reforms key consumer rights covering contracts for goods, services, digital content and the law relating to unfair terms in consumer contracts. The CRA replaces various pieces of earlier legislation that implemented EU Directives into UK law, in particular the Unfair Contract

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[222] Directive of the Council and Parliament of 11 May 2005 on unfair business-to-consumer commercial practices (No 2005/29/EC).

Terms Directive[223] (UCTD). The UCTD is a 'minimum harmonisation' directive.

369. Part 1 of the CRA sets out consumers' key rights and remedies in relation to contracts for the supply of goods, digital content and services (or any combination of these), for example that services must be performed with reasonable skill and care.

370. Part 1 of the CRA also 'blacklists' certain terms in consumer contracts and notices. Blacklisted terms are automatically unenforceable and open to challenge, without the need to apply the 'fairness test' under Part 2 of the CRA (see below). In general, blacklisting prevents terms being used to undermine the protections that Part 1 of the CRA gives.

371. Part 2 of the CRA protects consumers against unfair contract terms and notices. It applies to both contract terms and consumer notices. Part 2 of the CRA requires contract terms to be fair and, if written, transparent.

372. A term in a consumer contract or consumer notice is unfair if, contrary to the requirement of good faith, it causes a significant imbalance in the parties' rights and obligations under the contract, to the detriment of the consumer (the 'fairness test').

373. The CRA illustrates what 'unfairness' means by listing some types of terms that may be unfair in Schedule 2 to the CRA (known as the 'Grey List'). Terms like those included in the Grey List are not necessarily unfair, but concerns about the fairness of a term are likely to arise where it has the same purpose, or can produce the same result, as the types of terms listed in the Grey List. The Grey List is not exhaustive, which means that terms that do not appear on it may still be unfair.

374. Some terms may be exempt from the 'fairness test' – namely those describing the main subject matter and setting the price – provided that they are transparent and prominent. There is also an exemption for wording that reflects mandatory legislative or regulatory provisions, for example, words that legally have to be used.

375. Part 2 of the CRA includes a specific requirement that all written terms have to be transparent. This means they must be expressed in plain, intelligible language and be legible.

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[223] Directive of the Council of 5 April 1993 on unfair terms in consumer contracts (No 93/13/EEC).

The Electronic Commerce (EC Directive) Regulations 2002 (ECRs)

376. The ECRs implemented the E-Commerce Directive[224] (ECD). They govern the provision of information society services, which are any services normally provided on request for payment, at a distance, by means of electronic equipment. This includes, for example, any marketing or selling of goods or services to consumers and businesses on the internet or by email.

377. If traders are providing an information society service, under the ECRs they must supply certain specified information about their business and the prices they charge when they advertise or sell online. This information must be easily, directly and permanently accessible. Depending on whether the contract is made entirely online, there may also be additional information requirements in relation to the formation of the contract.

Other relevant legislation

The Business Protection from Misleading Marketing Regulations 2008 (BPRs)

378. The BPRs implemented the Misleading and Comparative Advertising Directive[225] (MCAD) and regulates business-to-business marketing. The provisions of the MCAD on misleading advertising are ‘minimum harmonisation’, whilst the provisions on comparative advertising are ‘maximum harmonisation’.

379. The BPRs include a general prohibition on advertising that misleads traders and sets out conditions under which comparative advertising is permitted (a comparative advertisement is one that, in any way, identifies a competitor or products offered by a competitor).

Part IV: Data protection rules

Data Protection Act 1998

380. In the UK, the collection and use of personal data is primarily governed by the Data Protection Act 1998 (DPA).[226] The Information Commissioner is responsible for enforcing and overseeing the DPA.

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[224] Directive of the Council and Parliament of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (No 2000/31/EC).
[225] Directive of the Council and Parliament of 12 December 2006 on misleading and comparative advertising (No 2006/114/EC).
[226] The DPA implemented the EU Directive 95/46/EEC on the protection of individuals with regard to the processing of personal data and on the free movement of such data (the ‘Data Protection Directive’).

381. The DPA sets out eight main principles applying to personal data and the processing of personal data. The terms ‘personal data’ and ‘processing of’ personal data are very widely defined under section 1 of the DPA. ‘Personal data’ is defined as data which relates to a living individual who can be identified: (a) from those data; or (b) from those data and other information which is in the possession of, or is likely to come into the possession of, the data controller. The term ‘processing’ includes collecting, using (including use for unsolicited marketing), disclosing, retaining or disposing of personal data.[227]

382. The DPA draws a distinction between a ‘data controller’ and a ‘data processor’. The data controller is defined as the person who (either alone, jointly or in common with other persons) determines the purposes for which and the manner in which any personal data is, or is to be, processed. Data controllers can be individuals, organisations and other corporate and unincorporated bodies of persons. In essence, the data controller is the person who decides:

- to collect the personal data in the first place and the legal basis for doing so;
- which items of personal data to collect (ie the content of the data);
- the purpose or purposes the data are to be used for;
- which individuals to collect data about;
- whether to disclose the data, and if so, who to; and,
- how long to retain the data or whether to make non-routine amendments to the data.[228]

383. All of the obligations under the DPA fall upon the ‘data controller’. Personal data must not be processed unless an entry in respect of the data controller is included in the register maintained by the ICO.[229]

384. A ‘data processor’ processes personal data only on behalf of a data controller. Data processors are not themselves liable under the DPA; however, it is

[227] The DPA applies to information processed, or intended to be processed, wholly or partly by automatic means (eg on a computer), and information processed otherwise than by automatic means which form part of, or are intended to form part of, a ‘relevant filing system’ (ie manual information in a filing system).
[228] Information Commissioner’s Office, Data controllers and data processors: what the difference is and what the governance implications are (May 2014) p6–7.
[229] DPA, section 17.

usually the case that when contracting with a data processor, data controllers will seek contractual protection from the data processor.

385. The DPA also requires that personal data is processed fairly and lawfully. This means that a data controller is only allowed to process (or have data processed on its behalf) where schedules 2 and 3 of the DPA are satisfied. Schedule 2 includes conditions for processing non-sensitive personal data (the ‘Schedule 2 Conditions’) whereas schedule 3 includes conditions for processing sensitive personal data (eg information about an individual’s health or criminal record). The Schedule 2 Conditions can be summarised as follows:

(a) Condition 1: the data subject may give consent to the processing;

(b) Condition 2: the processing is necessary[230] (i) in relation to a contract which the individual has entered into; or (ii) because the individual has asked for something to be done so they can enter into a contract;

(c) Condition 3: the processing is necessary for compliance with any legal obligation to which the data controller is subject (other than an obligation imposed by contract);

(d) Condition 4: the processing is necessary to protect the individual’s ‘vital interests’;[231]

(e) Condition 5: the processing is necessary for administering justice, or for exercising statutory, governmental, or other public functions; and

(f) Condition 6: the processing is necessary for the purposes of legitimate interests pursued by the data controller or by the third party or parties to whom the data are disclosed, except where the processing is unwarranted in any particular case by reason of prejudice to the rights and freedoms or legitimate interests of the data subject.

Privacy and Electronic Communications Regulations 2003

386. The Privacy and Electronic (EC Directive) Regulations 2003 (‘PERC’)[232] were designed to complement the DPA, and set out more detailed rules

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[230] Information Commissioner’s Office, The Guide to Data Protection (March 2015) at 120 states that the requirement that processing is “necessary” should generally be interpreted as a strict requirement. The condition will not be met if an organisation can achieve the purpose by some other reasonable means or if the processing is necessary only because the organisation has decided to operate its business in a particular way.
[231] This condition only applies in cases of life or death, such as where an individual’s medical history is disclosed to a hospital’s A&E department treating them after a serious road accident.
[232] The PERC implemented the Electronic Communications Directive (2002/58/EC).

relation to direct marketing activities through electronic means (eg fax, email, and telephone). There is no restriction on sending solicited marketing (ie marketing material that has been specifically requested) through electronic means. The PERC rules only apply to 'unsolicited' marketing (ie marketing material that has not been specifically requested).

387. Direct marketing is not defined in the PECR and therefore the definition in section 11 of the DPA applies, which is 'direct marketing means the communication (by whatever means) of any advertising or marketing material which is directed to particular individuals.' The Information Commissioner (ICO) has published guidance on direct marketing in which it sets out its application to not-for-profit organisations.[233]

388. Consent is key to allow unsolicited direct marketing. The definition of consent set out in the Data Protection Directive[234] also applies for PERC. However, the PERC go further and also require that: '*the [recipient] has previously notified the [caller or sender] that he consents for the time being to such communications being sent by, or at the instigation of, the [caller or sender]'*.

General Data Protection Regulation

389. In January 2012, the European Commission proposed a comprehensive data protection reform package consisting of two distinct proposals, which were:

- a General Regulation (the 'Regulation')[235] covering the bulk of personal data processing in the EU; and
- a Directive on processing data to prevent, investigate, detect or prosecute criminal offences or enforce criminal penalties.[236]

390. The Regulation updates the principles set out in the Data Protection Directive[237] and harmonise data protection procedures and enforcement across the EU. The objectives are to protect individuals with regard to the

[233] ICO (2016), Privacy and Electronic Communications Regulations: Direct marketing, p10.
[234] Article 2 of the Data Protection Directive defines the data subject's consent as 'any freely given, specific and informed indication of his wishes by which the data subject signifies his agreement to personal data relating to him being processed'.
[235] Proposal for a Regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation) (COM/2012/011).
[236] The proposed Directive (COM/2012/10) is intended to replace Council Framework Decision 2008/977/JHA on the protection of personal data in police and judicial co-operation in criminal matters. This proposed Directive is designed to widen the scope of application of the existing rules (so that they will apply to processing activities by the police and judiciary authorities at national level and not just to cross-border transfers of data by such authorities). It came into force on 5 May 2016 and EU Member States have to transpose it into their national law by 6 May 2018.
[237] The 1995 Directive will be repealed when the Regulation enters into force.

processing of personal data and enabling the free movement of personal data between member states and third countries able to provide adequate protection standards.

391. The Regulation aims to keep pace with major changes in data processing. It covers, for example, online (social networks, online shopping and e-banking services) and offline (hospital registers, company registers etc) data.

392. Many of the provisions contained in the Regulation impose new obligations or reinforce previous ones. Some of them, like the ‘right to be forgotten’, are expected to have a significant impact on firms within the EU.

393. Article 5 sets out a number of principles with which data controllers must comply when processing personal data. The key principles are:

- to process the data lawfully,[238] fairly and in a transparent manner;
- to collect data only for specified, explicit and legitimate purposes – and not to further process it in any manner incompatible with those purposes;
- to ensure that all data held is accurate and kept up to date;
- not to keep data in a form which permits identification of data subjects for longer than is necessary; and
- process data in a way that ensures appropriate security against unauthorised or unlawful proceedings, accident loss, destruction or damage.

394. Article 7 provides that data controllers bear the burden of proof regarding the fact that data subjects' unambiguous consent to the processing of their personal data for specified purposes has been obtained. The data subject has the right to withdraw his/her consent at any time.

395. The rights of the data subject are set out in Chapter III, including the new right to be forgotten (a right to request that a firm delete all personal data relating to them) and the right to data portability (right to obtain a copy in a commonly used electronic format of all personal data which the firm processes). Article 14 lists the information that data controllers must at least provide the data subject with (when his/her personal data is collected). Information must be provided in an intelligible form, using clear and plain language. Data subjects can also object to any processing done without their consent

[238] The data processing is deemed lawful if it satisfies one or more of the legal grounds provided by Article 6 of the Regulation.

(Article 19), at which point the processing must stop unless the firm demonstrates compelling legitimate grounds for the processing which override the data subject's interests or fundamental rights and freedoms. The rationale of this provision is to make it more difficult for firms to rely on these grounds to justify personal (unauthorised) data processing.

396. Article 20 seeks to limit the extent to which data subjects may be subjected to measures based on the automated personal profiling. In particular, Article 20(1) provides that every natural person shall have the right not to be subject to a measure that has legal effects or a significant impact solely based on automated processing.

397. The responsibilities of the controller and processor are set out in Chapter IV (Articles 22 to 39) and include data protection by design and default. The Regulation imposes firms to implement (having regard to the state of the art and the cost of implementation) appropriate technical and organisational measures in order to ensure data protection.[239]

398. The Regulation was submitted for a formal vote to the Parliament in April 2016 and was published in the Official Journal of the EU on 4 May 2016.[240] It will apply from 25 May 2018.

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[239] Article 23.

[240] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) [2016] OJ L 119/1.

Appendix 4.1: Previous approaches to market definition in retail banking

Background

1. This appendix summarises the approaches to market definition taken by the OFT, the CC and the CMA in previous investigations into retail banking industries. The appendix is split into two sections, each dealing with PCAs and SME banking markets respectively.

Previous findings in the provision of PCAs

2. In the past there have been several instances in which the OFT and the CC have looked into the provision of PCAs. This includes the CC's 2007 investigation into PCA banking services in NI,[1] the OFT's 2008 market study into PCAs in the UK,[2] the OFT's 2008 report to the Secretary of the State on the anticipated acquisition by Lloyds TSB of HBOS,[3] the OFT's 2013 review of the PCA market[4] and the CMA's 2014 PCA market study update.[5]

3. The CC's 2007 market investigation into PCA banking services in NI listed the following as the main characteristics of a PCA:

   (a) provision of a facility to deposit and store money, with quick and easy access;

   (b) provision of a facility to receive payments by cheque or electronic transfer;

   (c) provision of a facility to make instant and/or regular payments without using cash, eg through cheques, switch payments, bank transfers, standing orders and direct debits; and

   (d) provision of the means for short-term borrowing through an overdraft.

4. It then looked at whether other products could substitute for these four functions of a PCA. In particular, the CC looked at whether financial products that did not provide all four functions, such as basic bank accounts, instant access savings accounts and credit union accounts, could act as substitutes for a PCA. The CC saw no evidence of any competitive reaction to the introduction of other personal financial products. Nor did it see any evidence

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[1] CC (2007), *Personal current account banking services in Northern Ireland market investigation*.
[2] OFT (2008), *Personal current accounts in the UK*.
[3] OFT (2008), *Report to the Secretary of the State for business enterprise and regulatory reform on anticipated acquisition by Lloyds TSB of HBOS plc*.
[4] OFT (2013), *Review of the personal current account market*.
[5] CMA (2014), *Personal current accounts – market study update*.

in internal pricing papers provided by the banks that any other products were monitored or considered in the banks' decision-making processes on PCAs. Despite recognising that some customers may have turned to alternative products, such as basic bank accounts, the CC noted that there was indication that enough considered doing so to require any of the banks to alter their behaviour, and therefore there was no evidence of a competitive constraint being exerted on PCAs.[6]

5. For these reasons, the CC found that other personal financial products could not readily be substituted for a PCA except for a small minority of customers with straightforward financial affairs, and that there are enough such customers to constrain PCA pricing.[7]

6. Supply-side substitution analysis showed that, given significant barriers to entry and expansion and the low switching rates, it was unlikely that potential entrants, such as building societies, credit unions and suppliers of other personal finance products, could quickly, easily and profitably switch to providing PCAs in the event of price increase. Given the above, the CC did not consider that other financial products exerted effective competitive constraint on PCAs. The CC also did not believe that there was a broader market including all financial products.[8]

7. The CC concluded that the relevant product market should include all PCAs, including packaged accounts, but should not be drawn more widely to include basic bank accounts, instant access savings accounts, credit union accounts, offset/current account mortgages or other personal financial products.[9]

8. With regard to the relevant geographic market, the CC considered that there was a lack of close demand- or supply-side substitutability between NI and GB, and considered that the relevant geographic market should consist of NI only. It also saw no need to define the market at a local level, given that banks in NI did not operate their policies on a local basis, chain of substitution between overlapping local markets, and the fact that customers may access branches from several locations.[10]

9. The OFT's 2008 market study into PCAs in the UK relied on the CC's findings and did not provide a formal market definition. However, it included basic

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[6] CC (2007), *Personal current account banking services in Northern Ireland market investigation*, paragraphs 3.5–3.12.
[7] ibid, paragraph 3.13.
[8] ibid, paragraphs 3.14–3.26.
[9] ibid, paragraphs 3.2–3.30.
[10] ibid, paragraphs 3.31–3.37.

bank accounts in its assessment together with other PCAs. It looked at GB and NI separately.[11]

10. Similarly, the OFT's 2008 report to the Secretary of the State on the anticipated acquisition by Lloyds TSB of HBOS also relied on the product market definition established by the CC. In relation to the relevant geographic market, the OFT focused on GB only as Lloyds did not operate in NI. The OFT noted that the merging parties' market shares were not consistent throughout GB, with HBOS's market share being three times bigger in Scotland than in England and Wales, and considered that the merger could lead to significant changes in the relative market shares between Scotland, and England and Wales. On the basis of the limited evidence available, the OFT considered that the possibility that Scotland should be considered as a separate geographic market could not be excluded. With respect to the local markets, the OFT noted the importance of branch network and considered that there was local competition to attract and retain customers, even if not on every parameter of price, quality, range and service specifications. It therefore was unable to exclude the possibility that a merger that significantly increases local market concentration in the supply of PCAs through branch access could raise substantial competition concerns at the local level.[12]

11. In its 2013 PCA market review, the OFT described PCAs as services providing the facility to hold deposits, receive and make payments using cheques, debit cards, direct debits, standing orders, and continuous payment authorities, as well as to use ATMs and transfer money. Additionally, many PCAs have overdraft facilities. It identified six main PCA types: standard, packaged, premium, student, basic and youth accounts.[13]

12. Similarly, in its 2014 PCA market study update, the OFT considered that PCAs provided the following services:

(a) allowing payments such as wages and benefits to be received;

(b) allowing payments to be made to others (both spontaneous, like debit card payments, and planned, such as standing orders and direct debits);

(c) holding balances for consumers; and

(d) offering a line of credit through overdrafts.

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[11] OFT (2008), *Personal current accounts in the UK*, paragraphs 2.1–2.13 & 3.4.
[12] OFT (2008), *Report to the Secretary of the State for business enterprise and regulatory reform on anticipated acquisition by Lloyds TSB of HBOS plc*, paragraphs 90–100.
[13] OFT (2013), *Review of the personal current account market*, paragraphs 3.4–3.15.

13. However, the OFT did not engage in its own market definition exercise, and adopted the approach taken in its 2013 PCA market review.

14. Finally, the OFT also considered whether the developments in the area of payment services, such as PayPal and Google Wallet, represented challenges to PCA providers. It recognised that alternative service providers, such as PayPal, were developing payment services that may allow customers essentially to 'bypass' their PCA providers for certain transactions and could potentially represent a threat for PCA providers in the following ways:

(a) banks may lose the interchange income associated with the transactions;

(b) banks might get less data on their customers' purchasing behaviour; and

(c) their relationship with their customers might become weaker.

However, the OFT stressed that none of these products could be used to substitute for a PCA; for example, customers still required a PCA to get their wages or benefits paid in or to access an overdraft. It also expressed its uncertainty about the future developments in the market, noting that on the one hand, new entry in the market for PCAs might become more likely as alternative payment services providers might find it easier to provide PCAs once they created a base in payment services. On the other hand, new entry might become less likely if PCAs became less attractive for providers due to the decrease in opportunities to build relationships with customers and collect data on their purchasing behaviour.[14]

Previous findings in the provision of SME banking services

15. In the past there have been several instances in which the OFT and the CC have looked into the provision of SME banking services. This includes the CC's 2002 market investigation into the supply of banking services by clearing banks to SMEs,[15] the OFT's 2008 report to the Secretary of the State on the anticipated acquisition by Lloyds TSB of HBOS[16] and the CMA's 2014 market study into SME banking.[17]

16. In its 2002 market investigation, the CC identified four separate product markets within the banking services provided to SMEs:

[14] CMA (2014), *Personal current accounts – market study update*, paragraphs 2, 2.64–2.65 & 6.10–6.11.
[15] CC (2002), *The supply of banking services by clearing banks to small and medium-sized enterprises*.
[16] OFT (2008), *Report to the Secretary of the State for business enterprise and regulatory reform on anticipated acquisition by Lloyds TSB of HBOS plc.*
[17] CMA and FCA market study (2014), *Banking services to small and medium-sized enterprises*.

(a) liquidity management services: BCAs, together with short-term bank deposit accounts and overdraft facilities provided in conjunction with current accounts;[18]

(b) general purpose business loans;

(c) other types of business loans: invoice discounting and factoring, hire purchases, leasing and other asset finance; and

(d) other business deposit accounts.

17. In its assessment, the CC considered the degree of substitutability between the above products. The CC found that from a demand-side perspective, short-term deposit accounts as well as short-term borrowing facilities (overdrafts) were used for different purposes by businesses than other (longer term) deposit accounts and business loans. The CC argued that BCAs together with short-term deposit accounts and overdrafts provided an integrated liquidity management service for SMEs for their everyday use. BCAs without an overdraft facility could also be regarded within the liquidity management services, as suppliers of such accounts imposed some competitive pressure, albeit not for those SMEs who wanted overdraft facilities.[19]

18. It also looked at the usage of PCAs by SMEs for business purposes. The CC acknowledged that possibly as much as 20% of SME could have used a PCA, however these were likely to be only the smallest SMEs, namely sole traders and possibly partnerships. There were also restrictions on the use by SMEs of personal accounts. The two categories of accounts were differentiated by their charging structures and the facilities available, users of BCAs having access to business loans and relationship mangers, unavailable to PCA users. Due to these differences, the two types of account were likely to appeal to different customer types, business using a PCA having no access to a range of other services, such as business loans. There was also little evidence of movement from BCAs to PCAs. For these reasons, the CC saw little scope for ready substitutability or price pressure between PCAs and BCAs, since in most cases business users could not switch to PCAs given the nature of their businesses and their banking requirements. Therefore, the CC considered that PCAs and BCAs were in distinct product markets.[20]

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[18] This excludes PCAs used by SMEs.
[19] CC (2002), *The supply of banking services by clearing banks to small and medium-sized enterprises*, paragraphs 2.31–2.40 & 2.46–2.47.
[20] ibid, paragraphs 2.17–2.27.

19. The CC also considered that loans should be split into two product markets, namely, general purpose business loans and other types of loans and gave the following reasons: different types of loans were used to address different business needs, had different characteristics and charging structures, moreover, general purpose business loans did not necessarily require a collateral, while asset finance and hire purchase were used for the purchase of specific assets, which they were then tied to. This had further implications for differences in terms and conditions across the various types of loans and led differences on the supply-side.[21]

20. With regard to relevant geographic markets, the CC did not find it necessary to define local markets. Despite recognising the importance of access to local branches and relationship managers, it noted that there were no major price differences between local regions in England and Wales, the role of local relationship managers was limited, the coverage of the main charges and services was national, adjacent areas competed with each other, there was no evidence of suppliers exploiting the lower degree of choice available to their SME customers, and four of the larger clearing banks were present in both England and Wales.

21. The CC considered that there were likely to be very few localities in Scotland where SMEs were likely to use branches or relationship managers in England and Wales, or vice versa, nor it was considered to be possible in NI because of the sea barrier. In addition, it noted that there was a preference for Scottish and Northern Irish banks in Scotland and NI respectively, and observed considerable differences between banks' market shares in these regions, ie the vast majority of services being supplied by Scottish- or Northern Irish-based banks.

22. The CC therefore regarded England and Wales, Scotland and NI as three separate geographic markets for liquidity management services and for general purpose business loans. The markets for other types of loans and other deposit accounts, where the local element was found to be less important, were found to be UK-wide.[22]

23. In its report on the Lloyds/HBOS merger, the OFT used the market definition established by the CC; however, due to lack of data and time available, it considered the provision of banking services to SMEs as a whole, which at the time was not disputed by any of the parties. In terms of relevant geographic markets, the OFT viewed England and Wales, Scotland and NI as

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[21] ibid, paragraphs 2.42–2.45.
[22] ibid, paragraphs 2.31–2.61.

separate markets, but, for completeness, it also considered the impact of the merger on GB[23] as a whole.[24]

24. Finally, CMA's 2014 market study into SME banking services also did not conduct their own assessment of relevant markets. The relevant product and geographic market definitions were based on CC's 2002 market investigation, with focus on liquidity management services (predominantly BCAs) and business loans.[25]

[23] UK-wide assessment was not necessary as Lloyds did not operate in NI.
[24] OFT (2008), *Report to the Secretary of the State for business enterprise and regulatory reform on anticipated acquisition by Lloyds TSB of HBOS plc*, paragraphs 142–148.
[25] CMA and FCA (2014), *Banking services to small and medium-sized enterprises*, paragraphs 4.8–4.11.

Appendix 4.2: Alternative payment providers

Background

1. This appendix provides further information on the services offered by non-traditional, digital market participants in the payments sector such as PayPal, Amazon, Google and Apple (alternative payment providers).

Relevant services

2. Table 1 below provides a summary of the relevant services offered by each of PayPal, Amazon, Google and Apple as of October 2015.[1] The final column also includes, for purposes of comparison, the relevant services also offered by a UK retail bank. A brief overview of each product dimension is provided in the sections that follow.

[1] In May 2016, Google also introduced Android Pay. This links an Android Phone to a debit/credit card of participating banks and credit card providers. It is accepted anywhere that can use contactless payments and is also available to use in some Android Apps.

Table 1: Summary of relevant services offered by digital payment providers (and a UK retail bank for comparison)

Product dimension	*PayPal*	*Amazon Payments*	*Google Wallet*	*Apple Pay*	*Barclays*
Digital wallet					
Linked to debit/credit cards	Yes	Yes	Yes	Yes	No
Linked to bank accounts	Yes	Yes	Yes	No	No
Payments services					
Online purchases	Yes	Yes	Yes	Yes	Yes
High street purchases	At participating retailers using smartphone or all retailers using PayPal Access card	No	At participating retailers using smartphone or all retailers using Google Wallet debit card†	At participating retailers using iPhone 6	Yes
Direct debits and standing orders*	No	No	No	No	Yes
ATM cash withdrawal	Yes, using PayPal Access card	No	Yes, using Google Wallet debit card†	No	Yes
Transfers between individuals	Yes	No	Yes	No	Yes – between bank accounts and on smartphones using Pingit and/or Paym
Receiving salaries or other similar payments into the account*	No	No	No	No	Yes
Balance holding	Yes	Yes	Yes	No	Yes
Credit available					
Personal credit	Credit limit available subject to credit check	No	No	No	Yes – through credit cards or personal loans
Business credit	Cash advance against future PayPal sales income (by invitation only based on PayPal transaction history)	Term loans to Amazon Market Place merchants (currently offered by invitation only)			Yes – through SME lending products.

Source: CMA analysis.
*We have not seen evidence of PayPal, Amazon Payments, Google Wallet and Apple Pay providing these services, however there are no legal restrictions that prevent them from doing so.
†Operations using Google Wallet debit card are currently available in the USA only.

Digital wallet

3. A digital wallet is a service that facilitates the storage of payment (and possibly other) credentials and enables users to make payments, either online or via a mobile device. It can take a number of forms, encompassing different technologies, channels and providers. Digital wallets are generally split into two broad categories:

   (a) Online digital wallets allow customers to store the payment details of one or more cards online for use in repeat purchases. The main advantage for users of online digital wallets is that they do not have to input their bank details each time they make a transaction on the internet, potentially providing benefits in terms of convenience and security. They first

appeared in the late 1990s, with PayPal and eBay, and are now common on websites such as Amazon. PayPal now provides a variety of services including online payment services, mobile payment services, account services, deferred payment systems, money (including cheques) transfer services into PayPal accounts and in-store payment systems.

(b) Mobile digital wallets allow customers to make in-store payments with their mobile device. There are different models of payment with a mobile device, including cloud-based technology, QR code scanning and the use of Near Field Communication (NFC)[2] technology to transmit credentials to point-of-sale devices. The majority of mobile digital wallets currently available worldwide are provided by technology companies. In contrast, card providers, such as Visa and MasterCard, are yet to offer mobile based wallets that can be used in stores, and the services offered by banks are more limited in their scope with money transfers between individuals being the core service of these applications. In July 2015, Apple introduced Apple Pay to the UK market. Apple Pay allows iPhone 6 owners to use their smartphone (or an Apple Watch) to make payments at NFC-equipped terminals. As of June 2015, 19 high street stores and all of the major UK banks had signed up to Apple Pay.[3] In May 2016, Google launched a similar service for Android phones called Android Pay.

4. It may also be useful to distinguish those wallets that currently only allow for the aggregation of debit and credit cards and those that can also be linked to bank accounts. For instance, Apple Pay does not currently have a functionality to link directly a bank account, and are only linked to a debit or credit card.

5. Although online digital wallets are relatively established, adoption remains relatively low, and credit and debit cards still account for significantly larger proportions of online payments. Mobile digital wallets are less established but the UK's low level of adoption is in line with several other European and North American countries. It appears that concerns about security and their ability to provide a more convenient payment experience than, for example, credit or debit cards are a key drivers of the limited adoption of digital wallets to date.

[2] NFC technology enables two-way interaction through radio communication between electronic devices, allowing for contactless payment with a single touch, or at distances of less than four centimetres. The technology can also be used for accessing digital content and connecting electronic devices, though for making contactless payments it can be built into mobile phones, debit or credit cards, or stickers amongst other things. See: Near Field Communication Forum.

[3] Deloitte innovation report, Section 4.

Payment services

6. While digital wallets can be used fairly extensively to make purchases online, the purchase of goods in bricks-and-mortar shops (using a smartphone or other smart device) is currently limited to selected participating retailers/devices.[4] Notable exceptions are PayPal and Google customers who have applied for and been issued with a PayPal Access Card[5] and Google Wallet debit card,[6] respectively. These allow the users to make ATM cash withdrawals and payments at all retailers that accept MasterCard.

7. At present, payment services do not seem to be replacing established payment providers or platforms, such as Visa or MasterCard, but rather act as an additional intermediary to facilitate the transaction. Deloitte's report on innovation in retail banking[7] provides an overview of different models of payment systems adopted by alternative payment providers.

Balance holding

8. PayPal, Amazon and Google allow users to hold balances in their digital wallets (in contrast to Apple Pay, which only allows users to link their debit/credit cards). While this balance holding feature resembles a current account, it is technically an e-money account[8] rather than a bank deposit.

9. Electronic money issuers are subject to the Electronic Money Regulations,[9] which allow them to provide customers with an electronic balance, accept funds from other accounts on behalf of customers, and make payments from their customers to third parties. Although e-money balances are not protected by the Financial Services Compensation Scheme, the regulations require issuers to safeguard customers' funds either by storing them at an authorised credit institution or investing them in safe assets such as government bonds.

Transfer of funds

10. Users of PayPal and Google Wallet accounts are able to transfer money freely to other individuals and on their smartphones, similar to the Pingit service offered by Barclays and Pay Your Contacts service by RBSG. As of October 2015, this service is not offered by Apple Pay, and only business

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[4] The use of Apple Pay and Android Pay in physical locations is currently limited to certain smartphones and to shops that accept contactless payments.
[5] Note that the PayPal Access card is technically an e-money, rather than debit, card.
[6] Not available in the UK.
[7] Deloitte innovation report, pp24–27.
[8] With the exception of PayPal, which is an authorised credit institution licensed under Luxembourg law.
[9] Electronic Money Regulations (2011).

account holders can receive money through Amazon Payments (subject to a transaction fee).

11. Paym is a service developed by the UK Payments Council that allows registered users to transfer money (via the existing LINK and Faster Payments Service (FPS) infrastructure and their bank's smartphone app) using only the registered recipient's mobile phone number. The service is supported by the following participating banks: Barclays, Clydesdale, LBG, Danske, HSBCG, Nationwide, RBSG, Santander and TSB.[10]

12. For the customer to be able to receive salary or similar payments into the e-money account or set up direct debits and standing orders, the e-money provider needs to have access to a bank account number, most commonly in International Bank Account Number (IBAN)[11] format, which allows the accounts to be identified in the transaction system. Access to a bank account number can be obtained indirectly via a sponsor bank. However, although there are no legal restrictions for e-money providers to access a bank account number, we have not seen evidence that it is commonly done in practice. In fact, only a few providers and none of the established ones seem to have access to a bank account number (as of October 2015).

Credit

13. As of October 2015, PayPal is the only payment service to offer personal credit (subject to status) in the form of a revolving credit line with a rate of 19.99% APR.[12]

14. PayPal also offers business credit in the form of a cash advance against future PayPal sales income. Eligibility is assessed based on PayPal transaction history and no external credit check is required. However, the service is only available by invitation to existing PayPal business users (as of October 2015).

15. In July 2015, Amazon started rolling out its Amazon Lending service to the UK,[13] through which fixed term loans are offered to Amazon Marketplace merchants based on their Marketplace sales history. While the loan principal is sent to the businesses' bank accounts, the repayments are collected from

[10] See Paym.co.uk.
[11] International Bank Account Number (IBAN) is an internationally agreed system providing a means to identify bank accounts across national borders. IBAN is the preferred system in pan-European transaction services.
[12] PayPal Credit, Special Financing Options.
[13] See, for example: Reuters (June 2015), Exclusive: Amazon looks to offer loans to sellers in China, seven other countries.

their Marketplace accounts. As of October 2015, the loans are only available by invitation to existing Marketplace sellers.

Main findings

16. We have conducted a review of the publically available literature on the competitive threat posed by new digital entrants.[14] An overview of the key themes identified in the literature (listed in Annex A) is provided below and Annex B contains a more detailed summary of the relevant analyses. We have also examined evidence from banks and whether it indicates that digital wallet providers are a competitive constraint to banks.

Competitive position of digital entrants

17. Digital new entrants are expected to utilise their expertise in IT and online transactions to challenge in the payment services market and threaten the interchange fee revenue source of retail banks.

18. New entrants such as PayPal and Google are not expected to establish themselves as fully-fledged deposit holding institutions. Instead, those with an existing online presence would be seeking to use payment services as a means to increase the breadth of their service offering and increase the loyalty of existing customers. In fact, Google's digital wallet service is being offered in partnership with the card issuers.

19. Nevertheless, there remain additional risks to banks' deposit-related revenue, with mobile wallets having the potential to diminish the relationship between customers and card issuer, thereby reducing brand attachment and increasing the potential for account switching. Widespread use of digital wallet applications will also impact banks' plans to leverage transaction data in the case of digital wallet solutions in which merchant-level transaction data is no longer transmitted to card issuers.

Advantages of existing banks

20. It is suggested that traditional banks enjoy a competitive advantage from their already large customer base, track record in security and data protection, and customer trust. Furthermore, research suggests a physical branch presence, while declining in importance, is still an important factor for customers. Nevertheless, consumer research also suggests a growing willingness of customers to consider alternative providers of banking services, particularly

[14] It should be noted that the material surveyed was mainly comprised of market reports/think-pieces by management consultancies, and the corresponding caveats apply.

where these are established brands providing other online services (such as PayPal, Google and Amazon).

21. The regulation of payment services providers, which are technically e-money issuers, may give a competitive advantage on traditional banks. Consumers may perceive a difference in the security of balances held in accounts between traditional banks and e-money institutions (because the latter is not covered by the Financial Services Compensation Scheme). However, e-money regulations do require balances held in customers' accounts to be separately stored in a safe asset or authorised credit institution, and are protected from the claims of other creditors should an alternative provider find itself in financial distress. In practice, therefore, customers are unlikely to incur substantial losses.

22. Access to BoE settlement accounts (which are only available to authorised credit institutions) has also been cited as a potential barrier in denying e-money issuers access to risk-free accounts and requiring them to deposit balances with banks.[15] However, it is noted that the e-money issuers also have the option of investing the balances in a safe asset such as a government bond.

23. Similarly, the status of e-money issuers means they are unable to directly access certain payment systems. As such, payment service providers must rely on access to Bacs and FPS systems indirectly through an indirect access provider. Section 9 and Appendix 9.4 set out in more detail some of the issues that have been identified in respect of indirect access to payment systems and the involvement of the PSR.

Impact on banks' revenue

24. Some analysts have derived forecasts of significant revenue loss, reduction in market share and margin compression by 2020 (although the evidence base and forecast methodology around this estimate is not clear). The main services likely to be affected by growth of alternative payment providers are PCAs, BCAs and merchant acquiring. We focus on PCAs and BCAs as merchant acquiring is outside our ToR.

25. Our analysis of PCA revenues (see Section 5 for more details) shows that the value of funds and overdraft charges still represent the largest sources of income from PCAs. Therefore, assuming that alternative providers do not challenge the deposit holding activities of banks, there is an implied upper bound to the revenues at risk (ie interchange fee income) which represented

[15] See Section 9 for more information on barriers to entry and expansion.

around 10% of aggregate 2014 PCA income in the UK, though it may be lower in future due to implementation of the Regulation on Interchange Fees.[16]

26. In regard to BCA revenue (see Section 7 and Appendix 7.2 for more details), our analysis suggests interchange fee revenue accounted for only 1% of 2014 revenue. Increasing use of digital wallets that link directly to bank accounts (such as PayPal) might also affect transactions revenue (16% of 2014 revenue excluding monthly fees) in the case of some SMEs.

27. Some more qualitative assessments of the competitive threat have concluded that the ability of banks to easily replicate the tech solutions offered by new entrants (citing the commoditisation of mobile banking as an example) means that while new entry will drive banks to innovate their service offering, significant impact on revenue is unlikely.

Evidence from banks

28. A number of banks said that the emergence of alternative digital providers would increasingly act as a competitive constraint on the behaviour of established banks.

29. For example, RBSG references the threat posed by players 'cherry-picking' specific parts of the traditional retail banking value chain, for example, digital wallets. It argues that firms such as Apple and Google possess a globally recognised brand and existing customer base, and can leverage the financial and consumer data that they already hold to employ a targeted marketing strategy at potential customers.[17]

30. Similarly, LBG cites the disruptive impact of alternative payment providers such as PayPal, Amazon and Google. In response, LBG has developed a strategy to continually improve its digital proposition, including mobile prompts and guidance, extension of payment options, contactless cards and channel migration. Danske noted that the establishment of the PSR, alternative payment systems such as PayPal and the implementation of the EU Payments Accounts Directive were positive developments in the competitiveness of the retail banking sector.[18]

31. Nevertheless, there appears to be limited evidence in banks' own documents that they view digital payments providers to be an immediate competitive threat. In particular, committee and strategy papers regarding the

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[16] The Regulation on Interchange Fees is discussed further in Section 3 and Appendix 3.1.
[17] RBSG's response to the issues statement, pp19–21.
[18] Danske's response to the issues statement, pp6–7.

development of mobile banking apps and participation in the Paym scheme appear to be focused on the extent to which rival banks are offering similar services, with no reference to impact of new entrants or alternative providers.

32. Exceptions to this observation are Barclays and RBSG, the only two established banks that have developed their own mobile payments facility (independently of Paym).

33. For example, [✂].

34. Barclays conservatively estimates that PayPal has approximately 1.2 million business customers in the UK, which is greater than its own customer base, and notes that it takes into account the activities of PayPal when considering its BCA and PCA strategy. Payments associated with PayPal accounts in terms of volumes remain small however and, as Barclays very roughly estimates, amount to [✂]% and [✂]% of total payments made in relation to BCAs and PCAs (including savings accounts) respectively. However, Barclays considers that PayPal has already achieved material scale. Finally, despite its claims about large interchange fee losses to PayPal, Barclays has not made any specific estimates of such losses.

35. In its board papers, Barclays cites the disruptive entry of new ‘niche technology-based players’ as a concern to its retail banking business [✂]. Nevertheless, Barclays’ PCA division appears to consider that most niche competitors have only a low to medium likelihood of achieving the required scale and, while the specific threat from PayPal and Apple is acknowledged, such providers will still rely on merchant acquirers such as Barclaycard[19] to process their debit/credit card transactions.

Summary

36. Review of the literature suggests that competition from alternative payment providers occurs in the payment services area of the retail banking offering. However, industry analysts do not consider it likely that entrants will seek to compete with the deposit holding activities of banks, or with lending facilities such as overdrafts and business loans. As such, alternative payments systems do not represent a full substitute to the products within our ToR: PCAs and SME banking (BCAs, business loans and business deposit accounts).

[19] As of October 2015 Barclaycard is the Merchant Acquirer for an alternative payments provided.

37. This is also supported by the findings in Deloitte's report on innovation,[20] which suggests that the development of digital wallets to date indicates that digital wallets do not represent a substitute for the PCAs or BCAs as a whole, because they require customers to have an underlying payment vehicle, which is often a current account. However, the report argues that notwithstanding that uptake remains relatively low, digital wallets, to some extent, do replicate individual aspects of full current account functionality, notably the facility to hold deposits and make payments, and the development of mobile banking applications and Paym functions has to some extent been driven by the rise of digital wallets.

38. The report also states, that in addition to providing competition to banks in the market for the provision of payment acceptance services, digital wallets appear to be allowing non-banks to provide lending services to SMEs that are traditionally provided by banks. For example, PayPal, through its Working Capital service, which was launched in 2013, provides cash in advance to businesses based on PayPal payments history. Since 2013, it has internationally provided more than $500 million in capital, and as at 31 December 2014, the outstanding balance of merchant loans was approximately $99 million.[21] Amazon Lending has been in operation in the USA since 2011, and has lent approximately $1 billion of capital to tens of thousands of small US traders.[22] It was launched in the UK on 1 July 2015.

39. Hence, while the potential of digital wallets to gain a share in the current account market may improve if they become accepted as standard forms of payment, it is too early to assess the extent to which they could develop to offer a competitive constraint on full PCA or BCA functionality.

40. The growth of alternative payments providers may affect some sources of PCA and BCA revenue. This includes banks' interchange fee income, which is shared when alternative payments providers are used. Use of alternative payment systems, such as PayPal, which link directly with users' bank accounts may also affect transactions revenue. Less readily tangible losses could also arise from a weakening of the customer relationship and inability to leverage transaction-level data if banks are ultimately disintermediated from their customers. However, we have not seen evidence that the growth of alternative payments providers has yet led to a material loss of income or other effects in PCA and SME banking markets.

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[20] See Deloitte innovation report, Sections 4 and 8.
[21] Deloitte innovation report, p74.
[22] Deloitte innovation report, p74.

41. While existing players in online markets have a large customer base and strong brand on which to launch digital payment services, banks have advantages in the form of access to payment networks and customer attitudes to security and trust. Banks have also already demonstrated an ability to replicate innovations made in mobile payments (eg the Pingit and Pay Your Contacts apps offered by Barclays and RBSG, respectively). Therefore, while the threat of entry and expansion by digital providers may have prompted technological improvements in the service offerings of banks, it is not clear that material changes to revenue will result.

Annex A: References

Accenture (2012): The Future of Payments: Convergence, Competition and Collaboration, Industry Insights, Accenture 2012.

Accenture (2014a): The Everyday Bank: A New Vision for a Digital Age, Accenture, 2014.

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Ernst & Young (2013): Smart Commerce: Banks Battle for Customers at the Frontline of Digital Retail, 2013.

Experian (2014): Banking Moving Forward, Experian, 2014.

Grant Thornton (2014): Can Challengers Banks disrupt the power of the banks? The Consumer View, 2014.

Positive Money (2014): On the provisional decision to make a MIR for personal current accounts and banking services to SMEs, Submission to CMA, August 2014.

Annex B: Overview of the recent literature on the emergence of alternative market entrants

Theme: Nature of competitive threat

Key message: Given their comparative advantage in IT and retail, alternative new entrants are most likely to challenge in the area of payment services rather than as fully-fledged credit institutions.

Source	*Evidence*
Positive Money (2014)	The payments and current accounts markets should be wide open for new entrants from experienced technology firms, given the IT intensive nature of the industry (ie they are essentially a technology service whereby databases store customers' account balances, a protocol allows payments to be validated, and a networks allow information about payments to be transferred between payment terminals, payment systems and banks).
Accenture (2012)	While the traditional card operations of established players in service areas such as debit, credit and prepaid payments are currently profitable and enjoy an apparently loyal customer base, the emergence of new payment options and experiences could rapidly erode banks' revenues in this area. Alternative online payment providers are primarily looking to invest to extend their existing brands' operation and loyalty of existing users. This makes them a particularly dangerous threat due to their existing capacity and product offerings, which allow them to aggressive target market share while relying on the ability to switch to a focus in profitability once they have achieved a critical mass of users and transactions, ie they can effectively 'buy' market share by 'giving away' the services that banks currently regard as revenue generators.
Grant Thornton (2014)	Banks are facing unexpected competitors in the retail payments market, and the facilitating approach adopted by regulators towards market entry for alternative payment services providers is expected to increase the competitive pressure.
Experian (2014)	The strategy of new entrants is not to become a bank (and take on the associated regulation and capital requirements), but to take a dominant share of the payments industry income.
Deloitte (2014)	Large alternative providers such as Google and Apple are not expected to pursue a strategy involving the setup of banking subsidiaries with a large balance sheet. This is primarily because this would necessitate a large capital base, which would fundamentally change their investor proposition. Furthermore, the intensity of regulatory scrutiny to which they would be subject to under such a strategy would limit their ability to innovate in their core business.
Ernst & Young (2014)	The business models of alternative payment providers are thought to be based on the derivation of revenues from customer transaction level-data, which can be used to cross-subsidise the payment services element of the product. Some financial services providers believe that 'the large, online, digital payment platforms are looking to drive revenue out of the data and are even willing to give away the payment revenue to make money on the promotion.'

Key message: As well as a loss of interchange fee income, new entry in this area this could fundamentally change the relationship between customers and banks and result in a loss on the ability to leverage customer transaction data.	
Experian (2014)	The predicted rapid adoption of mobile wallet services could replace the traditional money transmission account. While leveraging existing bank payments infrastructure, these new entrants may replace the bank as the core relationship owner with customers, relegating established banks to a role of back-end service provider. Banks could become a back-end service provider.
Deutsche Bank (2013)	The primary risk to banks is a loss of share in payments (disintermediation) and a loss of brand value with customers as 'bank cards disappear into e-wallets and are not seen again, with phones deciding which card to use in which store'. This brand diminution may manifest itself as a market share risk if mobile wallets enable customers to switch bank accounts without any required change in their gateway of interaction (ie smartphone SIM).
Ernst & Young (2013)	Established banks are concerned that new entrants and digital payments systems will disintermediate them from their customers and reduce the information they are able to collect on consumer purchasing patterns. In the absence of this transactional level purchasing data, the potential of banks to provide sales promotion services to retailers will be lost. The underlying risk is then that banks become relegated to that of utility providers of a financial service commodity.
Key message: There may also be knock on impacts on deposit holding related income.	
Ernst & Young (2013)	The relative cost to digital wallet providers of using card versus automated clearing house payment networks is expected to result in them incentivising consumers to fund purchases from their wallet balances rather than through debit/credit cards. This will not only have a direct impact on banks' interchange fee revenues but may also increase the incidence and size of balances held in digital wallets versus bank accounts, reducing both NCI revenue as well as banks' pool of available low-cost deposit funding.
Deloitte (2014)	There is a secondary risk to banks that the balances alternative payment providers hold will reduce the 'float' earned by banks on current account deposits.
Key message: However, the nature and magnitude of the competitive threat will vary by product offered.	
Accenture (2012)	'The competitive dynamics vary between different offerings, even from the same provider. For example, Google Checkout is an alternative service that competes with banks, whereas Google Wallet is a collaborative initiative with the "traditional" financial services sector.'

Theme: Barriers to entry

Key message: Scale of customer base and operations, expertise in security and data protection and a trusted position amongst consumers as custodians of deposits and personal data provide banks with a competitive advantage over new entrants.	
Accenture (2014a)	Banks enjoy the incumbency advantage of a relatively 'sticky' customer base and value experience in the field of payments, security compliance and finance, which are difficult to replicate. Crucially, consumers already

	trust banks' brands to guard their financial security, and are not yet ready to invest the same degree of trust in new online entrants. This is supported by evidence from a 2013 Accenture survey of 23,000 consumers across 23 countries, which found that 41% of customers trusted their bank most with their personal data (compared to 23% for Google and 12% and 8% for Apple and Amazon respectively).
Accenture (2014b)	More than 80% of customers considered it important that their bank has a long track record of financial performance (although this factor is less important for younger customer).
Grant Thornton (2014)	Survey evidence suggests the maintenance of a branch network is still important for customers. Findings from an online survey suggest that 48% of customers retain a preference to contact their bank via a branch for simple transactions. Furthermore, access via a branch remains customers' primary method of buying more complex products.
Deutsche Bank (2012)	Traditional financial institutions have considerable experience of security and data protection, which offers them a strategic competitive advantage in the mobile payment solution segment.
Deutsche Bank (2013)	Banks continue to enjoy customer confidence as a safe place for their deposits. Providers of payment services from other sectors, such as PayPal and Google, would need to achieve similar levels of customer confidence in challenge for market share. Overall, banks are expected to retain much of their market share due to the scale in storage and transfer of customer funds that they already enjoy along with their expertise in cyber security and the associated customer trust that this brings. They are also likely to be able to match emergent providers in innovation in transactions offering (eg mobile, contactless).

Key message: Regulation of e-money issuers may also act to limit the extent to which alternative payment providers can compete.

Positive Money (2014)	Significant and unnecessary barriers to entry exist in the form of the Bank of England only providing settlement accounts to entities that are authorised credit institutions. This prevents e-money issuers from depositing their customers' balances in a risk-free Bank of England account. Instead, they must either store the funds in a safe asset or at an authorised credit institution, thereby allowing the established banks to set fees that form the cost base for e-money issuers. Furthermore, access to the CHAPS, BACS, Faster Payments, and cheque and credit clearing networks is exclusive to Bank of England settlement account holders. This lack of access to the wider payment networks limits the nature of transactions e-money issuers can carry out (specifically, they cannot process a payment between a customer and a holder of an account at a different e-money issuer or bank). This thereby bestows a competitive advantage on the established payment providers. The lack of coverage of the Financial Services Compensation Scheme to e-money deposits also increases the perceived risk of holding balances with new entrants compared to established banks.

Positive Money (2014)	E-money issuers are prohibited from paying interest on customers' balances. This is likely to act as a disincentive to customers storing significant balances with alternative providers compared to established banks. Established banks, in providing other products, are able to subsidise their current accounts. In contrast, e-money issuers, in only offering payment services, have no opportunity to cross-subsidise – and must therefore earn revenues through transaction fees.

Key message: However, the importance of branch networks appears to be diminishing and alternative providers, with a growing track record in securely processing transactions, already enjoy large and willing customer bases.

Bain (2014)	The importance of classic barriers to entry enjoyed by banks, such as the personal relationships between branch managers and customers, scale economies in branch networks and a reputation for security are diminishing.
Accenture (2014b)	Evidence from the Accenture 2014 North America Consumer Digital Banking Survey suggests that 39% of 18- to 34-year-olds and 29% of 35- to 55-year-olds would consider switching to a bank with no branch locations.
Accenture (2014a)	There is also evidence of a willingness to consider alternative providers. A survey of 3,846 bank customers in North America found 46% of 18- to 34-year-olds and 34% of 35- to 54-year-olds consider themselves 'likely' or 'very likely' to bank with PayPal if it began offering banking services. Similar (but slightly lower percentages) were found for Google, Amazon and Apple.
	While many new entrants lack the scale to pose an immediate threat to banks, this could change quickly. For example, Square, the point-of-sale payment processing venture, has accumulated more than 4 million users since 2009.
Deutsche Bank (2013)	Many of the alternative market participants that already have a relatively loyal and regular clientele (numbering in the thousands of millions) representing all age cohorts are expanding rapidly and increasingly offering web-based financial solutions.
Grant Thornton (2013)	According to customer research, brands such as Google and Apple are perceived as 'user-friendly, convenient and reliable services'. Once new competitors manage to overcome trust issues and regulatory barriers, they will use technological innovation to satisfy new customer's demands and change what 'good looks like'.

Key message: And the legacy structure in which established banks are organised may inhibit their ability to respond quickly to the emerging threat posed by alternative providers.

Accenture (2012)	The payment capabilities of established banks are often spread across various product lines, which are themselves being run with discrete strategies. This fragmentation of the at-risk services across P&Ls may slow down banks' response to the rapid changes taking place in the market. For example, an increase in revenue from digital payment services may appear as a loss in interchange fee revenue for a different P&L silo. This lack of visibility may hinder the ability of banks to make pricing and investment judgments around payment services offerings, and discrete areas of the same bank may find themselves competing with each other for the same transactions. 'The likeliest winners from such internal conflicts are the internet-based "online payment provider" entrants and other non-bank players such as mobile operators.'

Theme: Expected impact on market share

Key message: In the absence of mitigating action by banks there is a significant threat to established banks' market shares.

Accenture (2014)	Accenture estimates that in the absence of pre-emptive action by banks, competition from digital players could erode as much as one-third of traditional retail bank revenues by 2020. This estimate was produced using scenario analysis of digital disruption across a number of revenue sources (including consumer and SME lending, payments service, current accounts). Market share erosion and margin compression was modelled using disruption case-studies.
Accenture (2014a)	The competitive threat posed by new entrants is most prominent in the area payments services, which have traditionally been a significant source of revenue for banks. While in Europe alternative payment providers currently hold a limited market share (1.5% in 2012), Accenture estimates that this is expected to rise to nearly 15% by 2020.
Accenture (2012)	The payments service market is not forecast to expand significantly. Therefore, the growing number of retail payment services providers will be competing for the same volume of transactions.

Key message: However, evidence from the UK implies an upper bound on the segment of the value chain at risk, and while new entry is expected to force innovation by banks, the risk to overall market share is limited.

CMA (2014)	Interchange fees were the joint lowest source of total revenues for PCAs in 2013 (12%), accounting for approximately £1 billion in total PCA revenue, compared to £3.2 billion for net credit interest, £3 billion for overdraft revenues and £1 billion for account fees.
Deutsche Bank (2013)	While a stable interchange fee revenue contributed to the long-term viability of the banks' business, retaining deposits is more relevant. Deposits account for 60% of European banks' funding, and financing through deposits will be of increased importance due to the more stringent liquidity requirements placed on banks by Basel III.
Deutsche Bank (2013)	Banks are expected to retain market shares in key elements of the value chain. A 'killer app' is unlikely to emerge that banks are not able to copy and release themselves, and the speed in which mobile payments have already become commoditised is a case in point. 'Combined with the very significant upside to returns when interest rates rise, we think that retail banking remains a generally attractive investment prospect.'

Appendix 4.3: Relevant geographic markets

Background

1. In this appendix we set out our analysis with respect to defining relevant geographic markets for PCAs and SME banking services.

2. We have identified the following relevant product markets:

   (a) PCAs;

   (b) BCAs;

   (c) business loans; and

   (d) business deposit accounts.[1]

3. Below we separately consider relevant geographic markets for PCAs and SME banking products. Previous approaches to defining geographic markets are summarised in Appendix 4.1.

4. Our guidelines state that geographic markets may be based on the location of suppliers and defined as an area covering a set of firms or outlets which compete closely because enough customers consider them to be substitutes.[2] Our ToR are limited to UK sterling bank accounts and we did not receive any evidence that the markets were wider than the UK. Below we consider whether geographic markets for PCAs and SME banking products are: (a) local; (b) regional (in the sense of each region within each nations) or national (ie whether England, NI, Scotland and Wales are separate markets); or UK-wide.

Relevant geographic markets for PCAs

Whether relevant geographic markets are local

5. Although the local aspect, mainly through the usage of local branches for customer acquisition and retention, remains important,[3] pricing, product offering, service levels and marketing activities are determined for each brand

[1] See Section 4.
[2] *CC3*, paragraph 145.
[3] For instance, GfK PCA consumer survey reported that local branch convenience was the third most important reason for PCA customers in choosing a bank. However, the reliance on local branches has been diminishing over the years – although the importance of local branches remains high, the usage of internet and mobile banking has been growing significantly. This is also in line with the expected growth of online-only banks, such as first direct, Smile and the expected entry by Atom. For more information on the importance of branches, see Section 9 and Appendix 9.4.

at a UK-wide level, regulatory requirements[4] do not differ materially across the UK and customers' needs and behaviour are broadly similar across different areas.

6. The majority of the banks told us that they did not think that consumer needs differed across geographic areas and noted that they applied harmonised policy and provided consistent offering across the geographic markets in which they were present. For instance, Barclays noted that, despite a few regional differences, the banks provided a consistent offering in terms of price and service levels across the UK. Barclays stated that it favoured a UK-wide market definition. It also noted that alternative service providers, such as Apple Pay, had launched their products at a UK-level, rather than focusing on different regions.[5]

7. Similarly, RBSG submitted that the market should be viewed, at its narrowest, as two separate markets for GB and NI. It stated that, with the partial exception of Ulster,[6] it generally applied a harmonised policy across the UK, did not make any distinction in product development and design across regions, and did not segment its customers by region. Despite different RBSG brand presence in different regions,[7] there were no differences in terms of pricing, products, [✂] across the UK. RBSG also noted that other banks, such as Santander, Nationwide and Handelsbanken, had all recently increased their Scottish customer base and that the new entrants into the Scottish market did not consider it necessary to adopt or retain Scotland-specific branding.[8]

8. TSB noted that there was some variation between different markets, especially in the sense which banks were the incumbents and which banks were the challengers, but did not think that in general the market and consumer behaviour differed between Scotland and England and Wales. It also noted that many of the banks were regionalised in the way they were constructed through mergers over time.

9. Similarly, Clydesdale argued that the fact that *(a)* it offered the same products and terms and conditions across GB; *(b)* there was no differentiation between different regions of the UK in terms of barriers to entry and expansion; and *(c)* the way in which customers utilised digital tools to engage with and access retail banking services, all supported the view that Scotland formed part of the

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[4] For more information on regulatory requirements, see Section 3 and Appendix 3.1.
[5] See Barclays' response to the updated issues statement, pp4–5; and Summary of hearing with Barclays on 9 June 2015, paragraph 55.
[6] [✂]
[7] NatWest in England and Wales, RBS in Scotland and Ulster in NI.
[8] See RBSG's response to the updated issues statement, p7.

same market as England and Wales. Clydesdale also stated that it believed that some banks might have made participation choices because of the size of the market and the availability of customers within certain regions. However, the market dynamics and the way that customers behaved were the same in both Scotland and England and Wales and any regional differences were historical, eg customers may often have chosen their banks based on where the branches were located.[9]

10. LBG also noted that pricing was national.[10] LBG agreed that it did not consider Scotland to be a separate market from England and Wales. In particular, it noted that there was strong competition across GB, with key parameters of competition and strategy, such as product characteristics and pricing, and certain elements of products, such as telephone and digital banking, being set and provided on a GB-wide basis. The impact of digital banking had further eroded any differences between the UK nations. In addition, historical differences in brands between Scotland and the rest of GB were being eroded, with the Lloyds TSB Scotland business being divested to TSB, Halifax expanding into Scotland, and the creation of Williams & Glyn.

11. Santander considered that the correct geographic market was UK-wide but recognised that there may be regional variations with regard to the relative strength of competitors.[11]

12. Similarly, HSBCG considered that there were differences between England and Wales versus Scotland, but did not provide a definite view whether these should be viewed as different markets or not. It noted that its operations in Scotland were smaller, but its PCA business had expanded. In addition, first direct operated on a national level and also had a large number of Scottish customers.

13. We have not received any evidence or submissions[12] from parties indicating that we needed to consider separate local, ie sub-national markets. On the contrary, the majority of the banks agreed that the market for PCAs was at least GB (meaning that NI was a separate geographic market) or even UK-wide. Accordingly, we find markets are national rather than regional. However,

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[9] See Clydesdale's response to the updated issues statement, p3.
[10] In the updated issues statement, we considered that Scotland, NI and England and Wales formed three separate geographic markets. We did not exclude the possibility that Scotland and England and Wales could be part of the same relevant geographic market.
[11] Santander's response to the updated issues statement, p5 and summary of hearing with Santander on 7 July 2015, paragraph 102.
[12] Parties' responses to the updated issues statement also did not suggest that we should consider separately competition in each of a large number of local markets.

we consider the aspects relevant to local competition as part of our competitive assessment.

Whether relevant geographic markets are regional or UK-wide

14. We now turn to the assessment of which separate national markets we should identify. We were considered whether there were three national geographic markets, namely England and Wales, Scotland and NI, or two national geographic markets, combining England, Wales and Scotland into a single GB-wide market with a separate market for NI.

15. As seen above, no party suggested that geographic markets should be narrower than England, Wales, Scotland and NI. The Welsh government considered Wales was a separate market from England, but no other party expressed this view. RBSG, Clydesdale, LBG and TSB suggested that markets should be GB-wide and Barclays, Santander, Danske, AIB and BoI expressed a preference for a UK-wide market.

16. As already mentioned, each bank brand sets the main competitive variables, including product offering, pricing, service levels and marketing activities on a UK-wide basis. However, the fact that each bank has a UK-wide offering does not necessarily mean the market is UK-wide if customers tend to use different banks in different parts of the UK, as banks in those areas would only compete with each other. We have looked at the extent to which this is the case for the devolved nations and the English regions by looking at differences between regions/devolved nations' individual bank market shares.

17. The Welsh government told us it considered that there was a separate Welsh geographic market. The Welsh government said that it considered devolution had changed the economic and political landscape considerably since the CC's conclusions from 2002 and that Wales should be regarded as a distinct geographic market to England to enable the competition issues to be explored via specific analysis and data. Pricing, product offering, service levels, marketing activities and regulatory requirements do not differ between England and Wales. Our analysis has shown that market shares in Wales were broadly similar to market shares for the whole of GB, as was also the case for the English regions (see Table 1 below). We therefore consider there is a single geographic market covering England and Wales.

18. Most parties that expressed a view considered there was a single geographic market covering the whole of GB. We found some differences in market shares between Scotland and the rest of GB. In Scotland, most PCAs were supplied in 2015 by RBSG (through the RBS brand), LBG (through the BoS and Halifax brands), TSB, Clydesdale and Santander. In England and Wales

the five biggest banking groups in 2015 were LBG (through the Lloyds and Halifax brands), Barclays, RBSG (through the NatWest brand), HSBCG and Santander. In addition, the NatWest and RBS brands of RBSG have almost identical product offerings across both brands, and apply the same criteria and charging structures. The Lloyds and BoS brands of LBG also have very similar products.[13] Hence, our analysis has shown that there is some, although limited, difference between Scotland and the rest of GB. However, as mentioned before, the majority of banks view GB as a single market. In addition competition in both Scotland and England and Wales occurs, to a large extent, between the same banks because the vast majority of PCAs in both regions are provided by the same banking groups and each offers similar products in all three nations subject to the same regulatory requirements and similar customer characteristics. Accordingly, we do not consider that there is enough difference between Scotland and England and Wales to consider them as separate geographic markets.

19. However, the situation is different in NI, where 61% of main PCAs were supplied in 2015 by RBSG (through the Ulster brand), Danske, BoI, and AIB, whereas four of the larger GB-based banks (LBG, Barclays, HSBCG and Santander) had only 31% of the market combined. While Ulster is owned by RBSG, its product offering and management is currently separate from NatWest and RBS.[14] Of the larger GB-based brands, only Santander, Halifax and Nationwide also have a relatively large market share in NI.

20. We have also looked at geographical differences between regions/devolved nations quantitatively. For each area, we have calculated how different market shares in that area are from those in the country as a whole – this is measured by the sum across all banks of the absolute difference between each bank's area market share and its country-wide market share. We then calculate a score between 0 and 100 to indicate the extent of difference between market shares in the area and country-wide market shares.[15] If area market shares are the same as country-wide market shares, an area is

[13] Halifax has a different product offering and is marketed as a 'challenger' brand in England, Wales and Scotland. Its market shares across these markets do not vary as much as for other brands.
[14] [✂]
[15] The score is calculated as the sum of the absolute differences between each bank's market shares in the area and its market shares in the country as a whole (GB or UK) divided by the maximum possible value for this sum. The maximum possible value for this sum is $(200 - 2S_j)\%$ where S_j is share of country total represented by customers in area j. To illustrate that $(200 - 2S_j)\%$ is the maximum score – suppose customers in the area account for 10% of the total in the country; the maximum score occurs when banks in a particular area are completely different from those in the rest of the country – if so, they would have 100% market share in that area and 10% in the country as a whole, while all other banks would have 90% market share in the country as a whole and 0% in the area. The sum of the differences between market shares in the area and market shares in the country as a whole is {(100-10) + (90-0) = 180}%.

assigned a score of 0, and if the banks in the area are entirely different from those in the rest of the country, the area is assigned a score of 100.

21. Table 1 shows that bank shares in the regions of England and Wales are similar to country-wide bank shares. There is more difference in Scotland, but the score is nevertheless less than half the maximum. The difference is significantly larger in NI, being around two-thirds of the maximum.

Table 1: Differences between regional/national and UK/GB PCA market shares: score* (where score of 0 indicates no difference and 100 indicates maximum difference)

Region/devolved nation	*Difference from*	
	UK	*GB*
East Midlands	6.0	5.1
East of England	11.2	10.6
London	16.0	15.4
North East	16.6	15.6
North West	13.4	12.9
NI	67.2	
Scotland	40.9	39.9
South East	9.0	7.7
South West	10.1	8.9
Wales	11.1	10.0
West Midlands	10.8	9.5
Yorkshire and the Humber	19.0	18.6

Source: Responses to PCA aggregate data request (2014 data).
*The scores range from 0 (when market shares are identical) to 100 (when the suppliers in the relevant area are entirely different from the suppliers in the rest of the country). The scores have been calculated using the following formula:

$$\sum_{i=1}^{N} \frac{|S_{L_i} - S_{C_i}|}{200 - 2 * S_j},$$

Where i represents an individual bank and N is the total number of banks, S_L – market share in the area, S_c – market share in the whole country (GB or UK) and S_j is share of area j in the whole market (GB or UK).
Note: Market shares were calculated at brand level except that shares of: *(a)* RBS and NatWest brands of RBSG; and *(b)* Lloyds and BoS brands of LBG were combined as these brands have similar strategies and product offerings.

22. The majority of the parties submitted that NI was a separate geographic market from the rest of the UK, although several banks, including AIB, Danske, BoI, Santander and Barclays suggested that there was a single UK-wide market. Danske, for instance, pointed to a number of PCA and BCA providers predominantly based in GB that had increased their presence in NI (Santander, Halifax and HSBC), and to banks which had previously focused on NI either expanding their activities in GB (BoI) or being more closely integrated into UK parents (Ulster).[16]

23. AIB noted that market factors and the structure of the sector in NI comprised certain regional characteristics (similarly to other regions in the UK), but remained of the view that NI should be part of the UK market for PCAs, as the customer needs were the same across the marketplace. It also referred to new UK providers, such as Santander, Halifax, Tesco and Marks & Spencer,

[16] Danske's response to the updated issues statement, pp1–2 and response the issues statement, p5.

which were entering the market in NI. However, it noted that certain changes in GB, such as divestment of TSB, did not have an effect on NI.[17]

24. BoI noted that the core issues that were being investigated had many common features across the UK as a whole and favoured a UK-wide market.[18]

25. However, banks' market shares in NI remain quite different to those in GB (see paragraph 21). Although we have seen evidence that some GB-based banks, in particular Santander and LBG (through its Halifax brand), have been able to increase their market share in NI, we have not seen the reverse, namely Irish banks trying to expand their presence in GB, which is currently very small. We take this as evidence that competition in NI is to a large extent between different banks than competition in GB, and therefore we consider there is at least the potential for competitive conditions to differ between GB and NI.

26. For these reasons, our view is that the competitive situation in NI is different from the rest of the UK, and we therefore regard NI and GB as separate geographic markets for the purpose of our analysis. We recognise that some aspects of the two geographical markets are similar, and we do not consider that the distinction between NI and GB affects our competitive analysis, which remains relevant for both geographic markets.

27. This is also consistent with the previous findings – in the CC's 2007 Market Investigation into PCA banking services in NI, NI was found to constitute a separate relevant geographic market, due to the lack of close demand- or supply-side substitution between NI and GB.[19]

Relevant geographic market(s) for SME banking

Whether relevant geographic markets are local

28. As for PCAs, the local aspect, mainly through the usage of local branches for customer acquisition and retention, remains important.[20] However, as mentioned earlier in paragraphs 5 to 12, our analysis has shown that banking brands' policies are largely centralised, with pricing, product offering, service levels and marketing activities being determined at a UK-wide level.

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[17] AIB responses to the issues statement and Summary of hearing with AIB on 16 July 2015, paragraphs 56–60.
[18] BoI's response to the issues statement, p2.
[19] CC (2007), *Personal current account banking services in Northern Ireland market investigation*, paragraphs 3.31–3.37. See Appendix 4.1 for more information on previous approaches to market definition.
[20] For instance, Charterhouse BBS reported that local branch convenience was the second most important reason for SMEs in choosing whom to bank with. For more information on the importance of branches, see Section 9 and Appendix 9.4.

Regulatory requirements and customers' needs also do not differ materially across the UK.

29. We have not received any evidence or submissions[21] from parties indicating that we needed to consider separate local, ie sub-national, markets. Banks agreed that the geographic markets for SME banking were at least GB-wide. Accordingly, as in the case of PCAs, we find that SME banking markets are national rather than local. However, we consider the aspects relevant to local competition as part of our competitive assessment.

30. This is also in line with previous findings in the CC's 2002 SME market inquiry. Despite recognising the importance of closeness to a bank and access to a relationship manager, the CC found it unnecessary to define relevant geographic markets as local, as: *(a)* there were no major price differences between regions; *(b)* the neighbouring areas were competing with each other and the suppliers in more concentrated areas did not tend to exploit the lower degree of choice available to their consumers; and *(c)* the largest clearing banks were represented in almost all parts of local markets. In any case, there were no significant differences in the market features between regions, and therefore joint analysis of different regions was possible.[22]

Whether relevant geographic markets are regional or UK-wide

31. Previous inquiries have tended to focus on three separate geographical areas: England and Wales, Scotland and NI.

32. As indicated above, banks were generally of the view that there were three geographical markets in SME banking (England and Wales, Scotland and NI), with only a few banks, including Danske, AIB, BoI, Santander and Barclays suggesting that the markets for SME banking products should be viewed as UK-wide.

33. As already noted, each bank brand sets the main competitive variables, including product offering, pricing, service levels and marketing activities for SME banking products on a UK-wide basis. However, the fact that each bank has a UK-wide offering does not necessarily mean the market is UK-wide if customers tend to use different banks in different parts of the UK, as banks in those areas would only compete with each other. We have looked at the extent to which this is the case for the devolved nations and the English

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[21] Parties' responses to the updated issues statement also did not suggest that we should consider separately competition in each of a large number of local markets.
[22] CC (2002), *The Supply of banking services by clearing banks to small and medium-sized enterprises*, paragraphs 2.52–2.54. See Appendix 4.1 for more information on previous approaches to market definition.

regions by looking at differences between regions'/devolved nations' individual bank market shares.

34. As already indicated, the Welsh government submitted that the economic and political landscape has changed considerably since 1999 and that Wales is a distinct geographic market to England. In the Welsh roundtable discussion, the Welsh government reiterated that it was essential to include separate data and analysis from a Welsh perspective, to properly understand the issues facing businesses in Wales. It expressed a concern that Wales is a location, which is seen as remote from many of the centralised decision-making panels that determine which businesses get supported.[23]

35. However, as seen in Table 2 below, there are limited differences between bank shares within the regions of England and Wales, the whole of GB, and the UK. Additionally, other parameters, including pricing, product offering, marketing activities and regulatory requirements, do not differentiate between the two nations. Accordingly, for the purposes or our analysis, we consider that there is a single geographic market covering both England and Wales.

36. In Scotland, the largest share of BCAs were held by LBG (through the BoS brand), RBSG (through the RBS brand) and Clydesdale. However, this was relatively similar to England and Wales, where LBG, RBSG (through NatWest), HSBCG and Barclays held the largest share. While LBG and RBSG operate via different brands in Scotland compared to England and Wales, the NatWest and RBS brands of RBSG have almost identical product offerings across both brands, and apply similar criteria and charging structures, as is also the case for the Lloyds and BoS brands of LBG.[24] Hence, although there is some difference between Scotland and the rest of GB, the competition in both markets, by and large, takes place between the same market players. Thus, on balance, we do not consider that there is enough difference between Scotland and England and Wales to consider the two as separate geographic markets.

37. By contrast, in NI, the largest share of the market for BCAs was held by different brands (including Ulster Bank which has a distinctive different offering from the rest of RBSG).[25] In 2015 86% of the market for BCAs was shared between RBSG (through the Ulster brand), Danske, BoI and AIB, whereas four of the larger GB-based banks (HSBCG, Barclays LBG and Santander) collectively had less than 14% of the market for BCAs. Of the

[23] Summary of roundtable discussion in Wales on 29 June 2015.
[24] The similarities seem somewhat less in the case of the LBG brands than the RBSG brands.
[25] [✂]

larger GB-based banks, only Santander had a relatively large market share of [5–10]%.[26]

38. We have also looked at geographic differences in BCA shares between regions/devolved nations quantitatively – the analysis is similar to that for PCAs. Table 2 shows that BCA bank shares in the regions of England and Wales are similar to country-wide bank shares. There is more difference in Scotland, but the score is nevertheless less than half the maximum. The difference is very large for NI at nearly 90% of the maximum.

Table 2: Differences between regional/national and UK/GB BCA market shares: score* (where score of 0 indicates no difference and 100 indicates maximum difference)

Region/devolved nation	*Difference from*	
	UK	*GB*
East Midlands	5.6	4.7
East of England	12.1	11.5
London	13.8	12.5
North East	14.7	13.1
North West	13.5	12.5
NI	86.8	
Scotland	41.2	39.5
South East	7.5	4.8
South West	11.8	10.4
Wales	14.7	12.9
West Midlands	10.8	8.9
Yorkshire and the Humber	14.4	13.6

Source: Responses to SME aggregate data request (2014 data).
*The scores range from 0 (when market shares are identical) to 100 (when the suppliers in the relevant area are entirely different from the suppliers in the rest of the country). The scores have been calculated using the following formula:

$$\sum_{i=1}^{N} \frac{|S_{L_i} - S_{C_i}|}{200 - 2 * S_j},$$

Where i represents an individual bank and N is the total number of banks, S_L – market share in the area, S_c – market share in the whole country (GB or UK) and S_j is share of area j in the whole market (GB or UK).
Note: Market shares were calculated at brand level except that shares of (a) RBS and NatWest brands of RBSG; and (a) Lloyds and BoS brands of LBG were combined as these brands have similar strategies and product offerings.

39. Only few banks, including AIB, Danske, BoI, Santander and Barclays argued for an all-inclusive UK-wide market, whereas the majority of the banks agreed that NI was a separate geographic market. As in the case of PCAs, competition in NI is to a large extent between different banks than competition in GB, and therefore we consider there is at least the potential for competitive conditions to differ between the two territories.

40. The analysis discussed above relates to market for BCAs only. We do not have sufficient data to carry out a similar analysis for business loans and business deposit accounts. We acknowledge there is more uncertainty, in particular about whether NI is a separate market from GB, for business loans and business deposit accounts than for BCAs as the range of providers is wider for business loans and business deposit accounts that for BCAs. However, we expect analysis for these markets to show broadly similar results

[26] BCA market share figures based on share of active BCAs.

to that for BCAs, as SMEs tend to take out these products with their BCA supplier.[27]

41. Accordingly, our view is that the competitive situation in NI remains different from the rest of the UK and, for the purposes of our analysis, we therefore consider that GB and NI are separate relevant geographic markets for SME banking products. We recognise that some aspects of the two geographical markets are similar, and we do not consider that the distinction between NI and GB affects our competitive analysis, which remains relevant for both geographic markets.

[27] For more details see Section 8. For instance, Charterhouse BBS indicated that of those SMEs that have an instant access savings account, around 95% hold it with their main bank, and of those that are using a term deposit account, around 82% hold it with their main bank. Similarly, of those SMEs that have a business loan, 93% hold it with their main bank.

Appendix 5.1: Profitability of PCA customers and products

Overview

1. In this appendix, we consider the profitability of PCAs across different customers and products, and seek to address the following questions:

   (a) Are PCAs profitable when considered separately from the banks'[1] wider retail banking offerings?

   (b) Does the profitability of PCAs vary by customer usage (eg propensity to use overdraft facility) or customer type (eg whether the customer is a primary or main banking customer), and if so, how much do different customer groups contribute to the profitability of PCAs?

2. The purpose of this appendix is to understand how and to what extent banks assess the profitability of PCA customers and products, and not to conduct a detailed financial analysis of PCA customer and product profitability. Therefore, our assessment is based on financial data provided by the banks and generally reflects accounting (and not economic) profits.

3. The analysis is based on data submitted by banks in 2014, such that the figures for 2015 and 2016 presented here are forecasts.

Are PCAs profitable when considered separately from retail banking?

4. We do not have a comprehensive view of the profitability of PCAs across all of the banks, as they take different approaches in assessing the performance of PCAs, and they do not all assess the profitability of PCAs in the normal course of business:

   (a) Barclays told us that it used a number of financial metrics to assess the profitability and financial performance of its PCA business, including profit before tax (PBT); cost to income ratio; return on equity (RoE); and return on risk weighted assets (RoRWA), and that these financial metrics were complemented by non-financial metrics, such as net promotor score and engagement score, to give a more rounded view of PCA performance.

   (b) HSBCG told us that it did not [✂], but it did monitor the performance of all PCA products through a number of financial metrics (eg fee income; average balance; debit card income; stock growth; and net margins) and

[1] We focus our analysis on the PCA banking activities of the five largest banks in GB (ie Barclays, HSBCG, LBG, RBSG and Santander), as together they had a combined market share (by number of main PCAs) of over [✂]% in 2014 and 2015.

non-financial metrics (eg new business volumes; attrition volumes; average number of products per customer; and dormant accounts).

(c) LBG told us that it used a variety of measures to monitor the financial and operational performance of each of its personal banking products, and these measures included PBT, which was reported to and reviewed by senior management on a monthly basis.

(d) RBSG told us that [✂].

(e) Santander told us that [✂].

5. The banks’ assessments of the profitability of their PCA propositions in recent years (and in future years where available) are presented in Annex A. The information provided by the banks in Annex A suggests that, over the course of a five year period, for [✂], PCAs are profitable, and for [✂], personal banking – including the provision of PCAs – is profitable.

Does the profitability of PCAs vary by customer usage or customer type, and if so, how much do different customer groups contribute to the profitability of PCAs?

6. We do not have a comprehensive view of the profitability of different PCA customers across all of the banks, as they take different approaches in assessing the performance of customers, and they do not all assess the profitability of PCA customers in the normal course of business:

(a) Barclays told us that it had not consistently tracked customer profitability by segment in the normal course of business over the past five years. It said that, although it had undertaken a number of discrete analyses of customer segment profitability on an ad hoc basis, these analyses varied in their approach to customer segmentation cost allocation. Therefore, it was not possible to provide these discrete analyses over multiple time periods in a consistent format.

(b) HSBCG told us that [✂] and instead, it measured the full customer relationship value through two key elements: *(a)* [✂]; and *(b)* [✂].

(c) LBG told us that it did not measure personal banking customer level profitability in the usual course of business. One of the reasons for this was that costs relating to the provision of PCAs were largely common costs (with some fixed costs) and, therefore, it made more sense to look at the income different customers generated rather than customer profitability.

(d) RBSG told us that [✂].[2]

(e) Santander told us that [✂].

Customer usage

7. There are a number of ways in which the manner in which a customer uses their PCA impacts upon the returns that they generate for their bank:

(a) The level of credit balances held in PCAs are an important source of funding for the banks and a driver of net interest income.

(b) The volume and type of transactional activity undertaken by the customer relates directly to the income generated by that customer for their bank. The income generated by a customer for their bank is determined by their transactional method (eg electronic payments tend to incur a higher fee than cash and manual payments, although the banks incur higher processing costs) and channel usage (eg the cost to serve those customers who use branches is considerably higher than the cost to serve those customers who use digital or telephone banking).

(c) The income generated for the banks from overdraft fees and interest is a driver of the profitability of PCAs. The income generated by the banks from overdraft fees and interest appears to have declined in recent years. It is unclear as to the extent that this has been driven by a decline in overdraft usage and the changes made by a number of the banks to their overdraft propositions to increase the transparency of their charging structures (eg moving from interest charges to daily capped fees and the use of mobile text alerts to inform customers when they had entered into an unarranged overdraft, which would allow the customer to top-up their account before incurring overdraft fees and interest).

8. We present the evidence provided by the banks to demonstrate how these features impact upon PCA profitability in Annex B.

Customer type

9. The following characteristics of PCA customers impact upon the profits that they generate for their bank:

(a) The type of PCA held by the customer. The evidence provided by the banks suggests that:

[2] [✂]

(i) Packaged accounts tend to be the most profitable type of PCA, as they generally require a monthly fee for their use. This may also be because packaged accounts are more likely to be held by main banking customers who are active users of their account, and typically hold higher credit balances and other personal banking products.

(ii) Standard and reward PCAs are less profitable than packaged accounts, as there may be no monthly fee payable by customers. This may also be because there is a greater proportion of secondary PCA customers within these groups, and although they will generally be active users, hold credit balances and other personal banking products, this will be to a lesser extent than packaged account customers.

(iii) Basic bank accounts and non-adult PCAs (ie youth, graduate and student accounts) tend to be less profitable than standard and reward PCAs, and are often not profitable. This is due to typically low credit balances, no basic bank accounts or interest-free (non-adult PCAs) access to an overdraft facility. Further, these customers are unlikely to have a great need for other personal banking products.

(b) Whether a PCA customer is a main/primary or secondary banking customer.[3] Primary banking customers tend to hold a greater proportion of their personal banking products with their PCA provider, and tend to be more active users of their PCA.

10. We present the evidence provided by the banks to demonstrate how these characteristics impact upon PCA profitability in Annex C.

[3] We understand that a bank deems a customer to be a primary banking customer if they hold their main transactional account (ie the account in which they hold their income and from which the majority of their payments are made) and therefore, their main banking relationship with them, and that all other customers are deemed to be secondary banking customers, as they hold their main banking relationship elsewhere.

Annex A: PCA profitability

1. The differences in the information provided by the banks and presented in this annex reflects both the different information provided by each bank ([✂]), and the different revenue and cost allocation methods utilised by each of the banks.

Barclays

2. Table 1 shows [✂]. Barclays told us that it looked at the performance of its businesses through the economic cycle (ie over the course of a number of years); [✂]

Table 1: [✂]

[✂]

Source: Barclays.

HSBC Group

3. Table 2 shows that [✂]

Table 2: [✂]

[✂]

Source: HSBCG.
[✂]

4. HSBCG told us that [✂].

Lloyds Banking Group

5. Table 3 shows that [✂] from 2012 to 2014, and is forecast to [✂] in 2015 and 2016.

Table 3: [✂]

[✂]

Source: LBG.
[✂]

6. LBG told us that the key drivers of financial performance were:

   (a) Net interest income, which was a function of customer deposit and overdraft balances and the banking margin earned on those balances:

(i) the growth in total deposit balances reflected the low interest rate environment, as customers chose to hold their funds in PCA rather than in savings accounts;

(ii) margins on deposits had been compressed by low interest rates;

(iii) the slowdown in growth of overdraft balances was due to a general reduction in customers' use of credit; and

(iv) the reduction in margins on overdraft balances reflected reductions in overdraft fees.

(b) Other operating income, which comprised:

(i) net income from packaged account fees (ie the fees charged to customers less the cost of providing the attached benefits), which had fallen due to a lower volume of sales of packaged accounts;

(ii) net income from debit card and ATM interchange fees; and

(iii) returned items fees, which had fallen due to the increased adoption of mobile banking.

(c) Direct costs (eg IT and marketing).

(d) Indirect costs, which were allocated to the PCA business.

RBSG

7. Figure 1 shows that [✂] in 2013 and is likely to [✂] from 2014 to 2017.

Figure 1: [✂]

[✂]

Source: RBSG.
[✂]

8. RBSG told us that [✂], and that the key drivers of performance were:

(a) [✂]

(b) [✂]

(c) [✂]

Santander

9. Table 4 shows that Santander's [✂] from 2012 to 2014, and is forecast to [✂] in 2015 and 2016.

Table 4: [✂]

[✂]

Source: Santander.
[✂]

Annex B: PCA profitability by customer usage

Credit balances

1. HSBCG told us that the two largest generators of PCA income were credit interest and overdraft interest and fees, and therefore, customers who regularly used overdrafts and/or held high credit balances would be relatively more profitable than customers who maintained low but stable credit balances (if viewed in isolation from the longer-term benefits of acquiring and retaining the customer relationship).

2. Figure 1 shows that that in 2012, of the [✂]% of LBG's highest value PCA customers, [✂]% had a monthly credit turnover of [✂], compared with only [✂]% of the [✂]% of PCA customers.

Figure 1: [✂]

[✂]

Source: LBG.

Transactional activity

3. Figure 2 shows that [✂].

Figure 2: [✂]

[✂]

Source: RBSG.
[✂]

4. Barclays told us that from a channel usage perspective, active customers who chose to interact purely through the digital channel represented the lowest cost to serve group, and customers who chose to interact via a number of channels, but with a bias towards branches, represented the higher cost to serve group.

5. HSBCG told us that HSBC customers[4] who primarily used branches would be typically less profitable than customers who primarily used other channels, because the cost to serve customers using branches was considerably higher than the cost to serve customers using digital or telephone banking (eg in 2016, the branch network was forecast to account for around [✂]% of customer interactions and circa [✂]% of total channel costs).

[4] This data is applicable to the HSBC brand only.

Overdraft usage

6. Figure 3 shows that [✂].

Figure 3: [✂]

[✂]

Source: RBSG.
[✂]

7. Table 1 shows the profitability of RBSG's primary FIIC PCA and packaged account in 2014 split by deciles and including and excluding income from unauthorised overdraft fees. Table 1 shows that both the FIIC PCA and packaged account were profitable, even when excluding unauthorised overdraft income. RBSG told us that:

    (a) the proportion of FIIC PCAs that broke even when unauthorised overdraft income was excluded reduced by [✂]% from [✂]% to [✂]% (ie around [✂] FIIC PCAs were only profitable when unauthorised overdraft income was included); and

    (b) [✂]% of packaged accounts were profitable without including unauthorised overdraft income.

Table 1: RBSG personal banking products profitability by decile, 2014

£

	Primary FIIC PCA		*Primary packaged account*	
Decile	*Average profitability per account (including unauthorised overdraft income)*	*Average profitability per account (excluding unauthorised overdraft income)*	*Average profitability per account (including unauthorised overdraft income)*	*Average profitability per account (excluding unauthorised overdraft income)*
1	[✂]	[✂]	[✂]	[✂]
2	[✂]	[✂]	[✂]	[✂]
3	[✂]	[✂]	[✂]	[✂]
4	[✂]	[✂]	[✂]	[✂]
5	[✂]	[✂]	[✂]	[✂]
6	[✂]	[✂]	[✂]	[✂]
7	[✂]	[✂]	[✂]	[✂]
8	[✂]	[✂]	[✂]	[✂]
9	[✂]	[✂]	[✂]	[✂]
10	[✂]	[✂]	[✂]	[✂]
Product average	[✂]	[✂]	[✂]	[✂]

Source: RBSG.
Notes:
[✂]

8. Barclays told us that the following changes to its overdraft proposition had resulted in a gradual reduction in overdraft fees:

    (a) The introduction of targeted SMS notification in April 2013.

(b) A shift from Personal Reserve Fees and an interest-based charging structure to a more transparent daily rate model in 2014.

(c) The removal of income from guaranteed transaction fees.

(d) The introduction of a cap on daily paid and unpaid transaction fees from five per day to one per day in January 2014.

9. HSBCG told us that it introduced changes to its personal banking overdraft proposition (for its HSBC and first direct brands) [5] in November 2014. For example, the replacement of the £25 charge for unarranged overdraft instance with a daily unarranged overdraft fee of £5, and real time text alerts informing a customer when they were over their limit, which allowed them to top-up their account before incurring overdraft fees and interest. As a result:

(a) Overdraft fee revenue had fallen from £[✂] in 2010 to £[✂] in 2014, and was forecast to fall to £[✂] in 2015.

(b) There had been a rebalancing of the incidence of overdraft charges across a broader set of customers, with customers with the highest use of overdrafts paying substantially less than before (eg it expected circa [✂] customers being better off per month).

10. LBG told us that overdraft income and fees had fallen in recent years due to the use by customers of tools such as text alerts, and greater transparency, which had driven behavioural change.

[5] M&S Bank charges its PCA customers overdraft interest, but no overdraft fees.

Annex C: PCA profitability by customer type

Type of PCA

1. Barclays told us that in 2013:

   (a) holders of its Cash Card account (Barclays' basic bank account product) generated a [✂] to Barclays of £[✂] per customer;

   (b) those customers holding Child, Youth, Student and Graduate PCAs generated a [✂] to Barclays of £[✂] per customer; and

   (c) its PCA customers in total generated a [✂] to Barclays of £[✂] per customer.

2. Table 1 shows the total annual income per active account for the various types of PCA offered by LBG:

   (a) Adults FIIC PCAs and interest-bearing PCAs generate significantly greater income than non-adult PCAs and basic bank accounts. LBG told us that basic bank accounts currently generated annual income of £[✂] per account, and this would fall £[✂] per account following reductions in interchange revenues and HMT requirements to remove returned item fees.

   (b) Packaged accounts generate [✂] the income of adult FIIC PCAs and interest-bearing PCAs. LBG told us that it incurred additional costs in providing packaged accounts, including the costs of providing insurance products within the package, and higher directly attributable costs due to the higher engagement of packaged account customers.

Table 1: LBG average annual income by PCA type

	Type of PCA				
	Student, Graduate and Youth PCA	*Basic bank account*	*FIIC PCA*	*Interest-bearing PCA*	*Packaged account*
Total income (£m)	[✂]	[✂]	[✂]	[✂]	[✂]
Number of active accounts (m)	[✂]	[✂]	[✂]	[✂]	[✂]
Average annual income per active account (£)	[✂]	[✂]	[✂]	[✂]	[✂]

Source: LBG.
[✂]

3. Table 2 shows that from 2012 to 2014, Halifax's Ultimate Reward Current Account (URCA), a packaged account, generated greater income than its FIIC PCA (the Current Account) and its interest bearing PCA (the Reward Account).

Table 2: Average income per customer by Halifax PCA type, 2012 to 2014

	Current Account			*Reward Account*			*URCA*		
	2012	*2013*	*2014*	*2012*	*2013*	*2014*	*2012*	*2013*	*2014*
Number of accounts (million)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Monthly average income per account (excluding net credit interest and account fee) (£m)*	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Monthly average income per account (including net credit interest and account fee) (£m)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Proportion of active accounts (%)†	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Proportion of primary PCAs (%)‡	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: LBG.
*The average income for the URCA does not include the direct costs of providing the added package benefits, which is £5 per account.
†Active accounts are those PCAs with at least one customer-initiated transaction in the last three months.
‡Main/primary accounts are those PCAs with average monthly incoming payments of more than £500.

4. LBG told us that:

(a) The difference between the Current Account and the Reward Account was due to net credit interest, as the Current Account did not pay any credit interest and the internal value of funds to LBG added additional income per customer. LBG told us that although the Reward Account held higher balances, it also paid a £5 reward to customers in those months when the account was in credit, and the reward payment was greater than the value of the additional balances compared with the Current Account (in the current interest rate environment).

(b) The URCA generated a greater contribution per customer on average than the other PCAs, because URCA customers:

(i) paid a monthly fee (although the monthly fee did not include the direct costs of providing packaged account benefits and so the difference in contribution would be less);

(ii) were more active users of their account (eg in 2014, URCA customers were over twice as likely to use their overdraft as Current and Reward Account customers; generated approximately three times more revenue in other income, such as interchange and overseas ATM fees, than Current Account customers; and used their debit card twice as much); and

(iii) the difference in the average number of products held between FIIC and packaged account customers was likely to be explained by a higher proportion of Current Account customers being inactive when compared with the other PCAs.

5. Table 3 shows customer value across RBSG's personal banking business in 2014 split by customer value decile, PCA type and relationship status. Table 3 shows that on a fully allocated costs basis:

(a) [✂];

(b) [✂]; and

(c) [✂] all PCA customers, except non-adult account holders and basic bank account holders, covered their variable costs and made a contribution to the recovery of fixed costs.

Table 3: RBSG customer value, 2014

£

	Primary PCA customer						*Secondary PCA customer*					
Decile	*Packaged account*	*FIIC PCA*	*Student PCA*	*Basic bank account*	*Youth PCA*	*No PCA*	*Packaged account*	*FIIC PCA*	*Student PCA*	*Basic bank account*	*Youth PCA*	*Decile average*
1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
4	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
5	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
6	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
7	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
8	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
9	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
10	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Product average	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: RBSG.
Notes:
[✂]

6. Table 4 shows the estimated lifetime value of the different PCAs offered under RBSG's Royal Bank of Scotland and NatWest brands. The net present value (NPV) per unit based on variable costs represents the underlying value of providing PCAs separately from the RBSG's wider personal banking offering.

Table 4: RBSG PCA lifetime value, 2014

				£
	NPV per unit			
	NatWest		*RBSG*	
Type of PCA	*Variable cost**	*Fully loaded cost†*	*Variable cost**	*Fully loaded cost†*
Basic bank account	[✂]	[✂]	[✂]	[✂]
Student Account	[✂]	[✂]	[✂]	[✂]
Select Account‡	[✂]	[✂]	[✂]	[✂]
Select Silver Account§	[✂]	[✂]	[✂]	[✂]
Select Platinum Account¶	[✂]	[✂]	[✂]	[✂]
Black Account#	[✂]	[✂]	[✂]	[✂]
Overall	[✂]	[✂]	[✂]	[✂]

Source: RBSG.
*Variable costs are assumed to be costs that would flex with activity volume over a one year horizon (eg product-specific marketing, distribution, mailing of product notifications and other product-specific staff costs). Brand marketing and building costs are not included. Most support and central teams and much of the business services infrastructure, including property and technology, are deemed to be fixed costs.
†Fully loaded costs includes a broader allocation of costs and takes into account, for example, brand marketing and overheads.
‡The Select Account is a FIIC PCA.
§The Select Silver Account is a packaged account with a monthly fee of £10, which provides European travel insurance, preferential rates on foreign currency and mobile phone insurance.
¶The Select Platinum Account is a packaged account with a monthly fee of £15, which provides worldwide travel insurance, preferential rates on foreign currency, mobile phone insurance and UK breakdown cover.
#The Black Account is a packaged account with a monthly fee of £24 and is only available to those customers who pay in a sole income of £100,000 sole into the account; or have a NatWest or RBS mortgage of at least £300,000; or hold £100,000 in NatWest or RBS savings and investments. The account provides worldwide travel insurance, worldwide airport lounge access, travel services preferential rates on foreign currency, mobile phone insurance, UK and European breakdown cover and home emergency service.
Notes:
[✂]

7. Table 5 shows the five year values of Santander's PCAs. Santander told us that the main differences in the values generated by its PCA products were driven by:

   (a) Net interest income: the difference across each PCA was due to interest payable, which was driven by average customer liability and asset balances (eg the average 123 Current Account had a margin of [✂] basis points and a balance of around £[✂] compared to the Everyday Current Account, which had a margin of [✂] basis points and a balance of around £[✂]).

   (b) Non-interest income: the difference across each PCA was mainly due to product features and overdraft fee structure (eg the non-interest income for the 123 Current Account product reflected the monthly fee and cashback paid out on transactions, whereas the Choice Current Account had a higher monthly fee, but this was partially offset by reduced unarranged fees), and also included foreign exchange fees and ATM costs, [✂].

   (c) Risk, which was based on the actual credit risk of the average customer and the level of overdraft usage.

(d) Overheads: some of the costs were based on transaction volume and these tended to differ by product depending on whether a particular product was used as a primary or secondary PCA and the customer type (eg adult, student or youth).

Table 5: Santander PCAs five year values

[✄]

Source: Santander.
[✄]

Primary and secondary banking customers

8. Table 6 shows the difference in the profitability of Barclays' primary and secondary PCA customers. Barclays told us that the difference in profitability generated by each type of customer highlighted the relationship between customer engagement with their PCA and the underlying profitability of the product.

Table 6: Barclays PCA profit by customer relationship, 2013

Customer type	*£* *Average profit per customer*
Primary	[✄]
Secondary	[✄]
All customers	[✄]

Source: Barclays.

9. HSBCG told us that primary PCA customers provided it with access to detailed PCA transactional data, which enabled it to make better informed lending and marketing decisions and product offerings.

10. RBSG told us that [✄] (see Figure 1); [✄] (see Figure 2); and [✄] (see Figure 3).

Figure 1: [✄]

[✄]

Source: RBSG.
[✄]

Figure 2: [✄]

[✄]

Source: RBSG.
[✄]

Figure 3: [✂]

[✂]

Source: RBSG.
[✂]

11. RBSG told us that primary PCA customers typically accessed and utilised their PCA more regularly than secondary PCA customers, and these higher levels of account activity and behaviour meant that they were more likely to seek other financial products from their bank due to their desire for convenience and keeping their banking and management of finances as simple as possible.

12. Table 7 shows that Santander 123 Current Account customers are more likely to be primary banking customers, who, on average, hold more products, have higher balances, and have more direct debits.

Table 7: Santander PCA customer characteristics, 2012 to 2014

	*Non-Santander 123 Current Account**	*Santander 123 Current Account*
Proportion of Select and Affluent customers (%)†	[✂]	[✂]
Proportion of customers with primary PCA relationship with Santander (%)	[✂]	[✂]
Number of products held with Santander per customer	[✂]	[✂]
Average PCA and savings account balances combined‡	[✂]	[✂]
Proportion of customers with 4 or more direct debits (%)	[✂]	[✂]

Source: Santander.
*The non-123 Current Account category is mainly made up of Everyday, Basic, Choice, Instant Plus and Zero account holders.
†Select is available to new and existing Santander customers who meet the qualifying criteria (ie monthly PCA credit turnover of £5,000 or more; or savings, investments and banking balance of £75,000 or more; or a Santander mortgage where the value of the property is £500,000 or more). Affluent is an internal customer segment, which represents those customers with monthly PCA credit turnover between £4,000 and £4,999; or savings, investments and banking balance between £25,000 and £74,999; or a Santander mortgage where the value of the property is between £350,000 and £499,999.
‡The reference to [✂] represents a comparison between the average combined savings and banking liability balances for 123 Current Account customers and non-123 Current Account customers. The multiplier assumes that the average combined savings and banking liability balances for non-123 Current Account customers is [✂] and the average combined PCA and savings account balance for 123 Current Account customers is [✂] this level.
Note: This analysis only includes adult PCAs.

13. Santander told us that, [✂].

Appendix 5.2: PCA pricing analysis

1. This appendix on the PCA pricing analysis consists of the following:

   (a) Annex A: Parties' views

   (b) Annex B: Data and assumptions

   (c) Annex C: Northern Ireland results

   (d) Annex D: Price-quality results

   (e) Annex E: Sensitivity tests of price estimates

   (f) Annex F: Comparison of price estimates using aggregated and disaggregated data

   (g) Annex G: Cross-checks of average prices results

   (h) Annex H: Assumptions Dictionary

Annex A: Parties' views

1. In this annex we set out the parties' views in response to our provisional findings and working paper on the price and price-quality analysis.

Price analysis

Co-op Bank

2. Co-op Bank submitted that its overdraft proposition was among the cheapest in the market, and that it appeared that the high price for the Co-op Bank's accounts in the CMA's analysis was driven by the cost to the highest-paying 10% of customers in the CMA's sample, while noting that 90% of customers would generally face a somewhat lower price for using the Co-op Bank's current account than the market average. Co-op Bank submitted that its overdraft proposition was designed for existing customers and its target market. It submitted that the CMA should take into account the fact that each banking group had varying target markets and look to avoid unfair and misleading comparisons that could result by using a particular provider's pricing against a cohort of transactional behaviour from a customer segment that the given provider would not in reality acquire. Overall, Co-op Bank submitted that the pricing analysis suffered from a lack of transparency, in that it was not possible to determine what factors were driving what outcomes.

3. In addition to presenting overall bank-level prices, we have disaggregated our results by customer segments. We have also undertaken a sensitivity test in which we exclude customers with very high overdrafts or credit balances. Both of these steps reduce the concern that particular groups of customers have a disproportionate impact on our results. We have used the same group of customers to calculate prices across banks, in order to facilitate comparisons. We have also compared our average price to the monthly revenue each bank receives from active accounts. These revenue figures are broadly consistent with our average prices, and our main conclusions also hold when using revenues instead of prices. We have consulted on our analysis and have provided access to the underlying data and code in two data rooms.

4. With respect to switching incentives, it told us that they are best viewed as marketing acquisition costs, most often featuring as part of wider advertising activity, giving customers high visibility of the main benefit of an account, typically accompanied by terms where the switch must be actioned within a defined time period. The frequency with which offers were changed or even withdrawn altogether was high. It suggested that switching incentives could be

included separately, perhaps calculated over a shorter period, showing the cheapest products available on the market at that time.

5. With respect to the inclusion of rewards in the calculation, it suggested presenting a disaggregated view of the costs or benefits of a particular account, for example by low overdraft usage, high overdraft usage, credit position, and high transactions.

6. We have provided results both including and excluding benefits such as switching incentives. We have also presented results by customer segments, which includes breakdowns by overdraft usage and credit balance.

7. It submitted that the manner in which weightings had been used to reach Group level prices was unclear, and that the CMA's comparisons presented at 'banking group' level gave the impression that those were the costs paid by all customers, and this presentation was not fully transparent or fair.

8. We provide details on the calculation of group prices in Section 5. We made clear that not all customers pay the average group-level price, and have provided both bank and group prices that are disaggregated by customer segments.

HSBCG[1]

9. HSBCG submitted that the following provisional conclusions were not based on robust evidence: (i) recent entrants and expanding brands tended to offer lower average prices; (ii) satisfaction ratings suggested an inverse relationship between quality of service and market shares; and (iii) banks appearing to offer lower average prices and/or better quality tended to have been gaining market share, but this was at a very slow pace. It submitted that these provisional conclusions were based on isolated (or limited) examples of banks gaining and losing market share, and any correlation between market share and quality was statistically insignificant, being driven by the results of a small number of banks with low market shares.

10. We have undertaken a series of sensitivities and cross-checks of our baseline pricing results, which show that they are robust to alternative measures and assumptions. In Section 5, we assess the relationship between quality and market share using three different sources, which show broadly consistent results.

[1] HSBCG response to provisional findings.

11. With respect to the provisional finding that longer-established banks are able on average to charge higher prices, it submitted that this was not based on robust evidence. In support of its argument it told us that:

(a) the correlation between account tenure and price was weak, which suggests that other factors were driving differences in prices;

(b) any correlation was statistically insignificant, as it relied on a small number of PCA providers who had only offered PCAs for a short period of time and have very small market shares; and

(c) the account tenure information from banks was unreliable because IT system changes had led to inaccurate account start dates for many customers.

12. We have shown that the relationship between account tenure and price is strong. In our baseline results, presented in Section 5, the correlation coefficient between account tenure and bank prices is 0.75. We have also undertaken a series of sensitivity checks in Appendix 5.4, and find that this relationship is robust to changes in the methodology and assumptions.

13. It stated that the potential gains from switching PCA providers were overstated because the analysis focused primarily on financial gains and underplayed the relevance of non-price factors which might reduce the gains from switching if the 'gaining' provider offered a weaker non-price proposition.

14. We acknowledge that the gains from switching focus only on monetary gains, and do not take into account aspects of quality. However it is not possible to adequately quantify such gains for each customer. Further, our price-quality analysis does not find evidence that the lowest priced providers tend to have lower quality. Hence we do not believe that this causes us to overstate estimated gains from switching.

15. Further, it submitted that the assumptions underlying the pricing analysis had led to potential financial gains being overstated in many cases, because:

(a) the analysis excluded benefits associated with customers holding other products with the same bank;

(b) the gains from switching were based on the average of the five cheapest products, which unrealistically assumed that it might be sustainable for the cheapest products to be provided to all customers; and

(c) the analysis did not account for any consequential changes a provider would likely make to its pricing structure as a result of any change in customer mix.

16. In Section 5 we have presented the gains from switching to products within the same bank. We have also noted in Section 5 that our gains from switching analysis is a static assessment, in the sense that we assume no changes in customer behaviour or provider prices. Therefore the estimated gains from switching should not be interpreted as the gains that all customers could achieve in the market if all customers switched to the best alternative product.

17. HSBCG argued that the gains for overdraft users were overstated since this focused on revenues rather than profitability. It explained that an individual bank's pricing structures reflected expected losses associated with its specific customer mix and credit risk appetite. HSBCG argued that a bank with a higher risk appetite (which was reflected in higher prices) might have permitted customers to incur a level of overdraft that would not have been offered by a bank with a lower risk appetite (which was reflected in lower prices). Therefore, a bank that was currently offering the lowest overdraft interest rates and charges might not have the risk appetite to take on higher-risk customers who were currently paying higher interest rates and/or charges at other banks, or would charge higher prices to reflect the higher level of risk imposed by such customers.[2]

18. We calculate each customer's gains from switching using only the products for which they are eligible. For overdrafts, however, we assume that customers would be able to obtain the same level of arranged and unarranged overdraft from other banks as they obtain from their own bank.[3] We therefore interpret the results for overdraft users cautiously.

LBG

Data

19. LBG submitted that the 'right data' should be used in the analysis, which includes using disaggregated transaction-level data, the inclusion of paid and unpaid item charges, using the most recent market prices and treating account benefits on a consistent basis across products.[4] This would make the analysis of prices more accurate.

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[2] HSBCG response to provisional findings, Annex 1 paragraph 2(c).
[3] Except when product features do not allow such levels (eg control accounts).
[4] LBG response to PCA pricing analysis, paragraph 1.16.

20. LBG submitted that disaggregated transaction-level data should be used in the analysis to avoid problems of missing data and the need for assumptions.[5] It submitted that our data omitted key customer volumes, such that many determinants of price for each customer were omitted or significant assumptions were needed, and that these omissions and assumptions could have a significant impact on the results.[6]

21. It particularly criticised our assumption on unarranged overdraft balance, mentioning that our model uses an assumption on unarranged overdraft balance to calculate unarranged overdraft fees and the fact that we do not take into account tiered credit interest.[7]

22. Our average prices have been updated since provisional findings, and include paid and unpaid item charges, use the most recent price information (at the time of estimation) and treat account benefits on a consistent basis across products. We accept that using disaggregated transactions data would require fewer assumptions to be made than using aggregated data. However, producing estimates of PCA prices is not straightforward methodologically, as different approaches can be taken on such aspects as how to incorporate different aspects of the product offer (such as the incorporation of switching incentives and product benefits), and on the method of price calculation to estimate prices over a horizon of several years.

23. LBG acknowledged that its approach still had limitations, particularly for overdraft users:[8] it noted that it did not take account of fee suppression (ie when providers stop charging overdraft fees) or waivers of overdraft fees (which our analysis also does not do), and it considered that this meant the prices and gains from switching were likely to be lower than the models suggested. With respect to cashback, using disaggregated data allows for customer-specific cashback to be taken into account, which LBG submitted was an improvement on using average cashback per product, as this ignored the distribution of cashback among customers and between customer segments. However, LBG submitted that even with disaggregated data, some cashback would be missed.

24. Inevitably, then, it is necessary to interpret calculated prices as estimates. We balanced the benefits of using transactions data, which is not entirely without limitations as described, with the need for a substantial new data request to banks. Further, we are very conscious of the highly confidential nature of

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[5] LBG response to provisional findings, paragraph 1.6.
[6] LBG response to provisional findings, paragraphs 2.15–2.18.
[7] LBG response to update on the PCA pricing analysis, pp4–5.
[8] LBG response to PCA pricing analysis, paragraph 2.3.

disaggregated transactions data (which contains details of a customer's specific transactions, including retailers/providers of services, salaries, extent of mortgages/savings), and the volume of data which would be required for the analysis. Given the above, we did not consider it proportionate to use disaggregated data in this analysis.

25. To understand the impact on our price estimates and results of using aggregated data rather than disaggregated data, we have undertaken sensitivity analysis making use of LBG's price estimates using disaggregated data. We concluded that the differences were limited.

26. Additionally, we conducted a sensitivity to the assumption we made on Unarranged Overdraft balance, using data obtained from the banks and saw little differences in overall results.

Product prices used

27. LBG commented that its monthly fees are waived for nearly all customers that hold a product – ie that most customers do not pay them because they fulfil the needed criteria not to (eg a minimum number of direct debits/payments into the account) and said that our inclusion of its monthly fees in price calculations is, therefore, inconsistent with what customers pay.

28. We explored Runpath's annual fee values for LBG products and agree it has attributed the wrong annual fee values for around 700 observations in the Club Lloyds product value calculations. We have corrected this in the current version of the analysis.

29. Additionally, LBG submitted that some of its products' prices had been incorrectly calculated.[9] In particular, it said our estimates incorrectly deemed Halifax Reward Account more expensive than the Halifax Current Account. LBG stated this was because we did not include the £5 reward of the former in our calculations. LBG also mentioned that we incorrectly attributed to these products calculations an unpaid fee despite these products not charging these.

30. LBG also said our estimates incorrectly deemed Lloyds Classic Account more expensive that Bank of Scotland Classic Account, despite both products having the same fees. It said this was because the unarranged overdraft fees applied to the former were mistakenly much higher than those applied to the latter.

[9] LBG response to update on PCA pricing analysis, pp5–6.

31. We investigated the accuracy of our calculations and established that:

(a) The £5 reward associated with the Halifax Reward account fits into our definition of cashback. As explained in the Assumptions Dictionary (see Annex H), we added the value of cashback to each product price calculation for each observation in our sample corresponding to the total cashback paid into that product during 2015, divided by the number of active accounts of that product in the same year. We did apply cashback to LBG's products in line with this. Also, despite LBG saying such products do not involve charge unpaid items fees this is not in accordance to the information they have provided to us regarding 2015 – which is the relevant year we have obtained this information from.

(b) There has been a mistake in the values of unarranged overdraft fees that Runpath applied to Lloyds Classic Account. We have corrected this in the final version of the analysis.

Switching incentives and benefit values

32. LBG raised issues regarding our valuations of benefits, some general and other related to the benefits' values attributed to M&S products.[10]

33. Specifically, LBG noted that when establishing the value of benefits, the CMA did not take into account that the value of a benefit depends on whether customers use it; that the quality of account benefits varies across the market and that the value of benefits varies depending on the type of user.

34. At the time of publishing the Update of the PCA Pricing analysis, we adjusted benefits values to reflect usage whenever banks provided us with such information (eg for Club Lloyds) and used the coverage level most typically encountered in the market as shown in the Assumptions Dictionary (Annex H) to determine value unless banks have claimed for an exception to a certain product benefit value based on acceptable evidence. Also, there is no way for controlling how the value of a benefit varies by the type of user in order to apply different values for the same benefit to different users. The market average price of the benefit should serve as a good proxy.

35. LBG stated we mistakenly considered M&S's vouchers as benefits – these are only given to customers during the first year and there is eligibility criteria to obtain them.

[10] LBG response to update on PCA pricing analysis, pp6–7.

36. We asked HSBCG to clarify the eligibility criteria, amount and duration of M&S vouchers and concluded these should have been considered a switching incentive – M&S offers a £100 vouchers to customers that switch to M&S using CASS and that have at least two direct debits. The current version of the analysis corrects this issue.

37. Furthermore, LBG said that the inclusion of switching incentives (only available to new customers) is inconsistent with what customers pay.

38. We consider that the inclusion of switching incentives is not inconsistent with what customers pay for each product. In any case, our analysis is focused on Y5 variables, which soothes such incentives across five years, and therefore underplays their importance in the prices.

Dynamic effects

39. LBG criticised us for not considering new entrant acquisition pricing strategies in our analysis. We noted in our Update of the PCA Pricing Analysis that we are not interested in modelling the dynamics of the market in our analysis. Rather, the objective is to obtain static gains from switching and an estimate of prices that customers would currently pay – irrespective of whether such pricing is sustainable in the long term or not.

'Most likely comparator' approach

40. Rather than using a provider's existing customer mix to determine the average brand/group-level price, LBG submitted that we should instead weight the prices according to the product at the provider that the customer was most likely to choose if they switched, which it defined as the cheapest product for the customer at the provider.[11] Under this approach, the prices at brand/group level would represent the price that customers would be offered if they compared providers or switched to that provider. LBG considered that this would address the question of what prices providers currently offered in the market, rather than what customers currently paid.[12] LBG submitted that its suggested approach is consistent with the approach used in the BCA pricing analysis, the inclusion of switching benefits and the exclusion of off-sale products from the analysis.

41. In response to LBG's submission, Nationwide submitted that the approach proposed by LBG was flawed, as the purpose of the analysis was to report estimates of historical average prices across PCA providers and not to

[11] LBG response to provisional findings, paragraph 2.22.
[12] LBG response to Nationwide's comments on LBG's response to PCA pricing analysis.

provide a price comparison for customers as if they were switching to the most appropriate PCA for them based on their current PCA usage.[13]

42. We considered LBG's and Nationwide's submissions. We remain of the view that, for this analysis, the weighting by existing customer mix is appropriate. Our analysis seeks to estimate the prices that customers would currently pay for each product available to them in the market in order to assess current prices across the market – rather than the best price available for customers at each provider if they switched, which would be the result of using a weighting based on the lowest priced product for the customer at each provider.

43. For the BCA pricing analysis, we use profiles submitted by four banks which were broadly representative of their SME BCA customers on standard tariffs, together with weightings showing the proportion of BCAs that these profiles reflected. We do not know the number of SMEs that correspond to each profile that hold each of the products at banks and requesting banks to do this analysis would be burdensome. We therefore cannot use product weightings based on the products that customers hold at each bank in the BCA analysis.

Average revenue per provider

44. LBG submitted that focusing on average prices paid per provider across the market, while providing an understanding of how much customers were paying for their accounts, excluded a large proportion of PCA revenues (around 40%) made up by credit balances and interchange.[14] Including these would provide a measure of average revenue per provider, which LBG submitted, along with average prices, was required to understand where value lay in the market. It submitted that we were correct that including revenues would not change the relative prices within a customer segment, but that including revenues would change relative prices across customer segments and would also help avoid the incorrect interpretation of the results as meaning that some providers were loss-making.

45. We have carried out a robustness check on our pricing results by comparing it to average revenues.[15] The purpose of this exercise was not to make a second calculation of PCA pricing outcomes, but rather to carry out a simple, high-level check on the robustness of the findings from our pricing analysis.

[13] Nationwide's comments on LBG's response to PCA pricing analysis, paragraph 2.4.
[14] LBG response to PCA pricing analysis, paragraphs 3.4–3.9, and LBG response to provisional findings, Executive Summary, paragraph 18.
[15] See provisional findings, Appendix 5.2.

Customer segments

46. LBG submitted that the price and quality of a product and service would vary by customer segment; as such, an analysis of price and quality in PCAs and the relationship to market share should look at each segment separately and compare 'like-with-like'.[16] It found that there was a wide range in prices between customer segments for individual providers.[17] LBG submitted that it does not make economic sense to compare 'average prices' for providers that serve different customer segments.[18] It considered that an overall 'average' for each provider includes customer segments that a provider may not serve or target and noted that this is the type of comparison that the development of personalised price comparisons using open data is trying to move away from.[19] It submitted that the only way to assess relative prices between two providers is to compare products across those segments that both target.[20]

47. In interpreting the price analysis, we have considered how prices vary across several approaches to customer segmentation, including overdraft and non-overdraft users, segmentation based on account eligibility, and credit balance. In so doing we are able to compare similar customers and compare prices across banks of customers that they target.

Average prices and market shares

48. With respect to the assessment of price and market shares, LBG told us that the relationship between market share and price was not statistically significant under the standard 5% and 10% confidence intervals,[21] and as such LBG stated that there was no tendency for larger banks to have higher prices.[22]

49. LBG submitted that our analysis did not provide sufficient evidence supporting our provisional conclusion that there was a tendency for larger providers to have higher prices.[23] It submitted, however, that inaccuracies in the analysis do not materially change the findings on the gains from switching.[24]

[16] LBG response to provisional findings, paragraph 2.3.
[17] LBG response to provisional findings, Annex, paragraph 1.2.
[18] LBG response to PCA pricing analysis, paragraph 1.15.
[19] LBG response to PCA pricing analysis, paragraph 1.16.
[20] LBG response to PCA pricing analysis, paragraph 1.16.
[21] LBG response to provisional findings, Annex, paragraph 2.2.
[22] LBG response to provisional findings, paragraph 2.38.
[23] LBG response to PCA pricing analysis, paragraphs 1.7 & 1.8, and LBG response to provisional findings, section 1, paragraphs 1.20 & 1.24.
[24] LBG response to PCA pricing analysis, paragraphs 1.2–1.4.

50. We have subjected our finding that larger providers tend to have higher average prices to various sensitivity tests and cross-checks, and we find that the observed relationship is robust to these various checks.

Gains from switching

51. On the analysis of gains from switching, LBG submitted that it should be made clear that the analysis could not be interpreted as the 'gains available if everyone switched', as higher levels of switching would lead to price changes.[25]

52. LBG argued that the uneven distribution of gains from switching meant that reporting average gains was not illustrative – it noted that 64% of the gains from switching were concentrated in just 20% of customers and for half of customers gains would be less than £36 per year on average.[26]

53. In Section 5 we present the gains from switching across various customer segments, demonstrating how the gains vary for different groups of customers.

54. LBG submitted that our finding that some customers had a lot to gain from switching was based on a static assessment of the market. It submitted that customers that had high gains from switching in one year would not necessarily have the most to gain in subsequent years. LBG also said that banks must continually compete to gain revenue as customer value changed over time – it found that nearly half of the 2011 cohort of customers had moved down income segments by 2014 and only [10–20]% had moved up. LBG submitted that the static results were likely to overestimate any long-term gains from switching for the majority of customers.[27]

55. Our gains from switching analysis is a static analysis that does not aim to take into account demand or supply side responses in a dynamic way. It provides an estimate of the scale of weak customer engagement at a snapshot in time. We consider that there are substantial potential gains from switching that are available to a significant number of customers. We find that this finding is robust under various tests.

56. LBG commented that control accounts should not be included as alternative products for customers, as they would imply reductions in overdraft usage.[28]

[25] LBG response to provisional findings, paragraph 1.9.
[26] LBG response to provisional findings, paragraph 2.48(c).
[27] LBG response to PCA pricing analysis, paragraphs 4.2–4.7.
[28] LBG response to provisional findings, paragraph 2.24.

57. We note that the average price of control accounts is around £4 a month higher than the average price across all products.[29] Hence the inclusion of control accounts is likely to have very little effect on the estimated gains from switching.

Nationwide

Data

58. Nationwide also considered that using transaction data instead of aggregated monthly data should allow prices to be calculated more accurately.[30] See our comments on this in paragraph 22 above.

'Back book' customers

59. Nationwide submitted that our methodology for assessing back book customers was flawed because we incorrectly matched back book customers to the oldest front book (or 'on sale') account. It said it is incorrect to assume that the pricing of a front book account, which is still available to new customers, is representative of the pricing of a back book account. Nationwide also noted that we should have tested whether this is a reasonable assumption, by asking for back-book customer prices either from publicly available sources or directly from the banks.[31]

60. We chose to match back book customer observations to the oldest on-sale PCA product of the same provider, so as to not drop those observations from the analysis (Runpath's price data only includes prices for products currently available in the market). It would not have been feasible to ask for information on fees for each of the pricing components we use and ask Runpath to include them in their logarithm and then calculate prices for each back book customer observation. This would involve a considerable amount of work to ensure completeness and consistency.

61. Further, it is important to note that the back book customers only represent around 13% of our sample and that we have caveated our analysis noting the potential bias that emerges from matching these observations to oldest on-sale PCA product of the same provider. In any case, we have taken different approaches to the inclusion of back-book customers in our analysis as sensitivity tests to the analysis and noted that results were all very similar.

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[29] This is for GB, using our baseline Y5 prices inclusive of benefits.
[30] Nationwide comments on LBG response to PCA pricing analysis.
[31] Nationwide response to update on the PCA pricing analysis, p17.

62. Nationwide said we overlooked back book customers as they have more to gain from switching than front book customers. It found that, on average, back book customers could save between 48% and 88% more than front book customers if they switched to the average of the five cheapest alternative products available.[32]

63. We note Nationwide's comparison of gains from switching for front and back book customers is focused on historic prices. This reflects price differences in 2014 and it does not necessarily reflect the current situation in the market. Because the goal is to focus on current prices, we have used these and only used historic prices for the back-book customers' products in one of the sensitivities to see if this would alter results significantly.

Correction to year 5 prices

64. Additionally, Nationwide mentioned that the year 5 variables mistake explained in our Update on the PCA Pricing Analysis paper could be affecting the gains from switching and urged us to correct this mistake. We have corrected the mistakes in year 5 variables.[33]

Methodology

65. In its comments on LBG's response to the CMA's pricing analysis,[34] Nationwide submitted that:

   (a) using transaction data instead of aggregated monthly data should allow prices to be calculated more accurately;

   (b) segmentation of customers by credit balance and credit turnover might be useful given the potential product and customer mix effects that could stem from taking simple averages when comparing across providers;

   (c) a ranking based on price did not take into account other important factors, such as quality of service;

   (d) LBG's sample of customers might not be representative of the customers of other providers;

   (e) LBG's use of weights based on customers' likelihood of choosing a PCA product most appropriate for them given their usage, rather than using weights based on the actual PCA products held by the provider's

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[32] Nationwide response to update on the PCA pricing analysis, pp13–14.
[33] Nationwide response to update on the PCA pricing analysis, Annex A, p4.
[34] Nationwide comments on LBG response to PCA pricing analysis.

customers is not consistent with the objectives of the CMA analysis. Nationwide submitted that it considers the purpose of the analysis to be to report estimates of historical average prices across PCA providers, not to provide a price comparison for customers as if they were switching to the most appropriate PCA for them based on their current PCA usage;

(f) LBG updating some but not all prices was problematic;

(g) LBG's failure to present a step-by-step analysis had meant that Nationwide could not comment on what was driving the differences in results;

(h) LBG made further assumptions, which Nationwide believed to be inappropriate, reducing the robustness of the results, and accordingly, any weight which could be placed on the results;

(i) Nationwide commented that LBG's paper suggested that a number of manual changes to the Runpath results were made, the materiality of which was not discussed in LBG's paper; and

(j) LBG ranked 15 and 14 in each of the segments <£1,500 CTO/<£3000 credit balance and £1500+ CTO/<£3000 credit balance respectively. It noted that these segments accounted for the majority of LBG's customers, namely between 60% and 80%. It submitted that according to this analysis, LBG was still the highest, or close-to-highest, priced provider for the majority of its customers, supporting the CMA's conclusions.

66. Nationwide also commented on LBG's submission on the Update on the PCA Pricing analysis.[35] It submitted it does not consider valid LBG's conclusions that flaws in our methodology make the results from the analysis unreliable and that we should not present it or draw conclusions from it in the final report.

67. Nationwide acknowledges that there are some limitations to our methodology. However, Nationwide considers that a number of the points LBG makes are either repetitions of its previous arguments which we have already addressed, or are points that are not directly relevant to the robustness of our pricing analysis. For example:

[35] Nationwide comments on LBG response to PCA pricing analysis.

(a) Nationwide continues to believe that our weighting methodology for average prices across providers is valid. It is reflective of how competition has evolved in the market over time.

(b) While we may have previously made an assumption regarding M&S vouchers that could overstate aggregate gains from switching, this assumption is likely to have a negligible impact on pricing. While the value of the benefits for the M&S accounts will have reduced the HSBC Group average price, a comparison of Table 5 and Table 6 of our update on PCA pricing working paper shows that the overall impact on the HSBC Group price is not likely to be material.

(c) LBG puts forward a number of explanations for differences in prices which are unrelated to the alleged errors LBG identifies in our model. For example, LBG states that providers may charge lower prices due to lower costs. Nationwide does not agree that a provider charging lower prices due to a lower cost would indicate that our estimation of prices is flawed. Further, LBG's arguments on smaller operators using an 'acquisition' pricing strategy are not relevant to our ability to estimate current price levels.

68. In light of the above, Nationwide does not consider that LBG's points bias the results in such a way as to prevent an informative comparison of pricing and gains from switching across providers in the PCA market.

Average prices and market shares

69. Nationwide submitted that the evidence available to the CMA suggested that there were competition concerns associated with market concentration, for the following reasons.[36]

70. First, the CMA's analysis indicated that UK banks with the highest market shares tended to have the highest average prices, and there was no general tendency for higher quality to offset higher prices.[37] Nationwide submitted that this was consistent with its analysis of the CMA data, which suggested that the relationship between market shares and prices held even when analysed on a more disaggregated basis.

71. Second, Nationwide submitted analysis from our data room, which it said showed that there were differences between large and small banks. Nationwide's analysis suggested that customers of large banks had

[36] Nationwide response to provisional findings, Detailed Appendix, paragraph 2.7.
[37] Provisional findings, Summary, paragraphs 43 & 44.

substantially more to gain from switching compared to customers of small banks. It submitted that some of these differences might be attributable to differences in the overall customer base of large banks compared with small banks, as distinct from the pricing decisions of the banks.

72. Further, Nationwide considered more granular categories of customers, to establish whether the differences found overall persisted when a more homogeneous subgroup of customers was considered. It found that customers of large banks would gain more from switching than customers of small banks even within more granular categories of customers.

73. Nationwide submitted that, despite its analysis showing that customers of large banks had more to gain from switching, its extension of the econometric analysis on the propensity to search suggested that a customer holding a main account with a large provider decreased the likelihood of searching by almost 4%, holding all other customer characteristics equal.

74. Nationwide submitted that the analysis of the gains from switching excluded the back-book group of customers who held a PCA no longer available to new customers and these were likely to have the largest gains from switching. It submitted that if these back-book customers were properly accounted for, the supporting evidence for the view that there were competition concerns associated with market concentration might be even stronger.

75. Our findings with respect to market structure and concentration are set out in Section 10.

***RBSG*[38]**

76. RBSG told us that our estimate of annual gains from switching is heavily influenced by a small group of customers (ie heavy overdraft users, and those with very high credit balances). The estimate of the gains from switching is considerably lower at £33 when excluding these types of customers and it argued that the variation in prices could easily be accounted for by differences in quality (eg customer service, brand value, convenience of banking facilities) which the CMA has not accounted for.[39]

77. We consider that there are a substantial proportion of customers who could currently gain from switching, and have provided results by customer segments, including non-overdraft users. Further, our gains from switching are robust to various sensitivity tests. Our price-quality analysis does not find

[38] RBSG response to provisional findings and notice of possible remedies.
[39] RBSG response to provisional findings and notice of possible remedies, section 4.1, p5 and section 6, p8.

that lower priced banks have lower quality on average. Hence we do not believe that the variation in prices is accounted for by variation in quality.

78. RBSG noted that the estimates of gains from switching were based on August 2015 prices and do not capture the impact of recent increases in prices, including the Santander increase, nor the launch of the RBS reward account.[40] We have used the most recent prices in our analysis.

79. RBSG submitted that our pricing analysis assigns a value to a number of customer benefits but assumed all customers value these benefits equally. It argued that this may provide distorted results insofar as banks target certain customer groups and user types which value these benefits more highly. It submitted that our analysis does not assign a value to other services of benefit to customers such as the availability of contactless payment cards and quality, availability and reliability of mobile banking apps.[41]

80. Where possible, we have included the value of benefits in the price calculations. However, there is no way for controlling how the value of a benefit varies by the type of user. The market average price of the benefit should serve as a good proxy.

81. RBSG told us that our estimate of the average value of cashback paid per account is considerably less than the actual value received for RBS customers.[42] We have now updated this in the analysis following a data request to the banks.

Santander[43]

82. Santander told us that there are greater gains available to customers switching from the largest four banks than to those customers switching from Santander UK and other challengers. It submitted that customers with large credit balances would gain more from switching to Santander's 123 account than our analysis suggests which was based on typical customer behaviour across the market.[44]

83. We have provided gains from switching results disaggregated both by bank and customer segment.

[40] RBSG response to provisional findings and notice of possible remedies, section 6, p8.
[41] RBSG response to provisional findings and notice of possible remedies, section 6, pp8–9.
[42] RBSG response to provisional findings and notice of possible remedies, section 5, p9.
[43] Santander response to provisional findings and notice of possible remedies.
[44] Santander response to provisional findings and notice of possible remedies, Annex 1 paragraph 1d.

Barclays

Gains from switching

84. Barclays submitted that our gains from switching estimates were not robust, as they fell by half after removing M&S's products from the analysis.[45] As part of our sensitivity testing, we have considered the impact on the gains from switching excluding each bank in turn from the estimates. We do not find that excluding any individual bank has a marked impact on our baseline gains from switching estimates.

85. With respect to our analysis of gains from switching, Barclays submitted it misleading for us to calculate aggregate benefits on the assumption that 100% of 65 million active PCAs would switch.[46]

86. We do not assume that 100% of customers switch; rather we calculate the potential monetary gains of switching across all customers, including those that do not switch (ie those already on the cheapest account).

87. Barclays commented that in the gains from switching analysis the CMA should not understate the significance of the large number of customers, particularly amongst those who do not use overdrafts, who could not gain significantly from switching.

88. We consider that there are substantial potential gains from switching that are available to a significant number of customers. We show that this finding is robust under various sensitivity tests.

Dynamic effects

89. Barclays also submitted we should have considered whether the lower prices offered by some banks would be sustainable if large numbers of customers were to suddenly switch to the lowest price accounts.[47] However, the goal of our analysis was to obtain a current snapshot of the market and understand potential gains from switching and not to dynamically model future market outcomes.

TSB

[45] Barclays's response to the Update on the PCA Pricing Analysis, p2.
[46] Barclays's response to the Update on the PCA Pricing Analysis, p2.
[47] Barclays's response to the Update on the PCA Pricing Analysis, p2.

Customer mix

90. TSB told us the way we calculated brand and group average prices might lead to misleading results in TSB's case, given that the customer mix presented in the transactions data set is from 2014 and this has changed considerably since the divestment of TSB from LBG. In particular, one of their main products (Classic Plus) has become more popular recently but this is not reflected in TSB's brand price.

91. We acknowledge that this is a limitation. It is worth highlighting that this does not affect many providers as, due to low switching levels in the market, we do not expect to see a substantial difference in customer mix since 2014.

Price-quality analysis

Barclays

92. Barclays submitted that our assessment of quality was based on three different sources – the GfK PCA survey, the GfK FRS survey and the Which? survey – each of which used different sample sizes and methodologies. It argued that the three sources all showed different levels of satisfaction, and noted that it did not consider the Which? survey to be sufficiently robust.[48]

93. The use of alternative satisfaction measures enables us to check the robustness of our results. We note that the three sources are highly correlated with each other, meaning that providers that are highly rated on one measure also tend to be highly rated on the others.

94. Barclays argued that any apparent relationship between price and quality broke down when the analysis was disaggregated to consider particular aspects of quality such as branch location, mobile banking applications and telephone banking. It argued that different banks were ranked differently depending on the particular measure of quality, and customers appeared to self-select depending on which aspects of quality they considered to be most important. It therefore argued that by only considering overall satisfaction, the CMA had not given sufficient attention to consumer preferences.[49]

95. We believe that customer satisfaction ratings have the benefit over alternative indicators of measuring service outcomes as perceived by the customer, as opposed to single inputs or components of the overall quality. In this way they reflect the implicit weighting attached by customers to the various attributes of

[48] Barclays response to provisional findings, paragraphs 2.5 & 2.7.
[49] Barclays response to provisional findings, paragraph 2.6.

service. As a result, customer satisfaction ratings are widely used by both regulators and private companies as measures of overall service quality.

96. Rather than comparing measures of average quality with the CMA's own 'stylised' pricing analysis, Barclays submitted that a more accurate way to capture the price-quality relationship would have been to match up respondents from the GfK PCA survey with those respondents' cost of banking.[50] This would have enabled a direct comparison between a customer's satisfaction and the actual price that the customer paid for their bank account.

97. We have now undertaken this analysis, and the results are presented in Section 5.

98. Barclays said the CMA should have used a number of customer satisfaction indicators rather than just focusing on the overall satisfaction, in the price-quality analysis.

99. Despite there being other indicators on satisfaction, we did not consider those added significant incremental information. In any case, when comparing how the different dimensions of quality compare to overall satisfaction (our baseline measure), it is clear that if we were to include them, our conclusions would not change.[51]

HSBCG

100. HSBCG[52] submitted that we failed to demonstrate that the rate of market share gain by smaller banks (or any banks) offering lower prices and/or higher quality of service is below what should be expected in well-functioning PCA market.

101. HSBC also stated that our findings in this area are based on isolated (or limited) examples of banks gaining and losing market share.[53]

102. Our results are robust to using different quality indicators and excluding benefits in the calculation of prices. We note that in each case, there are a cluster of providers with above average prices and below average quality. In a well-functioning market, we would expect to find customers are prepared to pay higher prices only in return for higher quality.

[50] Barclays response to provisional findings, paragraph 2.7.
[51] Barclays Data room report, p11.
[52] HSBC response to provisional findings and notice of possible remedies, paragraph 3.4.
[53] HSBC response to provisional findings and notice of possible remedies, paragraph 3.2.

LBG

103. LBG submitted that customer satisfaction was not equivalent to quality and hence could not be used to consider the price-quality relationship. Instead, it argued that satisfaction reflected a customer's expectations given the price it paid for a product, and could also be affected by non-quality factors. It noted, for example, that TSB and Lloyds Bank digital services had different net promoter scores even though they were objectively identical.[54]

104. While we recognise that there are limitations to the use of satisfaction measures, we maintain our view that they are a useful and important indicator of quality. First, satisfaction levels reflect the implicit weighting attached by customers to the various attributes of service. Second, to the extent that satisfaction reflects expectations, products offering high quality should still receive strong satisfaction ratings. Products that receive low satisfaction ratings are failing to meet their customers' expectations of quality.

105. LBG submitted that banks targeted products at different customer segments, with pricing and quality tailored to these different segments. Some providers only targeted particular segments (eg more affluent consumers), some targeted different products at different segments, and some only offered certain channels (eg online only).[55]

106. We apply a common customer profile across brands, in order to facilitate comparisons on the same basis. We note that this customer profile takes account of a product's eligibility criteria. Hence our prices are representative of what eligible customers could expect to pay. Further, our new analysis of price and quality at the customer level takes account of the actual customer profile of each brand.

107. LBG submitted that prices and quality should be assessed within particular segments of the market rather than averaging across segments.[56] It argued that customer satisfaction ratings reflected customers' expectations of price and quality within their segment of the market. By averaging across segments, it submitted that the CMA was not comparing like with like.

108. We have assessed the robustness of our results by looking at specific customer segments.

109. LBG argued that our analysis generated results that were inconsistent with other evidence. It did not recognise the characterisation of Lloyds and BoS as

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[54] LBG response to provisional findings, paragraphs 18a, 1.5 & 2.30–2.31.
[55] LBG response to provisional findings, paragraph 2.2.
[56] LBG response to provisional findings, paragraph 2.3.

having high prices and low quality, and instead argued that LBG was one of the most competitive in the market.[57]

110. LBG argued that had our provisional findings used results from the GfK PCA survey to analyse the price-quality relationship, we would have found that there were no providers with above-average prices and below-average satisfaction.[58] It further argued that the Which? survey should not have been used, as the sample was unrepresentative and the ratings had no clear interpretation.[59] The CMA interpreted the ratings as the 'proportion satisfied', whereas in fact the Which? methodology applied arbitrary weights to different customer responses, and could not be interpreted in this way.

111. We have extended our analysis to include the GfK PCA satisfaction ratings. Further, we consider that the Which? satisfaction indicator provides a useful complementary source of evidence, in particular, because it is an indicator that is available for PCA customers to use in their own search and switching decisions. We also note that there remains a reasonably strong (nearly 80%) correlation between the GfK FRS and Which? survey results.

RBSG[60]

112. RBSG submitted that absolute satisfaction levels, particularly for PCAs, are high. The CMA should not infer differences in quality between banks given the narrow range in satisfaction scores in the GfK PCA survey and GfK FRS. The analysis exaggerates small differences between banks and is not sufficiently robust. It submitted that we should not use the Which? satisfaction data.[61]

113. We believe that both the GfK PCA and GfK FRS surveys show reasonable variation in satisfaction scores between banks. The Which? survey data shows even more variation between banks. Further, we note that the alternative indicators are highly correlated with each other, meaning that banks that perform well on one measure tend to perform well on another. Our main findings also hold across all three measures.

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[57] LBG response to provisional findings, paragraph 2.41.
[58] LBG response to provisional findings, paragraph 2.44.
[59] LBG response to provisional findings, paragraphs 2.44 & 2.32.
[60] RBSG response to provisional findings and notice of possible remedies
[61] RBSG response to provisional findings and notice of possible remedies, section 2, pp3–4.

Annex B: Data and assumptions

Samples

1. We gathered anonymous transactions data from 2014 from a number of banks[62] operating in the UK, comprising the account usage data for the 120,000 accounts that had been sampled by GfK for the PCA survey,[63] and which was provided to the CMA directly by the PCA providers. These data on account usage include average credit balance, average overdraft balance, number of days in arranged and unarranged overdraft, inbound payments and transfers into the account (excluding charges).

2. The samples provided to Runpath were drawn from the transactions data set.[64]

3. We included the following types of product in our analysis:[65,66]

   (a) **Standard**: products that offer standard features only, usually free-if-in-credit to customers.

   (b) **Reward**: products that provide a cash reward (eg monthly payment, interest on credit balances, cashback linked to spending from the account).

   (c) **Packaged**: products that provide customer benefits in kind and include an account fee (eg phone insurance, travel insurance and breakdown cover). The calculations for packaged accounts require estimates of the value of these customer benefits.

4. We sent transactions data for two separate samples to Runpath:

   (a) Main sample.

   (b) Survey sample.

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[62] Yorkshire Bank, Ulster, TSB, Santander, RBS, NatWest, Nationwide, Metro, M&S Bank, Lloyds, HSBC, Halifax, Danske, Co-op, Clydesdale, BoS, BoI, Barclays and AIB.
[63] These are described in the PCA survey technical report as the 'issued sample'. See GfK NOP PCA banking survey technical report for details.
[64] This includes 97,509 records. Please see the 'Data cleaning' sub-sections for details of how the cleaning was carried out.
[65] Please refer to Appendix 2, Annex B for the complete definitions of each of these account types.
[66] We excluded the following categories of accounts from the sample to be analysed:

- Basic bank accounts: following the agreement between nine major banks and the government, the costs of most basic bank accounts are very similar since December 2015.
- Student and Young Person's accounts: the price of these depends on account holder characteristics, which may not remain the same over time.

Main sample

5. This is a stratified random sample drawn from the clean, anonymised transactions data set. As in the transactions data set, the strata are based on banking group, country, and switchers versus non-switchers.[67] In this sample the strata have been drawn in proportion to their size in the population.[68] This has been done to avoid the need to use corrective weights.

6. The steps taken to draw the sample, removing the oversampling of certain strata are as follows:

   (a) **Step 1: Determining the required number of accounts in each stratum***.* For each stratum, we determined the number of accounts that should be drawn so that the share of each stratum in the sample was the same as its share in the population and given that the required total sample size was 10,000 for GB and 1,000 for NI.

   (b) **Step 2: Adjusting for duplication of joint accounts in the transaction data set**. In the transaction data set, each joint account had been duplicated for the PCA survey purposes (so that each of the account holders had an equal probability of selection).[69] As our analysis is done at the account level (rather than customer level), this duplication of joint accounts had to be removed.[70] This was done by:

      (i) determining the proportion of joint accounts in each stratum in the transaction data;

      (ii) assuming that, had it not been for the duplication, the number of joint accounts in each stratum in the transaction data would have been half of what it actually was and based on that, working out the required proportion of joint accounts in each stratum in the sample; and

      (iii) based on (ii) above determining how the total required number of accounts (determined at step 1) should be split between joint and single accounts.

   (c) **Step 3 – drawing sample according to the required number of single and joint accounts in each stratum, as determined at steps 1 and 2***.*

[67] Descriptions of strata are provided in Appendix H of GfK's report (eg stratum 1 is Lloyds Bank, England and Wales, switcher).
[68] In this context, population refers to the original database of over 67 million accounts, from which GfK drew a sample of 120,000 which we call transaction data – this is explained in more detail in the GfK technical report.
[69] See GfK NOP PCA banking survey technical report for more details.
[70] Note that this was only done for the 10,995 sample and not the survey sample.

7. The estimates of average prices used in the pricing analysis and gains from switching analysis were obtained using this 10,995 sample.[71]

8. Descriptive statistics on the main sample are available in Supplement 1.

Survey sample

9. The survey sample is a subset of the sample of 120,000 accounts drawn by GfK and it consists of accounts whose holders were eligible to take part in the PCA survey and agreed to do so.

10. The survey sample consists of customers' main accounts only. Since each customer could only have one main account, it is effectively a sample of PCA customers.[72]

11. The survey sample was used in the price-quality analysis to create satisfaction ratings for each brand, and for the analysis of price and quality at the customer-level.

12. Note that a number of ineligible or incomplete records were removed from the survey sample before it was provided to Runpath. As a result only 3,709 records were used in the price-quality analysis.[73]

Segmentation

13. We have segmented customers in our samples in a number of different ways.

Based on account eligibility across the market

14. We segmented customers based on account eligibility criteria, using the number of direct debits on their account and the value paid into the account. This resulted in the following segments:

    (a) less than £500;

    (b) less than 2 direct debts and £500 to less than £750;

[71] There are four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.
[72] At the start of the interview each respondent was asked whether the sampled account was their 'main' account and if it was established that it was not, the interview terminated. It was left to respondents to decide which was their main current account and, according to the definition of 'main' account provided, each respondent could only have one 'main account'. See GfK NOP PCA banking survey technical report for more details.
[73] There have been ten observations in the survey sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

(c) 2+ direct debits and £500 to less than £750;

(d) less than 2 direct debits and £750 to less than £1,000;

(e) 2+ direct debits and £750 to less than £1,000;

(f) £1,000 to less than £1,500;

(g) less than 2 direct debits and £1,500 to less than £1,750;

(h) 2+ direct debits and £1,500 to less than £1,750; and

(i) £1,750 or more.

15. We considered an account to belong to a certain segment if the majority of the payments into the account[74] were within the payment bands.

16. This segmentation illustrates differences in account eligibility across the market. Typically, this mostly depends on number of direct debits and the amount of monthly payment and transfers into that particular account.

17. The variable we used to obtain the number of direct debits for each account does not allow us to distinguish between number of direct debits and standing orders. This has led us to create two types of customer segmentation definitions, in order to test the sensitivity of results to the assumption on the number of direct debits considered:

(a) Customer segmentation 1, which assumes that the customer only has direct debits (zero standing orders); and

(b) Customer segmentation 2, which assumes that the customer has half direct debits (and the other half standing orders).

Based on average credit balance and average number of days in overdraft

18. We segmented observations depending on credit balance and average number of days in overdraft per month across the year[75] in the following manner:

(a) 1 to 3 day(s) in overdraft;

(b) 4 to 7 days in overdraft;

[74] So as to not exclude a customer from the segment due to an abnormal amount of payments in a certain month.
[75] Regardless of overdraft type.

(c) 8 to 14 days in overdraft;

(d) 15+ days in overdraft;

(e) less than £500 credit balance, no overdraft;

(f) £500 to less than £2,000, no overdraft;

(g) £2,000 to less than £3,000, no overdraft;

(h) £3,000 to less than £5,000, no overdraft;

(i) £5,000 to less than £7,500, no overdraft;

(j) £7,500 to less than £10,000, no overdraft;

(k) £10,000 to less than £20,000, no overdraft; and

(l) 20,000 or more, no overdraft.

Based on overdraft usage[76]

19. We segmented observations depending on their overdraft usage. More specifically, whether customers have used their overdraft, and if so, the average days of overdraft use per month across the year. A distinction between arranged and unarranged overdraft is also made. Below is a list of the different segments:[77]

(a) No overdraft;

(b) Unarranged overdraft (with arranged) 1 to 3 days;

(c) Unarranged overdraft (with arranged) 4 to 7 days;

(d) Unarranged overdraft (with arranged) 8+ days;

(e) Arranged only overdraft, 1 to 3 days;

(f) Arranged only overdraft, 4 to 7 days;

(g) Arranged only overdraft, 8 to 14 days;

[76] Regardless of overdraft type.
[77] The segments listed in (b), (c) and (d) have been based on the average numbers of days in unarranged overdraft.

(h) Arranged only overdraft, 15+ days;[78]

(i) Unarranged only overdraft, 1 to 3 days;

(j) Unarranged only overdraft, 4 to 7 days; and

(k) Unarranged only overdraft, 8+ days.

Assumptions

20. The complete list of assumptions and an explanation on how prices were calculated is available in the Assumptions Dictionary (Annex H).

Time periods

21. In order to allow for different expected periods of holding PCAs, and therefore different periods throughout which switching incentives should be averaged, Runpath's calculations of monthly prices were carried out for the following time periods:

(a) For periods of 12 months (Y1 measure) and five years (Y5 measure) and then averaged to represent a monthly price. These calculations include switching incentives (such as one-off payments to the customer, first-year discounts and preferential interest rates).

(b) Excluding all temporary switching incentives available at that date in the market, such as one-off payments to the customer, first-year discounts and preferential interest rates (M measure). This corresponds to the average of the second year monthly price (as switching incentives are only available in the first 12 months of switching).

Account benefits obtained from other banking products (other than PCAs)

22. Net prices were calculated without taking into account benefits obtained from other banking products that depend on also holding a PCA; for example, some banks provide a preferential rate for regular savings made from a PCA. We note that, in principle, customers may choose to have less beneficial terms on their PCA in order to access a more beneficial rate on another product. On balance, however, we considered it better to exclude such benefits as they appeared principally aimed at encouraging holders of PCAs

[78] There are not similar 15+ days for unarranged overdraft usage due to sample size issues.

to take out other products and therefore tended to reflect a reduction in the price of the other product rather than that of the PCA.

Legacy accounts

23. Some products currently held by customers in the sample are no longer available to new customers and current pricing data is not held in the pricing database ('legacy' or 'back-book' accounts).[79] We use the price of a customer's current product in order to estimate the gains from switching. To calculate prices for these product, we used several approaches and compared the results: *(a)* we used prices for these accounts in the transactions database based on historic prices; *(b)* we matched these accounts to the prices of the oldest on-sale PCA at the customer's bank. We have also run a sensitivity to the main results where we excluded unmatched account observations altogether.

Overdraft assumptions

24. Due to data limitations, we had to make additional assumptions in order to take into account unarranged overdraft charges. Specifically, while our data set included data on the arranged limit and the total amount by which each account was overdrawn[80] on average each month, we did not have information on how to split the entire overdraft balance between unarranged and arranged in occasions where customers had used both types of overdraft.

25. In the analysis we therefore made an assumption about the amount by which each overdraft user was in unarranged overdraft, in instances where it was not possible to distinguish the arranged and unarranged overdraft balance. Based on feedback we received from PCA providers about plausible unarranged overdraft balances, for unarranged overdraft users we therefore assumed the balance was at least £100. We tested this by also undertaking the analysis assuming the balance was at least £20, and found that this assumption did not materially affect the results. The results shown in the tables below are based on an assumed unarranged overdraft balance of at least £100.

Switching incentives

26. Switching incentives, defined as the monetary amount and improved terms[81] offered to customers upon switching, are included in the estimates except

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[79] This occurred for 1,578 observations in the main sample and 681 in the survey sample.
[80] Regardless of type of overdraft (arranged and/or unarranged).
[81] For example, improved credit interest, reduced overdraft fees, reduced annual fees for a fixed period.

where otherwise stated. Co-op Bank submitted that the frequency with which such offers are changed or even withdrawn is high. We have therefore estimated average prices including and excluding switching incentives.

Brand and group level prices

27. To estimate brand- and group-level average prices, we weighted the product prices of each brand/group based on the number of customers using each product at the brand/group, according to the number of weighted observations in the transactions data set. This data is from 2014, and as such, it is possible that the customer mix across products at some banks has changed since then. In interpreting the brand/group level prices, it is important to note that as products at a provider have different prices, the aggregated brand/group price does not represent prices that all current customers of a provider pay or that new customers would pay.

Fee suppression/waivers

28. We do not take into account fee suppression or waivers of overdraft fees in our analysis.[82] This will be particularly relevant when interpreting results for overdraft users and means that the actual fees for these customers are likely to be smaller.

Corrections to the data following consultation

Year five prices

29. At a late stage and shortly before publication of our updated working paper,[83] our contractor, Runpath, told us that the Y5 measure did not include unpaid and paid items fees due to an error in running the data. Unpaid and paid items fees were included in the other two measures (Y1 and M).

30. For the analysis of average prices, we considered that the omission might introduce some bias when comparing prices of different products, brands and bank groups using the Y5 measure, insofar as the downward bias to prices of products with relatively larger paid and unpaid items fees would be greater. Before publication of the working paper, in the analysis of average prices, we corrected the Y5 measure by constructing a new measure which smooths the impact of switching incentives over five years, and takes into account the paid

[82] We do, however, take into account overdraft fee caps.
[83] CMA (24 May 2016), Update on personal current account pricing.

and unpaid fees. Specifically, we constructed a five-yearly monthly average price as follows:

$$\frac{12 * Y1 + 48 * M}{60}$$

31. Since publication of the working paper, we have also implemented this correction to the gains from switching analysis.

M&S switching incentives

32. LBG and Barclays submitted that shopping vouchers offered by M&S should be a switching incentive, not a benefit, so should be applied only for the first year.

33. We investigated this and found that the shopping vouchers had been incorrectly applied. We have corrected the M&S prices in the analysis.

LBG product prices

34. LBG submitted that its Lloyds Classic and BOS Classic accounts have the same pricing structure, so should have the same prices.

35. Runpath confirmed that it had not applied a cap to the Lloyds Classic account unarranged overdraft fees which it should have, and that the BOS Classic were the ones that were correct for both products.

36. We have replaced the fees in Lloyds Classic account prices with those of BOS Classic in the updated analysis. TSB’s Classic account also has the exact same pricing structure, and so we have replaced the TSB Classic account prices with the BOS Classic prices as well.

Miscategorisation of paid fees for TSB

37. TSB put forward queries regarding its product prices. We investigated the accuracy of TSB's prices and found that there was a misinterpretation of their paid fees as these actually referred to unarranged overdraft daily fees. We therefore eliminated TSB's paid items fees (which TSB does not charge) and recalculated its prices.

Supplement 1: Descriptive statistics on main sample

1. This supplement includes descriptive statistics on the main sample.

2. The two tables below show the number of observations of each product type, by provider in the main sample, in each region.

Table 1: Number of observations of each product type, by provider, GB

Provider	*Packaged*	*Standard/ Reward*	*Unknown*	*Grand total*
Unknown			[✂]	[✂]
BoS	[✂]	[✂]		[✂]
Barclays	[✂]	[✂]		[✂]
Clydesdale Bank	[✂]	[✂]		[✂]
First Direct	[✂]	[✂]		[✂]
Halifax	[✂]	[✂]		[✂]
HSBC		[✂]		[✂]
Lloyds	[✂]	[✂]		[✂]
M&S Bank		[✂]		[✂]
Metro		[✂]		[✂]
Nationwide	[✂]	[✂]		[✂]
NatWest	[✂]	[✂]		[✂]
RBS	[✂]	[✂]		[✂]
Santander		[✂]		[✂]
smile		[✂]		[✂]
Co-op Bank		[✂]		[✂]
TSB		[✂]		[✂]
Yorkshire Bank	[✂]	[✂]		[✂]
Grand total	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

Table 2: Number of observations of each product type, by provider, NI

Provider	*Packaged*	*Standard/ Reward*	*Grand total*
BoS		[✂]	[✂]
Barclays		[✂]	[✂]
Danske Bank		[✂]	[✂]
First Direct		[✂]	[✂]
First Trust Bank		[✂]	[✂]
Halifax	[✂]	[✂]	[✂]
HSBC		[✂]	[✂]
Lloyds	[✂]		[✂]
M&S Bank		[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]
NatWest		[✂]	[✂]
Post Office		[✂]	[✂]
RBS	[✂]	[✂]	[✂]
Santander		[✂]	[✂]
Co-op Bank		[✂]	[✂]
TSB		[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]
Grand total	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

3. The tables below show the percentage of observations of each product type by segment, in each region.

Based on account eligibility across the market

4. The tables in this subsection refer to customer segmentation 1 as that is the segmentation we use in the main analysis. Statistics for customer segmentation 2 are very similar.

Table 3: Percentage of Standard/Reward product observations per segment and incumbent provider, GB

	Customer segment									
Provider	*Less than £500*	*£1,000 to less than £1,500*	*£1,750 or more*	*<2 direct debits & £500 to <£750*	*<2 direct debits & £750 to <£1,000*	*<2 direct debits & £1,500 to <£1,750*	*2+ direct debits & £500 to <£750*	*2+ direct debits & £750 to <£1,000*	*2+ direct debits & £1,500 to <£1,750*	*Total percentage of Standard/Reward observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
smile	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Standard/ Reward observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

Table 4: Percentage of Packaged product observations per segment and incumbent provider, GB

	Customer segment									
Provider	*Less than £500*	*£1,000 to less than £1,500*	*£1,750 or more*	*<2 direct debits & £500 to <£750*	*<2 direct debits & £750 to <£1,000*	*<2 direct debits & £1,500 to <£1,750*	*2+ direct debits & £500 to <£750*	*2+ direct debits & £750 to <£1,000*	*2+ direct debits & £1,500 to <£1,750*	*Total percentage of Packaged observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
smile	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Packaged observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

Table 5: Percentage of Standard/Reward product observations per segment and incumbent provider, NI

	Customer segment									
Provider	*Less than £500*	*£1,000 to less than £1,500*	*£1,750 or more*	*<2 direct debits & £500 to <£750*	*<2 direct debits & £750 to <£1,000*	*<2 direct debits & £1,500 to <£1,750*	*2+ direct debits & £500 to <£750*	*2+ direct debits & £750 to <£1,000*	*2+ direct debits & £1,500 to <£1,750*	*Total percentage of Standard/Reward observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Trust Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Standard/ Reward observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

Table 6: Percentage of Packaged product observations per segment and incumbent provider, NI

	Customer segment									
Provider	*Less than £500*	*£1,000 to less than £1,500*	*£1,750 or more*	*<2 direct debits & £500 to <£750*	*<2 direct debits & £750 to <£1,000*	*<2 direct debits & £1,500 to <£1,750*	*2+ direct debits & £500 to <£750*	*2+ direct debits & £750 to <£1,000*	*2+ direct debits & £1,500 to <£1,750*	*Total percentage of Packaged observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Trust Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Packaged observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

Based on average credit balance and average number of days in overdraft

Table 7: Percentage of Standard/Reward product observations per segment and incumbent provider, GB

Characteristics

Provider	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500, no overdraft*	*£500 to less than £2,000, no overdraft*	*£2,000 to less than £3,000, no overdraft*	*£3,000 to less than £5,000, no overdraft*	*£5,000 to less than £7,500, no overdraft*	*£7,500 to less than £10,000, no overdraft*	*£10,000 to less than £20,000, no overdraft*	*£20,000 or more, no overdraft*	*Total percentage of Standard/ Reward observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
smile	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Standard/ Reward observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

Table 8: Percentage of Packaged product observations per segment and incumbent provider, GB

	Characteristics												
Provider	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500, no overdraft*	*£500 to less than £2,000, no overdraft*	*£2,000 to less than £3,000, no overdraft*	*£3,000 to less than £5,000, no overdraft*	*£5,000 to less than £7,500, no overdraft*	*£7,500 to less than £10,000, no overdraft*	*£10,000 to less than £20,000, no overdraft*	*£20,000 or more, no overdraft*	*Total percentage of Packaged observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
smile	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Packaged observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

Table 9: Percentage of Standard/Reward product observations per segment and incumbent provider, NI

	Characteristics												
Provider	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500, no overdraft*	*£500 to less than £2,000, no overdraft*	*£2,000 to less than £3,000, no overdraft*	*£3,000 to less than £5,000, no overdraft*	*£5,000 to less than £7,500, no overdraft*	*£7,500 to less than £10,000, no overdraft*	*£10,000 to less than £20,000, no overdraft*	*£20,000 or more, no overdraft*	*Total percentage of Standard/Reward observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Trust Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Standard/ Reward observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

Table 10: Percentage of Packaged product observations per segment and incumbent provider, NI

Characteristics

Provider	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500, no overdraft*	*£500 to less than £2,000, no overdraft*	*£2,000 to less than £3,000, no overdraft*	*£3,000 to less than £5,000, no overdraft*	*£5,000 to less than £7,500, no overdraft*	*£7,500 to less than £10,000, no overdraft*	*£10,000 to less than £20,000, no overdraft*	*£20,000 or more, no overdraft*	*Total percentage of Packaged observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Trust Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Packaged observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

Based on overdraft usage[84]

Table 11: Percentage of Standard/Reward product observations per segment and incumbent provider, GB

		Unarranged (with arranged)			*Arranged only*				*Unarranged only*			
Provider	*No overdraft*	*Unarranged overdraft (with arranged) 1-3 days*	*Unarranged overdraft (with arranged) 4-7 days*	*Unarranged overdraft (with arranged) 8+ days*	*Arranged only overdraft, 1-3 days*	*Arranged only overdraft, 4-7 days*	*Arranged only overdraft, 8-14 days*	*Arranged only overdraft, 15+ days*	*Unarranged only overdraft, 1-3 days*	*Unarranged only overdraft, 4-7 days*	*Unarranged only overdraft, 8+ days*	*Total percentage of Standard/ Reward observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
smile	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Standard/Reward observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

[84] Regardless of overdraft type.

Table 12: Percentage of Packaged product observations per segment and incumbent provider, GB

		Unarranged (with arranged)			*Arranged only*				*Unarranged only*			
Provider	*No overdraft*	*Unarranged overdraft (with arranged) 1-3 days*	*Unarranged overdraft (with arranged) 4-7 days*	*Unarranged overdraft (with arranged) 8+ days*	*Arranged only overdraft, 1-3 days*	*Arranged only overdraft, 4-7 days*	*Arranged only overdraft, 8-14 days*	*Arranged only overdraft, 15+ days*	*Unarranged only overdraft, 1-3 days*	*Unarranged only overdraft, 4-7 days*	*Unarranged only overdraft, 8+ days*	*Total percentage of Packaged observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
smile	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Packaged observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.
Note: There have been four observations in the main sample not matched by Runpath because the products they were being matched to stopped existing recently. These four observations show up as having no incumbent provider and their product type as 'Unknown'.

Table 13: Percentage of Standard/Reward product observations per segment and incumbent provider, NI

		Unarranged (with arranged)			*Arranged only*				*Unarranged only*			
Provider	*No overdraft*	*Unarranged overdraft (with arranged) 1-3 days*	*Unarranged overdraft (with arranged) 4-7 days*	*Unarranged overdraft (with arranged) 8+ days*	*Arranged only overdraft, 1-3 days*	*Arranged only overdraft, 4-7 days*	*Arranged only overdraft, 8-14 days*	*Arranged only overdraft, 15+ days*	*Unarranged only overdraft, 1-3 days*	*Unarranged only overdraft, 4-7 days*	*Unarranged only overdraft, 8+ days*	*Total percentage of Standard/Reward observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Trust Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Standard/Reward observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

Table 14: Percentage of Packaged product observations per segment and incumbent provider, NI

		Unarranged (with arranged)			*Arranged only*				*Unarranged only*			
Provider	*No overdraft*	*Unarranged overdraft (with arranged) 1-3 days*	*Unarranged overdraft (with arranged) 4-7 days*	*Unarranged overdraft (with arranged) 8+ days*	*Arranged only overdraft, 1-3 days*	*Arranged only overdraft, 4-7 days*	*Arranged only overdraft, 8-14 days*	*Arranged only overdraft, 15+ days*	*Unarranged only overdraft, 1-3 days*	*Unarranged only overdraft, 4-7 days*	*Unarranged only overdraft, 8+ days*	*Total percentage of Packaged observations for each provider across the sample*
BoS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
First Trust Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
M&S Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
NatWest	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total percentage of Packaged observations in each segment across the sample	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA's analysis on main sample.

Annex C: Average prices and gains from switching: Northern Ireland results

Average prices

Standard/Reward products, including benefits

Table 1: Average prices by product and overdraft use

£ per month

Y5		*Overdraft usage*					*Customer segmentation based on account eligibility*								*Overdraft usage*		
Brand	*Product*	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Product price*
Ulster Bank	Ulster Bank Private Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	16	15	15
Ulster Bank	Ulster Bank Standard Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	3	0	1
NatWest	NatWest Reward Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	3	5
NatWest	NatWest Select Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	2
Royal Bank of Scotland	Royal Bank of Scotland Reward Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Royal Bank of Scotland	Royal Bank of Scotland Select Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	2
Danske Bank	Danske Bank Danske Choice	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	0	4
Danske Bank	Danske Bank Danske Freedom	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	2
Santander	Santander 1|2|3 Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	-4	0
Santander	Santander Choice Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	10	11
Santander	Santander Everyday Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	0	3
First Trust Bank (NI)	First Trust Bank (NI) Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	0	4
First Trust Bank (NI)	First Trust Bank (NI) Plus Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	0	5
Halifax	Halifax Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	-1	1
Halifax	Halifax Current Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	9	10
Halifax	Halifax Reward Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	-1	1
Lloyds Bank	Lloyds Bank Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	0	3
Lloyds Bank	Lloyds Bank Club Lloyds Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	-4	-1
Bank of Scotland	Bank of Scotland Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	0	3
Bank of Scotland	Bank of Scotland Classic Account with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	10	11
Bank of Scotland	Bank of Scotland Classic Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	-2	1
Post Office	Post Office Standard Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	0	1
Nationwide BS	Nationwide BS FlexAccount	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	-4	-2
Nationwide BS	Nationwide BS FlexDirect Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-1	1
Barclays	Barclays Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	2
Barclays	Barclays Bank Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	8	9
Barclays	Barclays Bank Account with Blue Rewards	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	3	5
Barclays	Barclays Premier Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	1	0	0
Barclays	Barclays Premier Current Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	8	8
smile	smile Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	-2	1
The Co-operative Bank	The Co-operative Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	-2	1
HSBC	HSBC Advance Bank Account (New)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	0	1
HSBC	HSBC Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	0	1
HSBC	HSBC Bank Account Pay Monthly	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	10	10
HSBC	HSBC Premier Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-3	-4	-4

First Direct	First Direct 1st Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	2	2
M&S Bank	M&S Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-2	-1
M&S Bank	M&S Bank Premium Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-4	-5	-5
TSB	TSB Classic Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	0	3
TSB	TSB Classic Current Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	10	11
TSB	TSB Classic Plus Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	5	-2	1
TSB	TSB Classic Plus Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	8	9
B	B B Current	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	2	4
Clydesdale Bank	Clydesdale Bank Current Account Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	5	6
Clydesdale Bank	Clydesdale Bank Current Account Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Clydesdale Bank	Clydesdale Bank Current Account Plus	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	5	-2	0
Yorkshire Bank	Yorkshire Bank Current Account Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	5	6
Yorkshire Bank	Yorkshire Bank Current Account Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Yorkshire Bank	Yorkshire Bank Current Account Plus - 16 and over	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	5	-2	0
Metro Bank	Metro Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	0	1
Tesco Bank	Tesco Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	1	-1	-1

Source: CMA analysis on Runpath price outputs.

Figure 1: Brand average prices and average time products are held for that brand (Standard and Reward, Year 5 prices including benefits), NI

[✂]

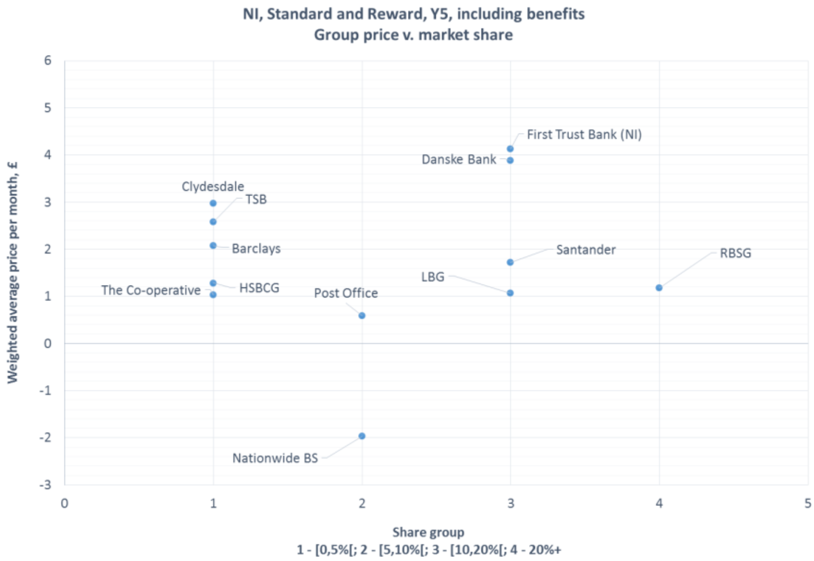
Table 2: Average prices by group and overdraft use

£ per month

Y5	*Customer segmentation by account eligibility across the market*									*Overdraft usage*		
Group	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Group price*
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	0	1
Danske Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	0	4
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	-2	2
First Trust Bank (NI)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	0	4
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	-1	1
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	0	1
Nationwide BS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	-4	-2
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	2
Co-op Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	-2	1
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	3	0	1
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	0	3
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	2	3
Metro Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	0	1
Tesco Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	1	-1	-1

Source: CMA analysis on Runpath price outputs.

Figure 2: Group-average prices and market shares (Standard and Reward, Year 5 prices including benefits), NI



Packaged products, including benefits

Table 3: Average prices by product and overdraft use

£ per month

Y5		*Overdraft usage*					*Customer segmentation based on account eligibility*								*Overdraft usage*		
Brand	*Product*	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Product price*
Ulster Bank	Ulster Bank ufirst Private Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	13	13
Ulster Bank	Ulster Bank ufirstgold Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-2	-1
NatWest	NatWest Reward Black Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-76	-76
NatWest	NatWest Reward Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-33	-39	-36
NatWest	NatWest Reward Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	4
Royal Bank of Scotland	Royal Bank of Scotland Black Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	3	3
Royal Bank of Scotland	Royal Bank of Scotland Reward Black Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Royal Bank of Scotland	Royal Bank of Scotland Reward Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Royal Bank of Scotland	Royal Bank of Scotland Reward Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Halifax	Halifax Ultimate Reward Current Account 2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-12	-18	-14
Lloyds Bank	Lloyds Bank Club Lloyds Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	1	-7	-2
Lloyds Bank	Lloyds Bank Club Lloyds Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-4	-14	-8
Lloyds Bank	Lloyds Bank Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	-4	0
Lloyds Bank	Lloyds Bank Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-3	1
Bank of Scotland	Bank of Scotland Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-4	-1
Bank of Scotland	Bank of Scotland Platinum Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-5	-2
Bank of Scotland	Bank of Scotland Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-3	1
Bank of Scotland	Bank of Scotland Silver Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-5	1
Post Office	Post Office Packaged Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-2	-3	-3
Nationwide BS	Nationwide BS FlexPlus Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-20	-26	-22
First Direct	First Direct 1st Account - with First Directory	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-4	-6	-4
TSB	TSB Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-5	-8	-6
TSB	TSB Silver Added Value Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	1	-4	-1
Clydesdale Bank	Clydesdale Bank Signature Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-26	-33	-29
Yorkshire Bank	Yorkshire Bank Signature Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-1	-8	-4

Source: CMA analysis on Runpath price outputs.

Table 4: Average prices by group and overdraft use

£ per month

Y5	Customer segmentation based on account eligibility									*Overdraft usage*		
Group	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Group price*
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-2	0
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-4	-6	-5
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-2	-3	-3
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-20	-26	-22
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-4	-6	-4
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	1	-4	-1
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-14	-20	-16

Source: CMA analysis on Runpath price outputs.

Gains from switching

Gains by customer segment and characteristics

114. We have assessed how the gains from switching vary across different customer segments.

115. As in GB, we see that for standard/reward products, the gains from switching are higher for overdraft users than non-overdraft users. Unlike in GB however, there is less of a clear pattern in terms of the number of days in overdraft. Although the gains generally increase with the number of days in overdraft, they are higher for customers with 8-14 days in overdraft than for those with 15 or more days in overdraft.

116. Similarly, the pattern is less clear than for GB in terms of the average credit balance. Customers with very high credit balances (£20,000 or more) on average have higher gains from switching than those with low credit balances (less than £500). The difference is small however, and unlike in GB, there is not a steady increase in the gains from switching as the credit balance increases.

Table 5: Average gains from switching to average cheapest products, by account type and customer segment based on average credit balance and average number of days in overdraft, five years (switching incentives), NI

	Characteristics											
	Overdraft users				*Non-overdraft users*							
Average gains from switching (£ per month)	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500*	*£500 to less than £2,000*	*£2,000 to less than £3,000*	*£3,000 to less than £5,000*	*£5,000 to less than £7,500*	*£7,500 to less than £1,0000*	*£1,0000 to less than £2,0000*	*£20,000 or more*
Standard and reward PCAs compared to:												
Cheapest product	£26	£32	£12	£10	£5	£5	£5	£6	£8	£6	£6	£9
2nd cheapest product	£23	£30	£10	£8	£4	£4	£4	£4	£6	£4	£5	£5
3rd cheapest product	£21	£28	£9	£7	£3	£3	£3	£3	£4	£3	£3	£4
4rt cheapest product	£20	£27	£8	£6	£2	£3	£3	£3	£3	£3	£3	£3
5th cheapest product	£19	£26	£8	£6	£2	£2	£2	£2	£3	£2	£2	£2
Average 3 best	£23	£30	£10	£8	£4	£4	£4	£5	£6	£4	£5	£6
Average 5 best	£22	£29	£9	£7	£3	£3	£4	£4	£5	£3	£4	£5
Share of Standard and reward PCAs	3%	2%	2%	22%	18%	21%	7%	8%	4%	3%	5%	5%
Packaged PCAs compared to:												
Cheapest product	£24	£22	£19	£33	£31	£41	£22	£37	£53	£35	£13	£45
2nd cheapest product	£17	£14	£10	£26	£25	£32	£17	£30	£46	£20	£7	£26
3rd cheapest product	£11	£9	£7	£18	£17	£24	£11	£22	£38	£14	£0	£21
4rt cheapest product	£4	£4	£2	£12	£11	£16	£8	£15	£31	£8	£0	£14
5th cheapest product	£3	£4	£1	£7	£7	£11	£5	£10	£26	£4	£0	£10
Average 3 best	£17	£15	£12	£26	£24	£32	£17	£30	£46	£23	£7	£31
Average 5 best	£12	£11	£8	£19	£18	£25	£13	£23	£39	£16	£4	£23
Share of Packaged PCAs	11%	10%	4%	37%	6%	11%	6%	3%	1%	4%	1%	4%

Source: CMA analysis of Runpath price outputs.

Table 6: Average gains from switching to average cheapest products, by account type and customer segment based on overdraft usage (arranged/ unarranged), five years (switching incentives), NI

	Overdraft usage											
Average gains from switching (£ per month)	*No overdraft*	*Overdraft*	*Unarranged overdraft (with arranged) 1-3 days*	*Unarranged overdraft (with arranged) 4-7 days*	*Unarranged overdraft (with arranged) 8+ days*	*Arranged only overdraft, 1-3 days*	*Arranged only overdraft, 4-7 days*	*Arranged only overdraft, 8-14 days*	*Arranged only overdraft, 15+ days*	*Unarranged only overdraft, 1-3 days*	*Unarranged only overdraft, 4-7 days*	*Unarranged only overdraft, 8+ days*
Standard and reward PCAs compared to:												
Cheapest product	£6	£13	£25	£48	£47	£6	£10	£16	£17	£18	£21	£44
2nd cheapest product	£4	£11	£22	£45	£44	£5	£9	£14	£15	£15	£18	£41
3rd cheapest product	£3	£10	£20	£43	£42	£3	£7	£13	£15	£13	£16	£38
4rt cheapest product	£3	£9	£20	£42	£41	£3	£7	£12	£13	£13	£16	£36
5th cheapest product	£2	£9	£19	£40	£39	£2	£6	£11	£13	£12	£16	£35
Average 3 best	£4	£11	£22	£45	£44	£5	£8	£14	£16	£15	£18	£41
Average 5 best	£4	£10	£21	£44	£43	£4	£8	£13	£15	£14	£17	£39
Share of Standard and reward PCAs	72%	28%	4%	0%	0%	14%	1%	1%	1%	7%	0%	0%
Packaged PCAs compared to:												
Cheapest product	£36	£28	£23	-	-	£34	£17	£18	£27	£22	-	-
2nd cheapest product	£26	£21	£14	-	-	£28	£11	£12	£23	£12	-	-
3rd cheapest product	£19	£15	£9	-	-	£20	£6	£5	£17	£6	-	-
4rt cheapest product	£13	£8	£5	-	-	£13	£0	£0	£6	£0	-	-
5th cheapest product	£9	£5	£4	-	-	£8	£0	£0	£5	£0	-	-
Average 3 best	£27	£21	£15	-	-	£27	£11	£12	£22	£13	-	-
Average 5 best	£20	£16	£11	-	-	£21	£7	£7	£15	£8	-	-
Share of Packaged PCAs	37%	63%	17%	-	-	31%	1%	3%	6%	4%	-	-

Source: CMA analysis of Runpath price outputs. A missing value indicates that there were insufficient observations to calculate the gain

Annex D: Personal current account pricing and service quality analysis

Background

1. The existence of large variations in pricing across banks might indicate that customers of worse-performing banks would be better off switching away from their existing bank. However, it might also be reflective of differences in service quality, with customers making a trade-off between price and quality in choosing their account. We therefore interpret the results of the pricing and quality analysis together.

2. There are four possible outcomes:

   (a) Customers pay **above**-average prices for **above**-average quality.

   (b) Customers pay **below**-average prices for **below**-average quality.

   (c) Customer pay **above**-average prices for **below**-average quality.

   (d) Customers pay **below**-average prices for **above**-average quality.

3. Outcomes *(a)* and *(b)* are consistent with customers making rational trade-offs between price and quality. However, for outcome *(c)*, customers would be better off by switching from the 'high-price low-quality' providers to a brand with low price and/or high quality.

4. In this paper we update the evidence base on the interaction between price and quality since provisional findings as described below.

CMA update

5. This section sets out our response to the views submitted by parties, grouped under the following categories:

   (a) Data;

   (b) Customer profiles and segmentation; and

   (c) Dimensions of service quality.

Data

6. Both Barclays and LBG submitted that we should not rely on the results of the Which? survey on customer satisfaction, as the sample was not

representative.[1] LBG submitted that instead of using the Which? figures, we should include satisfaction ratings from the GfK PCA survey in our main analysis.[2] Whilst we agree that there are some methodological concerns regarding the Which? survey, we prefer to include these results for completeness, and we note that the results are very much in line with our other sources of satisfaction data. We have also included results from the GfK PCA survey.

7. Barclays noted that it would be more accurate for us to match respondents from the GfK PCA survey with their cost of banking.[3] In doing so, we would be able to directly compare the prices that individual customers pay with their level of satisfaction. We undertake this analysis below.

8. LBG argued that customer satisfaction was not a meaningful indicator of quality, as it reflected customers' expectations and could be influenced by non-quality factors, such as what we refer to as brand taint effects.[4] While we recognise that there are limitations to the use of satisfaction measures as a proxy for quality outcomes, we maintain our view that customer satisfaction is a useful and important indicator of quality.

9. First, customer satisfaction ratings have the benefit over alternative indicators (such as operational performance measures) of measuring service outcomes as perceived by the customer, as opposed to single inputs or components of the overall quality. In this way they reflect the implicit weighting attached by customers to the various attributes of service. As a result, customer satisfaction ratings are widely used by both regulators and private companies (including banks) as measures of overall service quality.[5]

10. Second, satisfaction ratings may partially reflect a customer's expectations of quality, and as such may not perfectly measure the actual quality of service offered.[6] To the extent that this is true, however, products that offer high quality should still receive strong satisfaction ratings: products that receive lower satisfaction ratings are failing to meet their customers' expectations of quality.

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[1] Barclays response to provisional findings, paragraphs 2.5 & 2.7. LBG response to provisional findings, paragraphs 2.44 & 2.32.
[2] LBG response to provisional findings, paragraphs 2.44.
[3] Barclays response to provisional findings, paragraph 2.7.
[4] LBG response to provisional findings, paragraphs 18a, 1.5 & 2.30–2.31.
[5] Since 2011 for example Ofwat has used customer satisfaction as one of its key metrics to compare and incentivise improvements in the service quality delivered by water companies. Further, in their responses to the PCA market questionnaire, 8 of the 13 banking groups cited the NPS measure (used below) as a metric used to monitor and/or benchmark the quality of PCA service provided.
[6] See Section 5, paragraphs 5.89–5.94.

11. In a well-functioning market, we would therefore not expect to find a large number of providers with above-average prices but below-average satisfaction ratings. We would expect any providers in this group to be rapidly losing market share and, consequently, those providers with below-average prices and above-average satisfaction scores to be rapidly gaining market share.

Customer profiles and segmentation

12. We agree with LBG's submission that to the extent that banks target products at certain customers, this may result in our estimated brand prices – estimated with reference to a representative customer profile – being different from the average price for the actual customer base.[7] However, the basis for using a representative customer profile is to facilitate comparisons between products on the same basis. Further, the representative customer profile takes account of a product's eligibility criteria. Hence our prices are representative of what eligible customers could expect to pay.

13. We note LBG's argument, however, that products targeted at different customer segments may have quite different attributes, making the direct comparison of such products difficult. In our updated analysis below we therefore consider the robustness of our results in relation to specific customer segments.

14. Finally, in response to LBG's concern that our estimated brand prices rely on a sample of customers that may be different from a brand's actual customer base, our new analysis of price and quality at the customer level, presented below, is based on customers' existing bank accounts.[8] Hence this analysis does take into account the customer profile of a particular brand.

Dimensions of service quality

15. We have considered Barclays' submission that customers may self-select into particular products depending on many dimensions of service quality, including branch locations and mobile banking applications.[9] We do not believe, however, that each dimension of service quality needs to be considered separately as a result. In particular, if customers self-select and choose a particular account to access certain features (such as mobile banking), then the quality of those features will be captured by the customer's

[7] LBG response to provisional findings, paragraph 2.6.
[8] LBG response to provisional findings, paragraph 2.6.
[9] Barclays response to provisional findings, paragraph 2.6.

overall level of satisfaction. Overall satisfaction thus reflects the implicit weighting attached by customers to the various attributes of service.

16. In addition, even if a consumer has selected into a bank to access particular services, there are still likely to be gains from switching if satisfaction levels are low. It is customers' overall satisfaction that is most likely to influence their decision to switch account. When analysing the relationship between market outcomes with respect to price and quality, we therefore consider that it is most informative to consider overall satisfaction rather than satisfaction along specific dimensions.

Summary

17. Based on our response to the parties' submissions, we therefore undertake the following additional pieces of analysis:

    (a) We update our previous assessment of the relationship between prices and quality. This takes into account the revised prices received from Runpath and a number of recommendations made by the parties. In particular, we extend our analysis to consider specific customer segments, and include satisfaction ratings from the GfK PCA survey.

    (b) We compare prices and satisfaction levels for those respondents present in both the Runpath pricing sample and the GfK PCA survey. This enables us to directly compare the prices and quality that individual customers experience.

18. Our baseline scenario below consists of customers in GB with standard and reward accounts.[10] We use prices inclusive of benefits in the baseline, and present results using prices excluding benefits in the Annex to this paper. The results are extremely similar in both cases.

Average prices and quality: update

19. We concentrate on two measures of quality:

    (a) The net promoter score (NPS). This is a customer loyalty metric widely used by banks as part of their quality monitoring process, and is available from the GfK FRS survey. Surveyed customers are asked how likely they are to recommend their provider to friends and family, on a scale of 0 to 10. The NPS is the percentage of customers reporting a score of 9 or 10

[10] There is very limited quality data available to replicate this analysis for NI. From the GfK PCA survey however, we are able to generate satisfaction ratings for 6 banks. Although this is a very small sample, we find that some of these banks have above-average prices but below-average quality. This is consistent with our findings for GB.

(‘promoters’) minus the percentage reporting a score of 6 or below (‘detractors’). The NPS therefore ranges from –100 to +100.

(b) The proportion of customers that are satisfied with their current account provider. This data is available from the GfK FRS survey, GfK PCA survey and Which? survey.

The GfK PCA measures satisfaction on a five-point scale (from ‘very satisfied’ to ‘very dissatisfied’) and the GfK FRS measures satisfaction on a seven-point scale (from ‘extremely satisfied’ to ‘extremely dissatisfied’). We classify those in the PCA survey as ‘satisfied’ if customers responded that they are ‘very satisfied’ or ‘fairly satisfied’ with their provider, and those in the GfK FRS survey as ‘satisfied’ if customers respond that they are ‘extremely satisfied’, ‘very satisfied’ or ‘fairly satisfied’.

The Which? satisfaction score is a hybrid measure calculated using a combination of respondents’ overall satisfaction and how likely they are to recommend their bank to a friend.[11]

20. Figure 1 plots the average price of each brand against its NPS from the GfK FRS survey in which customers are asked how likely they are to recommend their provider to friends and family.

21. It is notable that there is a large cluster of providers offering **above** average prices and **below** average quality. Indeed, whilst eight brands are in this category, there are only two providers that have both **above** average prices and **above** average quality. In a well-functioning market, we would expect to find customers are prepared to pay higher prices only in return for higher quality. Insofar as some providers are offering below average quality products and above average prices, we would expect these providers’ share to decline rapidly as customers switch to better quality/lower priced providers.

22. Two of the four providers offering below-average prices and above-average quality – [✂] and [✂] – have been gaining market share.[12] This indicates that customers are switching to the best-performing banks. However, the market share of both providers has only increased very slowly – [✂] and [✂] combined share of GB PCAs increased by less than [✂] percentage points in 2014.

[11] As there are definitional differences between the three sources, the scales are not directly comparable. Satisfaction measures from these data sets show differing degrees of variation in ratings (ranging from 87 to 96% from the GfK PCA consumer survey, 91 to 97% from the GfK FRS and 57 to 73% from the Which? satisfaction survey).
[12] We do not have comparable data on market share changes for the Post Office or Yorkshire Bank.

Figure 1: Comparison of NPS and PCA pricing by brand

[✂]

Source: CMA analysis on Runpath price outputs and GfK FRS.
Note: The prices in the figure include benefits. Price data is for 2016 and quality data is for 2014. The arrows denote whether the bank's market share increased or decreased in 2014.

23. We considered satisfaction as an alternative measure of quality – specifically the proportion of customers that are satisfied with their current account provider. We used data from the GfK FRS survey, GfK PCA survey and Which? survey.

24. Figure 2 plots average prices of each brand against the proportion of customers from the GfK FRS survey that are 'satisfied' with the overall level of service. The positioning of providers is extremely similar to the NPS results above, although [✂] have below average satisfaction on this measure. Using this satisfaction measure, [✂] have notably higher satisfaction scores than the other providers.

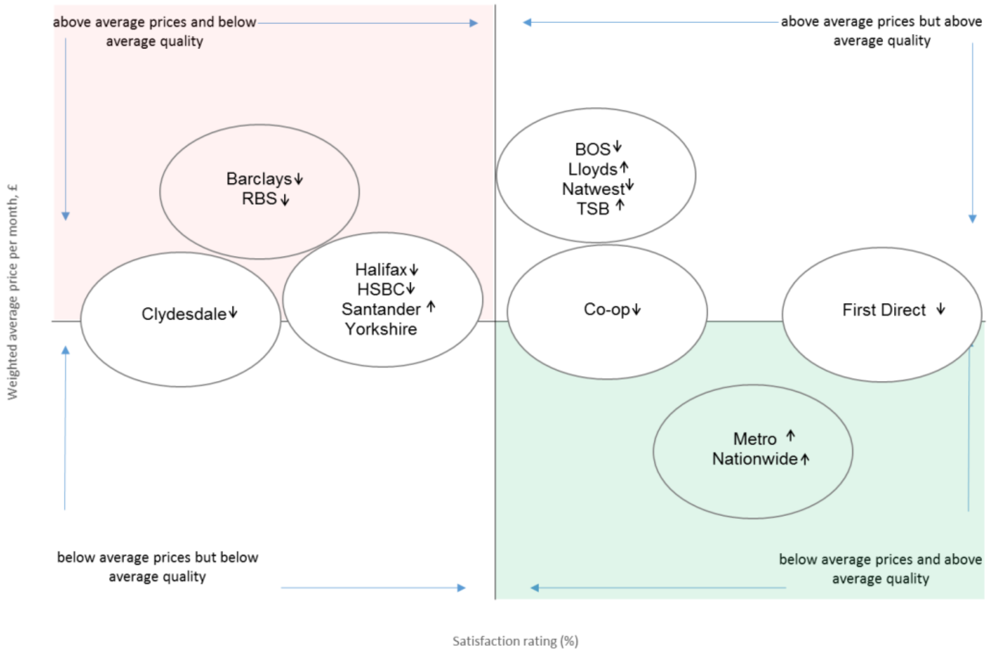
Figure 2: Comparison of GfK FRS satisfaction and PCA pricing by brand

[✂]

Source: CMA analysis on Runpath price outputs and GfK FRS.
Note: the prices in the figure include benefits. Price data is for 2016 and quality data is for 2014. The arrows denote whether the bank's market share increased or decreased in 2014.

25. In Figure 3 we also plot average prices against satisfaction levels using results from the GfK PCA survey. The general pattern is as before, although there is somewhat more variation in the distribution of providers with six providers offering above average prices and above average satisfaction on this measure.

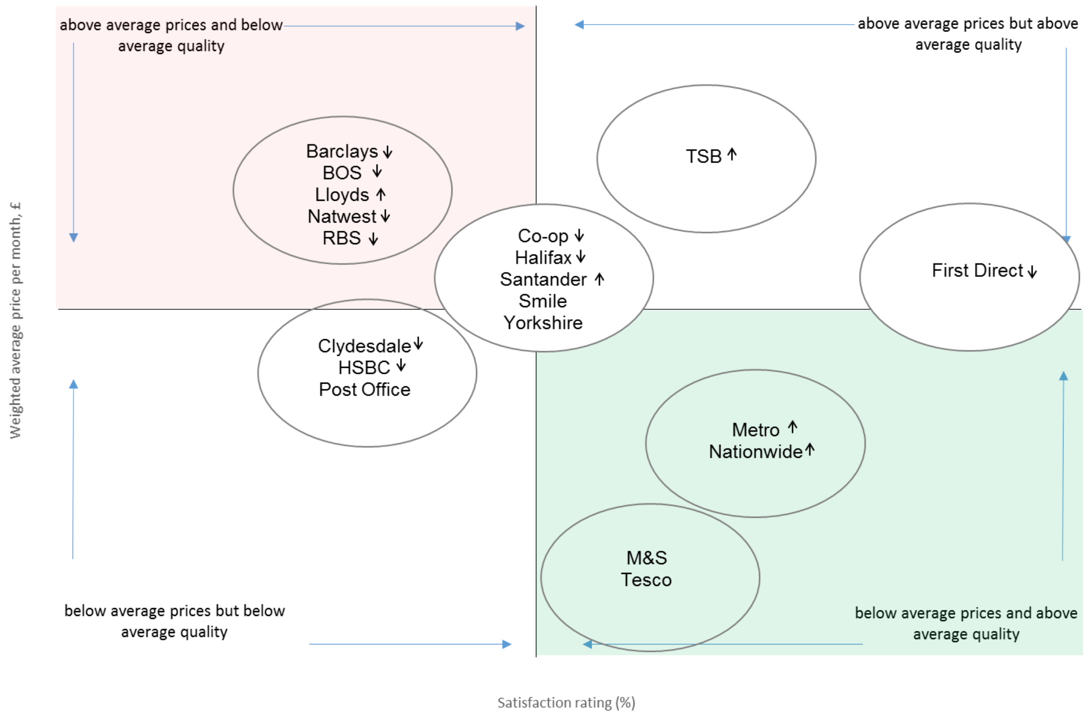
Figure 3: Comparison of GfK PCA satisfaction and PCA pricing by brand



Source: CMA analysis on Runpath price outputs and GfK PCA.
Note: the prices in the figure include benefits. Price data is for 2016 and quality data is for 2014. The arrows denote whether the bank's market share increased or decreased in 2014.

26. Below we present the results using results from the Which? satisfaction scores. These are derived using a much smaller sample compared with the GfK FRS and it has also not been possible for us to independently verify the robustness of the survey methodology. We therefore consider the Which? findings less robust, but note that they are consistent with the results using other measures.

Figure 4: Comparison of Which? satisfaction and PCA pricing by brand



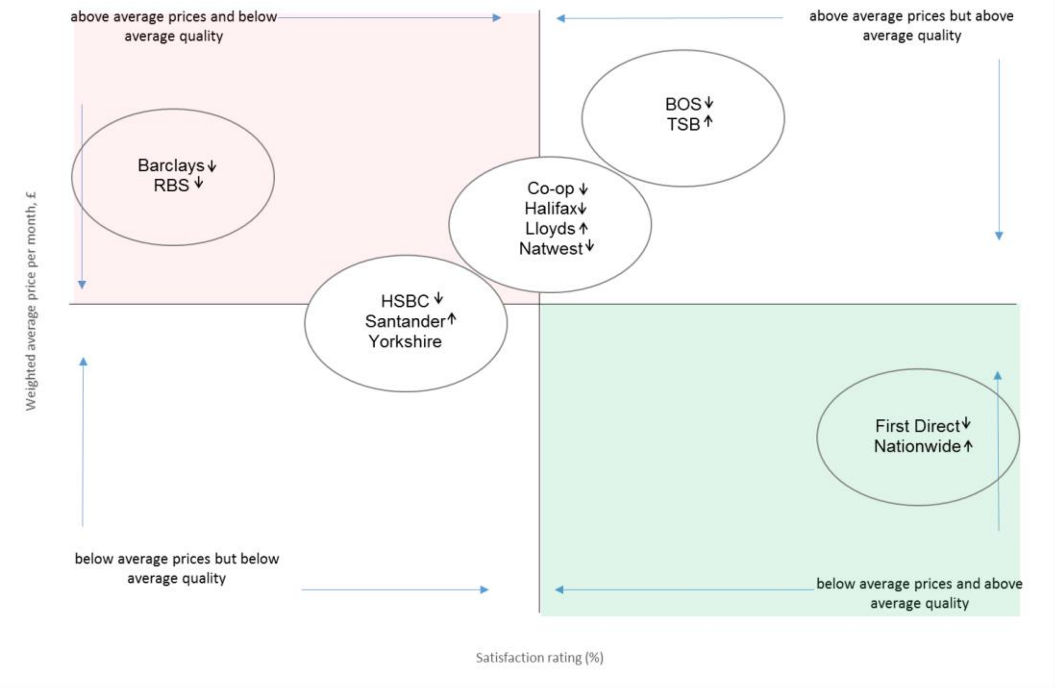
Source: CMA analysis on Runpath price outputs and Which?.
Note: The prices in the figure include benefits. Price data is for 2016 and quality data is for January 2016. The arrows denote whether the bank's market share increased or decreased in 2014.

27. Extending our assessment, we now consider the relationship between average prices and quality within particular customer segments. The aim is to check whether the main conclusions we draw from the aggregate analysis above also hold when we consider a more homogeneous set of customers. We focus on those customers with a credit balance of £1,750 or higher, as this is the only customer segment for which we have sufficient numbers of respondents to the GfK PCA satisfaction survey to create brand-level satisfaction ratings.[13]

28. The results are presented in Figure 5. The pattern is similar to the more aggregated analysis above, with four providers charging *above*-average prices and offering *below*-average quality, although there are more providers offering *above*-average prices and *above*-average quality. Again as before, the most competitive brands – those with *below*-average prices but *above*-average satisfaction – have not been rapidly gaining market share: first direct [✂] lost market share in 2014, while Nationwide's market share increased [✂].

[13] We include only those brands for which the number of respondents in the GfK PCA survey is 50 or more.

Figure 5: Comparison of GfK PCA satisfaction and PCA pricing by brand, for those customers with credit balance of £1,750 and above



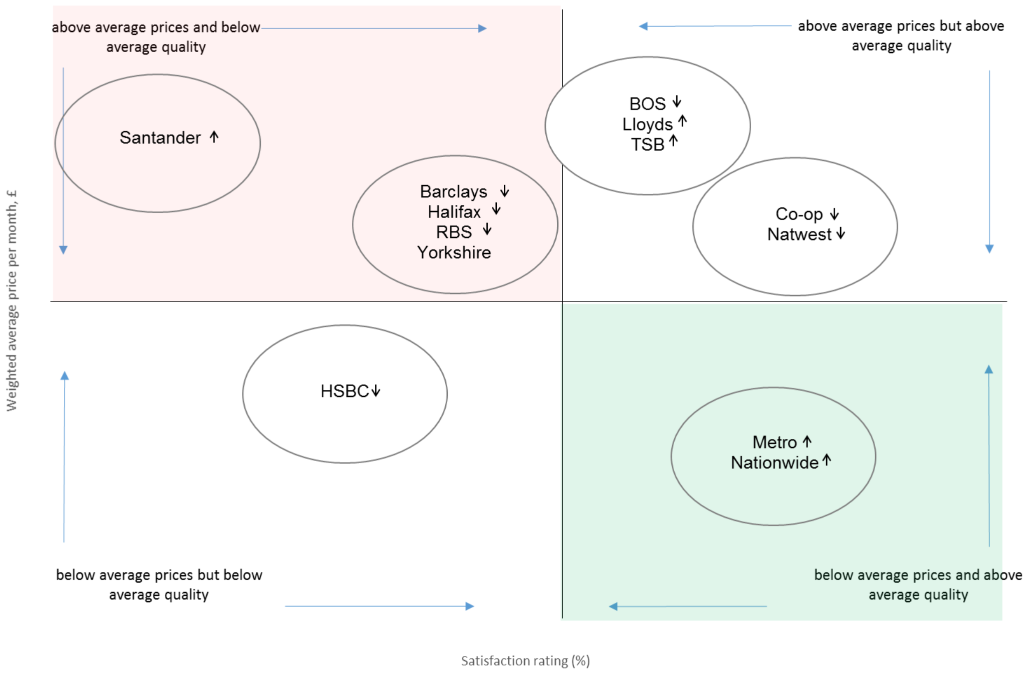
Source: CMA analysis on Runpath price outputs and GfK PCA.
Note: the prices in the figure include benefits. Price data is for 2016 and quality data is for 2015. The arrows denote whether the bank's market share increased or decreased in 2014. Those brands with less than 50 respondents in the GfK PCA survey for this customer segment are excluded.

29. We have also segmented by overdraft and non-overdraft users.

30. The results for overdraft users are presented in Figure 6, and those for non-overdraft users are presented in Figure 7. It is notable that some brands perform very differently across the two customer segments. Santander, for example, has the lowest satisfaction score among overdraft users and also charges above-average prices. For non-overdraft users, however, Santander is one of the most competitive brands, with below-average prices and above-average satisfaction. Conversely, NatWest has an above-average satisfaction rating among overdraft users, but a below-average rating among non-overdraft users.

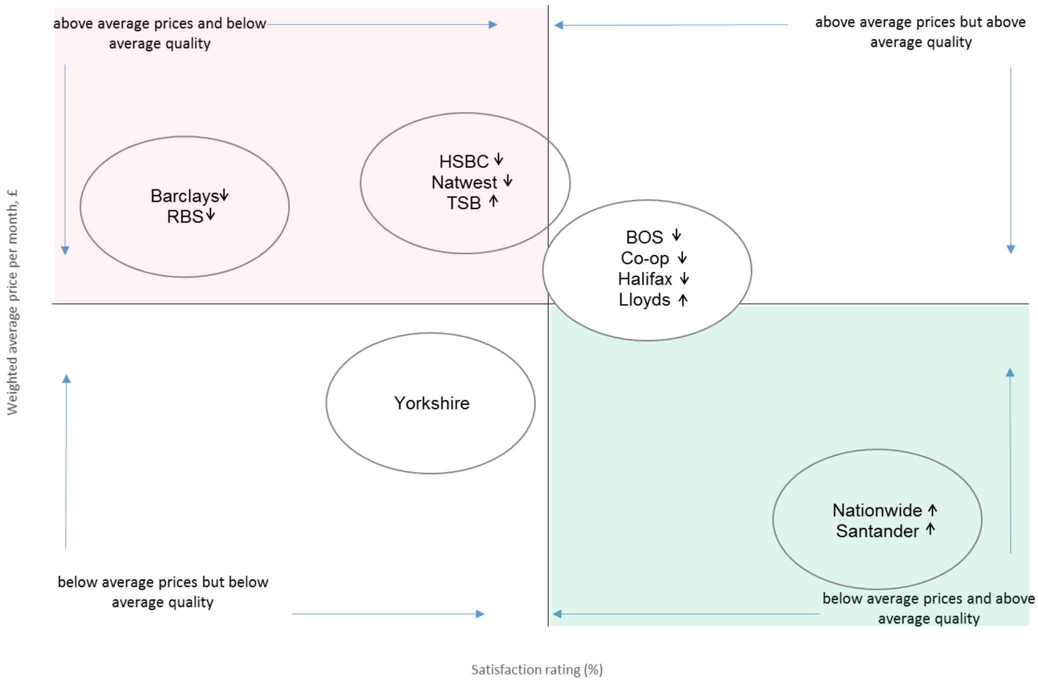
31. Overall, and consistent with the analysis above, both charts show considerable variation among brands in terms of price and quality, with a number of brands having above-average prices and below-average satisfaction.

Figure 6: Comparison of GfK PCA satisfaction and PCA pricing by brand, for overdraft users



Source: CMA analysis on Runpath price outputs and GfK PCA.
Note: the prices in the figure include benefits. Price data is for 2016 and quality data is for 2015. The arrows denote whether the bank's market share increased or decreased in 2014. Those brands with less than 50 respondents in the GfK PCA survey for this customer segment are excluded.

Figure 7: Comparison of GfK PCA satisfaction and PCA pricing by brand, for non-overdraft users



Source: CMA analysis on Runpath price outputs and GfK PCA.
Note: the prices in the figure include benefits. Price data is for 2016 and quality data is for 2015. The arrows denote whether the bank's market share increased or decreased in 2014. Those brands with fewer than 50 respondents in the GfK PCA survey for this customer segment are excluded.

Price and quality at the customer level

32. Our second piece of analysis considers the relationship between price and quality at an individual level. The advantage of this approach is that we do not need to construct brand or product level averages, but instead we can consider how satisfied particular customers are with their bank account, and how this relates to the actual price that they pay. This allows us to assess the extent to which there is a price-quality trade-off in the provision of PCAs that may be obscured in our analysis of aggregate price and satisfaction data.

33. To conduct this analysis we submitted to Runpath a sample of 3,709 individuals that were present in the GfK PCA survey. Of these 3,709 individuals, three responded that they 'don't know' how satisfied they are with their account, and these individuals are excluded. This leaves us with a sample of 3,706 individuals for which we have both price and quality information.[14]

34. Table 1 provides summary statistics on reported levels of satisfaction and average prices. Over half of respondents reported being 'very satisfied' with their PCA, with a further 39% being 'fairly satisfied'. Less than 5% reported being 'very dissatisfied' or 'fairly dissatisfied'.

35. It is clear from the table that the most satisfied customers on average paid much lower prices than the most dissatisfied customers. While those that are 'very satisfied' on average paid £1 each month, those that are 'very dissatisfied' on average paid £9 each month – this difference being statistically significant at the 1% level. It is notable that the average price per month steadily increases as the level of satisfaction decreases.

36. These findings show that higher prices are not in general reflective of higher quality. They also undermine the view that satisfaction ratings purely reflect expectations: if that were the case, we would expect satisfaction scores to be roughly the same at all price levels. Instead, we find that those paying higher prices are significantly less likely to be satisfied with their account. These results therefore support the view that those paying higher prices might be better off switching away from their existing account. As we have set out in Section 5 however, overdraft users might have difficulty finding a suitable PCA provider to switch to.

[14] 84% of the respondents are in GB and 16% are in NI. To maximise the number of observations we do not distinguish between GB and NI. For the same reason we do not distinguish between 'packaged' and 'standard and reward' accounts. The results are very similar if we restrict the analysis to GB and standard and reward accounts.

Table 1: Satisfaction levels from the GfK PCA survey and average prices

Reported satisfaction	*Percentage of respondents (%)*	*Average price per month (£)*
Very satisfied	52	1
Fairly satisfied	39	3
Neither satisfied nor dissatisfied	5	5
Fairly dissatisfied	2	7
Very dissatisfied	2	9

Source: CMA analysis and GfK PCA survey.

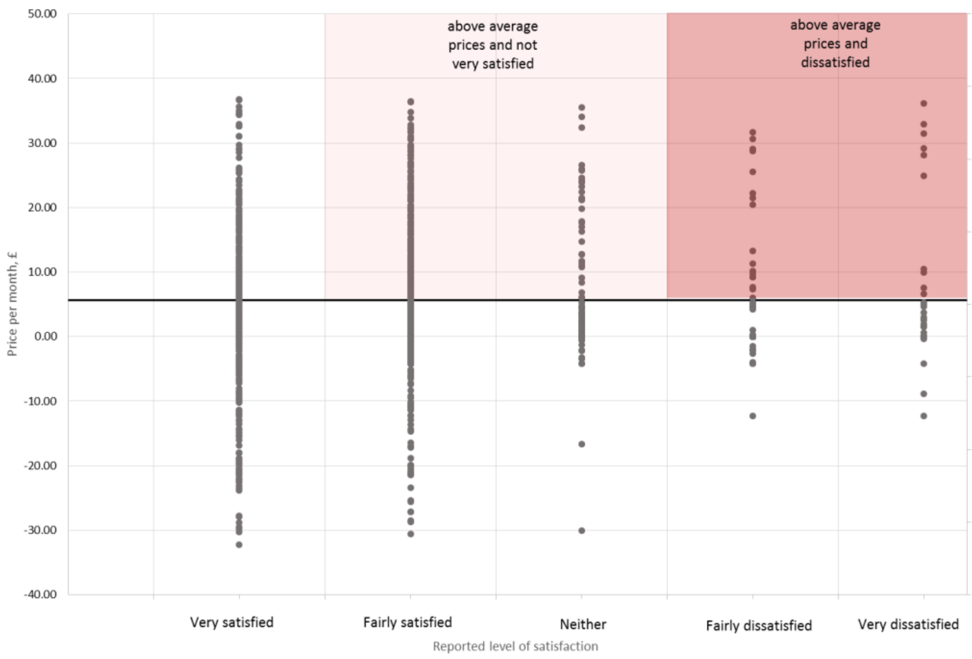
37. Figure 8 plots each customer's monthly cost of banking against their reported level of satisfaction.[15] We are particularly interested in those customers that pay above-average prices but receive below-average quality: a large proportion of such customers would indicate that the market is not functioning well, and there is a weak customer response to variations in prices and quality.

38. The upper right corner of Figure 8, shaded dark red, therefore indicates those customers paying above-average prices, but reporting dissatisfaction with their level of service. 3% of those surveyed fall into this group. As the most common response was 'very satisfied', we also highlight, in light red, those customers that pay above-average prices but are not very satisfied with their account. 15% of those surveyed fall into this group.

39. The figure therefore seems to paint a mixed picture. There is a relatively small percentage of customers (3%) that are both dissatisfied with their account and pay above-average prices. This might suggest that only a limited number of customers would benefit from switching their account. However, there is a much larger proportion (15% in total) that pay above-average prices and are not 'very satisfied' with their account. Given that the majority of customers are very satisfied with their account, this suggests that superior options also exist for this group of customers. In addition, as previously noted, there is evidence that, even though many customers said that they did not switch because they were satisfied, they may simply not be aware of alternatives available to them and therefore be able to verify whether indeed they have the best product and service for them.[16]

[15] For the purposes of the figure we exclude extreme outliers – those with prices above or below the mean plus/minus 3 standard deviations.
[16] See Section 5.

Figure 8: Comparison of satisfaction and PCA pricing by customer



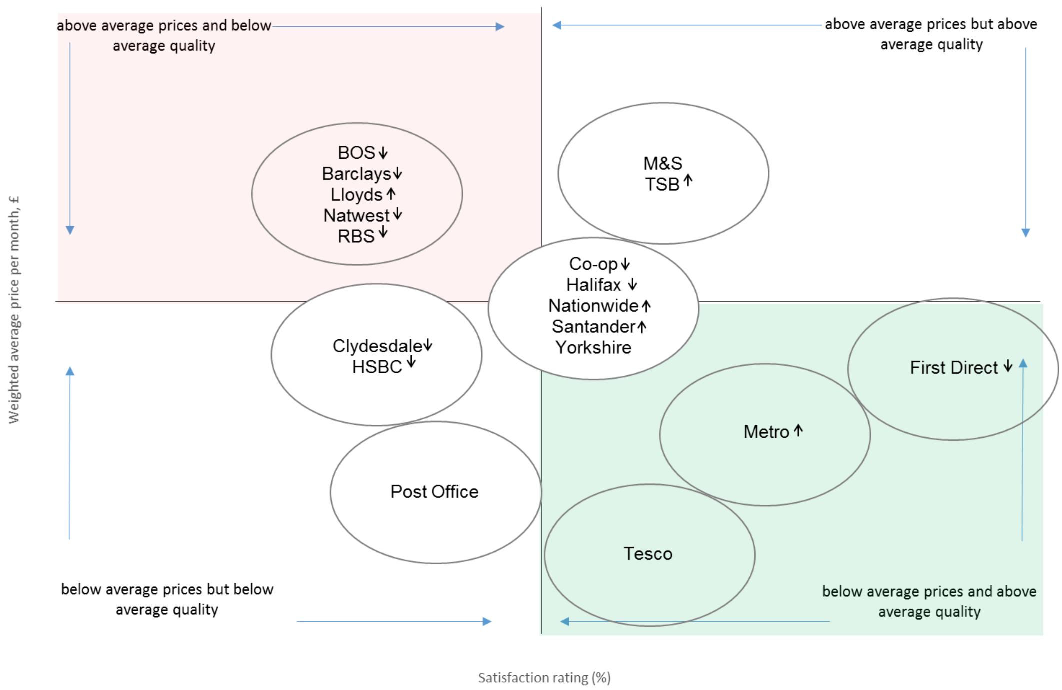
Source: CMA analysis on Runpath price outputs and GfK PCA. Price data is for 2016 and quality data is for 2015.

Supplement 1: Average prices excluding benefits

1. In this supplement we replicate Figures 1 to 4 using average prices excluding benefits. As before, the analysis was done for customers in GB with standard and reward accounts.

2. The main results are extremely similar to those including benefits. In particular, in each Figure there remains a large cluster of providers offering above average prices and below average quality.

Figure 1: Comparison of Which? satisfaction and PCA pricing by brand



Source: CMA analysis on Runpath price outputs and Which?.
Note: the prices in the figure do not include benefits. Price data is for 2016 and quality data is for 2016. The arrows denote whether the bank's market share increased or decreased in 2014.

Figure 2: Comparison of NPS and PCA pricing by brand

[✀]

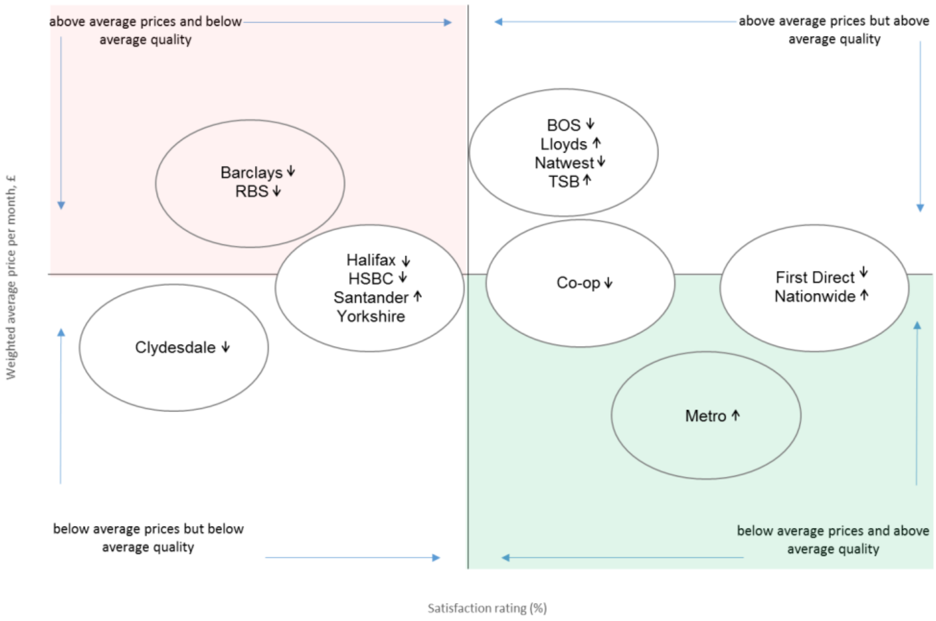
Source: CMA analysis on Runpath price outputs and GfK FRS.
Note: the prices in the figure do not include benefits. Price data is for 2016 and quality data is for 2014. The arrows denote whether the bank's market share increased or decreased in 2014.

Figure 3: Comparison of GfK FRS satisfaction and PCA pricing by brand

[✀]

Source: CMA analysis on Runpath price outputs and GfK FRS.
Note: The prices in the figure do not include benefits. Price data is for 2016 and quality data is for 2014. The arrows denote whether the bank's market share increased or decreased in 2014.

Figure 4: Comparison of GfK PCA satisfaction and PCA pricing by brand



Source: CMA analysis on Runpath price outputs and GfK PCA.
Note: The prices in the figure do not include benefits. Price data is for 2016 and quality data is for 2015. The arrows denote whether the bank's market share increased or decreased in 2014.

Annex E: Average prices and gains from switching: sensitivity tests

1. In this annex we undertake a series of sensitivity tests on our calculations of PCA average prices and gains from switching.

2. For average prices, we undertake the following sensitivities:

   (a) For Standard/Reward products, including benefits:

      (i) Using customer segmentation 2.

      (ii) Altering our assumption on the unarranged overdraft balance, by assuming that customers who went into an unarranged overdraft did so by at least £20, rather than £100.

   (b) Using Standard/Reward products, excluding benefits.

   (c) Using Packaged products, including benefits.

   (d) Excluding customers with very high overdrafts and very high credit balances.

   (e) Addressing an overdraft sampling issue by amending the final quarter overdrafts for affected customers.

3. For gains from switching, we undertake the following sensitivities:

   (a) Using 2014 data to calculate a legacy account's incumbent value.

   (b) Excluding legacy accounts.

   (c) Excluding benefits and paid/unpaid item fees.

   (d) Using customer segmentation 2.

   (e) Altering our assumption on the unarranged overdraft balance, by assuming that customers who went into an unarranged overdraft did so by at least £20, rather than £100.

   (f) Sequentially excluding the products of each bank.

Average prices sensitivities

Standard/Reward products, including benefits, Great Britain

Alternative assumption on customer segmentation

4. The table below shows average prices by group under customer segmentation 2[17] (which assumes the number of direct debits of each observation to be half of that in customer segmentation 1).[18] We find that this has minimal impact on the results.

[17] See Annex B for details on customer segmentation definitions.
[18] While keeping the unarranged overdraft assumption of £100 constant.

Table 1: Average prices by group under customer segmentation 2

£ per month

Y5

Group	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Group price*
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	0	5
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	0	5
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	0	5
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	3
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	-4	4
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	5	-4	0
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	0	6
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	10	-2	3
The Co-operative	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	-1	4
Metro Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	0	2
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	3	0	1
Tesco Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	-3	-1

Source: CMA analysis on Runpath price outputs.

Alternative assumptions on unarranged overdraft balance

5. The transactions data set does not include the amount by which customers went into their unarranged overdraft, only the number of days they used an unarranged overdraft and the total overdraft amount (including arranged and unarranged overdrafts).

6. Therefore, Runpath calculated prices assuming that customers who went into unarranged overdraft did so by at least £100. To check for the sensitivity of the analysis to this assumption, Runpath also calculated prices assuming that customers who used unarranged overdrafts did so by only £20.[1] We find that this has minimal impact on the results.

[1] While keeping the customer segmentation definition constant.

Table 2: Average prices by group under £20 unarranged overdraft assumption

£ per month

Y5

Group	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Group price*
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	-1	5
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	0	5
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	0	5
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	6	0	3
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	-4	4
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	5	-4	0
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	0	6
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	10	-2	3
The Co-operative	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	-1	4
Metro Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	0	2
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	3	0	1
Tesco Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	-3	-1

Source: CMA analysis on Runpath price outputs.

Standard/reward products, excluding benefits, Great Britain

7. The tables below show prices excluding benefits. This lowers the prices of products with associated benefits, but the findings set out in Section 5 hold.

Average product prices

Table 3: Average prices by product and overdraft use

£ per month

Y5		*Overdraft usage*				*Customer segmentation based on account eligibility across the market*									*Overdraft usage*		
Brand	*Product*	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Product price*
Lloyds Bank	Lloyds Bank Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£13	£0	£6
Lloyds Bank	Lloyds Bank Club Lloyds Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£17	-£2	£6
Halifax	Halifax Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	-£1	£4
Halifax	Halifax Current Account with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£17	£9	£12
Halifax	Halifax Reward Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	-£1	£4
Bank of Scotland	Bank of Scotland Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£13	£0	£6
Bank of Scotland	Bank of Scotland Classic Account with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£16	£10	£12
Bank of Scotland	Bank of Scotland Classic Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£12	-£5	£3
NatWest	NatWest Reward Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£13	£3	£8
NatWest	NatWest Select Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	£0	£5
Royal Bank of Scotland	Royal Bank of Scotland Reward Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£10	£4	£6
Royal Bank of Scotland	Royal Bank of Scotland Select Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	£0	£5
Barclays	Barclays Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	£0	£5
Barclays	Barclays Bank Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£15	£8	£10
Barclays	Barclays Bank Account with Blue Rewards	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£14	£3	£8
Barclays	Barclays Premier Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£10	£2	£7
Barclays	Barclays Premier Current Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£15	£10	£12
HSBC	HSBC Advance Bank Account (New)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£7	£0	£4
HSBC	HSBC Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£7	£0	£3
HSBC	HSBC Bank Account Pay Monthly	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£13	£10	£11
HSBC	HSBC Premier Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£5	£2	£3
first direct	first direct 1st Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£7	£1	£3
M&S Bank	M&S Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£1	-£1	£0
M&S Bank	M&S Bank Premium Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£10	£8	£9
Santander	Santander 1|2|3 Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£10	-£8	£0
Santander	Santander Choice Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£15	£10	£12
Santander	Santander Everyday Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£15	£0	£7
Nationwide BS	Nationwide BS FlexAccount	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£9	£0	£4
Nationwide BS	Nationwide BS FlexDirect Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£7	-£2	£2
TSB	TSB Classic Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£13	£0	£6
TSB	TSB Classic Current Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£15	£10	£13
TSB	TSB Classic Plus Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£9	-£4	£2
TSB	TSB Classic Plus Account - with Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£12	£5	£8
B	B B Current	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	£2	£6
Clydesdale Bank	Clydesdale Bank Current Account Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	£5	£7
Clydesdale Bank	Clydesdale Bank Current Account Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Clydesdale Bank	Clydesdale Bank Current Account Plus	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£10	-£2	£3
Yorkshire Bank	Yorkshire Bank Current Account Control	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	£5	£7
Yorkshire Bank	Yorkshire Bank Current Account Direct	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Yorkshire Bank	Yorkshire Bank Current Account Plus - 16 and over	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£10	-£2	£3
smile	smile Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	-£1	£4
The Co-operative Bank	The Co-operative Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£11	-£1	£4
Metro Bank	Metro Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£4	£0	£2
Post Office	Post Office Standard Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£3	£0	£1
Tesco Bank	Tesco Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	£2	-£3	-£1

Source: CMA analysis on Runpath price outputs.

Average group prices

Table 4: Average prices by group and overdraft use

£ per month

Y5										*Overdraft usage*		
Group	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Group price*
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	0	5
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	0	5
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	0	5
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	7	1	3
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	-4	4
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	0	4
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	0	6
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	10	-2	3
The Co-operative	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	-1	4
Metro Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	0	2
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	3	0	1
Tesco Bank	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	2	-3	-1

Source: CMA analysis on Runpath price outputs.

Packaged products, including benefits, Great Britain

8. Table 5 presents average prices for Packaged products.[1] These estimates are subject to the limitation that we made assumptions on the value to customers of the benefits which are offered with these products

[1] This uses customer segmentation 1 and the unarranged overdraft assumption of £100.

Table 5: Average prices by product and overdraft use

£ per month

Y5		*Overdraft usage*				*Customer segmentation based on account eligibility across the market*									*Overdraft usage*		
Brand	*Product*	*15+ days in overdraft*	*8 to 14 days in overdraft*	*4 to 7 days in overdraft*	*1 to 3 day(s) in overdraft*	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Product price*
Lloyds Bank	Lloyds Bank Club Lloyds Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	-8	3
Lloyds Bank	Lloyds Bank Club Lloyds Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-15	-3
Lloyds Bank	Lloyds Bank Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	10	-3	5
Lloyds Bank	Lloyds Bank Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	12	-3	7
Halifax	Halifax Ultimate Reward Current Account 2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-7	-20	-11
Bank of Scotland	Bank of Scotland Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	5	-3	2
Bank of Scotland	Bank of Scotland Platinum Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-8	0
Bank of Scotland	Bank of Scotland Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	11	-3	6
Bank of Scotland	Bank of Scotland Silver Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	-7	4
NatWest	NatWest Reward Black Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-58	-75	-64
NatWest	NatWest Reward Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-27	-39	-31
NatWest	NatWest Reward Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	13	1	9
Royal Bank of Scotland	Royal Bank of Scotland Black Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	20	4	15
Royal Bank of Scotland	Royal Bank of Scotland Reward Black Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-	-	-
Royal Bank of Scotland	Royal Bank of Scotland Reward Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-34	-40	-36
Royal Bank of Scotland	Royal Bank of Scotland Reward Silver Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	9	2	6
first direct	first direct 1st Account - with first directory	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-5	-2
Nationwide	Nationwide BS FlexPlus Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-17	-27	-21
TSB	TSB Platinum Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-7	-3
TSB	TSB Silver Added Value Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	-3	4
Clydesdale Bank	Clydesdale Bank Signature Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-20	-32	-24
Yorkshire Bank	Yorkshire Bank Signature Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	4	-8	0
Post Office	Post Office Packaged Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-3	-1

Source: CMA analysis on Runpath price outputs.

Table 6: Average prices by group and overdraft use

£ per month

Y5										*Overdraft usage*		
Group	*Less than £500*	*Less than 2 direct debits & £500 to less than £750*	*2+ direct debits & £500 to less than £750*	*Less than 2 direct debits & £750 to less than £1000*	*2+ direct debits & £750 to less than £1000*	*£1000 to less than £1500*	*Less than 2 direct debits & £1500 to less than £1750*	*2+ direct debits & £1500 to less than £1750*	*£1750 or more*	*Overdraft user*	*Non-overdraft user*	*Group price*
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-1	-12	-5
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-19	-31	-23
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-5	-2
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-17	-27	-21
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	8	-3	4
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	-5	-20	-11
Post Office	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	0	-3	-1

Source: CMA analysis on Runpath price outputs.

Excluding outliers

9. We checked whether excluding customers with very high credit balances, or very large overdrafts, leads to a marked change in average prices. It is possible for example that such customers have a disproportionate impact on prices; those with very large overdrafts will tend to increase average prices, and those with very high credit balances will tend to reduce average prices.

10. To avoid dropping a large number of observations, which would reduce the representativeness of the sample, we excluded only those customers whose overdraft or credit balance was higher than the mean plus 3 standard deviations. For the GB sample, this removed 3% of customers; for the NI sample, this removed 4% of customers.

11. In Table 7, we compare group level prices under both the baseline case and when we exclude outliers. In general, excluding outliers marginally reduces the group level prices, but not by more than £1.

Table 7: Average prices by group (Standard and Reward), excluding outliers, GB

£ per month

Y5			
Group	*Baseline*	*No outliers*	*Difference (baseline – scenario)*
LBG	5	4	1
RBSG	5	4	1
Barclays	5	4	1
HSBCG	3	2	1
Santander	4	3	0
Nationwide BS	0	0	0
TSB	6	5	1
Clydesdale	3	3	1
The Co-operative	4	3	1
Metro Bank	2	1	0
Post Office	1	1	0
Tesco Bank	-1	-1	1

Source: CMA analysis on Runpath price outputs. Prices are inclusive of benefits.
Note: The columns may not sum exactly due to rounding.

12. In Figures 1 and 2, we check whether the exclusion of outliers affects the relationship between prices and time held (at the brand level), or between prices and market share (at the group level). The graphs replicate those presented in Section 5.

13. In neither case does the exclusion of outliers result in a change to the underlying relationship. In particular, we continue to see a positive relationship between average prices and time held, and between average prices and market share.

Figure 1: Brand average prices and average time products are held for that brand (Standard and Reward, Year 5 prices including benefits), excluding outliers, GB

[✂]

Source: CMA analysis of Runpath price outputs.

Figure 2: Group-average prices and market shares (Standard and Reward, Year 5 prices including benefits), excluding outliers, GB

Source: CMA analysis of Runpath price outputs.
Notes: Market shares as presented in Section 5
RBSG was not able to provide GB and NI shares for RBS and NatWest separately.
For Metro, we have assumed all accounts are in GB.
The Co-operative market share was calculated based on NI/UK ratio to total.
Tesco's market share and Post Office's market share in GB were obtained from 'Main PCAs (FRS data)' in 2014 and are [✂]% and [✂]%, respectively.

Overdraft sampling sensitivity

14. In reviewing our analysis, we found that for some of our sample, the number of days in overdraft had been underestimated in the price calculations. In particular, the number of days in overdraft in the final quarter was too low for approximately 30 percent of the sample. This limits the representativeness of the sample of customers used in the pricing analysis, and so we have undertaken a sensitivity test to understand the impact of this on the inferences we are drawing from our analysis.

15. To do so, we first corrected the number of days in overdraft for the final quarter for the affected customers. For each product for which they are eligible, we then adjusted the product price to account for the increased

overdraft days.[1] We did this by proportionally increasing each product's overdraft fees and interest charges for each customer, based on the implied charges in the original data set. We also applied overdraft caps for each product, to both the fees and interest charges, based on the maximum charges in the original data set. This ensured that no customer's monthly overdraft fee or interest charge could be greater than any of the caps for that product.

16. In Table 8, we compare the group-level prices with the overdraft amendments to the baseline prices (for GB, standard and reward). With the amendment, average prices increase because the overdraft days and balances are increased for a proportion of customers. The change in prices is rather limited however: six of the groups have a price change of £1 or less, and no group has a price change over £2.

Table 8: Average prices by group (Standard and Reward), with overdraft amendments, GB

£ per month

Y5 *Group*	*Baseline*	*Overdraft amendment*	*Difference (baseline – scenario)*
LBG	5	7	-2
RBSG	5	6	-1
Barclays	5	6	-1
HSBCG	3	4	-1
Santander	4	5	-1
Nationwide	0	0	0
TSB	6	8	-2
Clydesdale	3	5	-1
The Co-operative	4	5	-1
Metro Bank	2	2	0
Post Office	1	2	0
Tesco Bank	-1	0	0

Source: CMA analysis on Runpath price outputs. Prices are inclusive of benefits.
Note: The columns may not sum exactly due to rounding.

17. In Figures 3 and 4, we replicate those presented in Section 5 of the Report, and show that the relationships between prices and time held, and between prices and market shares, are robust to the overdraft amendment. In particular, we continue to see a positive relationship in both cases.

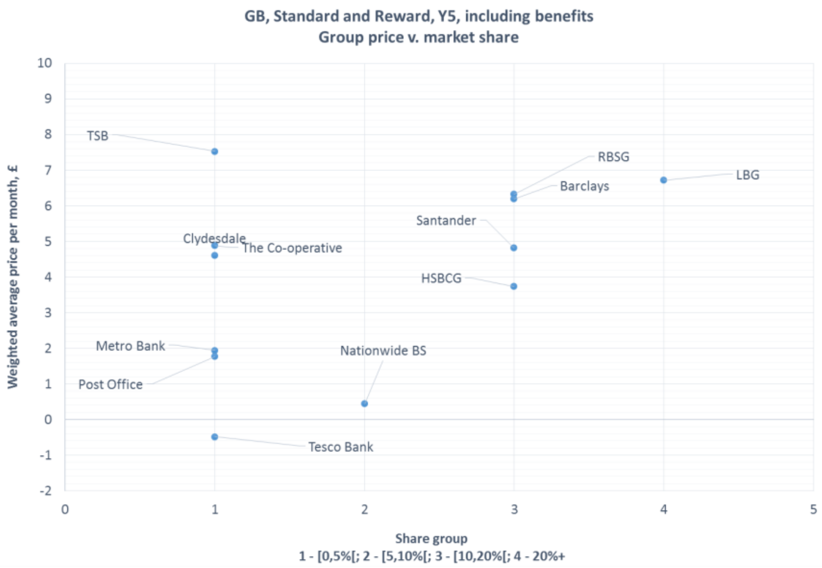
Figure 3: Brand average prices and average time products are held for that brand (Standard and Reward, Year 5 prices including benefits), with overdraft amendments, GB

[✂]

Source: CMA analysis of Runpath price outputs.

[1] The increase in overdraft days also implied an increase in the overdraft balance for the affected customers.

Figure 4: Group-average prices and market shares (Standard and Reward, Year 5 prices including benefits), with overdraft amendments, GB



Source: CMA analysis of Runpath price outputs.
Notes: Market shares as presented in Section 5
RBSG was not able to provide GB and NI shares for RBS and NatWest separately.
For Metro, we have assumed all accounts are in GB.
The Co-operative market share was calculated based on NI/UK ratio to total.
Tesco's market share and Post Office's market share in GB were obtained from 'Main PCAs (FRS data)' in 2014 and are [✂]% and [✂]%, respectively.

Gains from switching sensitivities

Legacy accounts

18. We asked Runpath to match legacy accounts to the oldest on-sale PCA; this might lead to inaccuracies in the gains from switching analysis due to the product types we include in the comparisons. For example, a packaged account that is a legacy product will be matched against the oldest on-sale PCA of the same provider, which might be a standard account. In this particular case, this would cause it to be compared only against other standard/reward accounts instead of also being compared against packaged accounts in the gains from switching analysis.

19. The table below includes average monthly gains from switching calculated on three different bases:

(a) no sensitivity (baseline results);

(b) using 2014 data to calculate the incumbent product price when the observation relates to a legacy account, rather than current pricing data applied to the matched oldest on-sale PCA for that account; and

(c) excluding legacy product observations altogether.

20. The average gains from switching are very similar across the three cases and the same in the case of packaged accounts.

Table 9: Monthly gains from switching to five cheapest products, GB, five years (switching incentives), calculated on three different bases

£ per month

	No sensitivity	*Using 2014 data for legacy account observations*	*Excluding legacy accounts altogether*
Standard/reward PCAs			
Cheapest product	£11	£12	£10
2nd cheapest	£9	£9	£8
3rd cheapest	£7	£8	£7
4th cheapest	£6	£7	£6
5th cheapest	£5	£6	£5
Average of 3 cheapest	£9	£10	£8
Average of 5 cheapest	£8	£8	£7
Packaged PCAs			
Cheapest product	£24	£24	£24
2nd cheapest	£18	£18	£18
3rd cheapest	£14	£14	£14
4th cheapest	£9	£9	£9
5th cheapest	£6	£6	£6
Average of 3 cheapest	£19	£19	£19
Average of 5 cheapest	£14	£14	£14

Source: CMA analysis on Runpath price outputs.

Excluding price components

21. We remove our assumptions on benefits and paid/unpaid items in turn on the prices of the five cheapest products. We note that the gains from switching to the five cheapest products excluding these values do not necessarily represent the five cheapest products in the market after these values have been excluded in the price calculations. Nevertheless, this allows us to understand how much each of these values contributes to the gains when switching to the five cheapest products.

Excluding benefits

22. We find that benefits have a relatively high contribution to the average gains from switching to the first five products. Though the numbers are not directly comparable due to the reasons set out in the previous paragraph, the average gains from switching across the 5 cheapest products falls from £8 to £6 for standard/reward accounts, and by £14 to £7 for packaged accounts.

Table 10: Monthly gains from switching to five cheapest products, GB, excluding benefits

	No sensitivity	*Excluding benefits*
Standard/reward PCAs		
Cheapest product	£11	£6
2nd cheapest	£9	£6
3rd cheapest	£7	£6
4th cheapest	£6	£6
5th cheapest	£5	£5
Average of 3 cheapest	£9	£6
Average of 5 cheapest	£8	£6
Packaged PCAs		
Cheapest product	£24	£3
2nd cheapest	£18	£5
3rd cheapest	£14	£8
4th cheapest	£9	£9
5th cheapest	£6	£11
Average of 3 cheapest	£19	£6
Average of 5 cheapest	£14	£7

Source: CMA analysis on Runpath price outputs.

Paid and unpaid items charges

23. The year 5 prices, which we use in the baseline gains from switching analysis, have been corrected so that they appropriately include paid and unpaid item fees. In this sensitivity, we exclude paid and unpaid item fees to check whether their inclusion has any material effect on the results.

24. The results are provided in Table 11. We focus on unarranged overdraft users, as it is these customers whose gains from switching will be affected by the exclusion of the paid and unpaid items fees. Even for unarranged overdraft users, we see that the gains from switching are only marginally affected by excluding these fees. For standard/reward accounts, the average gain from the cheapest 5 products falls from £16 to £13, and the average gain for packaged accounts is unchanged.

Table 11: Monthly gains from switching to five cheapest products for unarranged overdraft users, GB

£ per month

	No sensitivity	*Unarranged overdraft users*	*Unarranged overdraft users excluding paid and unpaid items charges*
Standard/reward PCAs			
Cheapest product	£11	£20	£17
2nd cheapest	£9	£16	£14
3rd cheapest	£7	£15	£12
4th cheapest	£6	£14	£11
5th cheapest	£5	£13	£11
Average of 3 cheapest	£9	£17	£14
Average of 5 cheapest	£8	£16	£13
Packaged PCAs			
Cheapest product	£24	£28	£27
2nd cheapest	£18	£21	£23
3rd cheapest	£14	£17	£18
4th cheapest	£9	£14	£13
5th cheapest	£6	£11	£9
Average of 3 cheapest	£19	£22	£23
Average of 5 cheapest	£14	£18	£18

Source: CMA analysis on Runpath price outputs.

Alternative assumption on customer segmentation

25. The results presented so far use customer segmentation 1.[2]

26. The table below shows average gains for all accounts in the sample, by product type, for the five cheapest products in the market, using customer segmentation 2.[3]

27. The average gains from switching are very similar to those in customer segmentation 1. The average gains from switching for the 5 cheapest products remains £8 for standard/reward accounts and £14 for packaged accounts.

[2] See Annex B for details on customer segmentation definitions.
[3] Customer segmentation 2 considers the number of direct debits of each observation to be half of that in customer segmentation 1, due to data limitations (keeping the £100 unarranged overdraft assumption constant).

Table 12: Monthly gains from switching to five cheapest products, GB, £ per month, using customer segmentation 2

	Average gains from switching (£ per month)	*Annual average gains from switching (£ per year)**	*Percentage of GB each product type customers that could gain if they switched to each of the cheapest products*
Standard/reward			
Cheapest product	£11	£134	96%
2nd cheapest	£9	£104	92%
3rd cheapest	£7	£85	90%
4th cheapest	£6	£73	89%
5th cheapest	£5	£66	89%
Average of 3 cheapest	£9	£108	
Average of 5 cheapest	£8	£92	
Packaged			
Cheapest product	£24	£289	87%
2nd cheapest	£18	£216	85%
3rd cheapest	£14	£165	78%
4th cheapest	£9	£107	57%
5th cheapest	£6	£74	50%
Average of 3 cheapest	£19	£223	
Average of 5 cheapest	£14	£170	

Source: CMA analysis on Runpath price outputs.

Alternative assumptions on unarranged overdraft balance

28. The transaction data set does not include the amount by which customers went into their unarranged overdraft, only the number of days they used an unarranged overdraft, the number of days they used an arranged overdraft and the average overdraft amount (including arranged and unarranged overdrafts).

29. Therefore, we asked Runpath to conduct its analysis assuming that customers who went into unarranged overdraft did so by at least £100, whenever it was not possible to distinguish the amount of unarranged and arranged overdraft balance. To check for the sensitivity of the analysis to this assumption, we have also conducted analysis assuming that customers who used unarranged overdrafts did so by at least £20.

30. The table below shows average gains for all accounts in the sample, by product type, for the five cheapest products in the market, using the assumption of unarranged overdraft balance equal to £20.[4]

31. Again, the results are extremely similar to the baseline: the average gains from switching for the 5 cheapest products is £8 for standard/reward accounts and £14 for packaged accounts (as in the baseline).

[4] While keeping the customer segmentation assumption constant.

Table 13: Monthly gains from switching to five cheapest products, GB, using unarranged overdraft assumption of £20

	Average gains from switching (£ per month)	*Annual average gains from switching (£ per year)**	*Percentage of GB each product type customers that could gain if they switched to each of the cheapest products*
Standard/reward			
Cheapest product	£11	£134	96%
2nd cheapest	£9	£104	92%
3rd cheapest	£7	£85	90%
4th cheapest	£6	£74	89%
5th cheapest	£5	£66	89%
Average of 3 cheapest	£9	£108	
Average of 5 cheapest	£8	£92	
Packaged			
Cheapest product	£24	£288	87%
2nd cheapest	£18	£215	85%
3rd cheapest	£14	£164	78%
4th cheapest	£9	£108	57%
5th cheapest	£6	£74	50%
Average of 3 cheapest	£19	£223	
Average of 5 cheapest	£14	£170	

Source: CMA analysis on Runpath price outputs.

Excluding individual banks

32. We checked the robustness of our gains from switching results by dropping in turn all of the products from each bank. Doing so will reduce the estimated gains from switching (or have no effect), as it restricts the customer's options.

33. The results for GB are presented in Table 14. We compare the baseline results (including all brands) to: (i) the average gains from switching when one of the banks is dropped; and (ii) the smallest gains from switching when one of the banks is dropped.

34. We find that:

(a) For standard/reward products, excluding any of the banks in turn has very little impact on the results. The average gains from switching when a bank is dropped are the same as under the baseline. The smallest gains from switching when one of the banks is dropped are only around £1 lower than the baseline.

(b) For packaged products, excluding any of the banks in turn has a slightly larger impact. Whilst the average gains from switching are almost exactly the same as under the baseline, the smallest gains are somewhat lower. The average gain from the 3 cheapest products falls from £19 to £14, and the average gain from the 5 cheapest products falls from £14 to £10.

Table 14: Average gains from switching to five cheapest products, GB (five years including switching incentives and benefits), *sequentially excluding brands*, £ per month

		Excluding a brand	
	Baseline	*Average*	*Smallest gains*
Standard/reward			
Cheapest product	£11	£11	£10
2nd cheapest	£9	£9	£8
3rd cheapest	£7	£7	£6
4th cheapest	£6	£6	£5
5th cheapest	£5	£5	£5
Average of 3 cheapest	£9	£9	£8
Average of 5 cheapest	£8	£8	£7
Packaged			
Cheapest product	£24	£24	£18
2nd cheapest	£18	£18	£14
3rd cheapest	£14	£13	£9
4th cheapest	£9	£9	£6
5th cheapest	£6	£6	£5
Average of 3 cheapest	£19	£18	£14
Average of 5 cheapest	£14	£14	£10

Source: CMA analysis of Runpath price outputs.

Annex F: Comparison of price estimates using aggregated and disaggregated data

Introduction

1. In our pricing analysis we have used aggregated monthly transaction data (henceforth 'aggregated' data) to estimate average prices and the gains that consumers could make from switching. LBG has submitted that this approach and assumptions will give less accurate and robust results than if we had used more disaggregated transaction data (henceforth 'disaggregated' data), because it has required us to make a number of assumptions regarding consumers' use of PCAs.[5]

2. LBG told us that our approach and use of aggregated data did not materially change our findings on the gains from switching relative to LBG's suggested approach, in particular the identification of a material number of customers who could make significant gains. However, it submitted that this significantly impacted estimates of average price per provider, and our provisional findings that there was a tendency for larger providers to have higher prices.

3. LBG has submitted the results of a number of pieces of analysis based on the use of disaggregated data as well as the underlying data files. LBG's analysis was based on output from Runpath, which applied a pricing algorithm to disaggregated data for the sample of customers that LBG previously provided us with aggregated data on.

4. In this annex we review the points raised by LBG and assess how much of an impact our use of aggregated data is likely to have had on our estimates of average prices. We do this as follows:

    (a) We estimate the impact that using aggregated data has had on the accuracy of our estimated average prices by comparing figures obtained using this approach to those obtained using LBG's disaggregated data.

    (b) We consider the impact that the use of aggregated data will have on our assessments of average prices and outcomes, that is, comparing average prices and market shares, and average prices and length of time account held.

[5] LBG response to PCA pricing analysis.

The impact of using aggregated data on estimated average prices at a product level

5. In its submission[6] on our pricing analysis, LBG submitted that estimated prices based on our approach, which included the use of aggregated data, were different than estimated prices using its approach, which included the use of disaggregated data, and that in some cases these had a material impact on the absolute and relative average prices per provider.

6. LBG's verification analysis compared the results of its disaggregated analysis to an earlier version of our analysis. We have since updated our methodology, which was set out in our working paper published on 24 May 2016 and the analysis underpinning this was included in a disclosure room.[7] To understand the extent to which there are differences in prices estimated using aggregated and disaggregated data we have compared the prices based on our latest estimates using aggregated transaction data with prices using disaggregated transaction data.[8]

7. In order to be able to interpret any difference between the two sets of estimated prices, we need to control for other factors that might vary between the two pieces of analyses other than the underlying data. These are set out below.

Methodology

Compounding versus monthly reset

8. An important feature of LBG's approach in estimating prices that differs from our main analysis is that it applied a compounding approach for monthly balances. This means that it added to the credit balance the increase or decrease in interest and charges on a real-time basis. In contrast, our analysis applies a reset approach whereby monthly balances are reset to their average value at the start of each month – we do not rebalance the credit balance with the previous month's interest and charges because the monthly aggregated transaction data already corresponds to the average for each customer account across the period.

9. LBG explained that the compounding approach could lead to what it said were implausible results in some cases in that some of the simulated customer

[6] LBG response to PCA pricing analysis.
[7] Since then we have updated our analysis to take account of parties' submissions. See Section 5.
[8] Our verification analysis focuses on the differences in the estimates of average prices obtained using the forms of data, rather than the distribution of these differences across consumers, as it is these average figures that our analysis focuses on and from which our conclusions are obtained.

balances developed significant unarranged overdraft balances. LBG told us that there were certain types of customers and products where this tended to occur. First, it was more likely to occur for customers whose balances were close to their arranged overdraft limit or customers with low balances with no arranged overdraft. Second, it was more likely to occur when simulating prices these customers would pay for products with annual/monthly fees because the fees could tip these accounts into increasingly negative unarranged overdraft positions the longer the simulation was run.

10. LBG said that inaccuracies could arise for a wider set of products when estimating prices for an alternative product that was more expensive than the customer's current product. For example, if the customer triggered an overdraft charge and subsequently took action to move back within their limit in the actual transaction data, in cases where the simulated alternative product has higher overdraft charges, the customer would still be recorded in the simulated scenario as being in unarranged overdraft because the money the customer deposited would not be enough to offset the higher simulated charge. This could trigger a 'ballooning' negative credit balance.

11. LBG made adjustments to the estimated arranged and unarranged overdraft fees for some products to correct for this effect.[9] For Barclays and NatWest products, it capped unarranged overdraft fees at the unarranged overdraft daily charge multiplied by the number of days spent in unarranged overdraft but ignored applicable charge-free buffers. It also replaced the estimated arranged and unarranged overdraft fees for certain products with the value estimated for similar products by the same provider that had identical fee levels.[10] It did not make adjustments for other price elements such as overdraft interest as it observed that the cumulative impact of interest charges tended to be smaller than that for overdraft fees.

12. We agree with LBG's view that the compounding approach leads in some cases to implausible results. We consider that for some customers the compounding approach will lead to a simulated balance from the disaggregated data that is substantially different from the customer's actual average balance. It would also be substantially different from the simulated balance from the aggregated data which by its nature is reset to the average balance at the beginning of each month. The discrepancy between the simulated and actual average balance from the disaggregated data will increase the longer

[9] LBG response to PCA pricing analysis, Annex 2.
[10] Fees for Barclays Blue Rewards replaced by that for Barclays Bank Account, RBS Reward Account replaced by that for RBS Select Current Account, NatWest Reward Account replaced by that for NatWest Select Account, Halifax Reward Account with that for Halifax Current Account, and Club Lloyds Account with that the Lloyds Bank Classic Account.

the simulation is run so the estimated monthly prices over a five-year simulation will be higher than that for one year depending on the materiality of this 'ballooning' effect.

13. We find evidence that the effect is material for around half of the products in LBG's analysis, ie we observe that the average monthly price excluding switching incentives over five years is substantially higher than one year due to significant increases in unarranged overdraft fees. One-third (33%) of products have an average year 5 price that exceeds year 1 by around 50% to 500%, due in almost all cases to increases in unarranged overdraft fees.[11]

14. We recognise that LBG has sought to make manual adjustments to attempt to correct for this. However, our inspection of the data indicates that ballooning of unarranged overdraft balances and associated fees remains an issue across many products despite LBG's adjustments. We agree with LBG that compounding of unarranged overdraft interest does not materially affect the overall prices.

15. In order to mitigate the issues raised by the compounding approach we only analyse prices at a one-year horizon as these prices would be comparatively less affected than those for a five-year horizon. In addition, we only analyse the products that LBG considered in its analysis, and included the same manual adjustments in the disaggregated data.[12]

16. We have also considered the impact this will have on comparing prices by customer segment. The compounding approach means that some customers who are not in overdraft in the actual transaction data change segment when simulating the price for the new alternate product. This means that when we compare prices by customer segment (defined by actual average number of days in overdraft and credit balance per month) we are no longer comparing like for like between the aggregated and disaggregated data in terms of the sample of customers. Therefore, to enhance comparability between prices by customer segment estimated using aggregated and disaggregated data, particularly for non-overdraft customer segments, we exclude customers who in the disaggregated data change segment from being non-overdraft users to overdraft users.[13]

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[11] For the remaining product the increase in unarranged overdraft fees was the second highest contributory factor to the increase (after monthly fees). A further 22% of products have a year 5 price that exceeds year 1 by 12% to up to 49% with the main reason being a significant increase in unarranged overdraft fees.
[12] See explanation earlier in the annex for what these manual adjustments are.
[13] We note that the main effect of this is to reduce prices from disaggregated data for the Santander 123 Current Account for customers with less than £500 average credit balance.

Customer sample

17. Our main pricing analysis is based on the transaction history of customers from a wide range of banks, but LBG's was based on disaggregated data from its own customers only. For this verification exercise, we only compare results between the aggregate and disaggregate data for LBG customers. The prices estimated from aggregated data will therefore differ from those presented in our main results, which were based on a sample of customers across providers.

Prices

18. The prices used in LBG's analysis generated from the disaggregated data are based on market prices at the end of November 2015 (plus a prospective Santander price change in January 2016), while our analysis for prices from aggregated data was based on market prices in May 2016. We therefore focus on products where there were no substantial changes in prices over this period (based on an information request to banks for the period up to March 2016).[14]

Benefits

19. The prices used in LBG's analysis generated from disaggregated data do not include product benefits and this affects the comparison for the Nationwide FlexAccount, M&S Bank, LBG Club Lloyds Current Account and HSBC Premier Account. We therefore do not include benefits in either set of prices.

Returned item fees and paid item fees

20. The disaggregated data did not include returned item fees (RIFs) nor paid item fees (PIFs), however, LBG added an estimate for RIFs and PIFs to its estimated prices for the brand and customer segmentation level.[15] In our updated analysis based on aggregated data we have included estimates for RIFs and PIFs based on information received from each bank. In order to compare the product prices on a similar basis and understand the inherent

[14] The products included are shown in Table 1 of this annex. Products with no substantial price changes were identified based on responses from banks to a request for information. In our list of products with no substantial price changes we have included the new price for the Santander 123 Current Account which was effective from January 2016 as this was included in the LBG Runpath price data set. Also included is the TSB Classic Current Account which had a minor change in price which came into effect on 6 April 2016. Note that LBG used an alternate data set with the Santander price prevailing in November 2015 in Table 1 of LBG's 'Verification of CMA's pricing analysis and results from an alternative approach' (18 January 2016). We have, however, made use of the additional data set LBG submitted that includes the prospective Santander price change to ensure comparability with our updated prices.

[15] The product prices generated from disaggregated data that form the basis for Table 1 of LBG Verification Paper do not include returned item or paid item fees.

differences of using aggregated and disaggregated data, we compare product prices excluding paid and unpaid item fees.[16]

Cashback

21. The estimated price from LBG's analysis generated from the disaggregated data includes cashback which LBG says it applied to a selection of identifiable transactions such as utility bills.[17] The estimated price in our main analysis using aggregated data also includes average cashback drawing from information provided by each bank on the average cashback it pays out for each product. We have retained the estimates of cashback in the comparison of prices, which means that the comparison reflects the inherent differences of using disaggregated and aggregated transaction data for estimating cashback.

Switching incentives

22. LBG estimated prices assuming that all customers in its sample would benefit from available switching incentives. Our main analysis based on aggregated data takes account of the fact that some customers will not be eligible for the switching incentive as they already hold a current account with the group/brand.[18] In order to compare the results on a similar basis and understand the difference in prices from aggregated and disaggregated data, we compare both sets of prices assuming all customers are eligible for the switching incentive.[19]

Other

23. Although LBG said that its analysis only included Reward and Standard products we found that its analysis included some products that we define as packaged. In order to make these results consistent with our main analysis, which considered only Reward and Standard products, we dropped all packaged products from the analysis.

[16] The exception to this is prices estimated at group level shown later in this paper where LBG included its own estimates for group/brand-level RIFs and PIFs as set out in Table 3 of its submission ('Verification of CMA's pricing analysis and results from an alternative approach' (18 January 2016)). In this case, we include LBG's estimates for RIF and PIF in the overall price. LBG calculated the propensity to incur PIFs and RIFs by customer segment and at overall brand level. LBG's estimates for the cost of RIFs were based on the propensity of LBG customers to incur RIFs in different customer segments combined with publically available data on the RIFs for each provider. The estimates for the cost of PIFs were based on an estimate of the propensity to incur PIFs, which assumed that the number of PIFs was equivalent to the number of days in unarranged overdraft in different segments, combined with publically available data on PIFs for each provider.
[17] LBG response to PCA pricing analysis, Table 2.
[18] Whether this is brand or group depends on the terms and conditions of the switching incentive.
[19] In practice, this change only affects Halifax Reward Account and Halifax Current Account.

Results

24. Table 1 compares the prices estimated using disaggregated and aggregated transaction data for GB Reward and Standard products by customer segment. When we look at results by customer segment, this allows us to assess the differences in results according to relatively homogeneous groups of customers. We observe that the absolute difference between the estimated prices is less than £0.50 for around 30% of products (5 out of 16), and between £0.50 and £2 for the majority of products (9 out of 16). In most cases the price from aggregate data is higher than the disaggregated data.[20]

25. For non-overdraft customers, there are only the following few products where the price from aggregated data is different from the disaggregated data and we explain the reasons for these differences:

    (a) Halifax Reward: the disaggregated price estimate has higher cashback than in the estimate submitted to us.

    (b) LBG Club: the disaggregated price estimate has generally higher monthly fees than the aggregated estimate for our data in which we applied the correct fee of £5 per month unless £1,500 is paid in. Also the disaggregated price estimate has generally lower monthly credit interest than the aggregated estimate for our data.

    (c) Santander 123: the disaggregated price estimate has lower cashback than in Santander’s estimate submitted to us (this affects non-overdraft and overdraft users).

26. We are comfortable, therefore, that the use of disaggregated data is not causing bias in the results for non-overdraft customers.

27. For overdraft users, there are larger differences between the price estimates. Overdraft users incur both interest and fees. We note that a large proportion of charges for overdraft users are arranged and unarranged overdraft fees, and these drive much of the difference between the estimates of prices in the two sets of results for overdraft users.

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[20] When looking at overall average prices, it is important to note that there are different numbers of customers in each customer segment in the two sets of analysis, which explains the initially counter-intuitive averages. Customers in the first customer segment (more than 15 days in overdraft) have very high prices in both the aggregate and disaggregate data, but in the aggregate sample, this segment has a greater number of customers relative to the whole sample than in the disaggregate data. This means that this segment’s price has a greater weight in the price across all customers in the aggregate data. For the disaggregate data, this price has relatively lower weighting.

28. For Halifax Reward, the difference is driven by LBG's estimate incorrectly not taking account of arranged overdraft fees.

29. The aggregated data contains average overdraft balances but not the average arranged overdraft/unarranged overdraft balance. We apply assumptions of £20 and £100 for unarranged overdraft balance for months where the customer is both in arranged and unarranged overdraft. However, the outputs show that the use of the £20/£100 assumption has almost no impact on the total arranged overdraft and unarranged overdraft fees.

30. One factor that will be biasing up LBG's results is its compounding of balances, rather than monthly reset as in our estimates. Under the compounding approach, LBG takes off fees from the monthly balance, whereas we do not in the monthly reset. As previously explained, this can lead to customers' balances decreasing in the disaggregated data as the months of the price simulation progress. Particularly where charges for the simulated product are high, and/or customers are close to the boundary of where charges will be incurred (eg customers close to their arranged overdraft limit or customers with no arranged overdraft), the compounding approach can lead to inflation of prices for these customers. This can take on a run-away effect as time progresses, such that by month 12 some customers are incurring very heavy charges. LBG has made some adjustments for this, but we consider that this effect is likely to be heavily biasing upward its price estimates. We also note that as set out in Section 5,[21] for some of the sample, the number of days in overdraft had not been applied correctly in the price calculations based on aggregate data. This will also contribute to the difference between the prices between aggregated and disaggregated data.

[21] See Price Outcomes in Section 5.

Table 1: Comparison of prices using disaggregated and aggregated data – average price by product and customer group, GB

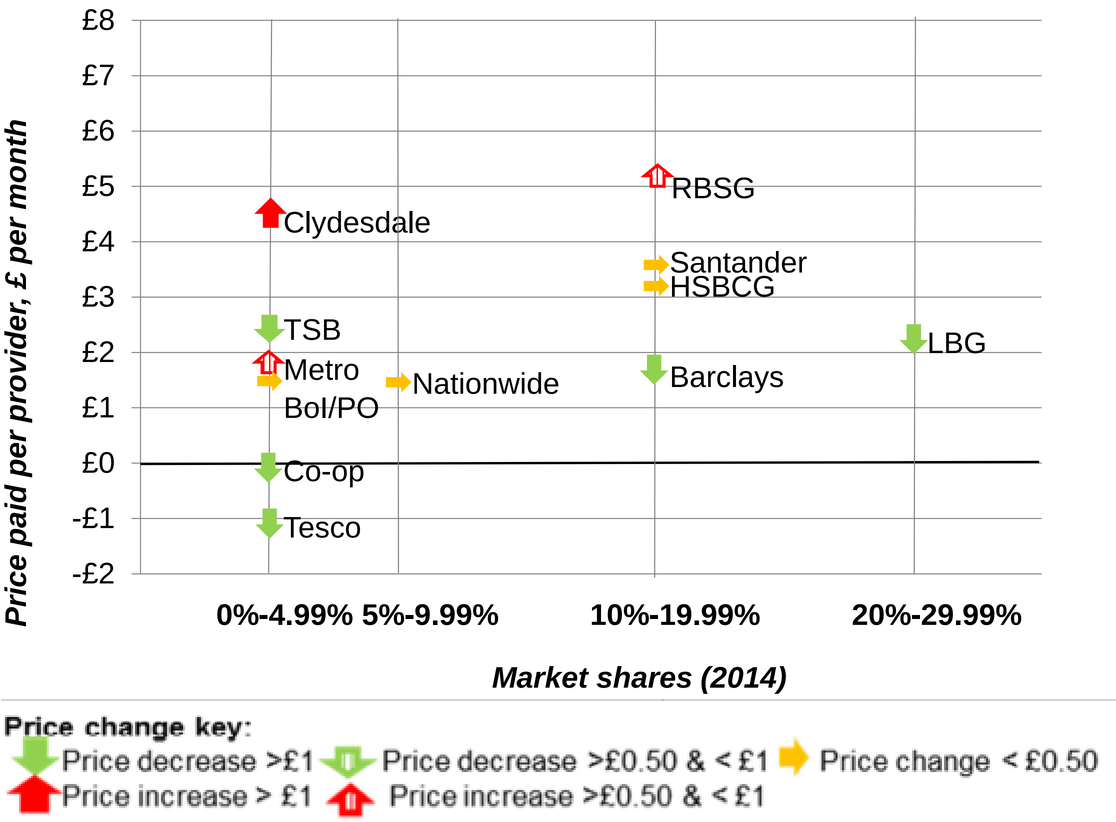
		Average Price			*Actual difference in average price by customer group*											
					Overdraft users				*Non-overdraft users*							
					Average number of days in overdraft				*Average credit balance*							
Brand	*Product*	*Aggregated data*	*Disaggregated data*	*Absolute difference*	*15+*	*8 to 14*	*15+*	*8 to 14*	*Less than £500*	*£500 to less than £2k*	*£2k to less than £3k*	*£3k to less than £5k*	*£5k to less than £7500*	£7,500 to less than £1k0	£1k0 to less than £2k0	£2k0 or more
Bank of Scotland	Bank of Scotland Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Bank of Scotland	Bank of Scotland Classic Account with Vantage	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	Barclays Bank Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	Halifax Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Halifax	Halifax Reward Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds Bank	Lloyds Bank Classic Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Lloyds Bank	Lloyds Bank Club Lloyds Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide BS	Nationwide BS FlexAccount	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide BS	Nationwide BS FlexDirect Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Post Office	Post Office Standard Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Royal Bank of Scotland	Royal Bank of Scotland Select Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Royal Bank of Scotland	Royal Bank of Scotland Reward Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	Santander Everyday Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	Santander 1|2|3 Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	Santander Choice Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Tesco Bank	Tesco Bank Current Account	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of LBG Midata.
Notes:
1. For GB, average monthly price over one-year horizon.
2. Estimated prices from aggregated transaction data assumes a £100 unarranged overdraft for days where the customer account is both in arranged and unarranged overdraft.
3. NatWest is not shown as it has the same products as RBS.

The impact of using aggregated data on our assessment of price and outcomes

31. LBG submitted that the results based on its approach (using disaggregated data) did not support the conclusion that there was tendency for larger providers to have higher prices.[126] LBG submitted the following chart using data from its pricing analysis, comparing the price estimates with the CMA's original pricing analysis.

Figure 1: Group average price per month vs shares, using LBG's approach (using LBG disaggregated data), GB



Source: LBG submission of 18 January 2016. Figures based on disaggregated transaction data of current LBG customers, using LBG's most likely comparator methodology and market price as of November 2015 including the prospective price change for the Santander 123 Current Account due in January 2016. Based on Standard and Reward accounts. LBG submitted that the Runpath output for NatWest was incorrect so it only used Runpath output for RBS to generate the group price for RBSG. LBG's view is that NatWest and RBS have the same products and pricing so this has no impact on RBSG's overall group price.

32. We note that, even taking LBG's analysis as given, it is not entirely clear that this points to substantially different findings from those using aggregated data. In particular, this still suggests that several of the cheapest banks in the market have very small market shares.

[126] LBG response to PCA pricing analysis, paragraphs 1.14 & 1.24.

33. However, in addition to the use of disaggregated data and the points in the methodological section set out previously, this analysis of group-level prices incorporates a further change to the methodology we used to calculate average prices which we do not consider valid. This is set out below.

Weighting of prices and 'most likely comparator' methodology

34. In order to obtain its estimate of brand-level prices, when LBG estimated the price of an individual product it based this only on those customers for whom the product is cheapest within a particular brand, and calculated a simple average across customers. LBG did not use the existing mix of customers to weight prices when calculating the average price by brand. To obtain its estimate of group price, it took a weighted average by market share of the brand prices within each group. We remain of the view that for this analysis the weighting by existing customer mix is appropriate. Our analysis seeks to estimate the prices that are currently paid by customers in order to assess current prices across the market – rather than the best price available for customers at each brand if they switched, which would be the result of using a weighting based on the lowest priced product for the customer at each brand.

Methodology

35. We repeat a number of our main pieces of pricing analysis using the disaggregated data provided by LBG on its own customers, but using our own methodology to weight the prices rather than LBG's best comparator methodology. We produce three pieces of analysis investigating the relationship between:

(a) group-level prices and market shares;

(b) product-level prices and product shares; and

(c) product-level prices and the length of customer relationship.

36. We apply the same adjustments set out in the methodology in the previous section of this annex. Hence these are:

(a) Monthly averages across a one-year horizon to mitigate against unusual results introduced by the compounding of customer balances.

(b) For the Reward and Standard products considered by LBG, including its adjustments to mitigate against implausible results from compounding of balances and including switching incentives.

(c) Consistent with LBG’s analysis, product-level prices exclude paid and unpaid item fees whereas group-level prices include LBG’s estimates for paid and unpaid item fees.

(d) Excluding benefits.[127]

Results

37. Figure 2 shows the estimated price and share by group using the disaggregated data applying the CMA’s methodology to weight the prices rather than LBG’s most likely comparator methodology.[128] As explained above, these results are based only on data for LBG customers, rather than a sample of customers across providers and contain a number of other adjustments; they are therefore not comparable to those which are presented in our main results.

38. Alongside this for comparison, we also present Figure 3 which presents the estimated year 1 prices and share by group using the aggregate data across all customers (whereas data presented elsewhere in Section 5 is based on year 5 data). Monthly prices for year 1 are lower than for year 5 for some groups because of products with switching incentives. The inclusion of these products depresses the monthly price averaged over 1 year by more than the monthly price averaged over five years.

39. We observe that groups with the highest market share tend to have the highest prices. We observe that groups with relatively low shares tend to have lower prices, although we note that the greater dispersion in prices for groups of this size means that this does not mean that this holds in every case. The broad relationship between Figures 2 and 3 is similar.

40. Table 2 indicates that groups with market share of 10% or more have on average higher average prices than those with below 10% share and that the difference in means is significant (9% significance level). We also find evidence that we can reject the null hypothesis that the average price is higher for groups with market share below 10% than groups with market share of 10% or more and conclude that the alternative hypothesis is true at the 95% confidence level.

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[127] In this section, we adjust for LBG’s incorrect estimate of zero arranged overdraft fees for the Halifax Reward Current Account, adjusting this equal to the estimate in the aggregate data.

[128] As explained in Figure 1, LBG submitted that the Runpath output for NatWest was incorrect so it only used Runpath output for RBS to generate the group price for RBSG. LBG’s view was that NatWest and RBS had the same products and pricing so this had no impact on RBSG’s overall group price as shown in Figure 1. For Figure 2, the CMA notes that this exclusion of NatWest Runpath output within the RBSG group price entails the assumption that the customer/product mix for NatWest is the same as that for RBS.

Figure 2: Group average price per month vs shares, 'CMA methodology' using LBG disaggregated transaction data, GB

[✂]

Source: CMA analysis of LBG data.

Figure 3: Group average year 1 prices per month vs shares, 'CMA main results' using aggregated transaction data, GB

[✂]

Source: CMA analysis.
Notes: Monthly price averaged over 1 year, switching benefit included but excluding other benefits. Sample uses all customers, not just current LBG customers.

Table 2: Summary statistics: mean and standard deviation of group prices by market share

			P-value	
Group market share	*Average group price*	*Standard deviation*	*Ho: No difference in means*	*Ho: Mean of baseline higher*
Under 10%	–1.5	1.9		
10% or more	3.1	0.7	0.08*	0.04**

Source: CMA analysis.
* p<0.1, ** p<0.05, *** p<0.01. Baseline is the under 10% market share category.

41. As the pricing analyses on disaggregated data was conducted for LBG customers only, we tested the robustness of the main pricing results using aggregate data for LBG customers only. We found the same relationship as in the main results in that we find that average product prices are generally higher at banking groups with higher market shares, such that generally recent entrants and expanding brands seem to offer lower average prices.

42. We consider price estimates by product to see to what extent the findings at group level are replicated at this more disaggregated level. Figure 4 shows for each product the estimated price and the volume share for this product.

Figure 4: Product average price per month vs product shares, 'CMA methodology' using LBG disaggregated transaction data, GB

[✂]

Source: CMA analysis of LBG data.
Note: Products for Tesco and the Post Office brand are not shown in this graph as product shares were not available.

43. We observe dispersion in the prices and share at a product level. However, the figure indicates that the cheapest products in the market have very small shares of volumes. It also suggests that products with relatively high share of volume tend not to have the lowest prices.

44. The greater dispersion in prices for products with lower shares however means that not all products with low market share have relatively low prices. Table 3 indicates that products with market share exceeding 5% have higher

average price than those with below 2.5% share but this difference is not statistically significant.

Table 3: Summary statistics: mean and standard deviation of product price by product share

			P-value	
Product share	*Average product price*	*Standard deviation*	*Ho: No difference in means*	*Ho: Mean of baseline higher*
Under 2.5%	0.5	7.1		
2.5% to under 5%	–0.6	5.7	0.77	0.62
5% or more	3.4	1.3	0.34	0.17

Source: CMA analysis.
* p<0.1, ** p<0.05, *** p<0.01. Baseline is the under 2.5% market share category.

Annex G: Average price calculations: cross-checks

1. PCAs are complex products providing a number of different services to customers and the structure of PCA pricing differs between accounts. Given the complexity both of services provided and of pricing, making comparisons between PCA prices is not straightforward. We have therefore undertaken various cross-checks of our price estimates.

2. In this annex we present two cross-checks of our PCA average price calculations:

   (a) Average revenue cross-check. We compare our estimated PCA prices to each bank's monthly revenue per customer. We find that the average revenues per active account are broadly consistent with the results of the PCA pricing analysis. We see a positive relationship between market share and average revenue, as we do for market share and average prices.

   (b) 'Customer profiles' price estimates: We compare our estimated PCA prices to the overall monthly cost estimates we published in our updated issues statement. We find that the monthly cost estimates are consistent with the results of the PCA pricing analysis.

3. We also compare the profile of customers in the data set used to calculate average prices to each bank's existing customer base. We would not expect that each bank's profile corresponds to the overall profile of customers in the data set, however large differences in profiles can explain differences between average prices and average revenues.

4. Overall, we consider that these cross-checks support the findings of our PCA pricing analysis. Monthly revenues and monthly cost estimates are both broadly comparable to our pricing estimates, and both suggest a positive relationship between market share and price.

Average revenue cross-check

5. In the updated issues statement, we indicated we were considering interpreting differences in net revenue per account as an alternative 'top-down' measure of price differences.

6. Points made by parties included the following:

   (a) Average net revenue is not a measure of price faced by individual customers and will reflect differences in customer characteristics. Averages per account depend on the mix of customers served, which will

vary across banks, reflecting their respective business models and the customers they target and attract. The number of main accounts was not an ideal measure of volume since it would be desirable to reflect other accounts to some extent and there was variation between banks and products in the ratio of main accounts to total accounts.

(b) Many providers use increasingly sophisticated eligibility criteria (and often monthly fees for customers not meeting those criteria) to control and influence the customer mix they attract. A provider may therefore have lower average revenue than another provider because its customers make less use of overdrafts, hold lower balances or transact less, rather than because of any difference in prices. Furthermore, any comparison of average prices alone also does not account for: quality (eg mobile app features, ease of use and access, range of products, and service); customer mix (eg eligibility criteria will determine revenue per customer as well as price levels); costs of service (different business models, such as different credit risk appetite or branch availability, have different costs to serve); and customer life stage (providers with newer customers have a higher proportion of customers on introductory offers, particularly for BCAs).

(c) It would be difficult to make adjustments for differences in cost to serve: different banks were unlikely to measure the costs of packaged account benefits in the same way, and default information needed to be very detailed.

(d) Interchange fee income, which was included in our analysis, would change following the implementation of the European Union's Interchange Fee Regulation.

(e) A top-down approach, in which financial data is used to estimate a unit cost paid by customers at different providers, offers the potential to provide a useful sense-check to the results of the bottom-up analysis. However, to provide meaningful results, the CMA would need to undertake much more detailed analysis that fully controlled for the differences in services provided. Essentially, this would require the CMA to conduct a product profitability assessment.

7. We agree that the above issues are relevant in considering net revenue per account as a measure of price, such that the results of net revenue per account across banks is subject to some limitations.

8. Table 1 shows the comparison for 2014 across all accounts offered by each banking group. In order to make comparisons between banking groups, we

have used a standardised percentage net value of funds for each banking group. This is the weighted average across banks, ie 2.42% for 2014. The final column shows the effect, for the five largest banks, of deducting their estimated costs of providing packaged account benefits.[129]

9. We note the comparison may also be affected by customer characteristics if these affect operating costs (for example a bank with a higher proportion of less creditworthy customers would, other things being equal, obtain higher revenue from overdraft charges but would also be likely to have higher impairment costs). We were not able to adjust for this.[130]

[129] HSBCG said that the adoption of standardised value of funds had serious limitations since it did not reflect the true economic costs of banks – the value of funds would differ by bank depending on: the institution's capital strength; balance sheet strategy; and perspectives on the stability of funding. However, we consider differences may also simply reflect different approaches to fund valuation and, even if they do to some extent reflect underlying economic costs, it is not clear that these should be included in a comparison of net revenue.

[130] We considered adjusting for expected default losses and obtained data from the five largest banks on their expected default losses. However, different banks appeared to have used different approaches and it was not clear that the data could be used to adjust revenue. See Section 5 for discussion of trends in impairment costs.

Table 1: Analysis of net revenue per main PCA using standardised net value of funds (£ per main PCA per year), 2014

Bank	*Arranged O/D*	*Unarranged O/D and unpaid item fees*	*Foreign ATM and debit card fees*	*Interchange fees (debit card)*	*Monthly account fees*	*Other receipts (net)*	*Total receipts from charges and interest*	*Interest payments to customers*	*Other payments to customers*	*Standardised net value of funds*	*Standardised net revenue*	*Standardised net revenue (adjusted for cost of packaged account benefits*)*
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBCG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Co-op	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Ulster	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Danske	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
AIB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
BoI	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	

Source: CMA analysis.
*Cost of packaged accounts is only available for the five largest banks. Santander told us it had no on-sale or off-sale packaged accounts.

10. LBG submitted that the average price analysis should be compared to average revenue per account.[131]

11. We have adjusted this analysis in order to enable us to use it as a robustness check on our pricing analysis. We have used average revenue per active account (instead of per main account) as this is the comparable measure to the average prices. We have also dropped the net value of funds, as this is not included in our pricing analysis. Moreover, we needed to exclude a number of categories of revenue that were not included in our pricing analysis:

   (a) Revenue from charges for failing to meet account criteria;

   (b) Revenue from charges relating to cheques;

   (c) Revenue from charges relating to domestic payments;

   (d) Revenue from account management charges;

   (e) Other revenue from account holders; and

   (f) Revenue from interchange fees.

12. Because we have concerns about the robustness of our product-level revenue data, we have not calculated average revenue figures for individual products. Instead, we only looked at total group-level revenue. The revenue data is for the UK whilst we compare this to GB-only prices. We use average prices net of benefits in the comparison for comparability.

13. As shown in Table 2, the average revenues per active account are broadly consistent with the results of the PCA pricing analysis ([✂]). The only outlier is [✂], for which the revenue analysis suggests a substantially lower price than our pricing analysis.

Table 2: Average revenue per active account and average price

Group	*Average revenue per active account (A)*	*Average price (PCA pricing analysis net of benefits) (B)*	*Difference (A-B)*
LBG	[✄]	£5.35	[✄]
RBS	[✄]	£4.99	[✄]
Barclays	[✄]	£5.00	[✄]
HSBC Group	[✄]	£3.31	[✄]
Santander	[✄]	£3.61	[✄]
Nationwide	[✄]	£3.73	[✄]
TSB	[✄]	£5.94	[✄]
Clydesdale	[✄]	£3.29	[✄]
Co-op	[✄]	£3.90	[✄]
Metro	[✄]	£1.61	[✄]

Source: CMA analysis.

14. There are two reasons why our estimated PCA prices are higher than average revenues for [✄].

Table 3: [✄]

[✄]

Source: CMA analysis.

15. We therefore consider that the average revenue estimates are broadly consistent with the results of our PCA pricing analysis. In particular, average revenues per active account are generally [✄] of our estimated PCA prices.

16. Further, as shown in Figure 1, we see a positive relationship between market share and average revenue, as we do for market share and average prices.

Figure 1: Average revenue per active account and market shares, 2014

[✄]

Source: CMA analysis based on data submitted by banks in response to data requests.

’Customer profiles’ price estimates cross-check

17. Another cross-check we have undertaken is to compare our monthly PCA prices against the overall monthly cost estimates published for individual customer profiles in Appendix C of our updated issues statement.[132] This enables us to cross-check our PCA prices for individual groups of customers.

18. The aim is to carry out a high-level check on the robustness of our pricing analysis. There are two methodological issues that limit the comparability of the cost estimates from our updated issues statement and our PCA prices:

[132] See updated issues statement, Appendix C, Annex 1.

(a) The customer 'profiles' used in our updated issues statement are defined differently to the customer 'segments' used in our PCA pricing analysis. As a result, it is not possible to directly compare prices across customer profiles and segments. A number of the profile and segment definitions are sufficiently similar however, that we can use the cost estimates of our updated issues statement as a cross-check on our PCA prices.[133] Yet we note that any differences in the two estimates may be driven by the different customer classifications used in the two sources.

(b) The PCA pricing analysis uses a sample of customers within each segment drawn across the population of customers. Each customer has slightly different usage, introducing variation in the prices. The cost estimates in the updated issues statement, by contrast, are based on the attributes of a single representative customer for each profile. This would create differences in the prices, even if the groups were defined identically. The PCA pricing analysis also incorporates more information on customer usage than the estimates from the updated issues statement.[134]

19. With these caveats in mind, in the following paragraphs we present the results for each customer profile, showing the monthly cost estimate from our updated issues statement and the price estimates from our PCA pricing analysis for the relevant segment for each bank.

Profile 1 – No overdraft and average credit balance of £5,000

20. An account that does not go into overdraft, and that has an average credit balance of £5,000, can be compared with two segments in our PCA pricing analysis: '£3,000 to less than £5,000, no overdraft' and '£5,000 to less than £7,500, no overdraft'.

21. Although Profile 1 does not correspond exactly to either of the customer segments, for most groups the cost estimates from the updated issues statement correspond reasonably closely with the estimated PCA prices.

22. Our estimates in the final column are somewhat lower than those in the updated issues statement, although this customer segment is defined for higher credit balances than Profile 1. We would therefore expect customers in

[133] The only customer profile for which that is not possible is profile 6, which specifies three days of unarranged overdraft usage. Our PCA pricing analysis does not segment based on unarranged overdraft usage.
[134] The estimates in the updated issues statement for example applied uniform assumptions across customers on charges such as foreign transaction fees.

this segment to have lower prices on average than those in Profile 1, due to some products offering credit interest.

Group	*Updated issues statement* *Profile 1*	*PCA Pricing analysis* *£3000 to less than £5000, no overdraft*	*£5000 to less than £7500, no overdraft*
LBG	[✂]	[✂]	[✂]
RBSG	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]
HSBCG	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]
Nationwide BS	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]
Clydesdale	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]
Metro Bank	[✂]	[✂]	[✂]

Profile 2 – No overdraft and average credit balance of £2,500

23. An account that does not go into overdraft, and that has an average credit balance of £2,500, can be compared with a single segment in our PCA pricing analysis: '£2,000 to less than £3,000, no overdraft'.

24. The cost estimates and PCA prices are broadly comparable, although there are larger differences for [✂] and [✂]. As explained previously, however, we do not expect the costs and prices to be identical due to methodological differences between the estimates. With the exception of these two groups and [✂], the difference between costs and prices is less than £[✂].

Group	*Updated issues statement* *Profile 2*	*PCA Pricing analysis* *£2000 to less than £3000, no overdraft*
LBG	[✂]	[✂]
RBSG	[✂]	[✂]
Barclays	[✂]	[✂]
HSBCG	[✂]	[✂]
Santander	[✂]	[✂]
Nationwide BS	[✂]	[✂]
TSB	[✂]	[✂]
Clydesdale	[✂]	[✂]
Co-op Bank	[✂]	[✂]
Metro Bank	[✂]	[✂]

Profile 3 – No overdraft and average credit balance of £500

25. An account that does not go into overdraft, and that has an average credit balance of £500, can be compared with two segments in our PCA pricing analysis: 'less than £500, no overdraft' and '£500 to less than £2,000, no overdraft'.

26. As for the previous profile, we see that the costs from the updated issues statement and PCA prices are broadly comparable, albeit with slightly larger

differences for [✂] and [✂], and to a lesser extent [✂]. We note that our prices in the final column are uniformly lower than those from the updated issues statement, which is consistent with the fact that the segment includes customers with higher credit balances than Profile 3. These higher credit balances tend to reduce prices due to interest payments.

	Updated issues statement	*PCA Pricing analysis*	
Group	*Profile 3*	*Less than £500, no overdraft*	*£500 to less than £2000, no overdraft*
LBG	[✂]	[✂]	[✂]
RBSG	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]
HSBCG	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]
Nationwide BS	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]
Clydesdale	[✂]	[✂]	[✂]
Co-op Bank	[✂]	[✂]	[✂]
Metro Bank	[✂]	[✂]	[✂]

Profile 4 – Three consecutive days in arranged overdraft of £100 and average credit balance of £500 for the remainder of the month

27. An account that goes into £100 overdraft for three days, and that has an average credit balance of £500 for the rest of the month, can be compared with the ‘1 to 3 day(s) in overdraft’ segment in our PCA pricing analysis.

28. We note that for overdraft users, it is more difficult to match customer profiles and segments because the profiles used in the updated issues statement do not take into account unarranged overdraft usage. In the PCA pricing analysis, almost 10 percent of customers in this segment spent more than a day per month (on average) in an unarranged overdraft, and some customers spent more than 3 days in an unarranged overdraft. This has an impact on the monthly PCA price, reducing its comparability with the costs from the updated issues statement.

29. For a number of the banking groups, there is therefore more of a discrepancy between estimated costs and PCA prices than in the previous cases.

	Updated issues statement	*PCA Pricing analysis*
Group	*Profile 4*	*1 to 3 day(s) in overdraft*
LBG	[✂]	[✂]
RBSG	[✂]	[✂]
Barclays	[✂]	[✂]
HSBCG	[✂]	[✂]
Santander	[✂]	[✂]
Nationwide BS	[✂]	[✂]
TSB	[✂]	[✂]
Clydesdale	[✂]	[✂]
Co-op Bank	[✂]	[✂]
Metro Bank	[✂]	[✂]

Profile 5 – Twelve consecutive days in arranged overdraft of £500 and average credit balance of £500 for the remainder of the month

30. An account that goes into overdraft for 12 days, and that has an average credit balance of £500 for the rest of the month, can be compared with the '8 to 14 days in overdraft' segment in our PCA pricing analysis.

31. In this case, our PCA prices are uniformly higher than the costs in the updated issues statement. As for the previous profile, this is likely driven by unarranged overdraft usage, which is assumed to be zero in the updated issues statement calculations. In the PCA pricing analysis, by contrast, customers in this segment on average spent 2 days per month in an unarranged overdraft. The use of unarranged overdrafts drives up the estimated PCA prices relative to the costs in the updated issues statement.

	Updated issues statement	*PCA Pricing analysis*
Group	*Profile 5*	*8 to 14 days in overdraft*
LBG	[✂]	[✂]
RBSG	[✂]	[✂]
Barclays	[✂]	[✂]
HSBCG	[✂]	[✂]
Santander	[✂]	[✂]
Nationwide BS	[✂]	[✂]
TSB	[✂]	[✂]
Clydesdale	[✂]	[✂]
Co-op Bank	[✂]	[✂]
Metro Bank	[✂]	[✂]

32. Overall across the profiles, taking into account that it is inherently difficult to compare results for customer profiles with results for customer segments, the estimates of costs and prices are generally consistent.

Customer profiles

33. We compared the profile of each banking group's customers, using the transactions data set, against the sample of customers that were used to calculate each group's average price. The transactions data set was used as the comparator for the pricing sample, as it provides a representative sample of each bank's customers.

34. We do not necessarily expect each bank's customer profile to correspond closely with the profile of eligible customers in the pricing data set. We compare the two profiles to identify where there are notable differences between the two, which can help to explain differences between average revenues and average prices.

35. Throughout our analysis, both samples were appropriately weighted to ensure representativeness. In the transactions data set, we used the survey weights, provided by GfK, to account for stratified sampling. In the pricing sample, we created a customer profile for each of the group's products, using all customers that were eligible for the product. We then created a weighted group-level profile, based on the share of customers using each product at each group. This was to replicate the methodology used to create group-level prices.

36. We compared customer profiles using various classifications, such as overdraft usage, customer 'segments' and customer 'characteristics'.[135] The tables below present the results for each banking group for the GB sample.

37. Particularly for the largest banking groups, the profile of customers in the pricing sample is very similar to the transaction data set. There are more marked differences (ie greater than 10%) for some of the groups and customer classifications:[136]

   (a) [✂]

   (b) [✂]

   (c) [✂]

38. Overall we see that the sample used in the pricing analysis is generally similar to banks' incumbent customer mix, and that this is particularly true for the larger banking groups. Differences between the two profiles help to explain differences between average revenues and average prices.

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[135] Customer segments are based on the number of direct debits and the account balance. Customer characteristics are based on the account balance and the number of days in an overdraft.
[136] As noted in paragraph 32, such differences are not a concern in themselves. Differences between the two profiles help to explain differences between average revenues and average prices.

Table 4: Barclays

	Customers in transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 5: Clydesdale

	Customers in transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✄]	[✄]	[✄]
Less than 2 direct debits & £500 to less than £750	[✄]	[✄]	[✄]
2+ direct debits & £500 to less than £750	[✄]	[✄]	[✄]
Less than 2 direct debits & £750 to less than £1,000	[✄]	[✄]	[✄]
2+ direct debits & £750 to less than £1,000	[✄]	[✄]	[✄]
£1,000 to less than £1,500	[✄]	[✄]	[✄]
Less than 2 direct debits & £1,500 to less than £1,750	[✄]	[✄]	[✄]
2+ direct debits & £1,500 to less than £1,750	[✄]	[✄]	[✄]
£1,750 or more	[✄]	[✄]	[✄]
Overdraft			
Non-overdraft user	[✄]	[✄]	[✄]
Overdraft user	[✄]	[✄]	[✄]
Characteristics			
1 to 3 day(s) in overdraft	[✄]	[✄]	[✄]
4 to 7 days in overdraft	[✄]	[✄]	[✄]
8 to 14 days in overdraft	[✄]	[✄]	[✄]
15+ days in overdraft	[✄]	[✄]	[✄]
Less than £500, no overdraft	[✄]	[✄]	[✄]
£500 to less than £2,000, no overdraft	[✄]	[✄]	[✄]
£2,000 to less than £3,000, no overdraft	[✄]	[✄]	[✄]
£3,000 to less than £5,000, no overdraft	[✄]	[✄]	[✄]
£5,000 to less than £7,500, no overdraft	[✄]	[✄]	[✄]
£7,500 to less than £10,000, no overdraft	[✄]	[✄]	[✄]
£10,000 to less than £20,000, no overdraft	[✄]	[✄]	[✄]
£20,000 or more, no overdraft	[✄]	[✄]	[✄]
Arranged overdraft			
Non-overdraft user	[✄]	[✄]	[✄]
Overdraft user	[✄]	[✄]	[✄]
Unarranged overdraft			
Non unarranged overdraft user	[✄]	[✄]	[✄]
Unarranged overdraft user	[✄]	[✄]	[✄]

Table 6: HSBCG

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 7: LBG

	Customers in transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 8: Metro

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 9: Nationwide

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 10: RBSG

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 11: Santander

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 12: Co-op Bank

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Table 13: TSB

	Customers in Transactions data set (TD)	*Sample used in pricing analysis*	*Difference (TD – pricing sample)*
Customer segment			
Less than £500	[✂]	[✂]	[✂]
Less than 2 direct debits & £500 to less than £750	[✂]	[✂]	[✂]
2+ direct debits & £500 to less than £750	[✂]	[✂]	[✂]
Less than 2 direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
2+ direct debits & £750 to less than £1,000	[✂]	[✂]	[✂]
£1,000 to less than £1,500	[✂]	[✂]	[✂]
Less than 2 direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
2+ direct debits & £1,500 to less than £1,750	[✂]	[✂]	[✂]
£1,750 or more	[✂]	[✂]	[✂]
Overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Characteristics			
1 to 3 day(s) in overdraft	[✂]	[✂]	[✂]
4 to 7 days in overdraft	[✂]	[✂]	[✂]
8 to 14 days in overdraft	[✂]	[✂]	[✂]
15+ days in overdraft	[✂]	[✂]	[✂]
Less than £500, no overdraft	[✂]	[✂]	[✂]
£500 to less than £2,000, no overdraft	[✂]	[✂]	[✂]
£2,000 to less than £3,000, no overdraft	[✂]	[✂]	[✂]
£3,000 to less than £5,000, no overdraft	[✂]	[✂]	[✂]
£5,000 to less than £7,500, no overdraft	[✂]	[✂]	[✂]
£7,500 to less than £10,000, no overdraft	[✂]	[✂]	[✂]
£10,000 to less than £20,000, no overdraft	[✂]	[✂]	[✂]
£20,000 or more, no overdraft	[✂]	[✂]	[✂]
Arranged overdraft			
Non-overdraft user	[✂]	[✂]	[✂]
Overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft			
Non unarranged overdraft user	[✂]	[✂]	[✂]
Unarranged overdraft user	[✂]	[✂]	[✂]

Annex H: Assumptions Dictionary

Runpath

Assumptions Dictionary

Runpath

Contents

Revisions

Who	When	What
Runpath	2015	Original Document from 2015
Runpath	12.2.2016	Updates following requested changes from CMA
CMA	15.2.2016	CMA add benefits details and weighted average example
CMA	16.2.2016	CMA change the how the value calculation works
CMA	18.2.2016	CMA change further how the value calculation works
Runpath	22.2.2016	Updates to benefits table values, additional definitions and other tidy ups
Runpath	29.2.2016	Updates from all the discussions over email
Runpath	1.3.2016	Additions from the CMA email in regards to overdrafts
Runpath	2.3.2016	Final review of all amends
CMA	2.3.2016	Update and furthers additions
Runpath	3.3.2016	Final additions, plus change on overdrafts
Runpath	4.3.2016	Overdraft calculation update and formatting
Runpath	14.4.2016	Updated to reference additional data run on 14.4.2016
Runpath	29.4.2016	Updates following rerun of data

General

- This document includes a description of the assumptions made in developing the pricing model using the customer transactions dataset provided by the CMA and the Runpath PCA product dataset. The model provide:

    - Estimated potential savings from switching;
    - Comparison of average prices for different products, brands and banking groups;
    - More disaggregated comparison of prices.

- All CMA provided variable values have been engineered to represent 12 months. So, for example, if only 3 months were provided the results were repeated to achieve 12 months. Also, because there should be consistency across certain variables,[137] when there were missing values in only some of them, all related variables values were also extrapolated.

- If an incumbent account cannot be matched to a current available product in the market to switch to, then it has been matched to the oldest on sale PCA of the respective provider's brand. A list of these products can be found in the unmatched accounts table below. It is also worth noting that the price for all accounts in the sample (including unmatched accounts) has also been calculated based on historic values available in the dataset. More details can be found in the value calculation table below.

- 1,578 accounts cannot be matched to a currently available account in the PCA market from the 10,995 sample.

- 681 accounts cannot be matched to a currently available account in the PCA market from the 3,709 sample.

- A calculation of payment fees (a113 and a114) is not included in the value calculation as there is not enough fidelity to determine what they might be. For reassurance only 16 accounts had charges related to cheque payments and 62 accounts had charges related to payments, from the 10995 sample data set. In the 3,709 sample data set only 6 accounts had charges related to cheque payments and 31 accounts had charges related to payments.

- Location segmentation is based on the following signals provided in the data to identify NI and GB located customers.

- Any customer tax bands are not taken into account when interest, and cashback incentives are paid. Due to no insight into an individual's tax status.

[137] For example, consistency across overdraft balance, number of days in overdraft and overdraft limit and consistency across average credit balance and average number of days in credit.

- Interest, cashback and switching incentives are shown net of 20% tax.
- It is down to the individual to either claim back the 20% or pay more if they are a higher rate taxpayer.
- Incumbent, best bank and group alternative values are based on the monthly value excluding incentives calculation.
- For products that offer cash based switching incentives, when the incumbent account is with that brand, the value of the switching incentive is not added to the value calculation, because it would not be available to the customer.

List of output files produced for the CMA

The CMA requested two separate dates for the data outputs. The table below outlines the differences between the files produced on those different dates.

Date of data run	Sample size	Customer segment groups	Unauthorised overdraft assumption
27.4.2016	10,995	Group 1	£100
27.4.2016	3,709	Group 1	£100
27.4.2016	10,995	Group 2	£100
27.4.2016	3,709	Group 2	£100
27.4.2016	10,995	Group 1	£20

Product type

The CMA has only taken into account in its analysis standard, reward and packaged PCAs.

Standard	Reward	Packaged
All of these must be true: 0.01% or no credit interest No cashback No benefits Not basic accounts	One of these must be true: 0.01%+ credit interest received Cashback	If there is an account fee and any benefit from this list : Mobile & gadget offers Breakdown cover Travel insurance Home emergencies Life insurance Shopping protection

There are two accounts that offer a benefit from the packaged criteria list, but as they do not charge an account fee they are considered reward accounts.

- HSBC Premier Bank Account
- Nationwide BS Flex Account

There are also two accounts that charge an account fee, and have a benefit that is not on the list above, but the benefit does have a value. The valuation was requested by the account provider, and is not a generic value that is applied to other products that have benefits in that category. The valuation of benefits is explained further in the benefits section. These accounts are also considered as reward accounts.

- M&S Premium Current Account
- Lloyds Bank Club Lloyds Current Account

As all reward account observations in the samples, these products will only be compared against Standard and Reward products in the gains from switching analysis.

The benefits value of these accounts will be included in the account value calculations.

Unmatched account table

As mentioned above, when a legacy PCA cannot be matched to an on sale PCA, it is matched to the oldest on sale PCA.

In the output file there is a flag to indicate when this has happened. 1 means it has been matched to the oldest on sale PCA.

The CMA provided the list of oldest on sale PCAs for each provider. This was based on information from each Provider. The list is shown below.

Brand	RP Product ID	Account name
AIB	9637	Classic Account
Bank of Scotland	9709	Classic Account
Barclays	9783	Bank Account
BOI	9800	Standard Account
Clydesdale	9658	Current Account Plus
Coop	9649	Current Account
Danske	9726	Danske Choice
First Direct	9743	1st Account - with First Directory
Halifax	9668	Current Account
HSBC	9798	Premier Bank Account
Lloyds	9713	Classic Account
M&S	9772	Premium Current Account
Metro	9740	Current Account
Nationwide	9629	FlexAccount
Natwest	9687	Select Account
RBS	9694	Select Current Account
Santander	9718	Everyday Current Account
Smile	9682	Current Account
TSB	9815	Classic Current Account
Ulster	9641	Standard Current Account
Yorkshire	9731	Current Account Plus

Minimum income

From the CMA data, Runpath cannot determine the income of the account holders. This is an issue as there are a few products that have minimum income requirements of the account holder, but they do not have minimum payments into the account requirements. Therefore there will be a number of products that would appear eligible to account holders, but in reality would not be.

Some account examples:

	Minimum income	Regular payments	Account type
HSBC Premier Bank Account	£100,000 per annum	None required	Reward
Natwest Black Account	£100,000 per annum	None required	Packaged

To counter this, Runpath is using the 'payments in' data provided by the CMA as income (data from a119 to a121). If two out of the three variables are equal or above to the required monthly minimum income requirements, Runpath considers the user eligible.

Existing customer only

Existing customer only products are included in the list of products that can be switched to, as there is little barrier to opening these accounts. There are 9 products that this applies to.

9819	TSB - Platinum Account	"You need to already be a Classic or Silver Account holder to upgrade to Platinum - you'll be able to do this through Internet Banking once you've held your account with us for a few months."
9820	TSB - Silver Account	"You need to be a Classic Account holder to upgrade to a Silver Account - you'll be able to do this through Internet Banking once your Classic Account is up and running."
9803	Post Office - Packaged Account	"Exclusive upgrade for Standard Account customers only Apply to upgrade from a Standard Account by calling 0845 266 8977."
9798	HSBC - Premier Bank Account	"HSBC Premier is available to you, as long as you pay your annual income into your HSBC Premier Bank Account and either: 1) Have savings or investments of at least £50,000 with HSBC in the UK; or 2) have an individual annual income of at least £100,000 and one of the following products with HSBC in the UK:

		- a mortgage; - an investment, life insurance or protection product.”
9756	Bank of Scotland – Silver Account	“If you have a Classic Account, you can upgrade to one of our Added Value Accounts through Internet Banking.”
9754	Bank of Scotland Platinum account	“If you have a Classic Account, you can upgrade to one of our Added Value Accounts through Internet Banking.”
41644	Bank of Scotland Platinum Account with Vantage	“If you have a Classic, Silver, Platinum, Gold or Premier Account, you can add Vantage to it.”
41643	Bank of Scotland Silver Account with Vantage	“If you have a Classic, Silver, Platinum, Gold or Premier Account, you can add Vantage to it.”
9756	Bank of Scotland Silver Account	“If you have a Classic Account, you can upgrade to one of our Added Value Accounts through Internet Banking.”
9696	Royal Bank of Scotland - Black Account	“You need to hold a Select account and apply for the upgrade in a Branch.”

Location based exclusions

The Royal Bank of Scotland does not offer the same products across the UK. It only offers certain products to those in Scotland and different products in England & Wales.

To account for this, the CMA has provided additional information on whether the observations in the samples are in Scotland. If the observation is in Scotland, Scotland products only are shown as potential switching candidates, otherwise, England & Wales products only.

The relevant products are listed below:

Scotland only	
44880	Reward
9789	Reward Platinum
9695	Reward Silver
44884	Reward Black
England & Wales only	
9696	Black

Timings used

All figures in the output file are presented as a monthly average.

- **Monthly – Excluding incentives**
  - Monthly figure = Sum of Year 2/ 12.
  - By Year 2 all short term switching incentives have come to an end.
  - This is how the account would be valued for an average month in Year 2.
  - Used for incumbent and non-incumbent product values.
- **Year 1 – Including incentives**
  - Monthly figure = Sum of Year 1/ 12.
  - This is how the account would be valued for an average month in Year 1.
  - It takes all switching incentives into consideration.
  - The only item excluded is the cash for switching incentive if they are an existing brand customer.
  - Used for non-incumbent product values only.
- **Year 5 – Including incentives**
  - Monthly figure = Sum of 5 years/ 60.
  - This is how the account would be valued for an average month over 5 years.
  - It takes all switching incentives into consideration.
  - The only item excluded is the cash for switching incentive if they are an existing brand customer.

- Used for non-incumbent product values only.

Value calculation

Value calculation = Payments in – Payments out

The ultimate goal of CMA's analysis is to calculate the prices that customers are currently paying for their PCAs (regardless of whether they are still on sale or not) and ascertain the gains from switching to other current cheaper products.

Because Runpath does not hold information (terms, fees, etc) regarding legacy PCAs, a proxy will be needed for current prices for legacy PCA observations and Runpath will calculate this in two different ways as a sensitivity. Therefore, the calculation of prices customers currently pay for their PCAs will differ depending on whether the observations in CMA's samples refer to an on-sale PCA or to a legacy PCA. In summary, prices should be calculated in the following way:

- **Incumbent price calculations regardless of whether the observation corresponds to legacy (ie not on-sale) account or not:**
    - Calculation 1 - Uses fees, interest, etc as set out in the transaction data (2014).[138] It will also include benefits (2016), cashback (2015) and paid/unpaid items charges (2015) values corresponding to that legacy PCA.[139]

- **Incumbent price calculations if observation corresponds to legacy (ie not on-sale) account:**
    - Calculation 2 - Uses account behaviour (2014) provided in the transaction data and Runpath product data on current (2016) market fees/rates of the oldest on-sale PCA of that provider. It will also include benefits (2016), cashback (2015) and paid/unpaid items charges (2015) values corresponding to the oldest on-sale PCA.

- **Incumbent price calculations if observation corresponds to an on-sale account:**
    - Calculation3 - Uses account behaviour (2014) provided in the transaction data and Runpath product data on current (2016) market fees/rates of that PCA. It will also include benefits (2016), cashback (2015) and paid/unpaid items charges (2015) values corresponding to that particular PCA.

- **Prices for non-incumbent products:**
    - Calculation 4 - For all products that are not the incumbent product of a given observation - price calculations use account behaviour (2014) provided in the transaction data and Runpath product data on current

[138] Although the CMA acknowledges that this provides 2014 values rather than 2016 values for the calculation of prices that legacy PCA customers are paying, the CMA considers this to be better than using 2016 prices for an on-sale PCA of the same provider when determining a proxy for 2016 legacy PCA prices.
[139] It is relevant to note that whereas transaction data is outdated, the values of benefits/cashback/paid/unpaid items are current (or at least 2015) values and not past values for the legacy PCA.

(2016) market fees/rates of that PCA. It will also include benefits (2016), cashback (2015) and paid/unpaid items charges (2015) values corresponding to that particular PCA.

How the value calculation works - payments in:

	Calculation 1 **Calculated for all observations in the sample**	**Calculation 2** **Calculated for legacy account observations only (based on oldest on sale PCA product)**	**Calculation 3** **Calculated for all observations in the sample (corresponds to calculation 2 in the case of legacy account observations)**	**Calculation 4** **Calculated for not incumbent products (ie the products used to assess gains from switching)**
PAYMENTS IN				
Credit Interest	Sum of a31 to a42 in CMA file.	Based on a7 to a18 and a19 to a30 to establish balance and days in credit and calculated against the current terms of the oldest on sale PCA of the incumbent provider.	Based on a7 to a18 and a19 to a30 to establish balance and days in credit and calculated against the current terms of that product.	Based on a7 to a18 and a19 to a30 to establish balance and days in credit and calculated against each individual products rates.
Cashback	Uses current cashback values provided by the CMA for the account where available in the cashback table. There is no weighting applied. Otherwise, assume zero.	Uses current cashback values provided by the CMA. A weighted average is used if there are multiple products in the cashback table that Runpath considers as being the same product. Otherwise, assume zero.	Uses current cashback values provided by the CMA. A weighted average is used if there are multiple products in the cashback table that Runpath considers as being the same product. Otherwise, assume zero.	Uses current cashback values provided by the CMA. A weighted average is used if there are multiple products in the cashback table that Runpath considers as being the same product. Otherwise, assume zero.
Switching incentive	Not included. As only the ‘Month1Excl.SwitchIncentives’ timeframe is calculated.	Not included. As only the ‘Month1Excl.SwitchIncentives’ timeframe is calculated.	Not included. As only the ‘Month1Excl.SwitchIncentives’ timeframe is calculated.	Included in Year 1 scenario and Year 5 calculation. Not shown to existing brand account holders.
Benefits	Uses current benefit values provided by the CMA for the account where available in the benefits tables. Otherwise, assume zero. See benefits section for what is included.	Uses current benefit values for the oldest on sale PCA provided by the CMA, where available in the benefits tables. Otherwise, assume zero. See benefits section for what is included.	Uses current benefit values provided by the CMA where available in the benefits tables. Otherwise, assume zero. See benefits section for what is included.	Uses current benefit values provided by the CMA where available in the benefits tables. Otherwise, assume zero. See benefits section for what is included.

How the value calculation works - payments out:

	Calculation 1 **LEGACY PCA**	**Calculation 2** **OLDEST ON SALE PCA**	**Calculation 3** **ON SALE PCA**	**Calculation 4** **ON SALE PCA**
PAYMENTS OUT				
Overdraft fees and interest	Sum of a82 to a93 and a94 to a105.	Based on a43 and a46 to 81, to establish authorised limit, balance, and days in overdraft by overdraft type and calculated against the oldest on-sale PCA of that provider rates, fees, buffers and caps. *Includes assumptions noted in the "Overdrafts" section.	Based on a43 and a46 to 81, to establish authorised limit, balance, and days in overdraft by overdraft type and calculated against product rates, fees, buffers and caps. *Includes assumptions noted "Overdrafts" section.	Based on a43 and a46 to 81, to establish authorised limit, balance, and days in overdraft by overdraft type and calculated against product rates, fees, buffers and caps. *Includes assumptions noted "Overdrafts" section.
Foreign fees	Sum of a110	Based on a111 and a112 to establish number of ATM and transactions abroad and calculated against the oldest on-sale PCA of that provider rates and fees. *Includes assumptions noted in the "Foreign Transactions" section.	Based on a111 and a112 to establish number of ATM and transactions abroad and calculated against the product rates and fees. *Includes assumptions noted in the "Foreign Transactions" section.	Based on a111 and a112 to establish number of ATM and transactions abroad and calculated against the product rates and fees. *Includes assumptions noted in the "Foreign Transactions" section.
Annual fee	Sum of a109	Calculated against oldest on-sale product fees and exceptions.	Calculated against product fees and exceptions.	Calculated against products fees and exceptions.
Paid/ Unpaid fees	Uses current paid/unpaid items charges values provided for the account, where available in the paid/unpaid items charges table. There is no weighting applied.	Uses current paid/unpaid items charges values provided for the oldest on-sale product of that provider, where available in the paid/unpaid items charges table.	Uses current paid/unpaid items charges values provided for that product as according to the paid/unpaid items charges values, where applicable. A weighted average is used if there are	Uses current paid/unpaid items charges values provided for that product as according to the paid/unpaid items charges values, where applicable. A weighted average is used if there are

	Otherwise, assume zero.	A weighted average is used if there are multiple products in the paid/unpaid products table that that Runpath considers as being the same product. Otherwise, assume zero.	multiple products in the paid/unpaid products table that that Runpath considers as being the same product. Otherwise, assume zero.	multiple products in the paid/unpaid products table that that Runpath considers as being the same product. A weighted average might be needed here. Otherwise, assume zero.

Note: Whether the account holder is eligible or not to its incumbent product is ignored when calculating incumbent prices.

Credit Interest

The average balance is treated as being that balance for everyday in that month that the user was in credit.

A year corresponds to 365 days.

Runpath has not rebalanced any credit interest against the average credit balance.

For Ulster Bank there were no averages supplied, rather end of month balance. These have been treated as averages to ensure consistency.

Transaction cashback value

The CMA asked the banks to provide data on cashback figures for their PCA products so as to calculate the average cashback per account on each product[140] in 2015 (year value) when the source of funding is the banking group, or when the source of funding cannot be separated between banking group and the merchant(s)'.

These averages per product for each account are added to the value of calculation. For details on cashback allocation please refer to Appendix 1.

Switching incentives

Switching incentives are in two categories:

1. **Ignored if they are an existing brand customer, because a customer would not benefit from these when switching within brand**

[140] Averages were calculated based on total amount of cashback paid in each product during 2015 divided by the number of active accounts on each product in 2015.

Example:

- Cash for switching – eg £100
    - First Direct 1st account - £100 for switching to the account - only offered to people who haven't previously held an account with First Direct.

2. **Included even if they are an existing brand user, because a customer would benefit from these when switching within brand**

Examples:

- Improved credit interest
    - Coventry BS offers 1.1% credit interest for 12 months, after which it drops to 0%.
- Reduced overdraft fees
    - Nationwide Flexdirect offers £0 per day authorised overdraft fee for 12 months – After which it rises to 50p per day.
- Reduced annual fees for a set time
    - First Direct 1st account – 6 month fee reduction to £6 for 6 months after which it rises to £10.

Switching incentives and improved terms are included in Year 1 of switching gains calculations and not beyond that. However, switching incentives are also included in the Year 5 calculation as that is a sum of years 1 – 5.

Benefits

The proposed benefits values are based on:

- Market average pricing for specific items – eg mobile and gadget insurance, breakdown cover
- Customer behaviour – if a customer has to take on another product to benefit from the benefit, Runpath has assigned no value to the benefit. For example, discounts on mortgage, access to a saving rate. This is because CMA's view is that this constitutes a reduction in the price of the other product rather than increasing the value of the PCA product.
- Detailed explanations for the values in table below can be seen in Appendix 2.

This table does not include the switching incentives or cashback as these are already included in the valuation calculations.

Category	**Proposed Value**
Mobile & gadget offers	£90 pa
Breakdown cover	£90 pa
Travel insurance	£50 pa
Cashback	See cashback table.
Switching incentive	Calculated
Switching incentive voucher	Calculated
Existing customer offers	No value

Exclusive offers and rewards	No value
Help and advice	No value
Home emergency cover	£120 pa
Lifestyle offers	No value
Enhanced customer service	No value
Motoring offers	£70 pa
Life insurance	No value
Shopping offers	£30 pa
Appliance warranty insurance	£140 pa
Travel advice and offers	No value ATM and purchase costs are covered in the value calculations

It is worth noting that this table of benefits includes both benefits found in packaged accounts and in some reward accounts.

Product benefit value exceptions

This sub-section includes exceptions to the valuations above.

The CMA has asked that specific products have their account benefits added individually, for products from banks that provided the CMA with specific valuations for the benefits in 2016 and justified their rational for the valuations.

This means that the above table is ignored for the products outlined in the table below, and instead the amount listed below is used.

The breakdown of the values in the table below can be seen in Appendix 2.

On sale PCA benefits values

RP Product ID	Provider	Account Name	Value
9754	Bank of Scotland	Platinum Account	[✂]
41644	Bank of Scotland	Platinum Account with Vantage	[✂]
9756	Bank of Scotland	Silver Account	[✂]
41643	Bank of Scotland	Silver Account with Vantage	[✂]
9666	Clydesdale Bank	Signature Current Account	[✂]
9679	Halifax	Ultimate Reward Current Account 2	[✂]
9839	Lloyds Bank	Club Lloyds Current Account	[✂]
41641	Lloyds Bank	Club Lloyds Platinum Account	[✂]
41639	Lloyds Bank	Club Lloyds Silver Account	[✂]
9758	Lloyds Bank	Platinum Account	[✂]
9759	Lloyds Bank	Silver Account	[✂]
9772	M&S Bank	Premium Current Account	[✂]
9795	Nationwide BS	FlexPlus	[✂]
44883	NatWest	Reward Black Account	[✂]
9787	NatWest	Reward Platinum Account	[✂]
44884	Royal Bank of Scotland	Reward Black Account	[✂]
9695	Royal Bank of Scotland	Reward Silver Account	[✂]
9789	Royal Bank of Scotland	Reward Platinum Account	[✂]
9819	TSB	Platinum Account	[✂]
9820	TSB	Silver Added Value Account	[✂]

Legacy PCA benefits values

RP ID	Provider	Account Name	Value
n/a	Co-op	Privilege	[✂]
n/a	Co-op	Privilege Premier	[✂]
n/a	Smile	Smile More	[✂]
n/a	TSB	Premier	[✂]
n/a	TSB	Gold	[✂]
n/a	TSB	Select	[✂]

Values were provided either directly from Providers to CMA or obtained from the Which? report available at the following location:
http://www.which.co.uk/money/bank-accounts/reviews-ns/bank-accounts/packaged-accounts

Overdrafts

The data the CMA provides to Runpath has only one figure for average overdraft balance per day, but number of days in overdraft in a given month is split between arranged and unarranged.

As a result different calculations occur, as outlined in the table below. Runpath should provide outputs assuming X= £100, and X=£20. The outputs to be provided separately (in separate files), with the same format.

AOD days	UAOD days	OD balance minus OD limit	AOD Average balance for the days in which the account is also in unarranged overdraft (2 days out of the 5 days)	AOD Average balance for the days in which the account is not in unarranged overdraft (3 days out of the 5 days)	UAOD Average balance for the days in unarranged overdraft (2 days)
0	0	n/a	n/a	n/a	n/a
>0	0	n/a	n/a	Average overdraft balance a70 to a81	n/a
0	>0	n/a	n/a	n/a	Average overdraft balance a70 to a81
>0 (eg 5)	>0 (eg 2)	>£X assumption	AOD limit - this is to be used for the 2 days in which the account is simultaneously in unarranged and arranged overdraft. In this example, 2 days.	Minimum between AOD limit and average overdraft balance - this is to be used for the 3 days in which the account is **only** in simultaneously in arranged overdraft. In this example, this corresponds to 3 days (=5 AOD days -2 UAOD days)	OD balance minus OD limit
>0 (eg 5)	>0 (eg 2)	<=£X assumption			£X assumption

Further:

- Where the average overdraft balance is over the authorised buffers amount, Runpath assumes that all days were over the buffer amount.

- Where the average overdraft balance is zero then Runpath assumed the number of days in overdraft were also zero, even if that contradicts the data on number of overdraft days for that particular month and particular observation.
- Runpath includes the fee and interest charge in the month it occurred, rather than add it at the start of the following month.
- Averages are based on number of days in the specific state of overdraft, not the number of days in a month.
- Runpath has not rebalanced any overdraft charges against the average credit balance.
- Paid and unpaid fees are not included in the overdraft calculations, they are accounted for separately and based on CMA supplied data.
- For Ulster Bank there were no averages supplied, rather end of month overdraft balance. These have been treated as averages to ensure consistency.
- Overdraft fee caps were applied in a monthly manner (ie, even when caps are across several months, Runpath first converted such caps into monthly caps, by splitting the cap amount equally across the relevant months).

Foreign transactions

Runpath has not been provided with foreign transaction values. In order to calculate the cost to the consumer Runpath needs to make the following assumptions to ensure consistency:

- Each debit card transaction is worth £100; and
- Each ATM withdrawal is worth £50.

Runpath only has the number of transactions made for Q4. Runpath will extrapolate these to represent 12 months.

As Runpath does not know if the spend was outside Europe or within Europe and there can be different fees depending on region, it has assumed all transactions have occurred in Europe.

Runpath has not rebalanced any foreign transaction charges against the average credit balance.

Paid/unpaid fees

The CMA asked the banks to provide data on paid/unpaid items charges per product so as to calculate the average paid and unpaid items charges per account on each product[141] in 2015 (year value).

While the paid item charges are applied to accounts in unarranged overdraft only, the CMA recognises that unpaid item charges can be applied to accounts in any of the following situations:

- When one has no overdraft whatsoever and the bank chooses not to make a payment as it would bring down the account's credit below zero;
- When one has an arranged overdraft and the bank chooses not to make a payment that would surpass the arranged overdraft limit instead of allowing the account to fall into unarranged overdraft; or
- When one is in unarranged overdraft and the bank chooses not to make a further payment.

The average paid/unpaid items charges will be applied by Runpath only to people who are in an unauthorised overdraft, as determined by columns a58 to a69, potentially leading to an underestimation of the total unpaid charges, given that this assumes that the only accounts incurring unpaid charges are those in unarranged overdraft.

For details on paid/unpaid items charges allocation please refer to Appendix 1.

Rebalancing

Runpath does not do credit balance rebalancing, as the data corresponds to averages rather than day-by-day transactions. Rebalancing means adding to the average credit balance the increase/decrease that would normally occur from interest and charges as these are incurred.

[141] Averages were calculated based on total amount of paid/unpaid items charged in each product during 2015 divided by the number of active accounts on each product in 2015.

Appendix 1

Paid, unpaid and cashback values – allocation

Runpath needs to be able to allocate paid/unpaid charges to the products in the samples and to products currently in the market.

The CMA has provided Runpath with two tables, including cashback values and paid/unpaid item charges values, to be allocated per product.

Steps taken to allocate values:

- Match the names of the accounts in the samples with the product names in the tables CMA provided.
- Assign the corresponding value. If there is more than one individual on-sale PCA product name in the tables that Runpath sees as corresponding to the non-incumbent product for which it is trying to assign the values, Runpath should calculate a **weighted[142] average based ONLY on those specific on-sale products stated in the table(s)** that Runpath believes as corresponding to the non-incumbent product.
- If there are PCAs not stated in the table(s), assume values are zero.
- Ignore all other values for products that are shown in the tables but that are not on-sale PCAs or legacy PCAs stated in the samples.

Note the difference in calculations: If the observation corresponds to a legacy account, the product to look for in the tables depends on the calculation:

- Calculation 1 – legacy PCA
- Calculation 2 – oldest on sale PCA
- Calculation 3 – on sale PCAs (or oldest on sale PCA, in case of legacy observations)
- Calculation 4 - on sale PCAs

[142] Based on the volumes of accounts of the respective products in the 11,677 sample.

Appendix 2

Benefits Valuations

How were the values arrived at?

It should be noted that Runpath are not experts in the valuation of benefits offered by current account providers. The CMA asked Runpath to provide some example figures. Runpath provided the figures and the CMA approved them.

The figures were based on a short survey of prices being offered by online sites for specific circumstances, which were then rounded to the nearest £10. These figures have been reviewed by Runpath in January 2016 and some amendments were made.

The final values are set out below:

Prices from January 2016

Gadget insurance

Based on: iPhone 6 16GB theft and loss cover

Protect Your Bubble	£	8.49
Gadget-cover.com	£	6.99
Switched on insurance	£	7.00
Trusted Insurances	£	6.75
Monthly Average	**£**	**87.69**
Rounded and multiplied	**£**	**90.00**

Breakdown insurance

Based on: Roadside assist, home start, national recovery, vehicle not person

Green Flag	£	60.00
RAC	£	107.99
AA	£	100.00
Annual Average	**£**	**89.93**
Rounded	**£**	**90.00**

Travel Insurance

Based on: annual multi trip, no medical conditions, Europe, no winter sports or cruise cover, family, age 25-50 (main traveller), included baggage, cancellation and medical

Insure & Go	£	42.99
Cheaper Travel Insurance	£	42.60
Thomas Cook	£	45.53
Argos	£	49.61

Virgin Money	£	53.74
Annual Average	**£**	**46.89**
Rounded	**£**	**50.00**

Home emergency cover

Based on: combined policy - plumbing, drains, heating

Homeserve	£	114.00
Surewise	£	47.88
Direct Line Response	£	84.00
British Gas	£	183.00
Cover Cloud	£	83.40
24/7 home rescue	£	192.00
Annual Average	**£**	**117.38**
Rounded	**£**	**120.00**

Appliance warranty insurance/ Shopping Protection

Based on: Min of 3 appliances covered.

Kapput Appliance Insurance	£	163.08
YourBudget.cover	£	113.04
Surewise	£	155.88
Annual Average	**£**	**144.00**
Rounded	**£**	**140.00**

Product benefit value exceptions breakdown[143]

[✂]

---Ends --

[143] The M&S Current Account benefit value in this table was removed in the analysis, as we obtained information that this benefit is not applicable to this particular product.

Appendix 5.3: PCA quality

Overview

1. Our approach to assessing the overall quality of service delivered by PCA providers is to use customer satisfaction and willingness to recommend measures. We have also sought to analyse in detail the quality of service provided in relation to those features of a PCA service which customers consider most important.

2. In particular, the results of the GfK PCA consumer survey found that the three most important features of a bank account were (in order of importance):[1]

   - quality of staff and customer service;
   - quality and speed of handling problems; and
   - convenience of location and opening times of branches.

3. To assess and compare performance along each of these dimensions, a set of proxy performance indicators has been defined, encompassing evidence from a range of sources (both subjective and objective in nature) including survey data, complaints volumes, and other parameters of the service offering.

4. In undertaking these comparisons we have sought to identify i) whether there is a relationship between market structure and quality outcomes and ii) how and to what extent customers have responded to variations in quality outcomes.

---

[1] GfK PCA consumer survey.

5. Despite the range of sources used in this analysis, we recognise that each represents only an imperfect proxy for the particular dimension of quality we are seeking to capture. We are also unable to capture all aspects of banks' service offering. Additionally, there are specific limitations to the proxy measures used which are discussed as they appear in this appendix.

6. The remainder of this appendix presents the analysis of the relevant quality indicators. The results should be interpreted alongside that of the pricing and revenue work streams, particularly where observed differences in prices reflect differences in the quality, and vice versa.

7. A summary of the comparisons by banking group for each indicator is provided in Table 1 of Annex A.

Analysis of overall quality of service

8. Customer experience metrics such as customer satisfaction and advocacy ratings, can be useful indicators of the overall quality of service received by customers.

9. We recognise that there are limitations to the use of these measures as a proxy for quality outcomes, and for this reason the results of such analysis should be interpreted carefully, especially when considering at absolute levels of satisfaction. In particular, ratings are likely to reflect customers' expectations of quality, which may be bounded by the range of service offered by current market participants. It is also possible that perceived quality does not coincide with the actual quality of the service delivered, for example if the service is not well understood by the customer or due to brand taint effects.[2]

10. However customer experience metrics have the benefit over alternatives indicators (such as operational performance measures) of measuring service outcomes as perceived by the customer, as opposed to single inputs or components of the overall quality outcome. In this way they will reflect the implicit weighting attached by customers to the various attributes of service.

11. Customer-reported indicators of service quality are also the most appropriate measures to use in assessing the strength of competitive dynamics in the

[2] In particular, a customers' reported NPS and satisfaction ratings may be impacted by positive of negative publicity surrounding a bank over issues that are not relevant to the provision of the PCA product. For example, in its submission on measuring consumer outcomes in retail banking, RBSG noted the divergence in NPS scores received by its NatWest and RBS brands (despite the similarity of their service offerings). RBSG considered this might be a result of the RBS brand being more readily associated by customers with the negative media coverage received by the RBSG group during and after the financial crisis.

market, and in particular, how customers responded to perceived variations in service quality between providers.

12. We therefore consider customer satisfaction and advocacy measures to be a primary indicator of service quality outcomes, particularly when making comparisons between providers or across geographic markets.

Customer satisfaction

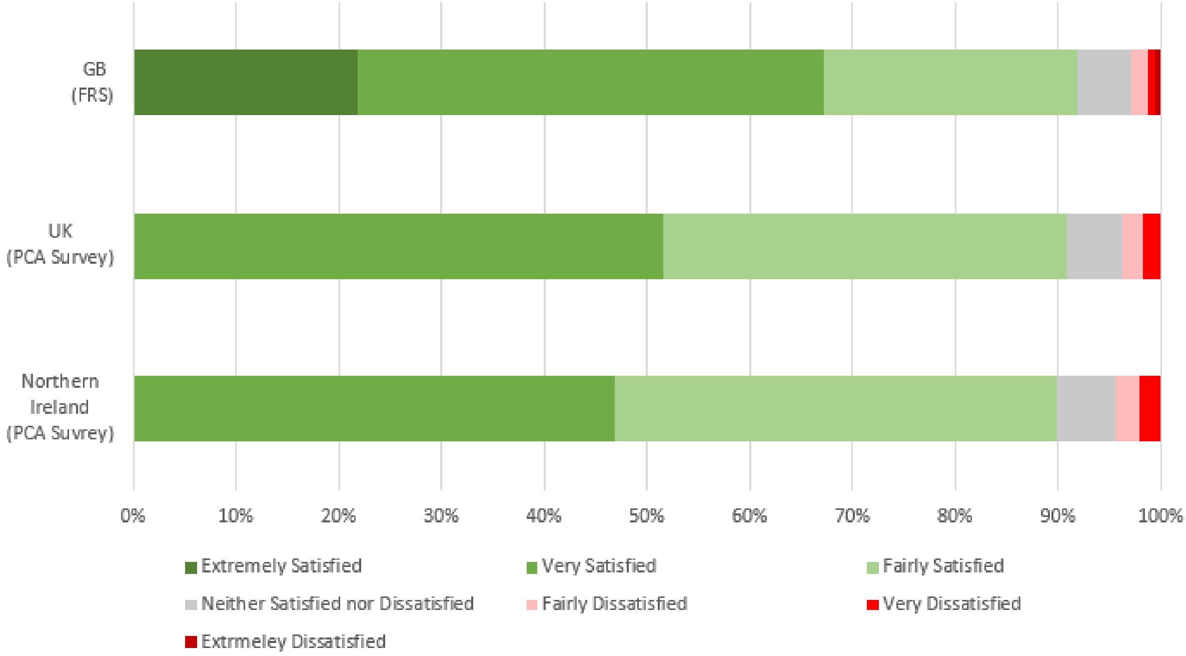
13. Customer satisfaction is a customer experience metric that is widely used as a measure of overall service quality, by both private companies and regulators.[3]

14. Customer satisfaction data is available from the GfK PCA consumer survey which measured satisfaction on a five point scale (from 'very satisfied' to 'very dissatisfied'). Satisfaction data is also available (for GB only) from the GfK Financial Research Survey (FRS) on a seven point scale (from 'extremely satisfied' to 'extremely dissatisfied'. Aggregate scores from both measures are plotted in Figure 1 below for the UK, and for GB and NI separately.

15. The distribution of scores between the 'very' and 'fairly' satisfied categories differs between sources (and this is likely to be explained in part by the existence of the 'extremely satisfied' category in the GfK FRS). However, the total proportion of customers reporting as satisfied is around 90% for both the UK as a whole and for GB and NI separately.

[3] For example since 2010/11 Ofwat has used customer satisfaction as one of its key metrics to compare and incentivise improvements in the service quality delivered by regulated water companies. Since 2009 Ofcom has used customer satisfaction surveys to quantify and monitor the customer service experience delivered by the main communications providers in the UK. Similarly, customer satisfaction forms part of the Broad Measure of Customer Service (BMCS) used by Ofgem in its DPCR5 and RIIO-ED1 price controls to incentivise improvements in the customer service delivered by electricity distribution network operators.

Figure 1: Overall satisfaction with main current account supplier in 2014



Source: CMA calculations using GfK FRS and GfK PCA consumer survey.
Note: FRS data does not include NI.

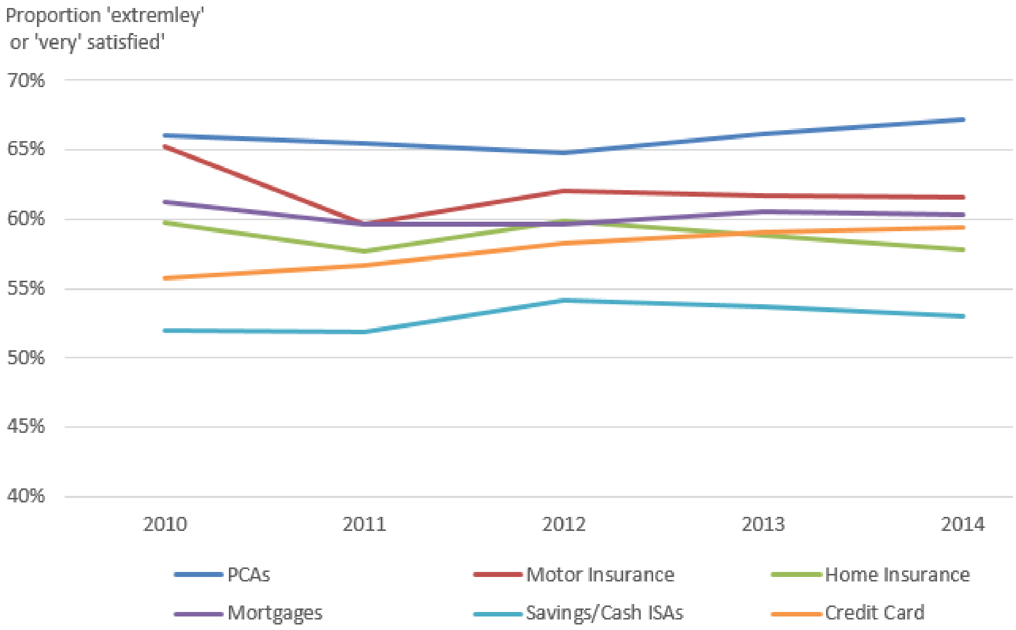
16. Figure 2 provides a comparison of satisfaction over time between PCA providers and suppliers of other financial products. The following points emerge from this comparison:

(a) throughout the period shown, satisfaction with PCAs is higher than that of the other products;

(b) the proportion of customers ‘extremely’ or ‘very’ satisfied has remained broadly flat since 2010, ranging from between 65 to 67%; and

(c) despite the considerable overlap in providers, the greatest difference in satisfaction is with savings and cash ISA products, for which satisfaction in 2014 was 14 percentage points lower than that of PCAs.

Figure 2: Comparison of satisfaction across sectors



Source: CMA calculations using GfK FRS.
Note: Data does not include NI.

Net promoter score

17. Net promoter score (NPS) is a customer loyalty metric widely used by banks as part of their quality monitoring processes.[4] Whilst not a direct measure of customer experience, NPS may be useful for comparing across firms and products. In contrast to satisfaction, NPS scores lack a direct interpretation. However, we have noted that banks prefer it to satisfaction as a way of measuring their performance relative to competitors and it may therefore be preferable to satisfaction for making comparisons across providers and products.

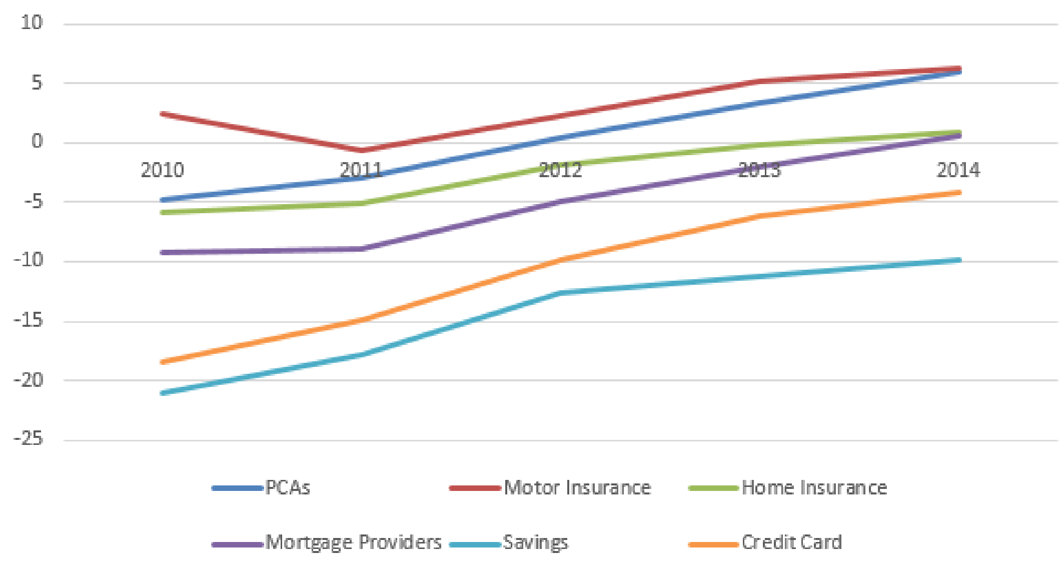
18. The NPS metric is derived from survey evidence in which customers are asked on a scale of 0 to 10, how likely they are to recommend their provider to friends and family. Net promoter score is then calculated as the percentage of customers reporting a score of 9 or 10 (the ‘promoters’) less the percentage of customers reporting a score of 6 or less (the ‘detractors’). The score is therefore bounded from below by –100 (in the case where all customers are detractors) and from above by +100 (all customers are promoters).

19. Figure 3 plots the NPS over time for PCAs and other financial products. PCA providers attained the second highest NPS over the period. By 2014

[4] In their response to the PCA market questionnaire, 8 of the 13 banking groups cited NPS as a metric used to monitor and/or benchmark the quality of PCA service provided.

performance had all but converged to that of the highest scoring product (motor insurance) with an increase in score of 11 points since 2010.

Figure 3: Comparison of NPS across products



Source: CMA calculations using GfK FRS.
Note: Data does not include NI.

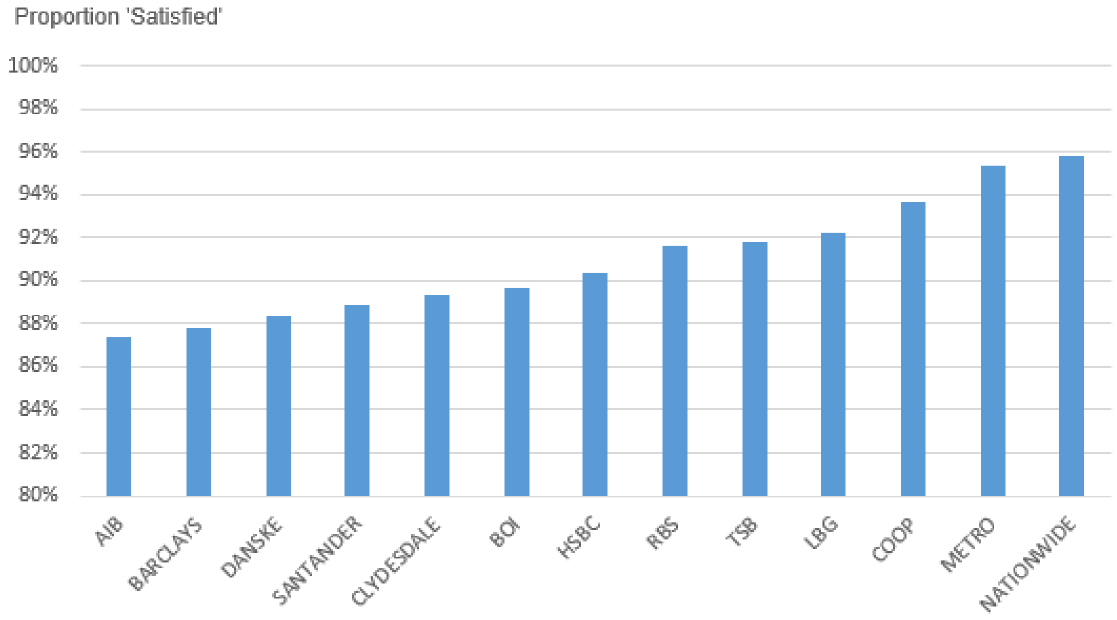
Comparison across banking groups

20. We have undertaken comparisons across banking groups of various quality indicators to examine the strength of customer response to quality variations, and to determine whether there is evidence of a relationship between quality outcomes and concentration.

21. Figure 1 plots a comparison of customer satisfaction scores across banking groups.[5] The proportion of customers reporting to be 'satisfied' with their main current account supplier in 2015 varies across banking groups, ranging from around 87 to 96%. Nationwide, Metro and Co-op received the highest percentage of satisfied customers whereas Danske, Barclays and AIB received the lowest proportion.

[5] The customer satisfaction score for each banking group reflects a weighted average of scores for its brands, where the weights are the number of accounts. For example, the score of HSBCG (90%) is a weighted average of the scores for HSBC (89%) and first direct (98%).

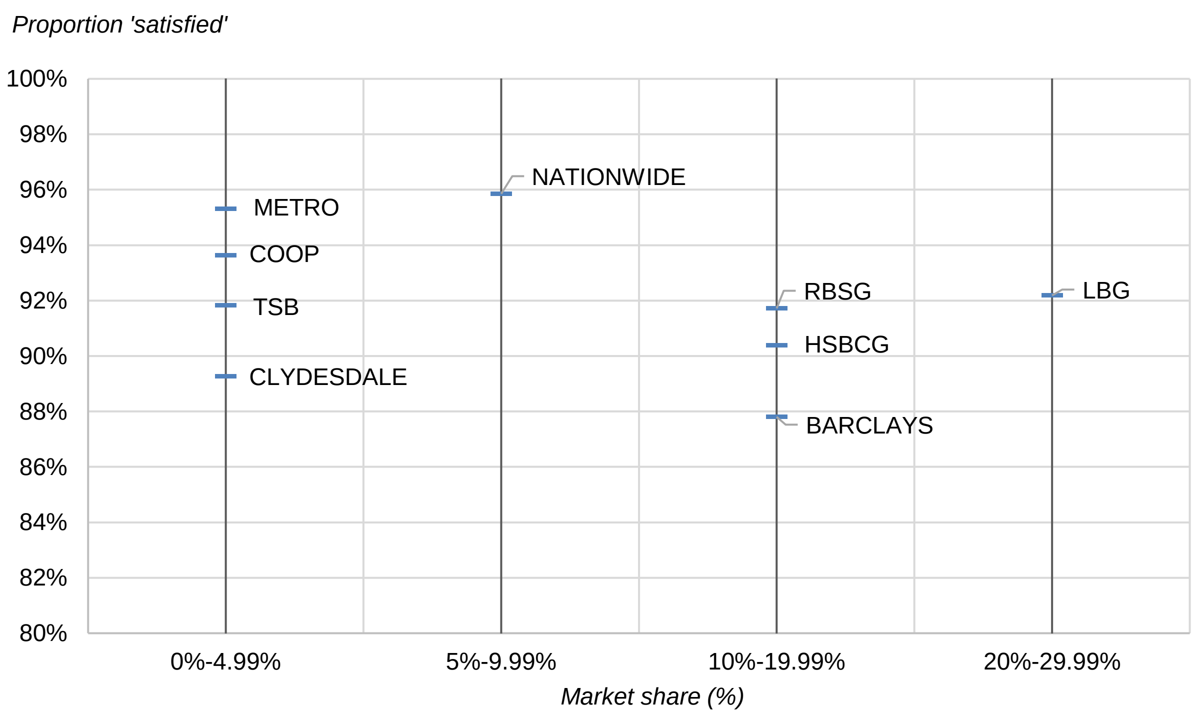
Figure 1: Comparison of satisfaction in 2014 using GfK PCA consumer survey



Source: GfK PCA consumer survey.

22. This latter result might appear to suggest a relationship between market share and customer satisfaction. To explore this relationship further, Figure 5 plots the corresponding satisfaction scores by market share for GB.

Figure 5: Comparison of GB satisfaction scores by market share in 2014

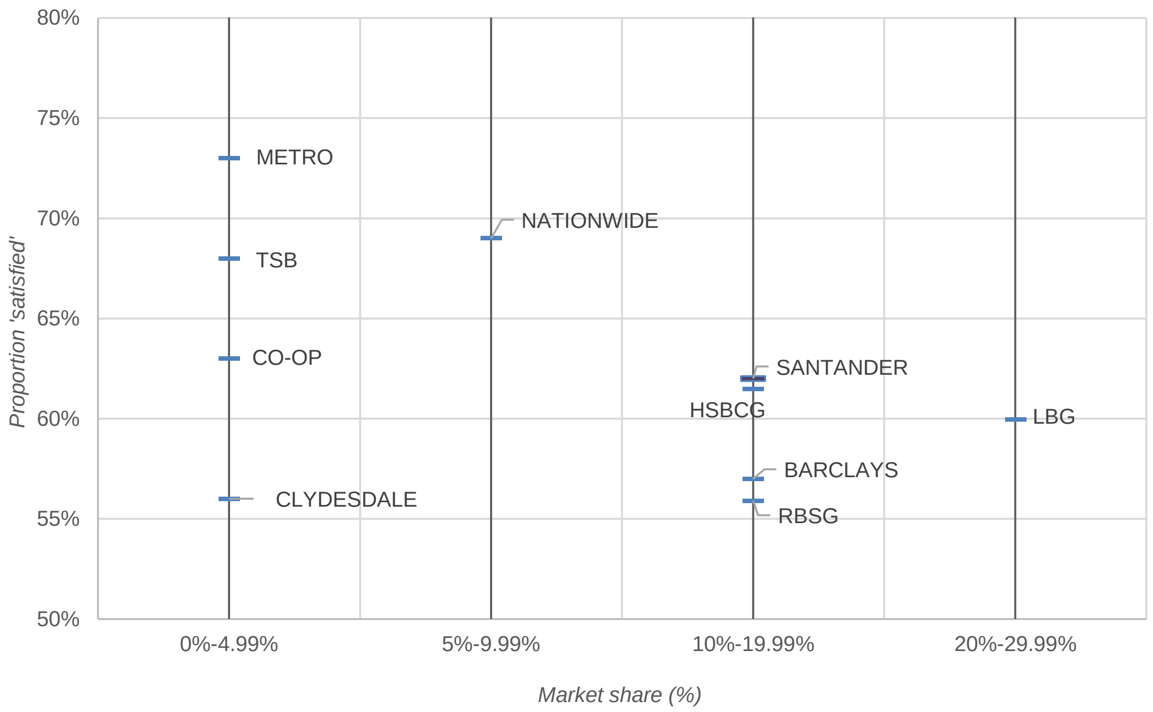


Source: GfK PCA consumer survey and CMA calculations using data submitted by banks.
Note: Market shares relate to share of GB main accounts.

23. Figures 6 and 7 plot the respective scores from the Which? and GfK FRS surveys of satisfaction with current account providers. There are time period and definitional differences between the two series,[6] and therefore the scale is not directly comparable across sources. Nevertheless, there is a reasonably strong correlation between the two sets of scores (around 78%) and the following observations may be drawn:

- [✂] receive high satisfaction scores [✂]; however
- the relative performance of Santander varies substantially, [✂] under the GfK FRS measure while enjoying the fifth best Which? satisfaction score.

Figure 2: Comparison of satisfaction in 2016 using Which? satisfaction index



Source: Which? (January 2016) and CMA calculations using data submitted by banks.
Note: Market shares relate to the 2015 share of GB main accounts.

24. The Which? satisfaction scores tend to point to a stronger relationship between size and satisfaction than depicted in the GfK FRS. However, it should be borne in mind that the Which? results are derived using a much smaller sample compared to the GfK FRS. It has also not been possible for us to verify the representativeness of the sample and robustness of the survey methodology.

[6] The Which? satisfaction score is a hybrid measure calculated using combination of respondents' overall satisfaction rating and how likely they are to recommend their bank to a friend.

Figure 3: Comparison of satisfaction in 2014 using GfK FRS

[✂]

Source: GfK FRS (GB only) and CMA calculations using data submitted by banks.
Note: Market shares refer to GB share of main accounts at year end.

25. As a further comparative measure of overall service quality, Figure 8 plots the relationship between market share and NPS for GB current account holders in 2014. [✂].

Figure 8: Comparison of NPS in 2014

[✂]

Source: GfK FRS (GB only) and CMA calculations using data submitted by banks.
Note: Market shares refer to GB share of main accounts at year end.

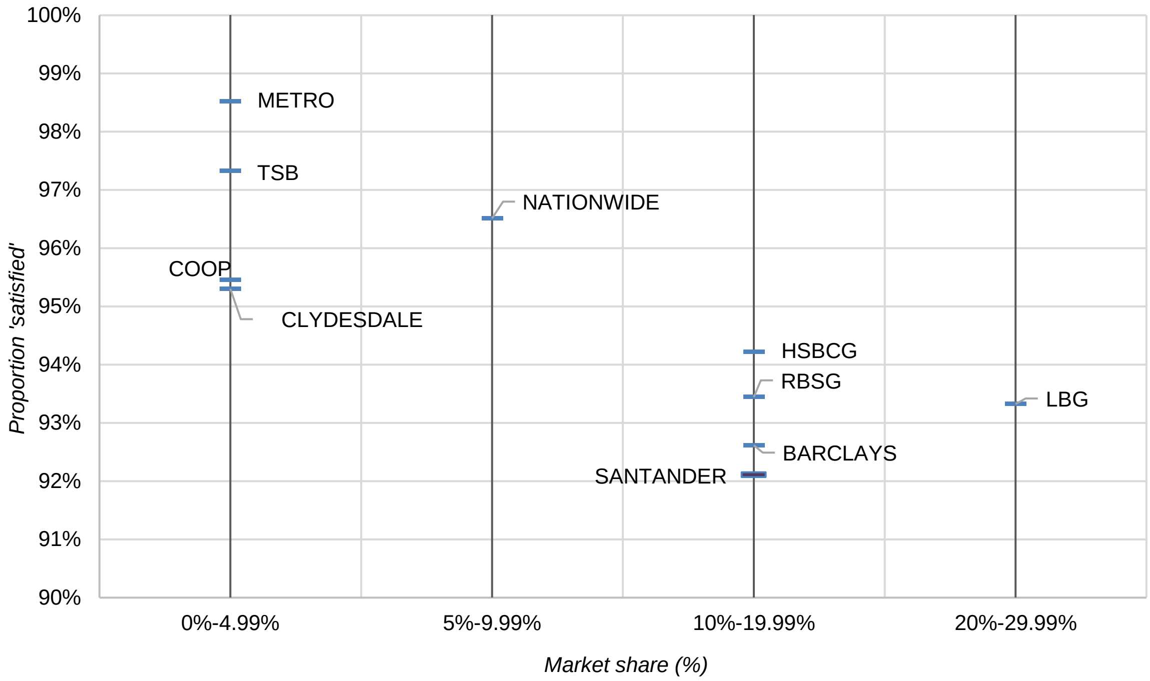
26. On the basis of the analyses presented above, we find that there are some small banks, such as [✂], which receive comparatively high customer satisfaction and advocacy scores.

Quality of staff and customer service

27. According to the GfK PCA consumer survey, ‘quality of staff and customer service’ was ranked as the most important feature of a bank account, with 83% of customers rating it as either ‘essential’ or ‘very important’. We have sought to use customers’ self-reported satisfaction with the quality of staff and customer service as a proxy for this quality dimension.

28. Figure 9 plots a comparison of this satisfaction measure between banking groups for GB customers. The banks with the highest reported levels of satisfaction are also the banks with the lowest market shares (Metro, TSB, Nationwide, Co-op Bank and Clydesdale).

Figure 9: GB Satisfaction with the quality of staff and customer service in 2014



Source: GfK PCA consumer survey and CMA calculations using data submitted by banks.
Note: Market shares refer to share of GB main accounts at year end.

29. An equivalent analysis of NI customers can be found in Figure 2 of Annex A. On the basis of the analysis, there does not appear to be an association between satisfaction of quality of staff and customer service in NI, however the small sample size limits the strength of inference that can be drawn from this data.

Quality and speed of handling problems

30. According to the GfK PCA consumer survey the 'quality and speed of handling problems' is the second most important feature of a bank for customers, with 82% rating it as 'essential' or 'very important'.

31. Customer complaints can provide an indication of not only how frequently banks make errors but also how effective they are at resolving them. There are two primary sources of complaints data available:

(a) Banks are required to report all complaints that are not resolved within one working day to the FCA. These are known as FCA-reportable complaints.

(b) Customers who are not satisfied with the response from their bank can escalate their complaint to the FOS.

32. We have collected data on both types of complaints from the banks and FOS, respectively. While each dataset contains complaints about the provision of current accounts only, complaints included within them are not limited to PCAs may also include complaints related to BCAs.[7]

33. There are also limitations to the interpretation of these complaints datasets as neither provides a measure of the total complaints received by each bank. For example, a bank with comparatively good performance on the FCA-reportable complaints measure may receive the same (or more) total number of complaints as another bank, but instead be more effective at dealing with them (ie within one working day).

34. Nevertheless, the speed at which complaints are handled is itself a dimension of service quality and as such we consider that the complaints indicators act as a useful proxy.

35. Figure 10 plots each of the complaints series by banking group for 2014, normalised by the number of main accounts.

36. Performance between FCA-reportable and FOS complaints varies within banks. For example, while [✂] has third largest volume of FCA-reportable complaints, it also has the fewest complaints referred by customers to the FOS. This disparity in relative performance between the measures may indicate that while the service offered by some banks may generate a higher volume of reportable complaints, some of these banks are relatively successful at resolving these complaints to the satisfaction of their customers.

Figure 10: Normalised Customer Complaints in 2014

[✂]

Source: FOS, and CMA calculations using data submitted by banks.
Notes:
1. FOS complaints relate to April 2014–23 March 2015 reference period, complaints relating to overdrafts are not included.
2. FCA-reportable complaints relate to 2014 H2 reference period.

37. We have also examined the extent to which variations in complaints performance are reflected in market dynamics (see Figure 11). Some banks with higher comparative performance (such as TSB and Nationwide) have experienced an increase in market share, but in general the relationship between complaints performance and change in market share is relatively weak.

[7] However only complaints made by private individuals or micro-enterprises (defined as business with an annual turnover of up to two million euros and fewer than ten employees) can be referred to the FOS.

Figure 11: FOS complaints and changes in market share in 2014

[✂]

Source: CMA calculations using data submitted by banks.
Notes:
1. Complaints relate to April 2014–March 2015 reference period, complaints relating to overdrafts are not included.
2. Change in market shares refer to change in 2013 in share main accounts at year end.

38. There have been a number of high-profile service failures affecting PCA customers over recent years. These are summarised in

39. Table 1 below.

Table 1: Summary of recent PCA service failures

Date	*Banking group*	*Description of service failure*
June 2012	RBSG	An IT failure lasting several days left approximately 6.5 million RBSG customers unable to use online banking facilities or obtain accurate account balance information from ATMs. During the period, incorrect credit and debit interest was applied to customers' accounts and inaccurate bank statements were produced. The IT failure lasted longer for Ulster Bank customers (three and a half weeks) than for other RBSG customers. RBSG was later fined £42 million and £14 million, as part of enforcement action by the FCA and PRA, respectively. RBS provided £70.3 million in redress to UK customers affected.
March 2013	RBSG	A system failure left some NatWest PCA customers unable to withdraw cash, use online banking or make debit card payments.
December 2013	RBSG	Systems problems resulted in a proportion of RBSG customers being unable to make debit card payments or access their accounts using internet or mobile banking.
January 2014	LBG/TSB	A server failure left approximately [✂]% of LBG and [✂]% TSB customers unable to make point of sale debit card transactions for a four hour period. ATM cash withdrawal transactions were also declined for some customers.
February 2014	Nationwide	Some Nationwide customers were unable to make debit card payments for a number of hours due to an IT problem.
June 2015	RBSG	Around 600k RBSG customer payments were delayed for a number of days after an IT problem resulted in them going 'missing' overnight on the day they were scheduled to be paid.
August 2015	HSBCG	An IT problem resulted in approximately 275k BACs payments originating from HSBC accounts being delayed by up to a day.

Sources: FCA, Guardian (1), Financial Times, LBG, Guardian (2), Telegraph, Guardian (3).

40. One of the most significant of these was RBSG's IT failure in June 2012 which resulted in Ulster's IT systems being unavailable for three and a half weeks. RBSG told us that Ulster suffered, both in terms of satisfaction as well as reputational damage; for example its NPS went from around [✂], down to [✂], and it has taken Ulster nearly [✂] years to increase its scores back to the same levels prior to the failure. We noted, however, that there seemed to have been a relatively small impact on Ulster's total number of main accounts. Ulster's number of main accounts opened reduced from about [✂] in 2011 to just under [✂] in 2012 and 2013 then to [✂] in 2014, while the number closed increased from [✂] in 2011 to [✂] in 2012 and [✂] in 2013 and [✂] in 2014.

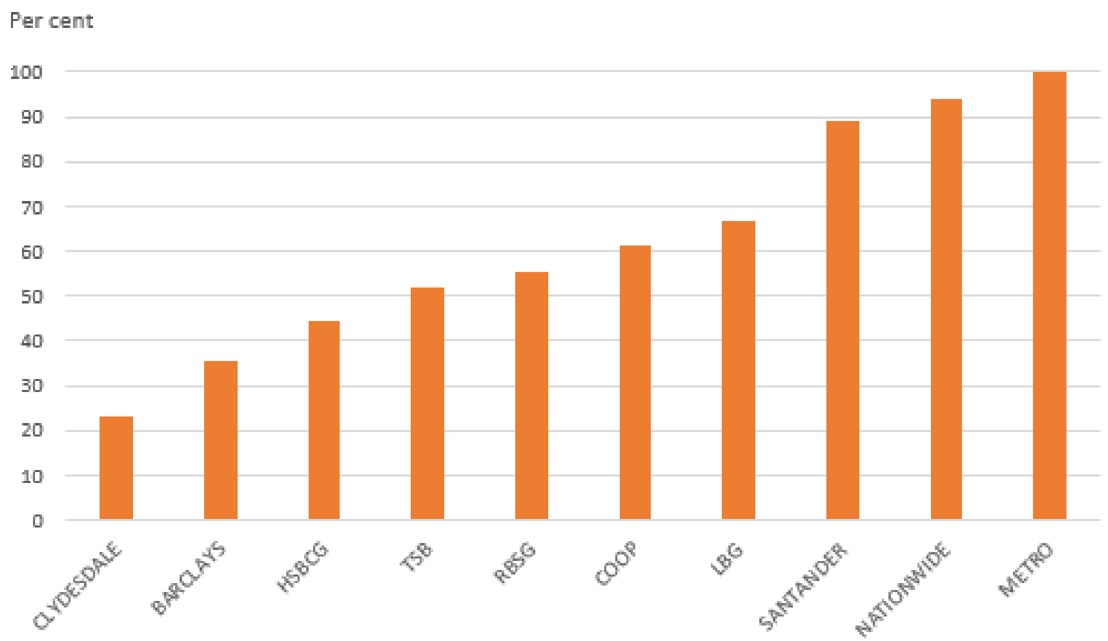
These numbers suggest a loss of [✂]%[8] of Ulster's total number of main accounts (and [✂]% if 2014 numbers are included). RBSG said that even though customers were inconvenienced, it was able to help them through that period, albeit with manual processes; hence, in its view, its relationships with its existing customers became even stronger even though there was a lot of overall dis-satisfaction in the market and negative publicity.

Convenient access to branches

41. The results of the GfK survey show convenience of access to branches to be amongst the most important features of a PCA.[9] We have therefore undertaken comparisons between banks using data on branch opening hours and weekend access in January 2015 as an indicator of this dimension of service quality. The comparison does not take into account customers' travel time to their nearest branch, which might be regarded as an important measure of convenience.

42. Figure 12 and Figure 13 plot for each banking group the proportion of GB branches with weekend opening and average weekly opening hours, respectively.

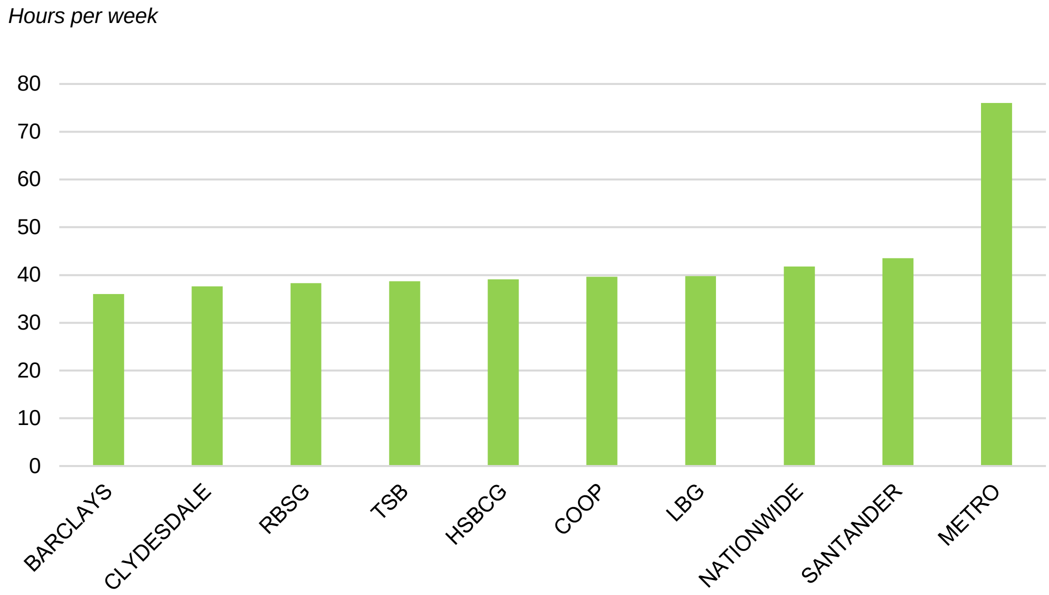
Figure 12: Proportion of GB branches with weekend opening in January 2015



Source: CMA calculations using data submitted by banks.

[8] This is based on adding a [✂] reduction in main accounts opened and a [✂] increase in main accounts closed over the period 2011 to 2013 and dividing by Ulster's total number of main accounts.
[9] When asked about the most important features of a main current account, 60% of customers cited 'the convenience of location and opening times of branches' as 'essential' or 'very important'.

Figure 13: Average GB branch opening hours in January 2015



Source: CMA calculations using data submitted by banks.

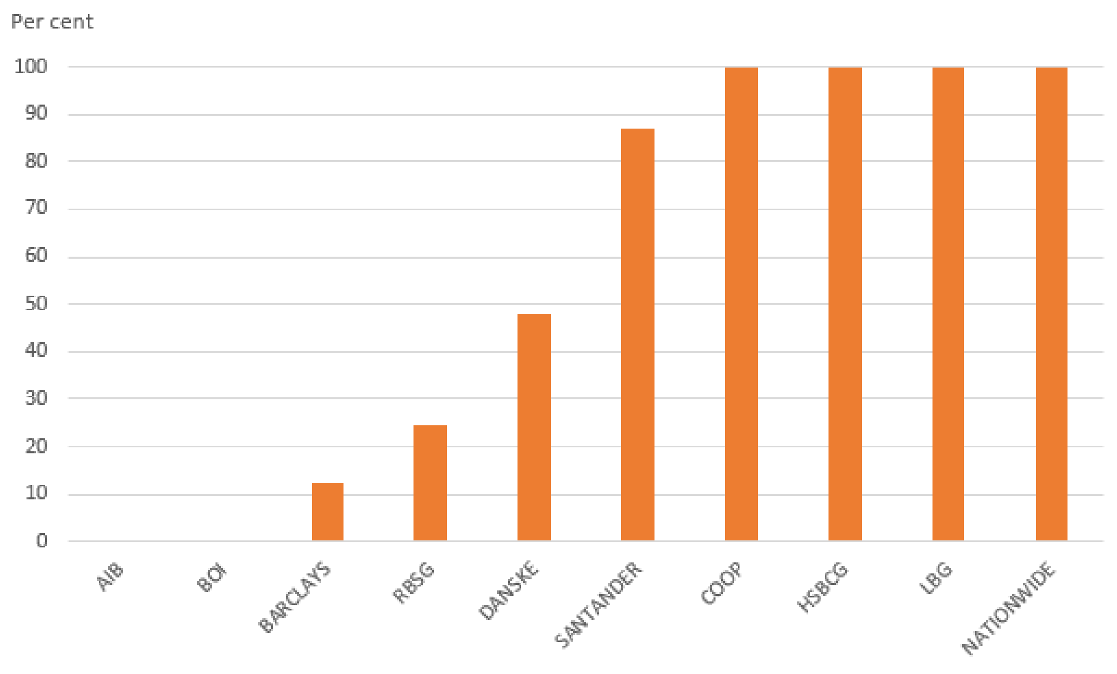
43. Evidence on whether banking groups with a smaller market share perform comparatively better under these metrics is mixed. For example, on the one hand, Metro and Nationwide had the highest proportion of GB branches with weekend opening (see Figure 12). However, Santander the fifth largest banking group, had the third highest proportion of branches with weekend opening and Clydesdale which, despite having a relatively small GB market share ([✂]%) had the lowest proportion.[10]

44. We observe less variation in performance on average weekly opening hours in GB, with the exception of Metro which has the longest opening hours (see Figure 13).

45. Figure 14 and Figure 15, respectively, plot the equivalent metrics for branches in NI.

[10] We note that Clydesdale is a long-established bank with a large geographic concentration of customers in Scotland (where it is the fourth largest banking group).

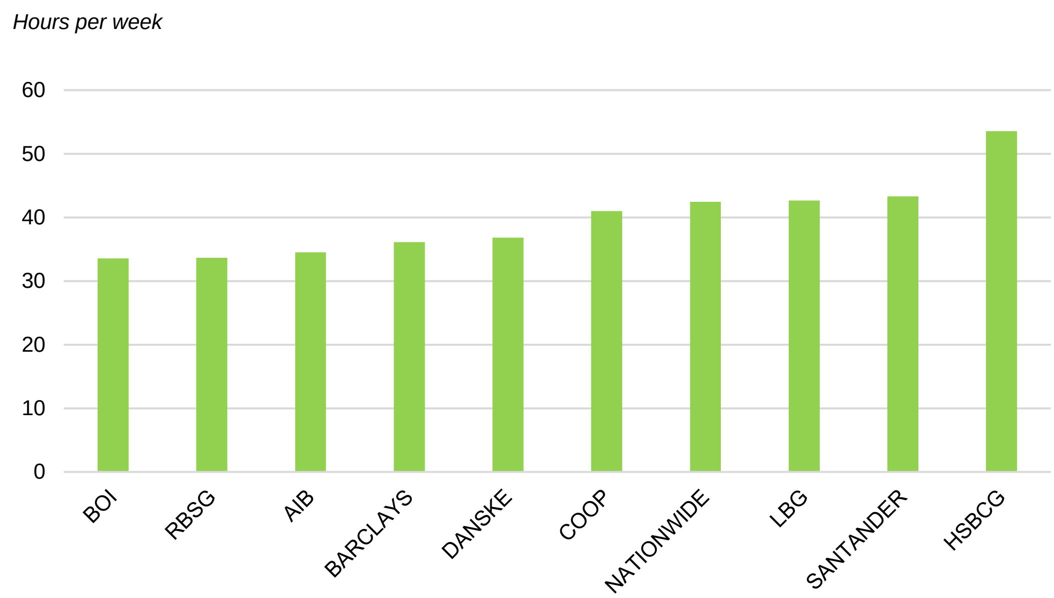
Figure 14: Proportion of NI branches with weekend opening in January 2015



Source: CMA calculations using data submitted by banks.

46. A clear association between convenience of branch access and market size is not evident for PCA providers in NI. On the one hand HSBC and Nationwide had the highest proportion of branches with weekend opening. However, Santander and LBG (the third and fifth largest PCA providers, respectively) also performed comparatively well, whereas smaller providers such as Barclays and BOI had amongst the lowest proportion of branches open.

Figure 15: Average NI branch opening hours in January 2015



Source: CMA calculations using data submitted by banks.

47. In interpreting these results, it is relevant to note that banks may face a trade-off between having a smaller number of heavily-used branches open for long hours and a larger number of more lightly-used branches open for shorter hours. While each of these may have convenience benefits and drawbacks for customers (the former longer opening hours and the latter lower travel time to branch), the former group would tend to come out better from a comparison limited to opening hours only. However, we have not been able to extend the comparisons to take into account other aspects of convenience, such as travel time to branch.

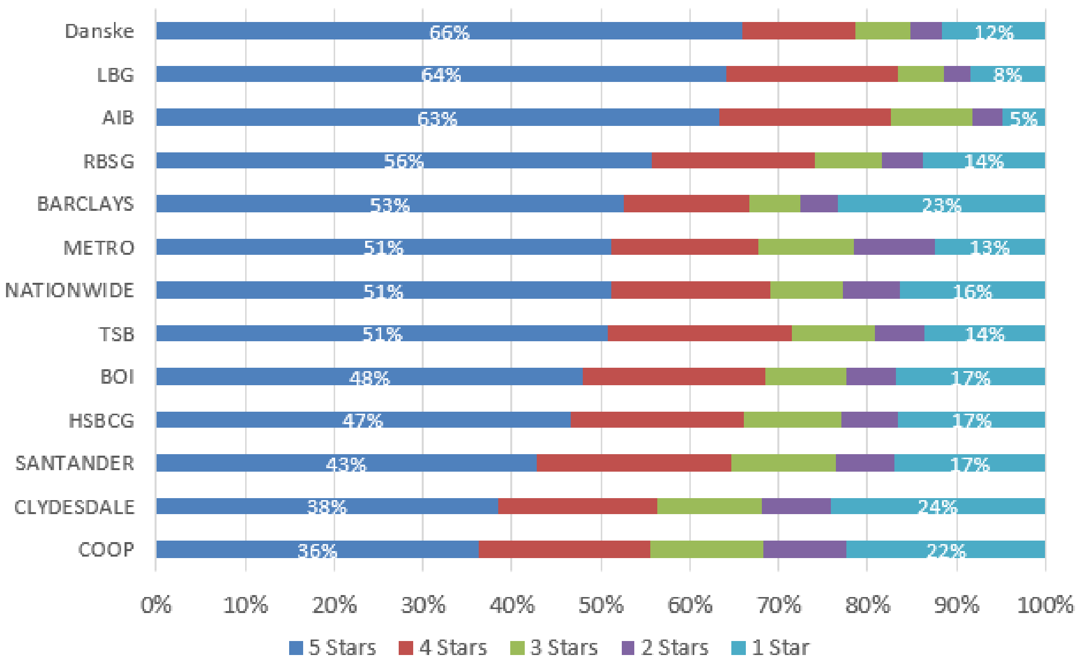
Mobile banking

48. Whilst not ranked in the GfK PCA consumer survey as one of the most important features of a PCA,[11] mobile banking has become an increasingly important channel for accessing PCA services. According to the GfK PCA consumer survey, over a third or customers currently use a mobile banking app on their tablet or smart phone and amongst those that use do, 74% use it to access their PCA at least once a week.

49. Figure 16 and Figure 17, respectively, plot the user ratings for the Android and Apple versions of the banking groups' mobile apps. It is important to note that these ratings do not necessarily constitute the responses of a representative sample of mobile banking users and merely represent the views of those that chose to give a rating.

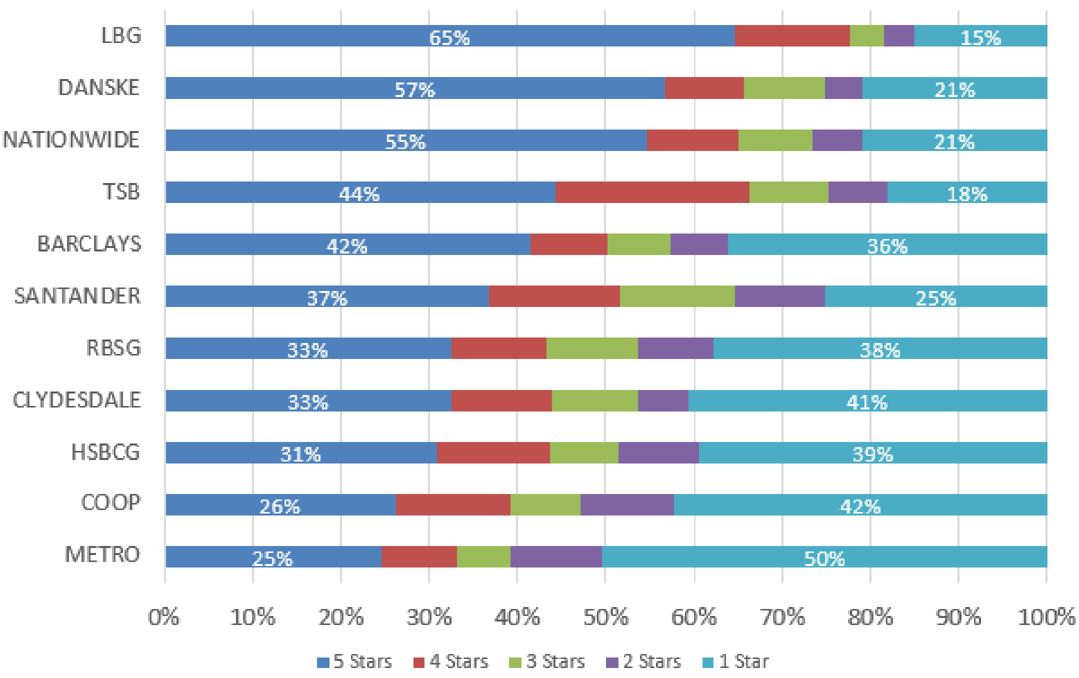
[11] Around a fifth of customers rated an app on a smartphone or tablet as an 'essential' or 'very important' feature of a bank account.

Figure 16: Android mobile banking app ratings at June 2015



Source: Google Play Store.
Note: Ratings collected over 24 hour period on 14 June 2015.

Figure 17: Apple mobile banking app ratings at June 2015



Source: iTunes App Store.
Notes:
1. Ratings collected over 24 hour period on 14 June 2015.
2. Data not included for apps which received less than 100 ratings (AIB and BoI).

50. Although the ratings vary between platform, the following common points emerge:

- LBG and Danske have the top two rated apps for both platforms;[12]
- Co-op Bank's apps were amongst the worst two performers for both platforms; and
- on average, the ratings for large banks' apps were higher than those received by small banks.[13]

51. Whilst it is not possible to extend inference from this sample to the general population of mobile banking users, the results provide an indication that amongst those users that chose to leave a rating, the apps of larger banks were viewed as higher quality than those of smaller banks.

Strength of customer responses

52. To examine the strength of customers' responses to variations in bank quality we have compared customer satisfaction ratings and NPS for each brand against the respective change in market share (see Figure 18 and Figure 19).

Figure 18: Comparison of NPS and change in market share in 2014

[✂]

Source: GfK FRS(GB only) and CMA calculations using data submitted by banks.
Note: Change in market shares refer to change on 2013 in share of GB main accounts at year end.

Figure 19: Comparison of Satisfaction Scores and change in market share in 2014

[✂]

Source: GfK PCA Consumer Survey and CMA calculations using data submitted by banks.
Note: Change in market shares refer to change on 2013 in share of GB main accounts at year end.

53. We find, in general, that brands which deliver higher levels of customer satisfaction are gaining market share relative to brands which deliver below average satisfaction. Nevertheless, the pace of these gains/losses is slow, potentially indicative of a weak customer response.

54. We also observe some PCA brands with high relative levels of satisfaction/NPS, such as first direct[14] and Co-op Bank, which are failing to increase their market share. Similarly, some banks with relatively low levels of satisfaction or willingness to recommend, such as LBG and Santander, have experienced an increase in market share.

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[12] In terms of both the average rating and proportion of five star ratings.
[13] For the Android platform, the average rating for large banks' apps was 3.99 stars, compared 3.75 stars for the small banks (where a small bank is defined as one which was not amongst the top four providers in terms of market share in the UK or primary devolved nation in which it operates). For Apple devices, large banks' apps received an average rating of 3.42 stars, compared to 3.40 for the apps of smaller banks.
[14] Part of HSBCG.

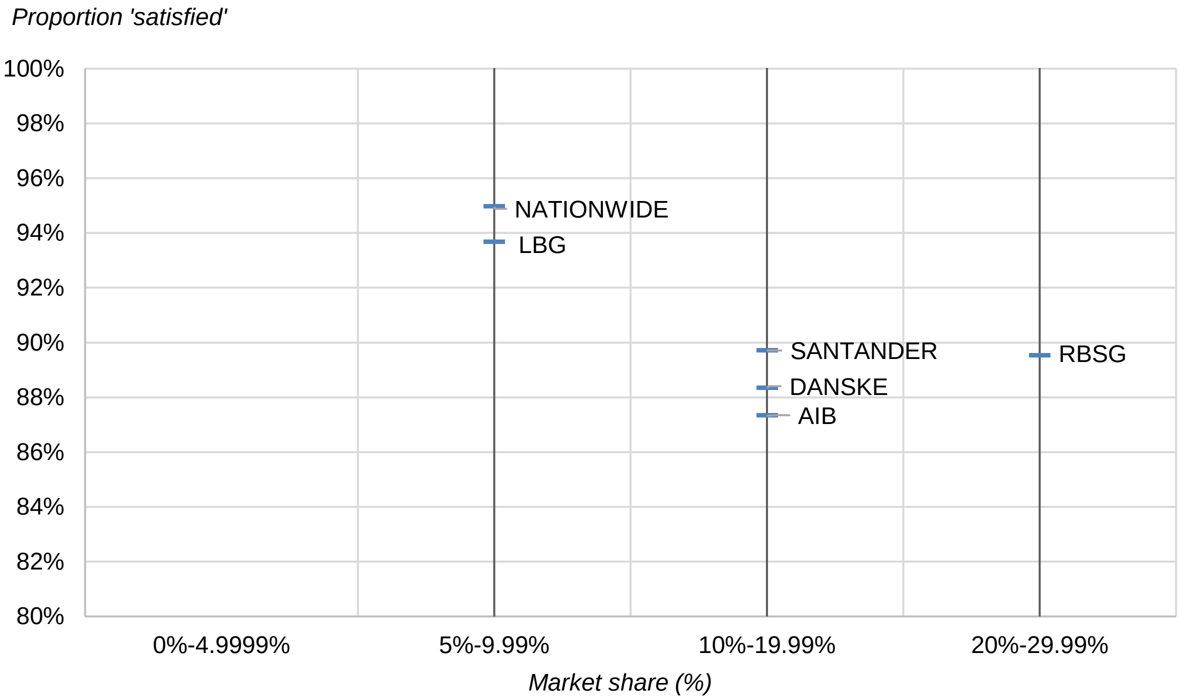
Annex A: Additional analysis

Table 1: Comparison of quality indicators by bank

Service attribute	*Overall quality*				*Quality of staff and customer service*	*Quality and speed of handling problems*		*Convenience of location and opening times of branches*		*Mobile banking*	
Quality indicator	*CSAT – PCA Survey (% satisfied)*	*NPS*	*CSAT – FRS (% satisfied)*	*CSAT – Which? (% satisfied)*	*CSAT (% satisfied with quality of staff and customer service)*	*FCA-reportable complaints (000s main accounts)*	*FOS-escalated complaints (00,000s main accounts)*	*Weekend opening (% branches)*	*Opening hours (average per week)*	*Android app (average rating on scale 1-5)*	*Apple app (average rating on scale 1-5)*
Metro	95	[✂]	[✂]	73%	99%	[✂]	[✂]	100	76	3.85	2.47
Nationwide	96	[✂]	[✂]	70%	97%	[✂]	[✂]	94	42	3.81	3.72
TSB	92	[✂]	[✂]	65%	97%	[✂]	[✂]	52	39	3.90	3.68
Co-op Bank	94	[✂]	[✂]	60%	95%	[✂]	[✂]	61	40	3.38	2.70
BOI	n/a	[✂]	[✂]	62%	n/a	[✂]	[✂]	0	34	3.77	n/a
HSBCG	90	[✂]	[✂]	58%	94%	[✂]	[✂]	44	39	3.73	2.87
LBG	92	[✂]	[✂]	60%	93%	[✂]	[✂]	67	40	4.28	4.09
Clydesdale	89	[✂]	[✂]	59%	95%	[✂]	[✂]	23	38	3.39	2.90
Santander	89	[✂]	[✂]	66%	92%	[✂]	[✂]	89	44	3.67	3.28
RBSG	92	[✂]	[✂]	58%	93%	[✂]	[✂]	55	38	3.98	2.92
Danske	88	[✂]	[✂]	61%	90%	[✂]	[✂]	48	37	4.18	3.76
Barclays	88	[✂]	[✂]	57%	93%	[✂]	[✂]	36	36	3.68	3.13
AIB	87	[✂]	[✂]	n/a	90%	[✂]	[✂]	0	35	4.33	n/a

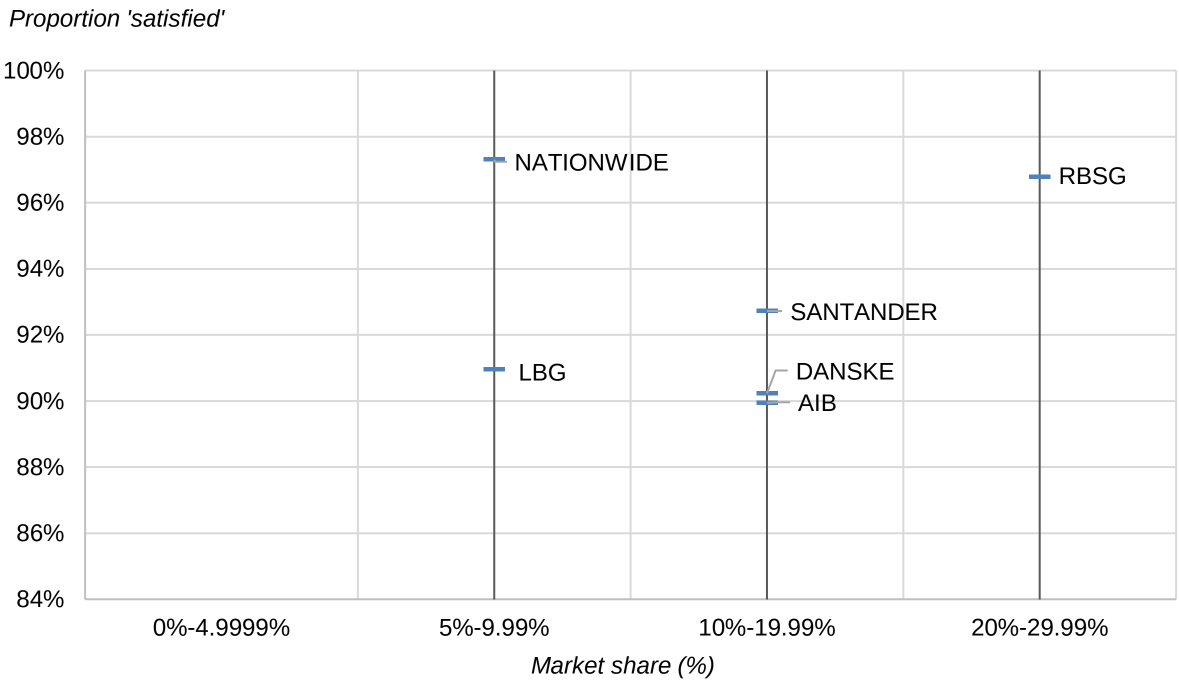
Source: CMA calculations using (1) GfK NOP FRS, (2) GfK PCA consumer survey, (3) Which? (June 2015), (4) Financial Ombudsman Service, (5) Google Play Store (see Figure 16), (6) iTunes App Store (see Figure 17) and (7) data submitted by banks.
Note: Shading denotes rank of banking group, for specific indicator, relative to other banking groups, where darkest red indicates lowest rank and darkest green indicates highest rank.

Figure 1: Satisfaction by market share in NI in 2014



Source: GfK PCA consumer survey and CMA calculations using data submitted by banks.
Note: Insufficient number of observations available to calculate satisfaction scores for Barclays, BOI, Co-op Bank, HSBCG and TSB.

Figure 2: Satisfaction with quality of staff and customer service by market share in NI in 2014



Source: GfK PCA consumer survey and CMA calculations using data submitted by banks.
Note: Insufficient number of observations available to calculate satisfaction scores for Barclays, BOI, Co-op Bank, HSBCG and TSB.

Appendix 5.4: Innovation in PCAs

1. We consider the following types of innovation in the PCA market:

   (a) product innovation;

   (b) service innovation (including the use of new or enhanced distribution models, such as mobile banking); and

   (c) new business models.[1]

2. In addition to considering innovation in retail banking in the UK, we also consider, where relevant, the implications for the UK market of international innovations in retail banking,[2] with reference to the Deloitte innovation report on the impact of innovation in the UK retail banking market (the Deloitte innovation report) and our case study on the Dutch retail banking market (the Dutch case study).[3]

Product innovation

3. In recent years, product innovation in the PCA market has primarily taken the form of PCAs offering some form of reward, such as credit interest or cashback. For example:

   (a) Santander's 123 Current Account, launched in 2012, offers an interest rate of up to 3% on credit balances up to £20,000 and up to 3% cashback on household bills paid by direct debit.[4] Customers also receive preferential rates on other Santander products.

   (b) TSB's Classic Plus account, launched in April 2014, offers credit interest of 5% on balances up to £5,000.[5]

[1] We do not consider directly the extent of any innovation in operational processes, but note that the use of new or enhanced distribution models, particularly where this is based on the increasing digitalisation of banking, is likely to lead to cost efficiencies.
[2] In considering retail banking in international markets, we do so in the context of our market investigation into PCA and SME banking specifically.
[3] We commissioned Deloitte to undertake research into ongoing and future innovations in the UK retail banking market and the possible implications for competition, by reference to international comparisons. Deloitte assessed the impact of five innovations on retail banking (mobile banking; digital wallets; aggregators; big data; and bank in a box (BiaB)). Our case study on the Dutch retail banking market focused on recent regulatory studies in the Netherlands looking at the retail banking market, in order to identify any relevant insights that may be useful for our investigation into the UK retail banking market. Both pieces of work were conducted with the view that international comparisons can offer useful insights, but are limited by the extent to which there exist differences in market features and customer preferences in different countries or regions.
[4] Santander 123 customers are required to pay a monthly fee of £5; pay in at least £500 per month; and set up at least two direct debits.
[5] TSB Classic Plus account customers are required to pay in at least £500 per month and register for internet banking.

(c) The Club Lloyds account, launched in April 2014, offers up to 4% credit interest on balances up to £5,000; preferential rates on other Lloyds products; and other benefits (eg cinema tickets and magazine subscriptions).[6]

(d) HSBC's new Advance account, launched in November 2014, provides access to preferential terms, prices and rates (eg access to the Regular Saver account that offers at 6% credit interest; reduced mortgage booking fees; and 10% interest cashback on personal loans); and enhanced terms (eg worldwide ATM withdrawals free from HSBC non-sterling cash fees and £500 ATM withdrawal limits).[7]

Service innovation

4. While product innovation in the PCA market has largely reflected the significance of price to customers, service considerations are also important. For example, the GfK PCA consumer survey found that quality of staff and customer service was rated as the most important element of a PCA.[8]

5. A number of service innovations have arisen as a result of the increasing digitalisation of banking and the resulting transition from traditional branch-based banking to the multi-channel distribution banking model that is now commonplace among the established banks in the UK, notably internet and mobile banking.

Internet banking

6. Although internet banking functionality has been offered by the established banks in the UK for some time, increasing customer access to broadband and high-speed connections, coupled with an increased uptake in the general use of the internet, has resulted in the development of internet banking into a significant distribution channel. For example, the BBA estimated that every day in March 2015 there were 9.6 million logins to internet banking services.[9]

7. Many of the banks have made and continue to make significant investment in this area, as part of their wider digital banking offer. For example:

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[6] Club Lloyds is free for those Lloyds customers that pay in at least £1,500 a month. Otherwise, customers are required to pay a monthly fee of £5.
[7] HSBC customers must have a minimum monthly credit turnover of £1,750 to be eligible for the Advance account.
[8] See GfK PCA consumer survey, p2.
[9] See Deloitte (2015), *The Impact of Innovation in the UK Retail Banking Market*, p4.

(a) In June 2014, RBSG announced that it would be investing more than £1 billion into its digital services for personal (and small business) banking in the next three years.

(b) LBG told us that it had invested over £750 million in digital technologies over the past three years and it would invest £1 billion over the next three years.

(c) HSBCG told us that its Retail Banking and Wealth Management business was investing [✂] to improve its UK multi-channel offering and digital services.

8. We consider below the impact of the development of internet banking and the wider digitalisation of banking in the context of the increasing adoption of mobile banking.

Mobile banking

9. Although internet banking has been common place for some time, mobile banking – the provision of banking services through smartphone and tablet channels – is also increasing at a rapid pace. For example:

(a) BBA estimates that customers now log into their mobile banking applications 10.5 million times a day and use them to transfer £2.9 billion each week.[10]

(b) LBG told us that it had [✂] active mobile banking customers, and of these customers, [✂]% to [✂]% accessed mobile banking with an application and [✂]% to [✂]% with a mobile browser.

(c) RBSG told us that it had over [✂] active digital customers, which equated to approximately [✂]% of its existing PCA customer base, and in 2014, [✂] customers activated online or mobile banking for their accounts and [✂] customers logged into their online banking account approximately [✂] times.

10. Mobile banking is provided by all of the largest banks in the UK (ie Barclays, HSBCG, LBG, RBSG and Santander). The core services provided by mobile banking applications typically include account checking services; money transfer and payment services; ATM location services; personalised alerts; and loan and service requests. Table 1 compares the functionality of the PCA mobile banking applications of a selection of UK banks, and suggests that,

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[10] See Deloitte innovation report, p4.

while providing similar basic services, there is some differentiation in the applications of the main banks. Recent developments in the UK include a feature that allows customers to withdraw cash from ATMs with their smartphone, and a biometric fingerprint feature that allows customers to login using only their finger print. Features that are available in other markets that have not yet been introduced in the UK include advanced personal financial management tools.

Table 1: Functionality of PCA mobile banking applications, as at June 2015

Bank	*Check balance*	*Make payment to new recipient*	*Send money to a mobile number (Paym)*	*Branch/ATM locator*	*Touch ID support*
Lloyds, Halifax and Bank of Scotland	Yes	Yes	Yes	Yes	No
NatWest/RBS	Yes	No	Yes	Yes	Yes
Barclays	Yes	No	Yes (via Pingit)	Yes	No
Nationwide	Yes	No	No	No	No
HSBC	Yes	No	Yes	Yes	No
Santander	Yes	No	Yes	Yes	No
Metro Bank	Yes	No	No	Yes	No
TSB	Yes	Yes	Yes	Yes	No

Source: Deloitte innovation report, p8.

11. Recent entry into the PCA market has been digital and branch based:[11]

(a) TSB's customer research suggests that branch location was an important consideration for customers who were planning to switch bank accounts. For example, the main reason that customers switched to TSB was 'convenient branches'.[12]

(b) Metro Bank launched in July 2010, and at the end of 2014, it had 31 branches in and around Greater London, and it aims to have 200 branches by 2020. Metro Bank's branches represent its main sales channel, although telephone, mobile and internet banking are also available to its customers. Metro Bank believes that having physical branches is important, because it enables it to provide traditional banking services, and build relationship with customers.[13]

(c) Atom launched in 2015 as the UK's first full-service digital-only bank. On its decision to be a fully digital bank, Atom has noted that the costs

[11] The rise of the multi-distribution banking model does not suggest that the ownership of a branch network is essential to entry into the retail banking market, as there are numerous methods of providing counter services to customers without having branches (eg agency banking relationships; Inter-Bank Agency Agreements (IBAAs); use of the Post Office network; and cash collection and delivery services agreements). On a similar note, the Netherlands Authority for Consumers & Markets (ACM), the primary competition authority in the Netherlands, providing consumer protection and market oversight, found that a national branch network is not a barrier to entry in the Dutch retail banking market due to the increasing digitalisation of banking and digital operating model of some new entrants (see Appendix 6.8).
[12] See Appendix 9.2.
[13] See Appendix 9.2.

associated with acquiring and running branches are prohibitively high. Atom will serve both personal and SME business customers, and its offering will be optimised for smartphones and tablets, with telephony services as support rather than as an alternative channel. However, its customers will be able to access counter services in [✄] branches.[14]

12. The rise of digital banking has resulted in the changing use of branches, reflected in the rationalisation of branch networks undertaken by the largest UK banks, and the increasing optimisation of branches to reflect the increased digitalisation of banking (eg migration to self-service technology, reduced counter services, remote or virtual advice, and alternative branch formats).[15] Much of a typical customer's transactional activity is undertaken via digital channels banking (and where a customer chooses to perform these activities in branch, they are increasingly directed towards electronic terminals).

Other digital service innovations

13. The increasing digitalisation of banking, and particularly the rising adoption of mobile banking, has led to other service innovations in the PCA market:

   (a) Contactless payment technology – the use of radio-frequency identification (RFID) or near field communication (NFC) for making low-value secure payments – is offered by all of the largest banks in the UK (ie Barclays, HSBCG, LBG, RBSG and Santander). There are over 40 million contactless cards in use in the UK and spending via contactless technology amounted to approximately £300 million in 2014.

   (b) Barclays launched Pingit in 2012 – a mobile payment system that allows money to be sent using a mobile phone number rather than an account number and sort code. By September 2015, Pingit had been downloaded [✄] times and had processed payments worth £[✄]. A number of the other banks have subsequently adopted PAYM technology (see Table 1).

   (c) Most banks offer SMS alerts, notifying customers, for example, when they are near to their account limit (at a level set by the customer) or when they have entered their overdraft. LBG introduced a new service called Balance Extra on 2 September 2015, where customers are notified of their balance at the end of the month after regular payments. The service is new to the PCA market in the UK and aims to remove the unexpected element of overdraft charges by letting customers view their 'true' month

[14] See Section 9.
[15] See Section 9 for further information.

end balance. Around 550,000 Halifax customers are currently eligible for the service.

(d) Both cloud banking – where customers can store their important documents securely online – and video banking – which enables customers to talk to their bank from a smartphone, tablet or desktop computer – are available to select customers of some banks.

(e) A number of the banks are trialling mobile cheque depositing (or cheque imaging), whereby cheques can be scanned and emailed using mobile devices, in response to the increasing volume of electronic payments and corresponding decline in cheque volumes.

(f) A number of the banks are increasing the ability of their customers to open their accounts online through the use of remote ID verification. For example, RBSG told us that it launched an online photo ID checker in November 2013. This provided customers with an additional option to open their account online without requiring documentation to be sent to RBSG via mail and/or having to visit a branch. RBSG told us that as a result of the Photo ID checker, it had seen its online account opening application rate improve from [✂]% in [✂] to [✂]% by the end of [✂].

Aggregators

14. Aggregators are services that collect and collate information from a number of sources. There are two main types of aggregators:

(a) Comparison aggregators collect and display the same information for a similar product or service for comparison purposes (eg a PCW).

(b) Account aggregators are intended to help customers manage their personal finances and monitor their spending and saving patterns. These aggregators may collate information from across multiple accounts, in order to provide customers with a consolidated overview of their finances. Some aggregators go further and also allow users to manage their accounts directly through the service.

15. In this section, we focus on account aggregation services as, relative to comparison aggregators, account aggregators have generally had a more limited presence in the UK (despite such services having been available in the UK in some form since 2001), especially when compared to their greater presence in the USA. In particular, the US market is more advanced in the use of aggregation services provided by third parties, with these services being more than twice as popular in the US market than in Europe. The current players in the USA are Mint, Moven and Simple, which provide a

range of services. They allow customers to track their spending and saving patterns and manage bills and payments, and they make use of the detailed financial data that they hold on their customers to recommend new products and services to them.

Big data

16. ‘Big data’ is a term broadly used to describe data that is especially large in volume, highly complex or frequently updated to the extent that traditional desktop computers and software (such as spreadsheets) are no longer capable of processing it. Data can include customer spending patterns and social media activities from third party sources. The growth of the digitalisation of activities and processes means there are vast increases in the amount of data being generated, while developments in data storage, management and analytics have the potential to promote greater use of this information.

17. There are a number of potential uses for big data within the banking sector, including:

    (a) using detailed customer data to better differentiate (and potentially discriminate) between customers. This can be used for both customer acquisition and customer retention strategies;

    (b) making use of data from a wider variety of sources, in order to assess potential borrowers and the risks of default associated with loans;

    (c) analysing patterns in large datasets, in order to rapidly identify security breaches and predict future violations;

    (d) making use of centralised information, in order to ensure that regulatory reporting requirements are fulfilled while protecting customer privacy; and

    (e) simulating future events and understanding the state of their business, in order to become more capable of managing risk.

18. Many of the established banks still use legacy IT systems and a lot of data remains isolated across different departments, making it difficult to build a complete picture of customer behaviour. However, they are also investing in big data tools that will help them to collect, store, analyse and visualise their data to develop a more comprehensive understanding of their customers. For example, HSBCG spent 18 months in 2013 and 2014 testing out big data systems and migrating its legacy data into a new format, and LBG and Santander have both offered personalised discounts to customers based on

individual spending patterns identified through big data analysis.[16] There are also examples of big data used by international banks:

(a) banks in Canada, such as the Bank of Nova Scotia, have begun using real time-data to improve their risk management processes;[17]

(b) major Australian banks, such as National Australia Bank, Westpac and ANZ, have begun to use big data to tailor their products for different customer segments; and[18]

(c) Alior Bank in Poland has put together a substantial database on customers and their payments in the country. The bank has stated that it wants to combine online browsing data with information from social media sites and T-Mobile Poland, in order to sell and price products.[19]

New business models

Recent and impending entry

19. The rise of digital banks underlines the importance of technological innovation in facilitating entry into the market, but the entry of banks with more traditional distribution models, such as Metro Bank, suggests that branch-based banking has not yet been totally replaced by digital banking. None of the new entrants referred to in this section have yet replicated the full service model of the larger, established banks.

Entry by firms with ancillary financial services products

20. In recent years, a common channel of entry into the PCA market has been the expansion of a firm with an established presence in an area of retail banking into PCA banking. For example, Tesco Bank, M&S Bank,[20] and the Post Office[21] have expanded their product offerings to include PCAs. See Section 9 for further information.

Online entry

21. As noted previously, Atom launched in 2015 as the UK's first full-service digital-only bank. Atom told us that it believes it can enter the UK market with

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[16] See Deloitte innovation report, p51.
[17] See Deloitte innovation report, p52.
[18] ibid.
[19] ibid.
[20] M&S Bank is a wholly owned subsidiary of HSBC Bank plc.
[21] The Post Office offers retail banking services under Bank of Ireland's banking licence.

'brand new systems and without the constraints of legacy technology and damaged loan books … to ultimately provide better value for customers'. Atom intends to reduce its running costs by adopting the latest technology, and this, it says, will be reflected in a 'competitive and fair charging structure' for its customers. Atom will serve both personal and SME business customers, and its offering will be optimised for smartphones and tablets (via an app), with telephony services as support rather than as an alternative channel.[22]

22. Starling is planning to enter with a niche PCA offering before subsequently building a platform that will offer third-party financial services. Starling's business model is, like Atom's, purely digital, although basic branch services will be available to its customers. Although Starling told us that it is targeting young 'urbanites', it believes its niche offering will prove attractive to a wider audience.[23]

Bank in a Box

23. Historically, BiaB technology referred to licensed application software providing deposit taking and lending functionality (often including current accounts) through non-digital channels, covering front and back office functions. A banking institution would have to implement such software itself. In the context of the UK banking sector, BiaB customers historically included branches of international banks in the UK and branches of UK banks overseas, whereas most larger UK banking institutions had built their own banking platforms. However, today BiaB is typically understood more broadly as a 'one-stop-shop' service, whereby a new entrant or existing institution can obtain the complete IT system it needs to operate a banking business.[24]

24. BiaB services may differ from provider to provider, but broadly they include:

(a) a core banking system providing a range of banking products;

(b) support for face-to-face and different digital delivery channels;

(c) debit and credit card processing;

(d) Know Your Customer (KYC) and anti-money laundering (AML) services;

(e) credit processing;

[22] See Section 9.
[23] See Section 9.
[24] See Deloitte innovation report, p63.

(f) fraud and risk analytics; and

(g) financial, management and regulatory reporting.[25]

25. BiaB technology provides a number of advantages to users:

(a) it reduces costs of entry, as it allows users to avoid many of the costs involved with setting up a bank;

(b) it reduces time to market, as it allows users to adopt preconfigured systems instead of developing their own; and

(c) it reduces uncertainty, as it provides a stable platform with ongoing upgrades, and, as the service is known to regulators, bank authorisation requests are likely to be more straightforward than requests based on unknown or unproven platforms.[26]

26. Table 2 suggests that the BiaB market in the UK is less mature than other markets in Europe and North America.

Table 2: International examples of BiaB provision

Market	*Check balance*	*Make payment to new recipient*	*Send money to a mobile number (Paym)*	*Branch/ATM locator*	*Touch ID support*
North America	Yes	Yes	Yes	Yes	No
Nordics	Yes	No	Yes	Yes	No
Germany and Austria	Yes	No	Yes (via Pingit)	Yes	Yes
Australia	Yes	No	No	No	No
UK	Yes	No	Yes	Yes	No

Source: Deloitte innovation report, p64.

27. However, there are a number of instances of banks entering and planning to enter the market on BiaB platforms, targeting specific market segments:

(a) Sainsbury's Bank started trading in 1997 as a joint venture with the BoS (later LBG). In 2013, Sainsbury's Bank announced that it would acquire LBG's share of the bank and set out a 42-month transition plan to move onto a BiaB platform provided by FIS. The platform is intended to be a better digital offer to customers and enable new product launches, and the bank intends to provide only contact centre services in-house.[27]

(b) Metro chose to work with Temenos, which provided it with an IT platform with a single customer view that underpins its banking services. It selected Temenos because it offered an integrated IT system, which

[25] ibid.
[26] ibid.
[27] See Deloitte innovation report, p68.

'lowered the entry barriers by offering a flexible and massively scalable delivery model which reduced capital outlay and operating costs to a bare minimum'. The implementation period for Metro Bank's IT system was also relatively short at nine months.[28]

(c) Lintel Bank plans to use a pre-configured core banking system from a third party provider to target overseas students and new migrants to the UK. Although Lintel is still awaiting authorisation from the PRA and FCA, it is planning on offering services that range from PCAs to loans for SMEs.[29]

(d) German digital bank, Fidor, is also planning a UK launch. Fidor targets digitally-sophisticated customers (both private and business) through a range of services, with a focus on social media users and online only businesses. The bank will include a community site, where users and representatives are able to discuss the financial services offered by the bank, and in Germany it already has a reputation for approving loans in minutes.[30]

28. There may be limits on the extent to which BiaB users can grow market share, partly because of the constraints that BiaB technology places on the capacity to differentiate and to offer more complex services. For example, in TSB's experience, no one IT provider is able to provide a comprehensive IT system with all of the functionality that would be required by a full service multi-channel bank. Moreover, TSB believes that, although it may be possible for a new entrant to obtain IT systems that, whilst not performing as well as 'big bank' IT, are adequate for a small scale operation, those systems cease to be adequate as the new entrant expands beyond a particular scale.[31] We consider further in Section 9 whether access to IT is a barrier to entry and/or expansion.

Digital wallets

29. A digital wallet is a service that facilitates the storage of payment (and possibly other) credentials and enables users to make payments, either online or via a mobile device. It can take a number of forms, encompassing different technologies, channels and providers. Digital wallets are generally split into two broad categories:

[28] See Appendix 9.2.
[29] See Deloitte innovation report, p67.
[30] See Deloitte innovation report, p67.
[31] See Section 9.

30. Online digital wallets allow customers to store the payment details of one or more cards online for use in repeat purchases. The main advantage for users of online digital wallets is that they do not have to input their bank details each time they make a transaction on the internet, increasing both convenience and security. They first appeared in the late 1990s, with PayPal and eBay, and are now common on websites, such as Amazon. PayPal now provides a variety of services including online payment services, mobile payment services, account services, deferred payment systems, money (including cheques) transfer services into PayPal accounts and in-store payment systems.

31. Mobile digital wallets allow customers to make in-store payments with their mobile device. There are different models of payment with a mobile device, including cloud-based technology, QR code scanning and the use of NFC technology to transmit credentials to point-of-sale devices. The majority of mobile digital wallets currently available worldwide are provided by technology companies. In contrast, card providers, such as Visa and MasterCard, are yet to offer mobile-based wallets that can be used in stores, and the services offered by banks are more limited in their scope with money transfers between individuals being the core service of these applications. In July 2015, Apple introduced Apple Pay to the UK market. Apple Pay allows owners of newer iPhone models to use their smartphone (or an Apple Watch) to make payments at NFC-equipped terminals. As of June 2015, 19 high street stores and all of the major UK banks had signed up to Apple Pay.

32. Although online digital wallets are relatively established, adoption remains relatively low and credit and debit cards still account for significantly larger proportions of online payments. Mobile digital wallets are less established, but the UK’s low level of adoption is in line with several other European and North American countries. The region with the highest rate of adoption is Asia Pacific, where digital wallets account for 23% of online transactions; this is led by China, where 44% of online transactions are made using digital wallets, with Alipay the market leader. Rates of adoption are somewhat lower in the USA and Canada (18%), and Europe (13%).

Appendix 6.1: PCA switching process and multi-banking

Contents

Page

Switching process

1. There are different ways in which a customer may switch usage between different PCAs.

   (a) **Full account switching** – this is opening a new account in bank B, as a main account, and closing existing account in bank A.

   (b) **Multi-banking** – there are various configurations to multi-banking:

      (i) opening a new account in bank B as a main account, and keeping a dormant account in bank A;

      (ii) opening a new account in bank B as a main account, and continuing to use an old account in bank A as a secondary account; and

      (iii) opening a new account in bank B, as a second account, and continuing to use an old account in bank A as a main account.

2. Further, to switch account, a customer can either:

   (a) manually handle all the arrangements themselves (for example, by changing direct debits and standing orders); or

   (b) use the automated switching process known as CASS, described in detail below.

The current account switch service

3. CASS was launched in September 2013. It is a voluntary scheme set up as part of an industry-wide programme by the Payments Council and owned and operated by Bacs. It makes switching current accounts simpler and quicker for customers. Some 40 UK bank and building society brands participate, accounting for over 99% of the current account market. Customers using CASS to switch accounts are covered by the Switch Guarantee,[1] which includes the automatic closure of their original account.

The FCA CASS review

4. The FCA published a review of the effectiveness of CASS in March 2015.[2] It found that:

   (a) CASS addressed the main concerns expressed by customers about switching, such as having to transfer salary payments and utility bills;

   (b) the vast majority of switches were completed within seven days and without error and most customers who had used the service rated it positively;

   (c) customers lacked awareness and confidence in CASS; and

   (d) there were a small number of operational issues associated with CASS, the main one being the risks arising when the redirection service ended. Others include issues with using CASS for customers requesting overdrafts or with overdrafts they were unable to repay through a debt management company[3] and the use of Continuous Payment Authorities (CPAs).[4]

5. In considering its effect more broadly, the FCA found that there had been only a small increase in switching volumes since CASS was launched, although

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[1] The Switch Guarantee: It will only take seven working days. The service is free to use and customers can choose and agree a switch date; the bank will take care of moving all payments going out and those coming in; if money is in an old account, the bank will transfer it to the new account on the switch date. For 36 months, the bank will arrange for payments accidentally made to the old account to be automatically redirected to the new account. The bank will also contact the sender and give them the new account details. If there are any issues in making the switch, they will contact the customer before the switch date. If anything goes wrong with the switch, they will refund any interest (paid or lost) and charges made on either the old or new current accounts as a result of this failure.

[2] FCA (March 2015), *Making current account switching easier: The effectiveness of the Current Account Switch Service (CASS) and evidence on account number portability*.

[3] The FCA noted that at some banks a switch could be initiated before a decision on an overdraft was made. Once initiated a switch could not be stopped. The FCA believed that this affected only a small proportion of customers switching (possibly around 1%), but it could lead to financial difficulties and it was beginning to work with industry on a solution to this issue.

[4] A CPA is a recurring or regular payment using a customer's debit card details (rather than a bank account number and sort code). CASS does not deal with transferring CPAs.

this needed to be seen in the context of the other significant barriers to switching which still exist, such as consumer inertia. There had been some limited changes in provider behaviour, particularly in relation to the development of current account products. The FCA found no changes in levels of customer satisfaction with current accounts.

6. The FCA recommended the following areas for further enhancements to CASS:

(a) measures to raise awareness of the service, such as a targeted marketing campaign;

(b) identifying ways to raise confidence levels in the service via the marketing campaign (for example, by publicising customers' positive experiences) and refining the targets around consumer confidence to better reflect customers' concerns (such as an error-free switch); and

(c) a technical or other solution to the problems that may occur if/when the redirection service comes to an end (this could include an unlimited extension to the redirection service).

7. Bacs has conducted research work some of which was in response to the FCA's recommendations. This included:

(a) research into customers' confidence.[5] It found that there were indications that the CASS description could be simplified and more positively framed around the potential for errors;

(b) testing of awareness measures to understand the reasons for differences in the Bacs tracking research and the FCA's reported measure.[6] It found that the primary reason for differences was due to the design of the survey questions; and

(c) investigating what elements consumers value in a relationship with their providers and what would drive them to consider change.[7]

Levels of searching and switching

8. We present below evidence on searching and switching levels: providers' reported switching levels; and searching and switching levels from surveys,

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[5] Conducted by Optimisa.
[6] Conducted by TNS.
[7] Bacs (May 2016), *Consumer engagement in the current account market*.

which also show internal switching and switching rates over time. We then examine switching in other sectors and within the EU.

Reported switching rates

9. We asked PCA providers to analyse switching rates in 2015 based on their PCA customers' overdraft usage in 2014.[8] We asked them to provide data on external switching rates for accounts with arranged and unarranged overdraft usage separately, if possible separating out different intensities of overdraft usage.[9] We did not ask them to show results for the GB and NI markets separately.

10. The reported switching rates for different types of overdraft usage are set out in the table below. We note that there are differences in the underlying switching metrics used as providers varied in terms of the data they were able to provide in the time available, including whether this related to CASS or total switching and/or included intra-group switching,[10] and the range of accounts included.

Table 1: Reported switching rates for different types of overdraft users

%

Account provider	*Account provider brand*	*All unarranged overdraft users*	*Unarranged-only users*	*Arranged-only users*	*No overdraft usage*
AIB	AIB	[✂]	[✂]	[✂]	[✂]
Barclays*	Barclays	[✂]	[✂]	[✂]	[✂]
BoI	BoI	[✂]	[✂]	[✂]	[✂]
Danske	Danske	[✂]	[✂]	[✂]	[✂]
HSBCG	HSBC, first direct, M&S	[✂]	[✂]	[✂]	[✂]
LBG	BoS	[✂]	[✂]	[✂]	[✂]
LBG	Halifax	[✂]	[✂]	[✂]	[✂]
LBG	Lloyds	[✂]	[✂]	[✂]	[✂]
Nationwide	Nationwide	[✂]	[✂]	[✂]	[✂]
RBSG	NatWest	[✂]	[✂]	[✂]	[✂]
RBSG	RBS	[✂]	[✂]	[✂]	[✂]
RBSG	Ulster Bank	[✂]	[✂]	[✂]	[✂]
Santander	SanUK	[✂]	[✂]	[✂]	[✂]
TSB	TSB	[✂]	[✂]	[✂]	[✂]
Average		1.1	1.2	1.4	1.0

Source: Parties' responses.
* The reported switching rates for Barclays' unarranged overdraft users and unarranged-only overdraft users refer to accounts that went into Emergency Borrowing.
Notes:
1. The results shown were not prepared on a fully consistent basis. For example, some represent CASS switching rates while others include all switching. For further details, see the notes to the individual tables in Annex A to this appendix.
2. The average shown is a simple, unweighted average of responses.

[8] This was in response to parties submitting the following for our provisional findings: Nationwide told us that [✂]. TSB provided data showing that those customers who most heavily use an overdraft facility are less likely to switch, and it told us that this was because the lack of support within CASS for switching overdraft facilities might deter customers who relied on their overdraft to manage their day-to-day finances from switching. LBG provided data analysis that showed a smaller proportion of overdraft users had switched away than customers who were in credit.
[9] That is, excluding intra-group switching.
[10] See for each PCA provider the notes to the individual tables in Annex A to this appendix.

11. This evidence shows that switching rates for UK PCA customers are low. We note that the rates reported here are lower than the overall 3% switching rate we report in Section 6. This is likely to be because the switching rates presented here are generally limited to CASS switching, which shows the amount of switching by customers using the CASS process. It therefore provides a lower bound estimate of switching rates, as it excludes full account switching (either full or partial[11]) if conducted manually.[12]

12. We estimated the overall annual switching level through CASS (and through the previous switching process known as ToDDaSO[13]) to be around 2% of all UK main accounts.[14] This figure drops to 1.3% as a proportion of all accounts. Although this overall figure is for a different time period to Table 1 and there were differences in the specific switching metrics used by each bank, it is broadly in line with the switching rates reported in this table.

13. Comparing different types of overdraft users, we find that a majority of PCA providers reported that customers who did not go into overdraft were least likely to switch.[15] The quantitative evidence provided by different PCA providers is set out in greater detail in Annex A to this appendix.[16]

14. Disaggregating overdraft usage by intensity of usage yields more mixed results. Lighter overdraft users tend to have higher switching rates than non-overdraft users. In particular, lighter arranged-only overdraft users typically have the highest switching rates (higher than non-overdraft users).[17] A common trend is that, for any type of overdraft usage, switching rates are generally lower for heavier overdraft users, with all PCA providers other than [✂] reporting switching rates for the heaviest category of overdraft users that

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[11] Where partial switching involves opening a new account but keeping your old account open.
[12] Full account switching. Opening a new account and closing your old one. A customer can 'manually' handle all the arrangements themselves (for example, by changing direct debits and standing orders).
[13] The predecessor to CASS was Transfer of Direct Debits and Standing Orders (ToDDaSO), which was an electronic payments service (effectively a back‑office process) used by providers to transfer payment instructions (ie direct debits and standing orders) for retail customers between two different current accounts. It had been in operation in the UK since 2001 and accounted for a gradually increasing proportion of current account switches until the launch of CASS. It continued to run until the end of 2014.
[14] The switching rate is calculated by the number of switches between March 2014 and February 2015 (CASS data excludes customers that kept an old account open and adjusted to remove SMEs), divided by the number of accounts at the end of 2014.
[15] While we did not carry out formal significance testing, we consider that the large numbers of observations involved imply that material differences in switching rates are generally statistically significant.
[16] Since we asked PCA providers to provide this evidence using whichever categorisation was most convenient for them, the evidence in Annex A is not presented in a standardised form. This prevents us from making findings based on a standardised set of categories of usage here. Instead, we draw high-level conclusions, based on the assumption that usage for many days per month, on average, is likely to be correlated with usage for many months per year. For evidence supporting that assumption, see the section on frequency of usage, below.
[17] The main exceptions we are aware of are [✂] and [✂] where unarranged-only overdraft user groups had the highest switching rates (8–14 days on average per month for [✂] and three or fewer days on average per month for [✂]). See Annex A to this appendix.

are two to four times lower than the switching rates they report for the lightest users, and frequently below 0.5%.

15. The extent to which the heaviest overdraft users have lower switching rates than customers who do not use their overdraft at all varies by type of overdraft user (arranged or unarranged). At almost all PCA providers the heaviest unarranged overdraft users had the lowest switching rates,[18] which was often substantially lower than the switching rates of the heaviest arranged-only overdraft users and non-overdraft users. The heaviest arranged-only overdraft users also tended to have lower switching rates than non-overdraft users but the difference in switching rates between these two customer groups was typically not substantial.

16. Considering this switching evidence, we find that switching rates are generally low. We find that the evidence is insufficient to conclude that overdraft users as a group have lower switching rates than non-overdraft users. However, heavier overdraft users are less likely to switch than lighter overdraft users. Moreover, the heaviest unarranged overdraft users typically have the lowest switching rates. Lighter arranged-only overdraft users typically have the highest switching rates.

Searching and switching rates from surveys

17. The GfK PCA consumer survey found that, over the past three years, 8% of PCA customers in the UK had switched banks. For the year 2014, the annual switching rate between banks was around 3%.[19,20] This data includes full account switching and switching of a main account whilst keeping an old account open. It excludes internal switching (ie switching PCA within a customer's existing bank) and when customers open a new account as a secondary account.

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[18] [✂]

[19] Respondents classified their own accounts as 'main'.

[20] Data does not significantly differ between England, Wales, Scotland and NI. Switched within the last three years (sample size): UK = 8% England = 8% (3,049) NI = 7% (702); Wales 9%(137) Scotland = 7 (661) (GfK PCA consumer survey).

Table 2: Searching and switching rates (number of customers)

Groups	*Last 12 months (weighted, %)*	*Last three years (weighted, %)*
Non-searcher/non-switchers	78.1	65.4
Searcher/non-switchers	15.7	20.5
Searcher/external switchers	2.3	4.6
Non-searcher/external switchers	0.9	3.5
Searcher/internal switchers	0.7	1.9
Non-searcher/internal switchers	1.8	4.1
Missing data	*0.7*	*0.2*

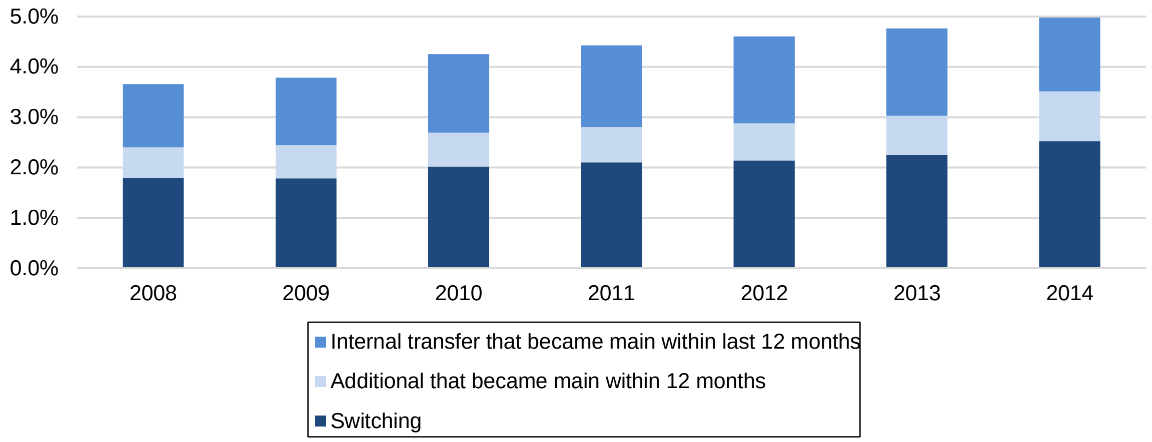
Source: CMA analysis based on GfK PCA consumer survey. Entire surveyed sample.

18. In 2014 approximately 2.5% of customers switched internally increasing the switching rate to 6%. According to the GfK FRS, the GB internal switching rate was 1.5% based on main accounts. External surveys are in line with this figure: in 2014 GfK FRS data reported a 2.5% GB switching rate from one bank to another based on main accounts, while the TNS survey[21] reports the GB switching rate to be 3.4%. The GfK PCA consumer survey indicates that internal switchers are less likely to have searched. Last year approximately 73% of internal switchers did not shop around prior to switching[22] in contrast to 27% of those that switched to another bank.

19. As shown in Figure 1, the annual rate of switching for GB main accounts has increased over time, but still remains low. In 2014 full account switching accounted for 50% of all switching activity, opening an additional new account[23] represented 20% and internal switching approximately 30% of activity.

[21] TNS, Current Account Switching Index: December 2014. Q.1A: 'Have you changed the bank\building society with whom you have your current account in the LAST YEAR?'
[22] GfK PCA consumer survey.
[23] These account are classified as then becoming main accounts.

Figure 1: GfK FRS data:* percentage of main accounts over time – GB



Source: CMA analysis based on GfK FRS data.
*GfK FRS asks customers who had opened a current account in the last 12 months which of these statements best describes what they did when they opened their account: (i) I switched my main current account from another bank or building society; (ii) I replaced an existing account held with the same bank/building society; (iii) it was taken out as additional to my main current account; (iv) it was my first ever current account; (v) although I had had a current account in the past I no longer held one at the time I opened my account; (vi) other; don't know. Data is reported for all accounts and those which customers classify as their main account. We report figures in relation to customers 'main' accounts. GfK told us that there was a step change in the data between 2007 and 2008 as a result of a methodology change in the survey.

20. The search and switching rates reported above relate to customer numbers (ie the volume of customers searching and switching accounts). We recognise that the value of these customers is also important. It may be the case that customers searching and switching are higher-value customers. There is no explicit measure of customer value. We therefore consider three dimensions of value: average credit balances, overdraft balances and incoming payments into the account as a proxy, as presented in Table 3.

21. External switchers account for 3.6% of the total amount of credit all customers were in.[24] This measure of switching by value is slightly higher than the switching rate of 3.2% when looking at the number of customers switching accounts (by volume). Likewise, internal switching by this measure of value is also higher at 5% compared with 2.5% for the number of customers switching accounts (by volume). When using overdraft balance as a measure of value, the value of external switchers is reduced to 2%.[25] When using incoming payments into the account, the value of external switchers are closer to the ones reported for customer numbers (by volume) at 3.3%.[26]

[24] Defined as the sum of all customers' average credit balances.
[25] That is, external switchers account for 2% of the total overdraft balances of all customers (using customers' average overdraft balances).
[26] That is, external switchers account for 3.3% of the total incoming payments of all customers.

Table 3: Value of searchers and switchers and non-searchers and non-switchers

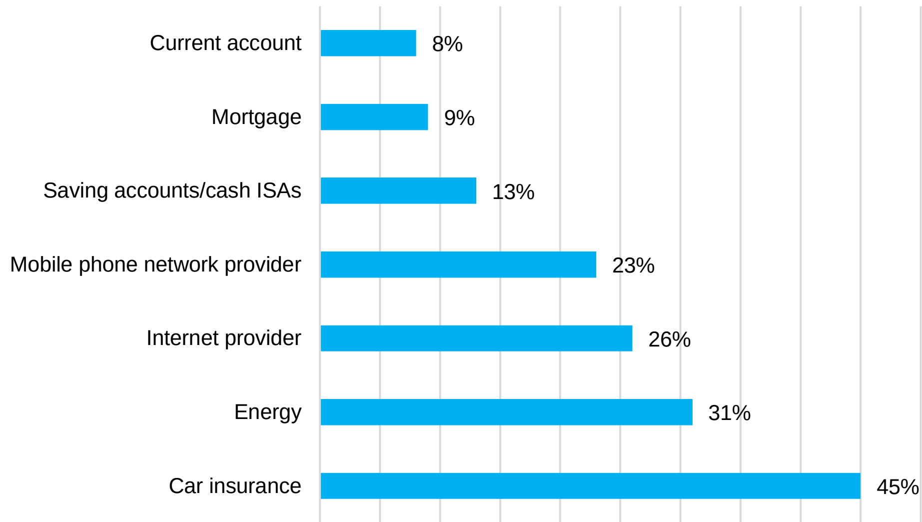
	Last 12 months (weighted, %)			*Last three years (weighted, %)*		
Groups	*Credit balance**	*Overdraft balance*	*Incomings*	*Credit balance**	*Overdraft balance*	*Incomings*
Non-searcher/non-switchers	67.1	81.6	74.8	55.2	64.7	60.8
Searcher/non-switchers	24.1	14.9	19	26.2	24.8	24.1
Searcher/external switchers	3	1.8	2.7	7.2	2.7	4.9
Non-searcher/external switchers	0.6	0.2	0.6	2.8	2.1	3.2
Searcher/internal switchers	0.8	0.5	0.8	2.5	1	2.1
Non-searcher/internal switchers	4.2	0.7	1.7	6	4.5	4.9
Missing data on searching/switching	0.2	0.4	0.5	0.1	0.3	0.1

Source: CMA analysis based on GfK PCA consumer survey and PCA transaction data submitted by banks.
Note: As explained in paragraph 21, figures report the value attributed to each customer group using different measures of value (credit balance, overdraft balance and incoming payments).
*5% of surveyed customers are not included due to missing information on their average credit balances.

Switching in other sectors and the EU

22. Figure 2 suggests that switching rates are lower for PCAs compared with many other sectors such as car insurance, savings accounts and energy.[27] While we acknowledge that there are differences between sectors, the comparison shows that switching rates are relatively low in PCAs compared with other non-financial sectors and marginally lower than other financial sectors.

Figure 2: Proportion of customers who have switched supplier in different sectors in the last three years



Source: GfK PCA consumer survey.

[27] Base: All who have each product/service (mobile phone = 4,254, car insurance =3,700, current account = 4,549, mortgage = 2,265, energy = 4,136, internet provider = 4,028, savings accounts/cash ISAs = 3,684). Switched current account between banks (253), not switched (4,198).
J1: 'In which if any of the following have you changed supplier within the last three years? If you don't have one of these please say so'.

23. A 2012 study by the European Commission[28] found that the number of UK customers switching in the previous two years was close to the EU average, as shown in Figure 3.[29]

Figure 3: Comparison of switching rates across the EU in 2012

	Total 'Switchers' [switched within last 2 years or current switching process]
EU10	4%
DE	3%
IE	4%
ES	6%
FR	2%
IT	5%
LV	2%
NL	2%
RO	8%
SE	4%
UK	4%

Source: Directorate-General for Health and Consumers (2012), *Bank fees behaviour study*.

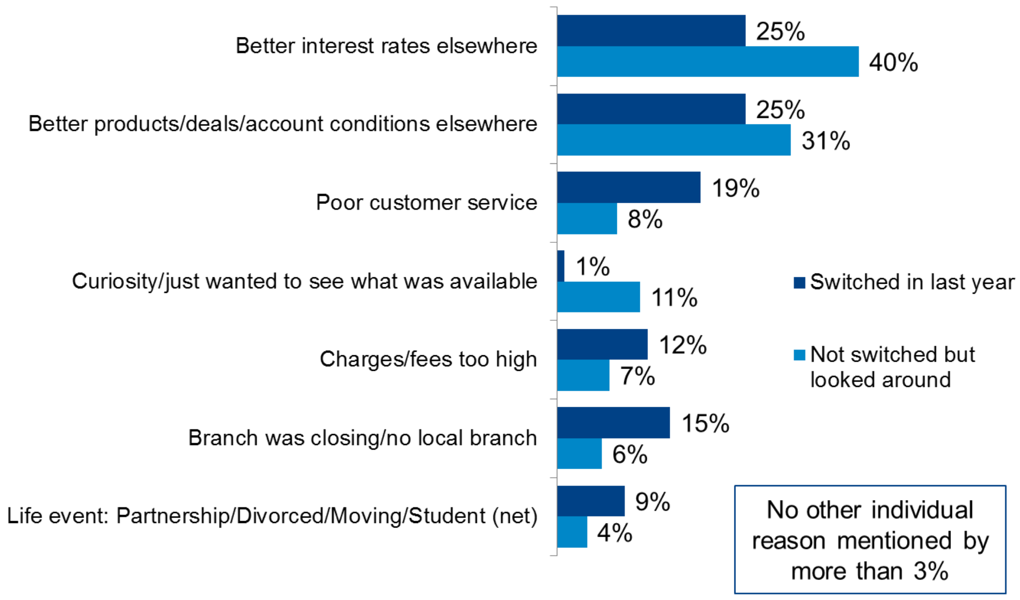
Drivers of switching

24. Switching can be triggered by perceptions of better offers (monetary and quality) with other providers (pull factors), as well as by negative experiences with existing providers (push factors), or a combination of the two.

25. According to the GfK PCA consumer survey,[30] as shown in Figure 4, the most cited reasons for those customers who switched in the last year were the perception of a better offer: better interest rates elsewhere (25%), and better products/deals/account conditions elsewhere (25%). Negative experiences were also stated, namely poor customer service (19%), charges/fees too high (12%) and branch was closing/no local branch (15%).

[28] Bank fees behaviour study conducted by TNS at the request of Directorate-General for Health and Consumers, p28.
[29] It is important to note that different member states operate under different banking structures and conditions may have changed since 2012.
[30] Question F7: 'When you last changed your main current account/when you last looked around, what made you think about doing that?' OPEN ENDED.

Figure 4: Triggers for searching/switching (in the last year)



Source: GfK PCA consumer survey (2015).
Base: All switched in the last year (339); not switched but looked around (656).

26. GfK FRS data and a Payments Council 2014 survey[31] found that both push and pull factors are closely aligned.[32] In contrast, the FCA CASS report[33] found that decisions to switch were driven primarily by push factors, ie dissatisfaction with the current provider.[34]

27. Santander found that the reasons for opening a 123 account were more about the product, especially cashback and interest, while reasons for opening non-123 accounts were more about brand and channels. HSBC found that customers switched accounts due to dissatisfaction with their previous provider, with awareness of competitor offers or joining incentives aiding their decision. One bank ([✂]) found that customers were primarily driven by push factors.[35] An Ipsos Mori report for NI highlighted that location was a key driver for choosing a PCA.[36] TSB noted that traditionally push factors had dominated

[31] Why did you switch your account from…(ORGANISATION AT QB1a) to…(ORGANISATION AT QA1a)? Any other reasons? WHAT ELSE? Payments Council, *Account Switching: Quantitative Market Research Results, 2014.*
[32] Push = account charges too high/unjustified 18%; Pull = better features/benefits available on account elsewhere at 14% and better credit interest rate available elsewhere 14%.
[33] FCA CASS report, paragraph 5.22.
[34] In NI reasons for switching appear to be similar A BoI survey found that people were more likely to move due to push than pull factors. A further survey found that reasons for switching included: better mortgage rates; to receive an overdraft extension and cash incentive. According to Mintel, when customers were asked what factors had motivated them to switch their main current account provider they cited: their new provider offered them a better deal (42%); had a better reputation for good customer service (27%); and their old bank gave poor customer service in branch (26%). Source: Mintel Current Accounts – Ireland, August 2014, pp71 & 72.
[35] [✂]
[36] (1) Near where I live (2) Recommended to me and (3) Dissatisfied with previous account

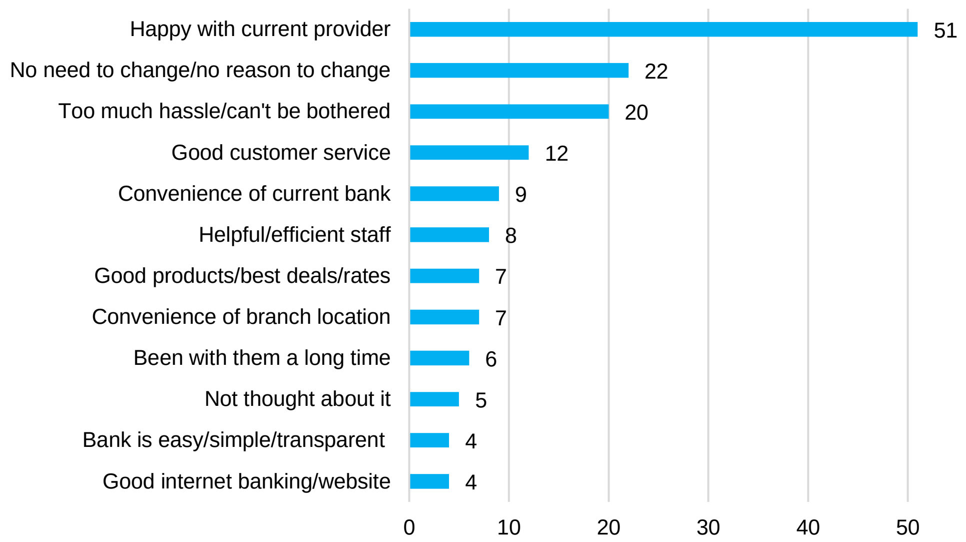
but there was now a tension with both push and pull being important. Both dimensions are also reflected in LBG qualitative research.[37]

28. Banks research cited above provides some insight but there is no overarching reason for switching. We note that the design of survey questions plays an important role. Responses vary when answering ‘reasons for opening’ ‘reasons for switching’ and/or ‘reasons for closing’. We also note that in NI reasons for switching appear to be similar.[38,39]

Reasons for not switching

29. In the GfK PCA consumer survey we asked an unprompted question about the reason why respondents had not considered switching supplier (see Figure 5 below). The most commonly mentioned reason was that they were happy with their current supplier (51%). Around a fifth said that they ‘had no reason to change’ (22%) or that it was ‘too much hassle/couldn’t be bothered’ (20%). Reasons given for not switching accounts are much the same for overdraft users as non-users although a smaller proportion of high overdraft users claim they are happy with their current provider.

Figure 5: Barriers – why not looked around/switched (in last three years)

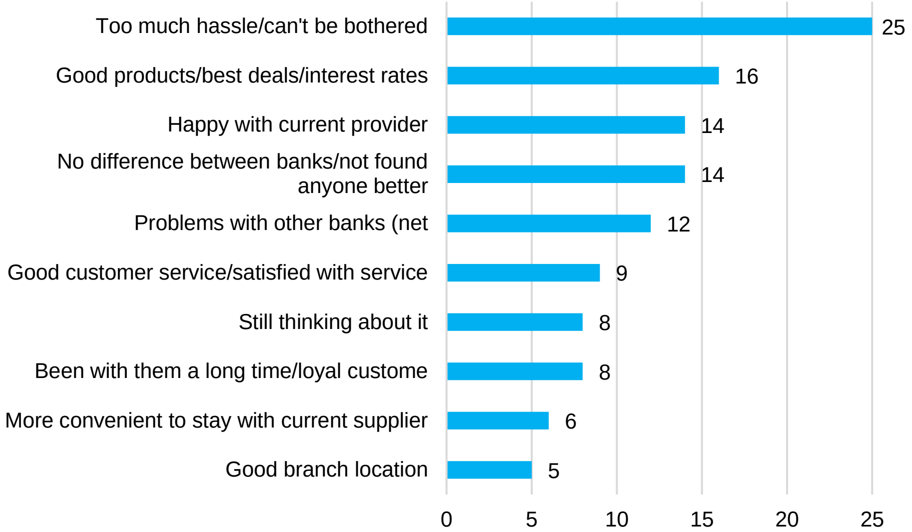


Source: CMA GfK PCA consumer survey.

[37] Push factors: perceived failure; inadequate service; pull: incentives
[38] A BoI survey found that people were more likely to move due to push than pull factors. A further survey found that reasons for switching included: better mortgage rates; to receive an overdraft extension and cash incentive.
[39] According to Mintel, when NI customers (who were internet users) were asked what factors had motivated them to switch their main current account provider, they cited: their new provider offered them a better deal (42%); had a better reputation for good customer service (27%); and gave poor customer service in branch (26%). Source: Mintel Current Accounts – Ireland, August 2014, pp71 & 72.

30. Respondents who had looked around in the past year, but not switched were asked for the reasons why they did not switch their account after searching (see Figure 6 below).[40] 'Too much hassle/can't be bothered' was cited by 25% of respondents and 'no difference between banks/not found anyone better' was cited by 14%. 8% did not switch because of loyalty to their current provider, while 6% did not do so because it is more convenient to stay with their current provider.

Figure 6: Barriers – why not switched after searching (in last year)



Source: CMA GfK PCA consumer survey.

Switching movements

31. Switching movements as reported by data provided to the CMA from banks is shown in Figure 7. This shows that Santander, Halifax (part of LBG) and Nationwide were all making the highest net gains in 2014.[41]

Figure 7: CMA aggregate switching data 2014 – sorted by net gain (switched in – switched out)

[✂]

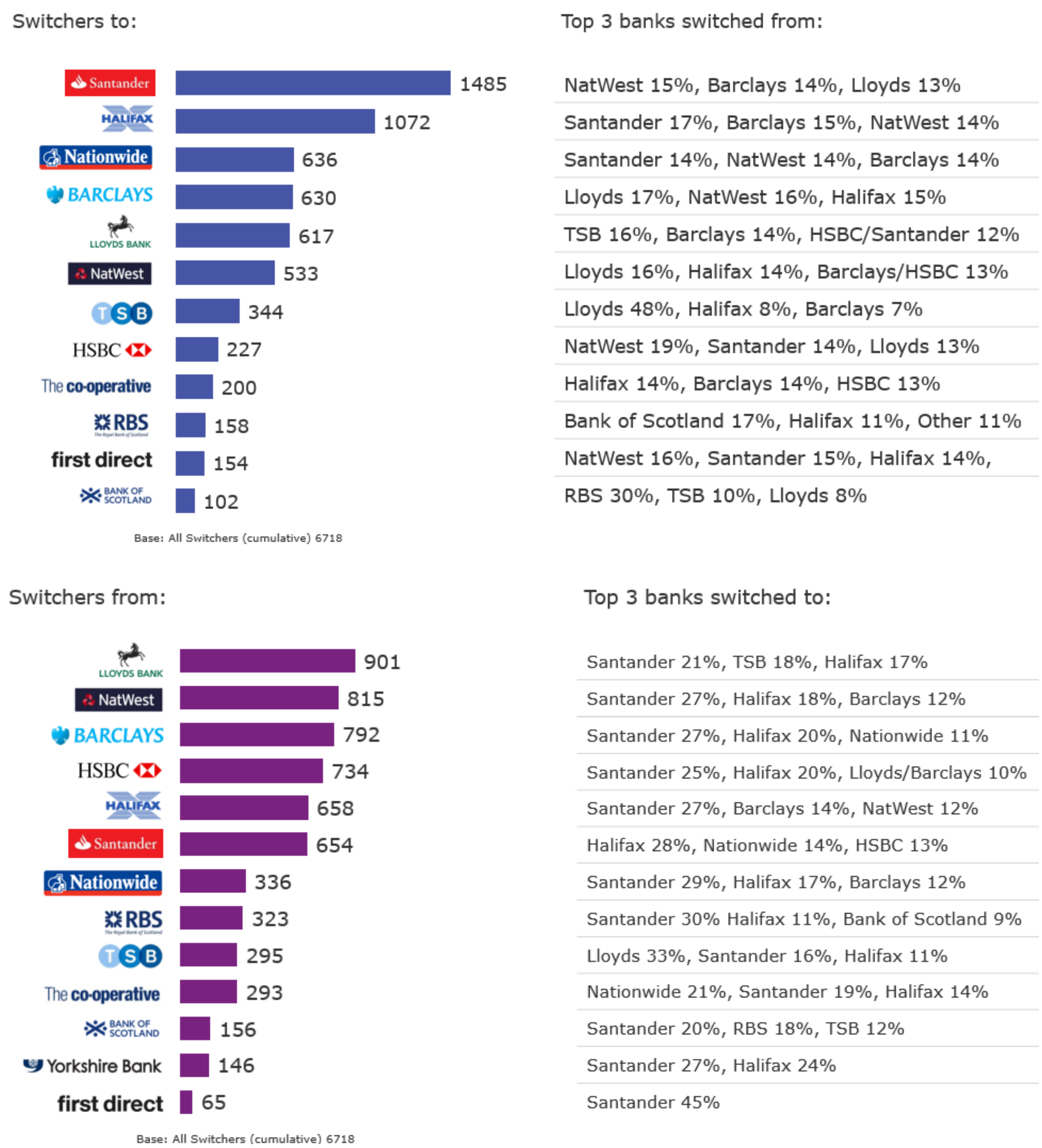
Source: CMA aggregate data.
[✂]

32. Third party sources, namely TNS market research, [✂] and Payments Council[42] CASS data corroborate Santander, Halifax (part of LBG) and Nationwide as net gainers.

[40] F15: 'You say you have looked around, but didn't change your main current account. Why didn't you do that?'
[41] [✂]
[42] Excludes low participate volumes.

33. Figure 8 provides further details in relation to switching movements. This confirms that Santander and Halifax (part of LBG) are the main winners with the greatest loses being from Lloyds and NatWest (part of RBSG).

Figure 8: TNS cumulative switching data 2013 to 2014, by Brand



Source: TNS Current account switching update. Quarterly observations, Cumulative data to December 2014.

PCA multi-banking

34. This section provides evidence on multi-banking. Multi-banking can be defined in different ways:

(a) Narrow multi-banking: customers with PCAs at more than one bank.

(b) Broad multi-banking: customers with different financial products at different banks.

35. This subsection focuses on narrow multi-banking only.[43]

36. Some banks told us that multi-banking had increased over the past years.[44] Furthermore, a number of banks have suggested that we should consider multi-banking in our analysis[45] and two banks specifically stressed that multi-banking put a competitive constraint on the market.[46]

Levels of multi-banking

37. The statistics on multi-banking are based on responses to the GfK PCA consumer survey data, with a total sample size of 4,546 respondents. Where data on respondents' characteristics (eg age, account inflows) is available from the 2014 anonymised current account usage data, as provided by banks (transaction data), we use that data instead.[47]

38. In the analysis, we excluded observations where a value in the transaction data was missing, and observations from the GfK PCA consumer survey data where a customer responded 'do not know' or refused to answer the question.

Current level of multi-banking

39. The GfK PCA consumer survey found that nearly half (48%) of UK customers hold more than one current account at the same and/or a different bank. In more detail:

(a) 17% of customers have more than one PCA, but only with the same bank;

(b) 22% of customers have more than one PCA, but only with a different bank; and

[43] For simplicity, we refer in the rest of the appendix to 'narrow multi-banking' by using the shortened term 'multi-banking'.
[44] AIB, LBG, Barclays, HSBCG, RBSG, BoI.
[45] Barclays, HSBCG, RBSG, LBG.
[46] Barclays, HSBCG.
[47] We believe that transaction data is more accurate than survey data, as survey data is based on respondents' memory, whereas transaction data is based on banks' collected electronic data that is less prone to mistakes than respondents' memory. We refer here to 'customers' for simplicity when considering transaction data. However, transaction data contains a sample of accounts rather than customers. Therefore, for customers who hold more than one PCA, we do not observe all their activity but only that associated with the account included in our sample. For example, a customer may have two accounts and only use an overdraft on one of them, while the chances for any of the two accounts being in the sample are the same.

(c) 9% of customers have both, ie more than one PCA with the same bank as well as with a different bank.[48]

40. In the reminder of this paper we refer to multi-bankers, as the 31% of customers who have additional PCAs with more than one bank, which includes respondents who have more than one PCA with the same bank as well as with a different bank. The remaining 69% of customers are referred to as single-bankers.[49]

41. The figure of 48% is slightly higher than data from GfK's Financial Research Survey (GfK FRS), which estimates that about 33% of customers have more than one account with the same and/or a different bank. The survey also finds that 21% of customers have additional PCAs with more than one bank, which compares to 31% of respondents in the GfK PCA consumer survey who multi-bank.[50] Research commissioned by Barclays (Tooley report) reports similar figures to the GfK PCA consumer survey with 28% of customers having two PCAs and 12% having three to five PCAs at the same and/or a different bank.[51]

42. The GfK PCA consumer survey results also match with results from the Payments Council that found that 42% of the UK adult population hold more than one PCA at the same and/or a different bank, which increased from 36% in 2008.[52]

43. GfK FRS data shows that the proportion of customers who multi-bank has increased over time. GfK told us that there was a step change in the data between 2007 and 2008 as a result of a methodology change in the survey. Therefore, GfK suggested comparing data from 2008 to 2014. Multi-banking increased from 18% in 2008 to 21% in 2014. However, the growth occurred in the period 2008 to 2010; since 2010, the proportions of multi-bankers have remained broadly stable, as Figure 9 shows.[53]

---

[48] Sample base = All surveyed customers (4,546). Question B3 'Do you have any current accounts with anyone else apart from {bank}, either sole or joint accounts?', A7 'Can I just check, do you have any [other] single current accounts with {bank},?' Note: The sample is based on responses to questions in the GfK PCA consumer survey. For further details, see GfK NOP PCA banking survey technical report.
[49] Our definition of single-bankers includes customers who only have one account (52%) as well as those who have more than one account, but all with the same bank (17%).
[50] GfK FRS, All Current Account holders, 12 months ending December 2014.
[51] Tooley Street Research (2015), *Towards world class: The consumer view of current accounts and payments*, p9. Note: Questions placed in a YouGov omnibus poll, which is a representative sample of 2000 adults across GB.
[52] Payments Council (2014), *UK Consumer Payments Trends*, p7. Note: Information gathered from 2,208 respondents in three steps: an initial telephone interview, a self-completion questionnaire and a self-completion diary system.
[53] GfK FRS data 2008–2014.

Figure 9: Proportion of PCA customers with a PCA relationship with more than one bank

[✄]

Source: GfK FRS, 12 months ending 2005–2014, about 56,000 account customers interviewed in each year.

Number and usage of additional PCAs

44. The following statistics refer to multi-bankers – the 31% of customers who have additional PCAs with more than one bank.

45. According to the GfK PCA consumer survey, the majority of multi-bankers (75%) have one additional PCA, representing 23% of the whole population. Substantially fewer multi-bankers (20%) have two additional PCAs and 5% have three or more additional PCAs.[54]

46. The majority of multi-bankers (73%) actively use their first additional PCA, representing 22% of the whole population.[55]

47. This figure of 22% is in line with research by the Social Market Foundation (SMF) commissioned by Lloyds which finds that 25% of the whole population actively (within the last four months) use PCAs with more than one provider.[56]

Characteristics of multi-bankers

48. We analysed different characteristics of multi- and single-bankers, in particular examining whether there are any significant differences between these two groups.

49. We highlight below only differences between multi- and single-bankers that are statistically significant at a 95% level. Detailed information on sample sizes and statistical significance of results can be found in Annex B.

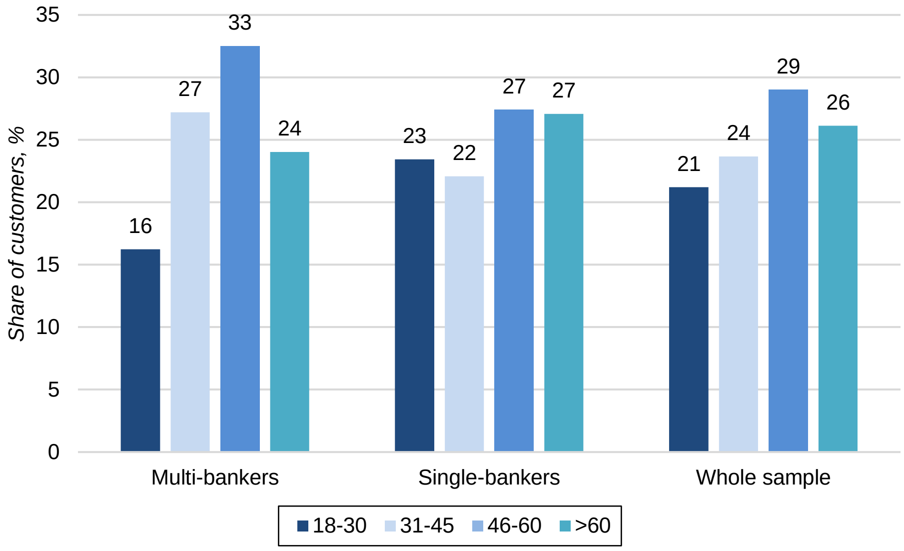
Basic characteristics

50. More middle-aged customers (31 to 60 years old) and fewer young customers (18 to 30) multi-bank, as Figure 10 shows. These differences are statistically

[54] Sample base = All respondents that multi-bank (1,378). B4 'How many UK current accounts do you have with other banks apart from {bank}?'
[55] Of those who have a second additional PCA, a smaller proportion (62%) uses the second additional PCA. Sample base = All respondents that multi-bank (1,375). B4 'How many UK current accounts do you have with other banks apart from {bank}?', B6 'And do you use that account at all nowadays, or not?' Note: The sample size is too small for customers holding more than two PCAs to make a judgements about usage patterns.
[56] Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p40. Sample base: All respondents who have a bank account (1,848). Note: Research based on online interviews carried out with 2,048 GB adults (aged 18+) with results weighted to be representative of all British adults. No further information on statistical significance of results is provided.

significant at a 95% level. There are no statistical differences between the oldest age group (>60 years).

Figure 10: Age profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
Sample base: Multi-bankers (1,411), single-bankers (3,124), whole sample (4,535).

51. There is no significant difference between multi-bankers and single-bankers according to gender or devolved nation, for details see Annex B.

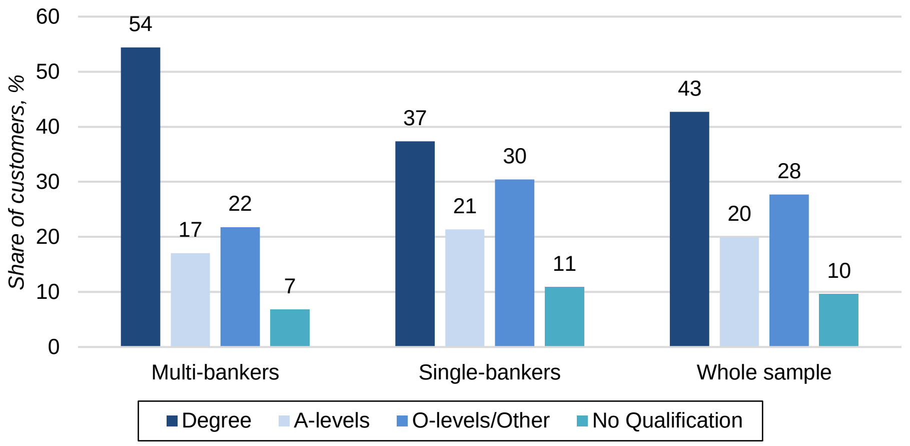
52. These results are generally in line with GfK FRS, which finds that multi-banking is more likely among the age of 25 to 44.[57] The SMF report confirms that older people are slightly more likely to be multi-bankers than younger age groups.[58]

Education

53. More than half of the multi-bankers (54%) have a degree, which is a considerably larger proportion than for single-bankers (37%) who tend to have a lower level of qualification, as Figure 11 shows. These differences are significant at a 95% level.[59]

[57] GfK FRS, 12 months ending December 2014.
[58] Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p42.
[59] Note that the sample size for multi-bankers of the subgroup 'no qualification' is too small (<150) to make statistically meaningful comparisons.

Figure 11: Education profile of customers

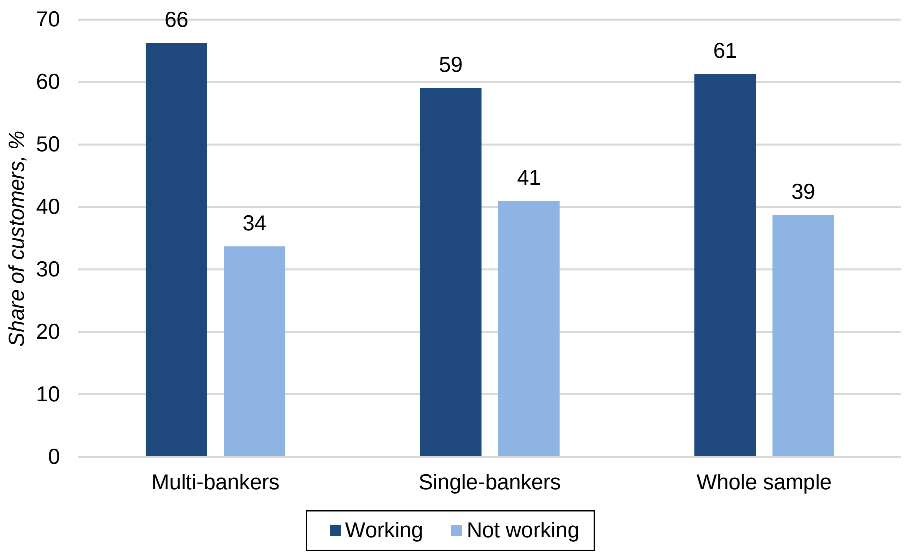


Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
Sample base: Multi-bankers (1,382), single-bankers (2,996), whole sample (4,378).

Working status

54. More multi-bankers are in employment compared with single-bankers, as Figure 12 shows.[60] This difference is significant at a 95% level.

Figure 12: Working status profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
Sample base: Multi-bankers (1,414), single-bankers (3,132), whole sample (4,546).

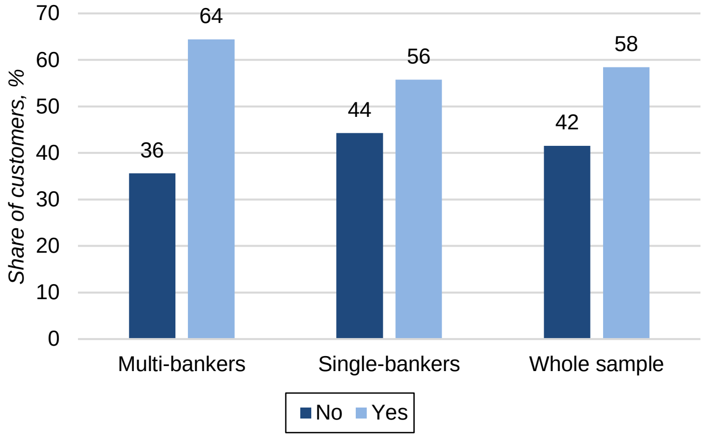
55. The SMF report finds that multi-bankers are not more likely to be in employment than single-bankers.[61]

[60] The subgroup 'working' includes customers who work full- and part-time. The subgroup 'not working' includes customers who do not work, who are retired, who are full-time students and who responded 'other' to the question in the GfK PCA consumer survey.
[61] Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p43.

Financial literacy

56. We asked respondents in the GfK PCA consumer survey a question to test their financial literacy.[62] Multi-bankers were more likely to answer the question correctly than were single-bankers. These differences are significant at a 95% level.

Figure 13: Financial literacy profile of customers



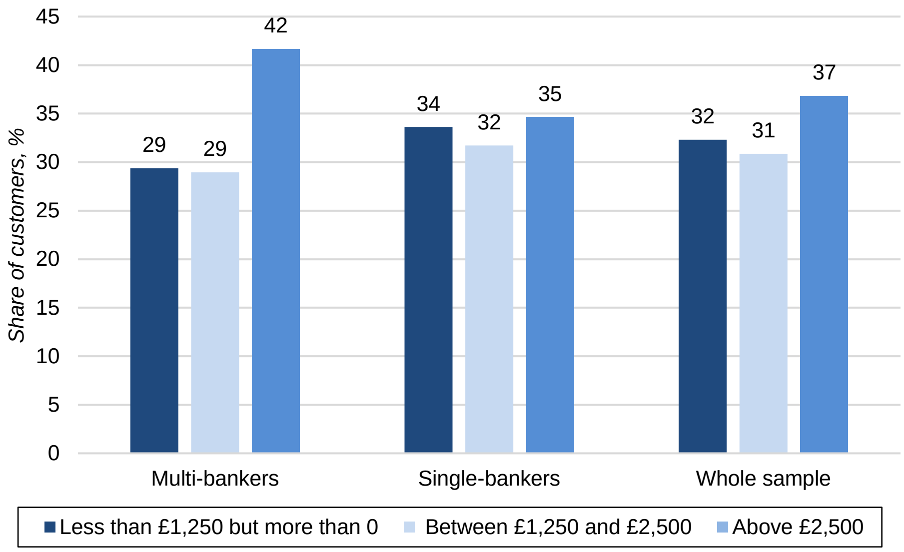
Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
Sample base: Multi-bankers (1,405), single-bankers (3,098), whole sample (4,503).

Income

57. Figure 14 shows that multi-bankers tend to have higher inflows into their account than single-bankers. These differences are significant at a 95% level. Inflows into main accounts is a proxy for income, and therefore this suggests that multi-bankers tend to have higher income than single bankers. Moreover, multi-bankers may have inflows into their additional accounts as well, hence this data is likely to underestimate the income gap between multi-bankers and single-bankers.

[62] Question K1 'Suppose you took out a loan of £500, and the interest rate you are charged is 10% per month. There are no other fees. At this rate how much money would you owe in total after one month, if you hadn't repaid any of the loan?'.

Figure 14: Monthly account inflows of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
Sample base: Multi-bankers (1,413), single-bankers (3,131), whole sample (4,544).

58. GfK FRS distinguishes between personal and household income. Multi-banking is seen to be more prevalent among those with higher incomes (both personal and household).[63]

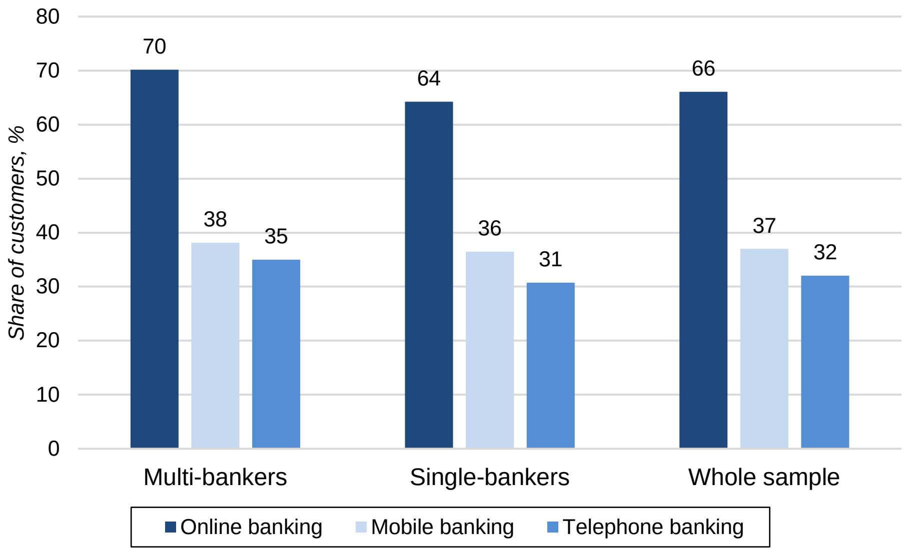
59. These results are in line with results from the SMF report which finds that multi-bankers are relatively well off, with an average household income of £30,200 compared with £26,400 for a single-bank household.[64]

Digital channel usage

60. Multi-bankers are more likely to use online banking and telephone banking than single-bankers. These differences are statistically significant at a 95% level. There are no statistically significant differences of using mobile banking between multi-bankers and single-bankers.

[63] GfK FRS, 12 months ending December 2014.
[64] Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p43.

Figure 15: Digital channel usage profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
Sample base: Multi-bankers (3,132), single-bankers (1,414), whole sample (4,546).

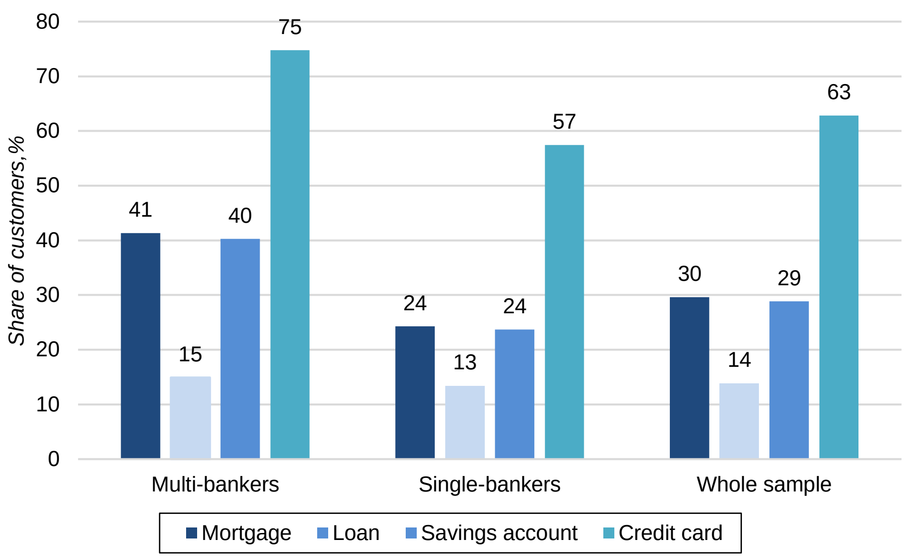
61. The SMF study reports that multi-bankers are more likely to use online banking and that there is no difference between multi- and single-bankers according to mobile banking usage. However, multi-bankers are less likely to use telephone banking than single-bankers.[65]

Other financial products

62. Multi-bankers are more likely to have a mortgage, savings account or credit card than single-bankers. These differences are statistically significant at a 95% level. The proportion of multi-bankers having a loan does not significantly differ from the proportion of single-bankers.

[65] Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p44f.

Figure 16: Other financial products held by customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
Sample base: Mortgage: Multi-bankers (1,406), single-bankers (3,112), whole sample (4,518). Loan: Multi-bankers (1,406), single-bankers (3,108), whole sample (4,514). Savings account: Multi-bankers (1,404), single-bankers (3,115), whole sample (4,519). Credit card: Multi-bankers (1,400), single-bankers (3,114), whole sample (4,514).

Banking relationship

63. We do not observe any differences between multi- and single-bankers in relation to the time they have been with their main bank.[66]

Attitudes towards banking

64. Slightly fewer multi-bankers are satisfied with their main bank compared with single-bankers. This difference is statistically significant at a 95% level.[67]

65. We analysed whether multi-bankers differ in their attitude towards banking compared with single-bankers. We tested whether there were differences between multi-bankers' and single-bankers' attitudes to the following statements:

(a) Switching current accounts is too much hassle.

(b) There are real differences between banks in the current accounts that they offer.

[66] For details see Annex B.
[67] Note that the sample size for multi-bankers of the subgroup 'not satisfied' and 'neither satisfied nor dissatisfied' is too small (<150) to make statistically meaningful comparisons. For details see Annex B.

66. Multi-bankers are less likely to think that switching current account is a hassle.[68] This difference is statistically significant at a 95% level. We find no differences between multi- and single-bankers regarding the second statement.[69]

Reasons for multi-banking

GfK PCA consumer survey evidence

67. Respondents to the GfK PCA consumer survey were asked ‘Why do you use more than one current account?’, which includes accounts with the same or a different bank. The three most common reasons for active multi-bankers[70] were:

   (a) to have different PCAs for different purposes[71] (62%);

   (b) to get better rates, products and deals (16%); and

   (c) to have a sole and joint account (15%).[72]

68. When asked a subsequent question on ‘Why do you have more than one bank for your current accounts?’, the three most common reasons for active multi-bankers were:

   (a) to get better rates, products and deals (26%);

   (b) to have different PCAs for different purposes (16%); and

   (c) a preference not to have multiple PCAs with the same bank (15%).[73]

Other evidence on the reasons for multi-banking

69. These results are not inconsistent with external research analysing the reasons for having more than one PCA.

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[68] 53% of multi-bankers think switching is a hassle compared with 59% of single-bankers. 36% of multi-bankers do not think switching is a hassle compared with 31% of single-bankers. 10% of multi- and single-bankers have no specific view and are indifferent.
[69] For details see Annex B.
[70] We refer to ‘active multi-bankers’ to the 73% of multi-bankers who actively use at least one additional PCA with a different bank, representing 22% of the whole population.
[71] We interpreted the response ‘to have different PCAs for different purposes’ as meaning that customers have different accounts to hold money for different purposes, such as personal spending, household bills, or saving, such as holidays, mortgages, children or other big spending.
[72] Sample base: All who actively use at least one other account with a different bank (1,009). Question B8a ‘Why do you use more than one current account?’
[73] Sample base: All who actively use at least one other account with a different bank (1,009). Question B8 ‘Why do you have more than one bank for your current accounts?’

70. Research from the Payments Council shows that a third of consumers who switched PCAs in 2013 kept the old one open to mainly use it as a backup and have different accounts for different purposes, such as for paying bills and saving.[74]

71. The SMF report finds that multi-bankers mainly use more than one account to manage their finances (57%).[75]

72. The Tooley report also finds that the main reasons for having more than one current account are either to have a joint account with a partner or other family member (42%), or to use different accounts for different purposes such as paying different types of bills (39%) or saving (19%).[76]

73. Whilst results from the SMF report and the Tooley report are broadly in line with results from the GfK PCA consumer survey, we are cautious about the robustness of the results from the SMF and the Tooley report. Both reports are based on online surveys, as a result of which the sample is not representative of the whole of the UK as it excludes non-internet users. Additionally, sample sizes are about half the size of the GfK PCA consumer survey, which raises concerns about the representativeness of results for specific subsamples, as sample sizes fall below 100 respondents for some subsamples. Lastly, the SMF and the Tooley report do not report on the statistical significance of results. In other words, it is unclear if differences between multi- and single-bankers, as found in the SMF report, are random or due to a pattern in the data that indicates that these groups are systematically different.

Evidence on banks' strategies

74. In order to assess the extent to which multi-banking is impacting on competition between banks, we also examined banks' strategies towards multi-banking.

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[74] Payments Council (2014), Account Switching: Quantitative Market Research Results.
[75] 'Managing finances' refers to consumers who use current accounts at multiple providers for at least one of the following reasons: to help keep track of payments or direct debits, to keep household and personal expenses separate, one is a shared account with a partner or housemates, one is for my business, one is for a club or charity, one is a betting account. Social Market Foundation (2015), *Playing the field – consumers and competition in banking*, p41f. Base: All respondents with more than one active current account (362).
[76] Tooley Street Research (2015), *Towards world class: The consumer view of current accounts and payments*, p9. Base: All GB adults who have more than one current account (904).

Identifying multi-bankers

75. Many banks indicated that they did not identify customers with PCAs elsewhere.[77] A few banks identified if customers had their main PCA with them by observing account transactions.[78] One bank indicated that it measured the share of customers who operated secondary PCAs.[79]

Banks' business strategy

76. The majority of banks focus their strategy on building primary relationships with customers and do not specifically focus on multi-bankers who may open an additional account with them.[80] Banks indicated that they do this by providing good customer service or reward customers for having their primary relationship with them (eg cashback, waiving monthly fees, free insurance etc, when paying in a minimum amount per month or setting up a certain amount of direct debits).

77. TSB is the only bank that indicated it had taken multi-banking into account in one of its marketing strategies, where it promoted one of its PCAs with an initial message of 'try before you buy'. Customers could open an account and switch their main bank account to TSB at a later stage, if they liked the service. Yet this strategy still focuses on encouraging the customer to switch PCAs, hence aims for the main banking relationship with customers.

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[77] Nationwide, AIB, Santander, Danske, Clydesdale. RBSG told us that it does not actively monitor customers with PCAs elsewhere.
[78] LBG, TSB, Barclays, BoI. Barclays identifies primary and secondary account holders; primary account holders being those customers engaging with their Barclays PCA to perform the majority of their day-to-day transactional needs.
[79] [✂]
[80] Nationwide, LBG, Barclays, Santander, BoI, Clydesdale, Danske. RBSG also focuses its strategy on building primary relationships with customers, but still looks to continue to build relationships with all customers (both existing and potential) in the hope they will remain or become a primary customer.

Annex A: Switching rates for different types and intensity of PCA overdraft usage

1. In this annex, we set out the evidence we obtained from PCA providers on switching rates by PCA overdraft usage. While we have standardised the presentation, the evidence varies in terms of its categorisation of different types of usage, depending on the analysis the providers were able to conduct in the time that was available to them.

2. Where available, we present evidence for the following categories of usage:

   (a) Unarranged overdraft: all accounts that were in unarranged overdraft in 2014.

   (b) Unarranged overdraft only: accounts that were in unarranged overdraft in 2014, but not in arranged overdraft. That is, these accounts did not have an arranged overdraft facility.

   (c) Arranged overdraft only: accounts that were in arranged overdraft in 2014, but not in unarranged overdraft.

   (d) No overdraft: accounts that were not in overdraft in 2014.

3. For each category of usage, the tables show the subsequent switching rate during 2015.

Barclays

Fee-paying days per calendar month (£)	*Emergency borrowing*	*Emergency borrowing (but not a core overdraft)*	*No overdraft*
<=3	[✂]	[✂]	[✂]
<=7	[✂]	[✂]	[✂]
<=14	[✂]	[✂]	[✂]
>14	[✂]	[✂]	[✂]

Note: Includes only CASS switching.

HSBCG

Average no. of days in overdraft	*Arranged overdraft and unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
0	[✂]	[✂]	[✂]	[✂]
1–3	[✂]	[✂]	[✂]	[✂]
4–7	[✂]	[✂]	[✂]	[✂]
8–14	[✂]	[✂]	[✂]	[✂]
Over 14	[✂]	[✂]	[✂]	[✂]

Note 1: Includes only CASS switching.
Note 2: These figures include first direct and M&S Bank.

LBG (BoS)

Average no. of days in overdraft	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
No usage	[✂]	[✂]	[✂]	[✂]
1–5 days	[✂]	[✂]	[✂]	[✂]
6–10 days	[✂]	[✂]	[✂]	[✂]
More than 11 days	[✂]	[✂]	[✂]	[✂]

Note 1: Includes only CASS switching.
Note 2: [✂]

LBG (Halifax)

Average no. of days in overdraft	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
No usage	[✂]	[✂]	[✂]	[✂]
1–5 days	[✂]	[✂]	[✂]	[✂]
6–10 days	[✂]	[✂]	[✂]	[✂]
More than 11 days	[✂]	[✂]	[✂]	[✂]

Note: Includes only CASS switching.
Note 2: [✂]

LBG (Lloyds)

Average no. of days in overdraft	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
No usage	[✂]	[✂]	[✂]	[✂]
1–5 days	[✂]	[✂]	[✂]	[✂]
6–10 days	[✂]	[✂]	[✂]	[✂]
More than 11 days	[✂]	[✂]	[✂]	[✂]

Note: Includes only CASS switching.
Note 2: [✂]

Nationwide

Average no. of days in overdraft	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
3 or fewer	[✂]	[✂]	[✂]	[✂]
4–7	[✂]	[✂]	[✂]	[✂]
8–14	[✂]	[✂]	[✂]	[✂]
More than 14	[✂]	[✂]	[✂]	[✂]

Note: It is unclear whether these switching rates include only CASS switching or all switching.

RBSG (NatWest)

Months of usage in 2014	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
0	[✂]	[✂]	[✂]	[✂]
1–3	[✂]	[✂]	[✂]	[✂]
4–8	[✂]	[✂]	[✂]	[✂]
9–12	[✂]	[✂]	[✂]	[✂]

Note 1: Includes both CASS and non-CASS switching.
Note 2: Does not include switching to RBS.

RBSG (RBS)

Months of usage in 2014	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
0	[✂]	[✂]	[✂]	[✂]
1–3	[✂]	[✂]	[✂]	[✂]
4–8	[✂]	[✂]	[✂]	[✂]
9–12	[✂]	[✂]	[✂]	[✂]

Note 1: Includes both CASS and non-CASS switching.
Note 2: Does not include switching to NatWest.

RBSG (Ulster Bank)

Months of usage in 2014	*Unarranged overdraft*	*Unarranged overdraft only*	*Arranged overdraft only*	*No overdraft*
0	[✂]	[✂]	[✂]	[✂]
1	[✂]	[✂]	[✂]	[✂]
2	[✂]	[✂]	[✂]	[✂]
3	[✂]	[✂]	[✂]	[✂]
4	[✂]	[✂]	[✂]	[✂]
5	[✂]	[✂]	[✂]	[✂]
6	[✂]	[✂]	[✂]	[✂]
7	[✂]	[✂]	[✂]	[✂]
8	[✂]	[✂]	[✂]	[✂]
9	[✂]	[✂]	[✂]	[✂]
10	[✂]	[✂]	[✂]	[✂]
11	[✂]	[✂]	[✂]	[✂]
12	[✂]	[✂]	[✂]	[✂]

Note 1: CMA calculation based on Ulster Bank data.
Note 2: Includes only CASS switching.

Santander UK

Percentile of intensity of usage	*Unarranged overdraft*	*Unarranged overdraft only*	*No overdraft*
No overdraft usage	[✂]	[✂]	[✂]
P1 (lowest usage)	[✂]	[✂]	[✂]
P2	[✂]	[✂]	[✂]
P3	[✂]	[✂]	[✂]
P4	[✂]	[✂]	[✂]
P5	[✂]	[✂]	[✂]
P6	[✂]	[✂]	[✂]
P7	[✂]	[✂]	[✂]
P8	[✂]	[✂]	[✂]
P9	[✂]	[✂]	[✂]
P10 (heaviest usage)	[✂]	[✂]	[✂]

Note: Includes only CASS switching.

Annex B: Customers' characteristics

Customers' characteristics

			Share of customers (%)			
Segment	*Subgroup*	*Number of respondents*	*Total*	*Multi-bankers*	*Single-bankers*	*Significance**
Basic characteristics						
Gender						
	Male	2,343	52	53	51	
	Female	2,198	48	47	49	
Age						
	18-30	1,089	21	16**	23**[1]	Yes
	31-45	1,099	24	27**[2]	22**[3]	Yes
	46-60	1,266	29	33**	27**[4]	Yes
	>60	1,081	26	24**[5]	27**[6]	
Nation						
	England	3,046	85	86**	84**	
	Wales	137	4	3**[7]	5**	
	Scotland	661	8	8**	8**	
	NI	702	3	2**[8]	3**	
Education						
Education						
	Degree	1,844	43	54**	37**	Yes
	A-levels	866	20	17**	21**	Yes
	O-levels/other	1,237	28	22**	30**	Yes
	No qualification	431	10	7**	11**	Yes
Working status						
Working status						
	Working	2,801	61	66**	59**	Yes
	Not working	1,745	39	34**	41**	Yes
Financial literacy						
Financial literacy						
	Incorrect	1,900	42	36**	44**	Yes
	Correct	2,603	58	64**	56**	Yes
Income						
Account inflows						
	High	1,492	37	42**	35	Yes
	Medium	1,426	31	29**[9]	32	
	Low	1,626	32	29**[10]	34	Yes
Digital channel usage						
Online banking						
	No	1,542	34	30**	36**	Yes
	Yes	3,004	66	70**	64**	Yes
Mobile banking						
	No	2,779	63	62**	64**	
	Yes	1,767	37	38**	36**	
Telephone banking						
	No	3,084	68	65**	69**	Yes
	Yes	1,462	32	35**	31**	Yes
Other financial products						
Mortgage						
	No	3,243	70	59**	76**	Yes
	Yes	1,275	30	41**	24**	Yes
Loan						
	No	3,914	86	85**	87**	
	Yes	600	14	15**	13**	
Savings account[81]						
	No	3,361	71	60**	76**	Yes
	Yes	1,158	29	40**	24**	Yes
Credit Card						
	No	1,858	37	25**	43**	Yes
	Yes	2,656	63	75**	57**	Yes
Banking relationship						
Duration with bank[82]	up to 2 years	794	8	7**	8**	
	ca. 2–5 years	478	11	11**[11]	11**	
	ca. 5–10 years	615	16	14**[12]	16**	

[81] Including Cash ISA accounts.
[82] We use the year an account was opened as approximation for the time a customer has been with the bank.

Segment	Subgroup	Number of respondents	Share of customers (%) Total	Multi-bankers	Single-bankers	Significance*
	ca. 10–20 years	1,001	25	27**	25**	
	more than 20 years	1,491	40	41**	40**	
Attitudes						
Satisfaction						
	No	164	4	4**[13]	3**	
	Yes	4,160	91	89**	92**	Yes
	Indifferent	218	5	6**[14]	5**	
There are real differences between banks in the current accounts that they offer						
	No	965	25	24**	25**	
	Yes	2,308	56	57**	55**	
	Indifferent	740	19	19**	20**	
Switching current accounts is too much hassle						
	No	1,591	33	36**	31**	Yes
	Yes	2,374	57	53**	59**	Yes
	Indifferent	467	10	10**	10**	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer data.
*Difference between multi- and single-bankers is statistically significant at 95% level.
**Significantly different from share of other subgroup in segment at 95% level.
[1]except wrt to '31-45'.
[2]except wrt to '>60'.
[3]except wrt to '18-30'.
[4]except wrt to '>60'.
[5]except wrt to '31-45'.
[6]except wrt to '46-60'.
[7]except wrt to 'Northern Ireland'.
[8]except wrt to 'Wales'.
[9]wrt to 'high'.
[10]wrt to 'high'.
[11]except wrt to '5-10 years'.
[12]except wrt to '2-5 years'.
[13]except wrt to 'indifferent'
[14]except wrt to 'no'.

Appendix 6.2: Quantitative analysis of searching and switching in PCAs

Contents

Page

Introduction

1. This appendix presents the quantitative analysis we carried out to study the searching and switching behaviour of customers in the market for PCAs. The basis of the analysis is a comparison between searchers and non-searchers, and switchers and non-switchers, with the aim of understanding the relevant differences between these different groups of customers. In the main, this analysis constitutes one source of evidence to inform our assessment of whether there is sufficient customer engagement to foster effective competition.

2. In our analysis, we use anonymised customer information coming from two sources: (1) the GfK PCA consumer survey and (2) current account usage data provided by the banks. We also use information on branch locations provided by the banks. This information allows us to compare searchers and switchers with non-searchers and non-switchers on a variety of dimensions including their demographic characteristics, their beliefs and perceptions and their use of their PCA.

3. We carry out this comparison through both a descriptive analysis of the data and an econometric analysis. The descriptive analysis consists of an analysis of each relevant factor separately and provides a first source of evidence of what are the main factors relevant to understanding the difference between groups. The econometric model, by considering all factors simultaneously, allows us to assess the relative importance of the various factors that might drive searching and switching, and attach statistical significance to these results.

4. This appendix is structured as follows:

   (a) The first section discusses the motivation for the analysis and key findings.

   (b) The second section is a general description of the data sources and definitions used throughout the appendix.

   (c) The third section presents the descriptive analysis of the factors that distinguish searchers and non-searchers, and switchers and non-switchers.

   (d) The last section presents the results from the econometric analysis.

Summary of the analysis and key findings

5. In our analysis, we rely on observed customer characteristics and views, as expressed in the answers to the consumer survey, and analyse how these differ between searcher/switchers and non-searcher/non-switchers.

6. More specifically, in the analysis we look at the following broad categories of factors that may be related to the decision to search and/or switch:

   (a) **Customer demographics**: including, age, gender, working status, income and level of education. Some of these characteristics are likely to be associated with the relative costs of searching and switching. So for example, someone with a higher level of education or better access to the internet may need less time to identify a good deal and be more likely to find the best option available to them.

   (b) **Monetary features**: we use transaction data to look at customers' use of overdrafts and their level of credit holdings. We also rely on survey evidence regarding how important monetary aspects are for customers and their levels of satisfaction with charges. Monetary features are associated with expected gains or pull factors, so for example, customers that hold higher credit balances would benefit more from accounts offering better levels of credit interest and hence may be more likely to search and switch. However, monetary features may also be linked to barriers to searching and switching. For example, customers that use overdrafts could be less likely to search and switch if they are unable to transfer their overdraft facility to their new bank.

   (c) **Quality of service**: including customer service, branch services and network, and online services. In particular, we look at how important these services are for customers, how often they use them, and what is their

level of satisfaction with the service received from their previous and current bank. This analysis intends to shed light on expected quality gains from switching, as well as trigger factors associated with reduced levels of service, eg errors not being appropriately dealt with by the bank or the closure of a local branch.

(d) **Trigger factors**: we focus on a number of life events, including moving house, changing relationship or work status, and assess whether the probability of searching and switching is higher among customers who experienced such events. Changes in customers' personal circumstances may lead them to demand different services from their PCA and push them to search for, or switch to, a new PCA.

(e) **Cost of searching and switching**: as explained above, some of the aspects we look at in the previous points are associated with costs of searching and switching. Here, we focus particularly on the perceptions expressed by customers in our consumer survey around the difficulties associated with searching and switching. We complement this by looking at other aspects of their PCA usage that may also be associated with costs of searching and switching, including the level of activity in their main PCA and multi-banking.

7. Table 1 summarises the results of our descriptive and econometric analyses. The main conclusions can be summarised as follows:

(a) The estimated annual rate of searching is 17%. However, 86% of consumers do not switch following searching. The estimated annual rate of switching is 3%. We also find that 25% of switchers do so without first looking around for alternatives.

(b) The group of those that switched without searching present a different profile to other switchers in several dimensions.

(c) Income: low-income customers are less likely to search, but no robust effect is found for switching.[1]

(d) Age: customers aged between 55 and 64 are more likely to search. Non-searcher/switchers are on average younger than non-searcher/non-switchers.

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[1] LBG pointed out to us that certain low-income customers will only hold and be eligible for basic bank accounts and in consequence have lower expected gains from switching (due to the regulations mandating the functionality of basic bank accounts), which will explain the lower level of searching within this group.

(e) Education: searchers have on average higher levels of education and are more financially literate. This is not true for all switchers. In particular, the group of non-searcher/switchers do not present higher levels of education and financial literacy than non-searcher/non-switchers.

(f) Use of the internet: Having confidence in the use of the internet has a positive effect on the probability of searching. Moreover, customers who use internet banking are more likely to search than those that do not. We also find evidence of an impact of confidence in the use of the internet on switching but results are less robust than for searching. Customers that use banking mobile apps are more likely to switch.

(g) Overdraft usage: overdraft users are less likely to switch, while no effect is found on searching. However, it is important to note that information on overdraft usage comes from customers' current bank and therefore reflects usage after switching. The observed lower level of overdraft usage of switchers may be driven partly by switchers who have not yet been able to secure an overdraft facility with their new bank, rather than overdraft users being inherently less likely to switch. As noted in Section 6, we therefore decided to complement the econometric analysis for overdraft users with an analysis of data from banks of 2015 switching rates based on their PCA customers' overdraft usage in 2014 (as set out in Appendix 6.1). Because this analysis is less affected by the methodological issues above we consider it to be a more informative assessment of the switching propensity of overdraft users.

(h) Credit balances: those holding higher credit balances are both more likely to search and switch. As with overdraft usage, information comes from customers' current bank, and therefore for switchers it reflects usage after switching.

(i) Account usage: customers reporting a higher number of transactions (debits and credits) are less likely both to search and to switch.

(j) Satisfaction with quality of service: both searchers and switchers report higher levels of dissatisfaction with their previous bank regarding customer services than non-searcher/non-switchers.

(k) Branches: there are no significant differences between searchers and switchers and non-searcher/non-switchers regarding the importance they attribute to branches and the frequency with which they use them. However, customers who have experienced the closure of a local branch are more likely to search.

(l) Four largest banking groups: customers whose bank of origin belongs to one of the four largest banking groups are less likely to both search and switch.[2]

(m) Individual trigger factors: customers who have changed work status are more likely to search, while no effect is found for switching. Multi-banking is correlated with observed levels of searching and switching.

(n) Searching: customers that indicate having looked around for a new PCA are 12 percentage points more likely to switch that those that did not.

Table 1: Summary of the results of the quantitative analysis of searching and switching in PCAs

	Descriptive analysis: Difference in share of customers relative to non-searcher/non-switchers (percentage points)			*Econometric analysis: Effect on propensity to (percentage points)*	
	Searcher/non-switchers	*Searcher/switchers*	*Non-searcher/switchers*	*Search*	*Switch*
Income					
• Income below £24,000	-12	-11	NE	-4	-1‡
Age: (Relative to aged 18 to 34)					
• Aged 35 to 54	NE	NE	NE	NE	NE
• Aged 55 to 64	+6	NE	NE	+6	-2‡
• Aged 65 or above	-3	NE	-11	NE	NE
Education and financial literacy:					
• Holding a university degree	+13	+9	-13	+3	NE
• Financial literacy	+14	+14	NE	+5	NE
Use of internet:					
• Confidence in the use of internet	+17	+14	NE	+13	+1§
• Never used internet banking (relative to those that use it)	-14	-14	NE	-5	NE††
• Never used mobile/app banking (relative to those that use it)	NE	-10	NE	NE	-1
Monetary features:					
• Overdraft user	NE	-12	-10	NE	-1
• High credit balance	+7	+14	NE	+5	+2
Account usage: (Current bank)					
• Difference in the average number of transactions (Q4 2014)†	NE	-6	NE	-	-
• Number of transactions (per additional transaction)	-	-	-	-0.1	-0.03
Satisfaction with quality of service of bank of origin:					
• Dissatisfied with staff and customer service	+2	+18	+21	-	-
• Dissatisfied with speed and quality of handling problems	+2	+15	+17	-	-
Branches					
• Closure of a local branch (bank of origin)	+4	+8	NE	+9	NE¶
Large banks:					

[2] This indicator variable was not included in the econometric model published as part of our provisional findings. It has been added following comments received from Nationwide during the data room of October 2015 (as set out in p20, paragraph 2.3 of its response to our provisional findings). As part of this exercise, Nationwide also suggested including a set of indicator variables to account for customers' level of satisfaction with their bank of origin coming from our customer survey. However, as we discuss in paragraph 38, survey responses concerning customers' level of satisfaction can be subject to ex-post rationalisation. Therefore, we do not believe that these measures should be used in an econometric analysis to provide robust evidence of the role of customer satisfaction as a driver of searching and switching behaviour.

• Bank of origin belongs to the four largest banking groups	-5	NE	-22	-4	-1
Individual trigger factors:					
• Moved house	NE	NE	+17	NE	NE
• Changed work status	+4	NE	+9	+5	NE‡‡
• Changed relationship status	-2	NE	NE	NE	NE
Multi-banking:					
• Holds and uses PCA in another bank	+9	+18	NE	-	-
• Holds other banking products in another bank	+14	+23	NE	-	-
Searching:					
• Looked around for a new PCA relative to those that did not.	-	-	-	-	+12

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.
Notes: NE indicates that we did not find a statistically significant difference or effect.
'-' indicates that we did not test this effect in our descriptive analysis or econometric specification. Our reasons why are set out in the remainder of this appendix.
Results for the econometric analysis are based on the results of the joint model of searching including the whole set of covariates. Notes indicate when results are not robust to estimating the models separately.
† The variable *difference in the average number of transactions* is reported in number of transactions rather than as percentage points.
‡ The effect is not statistically significant in the separate models of switching (probit).
§ The effect is not statistically significant if the use of internet banking is included in the model.
¶ A statistically significant effect of +3 percentage points was found in the base line separate model of switching (probit).
†† A statistically significant effect of -1 percentage points was found in the separate model of switching (probit) excluding non-searcher/switchers.
‡‡ The joint model of searching and switching reports a statistically significant effect of almost +0.8 percentage points. However, this is the result of the indirect effect on switching through the effect of searching. No statistically significant direct effect was found in either of the estimated models.

Data and definitions

8. The analysis presented in this appendix is performed on a sample of 3,676 PCA customers,[3] which combines information from the GfK PCA consumer survey account usage data ('transaction data') and information on branch location ('branch data') provided by banks.

9. We have defined searchers and switchers on the basis of customers' response to the GfK PCA consumer survey as follows:

   (a) **Searchers** are customers who responded that they had looked around for a new PCA in the last 12 months.[4]

   (b) **Switchers** are customers who responded that they had switched their main current account to a different bank in the last 12 months.[5]

10. Therefore, we consider searching and switching activity during the 12 months prior to the GfK PCA consumer survey field work conducted in February and March 2015. Throughout the appendix we refer to this period as the '**switching period**'.

[3] The number of customers considered in specific parts of the analysis may be smaller due to missing information.
[4] Identified on the basis of customers' response to survey questions F1 and F2.
[5] Identified on the basis of customers' response to survey questions F3 and F4.

11. We exclude from the analysis customers who responded that they had searched or switched in the last two to three years, as well as those who responded that they had switched accounts within the same bank. Therefore, our '**reference group**' is the group of customers who have not searched or switched at any point in the last three years, and who have not switched accounts within the same bank.

12. In order to study the differences between searchers/switchers and non-searchers/non-switchers we need to establish a period of time in which to consider searching and switching activity. Since there is not *a priori* a clear rule on what would be the relevant period to consider, we consider three groups:

    (a) action (those that have searched or switched within the last 12 months);

    (b) action (those that have searched or switched within the last two to three years); and

    (c) no action in the last three years.

13. We compare action (last 12 months) and no action whilst excluding action within the last two to three years.

14. There are also other methodological reasons to focus only on searching and switching in the last 12 months. One of the main challenges we face in our analysis is the reliance on information that is after the searching and switching period, including survey responses and transaction data. Any source of bias associated with this issue is likely to be much aggravated by extending the searching and switching period to three years.

15. We also have concerns regarding the definition and interpretation of internal switching. Whilst we recognise the importance of this group it is unclear to what extent the group of internal switchers includes customers that have taken an active decision to change their PCA. A share of internal switchers may be customers that engaged with the market and decided that the best product for them was offered by their current bank, and hence switched internally. However, this group is also likely to include customers that were upgraded by their bank or just took on a particular offer they received from their bank without engaging with the market. Given the difficulty interpreting this group, we did not include them in the analysis but consider the potential constraint separately within Section 6.

16. Throughout the analysis, we refer to customers' '**current bank**' as the bank where customers hold their main current account, which corresponds to the bank and account with which they were sampled. We refer to customers'

‘**bank of origin**’ as the bank where customers held their main current account before the switching period. For switchers, this is the bank they switched from and for non-switchers it is the same as their current bank.

17. All quantitative evidence presented in the appendix has been calculated using sampling weights provided by GfK, with the exception of reported numbers of observations. Sample stratification is accounted for in the calculation of standard errors for hypothesis testing. Further details on data processing are provided in Annex A. A list of all variables used in the analysis and their definition is provided in Annex B.

Descriptive analysis

18. We first carry out a descriptive analysis of the differences between searchers and switchers, and non-searchers and non-switchers, looking in detail at each of the factors listed in paragraph 6. The analysis provides a first source of evidence on the main factors that characterise searchers and switchers, and is a basis for selecting the factors to consider in the econometric model. In this section we present the main results of this analysis. Further details are presented in Annex C.

19. For the purpose of the descriptive analysis, we divide customers into four groups depending on whether they searched, switched or both:

    (a) Searcher/switchers (SS).

    (b) Searcher/non-switchers (SN).

    (c) Non-searcher/switchers (NS).

    (d) Non-searcher/non-switchers (NN).

20. As indicated in the previous section, the NN group constitutes our reference group to which we compare the other three.

21. Table 2 presents the unweighted number of customers in each of these groups and the weighted proportion of the sample they represent. In particular, switchers represent around 3% of the GfK PCA consumer surveyed sample, and searchers represent 17% of the GfK PCA consumer surveyed sample, with the majority of them (86%) not having switched following

searching. We also note that around 25% of switchers do so without previously searching.[6]

Table 2: Customer groups and sample sizes

Groups	*Proportion of surveyed sample (weighted, %)*	*Number of observations (unweighted)*
Non-searcher/non-switchers	65.4	2779
Searcher/non-switchers	14.2	574
Searcher/switchers	2.3	208
Non-searcher/switchers	0.8	115
Excluded	17.4	873
Total	100	4,549

Source: CMA analysis based on GfK PCA consumer survey.

22. We first look at a series of customer demographic indicators in order to compare the profile of searchers and switchers to those that do not search or switch. As it will be noted below, some of these customer characteristics are related to potential drivers or barriers to searching and switching.

Basic demographic indicators

23. The basic demographic indicators we analyse are: age, gender, working status and level of income.

24. The most noticeable differences between searcher/switchers and those who did not search/switch concern their level of income. We find that searchers, whether they switched or not, have a higher level of income than the other two groups:

    (a) Higher earners, those with income of £50,000 or above, represent around 25% of the group of searchers, and only 17% and 14% of the non-searcher/non-switchers and non-searcher/switchers respectively.

    (b) Conversely, the group of customers with income below £24,000 represents approximately 43% of searchers and 56% of non-searchers groups.[7]

25. With respect to the other indicators, we do not observe large differences between groups:

[6] The sample used in this analysis is a sub-sample of the customer survey. Therefore, it is not representative of the population of UK customers but only of a subset of these. Although this sample is suitable to carry out a comparison between particular groups of customers like we do in this appendix, reported switching and searching rates are underestimated. The adjusted numbers are reported in Appendix 6.1.
[7] These differences between these groups and the reference group NN are statistically significant at 1% for SN and at and 5 to 10% for SS.

(a) Age: there are no significant differences in the age profile of those that searched and switched compared to the reference group, though we do observe that those who switched without searching are on average younger than the other groups. Also, the group of searcher/non-switchers presents a larger share of customers aged between 55 and 64 as compared to the reference group.

(b) Gender: there is a slightly smaller share of women in the searching and switching group than in the reference group.

(c) Working status: in general, we do not find any important differences in the employment profile of the different groups.

Education and financial literacy

26. We also look at three measures related to customers' level of education and financial literacy, namely: the highest level of education achieved, financial literacy and confidence in the use of the internet.

(a) Level of education is measured using responses to the GfK PCA consumer survey. A higher level of education may make it easier to assess and process information regarding the relevant features of a PCA, and hence could imply lower costs of searching and switching.

(b) We measure financial literacy using answers to a question in the GfK PCA consumer survey that aimed to test customers' ability to make a simple interest calculation. The ability to understand financial information and how interest rates work on a basic level is essential in order to understand certain monetary features of PCAs, particularly around overdraft costs and credit interest.

(c) We measure confidence in the use of the internet using responses from the GfK PCA consumer survey on internet access and proficiency. Internet access and proficiency in its use is likely to be associated with lower costs of searching, as a large amount of information on PCA features is available online, potentially constituting an easily accessible source to gather information and make comparisons. In addition, many banks also offer the facility to open an account or even switch accounts on their websites, which means that internet confidence may also be associated with a lower cost of switching.

27. The three measures show a clear difference between searchers, whether they switched or not, and the rest of the sample:

(a) We find that a larger proportion of customers who searched have a university degree compared to those who did not search (between 45 and 50% of searchers have a degree, compared to 37% for customers who did not search or switch).

(b) As for financial literacy, 68% of customers who searched gave the correct answer to the GfK PCA consumer survey question, compared to only 54% of those who did not search.

(c) Searchers also show higher levels of internet access and confidence in its use: around 90% of searchers report having confidence in the use of the internet, while this share is 74% for those who neither searched nor switched.

(d) The group of those that switched without searching present similar levels of education and literacy than those who did not search or switch.

Monetary features

28. We next look at account usage and customers' views on the monetary features of PCAs. In particular, we focus on overdraft usage and costs, and credit interest.[8]

Customer views on monetary features

29. In terms of customers' views on monetary features, we look at two measures:

(a) customers' responses on the importance of level of charges; and

(b) customers' responses on the importance of interest rate on credit balances.

30. We do not find any noticeable differences between searchers and switchers and those who did not search or switch in relation to the importance of level of charges. However, searchers seem to differ significantly regarding the importance they assign to the interest rate paid on credit balances: around 55% of searchers consider interest rates on credit balances to be very important or essential, compared to 42% for non-searcher/non-switchers. These results suggest that searchers may be more likely to respond to monetary pull factors associated with credit interest payments or other financial rewards.

[8] We also look at the level of usage of transactions abroad, however we do not find any statistically significant differences between groups.

Account usage

31. Our analysis of gains from switching presented in Appendix 5.4 showed that customers with high credit balances and those who use overdrafts present higher potential monetary gains from switching. Therefore, we would expect these groups to have higher incentives to search and switch for different options available in the market. At the same time, having an arranged overdraft facility or the ability to use an unarranged overdraft could act as a barrier to switching if these facilities are not transferred across to the new bank.

32. Specifically, we look at the following measures:

(a) Credit balances: average credit balances (when in credit) and share of high credit balance customers.

(b) Overdraft usage: share of overdraft users, average overdraft balance (when in overdraft), and average number of days in overdraft.

33. Results for credit balances are reported in Table 3 below.

Table 3: Credit balances

Groups	*Average credit balance (when in credit) (£)*	*Share of high credit balance holders (%)†*
Non-searcher/non-switchers	3,258	22.8
Searcher/non-switchers	5,223***	30.0***
Searcher/switchers	4,988**	37.1***
Non-searcher/switchers	1,958***	21.3

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
†High credit balance holders are defined as those holding an average credit balance equal or higher than the 75% percentile of the average credit balance of the complete transaction data for the last quarter of 2014 (£3,634.27).
***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

34. Searchers tend to have larger average credit balances than non-searcher/non-switchers. Also, a larger proportion of the customers in this group are high credit balance holders. The opposite is true for those who switched without searching, who actually have lower average credit balances than those who neither searched nor switched.

35. Results for overdraft usage are presented in Table 4 below. We find that overdraft users account for a significantly smaller proportion of switchers compared to non-switchers.[9] There is a less clear story emerging from average overdraft balances, where the only significant difference with the

[9] Barclays has pointed out to us that frequent overdraft users may differ in their switching behaviour to occasional overdraft users. We found some evidence that high frequency overdraft users tend to have lower searching and switching rates, although these differences are not statistically significant. Moreover, sample sizes for sub-groups of overdraft users are too small to extract any robust conclusion from this evidence.

reference group NN concerns those who switched without searching, who hold lower average overdraft balances. However, these results are likely to be correlated with the different income profile of customer groups and its impact on the ability to borrow. We also note that the number of days in overdraft does not vary significantly between groups.

36. These results suggest that overdraft users may be less likely to switch than non-overdraft users, which would support the idea that overdraft usage may act as a barrier to switching for some customers. However, we note that the information on overdraft usage comes from customers' current bank and reflects usage after switching. The observed lower level of overdraft usage may therefore partly be driven by customers who have not yet been able to secure an overdraft facility with their new bank.[10,11]

Table 4: Overdraft usage

Groups	*Overdraft users* Share (%)	*Overdraft users* Number	*Average overdraft balance (when in overdraft) (£)*	*Average number of days in overdraft*
Non-searcher/non-switchers	31.2	806	523	14
Searcher/non-switchers	29.0	152	577	12
Searcher/switchers	19.3***	42	662	16
Non-searcher/switchers	21.4**	31	177***	11

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence. Statistics are calculated using transaction data of the last quarter of 2014.

Satisfaction with the level of charges

37. We also look at customers' responses on satisfaction with the level of charges. We find that searchers and switchers report lower levels of satisfaction than those who did not search or switch regarding their bank of origin. If we look at the levels of satisfaction for switchers in their new bank, we find that the number of those that are dissatisfied is much smaller than for the reference group (8 and 11% for SS and NS respectively).

38. However, it should be noted that survey responses may be subject to ex-post rationalisation, that is, customers report levels of satisfaction that justify their past behaviour, and this may be driving the observed levels of satisfaction, particularly for switchers' new bank.

[10] Barclays told us that another possible explanation of this result was that overdraft users had a higher propensity to multi-bank rather than switch banks completely. Our descriptive analysis gives some support to this. The rates of searching and switching are higher among customers that hold an active account with more than one bank than those that only hold an account with one bank. This is also in line with the evidence presented in Table 5 below.
[11] We place less weight on this evidence than that in Appendix 6.1 for the reasons set out in paragraph 7(g).

Quality of service

39. The analysis in this section focuses on the role of quality of service in the observed rates of searching and switching. Customers who search and switch may do so not just because of potential monetary gains but also to improve the quality of service they receive from their bank.

40. In particular, we focus on three dimensions of quality of service:

(a) customer service;

(b) branch network and services; and

(c) online services (internet banking and mobile apps).

Customer service

41. In the GfK PCA consumer survey, customers were asked about the importance of the following aspects of customer service:

(a) staff and customer service; and

(b) quality and speed of handling problems.

42. We find that both groups of switchers, SS and NS, report much higher levels of dissatisfaction than the reference group NN regarding their bank of origin. For example, with regard to staff and customer service, 20% of the SS group and 23% of the NS group express being dissatisfied, compared to only 2% in the NN group.

43. As for those who searched but did not switch, they also show significant differences compared to the NN group, although of a smaller magnitude. Among this group, 4% express being dissatisfied, compared to 2% for the NN group.

44. We note the same issues discussed in paragraph 38 regarding ex-post rationalisation also apply here.

Branch network and services

45. We do not find significant differences between the groups regarding the degree to which customers care about branches and the frequency in which they use them. The only significant difference is the proportion of customers

indicating that they never use branches in the group of those who searched and switched, 14%, compared to the reference group NN, 7%.[12]

46. We also look at survey results concerning a local branch closure. This is an important element for understanding searching and switching since a local branch closure could work as a trigger factor for switching. The proportion of searchers, both SN and SS, who have experienced a local branch closure is significantly higher than the reference group NN.[13]

Online services

47. We analyse survey results regarding the importance and frequency of use of online applications, in particular, internet banking and mobile apps. Overall, we find that online services seem to be more relevant for searchers and switchers than for the reference group NN:

   (a) The group of searcher/switchers consistently rate higher on both importance and frequency of use of these services compared to the reference group NN. In fact, 72% of customers in this group report internet banking as very important or essential and 40% say so about mobile apps, as opposed to 58 and 31% for NN respectively.[14] Moreover, 57 and 36% report using internet banking and mobile apps weekly, compared to only 39 and 25% for NN.[15]

   (b) The results for searcher/non-switchers mirror those of SS for internet banking but not for mobile apps. As for non-searcher/switchers, mobile apps seem particularly relevant. In fact, 46% report mobile apps as very important or essential, and 40% use them weekly.[16] As for internet banking, 64% indicate it is very important or essential, and 47% say they use it weekly.[17] The predominance of mobile apps over internet banking is likely to be related with the younger profile of this group, as can be seen in Figure 1 of Annex C.

Trigger factors

48. In this section we focus on trigger factors associated with changes in customers' personal circumstances that may change their needs regarding

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[12] This difference is statistically significant at 5% confidence.
[13] The share for SN and SS groups is 10 and 14% respectively as compared to 6% for NN, and both differences are statistically significant at 5%. The share for NS is 8% but this difference is not statistically significant.
[14] These differences are statistically significant at 1% confidence.
[15] These differences are statistically significant at 1 and 5% for internet banking and mobile apps respectively.
[16] Both these shares are statistically significantly different from the NN shares at 5%.
[17] Both these shares are not statistically significantly different from the NN shares.

banking services, and potentially push them to search and switch. We find that:

- *(a)* searcher/non-switchers and non-searcher/switchers present a higher proportion of customers reporting having changed work status compared to the reference group;
- *(b)* non-searcher/switchers also present a higher share of customers reporting having moved house compared to the reference group; and
- *(c)* we do not find significant differences in the frequency rate of these events for the searcher/switchers compared to the reference group.

Cost of searching and switching

49. In the previous sections we looked at certain customer characteristics and profiles that may be associated with costs or barriers to searching and switching, including the level of education and literacy, and overdraft usage. In this section, we extend this by looking at additional evidence relevant to this issue.

Customer perceptions regarding the difficulty to search and switch

50. We first look at customers’ views on the ease or difficulty of searching and switching. In the GfK PCA consumer survey we asked customers about their perceptions on four dimensions of the process of searching and switching PCA, namely:

- *(a)* finding out about features and charges;
- *(b)* understanding different options;
- *(c)* making comparisons; and
- *(d)* the process of changing PCA.

51. The first three dimensions are associated with searching while the last one concerns the difficulty of actually switching current accounts. We find that in general searchers present a higher proportion of customers reporting that they expected the process to be easy and a lower share of those indicating that they expected the process to be difficult, as compared to the NN group.

52. If we look instead at cost of switching, we observe that a larger share of searcher/switchers indicate they expected the process to be difficult as compared to the reference group. This is a counter-intuitive result and may be due to the biases these type of survey questions may be subject to; it is likely

that respondents report their expectations in comparison to their actual experience of switching and, therefore, their responses are not really comparable to those of the reference group who have not had that experience. Indeed, we find that on average, switchers found the experience of switching easier than they expected. This could be due to a proportion of customers not being aware of CASS prior to switching.

53. Given the bias in customers' responses to these survey questions, for the purpose of the econometric analysis, we rely on objective customer characteristics that are related to difficulties in searching and switching, rather than reported perceptions.

Direct debits and other transactions

54. We also look at two indicators of PCA activity that may be associated with higher perceived costs of switching. We first look at the number of direct debits and standing orders in customers' main PCAs. The assumption behind this is that a customer who has more direct debits or standing orders may perceive switching accounts to be more difficult and time consuming, and hence be less willing to switch. The second indicator is the average number of transactions (debits and credits) in the current account per month. The assumption here is similar, a customer who uses their current account more intensively may perceive switching PCA to be more difficult or time consuming.[18]

55. We find that:

(a) searcher/non-switchers have a higher number of direct debits on average than the reference group, while no difference is found for searcher/switchers;[19] and

(b) searcher/switchers have on average a lower number of transactions than the reference group, while no difference is found for searcher/non-switchers.

[18] Barclays has argued that a higher level of transactions could also be associated with a higher degree of confidence in the customer's bank and hence a lower likelihood of searching and switching.
[19] A number of banks were unable to provide this information resulting in a large number of missing values. For this reason, we do not test the effect of direct debits on searching and switching in the econometric analysis.

Multi-banking

56. As part of the consumer survey, we asked customers whether they held PCAs or other products with other banks. In particular, we identify two types of multi-banking:

   (a) Narrow multi-banking: this is where a customer holds a PCA at more than one bank.

   (b) Broad multi-banking: this is where a customer holds different financial products at different banks.

57. Table 5 summarises the results for PCAs held in other banks, both for all PCAs and active PCAs only (narrow multi-banking).[20] We first look at the share of customers in each group that indicate having at least one other PCA with a different bank. Searchers, both SN and SS, present significantly higher shares of customers reporting having PCAs in a bank different to their main bank, as compared to the reference group. As for the average number of extra accounts held by multi-bankers, only searcher/non-switchers are found to hold a significantly larger average number than the non-searcher/non-switchers, while non-searcher/switchers have a lower average number. This latter result may be correlated with the lower level of income and younger profile of this group.

Table 5: Narrow multi-banking – more than one PCA with different banks

	Multiple PCAs			*Multiple active PCAs*		
	Customers			*Customers*		
Groups	*Share (%)*	*Number*	*Average number of accounts*	*Share (%)*	*Number*	*Average number of accounts*
Non-searcher/non-switchers	26.5	728	1.24	19.3	521	1.16
Searcher/non-switchers	38.9***	220	1.43***	28.0***	156	1.38***
Searcher/switchers	50.7***	102	1.38	37.5***	76	1.22
Non-searcher/switchers	31.0	31	1.12*	21.0	19	1.05**

Source: CMA analysis based on GfK PCA survey consumer data.
***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

58. Table 6 presents the results regarding other banking products. There is no significant difference regarding the share of customers who have a mortgage with other banks. Switchers, both SS and NS, present larger shares of customers having loans with other banks. Searchers, both SN and SS, present a larger share of customers reporting having a savings product and

[20] In the GfK PCA consumer survey we asked customers to indicate whether they use each of their PCAs with other banks (question B6). We identify as active those accounts for which the customer answered yes to this question.

credit card with another bank, while non-searcher/switchers present no significant differences compared to the reference group.

Table 6: Broad multi-banking – other products with different banks

	Proportion of customers holding at least one of these products with another bank (%)				
Groups	*Mortgage*	*Loan*	*ISA*	*Other savings*	*Credit card*
Non-searcher/non-switchers	17.2	3.2	15.8	19.1	29.7
Searcher/non-switchers	20.1	3.9	29.2***	29.7***	44.3***
Searcher/switchers	22.5	10.5**	28.5***	32.9***	50.6***
Non-searcher/switchers	16.9	17.0**	11.9	16.8	35.8

Source: CMA analysis based on GfK PCA survey consumer data.
***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

59. Beyond specific differences between subgroups, overall the evidence suggests that multi-banking is correlated with observed searching and switching rates.

60. Multi-banking can provide customers with better or easier access to information on products, services and charges offered by other banks. In this respect, it may reduce customers' costs of searching and switching. However, other interpretations are possible:

(a) Information on multi-banking comes from the GfK PCA consumer survey, so reflects multi-banking after searching and switching. This is particularly problematic for switchers in that some of them may switch to a new PCA and leave the old account open.[21] We try to account for this by looking not just at all PCAs but also active PCAs.[22]

(b) Customers that have more complex banking needs may be more likely to multi-bank, and the complexity of banking needs may be driving the observed levels of both searching/switching and multi-banking.

(c) Related to the above, both searching/switching and multi-banking could be measuring the same thing, customer engagement. Customers may not only engage with the market by looking for the best options and potentially switching, but also by spreading their banking needs across different providers, taking advantage of the best deals or service available to them.[23]

[21] Survey results show that among customers who switched their main current account in the last year, 63% closed the previous account, 15% left it open but do not use it, while 22% left it open and continue to use it.
[22] Also, this issue does not apply to searchers, who also present larger shares than the reference group. Additionally, for non-searcher/switchers we do not observe any differences.
[23] Given the difficulty in interpreting the role of multi-banking, we believe it would be inappropriate to include it in our econometric analysis. More precisely, as explained in point (c) multi-banking is likely to be another form of

Econometric analysis

61. In this section we summarise the results of our econometric analysis. Further details are provided in Annex D.

62. Unlike the descriptive analysis presented in the first part of this appendix, the econometric model, by taking into account the interaction between different factors, allows us to isolate the relative importance of each factor and attach statistical significance to these results. For example, we find that there is a higher incidence of people moving house within the group of non-searcher/switchers, which may indicate that moving house is a push factor for switching. However, we also see that this group has a larger share of young customers, who are in general more likely to move house in a given year. Therefore, differences in the rate of customers that moved house between groups may just be reflecting the different age profile of each customer group and not be a relevant factor for switching. The econometric analysis allows us to overcome this problem by testing the effect of one factor, moving house, while keeping other factors fixed, ie age.

Methodology

63. We observe searching and switching as binary choices, that is, we see whether customers searched or not, or switched or not. The standard econometric approach to study this type of phenomenon is to estimate binary choice models, namely logit or probit. The main advantage of these models is that they account for the binary nature of the dependent variable and, unlike the standard linear regression approach, do not predict probabilities that are outside the 0, 1 interval.

64. In practice, the model allows us to compare the differences between customers who searched/switched to the others who have not, and how these differences contribute to the probability of being among one group of customers or the other.

65. As a first step, we estimate separate models for searching and switching. However, for many customers searching is a pre-requisite to switching and the result of their searching efforts determines whether they switch or not. For this reason, we also estimate a model that links the two. In particular, we estimate a recursive bivariate probit in order to account for two issues: 1) the fact that the decisions of searching and switching are correlated, and 2) the

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customer engagement, and therefore is measuring the same phenomena we are trying to capture with the model. This is what in econometrics is called a ‘bad control’, that is a control variable that mechanically explains most of the variability in the dependent variable that the model aims to explain.

fact that whether a customer searched or not will have an impact on their probability of switching.

Results

Results of the searching model

66. The results from the searching model can be summarised as follows:

(a) We find no statistically significant effect for gender.

(b) Customers with income below £24,000 are 4 percentage points less likely to search.

(c) Customers aged between 55 and 64 are 6 percentage points more likely to search.

(d) Customers with a degree are 3 percentage points more likely to search.

(e) Customers with higher financial literacy are 5 percentage points more likely to search.

(f) Customers who indicate having confidence in the use of the internet are 13 percentage points more likely to search.

(g) We do not find a statistically significant effect of overdraft usage on searching, while high credit balance holders are 5 percentage points more likely to search.

(h) Customers who have seen the closure of a local branch are 9 percentage points more likely to search.

(i) Customers whose bank of origin belongs to one of the largest four banking groups are 4 percentage points less likely to search.

(j) Customers who never use internet banking are 5 percentage points less likely to search.

(k) Customers who changed their work status are 5 percentage points more likely to search.

(l) Customers reporting a higher number of transactions (debits and credits) are less likely to search. The average estimated effect is 0.1 percentage points per additional transaction.

67. In order to get an idea of the magnitude of these impacts, we should compare it to the average frequency of searching in the subsample used in the estimation, which is 20%.[24] More precisely, if we were to pick one individual from our sample at random regardless of their characteristics, there is a 20% chance that this individual will be a searcher. If we randomly pick someone that presents that factor, say for example having a degree, the probability of them being a searcher, controlling for other factors which affect switching, is higher than 20%. If we randomly pick someone from those who do not hold a degree, then controlling for other variables which affect switching, the probability of them being a searcher is lower than 20%. The difference between these two probabilities, the average of those who have a degree and those who do not, is 4 percentage points.

Results of the switching model

68. The results from the switching model are summarised below. The incidence of switching in the subsample used in the estimation is 4%.[25]

(a) Customers who have previously searched are around 12 percentage points more likely to switch.

(b) Women are 1 percentage point less likely to switch than men.

(c) Customers aged between 55 and 64 are 2 percentage points less likely to switch, although this effect is not statistically significant in all specifications.

(d) We do not find a statistically significant effect for degree and financial literacy.

(e) Customers who report having confidence in the use of the internet are 1 percentage point more likely to switch, although this result is sensitive to the model specification.

(f) Overdraft users are 1 percentage point less likely to switch.

(g) High credit balance holders are 2 percentage points more likely to switch.

[24] The analysis is not carried out on the entire survey sample, so this frequency represents the incidence of searching in the subsample used for the analysis and is not a measure of the frequency of searching in the population. This was reported in Table 1 of this appendix and is equal to 17%.
[25] As for the case of searching, this is not a measure of the frequency of switching in the entire population which is given by the share of switchers in the whole surveyed sample and is equal to 3% as reported in Table 1 in this appendix.

(h) Customers who have seen the closure of a local branch are 3 percentage points more likely to switch. However, this result is not significant in the joint model, which accounts for whether the customers searched or not.

(i) Customers whose bank of origin belongs to the four largest banks are 2 percentage points less likely to switch. This result is not statistically significant in specifications that include the relative size of the branch network of the customer's bank. However, it is likely that the four largest banks are also the banks with the largest branch networks, and therefore these two variables are highly correlated making it difficult to disentangle the two effects.

(j) Customers who indicated never using mobile apps are 1 percentage point less likely to switch.

(k) Customers reporting a higher number of transactions (debits and credits) are less likely to switch. However, the average estimated effect is very small (around 0.04 percentage points per every additional transaction).

Annex A: Data processing and cleaning

Sources

1. The analysis presented in this appendix combines information from the consumer carried out by GfK and commissioned by the CMA, account usage data and information on branch location provided by banks.[26]

Survey

2. The achieved sample consists of 4,549 telephone interviews with PCA customers. Section 1 of the PCA banking survey technical report[27] provides details of the sampling methodology.

Transaction data

3. Banks were asked to provide transaction data for the 120,000 accounts that were sampled by GfK for the PCA survey.[28] This data was directly sent to the CMA by banks.

4. We use information on account usage for the last quarter of 2014. We cannot use information on usage for the entire year because for switchers, we only have transaction data from their current bank, and the current bank will only hold information since they switched. Therefore, annual averages would be calculated for a different set of months for switchers and non-switchers, and would be an unsuitable measure for comparing these customer groups. Focusing on the last three months of data minimises this problem, while at the same time providing a representative measure of customer usage.

Branch data

5. Banks were asked to provide a list of their branches that were open to the public as on 1 January 2014 and 1 January 2015. For each branch, they were asked to provide the postcode and total opening hours during the working week and weekends.

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[26] Following the publication of our preliminary findings and the data room of October 2015, we made small corrections to the dataset to address comments received from parties. Additionally, one party provided corrected transaction data after identifying an error in the information they had originally provided us. These corrections in the data resulted in minor changes in some of our results with respect to what we reported in our provisional findings.
[27] GfK NOP PCA banking survey technical report.
[28] These are described in the PCA survey technical report as the 'issued sample'. The achieved sample of 4,549 PCA customers is a subset of the issued sample.

6. To make the analysis comparable between switchers and non-switchers, we use information on branches as of 1 January 2014 regarding customers' bank of origin, ie customers' previous bank for switchers and customers' current bank for non-switchers.

Data processing and sample size

7. Survey results and transaction data are merged using a unique account identifier provided by the banks and a customer number for joint accounts. We exclude from the analysis customers for whom we find inconsistencies in their basic demographic characteristics as reported in the GfK PCA consumer survey and the transaction data (year of birth and gender).

8. Since our focus is on searching and switching in the last 12 months, we also exclude from the analysis customers who searched or switched in the last two to three years. We also exclude customers who switched accounts within the same bank or who could not indicate the specific period where they searched/switched.

9. This results in a sample of 3,676 customers. The size of the sample in specific sections of the analysis is reduced further due to missing values of specific variables.

Annex B: Definition of variables used in the analysis

Customer demographics

1. **Age:** Customers' age is calculated as the difference between 2015 and the customer's year of birth coming from the transaction data submitted by banks.

2. **Gender:** We use information on gender as recorded in the GfK PCA consumer survey results. When this information is not available, we use information coming from the transaction data submitted by the banks.

3. **Working status:** We use information on working status as recorded in customers' responses to survey question K4.

4. **Income:** A large number of customers did not provide information on their income in their responses to the GfK PCA consumer survey. For this reason, we rely on an alternative measure coming from the transaction data submitted by the banks. In particular, we use the average monthly total value of payments and transfers into the account.

5. **Highest level of education achieved:** We use information on education as recorded in customers' responses to survey question K6.

6. **Financial literacy:** We measure customers' financial literacy on the basis of survey question K1 where respondents were asked to do a simple interest calculation using information on the amount of a loan (£500) and an interest rate (10%). We consider as 'right' responses equal to £50 and £550.

7. **Confidence in the use of the internet:** We use information from customers' responses to survey questions K2 and K3 regarding internet access and confidence in its use. We consider customers to be confident if they indicated they feel fairly confident or very confident, and not confident if they indicated they feel not very confident or not at all confident.

Account usage

8. Information on account usage comes from transaction data. Monthly averages are obtained by averaging values for the last three months of 2014. For customers who opened their account after October 2014, we use information from the month after they opened their account to December.

9. **Average number of days in overdraft:** We calculate this as the average number of days the account was in an arranged and an unarranged overdraft.

10. **Average overdraft balance (when in overdraft):** Overdraft balances are obtained by multiplying each monthly overdraft balance and the corresponding number of days the account was in an arranged or an unarranged overdraft.

11. **Overdraft user:** We consider a customer to be an overdraft user if either their monthly average overdraft balance or the monthly average number of days in overdraft are positive.

12. **High credit balance holder:** We consider a customer to be a high credit balance holder if their monthly average credit balance is within the top 25% of the overall distribution of average monthly credit balances in the transaction data.

13. **Average credit balance (when in credit):** Credit balances are obtained by multiplying each monthly credit balance and the corresponding number of days the account was in credit in each month.

14. **Number of direct debits and standing orders:** Number of direct debits and standing orders set up on the account at the end of 2014, as reported in variable a123 of the transaction data.

15. **Number of transactions:** Monthly average number of credits and debits in the customer's PCA, calculated on the basis of the information reported in variable a122 of the transaction data.

Usage of services

16. **Frequency of branch visits:** We use information from customers' responses to question D1. Customers are grouped according to whether they report visiting a branch weekly (every day or once a week or more), monthly (two to three times a month or once a month), less often (once every two to three months, once or twice a year or less often), or never.

17. **Frequency of use of internet banking:** We use information from customers' responses to survey questions C2.1 and C3.1. Customers are grouped according to whether they report using internet banking weekly (every day or once a week or more), monthly (two to three times a month or once a month), less often (once every two to three months, once or twice a year or less often), or never (if they report not using it at all in question C2.1).

18. **Frequency of use of mobile/tablet app:** We use information from customers' responses to survey questions C2.2 and C3.3. Customers are grouped in the same way as for internet banking.

Opinions and perceptions

19. **Importance:** We use information on customers' opinions regarding the importance of different bank services and PCA features coming from their responses to survey questions E3, D3 and D4.

20. **Satisfaction:** Information on customers' level of satisfaction with their current bank comes from survey question E1. For switchers, we also use information on their level of satisfaction with their previous bank coming from responses to question F18. Customers are grouped according to whether they report they are satisfied (very satisfied or fairly satisfied), dissatisfied (fairly dissatisfied or very dissatisfied) or indifferent (neither satisfied nor dissatisfied).

21. **Cost of searching:** Information on customers' expectations and experience on the cost of searching comes from customers' responses to survey questions F11 and F13, respectively. We group customers according to whether they reported they find a specific dimension of searching easy (very easy or fairly easy), difficult (fairly difficult or very difficult) or indifferent (neither easy nor difficult).

22. **Cost of switching:** Information on customers' expectations and experience on the cost of switching comes from customers' responses to survey question F12 and F14a, respectively. Customer responses are grouped in the same way as for cost of searching.

Branches

23. **Local branch closed in the last 12 months:** We use information on local branch closure coming from customers' responses to survey question I5 for non-switchers and question I6 for switchers.

24. **Local branch:** We use information on customers' and branches' postcodes provided by the banks, and identified whether the customers' bank of origin had a branch in their local area open to the public as of 1 January 2014. We identify geographical locations on the basis of easting and northing coordinates available in the National Statistics Postcode Lookup (NSPL) dataset.[29] A customers' local area is defined as the 1-mile radius from their postcode for customers' living in areas with a population density equal or

[29] We use the version of the NSPL dataset published by the Office for National Statistics (ONS) in February 2015.

above 1.5 inhabitants per hectare, and the 3-mile radius for customers' living in areas with a population density below 1.5 inhabitants per hectare.[30]

25. **Local branch extended hours:** We constructed this indicator in the same way as above but considering only branches that were open for extended hours during the week or weekends as of 1 January 2014.

26. **Number of local banks in local area:** Using the same information as above, we identify the branches of all banks located in each customers' local areas and counted the number of banks that had at least one branch in the customers' local area opened to the public as of 1 January 2014.

27. **Regional branch network:** Using information on customers' and branches' postcodes, we calculate the number of branches of the customers' bank of origin located in customers' city or region and open to the public as of 1 January 2014. Cities and regions were defined at the level of the LAUA[31] for Wales, Scotland and Northern Ireland, and to the immediately higher level of aggregation for England. Customers' and branches' postcodes were matched to each LAUA using the ONS NSPL dataset.

28. **Relative size of branch network:** We replicate the exercise above for all other banks and calculate the number of branches of each bank located in the customers' city or region. We then calculate the ratio of the number of branches of customers' bank of origin and the number of branches of the bank with the largest network in the city or region.

29. **Four largest banking groups:** We identify whether the customer's bank of origin belongs to one of the largest banking groups: Barclays, LBG (BoS, Halifax and Lloyds), RBSG (NatWest, RBS, Ulster), and HSBCG (first direct, HSBC and M&S) as the bank where customers hold their main current account, which corresponds to the bank and account with which they were sampled. We refer to customers' 'bank of origin' as the bank where customers held their main current account before the switching period. For switchers, this is the bank they switched from, as reported in responses to survey question F5. For non-switchers it is the same as their current bank as indicated in the transaction data provided by the banks.

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[30] This approach is in line with the first step of the OECD methodology to classify urban and rural areas at administrative level 2. See 'Urban-rural typology' on the eurostat website. Information on the density of population comes from the 2011 Census table on population density and local authorities available on the Office for National Statistics website.
[31] Local Authority Unitary Authority.

Trigger factors

30. We use information coming from customers' responses to survey question K6.

Multi-banking

31. **Customers with multiple PCAs:** We use information coming from customers' responses to survey question B3 to identify customers who have at least one PCA with a bank other than their current main bank.

32. **Average number of accounts with another bank:** We use information coming from customers' responses to survey question B4 and calculate the number of PCAs the customer holds with another bank. The average is calculated considering only customers that have at least one PCA with a bank other than their current main bank.

33. **Customers with multiple active PCAs:** We use information coming from customers' responses to survey question B6 to identify customers who have at least one PCA that they currently use with a bank other than their current main bank.

34. **Average number of active accounts:** We use information from customers' responses to survey question B6 to calculate the number of PCAs the customer has and uses with a bank other than their current main bank.

35. **Customers holding at least one other product with another bank:** We use information from customers' responses to survey questions I1 and I2 to identify customers that have at least one financial product with a financial institution other than their current main bank.

List of variables used in the econometric analysis

36. The variables used in the econometric analysis are defined as follows:

(a) Searcher: 1 if the customer has searched for another PCA in the last 12 months, 0 otherwise.

(b) Switcher: 1 if the customer has switched PCA in the last 12 months, 0 otherwise.

(c) Female: 1 if the customer is a woman, 0 otherwise.

(d) Income below £24,000: 1 if the customer has income below £24,000, 0 otherwise.

(e) Age 35 to 54: 1 if the customer is 35 to 54 years old, 0 otherwise.

(f) Age 55 to 64: 1 if the customer is 55 to 64 years old, 0 otherwise.

(g) Age 65 or above: 1 if the customer is 65 years old or older, 0 otherwise.

(h) Degree: 1 if the customer holds a degree, 0 otherwise.[32]

(i) Financial literacy: 1 if the customer answered correctly the GfK PCA consumer survey question K1, 0 otherwise.

(j) Internet confidence: 1 if the customer is confident in the use of the internet, 0 otherwise.

(k) Overdraft user: 1 if the customer has used an overdraft, 0 otherwise.

(l) High credit balance: 1 if the customer holds high credit balances, 0 otherwise.

(m) Local branch closed: 1 if the customer's bank of origin's local branch closed in the last 12 months, 0 otherwise.

(n) Relative size of branch network: Ratio of the number of branches that the customer's bank has in their region and the number of branches of the bank with the largest network in the region.

(o) Moved house: 1 if the customer has moved house in the last 12 months, 0 otherwise.

(p) Changed work status: 1 if the customer started or stopped working in the last 12 months, 0 otherwise.

(q) Changed relationship status: 1 if the customer has married or divorced in the last 12 months, 0 otherwise.

(r) Never uses internet banking: 1 if the customer does not use internet banking, 0 otherwise.

(s) Never uses mobile app: 1 if the customer does not use mobile/tablet app, 0 otherwise.

(t) Number of transactions: Monthly average number of credits and debits in the customer's PCA.

[32] The variable is set to zero for customers who indicate having a different level of education and to missing if they did not respond to the question.

(u) Four largest banking groups: 1 if the customer's bank of origin belongs to one of the four largest banking groups (Barclays, HSBCG, LBG or RBSG).

Annex C: Details of descriptive analysis

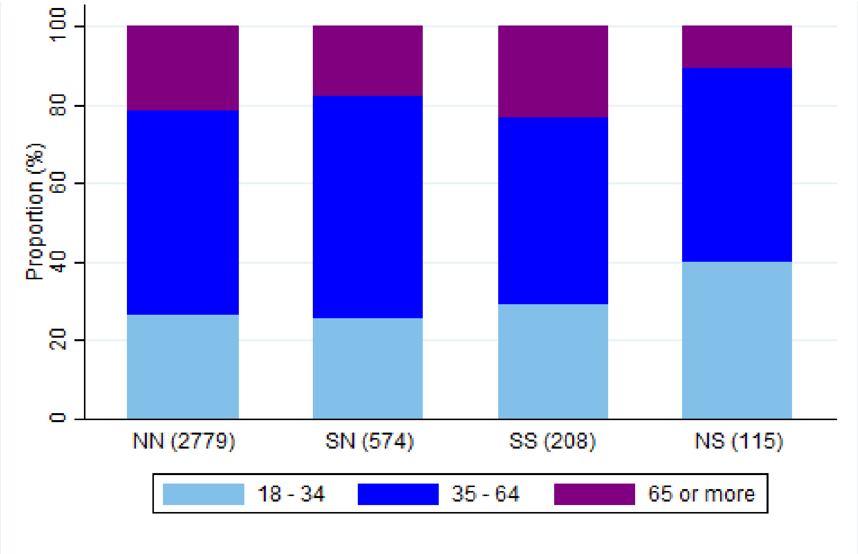
1. This annex presents further details of the descriptive analysis summarised in paragraphs 18 to 60 of this appendix.

Customer demographics

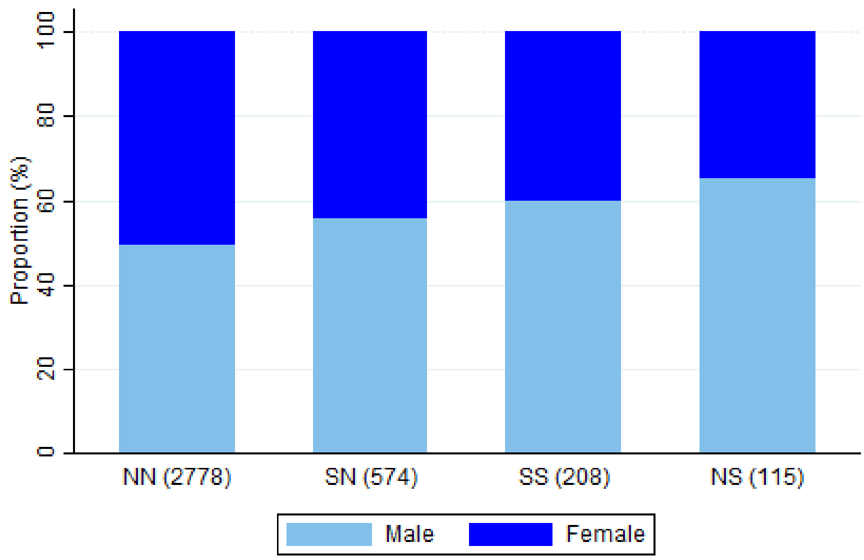
2. Figure 1 shows the distribution of customers within each group according to basic demographics, namely age, gender, working status and level of income. Each bar in a graph represents one of the customer groups defined in paragraph 19 of this appendix.

Figure 1: Basic demographics

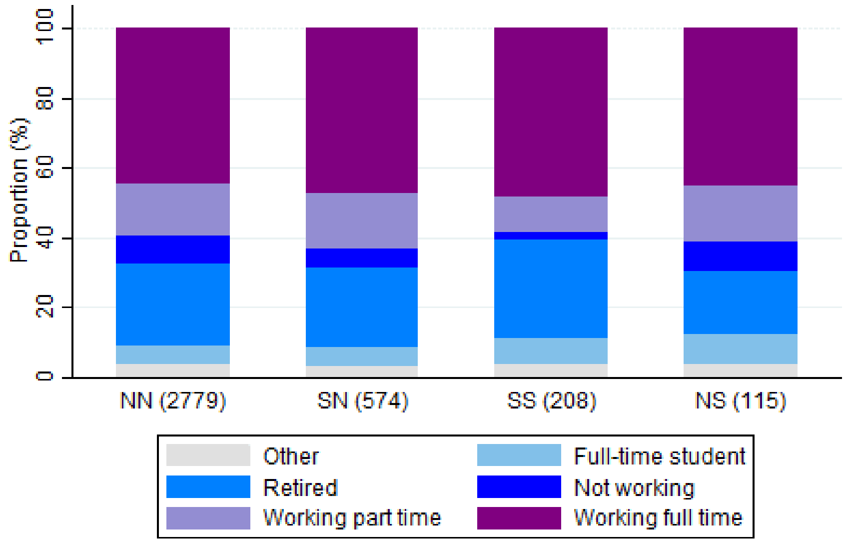
Age



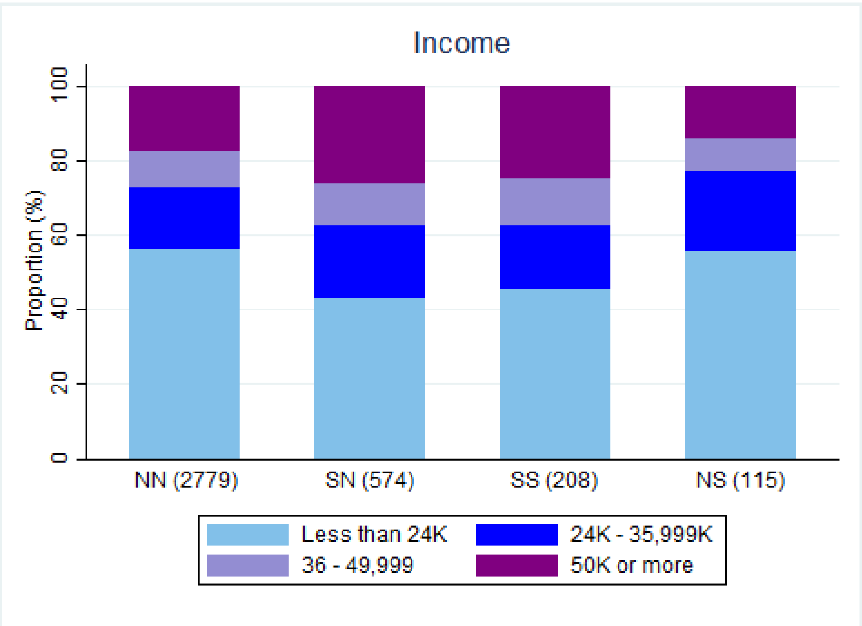
Gender



Working status



Income



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

3. The most noticeable differences among the groups seem to concern their level of income. Searchers, whether they switched or not, have a higher level of income than the other two groups. Higher earners, those with income of £50,000 or above, represent around 25% of the group of searchers, and only 17 and 14% of the NN and NS groups respectively. Conversely, the group of customers with income below £24,000 represents approximately 43 and 45% of SN and SS respectively, and 56% of non-searchers, both NN and NS.[33]

[33] The differences between these groups and the reference group NN are statistically significant at 1% for SN, and at 5 and 10% for SS.

4. If we look at age, the group of non-searcher/switchers have a younger profile than the other groups. The share of customers in this group below 35 years of age is about 40%, compared to only 26% for the reference group (NN). At the same time, the share of those above 65 is only 11% compared to 21% in the reference group (NN).[34] The group of searcher/non-switchers does not present significant differences in age profile with respect the NN group. However, customers aged between 35 and 64 are particularly overrepresented in this group, although this is compensated by a smaller share of those aged 65 or more.[35] As for the group of searcher/switchers, they do not present any significant differences in their age profile to the reference group NN.

5. There seems to be a slightly smaller share of women in the searching and switching group than in the reference group, and this seems to be particularly the case for switchers who did not search.[36]

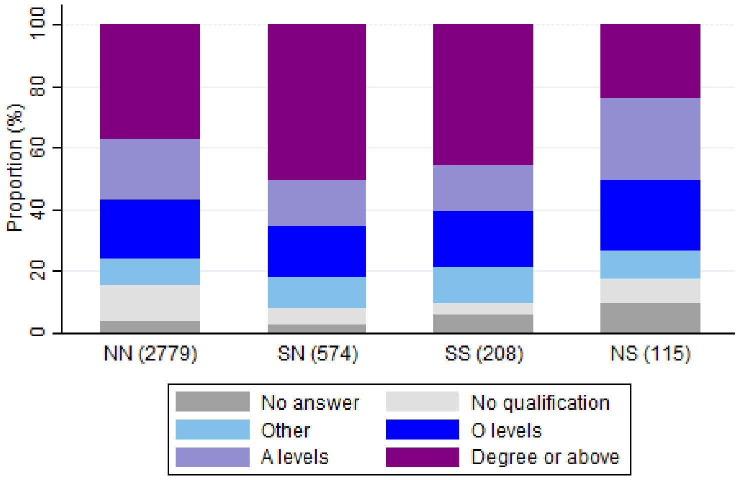
6. Working status may be important for switching behaviour in that it gives a measure of the relative costs of time. Someone that has more free time may have more time to search and switch for a new PCA. However, it is also correlated with the level of education and the financial position of the person. Therefore, its impact is difficult to measure in isolation. In general, we do not find significant differences regarding the work status of customers between the different groups. The only exception is the share of those 'not working' which is significantly lower in the SN and SS groups than the reference group.[37]

7. Figure 2 shows three measures related to customers' level of education and literacy, as used in our consumer survey, namely the highest level of education achieved, financial literacy and confidence in the use of the internet.

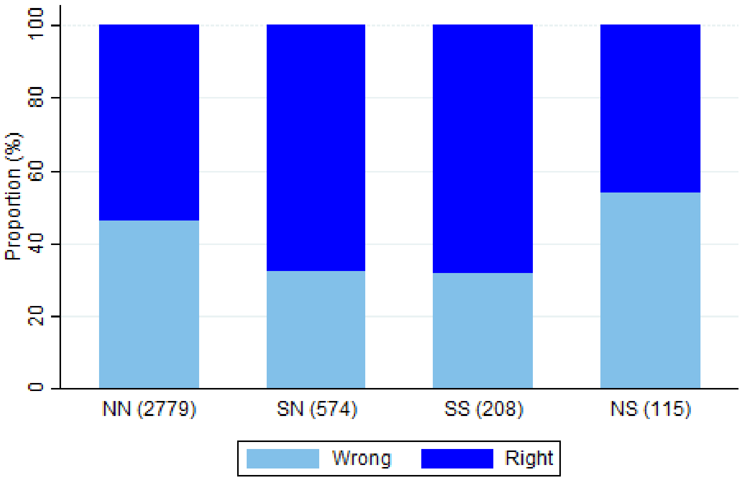
[34] These difference are statistically significant at 5 and 1% confidence respectively.
[35] These difference are statistically significant at 5 and 10% confidence respectively.
[36] These differences are all statistically significant at least at 5%.
[37] They represent 5% of the SN group and 2% of the SS group, while they represent 8% of the NN group. These differences to the NN group are statistically significantly different from zero at 5 and 1% for SN and SS respectively.

Figure 2: Level of education, financial and internet literacy

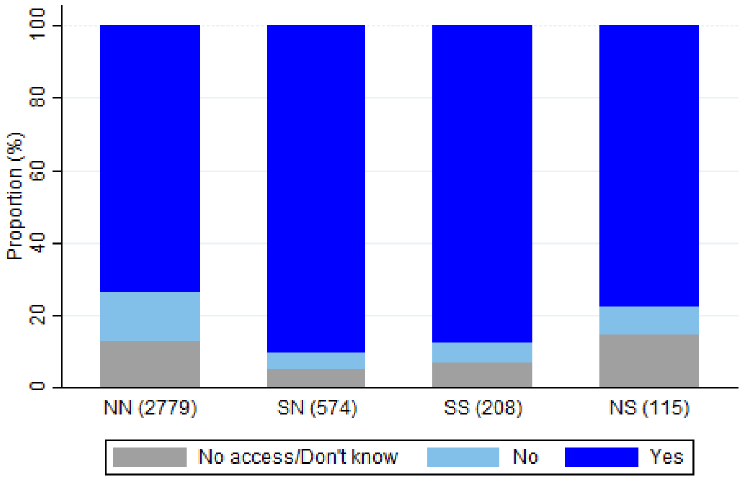
Highest level of education achieved



Financial literacy



Confidence in the use of the internet



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.

8. The three measures show a clear difference between searchers, whether they switched or not, and the rest of the sample. Customers holding a university degree represent 50 and 46% of the SN and SS groups respectively, while they represent only 37% of the reference group NN. As for financial literacy, 68% of customers in these two groups gave the correct answer to the GfK PCA consumer survey question, as compared to only 54% of the NN group. These groups also report higher levels of internet access and confidence in its use: 90 and 87% of the SN and SS groups respectively report having confidence in the use of the internet, while this share is 74% for the NN group.[38] The group of those who switched without searching present similar levels of education and literacy than the reference group NN.[39]

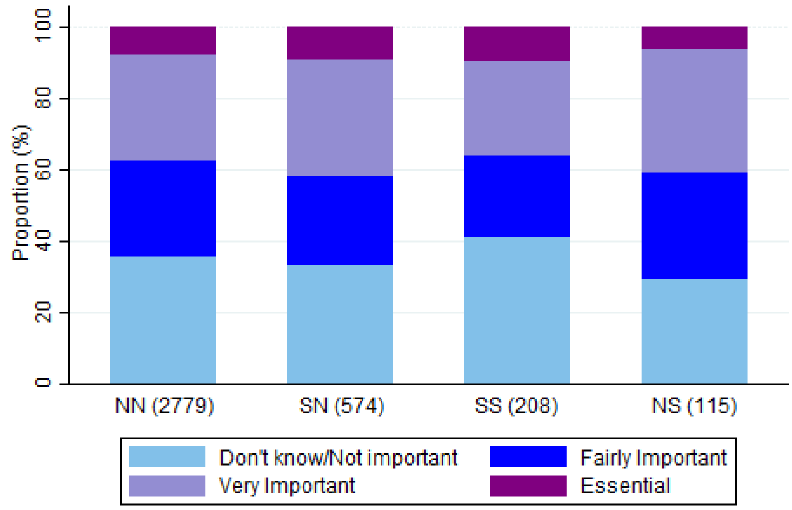
Monetary features

9. Figure 3 shows consumer survey responses to the question of how important monetary features of PCAs are for them. There are no significant differences in customers' responses regarding the level of charges. Overall, around 40% of all customers report that this aspect is very important or essential to them. However, searchers seem to differ significantly regarding the importance they assign to the interest rate paid on credit balances: 56 and 55% of customers in the groups of searchers, SN and SS respectively, indicate that they consider this aspect to be very important or essential, compared to 42% for the reference group NN.[40] These results suggest that searchers may be more likely to respond to monetary pull factors associated with credit interest payments or other financial rewards.

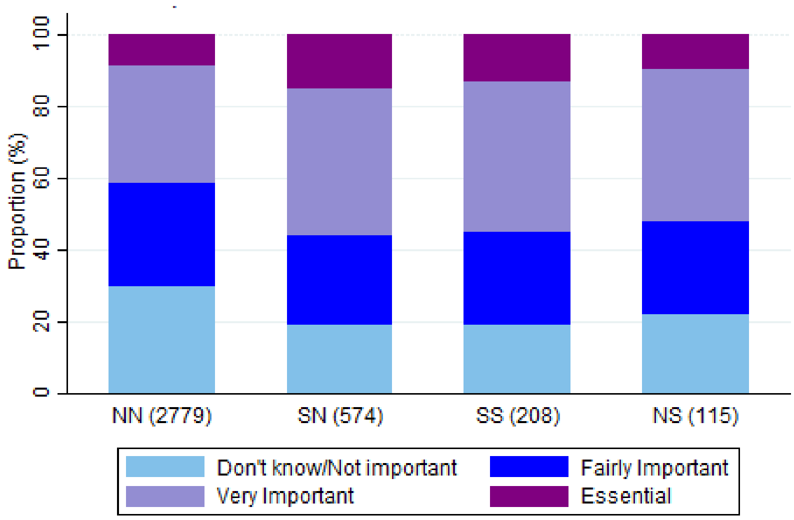
[38] The reported differences between searchers and the reference group NN are all statistically significantly different from zero at 1%, with the exception of the share of those holding a degree which is only significant at 10% for the SS group.
[39] They present a lower level of people holding a degree, but this is likely to be correlated with the age profile of this group.
[40] The differences between SN and SS with respect to NN are statistically significantly different from zero at 1% confidence. For the NS group the share of those reporting credit interest rates is 52%. Although, this is still larger than the NN group the difference is not statistically different from zero (p-value of 0.12).

Figure 3: Importance of monetary features of PCA

Importance of level of charges (eg overdraft charges)



Importance of interest rate on credit balances



Source: CMA analysis based on GfK PCA consumer survey data.

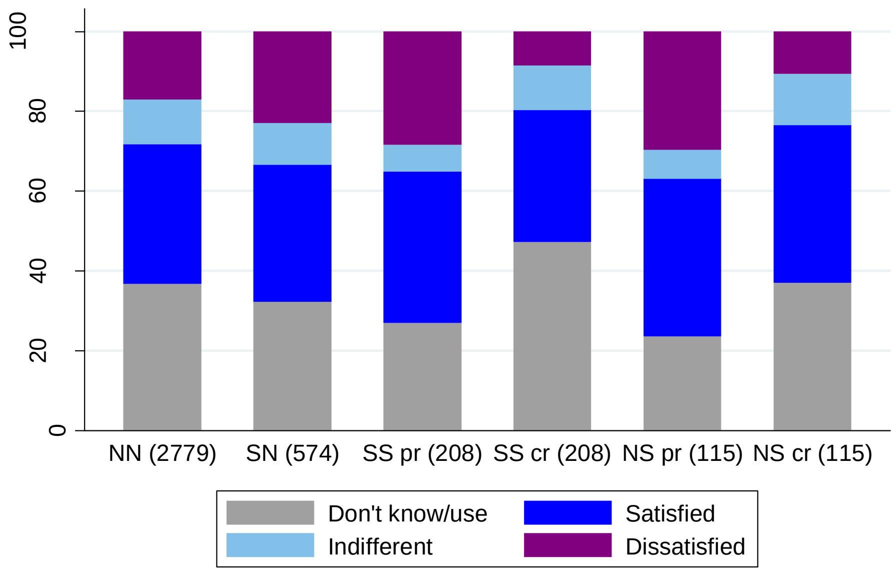
10. Figure 4 shows the level of satisfaction of customers regarding charges. These include, but are not limited to, overdraft charges. We present the results for the whole sample and for overdraft users only. For switchers we present results for both their previous and current bank. Both searchers and switchers report lower levels of satisfaction than the reference group NN regarding their bank of origin. In particular, customers reporting to be dissatisfied represent 23% of the SN group, 28% of the SS group and 30% of the NS group compared to only 17% of the NN group.[41] If we look at the levels of satisfaction for switchers with their new bank, the number of those that are

[41] All these differences are statistically significantly different to zero at the 5% confidence level.

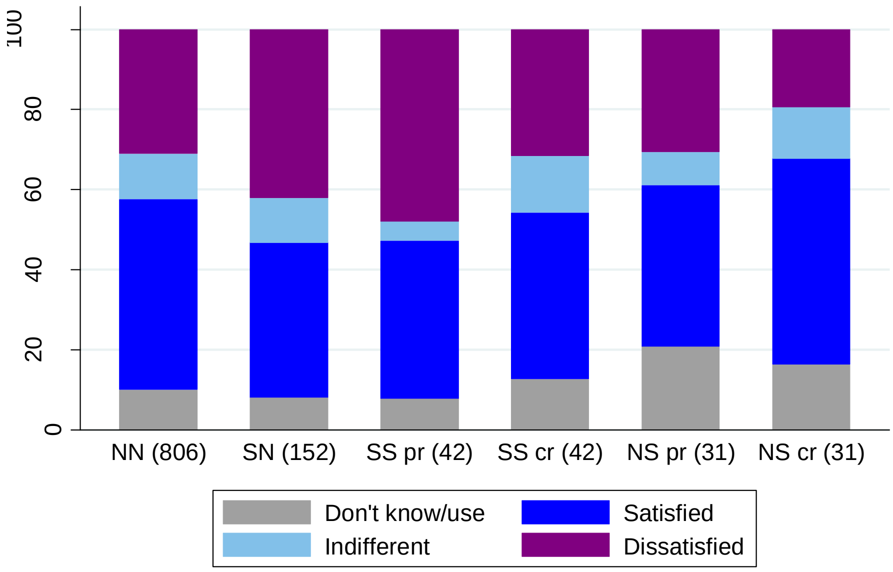
dissatisfied is much smaller than for the reference group (8 and 11% for SS and NS respectively).[42]

Figure 4: Satisfaction with level of charges

Satisfaction with level of charges



Overdraft users only



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
Note: For switchers (SS and NS), we report the levels of satisfaction with customers' previous bank (pr) and current bank (cr).

11. However, it should be noted that survey responses may be subject to ex-post rationalisation, that is, customers report levels of satisfaction that justify their

[42] The difference between NN and SS is statistically significant at 1% confidence level, however the difference for the NS group is not.

past behaviour, and this may be driving the observed levels of satisfaction, particularly for switchers' new bank.

12. The second panel in Figure 4 (overdraft users only) shows the level of satisfaction for overdraft users only. We find that the levels of dissatisfaction are in general higher for this group. These results should be taken with caution given the small number of observations left within each subgroup once we restrict the sample to overdraft users only.

Quality of service

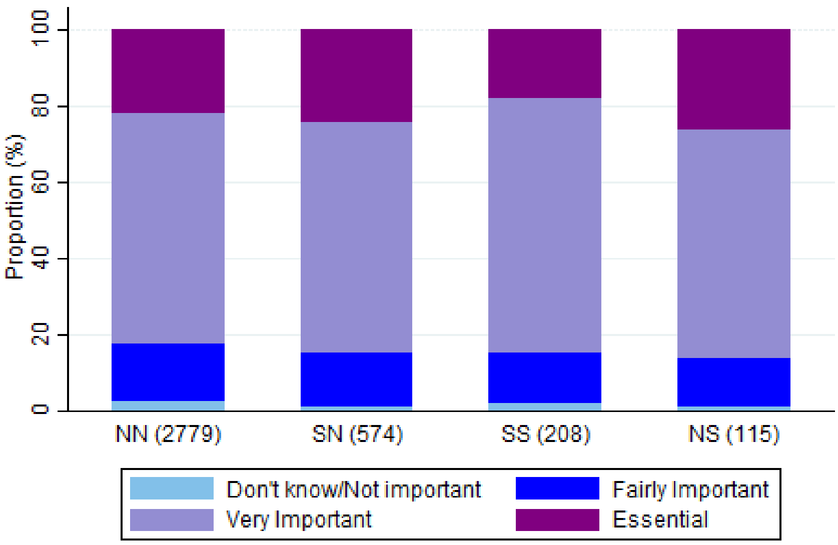
Customer service

13. Figure 5 presents indicators of customers' opinions around two aspects of customer service: (1) staff and customer service, and (2) quality and speed of handling problems. The first two panels of the figure show customers survey responses to the question of how important these aspects are for them. The two panels at the bottom of the figure show customers' responses regarding their level of satisfaction with their bank in these two aspects.

14. The results do not show significant differences between the different groups of customers regarding the importance of staff and customer service. However, the SN and NS report a larger proportion of customers who consider quality and speed of handling problems to be very important or essential.[43]

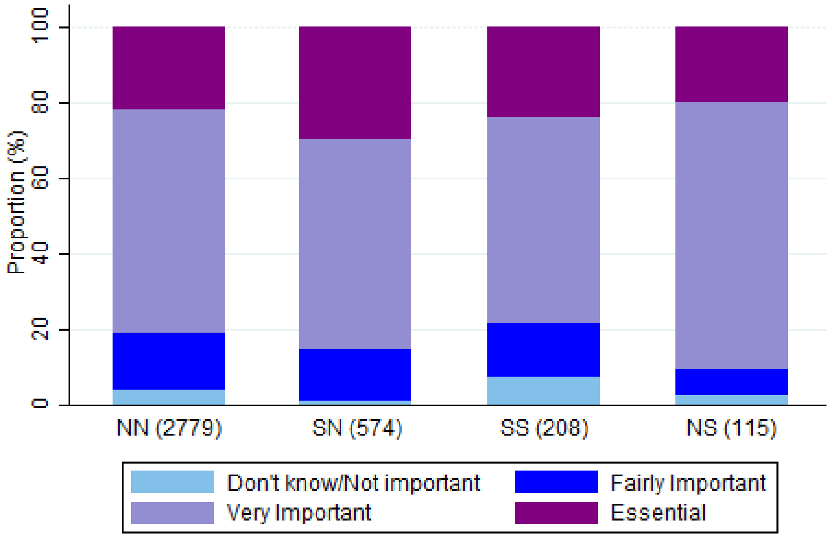
Figure 5: Customer service

Importance of staff and customer service

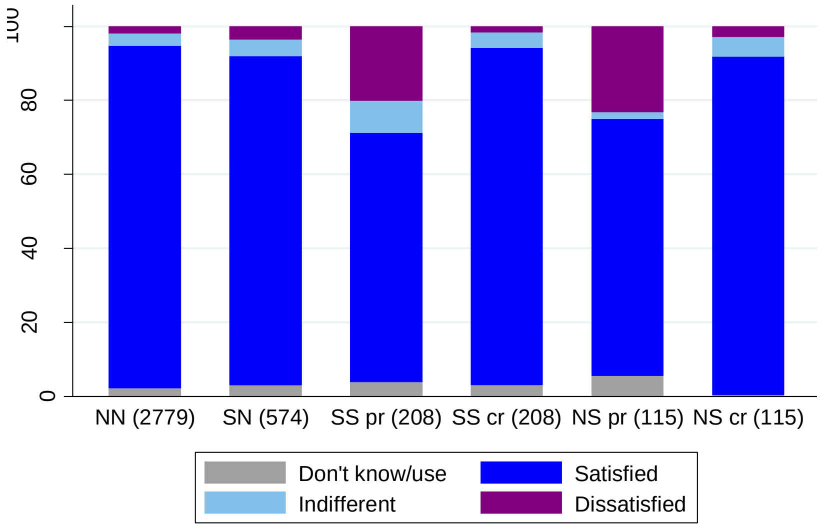


[43] The differences between these groups and the reference group are statistically significant at 1 and 5% respectively.

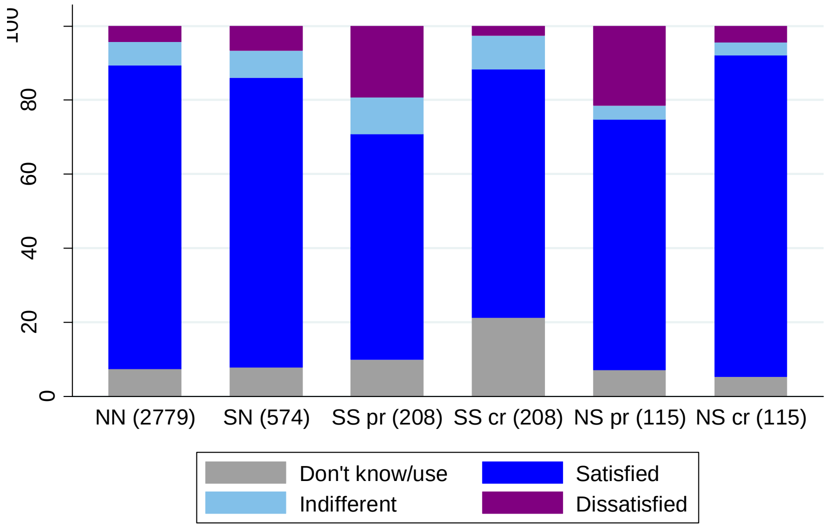
Importance of quality and speed of handling problems



Satisfaction with staff and customer service



Satisfaction with quality and speed of handling problems



Source; CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
Note: For switchers (SS and NS), we report the levels of satisfaction with customers' previous bank (pr) and current bank (cr).

15. Both groups of switchers, SS and NS, report much higher levels of dissatisfaction than the reference group NN regarding their bank of origin. For example, with regard to staff and customer service, 20% of the SS group and 23% of the NS group express being dissatisfied, compared to only 2% in the NN group. Also, the share of those expressing to be satisfied is 68 and 69% for SS and NS respectively, compared to 93% for the NN group.

16. As for the SN group, they also show significant differences compared to the NN group, although of a smaller magnitude. Among this group, 4% express being dissatisfied and 89% express being satisfied.[44] If we look instead at the level of satisfaction of these customers with their current bank, they are not significantly different to degrees of satisfaction reported by the NN group. Similar results are found for the levels of satisfaction regarding quality and speed of handling problems.[45]

17. The same issues discussed in paragraph 11 regarding ex-post rationalisation also apply here.

Branch network and services

18. Figure 6 presents survey results concerning branches. Overall, we do not find any significant differences between the groups in the degree to which customers care about branches and the frequency with which they use them.

19. The first two panels in Figure 6 show how important local branches and branch networks of own bank are for customers. Overall, we do not observe significant differences between searchers and switchers and the reference group NN in relation to the degree to which they consider branches to be important.[46]

20. The third panel in Figure 6 shows the frequency of branch usage (as reported by customers in the GfK PCA consumer survey). In all groups, most customers visit branches once a month or less, and both searchers and switchers show patterns similar to the reference group NN. The only

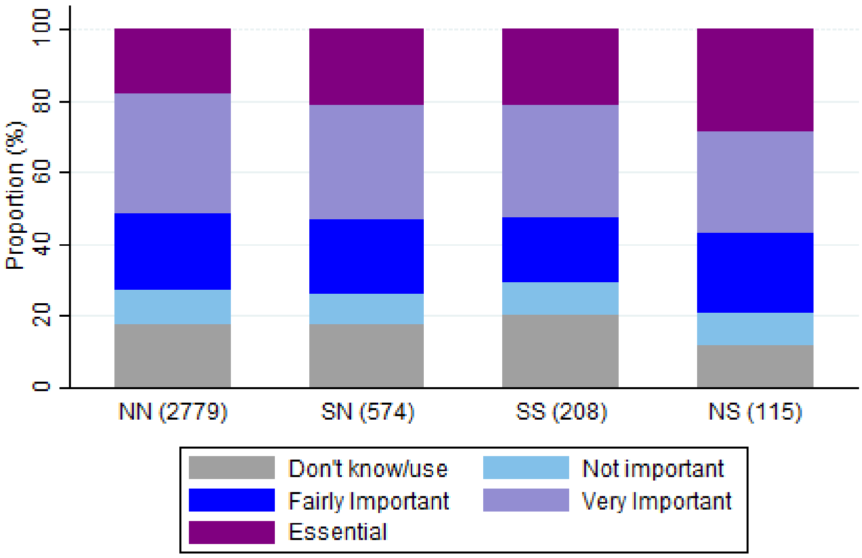
[44] The differences between SS and NS with respect to NN are statistically significant at 1%, while for SN they are significant at 5% (satisfied) and 10% (dissatisfied).
[45] The only exception is the share of SS customers reporting being satisfied with their current bank which is still lower than the share for the NN group. This difference is statistically significant at 1%.
[46] An exception is the NS group, 29% of which report that a local branch of their bank is essential as compared to the 18% share for the NN group (statistically different from zero at the 10% confidence level). Also, within the SN group the share of customer indicating that the national network of own bank is very important or essential is 6% lower than for the NN group (statistically different from zero at the 5% confidence level).

significant difference is the share of customers indicating that they never used branches in the SS group, 14%, compared to the reference group NN, 7%.[47]

21. The fourth panel in Figure 6 presents the GfK PCA consumer survey results concerning a local branch closure. This is an important element for understanding searching and switching since a local branch closure could work as a trigger factor for switching. The share of searchers, both SN and SS, who have experienced a local branch closure is significantly higher than the reference NN.[48] The evidence suggests that this may be a factor for some customers.

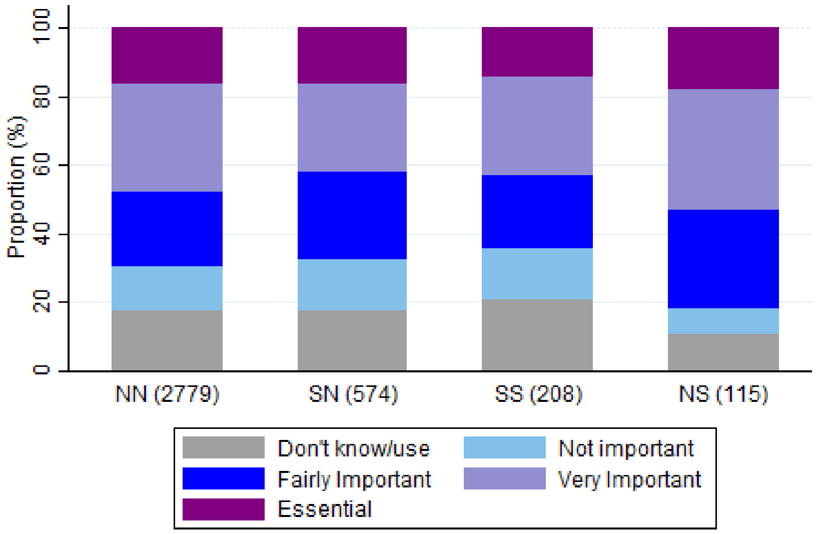
Figure 6: Local branches and branch network

Importance of having a local branch of own bank

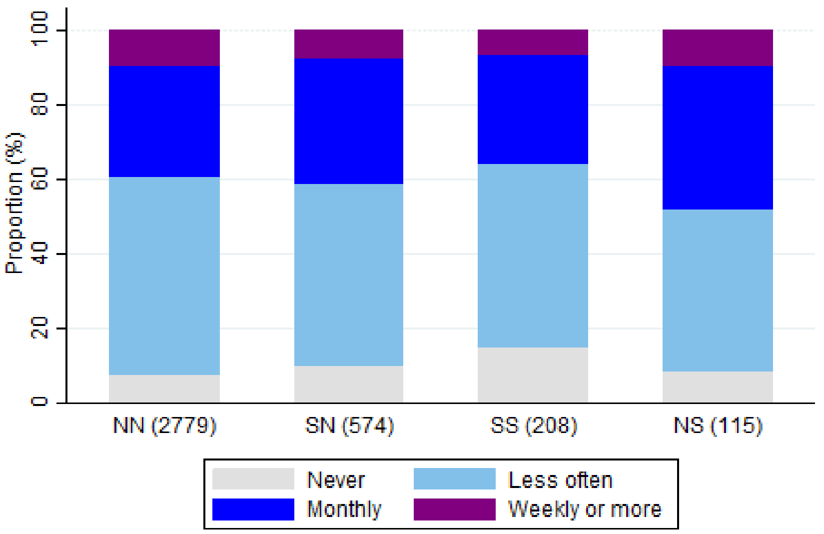


[47] This difference is statistically significant at 5% confidence.
[48] The share for SN and SS groups is 10 and 14% respectively as compared to 6% for NN, and both differences are statistically significant at 5%. The share for NS is 8% but this difference is not statistically significant.

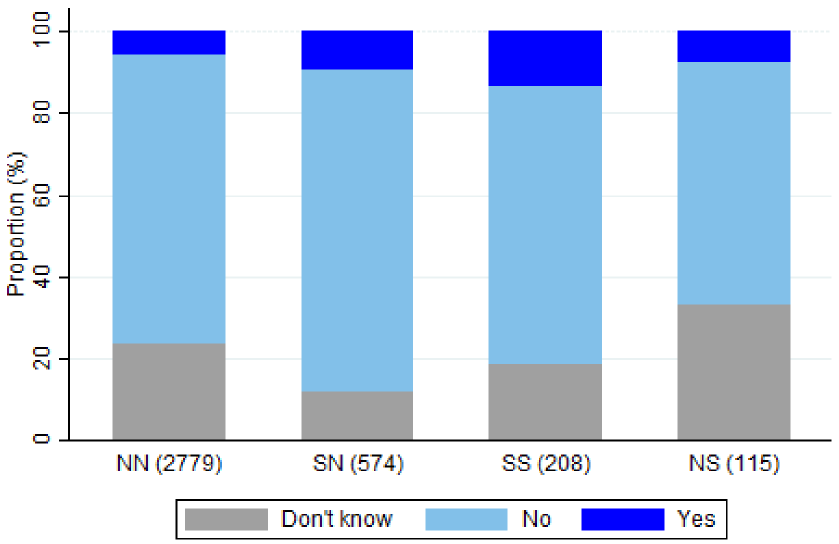
Importance of own bank's national network



Frequency of branch visits



Local branch closed in the last 12 months



Source: CMA analysis based on GfK PCA consumer survey data.

22. Table 1 summarises indicators of the level of branch service available to customers of each group. These were constructed using information on branch location provided by banks and customers' postcodes. In particular, we use information on branch location of customers' bank of origin and other banks as on 1 January 2014. Therefore, the measures intend to capture the level of service available to customers before searching and switching.

Table 1: Local branches and branch network of bank of origin

Groups	*Local branch (%)†*	*Local branch extended hours (%)‡*	*Number of banks in local area*	*Regional branch network§*	*Relative size of branch network (%)¶*
Non-searcher/non-switchers	50.5	34.8	3.6	40.6	67.6
Searcher/non-switchers	44.1**	30.9	3.4	29.6***	65.4
Searcher/switchers	47.1	31.1	3.2	30.4*	62.6
Non-searcher/switchers	47.2	27.0	3.5	34.0	60.6*

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.
†Proportion of customers who have a branch of their own bank in their local area.
‡Proportion of customers who have a branch of their own bank with extended opening hours in their local area.
§Number of branches of customers' bank in the region where they live.
¶Ratio of the number of branches of customer's bank in the region where they live with respect to the bank with the largest network of branches in the region.
***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

23. The first three columns focus on the availability of branches in customers' local area.[49] We first look at the share of customers in each group that had a branch of their bank in their local area. Although both searchers and switchers present lower levels than the reference group NN, the difference is only statistically significant for the SN group. We then consider the share of customers that have a local branch of their bank with extended opening hours, ie opens weekends or longer hours during the week. Again, calculated shares are smaller in magnitude but the differences are not statistically significant.

24. The third column presents the average number of banks that have at least one branch in the customers' local area. The presence of local branches of other banks may work as a pull factor for switching. However, we do not observe significant differences in this respect between searcher/switchers and non-searcher/non-switchers.

25. Not all customers may visit a bank close to where they live, but may prefer to visit branches in another location, for example, in the area where they work. To address this, the last two indicators consider the size of customers' bank network in the region where they live.[50] The first simply counts the number of

[49] As indicated in Annex B, we define customers' local area as the one- and three-mile radius from their postcode for customers living in high and low population density areas respectively.
[50] Regions were defined at the level of the local authority (LAUA) for Wales, Scotland and Northern Ireland, and to the immediately higher level of aggregation for England, as shown in the 2011 Census table on population density.

branches in the region, while the second is a relative measure that compares the size of the customers' network with respect to the size of the network of the bank with the largest network in the region. With the exception of the group of non-searcher/switchers, the results do not show significant differences in the relative size of banks' branch networks between the groups.

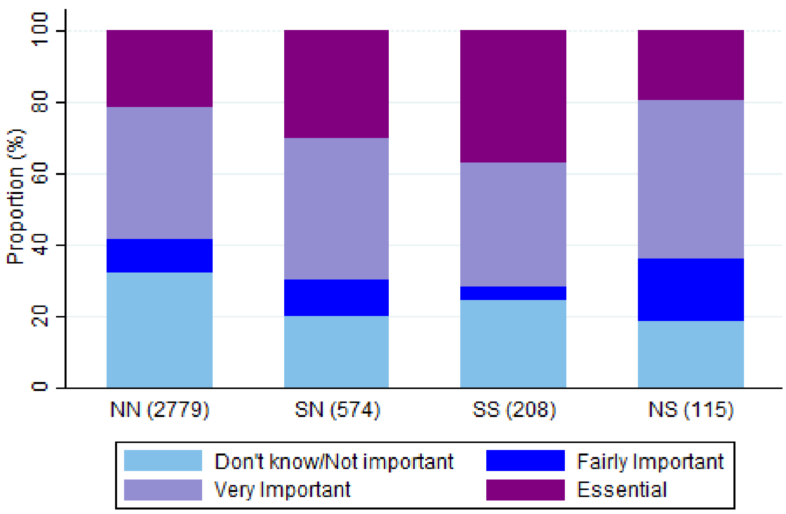
26. In summary, the evidence on branches indicates that searcher/switchers do not show significant differences in terms of the importance they attribute to branches, the frequency with which they use them and the services available to them, as compared to non-searcher/non-switchers. However, the results suggest that the closure of a local branch could act as a trigger factor for searching and switching for some customers.

Online services

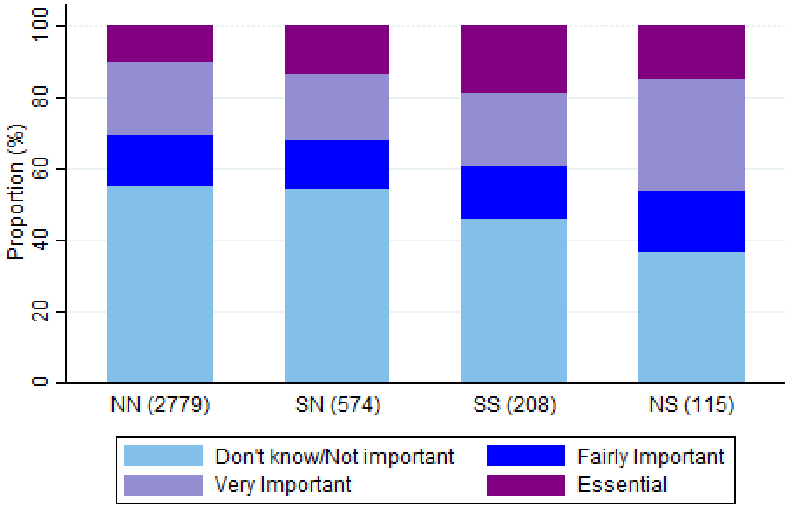
27. Figure 7 summarises survey results regarding the importance and frequency of use of online applications, in particular, internet banking and mobile apps. Overall, online services seem to be more relevant for searchers and switchers than for the reference group NN. The group of searcher/switchers consistently rate higher on both importance and frequency of use of these services compared to the reference group NN. The results for SN mirror those of SS for internet banking but not for mobile apps. As for non-searcher/switchers, mobile apps seem particularly relevant.

Figure 7: Importance of online services and frequency of use

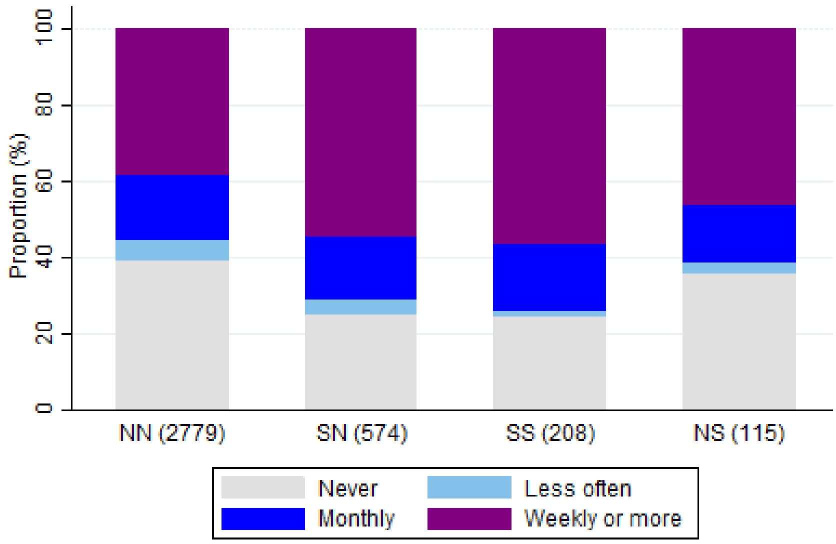
Importance of internet banking



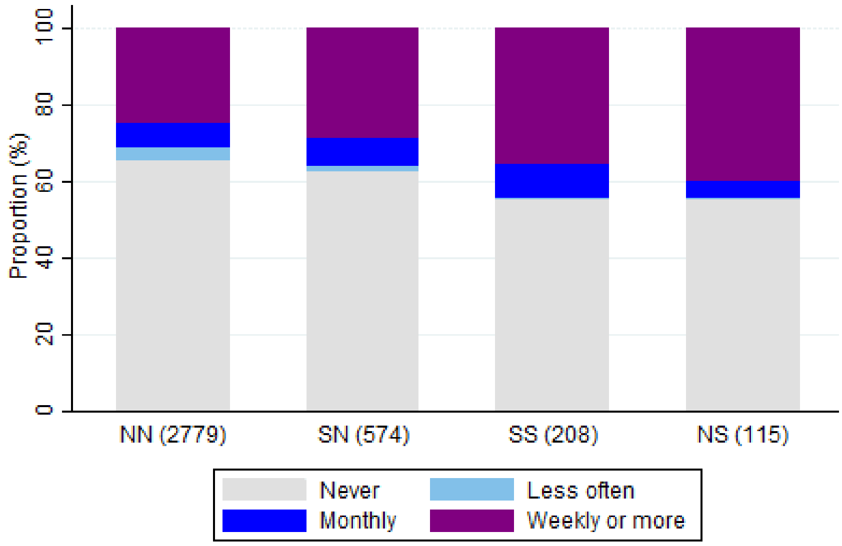
Importance of apps for smartphones and tablets



Frequency of use of internet banking



Frequency of use of bank mobile/tablet apps



Source: CMA analysis based on GfK PCA consumer survey data.

Trigger factors

28. In this section we focus on trigger factors associated with changes in customers' personal circumstances that may change their needs regarding banking services, and potentially push them to search and switch.

29. In the consumer survey we asked respondents to indicate whether a series of life events happened to them in the last 12 months. Table 2 shows the share of customers per group that answer yes to this question for each life event. The SN and NS groups present a higher share of customers reporting having changed work status compared to the reference group, while the NS also presents a higher share of customers reporting having moved house, suggesting that moving house or changing work status could act as a trigger factor for some customers. We do not find significant differences in the frequency rate of these events for the SS group.

Table 2: Life events in the last 12 months

	Proportion of customers (%)			
	NN	*SN*	*SS*	*NS*
Moved house	13.3	15.6	17.2	30.1***
Started or stopped working	13.6	17.6*	15.1	23.4*
Got married/started living with someone else	4.8	5.1	6.0	6.4
Got divorced/separated/widowed	3.8	1.5***	4.0	2.0

Source: CMA analysis based on GfK PCA consumer survey data.
***/**/* Statistically significantly different from the share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

Cost of searching and switching

Customer perceptions regarding the difficulty to search and switch

30. Figure 8 summarises the results for the four dimensions of the process of searching and switching considered in the GfK PCA consumer survey. As explained in paragraph 50 of this appendix, the first three dimensions concern costs of searching, while the fourth relates to cost of switching.

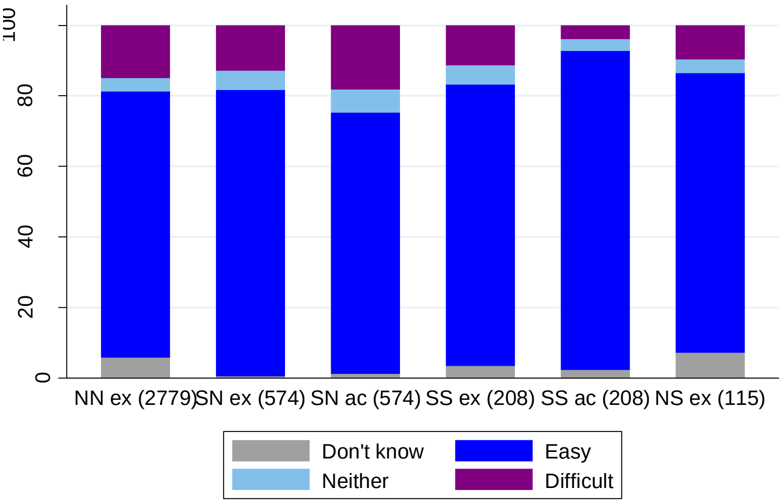
31. If we compare the level of expectations of searchers before they searched ('SN ex' in bar 2 and 'SS ex' in bar 4 in the first three panels) with the reference group ('NN ex' in bar 1), we find that in general searchers present a higher share of customers reporting that they expected the process to be easy

and a lower share of those indicating that they expected the process to be difficult, as compared to the NN group.[51]

32. If we look at cost of switching, presented in the fourth panel, we observe that searcher/switchers (SS ex, bar 3) shows a larger share of customers indicating they expected the process to be difficult as compared to the reference group (NN, bar 1).[52] This is a counter-intuitive result and is illustrative of the type of bias these type of survey questions may be subject to, as explained in paragraph 52 of this appendix.

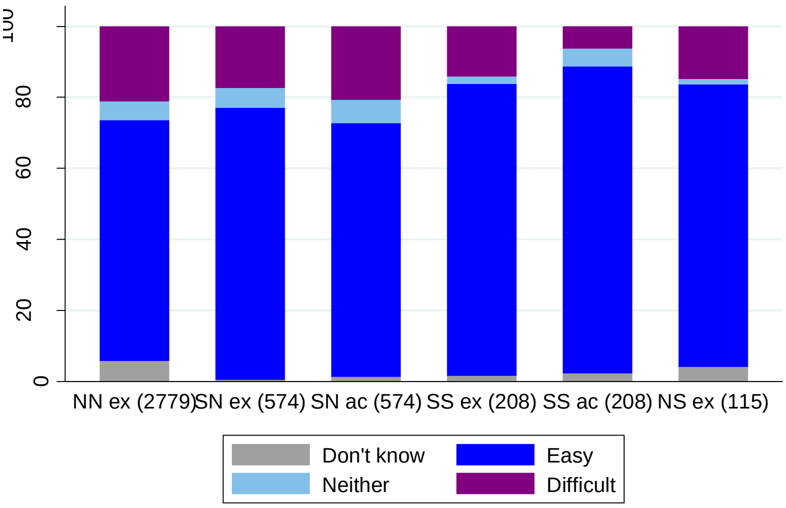
Figure 8: Perceptions of costs of searching and switching

Finding out about features and charges

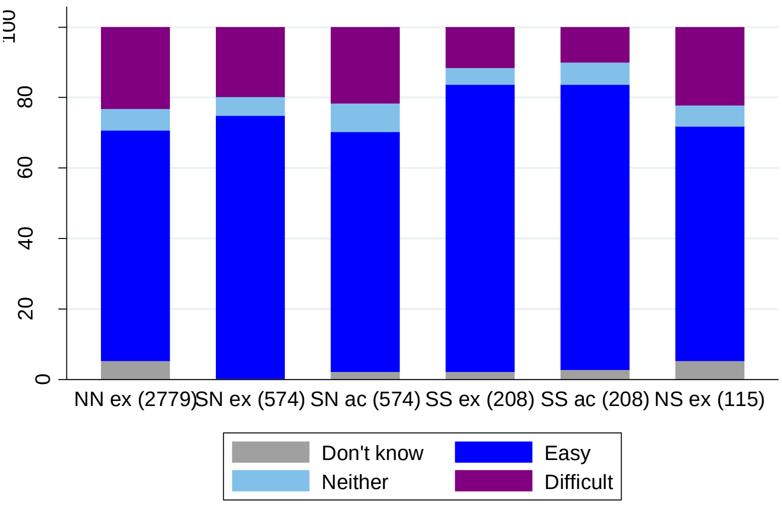


[51] For all three dimensions of searching the share of customers in SN responding ‘easy’ was statistically significantly larger than the NN group at 1% confidence, while the share of those responding ‘difficult’ was statistically significantly smaller for the last two dimensions only at 5 and 1% respectively. For the SS we only find statistically significant differences for the second dimension, and only for the share of customers responding ‘easy’ for the third dimension.
[52] This difference is statistically significant at 5%.

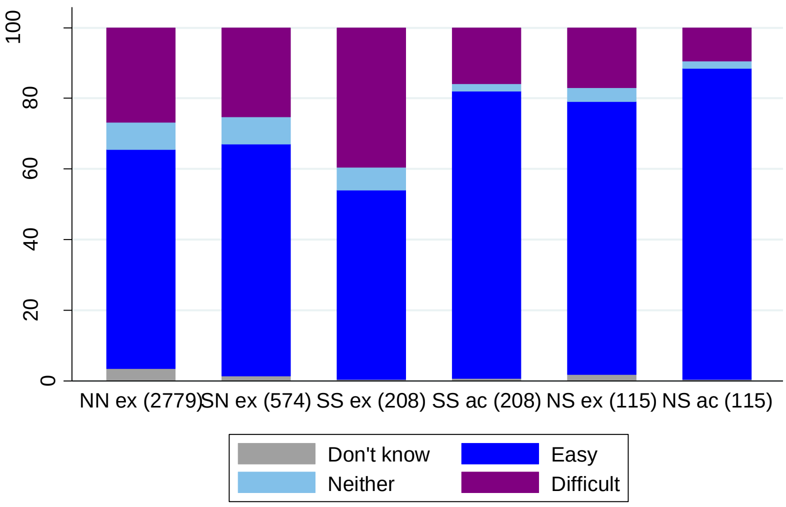
Understanding different options



Making comparisons



Process of changing PCA



Source: CMA analysis based on GfK PCA consumer survey data.
Note: NN are 'non-searcher/non-switchers'; SN are 'searcher/non-switchers', SS are 'searcher/switchers'; and NS are 'non-searcher/switchers'. For searcher/switchers we report both their expectations before they searched/switched (ex), and their perceptions regarding the actual experience of searching/switching (ac).

33. If we compare instead switchers' level of expectation ('SS ex' in bar 3 and 'NS ex' in bar 5 in the fourth panel) to their actual experience ('SS ac' in bar 4 and 'NS ac' in bar 6 in the fourth panel), we see that they found on average the actual experience easier than what they expected, and the difference is particularly pronounced for the SS group.

34. Similar differences between expectation and actuals are found for the SS concerning the first two dimensions of searching, while there is no difference between expectation and actuals in the 'Making comparisons' panel. Finally, unlike the SS group, searchers/non-switchers report higher degrees of difficulty in the actual process of searching than they expected.[53]

35. In summary, this evidence suggests that people who have switched PCAs during 2014 have found on average the process easier than they expected. This could be due to a share of customers not being aware of CASS prior to switching. As to the comparison of expectations across customer groups, we find that survey responses for this particular question may not be comparable due to the reasons set out in paragraph 11 above. For this reason, for the purpose of the econometric analysis, we rely on objective customer characteristics that are related to difficulties in searching and switching, rather than reported expectations.

Direct debits and other transactions

Table 3: Direct debits and transactions

Groups	*Number of direct debits and standing orders†*	*Number of transactions‡*
Non-searcher/Non-switchers	11	39
Searcher/Non-switchers	12**	40
Searcher/Switchers	10	34***
Non-searcher/Switchers	6***	38

Source: CMA analysis based on banks' transaction and GfK PCA consumer survey data.
†As at the end of 2014, number of observations 2,824.
‡Average number of debit and credits per month calculated using transaction data of the last quarter of 2014, number of observations 3,640.
***/**/* Statistically significantly different from share or mean of group of non-searcher/non-switchers at 1, 5 and 10% confidence.

36. Next we look at two indicators of PCA activity that may be associated with higher perceived costs of switching, namely the number of direct debits and standing orders in the account and the average number of monthly

[53] In fact, a larger share of customers in this group indicate that they expected the process to be "easy" as compared to the share indicating that the process was actually "easy". This is true in all three dimensions of switching and the differences are statistically significant at 1%. The share of those reporting that they expected the process to be "difficult" as opposed to those that thought the actual process was "difficult" is smaller for all three dimensions but the difference is only statistically significant for the first dimension "finding out about features and charges".

transactions. The group of searcher/switchers have a similar level of direct debits to the reference group, while the SN have a higher number on average. As for NS, their level of direct debits is much lower than that of the reference group. This could suggest that for some customers, the number of direct debits could work as a barrier to switching. However, the difference observed for the NS is likely to be driven by the higher share of younger people and students in this group, who are likely to have less direct debits than older customers.

37. As for the number of transactions, the searcher/switchers present a significant difference with respect to the reference group NN, while not statistically significant differences are found for searcher/non-switchers and non-searcher/switchers. These results suggest that a higher level of intensity of the use of a PCA may constitute a barrier to switching for some customers.

Annex D: Details of the econometric analysis

1. In this annex we present the econometric analysis we carried out to analyse the main factors explaining the difference between searchers and switchers, as compared to other customers.

Methodology

2. We observe searching and switching as binary choices, that is, we see whether customers search or not, or switch or not. Mathematically, we can express searching and switching as follows:

$$Pr(Searching_i|X_i) = f(\beta' X_i)$$

$$\Pr(Switching_i|Z_i\ ) = f(\delta' Z_i\ )$$

3. The equations above indicate that the probability that a customer i searches or switches, denoted $Pr(Searching)$ and $Pr(Switching)$, is a function of a set of drivers and deterrents indicated by X_i and Z_i respectively. We estimate these models using a probit model.

4. The coefficients in a binary choice model lack a direct interpretation due to the non-linear nature of the model. In order to obtain an estimate of the effect of each factor on the probability of searching or switching, we need to calculate the average marginal effects.[54] These allow us to understand not only whether the variation in one of the factors has a statistically significant impact on the probability of searching/switching, but also its magnitude.

5. As a first step, we estimate separate models for searching and switching. However, for many customers searching is a prerequisite to switching and the result of their searching efforts determines whether they switch or not. For this reason, we also estimate a model that links the two. More specifically, we estimate the following system:

$$Pr(Searching_i|X_i) = f(\beta' X_i)$$
$$Pr(Switching_i|Z_i\ , Searching_i) = f(\delta' Z_i, Searching_i)$$

6. This type of model is called the 'recursive bivariate probit' model.[55] This model allows us to account for two issues: 1) the fact that the decisions of searching

[54] Average marginal effects are obtained by evaluating the average effect of a change in the variable of interest at the observation level and then averaging these across the sample.
[55] Given that we estimate a recursive bivariate probit model when modelling jointly searching and switching, in order to compare results more easily, we estimate a probit model rather than a logit when modelling separately searching and switching. Probit and logit models are both standard in the literature and in general produce very similar results.

and switching are correlated, and 2) the fact that whether a customer searched or not will have an impact on their probability of switching.

Results of separate models for searching and switching (probit)

7. Table 1 presents the results of the estimation of the searching model. We present four alternative specifications to illustrate the sensitivity or robustness of the results. For each specification, the table shows in the first column the estimated coefficients and in the second column the average marginal effects.

8. As we discussed above, the coefficients are not directly interpretable and therefore, we need to look at average marginal effects to be able to obtain a measure of the magnitude of the effect of each factor. The average frequency of searching in the subsample used in the estimation is 20%.[56]

9. The results from the searching model can be summarised as follows:

   (a) We find no statistically significant effect for gender.

   (b) Customers with income below £24,000 are 4 percentage points less likely to search, although this effect is not significant in all specifications.

   (c) Customers aged between 55 and 64 are 6 percentage points more likely to search.

   (d) Customers with a degree are 3 percentage points more likely to search.

   (e) Customers with higher financial literacy are 5 percentage points more likely to search.

   (f) Customers who indicate having confidence in the use of the internet are 13 percentage points more likely to search.

   (g) We do not find a statistically significant effect of overdraft usage on searching, while high credit balance holders are 5 percentage points more likely to search.

   (h) Customers who experienced a local branch closure are 9 percentage points more likely to search.

[56] The analysis is not carried out on the entire survey sample, so this frequency represents the incidence of searching in the subsample used for the analysis and is not a measure of the frequency of searching in the population. This was reported in Table 1 in this appendix and is equal to 17%. [table 2?]

(i) Customers whose bank of origin belongs to one of the four largest banking groups are 4 percentage point less likely to search.

(j) Customers that have changed work status are 5 percentage points more likely to search.

(k) Customers that never use internet banking are 5 percentage points less likely to search.

(l) Customers reporting a higher number of transactions (debits and credits) are less likely to search. The average estimated effect is 0.1 percentage points per additional transaction.

10. We also tested whether working status had an impact on searching but did not find a statistically significant effect.

Table 1: Searching model (probit)

	(1) Coefficients	*(2) Marginal effects*	*(3) Coefficients*	*(4) Marginal effects*	*(5) Coefficients*	*(6) Marginal effects*	*(7) Coefficients*	*(8) Marginal effects*
Female	-0.077	-0.021	-0.086	-0.023	-0.078	-0.021	-0.067	-0.018
	(0.061)	(0.016)	(0.061)	(0.016)	(0.061)	(0.016)	(0.062)	(0.016)
Income below £24,000	-0.129**	-0.035**	-0.103	-0.027	-0.119*	-0.031*	-0.158**	-0.042**
	(0.065)	(0.017)	(0.066)	(0.018)	(0.067)	(0.018)	(0.073)	(0.019)
Aged 35 to 54	-0.021	-0.006	-0.055	-0.014	-0.006	-0.002	-0.021	-0.005
	(0.079)	(0.021)	(0.080)	(0.021)	(0.081)	(0.021)	(0.082)	(0.021)
Aged 55 to 64	0.244***	0.069**	0.174*	0.048*	0.225**	0.063**	0.223**	0.062**
	(0.091)	(0.027)	(0.093)	(0.027)	(0.096)	(0.028)	(0.099)	(0.029)
Aged 65 or above	0.155	0.043	0.060	0.016	0.118	0.032	0.112	0.030
	(0.096)	(0.028)	(0.102)	(0.028)	(0.107)	(0.030)	(0.110)	(0.030)
Degree	0.152**	0.041**	0.142**	0.038**	0.134**	0.036**	0.114*	0.030*
	(0.064)	(0.018)	(0.065)	(0.018)	(0.065)	(0.018)	(0.066)	(0.018)
Financial literacy	0.208***	0.055***	0.203***	0.053***	0.199***	0.052***	0.191***	0.049***
	(0.065)	(0.017)	(0.066)	(0.017)	(0.066)	(0.017)	(0.067)	(0.017)
Internet confidence	0.620***	0.141***	0.620***	0.140***	0.618***	0.139***	0.562***	0.128***
	(0.095)	(0.018)	(0.096)	(0.018)	(0.096)	(0.018)	(0.101)	(0.019)
Overdraft user			-0.075	-0.020	-0.072	-0.019	-0.039	-0.010
			(0.071)	(0.018)	(0.071)	(0.018)	(0.074)	(0.019)
High credit balance			0.177**	0.049**	0.180**	0.049**	0.194**	0.053**
			(0.078)	(0.022)	(0.078)	(0.022)	(0.078)	(0.022)
Local branch closed			0.323***	0.095***	0.326***	0.095***	0.303***	0.087**
			(0.112)	(0.036)	(0.112)	(0.036)	(0.112)	(0.035)
Four largest banking groups			-0.130**	-0.035**	-0.129**	-0.035**	-0.136**	-0.037**
			(0.064)	(0.018)	(0.064)	(0.018)	(0.065)	(0.018)
Moved house					0.142	0.039		
					(0.091)	(0.026)		
Changed work status					0.182**	0.050**	0.189**	0.052**
					(0.084)	(0.024)	(0.085)	(0.024)
Changed relationship status					-0.116	-0.029		
					(0.120)	(0.029)		
Never used internet banking							-0.178**	-0.046**
							(0.084)	(0.021)
Never used mobile/app banking							-0.003	-0.001
							(0.072)	(0.019)
Number of transactions							-0.003**	-0.001**
							(0.001)	(0.000)
Constant	-1.515***		-1.424***		-1.493***		-1.248***	
	(0.127)		(0.140)		(0.145)		(0.164)	
Observations	3,537		3,537		3,537		3,502	
F-statistics	13.161		10.301		8.954		8.723	
P-value	0.000		0.000		0.000		0.000	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.
***/**/* indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.
Note: Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

11. Table 2 presents the results of the switching model. As above, we report for each alternative specification the estimated coefficient and the marginal

effects. The incidence of switching in the subsample used in the estimation is 4%.

12. In summary, the results of the switching model show that:

(a) Women are 1 percentage point less likely to switch than men.

(b) Customers aged between 35 and 54 are 1 percentage point less likely to switch, although this effect is not significant in all specifications.

(c) Customers aged between 55 and 64 are 2 percentage points less likely to switch.

(d) We do not find a statistically significant effect for degree and financial literacy.

(e) Customers who report having confidence in the use of the internet are 1 percentage point more likely to switch. However, this effect is not statistically significant once further controls are added to the model.

(f) Overdraft users are 1 percentage points less likely to switch.

(g) Customers with high credit balance are 2 percentage points more likely to switch. However, this effect is not statistically significant across all specifications.

(h) Customers who have seen the closure of a local branch are 3 to 4 percentage points more likely to switch.

(i) Customers whose bank has a relatively larger branch network in their region are 2 percentage points less likely to switch.

(j) Customers whose bank of origin belongs to one of the four largest banking groups are 2 percentage point less likely to switch. However, this effect becomes statistically insignificant when the relative size of the bank's network is included in the model. This is probably due to the fact that the largest banks are also those that have the largest regional networks, and therefore the two variables are capturing the same effect.

(k) Customers who indicate never using mobile apps are 1 percentage point less likely to switch.

(l) Customers reporting a higher number of transactions (debits and credits) are less likely to switch. The average estimated effect is 0.04 percentage points per additional transaction.

13. We also tested the following factors but did not find a statistically significant effect on switching:

(a) Life events, such as moving house, or changing relationship status or work status.

(b) Working status, namely being retired, a full time student or not working.

Table 2: Switching model (probit)

	(1) Coefficients	*(2) Marginal effects*	*(3) Coefficients*	*(4) Marginal effects*	*(5) Coefficients*	*(6) Marginal effects*	*(7) Coefficients*	*(8) Marginal effects*
Female	-0.187**	-0.015**	-0.188**	-0.015**	-0.177**	-0.013**	-0.164**	-0.013**
	(0.077)	(0.006)	(0.076)	(0.006)	(0.079)	(0.006)	(0.076)	(0.006)
Income below £24,000	-0.088	-0.007	-0.062	-0.005	-0.058	-0.004	-0.137	-0.011
	(0.086)	(0.007)	(0.084)	(0.007)	(0.088)	(0.007)	(0.093)	(0.007)
Aged 35 to 54	-0.119	-0.009	-0.160*	-0.012*	-0.164*	-0.012*	-0.109	-0.008
	(0.096)	(0.007)	(0.095)	(0.007)	(0.099)	(0.007)	(0.094)	(0.007)
Aged 55 to 64	-0.187	-0.013*	-0.295**	-0.020***	-0.293**	-0.019***	-0.239**	-0.016**
	(0.120)	(0.008)	(0.120)	(0.007)	(0.124)	(0.007)	(0.122)	(0.007)
Aged 65 or above	-0.036	-0.003	-0.192	-0.014	-0.148	-0.011	-0.173	-0.012
	(0.127)	(0.010)	(0.139)	(0.009)	(0.143)	(0.009)	(0.139)	(0.009)
Degree	-0.040	-0.003						
	(0.078)	(0.006)						
Financial literacy	0.114	0.009						
	(0.082)	(0.006)						
Internet confidence	0.178	0.013*	0.189*	0.014*	0.165	0.012	0.125	0.009
	(0.113)	(0.007)	(0.108)	(0.007)	(0.110)	(0.007)	(0.125)	(0.009)
Overdraft user			-0.256***	-0.019***	-0.233**	-0.016***	-0.218**	-0.016**
			(0.091)	(0.006)	(0.093)	(0.006)	(0.092)	(0.006)
High credit balance			0.169*	0.014	0.133	0.011	0.205**	0.017*
			(0.098)	(0.009)	(0.102)	(0.009)	(0.098)	(0.009)
Local branch closed			0.370***	0.039**	0.402***	0.041**	0.305**	0.030*
			(0.142)	(0.019)	(0.145)	(0.019)	(0.143)	(0.017)
Four largest banking groups			-0.165**	-0.014*	0.045	0.003	-0.184**	-0.016**
			(0.080)	(0.007)	(0.097)	(0.007)	(0.080)	(0.007)
Relative size of branch network					-0.342**	-0.026**		
					(0.160)	(0.012)		
Never used internet banking							-0.118	-0.009
							(0.110)	(0.008)
Never used mobile/app banking							-0.181**	-0.015**
							(0.083)	(0.007)
Number of transactions							-0.005***	-0.000***
							(0.002)	(0.000)
Constant	-1.784***		-1.565***		-1.513***		-1.199***	
	(0.155)		(0.167)		(0.188)		(0.191)	
Observations	3,537		3,675		3,585		3,549	
F-statistic	2.535		4.485		3.212		5.200	
P-value	0.009		0.000		0.000		0.000	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.
***/**/* Indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.
Note: Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

14. The descriptive statistics presented in Annex C show that the group of non-searcher/switchers differs in many dimensions to the group of searcher/switchers. We next analyse how the results change if we estimate the model excluding this group from the sample. The incidence of switching in that subsample is 3%. The results are presented in Table 3.

15. Some results change once the NS group is excluded. These changes are in line with the differences between the SS and NS groups found in the descriptive analysis. In particular:

(a) The effect of gender is no longer significant.

(b) The effect for those aged between 35 and 54 is no longer significant, while the effect for customers aged between 55 and 64 is statistically significant only in some of the specifications.

(c) We find an effect of 1 percentage point for financial literacy, although this is not significant in all specifications.

(d) Customers who hold high credit balances are 2 percentage points more likely to switch and the effect is now statistically significant across all specifications.

(e) The effect of the four largest banking groups is no longer significant.

(f) Customers who indicate never using internet banking are 1 percentage point less likely to switch, while the results for the use of mobile apps remain unchanged.

Table 3: Switching model (probit) excluding non-searcher/switchers

	(1) Coefficients	*(2) Marginal effects*	*(3) Coefficients*	*(4) Marginal effects*	*(5) Coefficients*	*(6) Marginal effects*	*(7) Coefficients*	*(8) Marginal effects*
Female	-0.148 (0.090)	-0.009* (0.006)	-0.122 (0.088)	-0.008 (0.005)	-0.121 (0.091)	-0.007 (0.006)	-0.092 (0.090)	-0.006 (0.005)
Income below £24,000	-0.077 (0.101)	-0.005 (0.006)	-0.060 (0.101)	-0.004 (0.006)	-0.074 (0.104)	-0.005 (0.006)	-0.147 (0.112)	-0.009 (0.007)
Aged 35 to 54	-0.095 (0.115)	-0.006 (0.007)	-0.132 (0.114)	-0.008 (0.007)	-0.157 (0.118)	-0.009 (0.007)	-0.073 (0.113)	-0.004 (0.007)
Aged 55 to 64	-0.135 (0.137)	-0.008 (0.007)	-0.235* (0.140)	-0.013* (0.007)	-0.223 (0.143)	-0.012* (0.007)	-0.160 (0.140)	-0.009 (0.007)
Aged 65 or above	0.108 (0.143)	0.007 (0.010)	-0.052 (0.159)	-0.003 (0.009)	-0.028 (0.162)	-0.002 (0.010)	-0.006 (0.158)	-0.000 (0.009)
Degree	0.036 (0.089)	0.002 (0.006)						
Financial literacy	0.199* (0.102)	0.012** (0.006)	0.160 (0.099)	0.010* (0.006)	0.154 (0.103)	0.009 (0.006)	0.143 (0.103)	0.008 (0.006)
Internet confidence	0.293** (0.148)	0.015** (0.006)	0.289** (0.142)	0.015** (0.006)	0.273* (0.144)	0.014** (0.007)	0.210 (0.166)	0.011 (0.008)
Overdraft user			-0.237** (0.110)	-0.014** (0.006)	-0.230** (0.112)	-0.013** (0.006)	-0.185* (0.112)	-0.010* (0.006)
High credit balance			0.216** (0.110)	0.015* (0.008)	0.191* (0.114)	0.013 (0.008)	0.274** (0.111)	0.019** (0.008)
Local branch closed			0.407** (0.160)	0.035* (0.018)	0.424** (0.165)	0.036* (0.019)	0.342** (0.164)	0.027 (0.016)
Four largest banking groups			-0.051 (0.095)	-0.003 (0.006)	0.114 (0.116)	0.007 (0.006)	-0.075 (0.096)	-0.005 (0.006)
Relative size of branch network					-0.344* (0.189)	-0.021* (0.012)		
Never used internet banking							-0.212 (0.133)	-0.012* (0.007)
Never used mobile/app banking							-0.201** (0.094)	-0.013** (0.006)
Number of transactions							-0.006*** (0.002)	-0.000*** (0.000)
Constant	-2.164*** (0.195)		-2.063*** (0.215)		-1.943*** (0.228)		-1.616*** (0.236)	
Observations	3,427		3,560		3,486		3,524	
F-statistic	2.999		3.716		3.022		5.405	
P-value	0.002		0.000		0.000		0.000	

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.
***/**/* Indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.
Note: Standard errors, reported in round brackets, were adjusted to account for sample weights and stratification.

Results of joint model of searching and switching (recursive bivariate probit)

16. In this section we present the results of estimating the recursive bivariate probit model. As explained in paragraph 65, this model accounts for the fact that the decision to search may precede switching and therefore has an impact on its probability. The model results are presented in Table 4.

17. We report estimated coefficients and marginal effects. Similarly to what was the case in the separate models of searching and switching, marginal effects in the searching equation provide a measure of the change on the probability of searching due to a change in one of the explanatory variables, while keeping the others constant.

18. However, given the presence of the searching indicator variable in the equation for switching, marginal effects for the switching equation are given by the sum of two components: a direct effect and an indirect effect. The direct effect measures the impact on the probability of switching due to a variation in an explanatory variable, keeping other variables - including switching - constant. The indirect effect is given by the effect that a variation in an explanatory variable has on the probability of searching, which in turn affects the probability of switching.[57]

19. The main results are in line with what we found with the separate models above. The only differences are the following:

    (a) Having shopped around for another PCA increases the probability of switching by 12 percentages points.

    (b) The effect of income below £24,000 on switching is now statistically significant. Customers whose income is below £24,000 are around 1 percentage point less likely to switch.

    (c) The effect for customers aged between 35 and 54 on switching is no longer significant.

    (d) The closure of local branch has no longer a significant effect on the probability of switching.

[57] Marginal effects were calculated as discussed by Dong, F., D. Hennessy and H. Jensen (2010) ‘Contract and exit decisions in finisher hog production’, *American Journal of Agricultural Economics*, vol 92(3). Standard errors of marginal effects were calculated by bootstrapping following Roa, J., and K. Yue (1988) ‘Resampling inference with complex survey data’, *Journal of the American Statistical Association*, vol 83, pp231–241.

Table 4: Joint model of searching and switching (recursive bivariate probit)

	(1) Searching		(2) Switching		(3) Searching		(4) Switching	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Coefficients	*Marginal effects*	*Coefficients*	*Marginal Effects*	*Coefficients*	*Marginal effects*	*Coefficients*	*Marginal Effects*
Searching			-0.149	0.115***			1.541***	0.116***
			(1.472)	(0.0136)			(0.526)	(0.0135)
Female	-0.079	-0.013	-0.192**	-0.009*	-0.067	-0.017	-0.159*	-0.013**
	(0.061)	(0.0147)	(0.0905)	(0.00505)	(0.0618)	(0.0166)	(0.0867)	(0.00578)
Income below £24,000	-0.130**	-0.026*	-0.099	-0.003	-0.157**	-0.041**	-0.095	-0.013*
	(0.0650)	(0.0152)	(0.0923)	(0.00521)	(0.0732)	(0.0194)	(0.104)	(0.00684)
Aged 35 to 54	-0.021	-0.003	-0.118	-0.003	-0.020	-0.005	-0.097	-0.007
	(0.079)	(0.0182)	(0.0981)	(0.00607)	(0.0811)	(0.0203)	(0.104)	(0.00699)
Aged 55 to 64	0.243***	0.067***	-0.150	-0.007	0.222**	0.062**	-0.386***	-0.015**
	(0.0918)	(0.0246)	(0.267)	(0.00703)	(0.0960)	(0.0270)	(0.149)	(0.00709)
Aged 65 or above	0.147	0.048*	-0.060	-0.002	0.115	0.031	-0.277**	-0.013
	(0.097)	(0.0248)	(0.173)	(0.00855)	(0.108)	(0.0290)	(0.140)	(0.00792)
Degree	0.152**	0.027*	-0.031	-0.006	0.114*	0.030*	-0.167*	-0.006
	(0.064)	(0.0154)	(0.132)	(0.00513)	(0.0660)	(0.0171)	(0.0909)	(0.00589)
Financial literacy	0.206***	0.051***	0.105	0.005	0.192***	0.050***	-0.021	0.006
	(0.065)	(0.0163)	(0.121)	(0.00530)	(0.0669)	(0.0166)	(0.0956)	(0.00579)
Internet confidence	0.620***	0.125***	0.211	0.013**	0.560***	0.127***	-0.164	0.010
	(0.095)	(0.0165)	(0.403)	(0.00586)	(0.102)	(0.0194)	(0.139)	(0.00716)
Overdraft user					-0.038	-0.010	-0.208**	-0.014**
					(0.0734)	(0.0185)	(0.102)	(0.00562)
High credit balance					0.195**	0.053**	0.117	0.017**
					(0.0778)	(0.0223)	(0.110)	(0.00847)
Local branch closed					0.304***	0.088**	0.100	0.022
					(0.112)	(0.0358)	(0.158)	(0.0154)
Four largest banking groups					-0.133**	-0.036*	-0.101	-0.013*
					(0.0657)	(0.0185)	(0.101)	(0.00667)
Changed work status					0.189**	0.052**		0.008*
					(0.0838)	(0.0261)		(0.00461)
Never used internet banking					-0.183**	-0.047**		-0.007
					(0.0798)	(0.0201)		(0.00426)
Never used mobile/app banking							-0.210**	-0.014**
							(0.0955)	(0.00680)
Number of transactions					-0.003**	-0.001*	-0.004**	-0.000**
					(0.00136)	(0.0004)	(0.00187)	(0.000125)
Constant	-1.702***		-1.512***		-1.250***		-1.504***	
	(0.557)		(0.127)		(0.161)		(0.221)	
Observations	3,537				3,502			
F-statistics	7.182				9.426			
P-value	0.000				0.000			
Rho	0.891				-0.207			
	(1.318)				(0.305)			

Source: CMA analysis based on banks' transaction and branch data and GfK PCA consumer survey data.
***/**/* Indicate statistically significantly different from zero at 1, 5 and 10% confidence respectively.
Note: The table reports estimated coefficients. Standard errors of marginal effects were obtained by bootstrapping (500 replications), accounting for sample weights and stratification.

Appendix 6.3: PCA transparency

Contents

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1. In this appendix we provide evidence on:

   (a) account charges;

   (b) account rewards;

   (c) price comparison websites; and

   (d) digital banking.

Account charges

2. Table 1 summarises different account charges customers may incur. We provide further details on overdraft charges, monthly account fees and foreign transaction charges below.

Table 1: Overview of PCA charges

Cost	*Description*
Overdraft charges	Cost for entering either an arranged or unarranged overdraft, which may include daily/monthly charges, debit interest and un/paid item charges.
Foreign transaction fees	Fees for foreign transactions, such as using debit cards to withdraw cash from cash machines, make purchases while abroad or buy foreign currency from anywhere else. Currency conversion charges may also be added. Fees may also apply when receiving transactions from abroad above a certain amount.
Monthly account fees	Fees that occur monthly for maintaining the account.
Same-day domestic payment fees	Fees that apply to transfer large amounts into an account on the same day.
Cash machine (ATM) fee	Fees that apply to withdraw cash in general and/or at certain cash machines, eg inside small shops, on garage forecourts or in nightclubs.
Fees for one-off items	Charges for one-off items, such as: - special presentation of a cheque (finding out quickly if the cheque will be paid) - obtaining a banker's draft - obtaining copies of paid cheques - ordering duplicate statements - stopping a cheque - requesting a reference from the bank.
Transaction fees	Fees for transactions such as contactless payments, debit card purchases, standing orders, direct debits, etc.

Source: Money Advice Service website.

Overdraft charges

3. Overdraft charges may include:

   (a) daily fees charged for each day a customer uses an overdraft;

   (b) monthly fees charged for each month a customer uses an overdraft;

   (c) debit interest charged on daily overdraft balances;

   (d) unpaid item fees charged for each item that is returned unpaid by the PCA provider; and

   (e) paid item fees charged for each item that is paid by the PCA provider that leaves the customer in, or extends the overdraft.

4. The daily fee, monthly fee and debit interest charges may vary depending on whether a customer has an arranged or unarranged overdraft.

5. PCA providers also have additional charge policies in place that vary across providers. These include:

   (a) buffer zones, where charges are only incurred once a customer has become overdrawn by a certain amount;

   (b) fee caps on paid and unpaid item fees; and

   (c) grace periods, where customers can avoid charges by transferring money to balance the account before a set deadline (see Appendix 6.6 for our review of PCA providers' approaches in this area).

6. Tables 2 and 3 illustrate how pricing structures vary between different banks, using the example of the most common account offered by each provider.[1]

[1] These PCAs are the most commonly used accounts of each bank, and together account for about 50% of all active accounts at the end of 2014. We have derived the most common accounts from banks' responses to our market questionnaire.

Table 2: PCA providers' overdraft charging structure I*

UK/GB PCA brands	*Account name*	*Arranged overdraft*			*Unarranged overdraft*			*Unpaid item*	*Paid item*
		Daily fee	*Monthly fee*	*Debit interest (EAR)*	*Daily fee*	*Monthly fee*	*Debit interest (EAR)*		
Barclays	Barclay's Bank account	£0.75 if >£15–£1,000, £1.50 if £1,000–£2,000, £3 if £3,000–£5,000. Emergency Borrowing†: if more than £15, £5 per day up to a maximum of 7 days	–	–	–	–	–	£8	–
Clydesdale	Current account plus	–	£6	18.85%	£6‡	–	–	£15	–
Co-op Bank	Standard current account	–	–	18.9%	£10	£10	18.9%	–	–
HSBC	Bank account	–	–	19.90%	£5	–	19.90%	–	–
first direct	1st account	–	–	15.9% if >£250	£5	–	15.9% if >£250	–	–
M&S Bank	Current account	–	–	15.9% if >£100	–	–	–	–	–
Lloyds	Classic	–	£6	19.94% if >£25	£5 if >£10–24.99 £10 if >£25	£6	19.94%	£10	–
BoS	Classic	–	£6	19.94%	£5 if >£10–£24.99, £10 if >£25	£6	19.94%	£10	–
Halifax	Current account	£1 if >£10–1,999.99, £2 if £2,000–2,999.99, £3 if >£3,000	–	–	£5		–		–
Metro	Current account	–	–	15%	–	–	15%	£10	£10
Nationwide	Flex Account	–	–	18.9%	–	–	18.9%	£15	£15
RBS	Select	–	£6	19.89%	£6	–	–	£6**	–
NatWest	Select	–	£6	19.89%	£6	–	–	£6**	–
Santander	Everyday	£1 if >£12	–	–	£6 if > £12	–	–	£10	£10
TSB	Classic	-	£6§	19.94% if >£35	£5 if £10–25, £10 if >£25	£6 (unless already paid by using a planned overdraft)	19.94%	£10 (max 3 per day)	–

NI-focused brands									
		Arranged overdraft			*Unarranged overdraft*				
UK/GB PCA brands	*Account name*	*Daily fee*	*Monthly fee*	*Debit interest (EAR)*	*Daily fee*	*Monthly fee*	*Debit interest (EAR)*	*Unpaid item*	*Paid item*
AIB/First Trust Bank	Classic account	–	£15	base rate + 12%	–	£15	Arranged overdraft debit interest rate + excess interest 1.5% a month (minimum £2)	£25	£22
BoI/Post Office	Standard account	–	–	14.9%	–	–	14.9%	£15	
Danske	Choice	–	£12 if >£100	16.06% if > £100	–	£25 if >£5	22.54% if >£5	£28 if >£5	£25 if >£5
Ulster¶	Current account	–	–	15.90% (14.88% gross rate)	–	£20	23.1% (21% gross rate)	£10	£15 if >£15

Source: Information provided by banks.
*Charges listed in the table may differ for certain sub-groups of customers (eg for student, graduate, higher education or staff accounts). Charges also refer to accounts where no overdraft control facility is being used.
** When the NatWest or RBS overdraft control service is opted for, the unpaid item fee is not applied in the event that a debit transaction is rejected.
†Barclays is of the view that it does not offer an unarranged overdraft, but offers Emergency Borrowing which is offered to new customers as an extension of their arranged overdraft facility, on an opt-in basis, up to an arranged and pre-agreed limit, and is therefore an additional tier of an arranged overdraft.
‡Please note that the unarranged overdraft fee is only charged per working day (ie Monday–Friday excluding weekends and bank holidays).
§This is incurred once a customer has used their £25 interest and fee-free amount as well as the £10 buffer - ie once they are overdrawn by £35.
¶Ulster Bank [✂].
#If the transaction (of whatever amount) creates an unarranged excess of more than £15 at the end of the day in question the fee will be levied. This is also a 'per day fee' with a cap of £90 per charging period.

Table 3: PCA providers' overdraft charging structure II

UK/GB PCA brands	*Account name*	*Buffer limit*	*Cap on charges*	*Unarranged overdraft fees or interest not covered by caps†*	*Single overall total cap on all UOD charges‡*	*Monthly single overall total cap on all UOD charges‡*	*Other*
Barclays	Barclays Bank account	£15 arranged overdraft, £15 Emergency Borrowing and £15 unpaid transactions	Emergency Borrowing fees capped at 7 days per charging period, unpaid item fees charged maximum of once per working day		No§	No§	Maximum arranged overdraft limit £5,000
Clydesdale	Current account plus	£25 arranged overdraft, £10 unarranged overdraft, £15 unpaid items	£100 per calendar month (does not apply to arranged debit interest)		Yes	Yes	–
Co-op Bank	Standard current account	£20 unarranged overdraft (no unarranged overdraft charges but debit interest is still applied)	£60 quarterly unarranged overdraft charges	Debit interest charges are not covered by the quarterly cap.	No	N/a – Co-op Bank applies a quarterly cap to unarranged overdraft charges	If accidentally overdrawn by >£20 without an agreed overdraft customer has 6 days to return the agreed balance before a fee is charged and provided an informal overdraft has not been requested in the last 12 months (debit interest is still applied)
HSBC	Bank account	£10	£80 monthly for unarranged overdraft fees (or the maximum the account has been in informal overdraft in that month up to a max of £80)	Overdraft interest is not covered by cap	No	No	Unarranged overdraft charges not charged after account has been in overdraft for >30 days consecutively and if the account is in unarranged overdraft because an overdraft charge or interest has been deducted
first direct	1st account	£10	£80 monthly for unarranged overdraft fees (or the maximum your account has been in informal overdraft in that month up to a max of £80)	Overdraft interest not covered by cap	No	No	Unarranged overdraft charges not charged after account has been in overdraft for >30 days consecutively and if the account is in unarranged overdraft because an overdraft charge or interest has been deducted
Lloyds	Classic	£25 arranged overdraft,£10 unarranged overdraft, £10 unpaid items	Maximum of 8 daily unarranged overdraft fees charged in a month, maximum of 3 returned fees charged per day		No	No	Do not charge unpaid item fees if value of items is <£10
BoS	Classic	£25 arranged overdraft, £10 unarranged overdraft, £10 unpaid items	Maximum of 8 daily unarranged overdraft fees charged in a month, maximum of 3 returned fees charged per day		No	No	Do not charge unpaid item fees if value of item is ≤£10

UK/GB PCA brands	*Account name*	*Buffer limit*	*Cap on charges*	*Unarranged overdraft fees or interest not covered by caps†*	*Single overall total cap on all UOD charges‡*	*Monthly single overall total cap on all UOD charges‡*	*Other*
Halifax	Current account	£10 arranged overdraft, £10 unarranged overdraft (if no arranged overdraft in place)	£100 per month charged for unarranged overdrafts		Yes	Yes	Arranged overdraft fees waived for first 3 months if NI customer who has switched to Halifax
Metro	Current account	–	Maximum of 6 paid/unpaid item fees per month	Unarranged interest	No	No	–
Nationwide	Flex Account	£15 unarranged overdraft	£75 per month cap on unarranged overdraft fees (including paid and unpaid items fees)	Unarranged debit interest is not capped	No	No	First 3 months of arranged overdraft is interest-free Refund of overdraft fees the first time the customer goes into unarranged overdraft
RBS	Select	£10 unarranged overdraft¶	Maximum charge of £90 per charging period for unarranged overdraft fees, maximum charge of £60 per charging period for unpaid items. These caps are published in terms and conditions.		No	No	£10 interest-free threshold for arranged overdraft
NatWest	Select	£10 unarranged overdraft¶	Maximum charge of £90 per charging period for unarranged overdraft fees, maximum charge of £60 per charging period for unpaid items. These cap are published in terms and conditions		No	No	£10 interest-free threshold for arranged overdraft
Santander	Everyday	£12	£95 fee cap in each monthly statement period		Yes	Yes	Arranged overdraft fees waived for the first 4 months if the customer has switched to Santander
TSB	Classic	£10 arranged overdraft, £10 unarranged overdraft	Charges a maximum of 8 daily unarranged overdraft fees in any charging period		No	No	First £25 of arranged overdraft interest and fee-free

NI PCA brands	*Account name*	*Buffer limit*	*Cap on charges*	*Unarranged overdraft fees or interest not covered by caps†*	*Single overall total cap on all UOD charges‡ (Yes/No)*	*Monthly single overall total cap on all UOD charges‡ (Yes/No)*	*Other*
AIB/First Trust Bank	Classic account	Paid item fee not charged if balance is less than £15 overdrawn	Paid item: £22 for each day up to a maximum of 5 fees charged in a month Unpaid item: £25 for each unpaid item up to a maximum of 5 fees charged in a month		No	No	–
BoI/Post Office	Standard account	–	–		No	No	–
Danske	Choice	£5#	Paid transaction fees are capped at 1 per calendar day and maximum 5 per calendar month.	Unpaid item fee, arranged overdraft interest and unarranged overdraft interest	No	No	Maximum arranged overdraft amount without a fee for setting it up = £7,500, beyond this charged 1% of the extra amount
Ulster	Current account	–	£100 fee cap on unpaid items £90 each for paid referral and guaranteed card payment.	Arranged/unarranged debit interest is not capped.	No	No	£15 'Guaranteed Card Payment Fee'*

Source: Information provided by banks.
*This is a 'per transaction' fee (with a cap of £90 per period) where Ulster has to accept a debit card payment.
†Overdraft fees and interest include: unarranged overdraft interest, unpaid items, paid items and returned item fees.
‡Both these caps refer to a single cap on charges for the use of an unarranged overdraft facility and charges for where the bank refuses a payment due to insufficient funds. This covers interest on unarranged balances, monthly charges, daily charges, paid and unpaid item fees and any other relevant charges. The cap involves specifying to customers a single level for the limit on all these charges (without the need for the customer to work out what this single level is when there are multiple caps that cover these charges).
§ Barclays is of the view that it does not offer an unarranged overdraft, but offers Emergency Borrowing which is offered to new customers as an extension of their arranged overdraft facility, on an opt-in basis, up to an arranged and pre-agreed limit, and is therefore an additional tier of an arranged overdraft. So 'No' in this case refers to Barclays not offering a single cap or single monthly cap on charges for the use of Emergency Borrowing and charges for unpaid transactions.
¶ RBS and NatWest's unarranged overdraft usage fee buffer increases from £10 to £25 when Overdraft Control is opted for.
#Danske £5 buffer applies to unarranged overdrafts.

7. Table 4 shows how some banks have amended their overdraft charging structures between 2011 and 2016. The changes range from introducing or removing single charges to the introduction of completely new charging structure.

Table 4: Changes in PCA overdraft charging structure

Date	*PCA provider*	*Change in overdraft charging structure*
February 2011	NatWest	Introduced charges of £6 per day if exceeded overdraft limit and started providing free texts when nearing the limit
December 2010	Lloyds	Introduced £5 monthly charge for agreed overdrafts over £10 and reduced unarranged usage fee from £15 to £5 per month. Fee cap introduced so max unplanned fees are £80 (plus the £5 usage fee)
September 2012	Halifax	Introduced £3 daily fee for planned overdrafts over £3,000
December 2012	HSBC and first direct	Removed arranged overdraft set-up fee of £25
December 2012	Barclays	Introduced a £15 buffer for customers with a Personal Reserve facility (Personal Reserve ceased in June 2014)
July 2013	RBS/NatWest	Simplified overall pricing structure to give customers more control, including capping daily fees at 15 days
November 2013	HSBC and first direct	Removed unpaid item fee
January 2014	Barclays	Reduced volume of unpaid transaction fee charges which a customer can be charged in a single day from five (£40) to one (£8), and introduced text alerts
June 2014	Barclays	Significantly changed overdraft proposition – went from interest based to tiered and daily fees. Replaced Personal Reserve with Emergency Borrowing and removed a £8 fee which previously existed for paid transactions
July 2014	Nationwide	Removed unarranged overdraft fee
August 2014	Santander	Increased unarranged overdraft fees (from £5 to £6 per day), Increased maximum number of days from 20 to 30 for which customers can be charged for using either an arranged or unarranged overdraft. Reduced paid and unpaid item fees
November 2014	HSBC and first direct	Unarranged overdraft fee of £25 for each instance replaced with a daily unarranged overdraft usage fee of £5
December 2014	Clydesdale	Changed charging structure, including removing debit interest for unplanned borrowing and consolidation of other fees into a 'Daily Unplanned Borrowing Fee' of £6 with a £10 Buffer
April 2015	Co-op Bank	Removed the annual service charge for an arranged overdraft and the unpaid item fee. Reduced the monthly and daily unarranged overdraft service charge[2] from £20 to £10. Reduced the maximum amount customers can be charged in overdraft fees from £150 to £60 per quarter

Source: Information provided by banks.

8. Although many providers have recently, or in the past, introduced different variants of fee cap on overdraft charges, few of them include a single monthly cap on all unarranged overdraft charges including unarranged interest and unpaid item fees (where such charges are part of a PCA's pricing structure).

[2] Monthly service charge: When an account is overdrawn or has exceeded an existing overdraft limit without having agreed with the bank in advance, a monthly service charge will be incurred. Daily service charge: Each subsequent day the account's informal overdraft increases, a daily service charge will be incurred.

Only Santander, Clydesdale and Halifax offer and specify a single monthly[3] caps that covers all unarranged overdraft charges.

9. Some others such as NatWest and RBS, have a number of separate caps for all the different unarranged charges (such as separate caps for unpaid item fees and paid item fees). While these caps may be comprehensive, the overall cap on all these charges is not typically specified making it difficult for customers to understand what this is; a customer would need to work it out. Other brands including HSBC, first direct, Nationwide and Ulster have caps that are not comprehensive since they exclude unarranged interest.

Unarranged overdraft charges

10. For the purpose of developing an overview of the cost of unarranged overdrafts we collected data on the charging scenarios set by the OFT. In 2009, the banks[4] agreed that they would publish information showing how much would be charged in a series of unarranged overdraft scenarios. Figures 1 and 2 provide basic information on dispersion between the providers and give us an idea of the scale of charges as of October 2015. This further illustrates complexity of PCA charges structures.[5]

11. The scenarios are as follows:

    (a) Scenario 1: provider refuses a payment from your account because there is not enough money in your account.

    (b) Scenario 2: a payment from your account takes you into an unarranged overdraft by less than £10. You are overdrawn for one day during the month.

    (c) Scenario 3: A payment from your account takes you into your unarranged overdraft and you make another payment from the account while you are overdrawn. You use your overdraft for two days in a row during the month.

    (d) Scenario 4: A payment from your account takes you into your unarranged overdraft, and you make nine more payments from the account while you

---

[3] However, we note that RBS's and NatWest's cap refers to a cap over a 'charging period' that is not a calendar month but usually the charging period does run from month to month and is charged based on the date on which the account was opened.

[4] Barclays, HSBC, LBG, Clydesdale Bank and Yorkshire Bank, Nationwide, RBSG (excluding Ulster Bank) and Santander.

[5] The CMA phase 1 report noted a number of limitation to these scenarios (a) the charging scenarios do not give a full picture of how charges can be applied because of their complexity (b) relatively few consumers use these scenarios (c) they do not cover arranged overdrafts and (d) charging structures are not prominent on banks' websites.

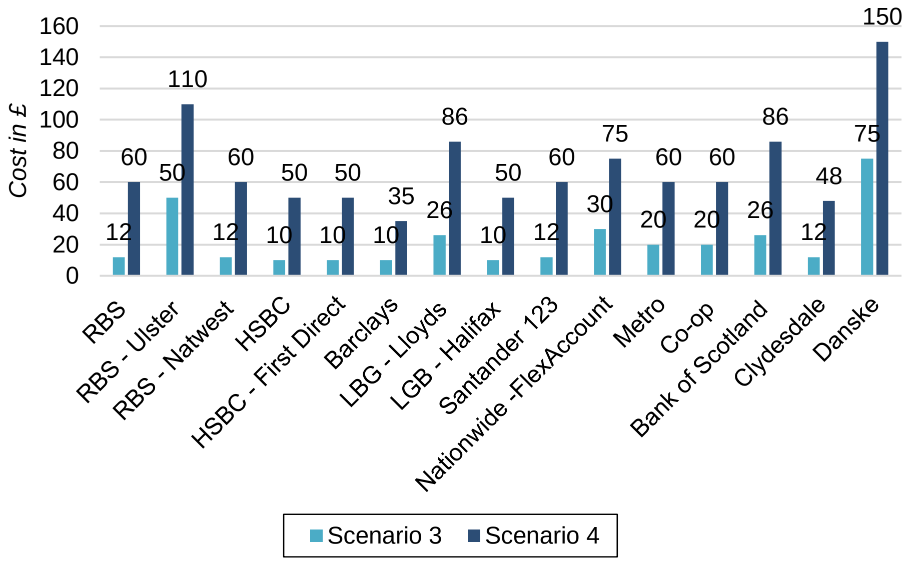
are overdrawn. You use your unarranged overdraft for 10 days in a row during the month.

(e) Scenario 5: A payment from your account takes you into an unarranged overdraft. You are overdrawn for one day. However, on three more occasions during the month, a payment takes you into an unarranged overdraft. On each of these occasions you are overdrawn for three days in a row.

(f) Scenario 6: A payment from your account takes you into an unarranged overdraft. You are overdrawn for 21 days in a row during the month and you make 12 more payments from the account while you are overdrawn

12. Figure 1 shows how monthly costs of an unarranged overdraft vary between banks in scenario 3 and 4, as described above. In scenario 3, most of the banks charge customers £20 or less except Lloyds, Nationwide, and BoS who charge slightly more. Additionally, two banks have significantly higher costs with Ulster charging £50 and Danske charging the highest fee of £75. In scenario 4, Danske and Ulster again are charging the highest fee of £150 and £110 respectively. All other banks charge £60 or less, except Lloyds, Nationwide, and BoS who charge slightly more. Overall, customers at Barclays incur the lowest cost with £35.

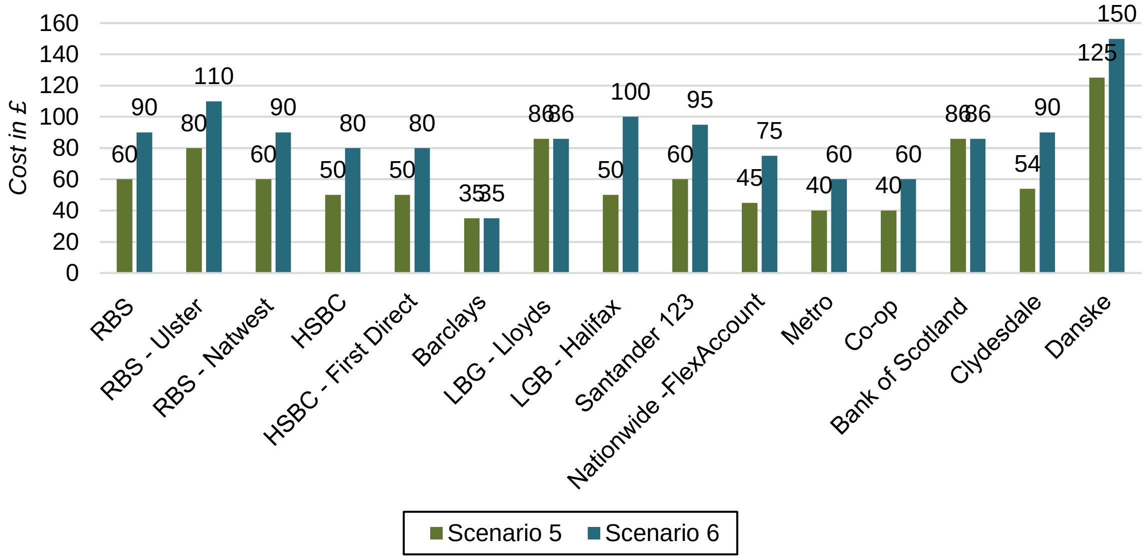
Figure 1: Monthly cost of an unarranged overdraft – scenarios 3 and 4



Sources: Information provided by banks.
Notes:
RBS = Graduate Royalties, Select Account, Select Silver Account, Royalties Gold Account, Select Platinum Account, Black Account, R21 Account, Royalties Premier.
RBS Ulster = Current Account, Current Plus, ufirstgold, Private Current, ufirst Private.
RBS NatWest = Graduate Account, Select Account, Select Silver, Advantage Gold, Select Platinum & Black Account.
Barclays - does not offer an unarranged overdraft, but offers Emergency Borrowing. Emergency Borrowing lets customers borrow an extra arranged amount if they need to go over their overdraft limit once in a while.
LBG Lloyds = Classic, Silver and Platinum Accounts; Student and Graduate Accounts; Club Lloyds, Club Lloyds Silver, Club Lloyds Gold, Club Lloyds Platinum and Club Lloyds Premier Accounts.
LBG Halifax = Reward Account, Current Account.
Co-op Bank = Current Account Plus, Privilege Current Account, Privilege Premier Current Account.
Bank of Scotland = Classic Account, Added Value Accounts Student and Graduate Accounts.
Clydesdale = Signature Current Account, Current Account Plus, Current Account Direct.

13. Figure 2 shows how monthly costs of an unarranged overdraft vary between banks in scenario 5 and 6, as described above. In scenario 5, most banks charge £60 or less. Customers at Ulster, Lloyds and BoS pay slightly higher fees and Danske charges the highest fees of £125. In scenario 6, most banks charge £90 or less with Halifax and Santander charging slightly more. Ulster charges a bit more (£110) and Danske charges the highest fee of £150. Customers at Barclays pay in both scenarios the lowest fees of £35.

Figure 2: Monthly cost of an unarranged overdraft – scenarios 5 and 6



Source: Information provided by banks.
Notes:
RBS = Graduate Royalties, Select Account, Select Silver Account, Royalties Gold Account, Select Platinum Account, Black Account, R21 Account, Royalties Premier.
RBS Ulster = Current Account, Current Plus, ufirstgold, Private Current, ufirst Private.
RBS NatWest = Graduate Account, Select Account, Select Silver, Advantage Gold, Select Platinum & Black Account.
Barclays – is of the view that it does not offer an unarranged overdraft, but offers Emergency Borrowing. Emergency Borrowing lets customers borrow an extra arranged amount if they need to go over their overdraft limit once in a while.
LBG Lloyds = Classic, Silver and Platinum Accounts; Student and Graduate Accounts; Club Lloyds, Club Lloyds Silver, Club Lloyds Gold, Club Lloyds Platinum and Club Lloyds Premier Accounts.
LBG Halifax = Reward Account, Current Account.
Co-op Bank = Current Account Plus, Privilege Current Account, Privilege Premier Current Account.
Bank of Scotland = Classic Account, Added Value Accounts*, Student and Graduate Accounts.
Clydesdale = Signature Current Account, Current Account Plus, Current Account Direct.

14. We also looked at the distribution of the monthly total unarranged overdraft charges (excluding overdraft interest)[6] actually incurred by PCA customers in a given year, based on 2014 data on these charges for a range of account provider brands' most popular on-sale PCAs that offer an unarranged overdraft facility.[7] In this analysis, we focused on those customers who paid the highest accumulated monthly unarranged charges.

15. Table 5 shows that a low proportion but a sizeable absolute number[8] of customers have accumulated high monthly total unarranged charges in at least one month. For ten brands of seven PCA providers, in at least 1% of the

[6] Note, we chose to exclude interest because most account providers were not able to separate arranged overdraft interest from unarranged overdraft interest. We therefore consider that the analysis of our results represents an underestimate for all brands that charge unarranged interest (but not for those that don't such as Halifax).
[7] The data requested: *(a)* included all charges incurred for the refusal or provision of an agreed overdraft facility (unpaid item fees, daily or monthly charges, paid item fees and any other relevant charges) but excluded overdraft debit interest unless explicitly noted; and *(b)* excluded all charges waived by the provider, including situations where overdraft charges are waived due to negotiation or complaints from a customer, where a customer is assessed as being in financial difficulties and where fees were waived under standard terms and conditions (this was so the analysis reflected the charges that customers ultimately had to pay).
[8] Given that there were around 68 million active PCAs in 2014.

accounts of each brand's most popular on-sale PCA, customers incurred more than £100 in monthly unarranged charges at least once.[9] Further, for six of these brands, the same was true for at least 2% of their most popular on-sale accounts and for two brands the same was true for at least 4% of their most popular on-sale accounts. Further, we note that the data does not include overdraft interest, which, if included, would likely result in an increase in the total monthly unarranged charges reported below.

Table 5: Distribution of active accounts as a proportion of all active accounts where the month with the highest total unarranged charges exceeded a given amount in 2014

		Proportion of each brand's most popular on-sale PCAs (%) where customers incurred more than:		
Account provider	*Account provider brand*	*£50 or more in total monthly unarranged charges in at least one month (excluding interest)*	*£100 or more in total monthly unarranged charges in at least one month (excluding interest)*	*£150 or more in total monthly unarranged charges in at least one month (excluding interest)*
AIB	AIB	[✄]	[✄]	[✄]
Barclays	Barclays†	[✄]	[✄]	[✄]
BoI	BoI	[✄]	[✄]	[✄]
Danske	Danske	[✄]	[✄]	[✄]
HSBCG**	first direct*	[✄]	[✄]	[✄]
	HSBC*	[✄]	[✄]	[✄]
LBG§	Lloyds*	[✄]	[✄]	[✄]
	BoS*	[✄]	[✄]	[✄]
	Halifax*‡	[✄]	[✄]	[✄]
Nationwide	Nationwide	[✄]	[✄]	[✄]
RBSG	NatWest & RBS***	[✄]	[✄]	[✄]
	Ulster	[✄]	[✄]	[✄]
Santander	Santander*	[✄]	[✄]	[✄]

Source: Parties' responses.
* [✄]
** [✄]
*** [✄]
† [✄]
‡ [✄]
§ [✄]

16. Table 6 also shows that these high levels of unarranged charges also represent a significant proportion of unarranged usage for seven brands ([✄]) of six account providers ([✄]). For each of these brands, Table 6 shows that, in at least 10% of active accounts of the brands' most popular PCA where a customer also incurred an unarranged overdraft charge, customers incurred more than £100 in monthly unarranged charges in at least one month in 2014.

[9] [✄]

Table 6: Distribution of active accounts as a proportion of all active accounts incurring unarranged overdraft charges where the month with the highest total unarranged charges exceeded a given amount in 2014

		Proportion of brand’s most popular PCAs where customers incurred unarranged charges (%) and incurred:		
Account provider	*Account provider brand*	*£50 or more in maximum total monthly unarranged charges (excluding interest)*	*£100 or more in maximum total monthly unarranged charges (excluding interest)*	*£150 or more in maximum total monthly unarranged charges (excluding interest)*
AIB	AIB	[✂]	[✂]	[✂]
Barclays	Barclays†	[✂]	[✂]	[✂]
BoI	BoI	[✂]	[✂]	[✂]
Danske	Danske	[✂]	[✂]	[✂]
HSBCG**	first direct*	[✂]	[✂]	[✂]
	HSBC*	[✂]	[✂]	[✂]
LBG‡	Lloyds*	[✂]	[✂]	[✂]
	BoS*	[✂]	[✂]	[✂]
	Halifax*§	[✂]	[✂]	[✂]
Nationwide	Nationwide	[✂]	[✂]	[✂]
RBSG	NatWest & RBS***	[✂]	[✂]	[✂]
	Ulster	[✂]	[✂]	[✂]
Santander	Santander*	[✂]	[✂]	[✂]

Source: Parties’ responses.
* [✂]
** [✂]
*** [✂]
† [✂]
‡ [✂]
§ [✂]

17. In addition to looking at the distribution of monthly unarranged charges we also looked at whether customers accumulated high total monthly unarranged charges multiple times. Table 7 shows that for five brands ([✂]) of four account providers ([✂]), in at least 1% of accounts of each brand’s most popular on-sale PCA, customers incurred more than £100 or more in unarranged charges in at least two months in 2014.

Table 7: Distribution of active accounts as a proportion of all active accounts where the month with the second highest total unarranged charges exceeded a given amount in 2014

		Proportion of each brand's most popular on-sale PCAs (%) where customers incurred more than:		
Account provider	*Account provider brand*	*£50 or more in total monthly unarranged charges in two months (excluding interest)*	*£100 or more in total monthly unarranged charges in two months (excluding interest)*	*£150 or more in total monthly unarranged charges in two months (excluding interest)*
AIB	AIB	[✂]	[✂]	[✂]
Barclays	Barclays†	[✂]	[✂]	[✂]
BoI¶	BoI	[✂]	[✂]	[✂]
Danske	Danske	[✂]	[✂]	[✂]
HSBCG**	first direct*	[✂]	[✂]	[✂]
	HSBC*	[✂]	[✂]	[✂]
LBG§	Lloyds*	[✂]	[✂]	[✂]
	BoS*	[✂]	[✂]	[✂]
	Halifax*‡	[✂]	[✂]	[✂]
Nationwide	Nationwide	[✂]	[✂]	[✂]
RBSG	NatWest & RBS***	[✂]	[✂]	[✂]
	Ulster	[✂]	[✂]	[✂]
Santander	Santander*	[✂]	[✂]	[✂]

Source: Parties' responses.
* [✂]
** [✂]
*** [✂]
† [✂]
‡ [✂]
§ [✂]
¶ [✂]

18. As with customers' highest monthly unarranged fees, for five brands ([✂]) of four leading providers in GB and NI ([✂]), multiple occurrences of customers incurring high charges also represent a significant proportion of customers' unarranged overdraft usage. For each of these brands Table 8 shows that, in at least 5% of active accounts of the brands' most popular on-sale PCA where a customer also incurred an unarranged overdraft charge, customers incurred more than £100 in monthly unarranged charges in at least two months in 2014.

Table 8: Distribution of active accounts as a proportion of all active accounts incurring unarranged overdraft charges where the month with the second highest total unarranged charges exceeded a given amount in 2014

		Proportion of brand's most popular PCAs where customers incurred unarranged charges (%) and incurred:		
Account provider	*Account provider brand*	*£50 or more in total monthly unarranged charges in two months (excluding interest)*	*£100 or more in total monthly unarranged charges in two months (excluding interest)*	*£150 or more in total monthly unarranged charges in two months (excluding interest)*
AIB	AIB	[✄]	[✄]	[✄]
Barclays	Barclays†	[✄]	[✄]	[✄]
BoI¶	BoI	[✄]	[✄]	[✄]
Danske	Danske	[✄]	[✄]	[✄]
HSBCG**	first direct*	[✄]	[✄]	[✄]
	HSBC*	[✄]	[✄]	[✄]
LBG‡	Lloyds*	[✄]	[✄]	[✄]
	BoS*	[✄]	[✄]	[✄]
	Halifax*§	[✄]	[✄]	[✄]
Nationwide	Nationwide	[✄]	[✄]	[✄]
RBSG	NatWest & RBS***	[✄]	[✄]	[✄]
	Ulster	[✄]	[✄]	[✄]
Santander	Santander*	[✄]	[✄]	[✄]

Source: Parties' responses.
* [✄]
** [✄]
*** [✄]
† [✄]
‡ [✄]
§ [✄]
¶ [✄]

19. Lastly, by adding the information we collected on the number of times in 2014 where customers' highest total monthly charges accumulated exceeded a certain level on active accounts and customers' second highest total monthly charges accumulated exceeded a certain level on active accounts on providers' brands' most popular PCAs, we are able to obtain an indicative lower bound[10] on the number of months in which customers incurred charges above a given level (as detailed in Table 9 below) in 2014.

[10] By combining customers' highest and second highest monthly accumulated charges we can obtain an indicative lower bound on customers exceeding a certain level of unarranged charges in their accounts but not an actual lower bound as certain providers, for example, included unarranged overdraft interest and some waived fees.

Table 9: Indicative lower bound on the total number of instances active accounts incurred more than £75 in unarranged overdraft charges in a month

Account provider	*Account provider brand*	*Lower bound on number of months active accounts incurred between £75 and £100 in unarranged charges*	*Lower bound on number of months active accounts incurred between £100 and £150 in unarranged charges*	*Lower bound on number of months active accounts incurred between £150 and £200 in unarranged charges*	*Lower bound on number of months active accounts incurred more than £200 in unarranged charges*
AIB	AIB	[✂]	[✂]	[✂]	[✂]
Barclays	Barclays†	[✂]	[✂]	[✂]	[✂]
BoI¶	BoI	[✂]	[✂]	[✂]	[✂]
Danske	Danske	[✂]	[✂]	[✂]	[✂]
HSBCG**	first direct* HSBC*	[✂] [✂]	[✂] [✂]	[✂] [✂]	[✂] [✂]
LBG‡	Lloyds* BoS* Halifax*§	[✂] [✂] [✂]	[✂] [✂] [✂]	[✂] [✂] [✂]	[✂] [✂] [✂]
Nationwide	Nationwide	[✂]	[✂]	[✂]	[✂]
RBSG	NatWest & RBS*** Ulster	[✂] [✂]	[✂] [✂]	[✂] [✂]	[✂] [✂]
Santander	Santander*	[✂]	[✂]	[✂]	[✂]
Total		620,321	344,682	161,068	12,582

Source: Parties' responses.
* [✂]
** [✂]
*** [✂]
† [✂]
‡ [✂]
§ [✂]
¶ [✂]

20. Together, all these results suggest that there is a low proportion but a sizeable absolute number of customers who incur large total monthly unarranged charges each year.[11] In addition, many of the customers who incur large total monthly unarranged charges do so multiple times within a year. This shows that although almost all accounts have some variant of cap that covers some, but not all, unarranged charges it is still possible for many customers to accumulate high unarranged charges.

Monthly account fees

21. The majority of banks offer accounts that incur a monthly fee.[12] We researched the most common monthly fee accounts per bank online and found that all banks advertise the monthly fee on their homepage. When determining the most used monthly fee account, we did not distinguish by type of account, but, for each bank, we chose the most used account that incurs a monthly fee (highest number of accounts provided by banks in their response to our market questionnaire). Where information on account

[11] Where over 1 million accounts incurred more than £75 of unarranged charges in a given month.
[12] AIB, BoI, Co-op Bank, Metro and Danske do not currently have on sale a fee paying account.

numbers was not available, we chose the account with the lowest monthly fee. We only included monthly fee accounts that were available to new customers in October 2015.

22. Information on account features and conditions are also transparently available on the banks’ homepage. Tables 10 and 11 provide a comparison of the core account features (Table 10) and non-interest benefits (Table 11) most common monthly fee accounts on offer. It shows accounts vary in the level of monthly fee, the features they offer and the conditions that apply.

Table 10: Monthly fee accounts I

PCA provider	*Account name*	*Account type†*	*Monthly fee*	*Special conditions to waive monthly fee*	*Credit interest*		*Preferential overdraft conditions*
					Credit interest (AER)	*Balance*	
Clydesdale	Signature	Packaged account	£13.5	–	0%	–	Preferential Planned Debit Interest Rate: 12.50% EAR
first direct	First Directory	Packaged account	£15	–	–	–	Automatic £500 formal overdraft. First £250 is free of overdraft interest
HSBC	Pay Monthly	Standard account with control feature	£10	–	–	–	£50 buffer. Payments which would cause the account to exceed the formal overdraft limit and buffer are usually declined. No overdraft usage fees, debit interest is charged
BoS	Silver	Packaged account	£9.95	Vantage is a free add-on to all available customers*	1.5% 2% 3%	£1+ £1,000+ £3,000–5,000	Up to £50 Interest and fee-free arranged overdraft
Lloyds	Club Lloyds[13]	Reward account	£5	Fee is waived, if £1500 or more is paid into account.	1% 2% 4%	£1+ £2,000+ £4,000–5,000	First £100 of an arranged overdraft (subject to status) is free of cost.
M&S	Premium	Packaged account	£10	–	–	–	First £100 of an arranged overdraft (subject to status) is free of cost
Nationwide	Flex Plus	Packaged account	£10	–	3%	Up to £2,500	3 month fee-free overdraft and a £100 fee-free limit after that
RBS	Select Silver	Packaged account	£10	–	–	–	–
NatWest	Select Silver	Packaged account	£10	–	–	–	–
Santander	123	Reward account	£2	–	1.0% 2.0% 3.0%	£1,000+ £2,000+ £3,000–20,000	–
TSB	Silver Standard	Packaged account	£9.95	–	–	–	First £50 of an arranged overdraft (subject to status) is free of cost
Ulster	UFirst Gold	Packaged account	£9	–	–	–	First £500 of an arranged overdraft (subject to status) is free of cost
Halifax	Ultimate Reward	Packaged account	£15	Monthly fee reduces to £10 if customer pays in £750, has 2 direct debits and stays in credit throughout month	–	–	First £300 of an arranged overdraft (subject to status) is free of cost

Source: Information provided by banks.
* 40-50% of BoS Silver customers have Vantage.
† We define reward and packaged accounts in Section 4.

[13] LBG told us that around 96% of its customers do not pay a monthly fee as they meet the criteria for the fee to be waived. LBG told us Lloyds Platinum is the most popular on-sale Lloyds bank monthly fee account. We have included Club Lloyds to ensure a consistent approach across banks. [why I thought para 20 said we looked at the most used?]

Table 11: Monthly fee accounts II

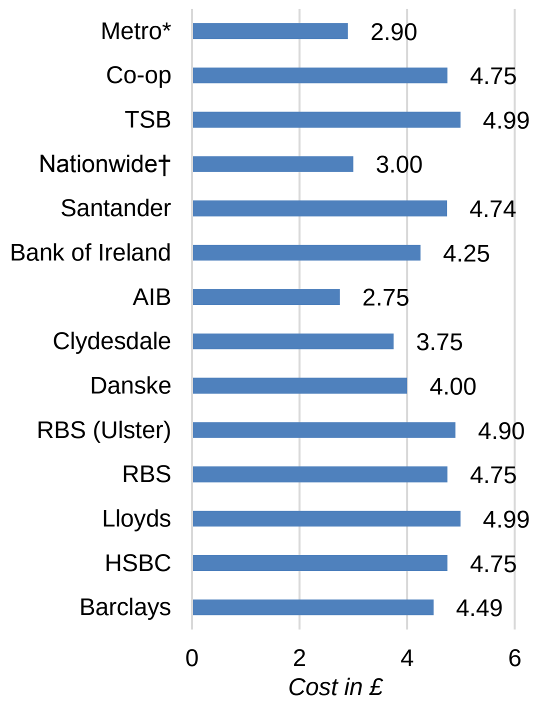
PCA provider	*Account name*	*Account type*	*Cashback/discounts*	*Insurance*	*Other benefits**
Clydesdale	Signature	Packaged account	Discounts at certain major high street stores and supermarkets, and on some holidays, concert tickets and events	- Worldwide travel insurance (incl. family) - UK car breakdown cover - Mobile phone insurance - Gadget insurance	- Access to credit reports, ability to check if personal details are being used online, and getting support and advice when needed. - £150 switch incentive
first direct	First Directory	Packaged account	Discounts at certain restaurants, hotels and on days out	- Worldwide travel insurance - UK car breakdown cover - Mobile phone insurance	- Commission-free travel money - No ATM transaction fees by first direct
HSBC	Pay Monthly	Standard account with control feature	–	–	Pay Monthly money calendar (tool to help manage money)
BoS	Silver	Packaged account	Up to 15% cashback with selected retailers	- European travel insurance (incl. partner) - UK car breakdown cover - Mobile phone insurance	–
Lloyds	Club Lloyds	Reward account	–	–	Lifestyle benefit (cinema tickets, magazine subscription, gourmet society membership)
M&S	Premium	Packaged account	M&S loyalty points for M&S reward vouchers with your M&S Debit Card in M&S	–	- £40 a year in M&S vouchers - £45 worth of treats and delights vouchers - £127 worth of hot drinks vouchers for the M&S Café - Birthday gift - Access to exclusive M&S offers
Nationwide	Flex Plus	Packaged account	–	- Worldwide family travel insurance - UK & EU breakdown and recovery assistance - Worldwide family mobile phone insurance - Extended warranty on appliances	- Commission-free cash withdrawals abroad - Identity theft assistance - Worldwide emergency card assistance
RBS	Select Silver	Packaged account	25% cashback on tickets for theatre, dance, opera, concert performances	- European travel insurance - Mobile phone insurance	tastecard membership
NatWest	Select Silver	Packaged account	25% cashback on tickets for theatre, dance, opera, concert performances	- European travel insurance - Mobile phone insurance	tastecard membership
Santander	123	Reward account	Cashback on bills (1% on water, council tax & Santander mortgage, 2% on energy, 3% on telecoms)	–	–
TSB	Silver Standard	Packaged account	–	- European travel insurance (incl. partner) - UK car breakdown cover - Mobile phone insurance	–
Ulster	UFirst Gold	Packaged account	15% cash-back on concerts, shows and sporting events	Worldwide travel insurance (incl. family) Mobile phone insurance	–
Halifax	Ultimate Reward	Packaged account	Up to 15% cashback with selected retailers	- Worldwide travel insurance - UK car breakdown cover - Mobile phone insurance - Home emergency cover	Card cancellation service

Source: Information provided by banks.
* This table does not include information on access to or preferential rates for other financial products.

Foreign transaction fees

23. A cash withdrawal abroad incurs a cash fee and a foreign transaction fee. Banks may also apply a minimum and maximum fee. Figure 3 illustrates that the cost of a £100 withdrawal varies between £2.75 and £4.99, with AIB charging the lowest fee and Lloyds and TSB the highest.

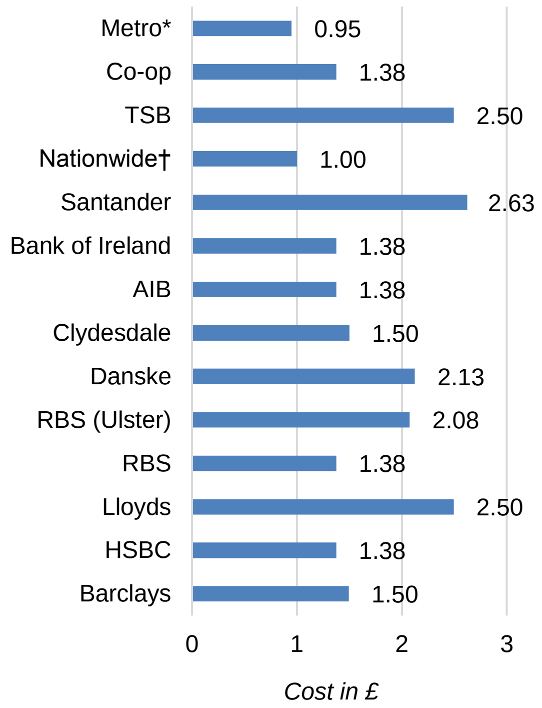
Figure 3: Cost of £100 cash withdrawal abroad



Source: Information provided by banks.
*Metro offers £0 cash fee and foreign transaction fee for withdrawals in Europe.
†The charging structure applies to all of Nationwide's accounts except the FlexPlus account.

24. Figure 4 shows that for a £50 foreign transaction, for example purchasing an item in euros or dollars valued at £50, the fees range from less than £1 to £2.63, with Metro charging the lowest and Santander the highest fees.

Figure 4: Cost of £50 foreign debit card transaction



Source: Information provided by banks.
*Metro offers £0 cash fee and foreign transaction fee for withdrawals in Europe.
†The charging structure applies to all of Nationwide's accounts except the FlexPlus account.

Account rewards

25. The number of reward accounts has increased. Banks may offer higher rates of interest, joining incentives and other rewards such as cashback. Table 12 provides a comparison of the reward accounts on offer.

Table 12: Details of reward accounts*

	Credit interest rates				Eligibility			[✂]	
Reward account	*Rate*	*For balances†*	*Other rewards*	*Switching incentives*	*Monthly deposit*	*No of direct debits*	*Other*	[✂]	[✂]
Bank of Scotland Vantage§	1.5% 2.0% 3.0%	£1+ £1,000+ £3,000–5,000	Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	–	£1,000	–	Stay in credit To receive cashback, registering for online banking is mandatory	[✂]	[✂]
Bank of Scotland Reward	0.0%	–	£5 per month Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	–	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[✂]	[✂]
Bank of Scotland Ultimate Reward	0.0%	–	£5 per month Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	–	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[✂]	[✂]
Barclays Blue	0.0%	–	Monthly cashback: £7 plus £5 for Barclays mortgage, £3 for Barclays home insurance & cashback as a percentage of transaction value for some online purchases	–	£800	2	£3 fee	[✂]	
Clydesdale Current Account Direct	2.00%	Up to £3,000	–	£150 cashback¶	£1,000 (excluding internal transfers)	–	–	[✂]	[✂]
Halifax Reward	0.0%	–	£5 per month Up to 15% cashback	£100	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[✂]	[✂]
Halifax Ultimate Reward	0.0%	–	£5 per month Up to 15% cashback	£100	£750	2	Stay in credit To receive cashback, registering for online banking is mandatory	[✂]	[✂]

Club Lloyds	1.0% 2.0% 4.0%	£1+ £2,000+ £4,000–5,000	Cinema tickets, magazine subscription or Gourmet Society membership, access to preferential offers of other financial products Up to 15% cashback Monthly chance to be paid back a purchase that has been made with a Lloyds debit/credit card up to the value of £500	None	£1,500	2	Incurs a £5 monthly fee if customer does not pay £1,500 into their account To receive cashback, registering for online banking is mandatory	[✂]	[✂]
Nationwide FlexDirect	1.0% (after first year)	Up to £2,500	Access to Nationwide offers	5.0% on balances up to £2,500 for first year & 1 year fee-free overdraft; £100 referral scheme#	£1,000	–	–	[✂]	[✂]
Santander 123	1.0% 2.0% 3.0%	£1,000+ £2,000+ £3,000–20,000	Cashback on bills (1% on water, council tax & Santander mortgage, 2% on energy, 3% on telecoms), access to Santander offers	None	£500	2	£2 monthly fee	[✂]	[✂]
TSB Classic Plus	5.0%	£1–£2,000	5% cash back on first £100 of contactless spend each month (until end 2016))	3-month interest & fee-free overdraft	£500	–	Signup for internet banking & paperless statements and correspondence	[✂]	[✂]

Source: Information provided by banks.
*This table only includes on-sale products.
†No credit interest is paid on amounts above the upper threshold.
‡Excluding student/graduate, youth and packaged accounts.
§Vantage is an add-on benefit that customers can choose to add to their current account.
¶Direct debit criteria relates to eligibility for the £150 switching incentive and is not a feature of Current Account Direct per se.
#£100 is given to the customer switching their account, an additional £100 is offered to the customer who referred them.

Price comparison websites

26. We are aware of eight PCWs that hold information on PCAs to date. We outline below the information displayed on these PCWs; recent PCW entry and exit; and customer usage rates compared with other sectors.

Information displayed on PCWs

27. Table 13 summarises the PCA features that can be filtered and ranked in the comparison tables on PCWs and highlights what information is displayed only without the facility to filter.

Table 13: Information displayed on comparison tables

PCW	*AER*	*Overdraft fees*	*Maintenance fee*	*Account benefits**	*Switching incentive*	*Account type*	*Other*
Confused	Ranked	Ranked	Ranked	Displayed	Ranked		
Comparethemarket.com	Displayed	Displayed	Ranked	Displayed		Ranked	
Gocompare.com†	Ranked	Ranked	Ranked	Displayed	Ranked	Ranked	
Lovemoney.com	Ranked	Ranked	Ranked	Displayed	Ranked	Ranked	More details section
Moneysupermarket.com	Ranked	Ranked	Ranked	Ranked			Customer service‡
money.co.uk	Ranked	Displayed	Ranked	Displayed	Displayed		Eligibility
Moneyfacts	Ranked	Ranked	Ranked	Displayed	Shown in product details link	Displayed§	
uSwitch	Ranked	Ranked	Ranked	Displayed	Displayed		

Source: Information provided by PCWs.
*Any other benefits, such as rewards, cash incentives, initial offers etc.
†This service is provided by a third party provider, Lovemoney.com Financial Services Limited which hosts the comparison tables and provides the relevant data. (PCW Q response Gocompare.com, p1).
‡Customer service ratings are provided by users of MoneySavingExpert.com.
§Best Buy tables for different account types and product search available by account type.

28. The default variables by which PCWs rank PCAs in their comparison tables are marked with an ‘x’ in Table 14. The majority include AER as a default.

Table 14: Default variables

PCW	*AER*	*Overdraft fees*	*Popularity*	*Alphabetically*
Confused	x			
Gocompare.com*	x†			
Lovemoney.com	x‡			
money.co.uk	x§	x	x¶	x#
Moneyfacts	x~	x★		
uSwitch			x	

Source: Information provided by PCWs.
*This service is provided by a third party provider, Lovemoney.com Financial Services Limited which hosts the comparison tables and provides the relevant data.
†Products are ranked by a combination of AER and proposition headlines.
‡Products are ranked by a combination of AER and proposition headlines.
§For high interest PCAs.
¶For PCAs with an overdraft facility.
#For all PCAs except high interest PCAs.
~For high interest PCAs, basic bank accounts, free PCAs without a monthly fee, and PCAs that can be managed online.
★For PCAs with an overdraft facility.

29. Additionally, money.co.uk and Moneyfacts told us that promoted products are displayed at the top of the comparison table.

PCW entry and exit

30. In 2015, Google Compare[14] and the Money Advice Service (MAS)[15] withdrew their PCA comparison services whilst Gocompare.com launched the first PCA Midata comparison tool. Until the launch of Gocompare.com in March 2015, MAS was the only site enabling customers to receive a personalised quote.[16] MAS told us that it withdrew on the basis of duplicating services of other providers, low usage of their tool (around 1% of market share) and cost.[17] However it should be noted that regulations transposing the EU Payment Accounts Directive (see Appendix 3.1) will come into force in September 2016 and place a duty on MAS to provide access to a website comparing fees charged by payment services providers. In the UK, the MAS is currently responsible for enhancing consumer understanding and knowledge of financial matters and the ability of consumers to manage their financial affairs. However, on 16 March 2016, the government announced its intention to replace MAS with a new organisation from April 2018.

[14] Google told us that from February 2015 it withdrew current accounts comparison tables from Google Compare [✂].
[15] MAS is an independent service set up by the government providing impartial advice.
[16] Customers could enter information, such as type of account, average income per month, average minimum balance at the end of the month and average unarranged overdraft usage each year.
[17] Other providers listed GoCompare.com, Moneyfacts, MoneySavingExpert.com, moneysupermarket.com, MAS.

31. Gocompare.com launched its Midata current account comparison tool in parallel with the launch of the Midata initiative.[18] Customers can upload their Midata file into the Midata comparison tool on Gocompare.com's website, which uses the customer's PCA usage profile to compare accounts. This enables customers to get detailed comparisons of which PCA is best for them based on how they use their bank account. In the first three weeks since the launch of the Midata initiative, Gocompare.com reported to us that there had been about [✂] with the comparison page and [✂]. Further, [✂] who started uploading their Midata completed the process and saw the comparison.

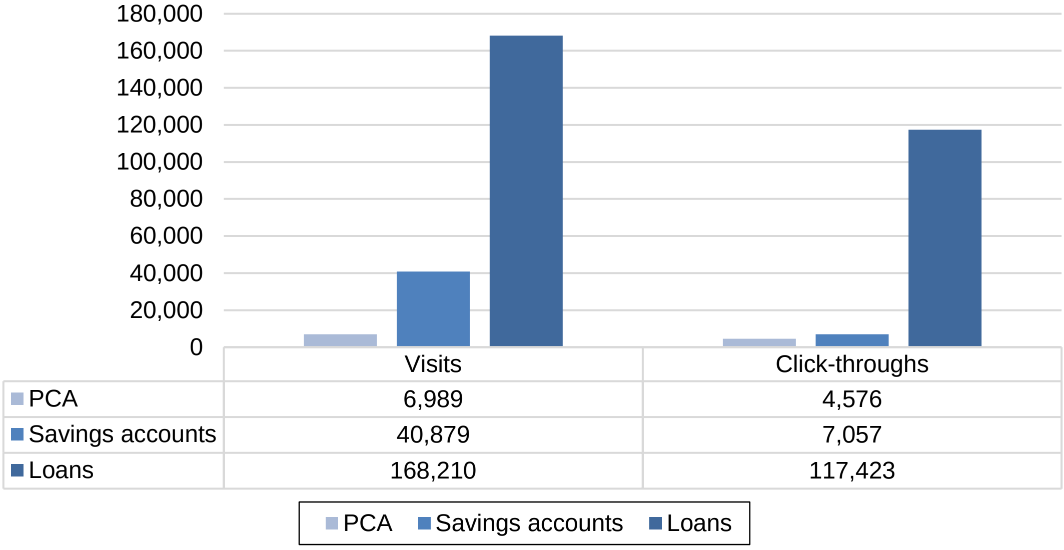
32. Gocompare.com is to date the only PCW that is committed to the Midata project. money.co.uk told us that they may offer comparison tools using Midata files but have no concrete plans in place. MoneySavingExpert.com told us it would like to offer comparison tools via Midata or similar technologies but that – due to banks redacting information, using inaccessible formats for mobiles, and blocking use of aggregation technology – it feels a meaningful tool isn't currently possible. Defaqto and [✂]. Moneyfacts, and Which? said that they have no current plans to launch a Midata comparison site.

Comparisons with other product comparison services

33. Figure 5 shows data from Confused.com about which products are most often compared on its website. Comparisons of PCAs are made substantially less often than comparisons of other financial products such as savings or loans (based on visits and click-through rates).

[18] The technology is developed by Runpath, which has built an algorithm using curated data. Runpath Digital Limited, *Response to HMT's Open Consultation*, p2.

Figure 5: Total visits and click-through rates for PCAs, saving accounts and loans on Confused.com in 2014



Source: Information provided by confused.com.

34. A comparison of PCA banking with other products, such as motor insurance or energy, shows the differences in site visits and click-through rates. According to confused.com, PCAs had about 7,000 visits, compared [✂] visits to energy PCWs and [✂] million unique visitors comparing motor insurance.

Table 15: Visits to Confused.com for PCAs, energy and motor insurance, 2014

Product	*Visits*	*Click-throughs*
PCAs	6,989	4,576
Energy	[✂]	[✂]
Motor insurance	[✂]	[✂]

Source: Information provided by confused.com.

Digital banking

35. The increasing use of digital banking to conduct transactional activity is likely to increase customers' engagement with their PCA, as the ease with which a customer can access their account via internet or mobile banking appears to be driving greater customer interaction with their PCA. For example:

(a) Barclays told us that the average Barclays mobile banking user logged in [✂] during the month of August 2015, whereas the average branch user visited their branch [✂] a month.

(b) Recent evidence from the USA suggests that 94% of customers use their mobile banking application to check their balance,[19] and approximately half of mobile banking users in the USA receive low balance alerts and 83% of those that receive them take some action as a result.[20]

(c) The FCA found that signing up to text alerts or mobile banking applications reduced the amount of unarranged overdraft charges incurred by customers by 5% to 8%, and signing up to both services had an additional effect, resulting in a total reduction of 24%.[21]

36. Looking forward, as mobile banking adoption is largely driven by smartphone adoption, which is greater amongst the younger population,[22] this suggests that both smartphone and mobile banking adoption is likely to increase over time. Increased mobile banking adoption is likely to be further enhanced by the greater functionality and broader integration of banking services within the mobile application, including account opening functionality, in-store payments and advanced money management features.[23] According to the BBA, by 2020, customers will use their mobile phone to manage their current account 2.3 billion times, which will be more than internet, branch and telephone banking combined.[24]

[19] See Deloitte innovation report, p13.
[20] See Deloitte innovation report, p14.
[21] See FCA (2015), *Impact of annual summaries, text alerts, and mobile banking apps on consumer banking behaviour*.
[22] For example, Turkey has a higher rate of mobile banking adoption (when mobile banking adoption is taken as a proportion of smartphone users) than the UK, and approximately two thirds of its population is under 40 years old (see Deloitte innovation report, p10).
[23] For example, in Turkey, Garanti Bank's mobile banking application (iGaranti) combines 23 features, including money management tools, mobile chat, an ATM withdrawal function (without the need for a card), and a voice control feature. Central to the design of the app is social media integration. There are over 30 million Facebook users in Turkey and iGaranti allows customers to transfer money to their Facebook friends without setting up their bank account details (see Deloitte innovation report, p11).
[24] See Deloitte innovation report, p15.

Appendix 6.4: Actual and perceived behaviour of PCA customers

Contents

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1. In this appendix we summarise the results from our analysis of the actual and perceived behaviour of PCA customers. The aim of the analysis is to help us assess whether consumers are engaged in the market, and whether they are aware of their account usage and the associated charges and benefits.

Introduction

2. We used anonymised current account usage data from 2014 as provided by the banks (transaction data) and combined it with the results of a GfK PCA consumer survey. This survey was drawn from the same customer base as the transaction data and asked customers about their usage of current accounts. This allowed us to compare actual past usage and charges (using transaction data) with the perceived usage and charges (from survey responses) on a customer-by-customer basis.

3. Significant differences between customers' perceptions of their account usage and their actual behaviour, as well as between actual and perceived charges, may indicate a lack of engagement for a number of reasons. First, it gives some indication that customers may not engage with or may not understand their bank account usage. A large discrepancy between actual and perceived charges may also indicate that customers find the pricing complex, opaque or otherwise difficult to understand. Second, if customers do not engage with, or do not understand their current account usage and charges, they may have difficulties shopping around and identifying the best offer for their needs. This could lead to them exercising little pressure on banks to improve their current product offer. Third, if customers underestimate their usage, they might incur costs inadvertently.

4. While we do not expect customers to know their usage and charges to the day and penny,[1] the presence of large discrepancies and the direction of the misperception will be informative for the reasons set out in paragraph 3, in particular if there are significant differences between customer groups.

5. This appendix is structured as follows:

- First, we set out our research questions and summarise the main results.
- Second, we describe our analysis in detail.
- Third, we discuss limitations and how sensitive results are to our assumptions.
- The annexes provide further details on customer segmentation, the data set, some additional results and sensitivities.

Summary of analysis and key findings

6. As set out in our methodology paper, we concentrated on a number of specific research questions:[2]

- Overdraft usage: Does customers' perception of their usage of overdrafts (months in overdraft, days in overdraft and debit balance), match their actual usage?
- Overdraft limit: Does customers' awareness of their arranged overdraft limits match the limits actually provided by their banks?
- Overdraft charges: Does customers' perception of the costs paid for overdrafts match their recent charges?
- Credit balances: Does customers' awareness of interest payments on credit balances match the payment features provided by their banks?

7. Our main findings are as follows:

[1] Three banks told us that some of the hypotheses were not relevant for understanding customers' engagement. They told us that, although customers might not know their overdraft usage behaviour and the amount of charges they incurred off the top of their head, customers did have access to this information when needed. While we appreciate that consumers may be able to retrieve information on their overdraft usage in the event they decide to compare fees across accounts, we consider that this analysis also provides insight on how engaged consumers are with their PCA, in the sense of being aware of how they use their account and charges they incur. If consumers have limited awareness of usage and charges incurred, they may not even think of searching/switching in the first place.
[2] We do not test whether customers' awareness of charging structures applying to their overdrafts match those applying to their accounts, as the transaction data does not allow us to distinguish whether charges referred to arranged or unarranged overdraft usage.

Overdraft usage

- In 2014, slightly less than half (44%)[3] of PCA customers used arranged and unarranged overdrafts to varying degrees.

- 38% of overdraft users responded that they did not use an overdraft when they actually did.

- Few assessed their usage correctly. 49% correctly estimated the number of months they used their overdraft within a margin of error of around two months. 38% correctly estimated the average number of days in overdraft in those months in which they went into overdraft within +/- three days. The survey asked customers to place their debit balances (ie the amount by which they are overdrawn) within set bands. 27% of customers correctly estimated the band within which their debit balance lay.

- Overdraft users more often underestimated their usage than overestimated. This result held both for how often they used it (months in overdraft and days in overdraft per month) as well as for their overdraft balances. For example, 63% of customers who used overdrafts underestimated the number of months they used it by more than a month.

Overdraft limits

- 89% of all customers, and 91% of those who used overdrafts, knew whether or not they had an arranged overdraft limit. 63% of all customers who used overdrafts,[4] and 57% of those who used overdrafts and had an arranged limit, knew exactly what their overdraft limit was.

- 32% of customers who used overdrafts and had an arranged overdraft limit underestimated that limit. However, a non-negligible share (12%) of them overestimated it, potentially leading to unexpected unarranged overdraft charges or returned item fees.

- Around a half of unarranged overdraft users thought that they did not use an unarranged overdraft when they actually did. They also tended to underestimate their unarranged overdraft usage.

[3] This is distinct from the transaction data sample figures used in table 1 in Appendix 6.5, as the 44% above is based on the full surveyed sample as explained in Annex B.
[4] This figure includes customers who did not have an arranged overdraft limit, but used an unarranged overdraft. For these customers the arranged limit was zero.

Overdraft charges

- Half of customers were charged £5 or less per month for their overdraft. In aggregate, customers broadly estimated their average overdraft charges per month correctly. Only a small proportion of customers stated that their charges were considerably different from what they were actually charged. However, at the individual customer level, only 50% of customers estimated their charges correctly within +/- £5, with a slight tendency towards underestimating their charges. However, due to a larger measurement error[5] in responses to the survey question about charges, the findings on charges are less robust than other findings.

Interest payments and cashback (revenue on balances)

- With respect to credit balances, we found that 60% of customers correctly knew whether or not they received any revenue on their balances, and over one third falsely thought that they received revenue while they did not.

Customer segmentation[6]

8. We analysed whether certain customer segments had a higher awareness of their overdraft usage,[7] charges and limits, and whether they received payments on credit balances. We found no evidence of one group outperforming any other groups regarding all research questions.

- Basic characteristics. Women were slightly better at assessing the number of months in overdraft. Although younger customers assessed their overdraft limit correctly more often than the rest of their group, they were more often incorrect about whether they received payments on credit balances. Slightly more customers in Northern Ireland perceived correctly that they received payments compared to customers in Scotland.[8]

- Education. Customers with a degree were more likely to assess their monthly usage correctly, when allowing for a tolerance of two months.

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[5] The error arises because respondents were asked to perform rather complex calculations when responding to the survey question about charges (see paragraph 46 for more details).
[6] More details on customer segmentation can be found in Annex A.
[7] For analysing overdraft usage, we concentrate on the months in overdraft. This is because *(a)* the results for the days in overdraft are comparable to the results for months, and *(b)* debit balances are less accurately estimated as respondents were asked to estimate a band instead of a value.
[8] For this analysis, we cannot compare results to Wales, as our sample size for Wales is below 150 respondents (see Table 3, Annex A).

- Banking needs. A higher share of heavy[9] overdraft users underestimated their usage, compared to light[10] users. Unarranged overdraft users correctly assessed their limits more often than arranged overdraft only users.

- Other segments. Approximately half of customers banking with either [✂] incorrectly perceived that they receive payments on credit balances compared with 25-30% of [✂] customers.

Sensitivities

9. Customers may misrepresent their usage when responding to a survey. For example, customers may not want to admit how high their overdraft usage is.[11] This could partly explain why people tended to under- rather than overestimate their usage. We therefore re-ran our analysis excluding those customers that actually used overdrafts but stated in their survey response that they did not.[12] While this does not fully control for misrepresentation, it gives an indication of how sensitive the results are. We found that the results were broadly similar when we exclude this group of customers from the analysis.

10. Some customers might also have found it difficult to answer certain questions due to the difficulties of recalling usage over a whole year.[13] As a result of these difficulties, some customers might have based their responses on their recent usage instead of reflecting the usage over the past year, as requested in the survey. We therefore re-ran our analysis, comparing survey responses to actual usage in the last quarter of 2014. We found that the differences are small and, as such, did not represent a challenge to the validity of our main qualitative results.

11. Finally, if usage is cyclical, the transaction data may not accurately reflect yearly usage for those who opened an account with their current bank during the course of 2014 (as we do not have information on their usage with their previous bank). We therefore also tested whether our results changed if we

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[9] As defined in Annex A.
[10] As defined in Annex A.
[11] Two banks told us that customers may under-report certain aspects of usage or charges compared with their true expectations, which could reflect their fear of being judged as having a lack of control over their finances.
[12] Under the assumption that customers who say that they did not go into overdraft at all when they actually did are more likely to be those who were not willing to admit to their overdraft usage.
[13] Three banks told us that asking respondents over a timeframe of one year is too long, as quality of recall diminishes significantly over this timeframe and it is unreasonable to expect customers to recall accurately specific details of charges in such circumstances.

excluded customers who opened their account with their current bank in 2014. There were no significant changes to our results in doing so.

Banks' responses to our findings

12. Santander told us that the existence of a disparity between actual and perceived overdraft limit and credit interest was most likely to arise from lack of engagement, because these are key account features that could be easily checked and do not require any calculations or recall. Furthermore, in light of steps taken by the industry to increase transparency of charges, Santander did not support the view that, in general, customers' inability to recall charges and usage shows that customers do not understand charges and usage.

13. LBG agreed that customer engagement with PCAs could be improved. LBG also said that the results should be viewed in the context of current, and improved, levels or market engagement. Barclays said that differences between actual and perceived behaviour did not necessarily indicate lack of engagement (customers did not need to recall information about their account usage when this information was easily accessible). Barclays considered that the more important aspect was the extent to which customers were able to access the information easily. Similarly, HSBCG told us that customers were becoming better informed and more engaged with their account usage as the uptake of digital tools was increasing. LBG also said that engagement with PCAs has improved.[14,15] Furthermore, RBS said that customers were able to check their usage and charges easily if required rather than rely on memory. We consider that an important aspect of engagement is also the extent to which customers will consider searching and switching. If customers have limited awareness of their account usage and the associated charges and benefits, they are unlikely to consider searching and switching.

14. HSBCG also noted that errors in recalling should not be equated with low customer engagement as it was not realistic to customers to have high product recall on all dimensions of their PCA. We agree that it is not realistic for customers to remember their usage, limits and charges to every detail (as acknowledged in paragraph 4) and therefore we provided results within a margin of error.

15. RBS said that the analysis showed that customers were well aware of the key parameters of their overdraft product (eg limits and charges), which was

[14] It said that the uptake of digital tools is increasing, further enhancing engagement, and switching (both externally and internally) has also increased, along with multi-banking, demonstrating that customers' engagement with PCAs is improving. LBG also noted that mobile banking apps and text alerts enable customers to get information on their account usage instantaneously when this information is most relevant.

consistent with its experience. Virgin Money, on the other hand, said that the results indicated that customers were not engaging with or might not understand their personal account usage, as well as they might find pricing difficult to understand.

16. HSBCG stated that customers were generally well informed on overdraft limits, charges and credit balances. Similarly, Barclays said that the analysis demonstrated that customers were relatively well aware of overdraft charges and what their overdraft limit was, which they consider was more important customer information than how many days on average they had been in debit. The results on charges were less robust, given the larger measurement error (see paragraph 46), and therefore we considered that usage (months in overdraft), overdraft limits and credit interest were more reliable.

Detailed analysis

17. The following analysis is based on a data set of 2,938 PCA customers (full sample), which contains information on their actual account usage provided by banks[16] (transaction data) and their responses to the GfK PCA consumer survey (survey data) which we used to assess how they perceived their account usage.[17] The data allowed us to compute, for each respondent, the difference between the actual and perceived value of their overdraft usage, overdraft limit, overdraft charges and whether they received any credit interest. We considered both the sign of the differences (eg whether customers under- or overestimated their usage) as well as the absolute values of the differences, as these reveal the extent to which customers misjudged their usage, ie are wrong in either direction.

18. To find out whether certain types of customers misjudged their usage more often, we looked at these differences again by customer segment and tested whether the mean (absolute difference) for one group differed significantly from the mean (absolute difference) for another group. We also tested whether there were any differences between the shares of customers who correctly reported their actual usage and whether the direction of the error was different on average.[18]

19. In particular, we looked at basic customer characteristics (gender, age, nation), education, proxy for financial knowledge (whether the respondent provided a correct answer to a basic financial calculation), their banking

[16] Barclays, BoS, first direct, Halifax, HSBC, Lloyds, RBS, Santander, NatWest, M&S Bank.
[17] More details on how the data set was constructed and how it was cleaned can be found in Annex B.
[18] Significance is used in a statistical sense and is judged at the 95% level. For example, two means are said to be significantly different if the chance that the difference between them is purely random, is below 5%.

needs (account incomings, type of overdraft user), which and how many banks they used, whether they switched PCA recently, and whether they used digital banking. Annex A provides further details on the segments and how they are defined.

Overdraft usage

20. We started by looking at various measures of overdraft usage. Lack of awareness of overdraft usage may indicate a lack of engagement with PCAs. It may also make it more difficult for customers to compare tariffs across banks insofar as tariffs will vary depending on the extent to which customers make use of overdrafts.

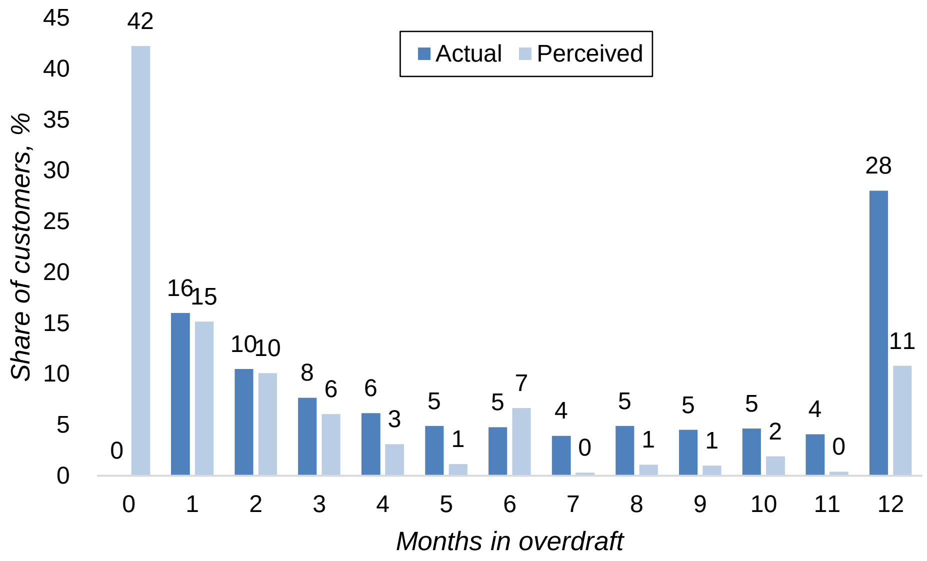
21. In 2014, slightly less than half (44%)[19] of the customers in the full sample used an overdraft (arranged or unarranged) to varying degrees. Of those who used overdrafts, 38% of customers said that they did not use overdrafts when in fact they did. The remainder of our analysis of overdrafts focuses on customers who actually went into overdraft in 2014. This overdraft sample comprises 1,181 respondents, representing 43%[20] of the customers in the full sample.[21] More details on how we constructed the overdraft sample can be found in Annex B.

Main results: months in overdraft

22. As Figure 1 indicates, customers typically either used their overdraft rarely (26% were overdrawn for one or two months in 2014) or were overdrawn in every month of the year (28%).[22] However, only 11% of those customers who actually went into overdraft in the past 12 months said that they were overdrawn in every month. Most customers perceived that they were not in overdraft at all (42%)[23] or just for one or two months (25%).

[19] This is distinct from the transaction data sample figures used in table 1 in Appendix 6.5, as the 44% above is based on the full surveyed sample as explained in Annex B.
[20] This is distinct from the 44% reported in Annex B as 1% did not know that they went into an overdraft.
[21] The sampling structure allows us to draw conclusions on all customers based on the answers by the respondents of the survey. In the following we use 'respondents' when referring to the number of customers answering our questions. This figure is important when looking at sample sizes for our tests. Shares will be reported as shares of the customer base.
[22] We define a month in overdraft when a customer was overdrawn by at least one day in that month.
[23] This share slightly deviates from the percentage in the overdraft sample, as some customers did not know the months they go into overdraft or refuse to answer, thereby reducing the sample to 1,101 respondents.

Figure 1: Distribution of actual and perceived number of months in overdraft (overdraft sample*)

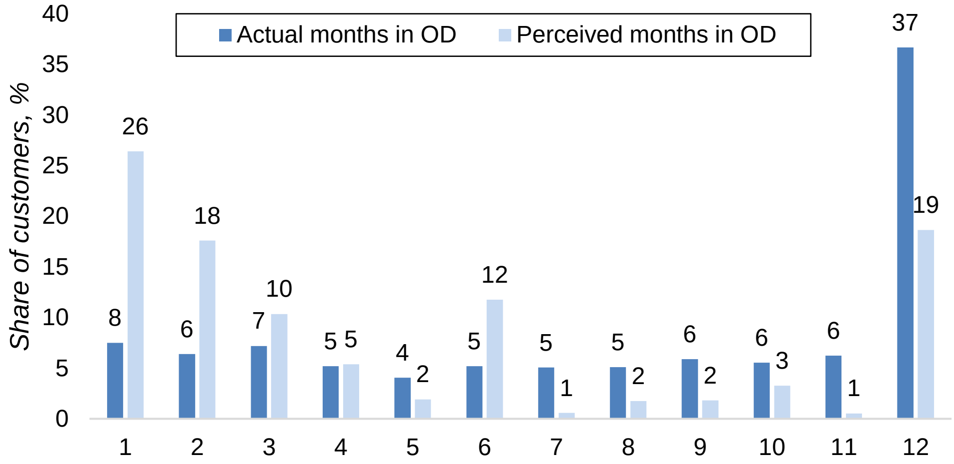


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*80 observations are excluded from the overdraft sample as customers responded that they did not know how many months they were in overdraft or refused to say, leading to a total of 1,101 observations.

23. When we excluded the 42% of respondents who said they had not used overdrafts from the analysis (Figure 2 below), the distribution of the actual number of months in overdraft changed slightly. The proportion of those who had been in overdraft for one or two months decreased, whereas the proportion of those who had been in overdraft for all 12 months increased.

24. This is because most respondents who said they had not used an overdraft used it only for one or two months and fewer of them used an overdraft for all 12 months. The distribution of actual overdraft usage of the respondents who said they had not used an overdraft can be found in Annex D, Figure 3.

Figure 2: Distribution of actual and perceived number of months in overdraft (OD) (overdraft sample excluding those who said they did not use overdraft*)

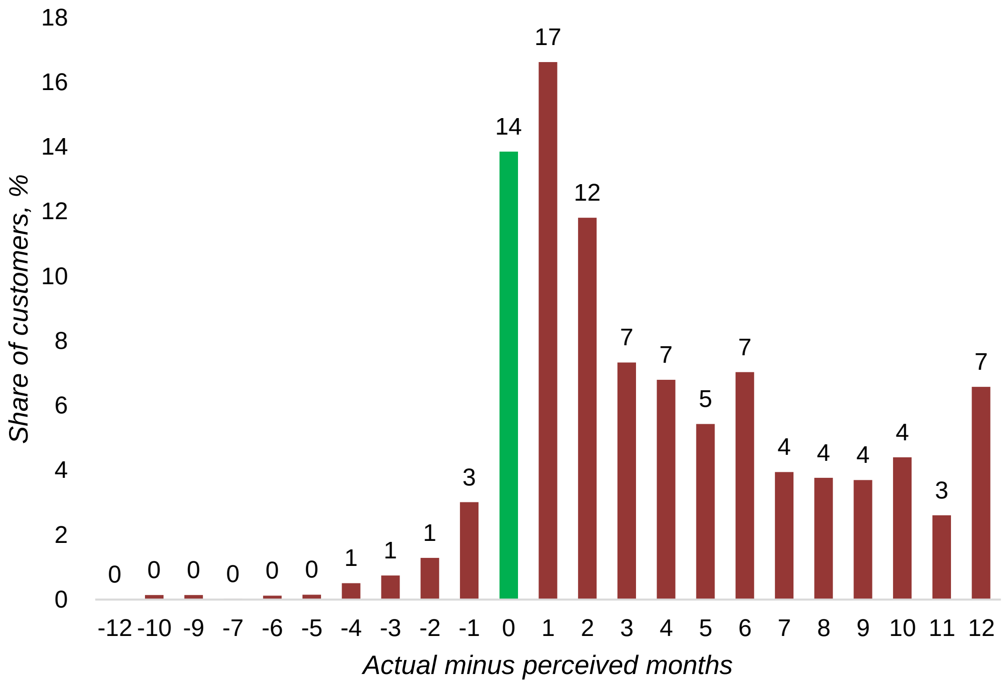


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*466 observations are excluded from the overdraft sample because they said they did not use overdrafts; 80 observations are excluded because respondents did not know for how many months they used an overdraft or refused to say, resulting in a total of 635 observations.

25. A customer-by-customer comparison reveals (Figure 3) that only 14% of customers were correct when answering how many months they were overdrawn. This figure increases to 33%[24] if we allow for a tolerance of one month. Nearly half of customers estimated the number of months they went into overdraft within a tolerance of two months. In total, 80% underestimated their overdraft usage, 63% by more than one month, and 52% by more than two months. Around 7% of customers said that they did not go into overdraft, but actually did in every month of the year. Customers rarely overestimated their usage.

[24] The number in the text is the un-rounded figure.

Figure 3: Difference between actual and perceived number of months in overdraft (overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*80 observations are excluded from the overdraft sample as customers responded that they did not know how many months they went into overdraft or refused to say, resulting in a total of 1,101 observations.

26. On average, customers misjudged the number of months they used their overdraft by four months. Customers who underestimated their usage estimated it incorrectly on average by five months, while those who overestimated it estimated it incorrectly by two months.

Customer segmentation

27. We found that certain subgroups of customers more often assessed their months in overdraft correctly. We only reported groups where the differences are statistically significant. Annex A provides further details of this analysis.

- Basic characteristics. Women were somewhat better at assessing their usage (17% of women were correct, compared to 11% for men) and were less likely to underestimate.

- Education. Customers with a degree were more likely to assess their usage correctly, when allowing for a tolerance of two months. On average they misjudged their usage by slightly less; four months for those with a degree compared to four and a half months for those without a degree.

- Banking needs. Unarranged overdraft users correctly estimated the number of months in overdraft more often than arranged only overdraft users (there was no difference between the two groups when allowing for a two month tolerance). When allowing for a two month tolerance a higher share of heavy[25] overdraft users underestimated their usage, compared to light users (but heavy[26] users less often correctly estimated when no tolerance is allowed). On average they misjudged by six months, while infrequent users misjudged by two and a half months.

Main results: days in overdraft

28. Respondents were also asked to estimate how many days they went into overdraft on average per month for those months in which they used overdrafts.

29. Asking about the number of days in overdraft allows a better assessment of whether a respondent can judge the intensity of their overdraft usage. However, as it required respondents to calculate averages, it was a more complex question to answer compared to their overdraft limit or number of months overdrawn. In addition, this question was likely to be more difficult for those customers whose number of days in overdraft varied a lot from month to month.

30. 27% of customers used their overdraft for 22 or more days in the months where they went into overdraft (see Figure 4). The second most likely usage was low usage, with one to three days (22%).[27] There was a strong difference in perceptions; 41%[28] of those who used overdrafts said they did not use it on any day of the year. Only 7% of customers believed that they used it for 22 days or more.

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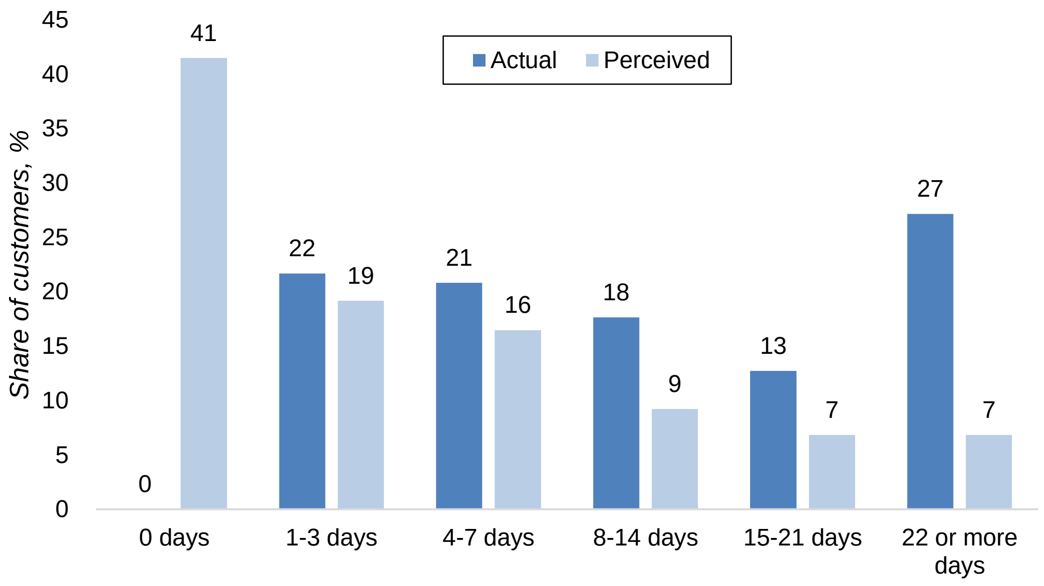
[25] As defined in Annex A.
[26] As defined in Annex A.
[27] We observed a strong positive correlation between actual number of months and days in overdraft, in the sense that customers who went into overdraft for many days per month also tended to be those who went into overdraft for a large number of months in the year, and vice versa. See Figure 1 in Annex C.
[28] This share slightly deviates from the percentage in the overdraft sample, as some customers did not know the number of months they went into overdraft or refused to answer, thereby reducing the sample to 1,114 respondents.

Figure 4: Distribution of actual and perceived average number of days per months in overdraft (average over months in which customer went into overdraft; overdraft sample*)

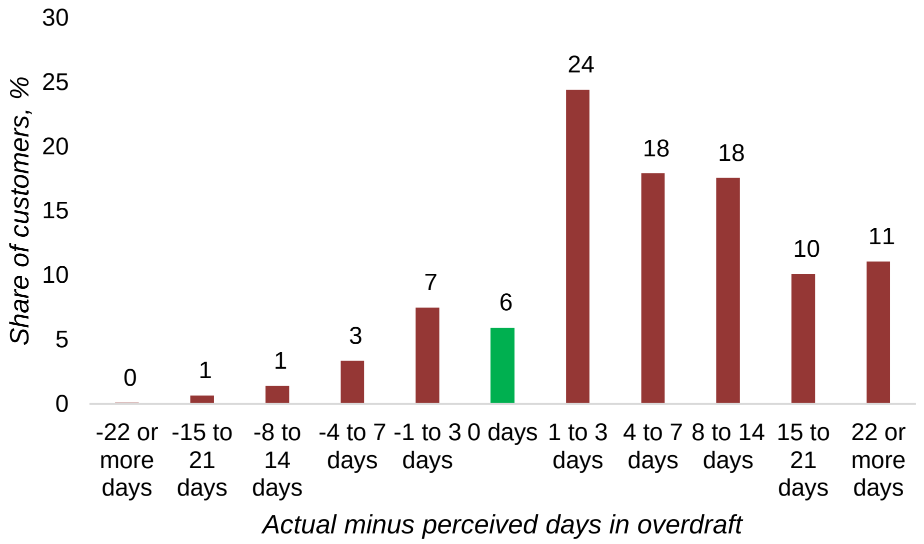


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*67 observations are excluded from the overdraft sample as customers responded that they did not know how many days they went into overdraft or refused to say, leading to a total of 1,114 observations.

31. Figure 5 shows that only 6% of customers correctly assessed their average daily overdraft usage. The figure increases to 38% when allowing for a tolerance of three days. Furthermore, 81% of customers underestimated their usage in terms of number of days in overdraft and 57% by more than three days. This is comparable to the share of customers who underestimated the number of months in overdraft. In the other direction, 13% overestimated the number of days in overdraft.[29]

[29] The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 5 therefore does not necessarily lead to exactly the same results.

Figure 5: Difference between actual and perceived number of days per months in overdraft (average over months in which customer went into overdraft; overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*67 observations are excluded from the overdraft sample as customers responded that they did not know how many days they were in overdraft or refused to say, leading to a total of 1,114 observations.

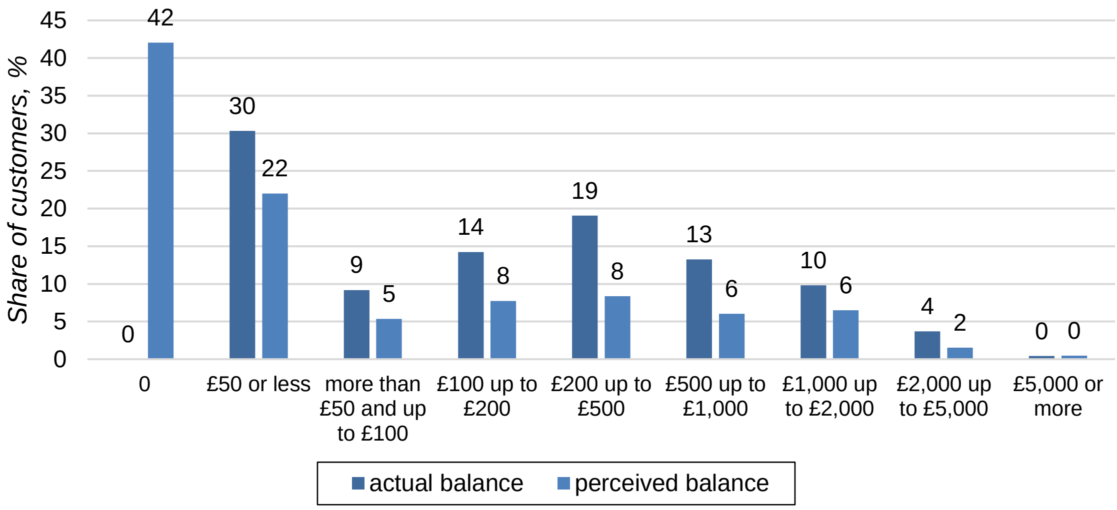
32. On average, customers misjudged their actual overdraft usage per month by nine days, with those who underestimated it misjudging it by more (ten days) than those who overestimated it (five days).

Main results: debit balances

33. We found that 54% of customers in our overdraft sample had an average debit balance on the days they went into overdraft of below £200.[30] Furthermore, 14% of customers had debit balances of £1,000 or more. We found again that 42% of customers think that they were not in debit when in fact they actually were and 77% of customers believed that their debit balance was below £200 (see Figure 6).

[30] The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 6 therefore does not necessarily lead to exactly the same results.

Figure 6: Distribution of actual and perceived debit balance (overdraft sample*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*78 observations are excluded from the overdraft sample as customers responded that they did not know their overdraft balances or refused to say leading to a total of 1,103 observations.

34. The survey asked respondents to place their debit balance within pre-defined bands rather than the actual value of the debit balance. We therefore compared whether customers were able to estimate the correct band into which their debit balances fell.

35. We found that most customers (64%) underestimated usage and some of them did so severely (10%[31] thought they had a balance of zero or less than £50, while actually having a debit balance of £500 or more). 27%[32] of customers correctly estimated the band in which their debit balance lay.

36. The table below shows further details on the difference between customers' actual and perceived debit balances.

Table 1: Difference between actual and perceived credit balance (overdraft sample*)

	Survey results (%)						
Transaction data (%)	*£0*	*£50 or less*	*£51 to less than £100*	*£100 to less than £200*	*£200 to less than £500*	*£500 to less than £1,000*	*£1,000 or more*
£50 or less	17	11	1	1	0	0	0
£51 to less than £100	5	3	1	1	0	0	0
£100 to less than £200	6	3	1	2	1	0	0
£200 to less than £500	6	3	2	2	4	1	0
£500 to less than £1,000	3	1	0	1	2	3	2
£1,000 or more	4	1	0	1	1	1	5

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*78 observations are excluded from the overdraft sample where customers responded that they did not know their overdraft balances or refused to say, leading to a total of 1,103 observations. Note that the results in the individual cells are indicative only as sample sizes for some of these categories are quite small (below 150 respondents).

[31] The number in the text is the un-rounded figure.
[32] The number in the text is the un-rounded figure.

Overdraft limits

37. Next we investigated whether customers were aware of their arranged overdraft limits. A lack of awareness could indicate a lack of engagement by customers. In addition, overestimation of available limits may lead to the use of unarranged overdrafts and additional charges.

38. We also analysed whether customers were aware of how often they exceeded this limit or went into an unarranged overdraft when they did not have an arranged overdraft limit.

Main results: overdraft limits

39. The transaction data showed that 36% of surveyed customers (ie full sample) and 22% of the customers who went into overdraft did not have an arranged limit.[33] This did not differ from perceptions, as 37% of surveyed customers (ie full sample), and 25% of those who went into overdraft, stated that they did not have an arranged overdraft limit.[34] 89% of all customers, and 91% of those who went into overdraft, were correctly aware of whether they had a limit when they had one[35] or were correctly aware that they had no limit when they did not have on.[36]

Table 2: Availability of overdraft limit, share of customers

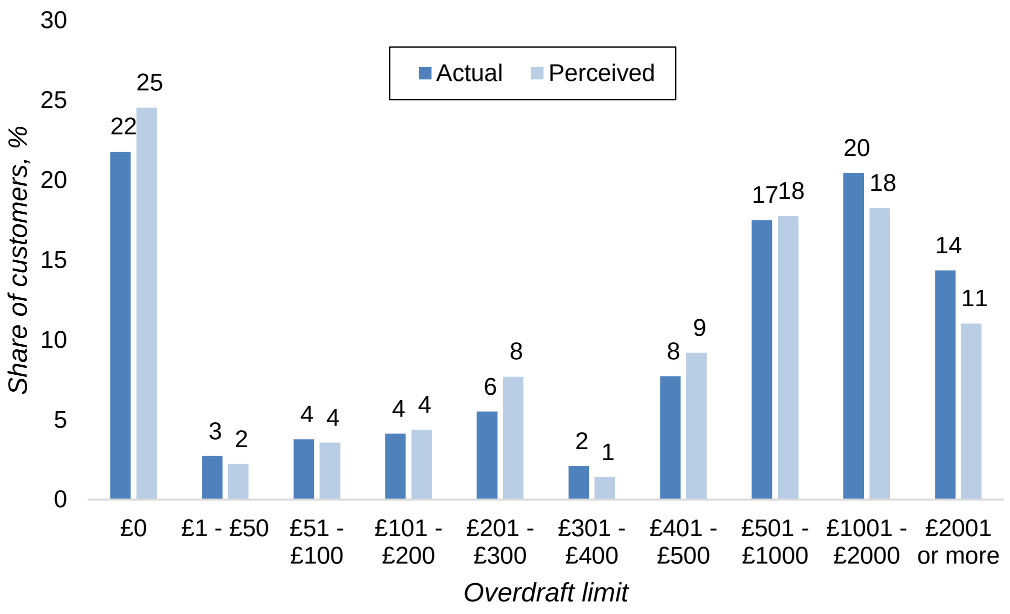
						%
	Perceived (survey results)					
	Full sample			*Overdraft sample*		
Actual (transaction data)	No	Yes	Total	No	Yes	Total
No	31	5	36	19	3	22
Yes	6	58	64	6	73	78
Total	37	63	100	25	75	100

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*162 observations are excluded from the overdraft sample as customers responded that they did not know whether they had an overdraft limit or how high it was or refused to say, leading to a total of 1,019 observations. Incorrect responses are highlighted in red.

40. Of the customers in the sample who had an arranged overdraft, 65% had an overdraft limit of £1,000 or below (Figure 7 below). Overdraft limits above £5,000 and below £100 were rare and this roughly matched perceptions.

[33] The transaction data provides the arranged overdraft limit at the end of 2014. It is zero if the customer had not agreed a limit.
[34] Base = All. Question G2 'Do you have an authorised overdraft on your main current account – that is an agreement that you are allowed to go up to a certain amount overdrawn?' Note: The sample is based on responses to questions in the GfK PCA consumer survey. For further details, see GfK NOP PCA banking survey technical report.
[35] Ie Yes in the transaction data and Yes in the survey sample.
[36] Ie No in the transaction data and No in the survey sample.

Figure 7: Distribution of actual and perceived overdraft limit (overdraft sample*)

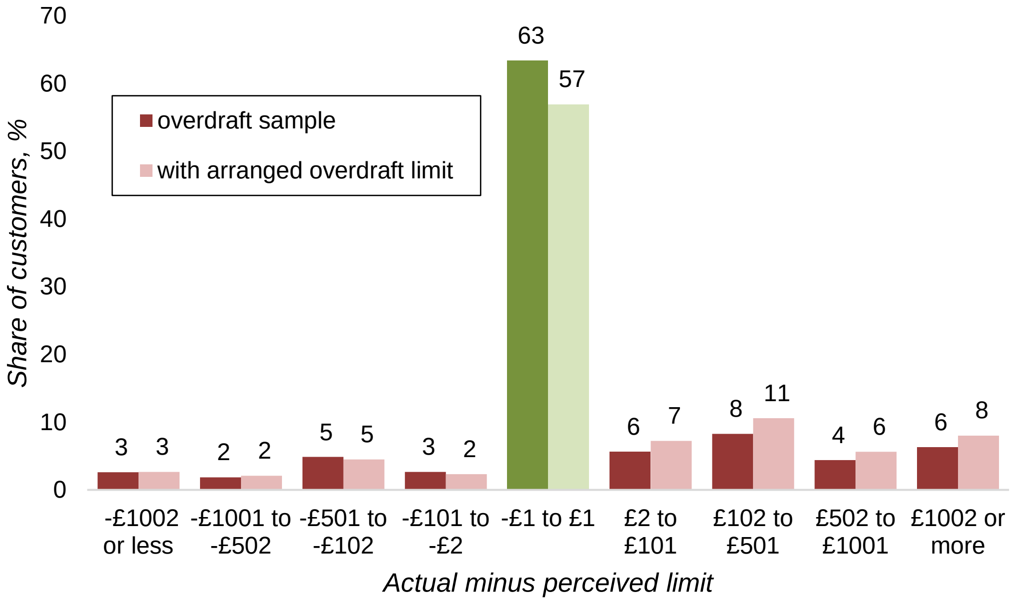


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*162 observations are excluded from the overdraft sample as customers responded that they did not know whether they had an overdraft limit or how high it was or refused to say, leading to a total of 1,019 observations.

41. Next, we looked at the difference between the actual and perceived values of the overdraft limit for each customer in the overdraft sample. Of the customers who used overdrafts[37] 63% correctly judged their limits within a margin of error of £1, and 73% judged their limits correctly within a margin of error of 25% of their current limit.[38] The corresponding figures for customers who used overdrafts and who had an arranged overdraft limit was 57% and 70%. However, there were customers who significantly misjudged their actual overdraft limit, as Figure 8 indicates. Of the customers who went into overdraft, 25% underestimated the limit and 12% overestimated the limit. For those who had an arranged overdraft limit, 32% underestimated it, while 12% overestimated it.

[37] This group also includes customers who did not have an arranged overdraft limit but used an unarranged overdraft.
[38] Barclays noted that if users did not typically approach their arranged overdraft limit, being aware of the precise limit at all times was not important from the customer's perspective. We have therefore included an additional statistic in the paragraph 41, which indicates the share of customers who correctly judged their limits within 25% of their actual limit.

Figure 8: Difference between actual and perceived overdraft limit



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*162 observations are excluded from the overdraft sample as customers responded that they did not know whether they had an overdraft limit/how high it was or refused to say. This results in a total of 1,019 observations. The sample with an arranged overdraft limit is a subset of this sample, excluding a further 253 respondents with zero overdraft limit.
**Light green refers to customers in the arranged overdraft limit and dark green refers to the customers in the overdraft sample.

42. Customers who used overdrafts, either arranged or unarranged, misjudged their limit on average by approximately £350. Customers who had an arranged overdraft limit and used overdrafts, misjudged their limit by approximately £430.

43. We also analysed how often customers overstepped their limit or used an overdraft even though they did not have a limit agreed (unarranged overdraft). We found that 51% of all overdraft users and 39% of those with an arranged limit used an unarranged overdraft. Similarly to the above analysis on overdrafts in general, we found that customers quite often perceived that they did not use unarranged overdrafts when in fact they actually did (30% of those who used an overdraft and 23% of those with an arranged limit) and, on average, underestimated their usage. Further details on unarranged overdraft usage is provided in Annex C.

Customer segmentation

44. We found that certain subgroups of customers within a given segment correctly assessed their overdraft limits more often than other subgroups in that segment:

- Basic characteristics. 18 to 24 year olds assessed their limits correctly more often than 35 to 64 year olds.

- Degree. Customers with no degree were more likely to assess their limit correctly (there was no difference between the two groups when allowing for a 25% tolerance).

- Financial literacy*.* Customers who responded correctly to our financial literacy question in the survey were more likely to estimate their limit correctly, within a 25% tolerance.

- Banking needs*.* Unarranged overdraft users correctly assessed their limits more often than arranged overdraft only users (71% unarranged overdraft users were correct compared to 54% of arranged only overdraft users). Customers with low inflows judged their limits correctly more often than medium and high inflow customers (there was no difference between the groups when allowing for a 25% tolerance).

- Other segments*.* [✄] customers assessed their limits correctly more often than [✄] customers. Switchers misjudged their limits less than non-switchers (there was no difference between the two groups when allowing for a 25% tolerance).

Overdraft charges

45. We also looked at overall overdraft charges to test whether customers were (to varying degrees) aware of the amount of charges they were paying for overdraft usage. If customers are not aware of the charges they incur on overdrafts, the level of charges may not prompt them to search for better value offers. Even if customers do engage in search, a lack of knowledge of the charges they currently incur will make it more difficult for them to compare other available options.

46. The transaction data gives *(a)* the total interest paid for overdraft, and *(b)* the total value of non-interest charges paid in the use of the overdraft, in each month of 2014. We compared the sum, averaged over the months in which a customer was in overdraft in 2014, to the total overdraft charges as estimated by respondents of the survey.[39,40] Respondents were asked to perform rather complex calculations when responding to the survey question about

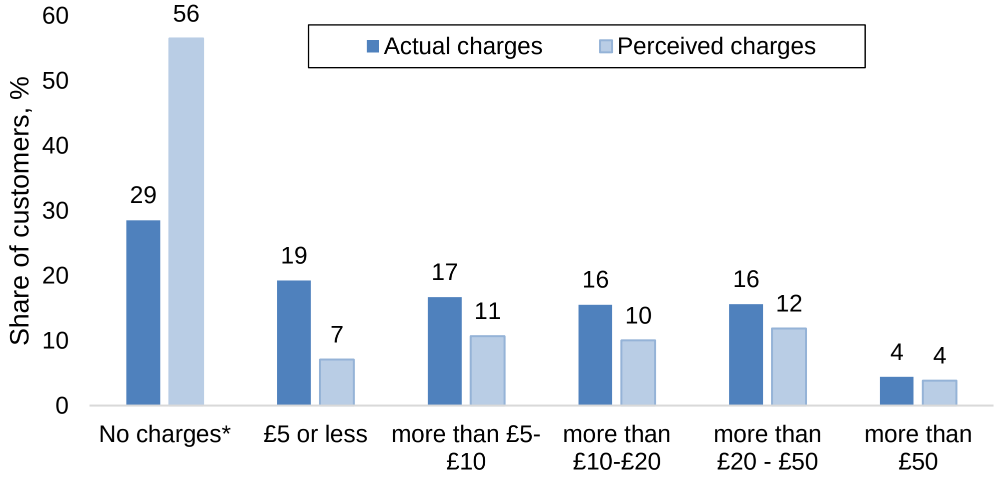
[39] Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G11 'Thinking about the x months (from G5) that you were overdrawn, what was the average amount that you were charged for your overdraft in a month, whether authorised or not?'
[40] HSBC noted that as the transaction data included both interest and non-interest charges, while the survey question referred to the amount charged, a proportion of survey respondents might have referred to their overdraft charges only, leading to a lower estimate than would have been the case if the survey question had more explicitly asked about interest and charges.

charges.[41] Therefore, due to a larger measurement error in these responses, the findings on charges were less reliable compared to other findings (see paragraphs 63–65 for more details).

Main results

47. Roughly a third of overdraft users were not charged or pay less than £0.50 for their overdraft usage, and about another fifth, were charged between £0.50 and £5 per month on average. The survey data indicated that 56% of customers perceived that they did not incur any charges at all and 7% believed that they were charged between £0.50 and £5. As it was likely to be difficult to estimate average monthly charges very accurately, especially if there were many months when customers did not use overdrafts at all, we analysed all customers who were charged £5 or less as one group.[42] When we did so, perceptions of charges (64%) appeared to correspond more accurately to actual values (48%).[43] Only 4% of customers incurred charges above £50, which was consistent with respondents' perceptions (see Figure 9).

Figure 9: Distribution of actual and perceived overdraft charges (overdraft sample†)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*This includes customers who pay between zero and up to £0.5.
†89 observations are excluded from the overdraft sample as respondents did not know or refused to provide their overdraft charges, leading to a total of 1,092 observations.

[41] Respondents not only had to calculate averages over a 12-month period, but they also might need to take into consideration multiple charges applied for the use of an overdraft (eg interest, monthly or daily fee). Furthermore, respondents who used an arranged and unarranged overdraft had to recall different charges for both overdrafts.
[42] By doing so, we allow for a tolerance of up to £5 of incorrect assessment for customers who were charged £5 or less.
[43] The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 9 therefore does not necessarily lead to exactly the same results.

48. On average, customers who went into overdraft paid £12 per month for use of the overdraft. However, customers believed that they were charged on average £11 per month for an overdraft.

49. 30% of customers estimated their charges within +/- £1, and 50% within +/- £5. Table 3 below compares customers' responses to their actual charges. Values further off the diagonal are more problematic as they show large discrepancies between actual and perceived values. We found that a very small percentage of customers reported a charge which was considerably lower or higher than their actual charges.

Table 3: Difference between actual and perceived overdraft charges (overdraft sample*)

%

				Perceived (survey data)
Actual (transaction data)	*No charges†*	*£5 or less*	*More than £5–£20*	*More than £20*
No charges†	23	1	2	1
£5 or less	11	3	4	2
More than £5–£20	14	2	11	5
More than £20	8	1	4	8

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*89 observations were excluded from the overdraft sample as respondents did not know or refused to provide their overdraft charges, leading to a total of 1,092 observations.
†This includes customers who paid between zero and up to £0.5.
Note: the results should be taken as indicative as most subgroups have very low sample sizes.

50. Customers that were not charged for an overdraft (29%) might be less aware of their overdraft usage. Hence, we analysed whether customers correctly estimated their usage (in terms of number of months per year) more often if we excluded those customers who were not charged. We found that there were no significant differences in the results. Detailed information of the analysis can be found in Annex D.

Interest payments and cashback (revenue on balances)

51. In addition to overdrafts, we also analysed whether customers were aware if they received interest on credit balances or cashback from their bank. Lack of awareness of whether or not they received credit interest or cashback could indicate a lack of engagement with PCAs.

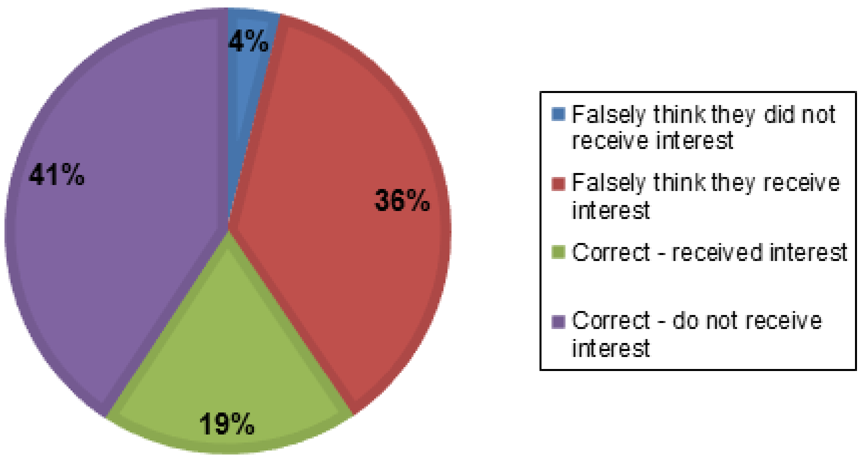
Main results

52. The transaction data provided, for each month in 2014, information on whether a customer received any interest and non-interest revenue, while the

survey asked customers if they received any interest on balances on their account or any cashback on bills/purchases.[44]

53. We found that 23% of customers actually received interest and/or cashback payments on their credit balances, although approximately half of customers perceived that they received payments (see Figure 10 below). Most of the customers (60%) correctly knew whether they received payments on their credit balances or not. However, 37%[45] of customers falsely thought that they were receiving payments when actually they were not.[46]

Figure 10: Proportion of consumers that were correct and incorrect*[47]



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*We exclude 113 observations from the full sample as respondents did not know whether they received payments on their balances. We exclude a further 62 observations as we did not have information on whether the customer actually received payments on credit balances, leading to a sample of 2,763 which is used for this analysis.

54. HSBC stated that it was difficult to reach a conclusion on credit payments. Customers could falsely think that they receive payments on credit balances because of other rates-based benefits or savings accounts held with the same bank. Barclays noted that some customers might have responded that their main account allowed them to earn interest, even if they did not meet the qualifying conditions to receive interest and therefore did not actually earn any revenues on their balances. The questions in the survey made it clear that the questions related to the customers' main PCA. Whilst it is possible that some

[44] Base=All. Question C1 'I would now like you to think just about your main current account with {bank}.Which of these features, if any, does your main current account have? 1. Pays interest on money in account; 2. Includes insurance, such as for travel or mobile phones; 3. Free overdraft so you don't pay if you are overdrawn; 4. Pays cashback on bills/purchases.'
[45] The 36% quoted in the pie chart below in Figure 10 is the un-rounded figure.
[46] From the transaction data we are unable to distinguish what the source of the revenue on balances that customers receive was. This means that we are unable to distinguish whether customers received interest or cashback payments on their credit balance or both. Therefore, we can only test whether customers received any type of revenue on balances versus none.
[47] The numbers in the text base are the un-rounded figures. Adding up the numbers displayed in Figure 10 therefore does not necessarily lead to exactly the same results.

customers might have misunderstood the question, we consider this is unlikely to be the explanation for most responses.

Customer segmentation

55. We found that certain subgroups within a given segment perceived that they received payments on their balances incorrectly more often than other subgroups.

- Basic characteristics. More customers in the 18 to 34 age group incorrectly perceived that they received payments compared with the proportion of customers in other age groups. Slightly more customers in Northern Ireland perceived correctly that they received payments compared to customers in Scotland.[48]

- Banking needs. Slightly fewer customers who did not use an overdraft perceived that they received payments incorrectly compared to those who used overdrafts. Slightly fewer customers with high inflows incorrectly perceived that they received payments compared to those with medium and low inflows.

- Other segments. Switchers less often incorrectly perceived that they received payments compared to those who have not switched. Slightly fewer customers with more than one account incorrectly perceived that they received payments than those with a single current account. Slightly more non-digitally engaged customers correctly perceived that they received payments compared to digitally engaged customers.

- Other segments: Approximately half of customers banking with [✄] incorrectly perceived that they received payments on credit balances. The smallest proportion of customers incorrectly perceiving that they receive payments on credit balances were among those banking with [✄]. These differences may suggest that some banks were better at informing their customers about payments, as well as having different proportions of accounts with and without interest payments.

[48] For this analysis, we cannot compare results to Wales, as our sample size for Wales is below 150 respondents (see Table 3, Annex A).

Sensitivity analysis and limitations

Data limitations

56. Customers were asked about their perceived overdraft usage in the last year. As only five banks – Barclays, HSBC, LBG, RBS and Santander – provided usage figures for a full calendar year (the others reported usage over the last quarter), we concentrated on customers of these banks.[49]

57. We decided not to use the last quarter of 2014 as a proxy for the whole year for those banks that could only provide data from October to December 2014, because, with only a few exceptions, our analysis did not reveal statistical differences between perceptions of customers of the different banks included in the analysis. This indicated to us that customer perception (eg unawareness of actual number of days/months in overdraft) was unlikely to differ significantly if we were to include more banks in our analysis.

58. As our survey was carried out in early 2015, we have slightly different time periods for the actual (January to December 2014) and perceived (February 2014 to February 2015) data.[50] This should not materially affect the analysis which uses yearly averages as we used 12 months data in both cases, and therefore captured any cyclicality within the year.

59. HSBC told us that customer perceptions were likely to be disproportionately influenced by recent customer experiences, leading to inconsistencies between the survey and transaction data. Similarly, Barclays said that customers would be more likely to recall usage correctly for more recent overdraft usage.[51] We have sensitivity checked our results using data for the last quarter of 2014 (see paragraph 70). As we did not find significant differences from our main results, we considered that our results were robust.

60. For the arranged overdraft limit, the transaction data gave the value at the end of 2014. This was compared with the value of the arranged overdraft limit for each customer as of February 2015 obtained from the GFK PCA consumer survey. As the actual value of the overdraft limit was taken as of 31 December 2014, while the perceived value was taken in February 2015, it might be the case that the actual value had changed for some customers between 31

[49] Three banks noted that smaller banks did not report data for the full year, which could bias our results. These banks question the approach to use the last quarter as a proxy for the whole year for this group due to potential differences in disposable income and spending habits at this time of the year in comparison to other periods. If data is not available for all banks, this could lead to overall findings that are not reflecting the market as a whole.
[50] Two banks told us that our transactional data refers to 2014 (account usage) or end of 2014 (account pricing and overdraft limits), however the survey data for customers' perceptions relates to February 2015 (or year to February 2015), leading to inconsistencies.
[51] Barclays response to provisional findings, paragraph 3.20.

December 2014 and March 2015. The banks confirmed that this was the case for only a small set of surveyed customers (as overdraft limits do not change often). Therefore, this was unlikely to have influenced the results.

Survey data limitations

61. As we used survey data, we recognised that there were particular limitations that should be taken into account when interpreting survey data. These are discussed below.

62. Respondents might have been unwilling to talk about sensitive topics, such as the use of an overdraft or their true debit balance, and, instead of answering truthfully, might deliberately have misstated or denied their true usage altogether.

63. In addition, some of the research questions required respondents to undertake mental arithmetic in order to calculate average values over a year's period. This might have been particularly difficult when an overdraft was not used in every month of the year or was used in different frequency over the months. Additionally, respondents might have felt under time pressure, since the interviewer was waiting on the line, which might have further influenced their ability to calculate averages correctly.

64. For example, looking at usage, respondents were likely to have found the question on whether they used an overdraft easiest to answer; the question on the number of months would have been slightly more difficult as it relied on recall; the questions on the number of days per month and on debit balance would have been most difficult as they relied not only on recall but also the ability to calculate an average over a 12-month period in their head and under time pressure.

65. This might be reflected in the proportions of respondents who answered these questions correctly, as 61% of respondents correctly stated that they were using an overdraft, 49% and 38% of respondents correctly estimated the number of months (within +/- two months) and days (within +/- three days) they used an overdraft respectively, and 27% of respondents correctly estimated the band within which their debit balance lay.

Sensitivities

66. Overall, we found that the results from the various sensitivities we ran produced broadly similar results to those from the main specification,[52] and

[52] We refer to the overdraft sample, described in detail in Annex B, as the main specification.

therefore we believe that our qualitative results are robust. Further details of the sensitivity analyses are reported in Annex D.

Excluding customers who opened a new account with their current bank in 2014 from the analysis

67. If usage is cyclical (either across the year or over the time a customer stays with a bank), yearly averages will be different for customers who were with the bank only for a few months (eg because the customer is new to banking or because he/she switched from one bank to another).[53] We therefore re-ran our analysis excluding those who opened their account during 2014 (3% of those who used overdrafts in 2014) and found that the impact on the results was small.

Excluding respondents from the analysis that may not wish to talk about their usage

68. It may be the case that respondents who stated that they did not use an overdraft in the previous 12 months when in fact the transaction data shows they did, might not have wished to talk about their usage (as opposed to genuinely not knowing that they were in overdraft). We therefore tested whether our results were sensitive to these respondents.

69. We found that differences in results were very small for most of our research questions. Slightly more customers correctly estimated the band within which their debit balances lay, slightly fewer customers who either exceeded their arranged overdraft limit or went into an unarranged overdraft did not say that they used an unarranged overdraft, and slightly fewer customers were able to estimate their overdraft charges within +/- £5. However, overall we found that differences were small and did not present a challenge to the validity of our main results.

Using data for the last quarter of 2014 only[54]

70. Finally, as respondents might have thought of more recent months when responding to the survey and therefore their responses might have reflected their overdraft usage, charges incurred and credit interest in the last three months, we repeated our analysis using transaction data for only the last

[53] One bank noted that we have 12 months of transactional data for non-switchers, but only one to 12 months of data for switchers, as we do not have data from their previous bank.
[54] Two banks note that the difference between perceived and actual values could be caused by a survey response bias relating to the most recent (pre-) notification of charges they have received.

quarter of 2014.[55] Overall, we did not find significant differences from our main results.

Further banks' comments

71. HSBCG and Barclays noted that the analysis did not appear to have recognised estimation errors arising from the requirement for customers to undertake calculations, as well as from customers' limited ability to recall accurately overdraft usage and charges over a 12-month period. RBS also observed that the analysis does not appear to have been able to control for these estimation errors. Barclays further noted that changes to the customer's overdraft might have taken place during 2014 for a number of customers surveyed, which might introduce an additional error.[56] LBG stated that customers might have guessed the answer or consciously reported that they did not use overdrafts to avoid further questioning on this. They might also fail to make an effort to estimate their usage correctly as they might think there are no consequences if they estimate incorrectly. LBG argued that the sensitivity analyses did not control for these biases and therefore results should be interpreted cautiously.

72. We acknowledged the errors arising from calculations as well as customers' ability to recall and provided the results within a margin of error.[57,58] In one of our sensitivity analyses (see paragraphs 68 and 69), we excluded customers who responded that they did not use overdrafts. As the differences in results were small, we concluded that the possible presence of customers who deliberately reported no overdraft usage did not materially influence our results.

73. Santander said there was some merit in the concern that consumers may deliberately understate their overdraft usage. HSBC noted that we had not addressed the survey bias of customers deliberately understating their overdraft usage for fear of being judged. In the 'survey data limitations' section above, we acknowledged that this limitation should be taken into account when interpreting results. We also provided results within a margin of error to account for this bias.

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[55] This sensitivity is not performed for the analysis of the actual versus perceived months in overdraft, as we cannot calculate average months per year, based on three months of data.
[56] Barclays told us that the slightly different time period between the actual account usage and the perceived usage introduced an additional margin of error. Barclays specifically noted that due to changes in its overdraft pricing in June 2014, its customers may have difficulties in accurately recalling over the 12-month period.
[57] We believe that customers who guessed their answer or did not make an effort to estimate their usage, made their best guess of what their true usage was and therefore their error relates to customers' limited ability to recall.
[58] We have also added the share of customers who underestimate the months in overdraft by more than two months in Annex A, Table 1.

74. HSBC noted that we should have looked at how digital banking was changing PCA customers’ behaviour and the PCA market by segmenting data to reflect different levels of digital engagement. We have considered this segmentation (see Annex A for further details) to account for different levels of digital engagement among customers.

75. Barclays stated that we did not report results by customer bank. Barclays also noted that drawing conclusions at an aggregate level might be potentially misleading because the structure of overdraft charges might affect how well customers could recall their limits, balances and usage. The main aim of this analysis was to look at overall behaviour of overdraft users rather than how this varied between different banks. We have considered whether there were any differences between different bank brands and segmented customers according to their bank (see Annex A). However, most sample sizes for banks were too small to rely on the results.

76. LBG stated that the analysis is based on customer volumes but not on the value of any potential gains from greater engagement. Customers for whom a PCA is a higher-spend item might focus more attention to it and be better at recalling charges. We acknowledge that overdraft value is a possible extension to the analysis. However, we do not consider using survey responses as a reliable estimate of income. If we use inflows to approximate incomes, we consider this would add to the margin of error.

Annex A: Customer segmentation

1. We analysed whether there were differences between the actual and perceived values of overdraft usage (in months), overdraft limits, and credit interest across different customer segments. In particular, we tested (at a 95% confidence level):

   - Months in overdraft: (a) whether the number of months by which customers misjudged their usage was significantly different for one subgroup compared to another and (b) whether certain subgroups correctly assessed their usage more often or were more likely to underestimate it than others.

   - Overdraft limits: whether certain subgroups correctly assessed their limits more often or were more likely to overestimate it than others.

   - Credit interest*:* whether some groups were incorrect more often in their response to whether they receive payments on their balances.

Customer subgroups

2. We analysed differences between the following subgroups of customers.

3. Basic customer characteristics:

   - Gender.

   - Age: 18 to 34; 35 to 64; 65 and over (based on transaction data).

   - Nation: England; Wales; Scotland; Northern Ireland.[59]

   - Education: higher education degree; no degree (includes no qualifications, A levels and any other qualifications).

4. If banking products are perceived as difficult to understand or complex, customers who have more experience with financial questions might engage more with them. We therefore used a proxy for financial literacy, based on information provided in the survey:

   - Financial literacy (as per survey question): correct answer to the financial question; incorrect answer to the financial question.[60]

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[59] This category is based on a customer's home region as given in the survey data.
[60] Base = All: Question K1 'I would like to ask you a question to do with working out things like bank charges. Suppose you took out a loan of £500, and the interest rate you are charged is 10% per month. There are no other

5. We also split customers by their banking needs, as shown in the transaction data. Customers with higher needs might engage more with the market:

- Heavy overdraft users: in this case heavy overdraft users (those who used an overdraft for nine months or more in 2014);

- Light overdraft users: in this case light overdraft users (those who used an overdraft for eight months or less in 2014).[61]

- Arranged only overdraft users: those who only used an arranged overdraft in 2014; those who used an unarranged overdraft (which may include both those using arranged and unarranged and those using unarranged only).

- Inflows into the account: high (more than £2,500 per month); medium (between £1,250 and £2,500 per month) and low (less than £1,250 per month).[62] Inflows are likely to be positively correlated with income.

6. Finally, we defined the following additional segments relating to how and with which bank(s) a customer engaged:

- PCA bank (of customer): Barclays; BoS; first direct; Halifax; HSBC; Lloyds; NatWest; RBS; Santander.[63]

- Multiple PCAs: multiple PCA holders (those who had two or more PCAs at different banks); single PCA holders.

- Switcher: switchers (those who switched their main account from one bank to another or changed to a different tariff with the same bank in the last three years); non-switchers (those who had not changed banks or tariffs in the last three years).

- Digital engagement: digitally more engaged (those who used internet banking, an application on a smartphone or a tablet, or telephone

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fees. At this rate how much money would you owe in total after one month, if you hadn't repaid any of the loan?' We assumed that those who said £50 or £550 were correct in answering this question. We judge those who said 'do not know' as having answered incorrectly but exclude those who refused to answer the question.

[61] We include overdraft usage as the correct recognition of limits may be more likely for customers that use the overdraft facility on a regular basis. Two other banks noted that we should also consider segments by financial decision maker, digital engagement and by behavioural segments using a recognised segmentation model such as Consumer Spotlight (FCA's segmentation model of retail customers). Due to data limitation and prioritisation we decided not to include financial decision maker and behavioural subgroups in our segmentation analysis.

[62] We use inflows into the account (defined as total value of payments and transfers into the account) between October and December 2014 to estimate yearly incomings as we did not receive data for January to September.

[63] Two banks noted in response to our methodology paper that the overdraft charging structure of banks may have changed during the 12 months considered, which may lead to discrepancies in transaction and survey data. To check whether this may be the case, we have carried out segmentation by banks. Unfortunately most sample sizes for banks are too small to rely on results.

banking); less digitally engaged (those who did not use internet banking, an application on a smartphone or a tablet, or telephone banking).[64,65]

7. We did not perform tests where the sample size was below 150.

8. Barclays noted that there would be natural variation in recall across the customer segments given the different levels of monitoring required by different types of PCA usage and the diversity of personal preferences and interest in banking. It noted that the CMA did not comment why these differences might be expected and were not an indication of certain segments' disengagement. In this analysis, we found no evidence of a certain customer segment being consistently better at recall regarding all research questions. Our quantitative analysis of switching (see Appendix 6.5) was aimed at understanding further the customers' engagement by analysing the searching and switching behaviour of customers.

[64] Base= All: Question C2 'Which, if any, of the following services do you currently use with this account? 1) Internet banking; 2) An app on a smartphone or tablet; 3) Telephone banking; 4) Text alerts about your account balance; 5) Cashpoint machines or ATMs; 6) Getting cash through cashback when you buy something; 7) Direct debits or standing orders; 8) None of these; 9) Don't know'.

[65] We have also considered whether customers who used internet banking, an application on a smartphone or tablet, telephone banking or text alerts were better aware of their usage, limits and whether they received payments on their balances compared to those who did not use any of the listed tools. We found that the results were the same as in the main specification of digitally engaged customers.

Table 1: Overdraft usage (number of months in overdraft) by segments (overdraft sample*)

			Share of customers, (%)			
Segment	*Subgroup*	*Number of respondents*	*Total*	*Who correctly asses their usage (correctly within +/- 2 months)*	*Who under-estimate their usage (more than 2 months)*	*Mean absolute difference (months)†*
Basic characteristics						
Gender	Male	585	53	11‡ (44)	83‡ (55)	4.4
	Female	516	47	17‡ (50)	76‡ (48)	3.9
Age	18-34	427	36	15 (50)	77 (48)	
	35-64	586	56	14 (44)	81 (54)	
	65+	87	9			
Nation	England	817	88	14 (46)	80 (52)	
	Wales	46	5			
	Scotland	158	6	17 (52)	78 (48)	
	Northern Ireland	80	1			
Education						
Education	No degree	603	55	14 (43‡)	81 (55)	4.5
	Degree	472	45	14 (50‡)	79 (48)	3.8
Financial knowledge						
Financial literacy	No	435	40	13 (50)	81 (49)	
	Yes	653	60	14 (45)	80 (53)	
Banking needs						
OD user	Light	682	59	8‡ (59‡)	84‡ (39‡)	2.7
	Heavy	419	41	22‡ (29‡)	75‡ (70‡)	6.2
Overdraft type user	Arranged only	528	49	11‡ (45)	80 (52)	
	Unarranged	573	51	16‡ (48)	80 (51)	
Inflows	Low	342	30	12 (50)	82 (50)	
	Medium	354	31	17 (44)	78 (55)	
	High	405	39	13 (46)	80 (50)	
Other segments						
Bank brand of respondent	Barclays	[✂]	[✂]	[✂]	[✂]	
	BoS	[✂]	[✂]	[✂]	[✂]	
	FD	[✂]	[✂]	[✂]	[✂]	
	Halifax	[✂]	[✂]	[✂]	[✂]	
	HSBC	[✂]	[✂]	[✂]	[✂]	
	Lloyds	[✂]	[✂]	[✂]	[✂]	
	NatWest	[✂]	[✂]	[✂]	[✂]	
	RBS	[✂]	[✂]	[✂]	[✂]	
	Santander	[✂]	[✂]	[✂]	[✂]	
Switcher	No	895	88	14 (46)	80 (52)	
	Yes	206	12	10 (50)	80 (46)	
Multi-banking	No	871	78	13 (45)	81 (53)	
	Yes	230	22	16 (51)	77 (48)	
Digital engagement	No	183	16	11 (45)	84 (53)	
	Yes	918	84	14 (47)	79 (51)	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*The analysis is based on the overdraft sample minus those respondents who did not know how many months they went into overdraft or refused to say, which comprises 1,101 respondents. Customers who did not know the answer/refused to respond to a question which we use to define the segment or for which the value is missing in the transaction data are excluded from a specific segment.
†We only report the value if the difference for a subgroup is significantly different from at least one other subgroup in the segment.
‡Significantly different from share of other subgroup in segment at 95% level.

Table 2: Overdraft limits by segments (overdraft sample*)

Segment	Subgroup	Number of respondents	Share of customers, (%) Total	Who correctly asses their limit (correctly within +/- 25%)	Who over-estimate their limit
Basic characteristics					
Gender	Male	533	52	62 (73)	13
	Female	486	48	65 (74)	11
Age	18-34	411	37	71† (78†)	10
	35-64	532	55	60† (72†)	12
	65+	75	8		
Nation	England	754	87	62 (73)	12
	Wales	47	6		
	Scotland	141	6		
	Northern Ireland	77	1		
Education					
Education	No degree	565	57	67† (75)	11
	Degree	427	43	58† (70)	14
Financial knowledge					
Financial literacy	No	401	40	61 (68†)	13
	Yes	606	60	64 (77†)	12
Banking needs					
Regular OD user	No	617	57	65 (72)	13
	Yes	402	43	61 (75)	10
Overdraft type user	Arranged only	471	46	54† (67†)	13
	Unarranged	548	54	71† (79†)	11
Inflows	Low	312	30	72† (76) (Medium and High)	12
	Medium	341	32	62† (73) (Low)	13
	High	366	38	57† (71)(Low)	11
Other segments					
Bank brand of respondent	Barclays	[✂]	[✂]	[✂]	[✂]
	BoS	[✂]	[✂]	[✂]	[✂]
	FD	[✂]	[✂]	[✂]	[✂]
	Halifax	[✂]	[✂]	[✂]	[✂]
	HSBC	[✂]	[✂]	[✂]	[✂]
	Lloyds	[✂]	[✂]	[✂]	[✂]
	NatWest	[✂]	[✂]	[✂]	[✂]
	RBS	[✂]	[✂]	[✂]	[✂]
	Santander	[✂]	[✂]	[✂]	[✂]
Switcher	No	815	87	62† (73)	12
	Yes	204	13	72† (76)	11
Multi-banking	No	816	79	65 (75)	12
	Yes	203	21	58 (67)	13
Digital engagement	No	160	15	65 (73)	8
	Yes	859	85	63 (73)	13

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*The analysis is based on the overdraft sample minus those respondents who did not know how many months they went into overdraft or refused to say, which comprises 1,019 respondents. Customers who did not know the answer to a question, which we use to split the segment, refused a response or for which the value is missing in the transaction data, are excluded for a specific segment.
†Significantly different from share of other subgroup in segment at 95% level (subgroup indicated in the brackets if more than one subgroup in a segment).

Table 3: Interest payments and cashback (revenue on balance) by segments (revenue on balance sample*)

			Share of customers (%)		
Segment	*Subgroup*	*Number of respondents*	*All*	*Who are correct*	*Who falsely thinking they receive interest*
Basic characteristics					
Gender	Male	1,454	53	59	37
	Female	1,307	47	61	36
Age	18–34	922	29	52‡ (35–64 and 65+)	46‡ (35–64 and 65+)
	35–64	1,340	51	61‡ (18–34 and 65+)	35‡ (to 18–34 and 65+)
	65+	496	20	67‡ (18–34 and 35–64)	29‡ (to 18–34 and 35–64)
Nation	England	2,020	87	60	36
	Wales	103	5		
	Scotland	441	7	54‡ (NI)	40‡ (NI)
	Northern Ireland	199	1	64‡ (Scotland)	31‡ (Scotland)
Education					
Education	No degree	1,501	57	60	36
	Degree	1,162	43	59	37
Financial knowledge					
Financial literacy	No	1,120	41	58	38
	Yes	1,614	59	60	36
Banking needs					
Regular overdraft user	No	689	60	54	42
	Yes	407	40	53	43
Overdraft type user	No overdraft	1,642	57	63‡ (arranged only and unarranged)	32‡ (arranged only And unarranged)
	Arranged only	543	21	53‡ (no overdraft)	43‡ (no overdraft)
	Unarranged	578	22	55‡ (no overdraft)	42‡ (no overdraft)
Inflows	Low	920	31	58	39† (high)
	Medium	885	31	56‡ (high)	39‡ (high)
	High	958	38	63‡ (medium)	32‡ (medium and low)
Other segments					
Bank brand of respondent	Barclays	[✂]	[✂]	[✂]	[✂]
	BoS	[✂]	[✂]	[✂]	[✂]
	FD	[✂]	[✂]	[✂]	[✂]
	Halifax	[✂]	[✂]	[✂]	[✂]
	HSBC	[✂]	[✂]	[✂]	[✂]
	Lloyds	[✂]	[✂]	[✂]	[✂]
	NatWest	[✂]	[✂]	[✂]	[✂]
	RBS	[✂]	[✂]	[✂]	[✂]
	Santander	[✂]	[✂]	[✂]	[✂]
Switcher	No	2,196	86	58‡	38‡
	Yes	567	14	67‡	26‡
Multi-banking	No	2,155	78	58‡	38‡
Digital engagement	Yes	608	22	65‡	31‡
	No	679	26	66‡	31‡
	Yes	2,084	74	57‡	39‡

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*The analysis is based on the revenue on balance sample minus those respondents who refused to say whether they knew if they received interest or cashback, which comprises 2763 respondents. Customers who did not know the answer to a question, which we use to split the segment, refused to answer or for which the value is missing in the transaction data, are excluded for a specific segment.
†We only report the value if the difference for a subgroup is significantly different from at least one other subgroup in the segment.
‡Significantly different from share of other subgroup in segment at 95% level (subgroup indicated in the brackets if more than one subgroup in a segment).

Annex B: Data sets and cleaning

Sample source

1. We used the transaction data provided by banks to obtain the actual value of customers' overdraft usage, limits, charges and credit payments. We used the GfK PCA consumer survey data to obtain the customers' corresponding perceived values.

Survey data

2. Chapter 1 of the PCA banking survey technical report[66] explains how the survey sample was constructed and stratified.

Transaction data

3. Banks were asked to provide transaction data for the 120,000 accounts that were sampled by GfK in the second stage of the survey sampling process on a customer-by-customer basis. This data was sent directly to the CMA by banks.

Data cleaning and sample size

4. For our analysis we combined the survey data provided by GfK with the transaction data provided by the banks. The information for the two data sources was merged using a unique account identifier provided by the banks and a customer number for joint accounts.

5. We removed from the data set customers that were with the bank for less than two months in 2014. For customers who joined the bank during 2014 and were with the bank for at least two months, we excluded from the analysis the usage data for the month of joining as this might not have represented typical usage.

6. Some banks only provided data for the last quarter of 2014. We excluded these banks from the analysis. Hence, our analysis was based on the brands of those banks that provided data for the full year. These were Barclays, BoS, first direct, Halifax, HSBC, Lloyds, M&S Bank, NatWest, RBS and Santander.

7. This resulted in a sample of 2,938 respondents, which we referred to as the full sample.

[66] GfK NOP PCA banking survey technical report.

Construction of the overdraft sample

8. Table 1 showed the actual and perceived overdraft usage of the full surveyed sample. In 2014, 44% of respondents used overdrafts to varying degrees. There were more people who actually went into overdraft than those who said they did in the survey. According to the survey, 70% of customers said that they never went into overdraft. This would suggest that 17% of the customers did not remember that they went into overdraft.

9. A small proportion of customers responded that they either went into overdraft (even though they did not) or did not know whether they went into overdraft, or refused to say.

Table 1: Actual and perceived overdraft usage (full sample)

				%
	Perceived usage (survey results)			
Actual usage (transaction data)	*Used overdraft*	*Did not use overdraft*	*Not available**	*Total*
Used overdraft	26	17	1	44
Did not use overdraft	3	53	1	56
Total	29	70	1	100

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*This includes respondents who refused to respond or did not know whether they went into overdraft in the last 12 months.
Note: The analysis is based on the full sample (2,938 respondents). The 'overdraft sample', which is used for the following analysis, is marked in green and comprises 1,181 respondents. Incorrect responses are highlighted in red.

10. In order to exclude those for whom overdrafts were not relevant because they did not go into overdraft, we constructed a sub-sample of respondents, who according to the transaction data had used an overdraft for at least one day in 2014. We also excluded the small share of respondents who refused to respond to this question or responded that they did not know whether or not they used overdrafts even though they actually did.

11. HSBC noted that potential concerns about limited awareness of usage should be considerably lessened because the findings were skewed by the exclusion of non-overdraft users who had correctly identified themselves as such. We only considered customers who used overdrafts in the analysis of account usage, limits and charges because this information was only relevant to overdraft users.

12. This overdraft sample is marked in green in Table 2 and is the basis for our analysis on overdrafts. It comprises 1,181 respondents and represents 43%[67]

[67] This is the un-rounded figure.

of the customers in the full sample.[68] 38% of customers in this sample said that they did not use overdrafts when in fact they actually did.

Table 2: Actual and perceived overdraft usage (overdraft sample*)

	Perceived usage (survey results)	
Actual usage (transaction data)	*Used overdraft*	*Did not use overdraft*
Used overdraft	62%	38%

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*1,181 respondents. The 'overdraft sample', which is used for the following analysis, is marked in green and comprises 1,181 respondents. Incorrect responses are highlighted in red.

Construction of variables

13. The following describes how we constructed the actual and perceived variables for overdraft usage, limits, charges and credit payments. All actual variables were based on transaction data, whereas all perceived variables were based on survey data. We excluded observations where a customer responded 'do not know' or refused to answer the question.

Account usage

Months in overdraft

- Actual number of months in overdraft: The number of months the account had been in overdraft in 2014. A month was counted as a month in overdraft if the customer went in overdraft for at least one day in that month.

- Perceived number of months in overdraft: The number of months that respondents said that they had been in overdraft in 2014.[69] Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given the value zero.[70]

Days in overdraft

- Actual number of days in overdraft: The average number of days per month the account had been in overdraft in 2014. The average number of

[68] The sampling structure allows us to draw conclusions on all customers based on the answers by the respondents of the survey. In the following we use 'respondents' when referring to the number of customers answering our questions. This figure is important when looking at sample sizes for our tests. Shares will be reported as shares of the customer base.
[69] Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G5 'In how many months in the last year were you overdrawn?'
[70] Base = All. Question G4 'Have you gone overdrawn on your main current account at any time in the last twelve months?'

days was constructed by dividing the total number of days in overdraft by the number of months the account is in overdraft.

- Perceived number of days in overdraft: The average number of days per month that respondents said that they had been in overdraft in 2014, for those months when they were in overdraft.[71] Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given a value of zero.

Debit balance

- Actual debit balance: The actual average value an account had been in debit in 2014. The variable was built by multiplying the average overdraft balance in a month with the total number of days in overdraft in this month; this figure was then summed up over the year and divided by the total number of days in overdraft in the year.

- Perceived debit balance: The average amount that respondents said that their account had been in debit in 2014.[72] Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given the value zero.

Overdraft limits

- Actual overdraft limit: Value of the arranged overdraft limit at the end of 2014.

- Perceived overdraft limit: The arranged overdraft limit that respondents said that they had on their main current account at the time the survey was carried out (February/March 2015).[73] Respondents who stated that they did not have an arranged overdraft limit were given the value zero.[74]

Unarranged overdraft usage

- Actual use of unarranged overdraft: Number of months in an unarranged overdraft, where the customer either exceeded their arranged overdraft

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[71] Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G8 'And how many days in the month were you usually overdrawn?'
[72] Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G7 'Thinking about the x months (from Question G5) that you have been overdrawn in the last year, what is the average amount you were overdrawn in a month?'
[73] Banks reported that overdraft limits had changed between December 2014 and February 2015 on average for less than 1% of customers across banks.
[74] Base=All. Question G2 'Do you have an authorised overdraft on your main current account – that is an agreement that you are allowed to go up to a certain amount overdrawn?'

limit or went into overdraft (for those that did not have an arranged overdraft limit).

- Perceived use of unarranged overdraft: For those who said they did not have an arranged overdraft limit, the number of months in unarranged overdraft was the same as the number of months in overdraft. For those who said they had an arranged overdraft limit, we used the number of months the respondents said that they exceeded their arranged overdraft limit.

Overdraft charges

- Actual overdraft charges: Average monthly overdraft charges incurred in 2014. The variable was built by summing the interest component and the non-interest component of charges. Both were constructed by summing up monthly charges over the year and then dividing by the number of months the customer was in overdraft in 2014.

- Perceived overdraft charges: The average monthly amount of overdraft charges that respondents said that they had paid for being overdrawn in 2014.[75] Where respondents answered earlier in the survey that they had not used an overdraft at all, this variable was given the value zero.

Credit balances

- Actual credit balance: Average monthly interest and non-interest revenue received on the credit balance of an account.

- Perceived credit balance: Dummy variable that takes the value of 1, if the respondent said that he/she received either credit interest or cashback on credit balances, and zero otherwise.

[75] Base = All who have been overdrawn on their main account at any time in the last 12 months. Question G11 'Thinking about the x months (from Question G5) that you were overdrawn, what was the average amount that you were charged for your overdraft in a month, whether authorised or not?'

Annex C: Further results

1. This Annex provides further details on:

- the correlation between different measures of overdraft usage,
- the typical patterns of usage for different types of overdraft users, and
- actual and perceived unarranged overdraft usage.

2. Since our analysis of frequency and patterns of overdraft usage does not rely on survey responses, we have explored these issues relying on the full transaction data set.[76] However, we have removed the observations for which the number of days in credit and the number of days in overdraft did not sum accurately to the total number of days in that month. This includes observations from PCA providers who only provided data for the last quarter of 2014.[77] The remaining dataset contains 62,579 observations, 37,228 of which went into overdraft at least once during 2014.[78]

Measures of intensity of overdraft usage

3. There are different ways in which we can think of heavy overdraft usage, it could relate to:

   (a) customers who go into overdraft for many months in the year;

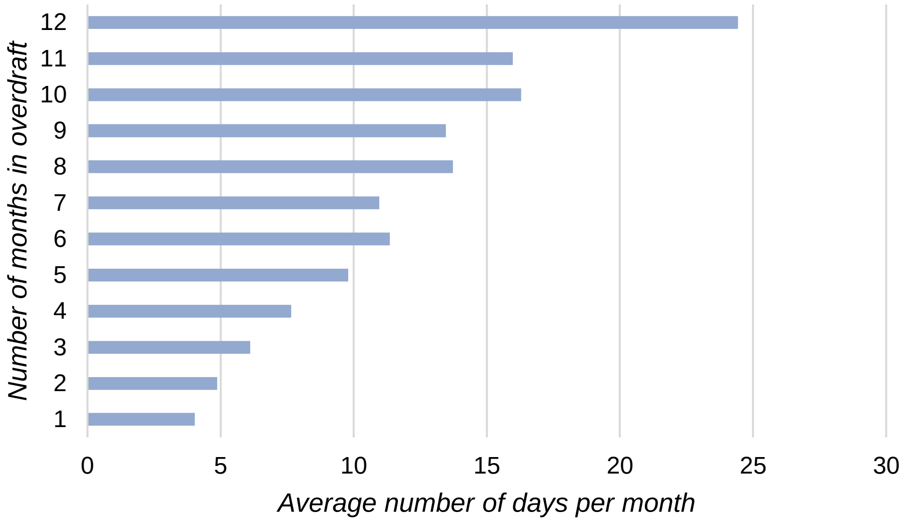
   (b) customers who, when they go into overdraft in a given month, are in overdraft for many days during that month; or

   (c) customers who borrow a significant amount using their overdraft.

4. Among overdraft users, there was a strong positive correlation between number of months and number of days in overdraft (Figure 1 below). For example, those who used overdrafts in each of the 12 months in 2014 remained in overdraft on average 24 days per month, while those who used it for just one month remained in overdraft for four days on average.

[76] See Annex B.
[77] See Annex D.
[78] Note that this does not directly reflect how common overdraft usage is, because some types of PCA customers were oversampled. The results reported in this Annex are weighted to correct for this.

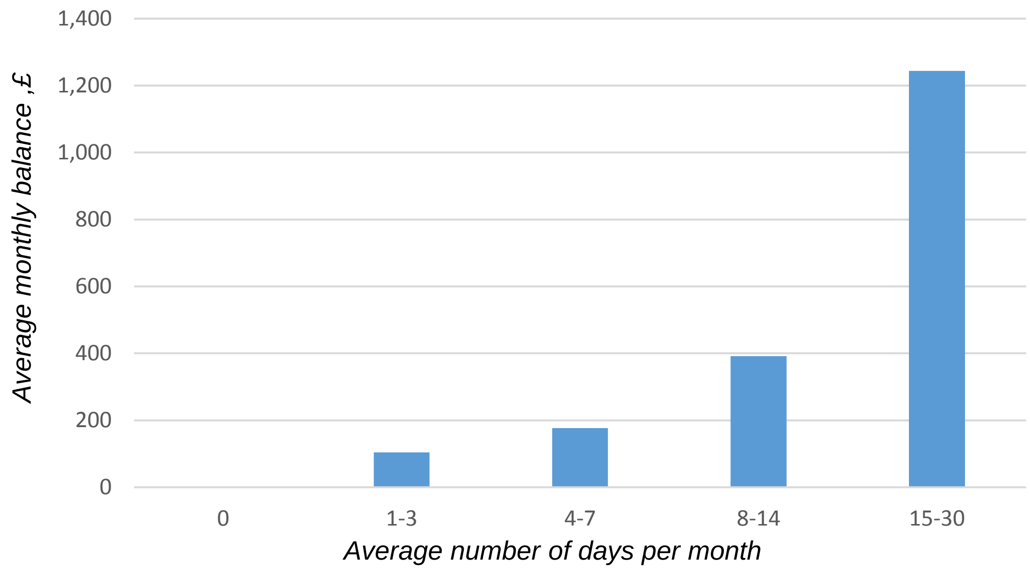
Figure 1: Number of days versus number of months in overdraft, 2014 (overdraft sample)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
Note: The sample includes 1,181 observations.

5. Similarly, we found a strong positive correlation between the average number of days per month customers were in overdraft and the size of customers' monthly average overdraft balance when they were in overdraft (see Figure 2). For example, customers who used their overdraft for more than 14 days per month on average had more than treble the average monthly overdraft balance (at more than £1,200) than those customers who were in overdraft for 8-14 days (just under £400), 4-7 days (under £200) and 1-3 days (just over £100).

Figure 2: Number of days in overdraft versus average monthly overdraft balance, 2014 (overdraft sample)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
Note: The sample includes 97,509 observations.

6. We also considered whether it matters whether we define heavy users as customers who are in overdraft at least once in a large number of months, or whether we focus on the average (or maximum) number of days per month across a year that the customer is in overdraft.

7. Our analysis in this section distinguishes between three types of usage:

   (a) arranged-only usage, whereby in a given month a customer went into their arranged overdraft at least once, but not into their unarranged overdraft;

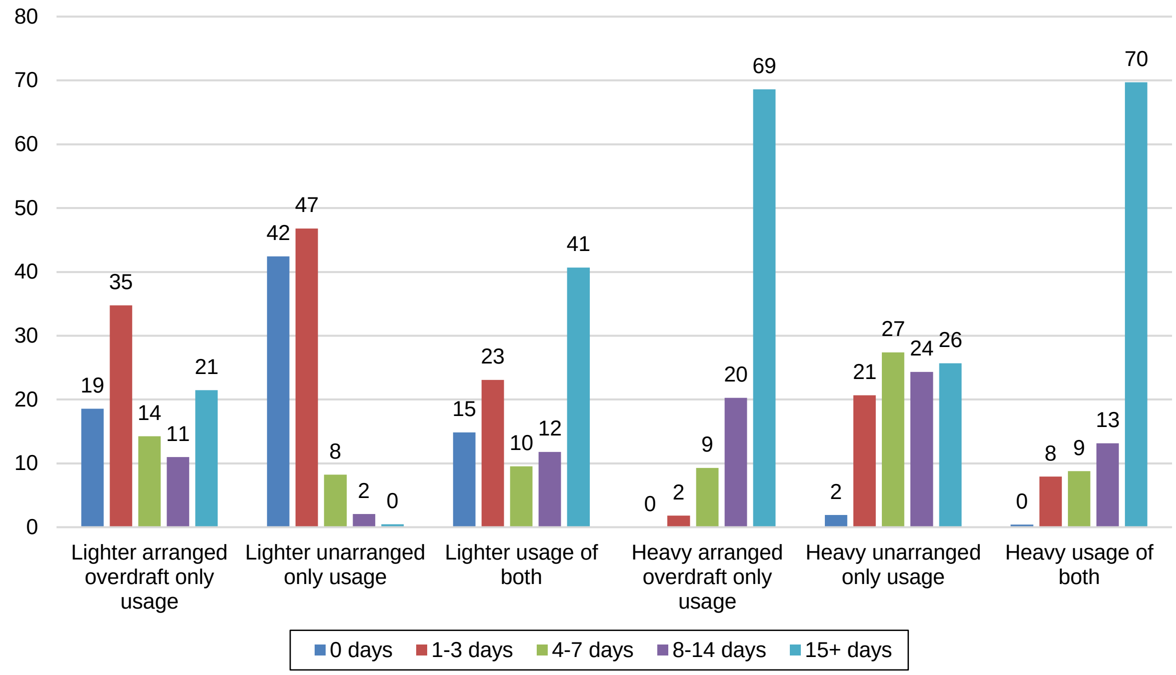
   (b) unarranged-only usage, whereby in a given month a customer without an arranged overdraft facility went into overdraft at least once; and

   (c) usage of both, whereby in a given month a customer with an overdraft facility went into unarranged overdraft at least once.

8. Each account in our data set fell in one of these three categories for each month that it was overdrawn. Note that, while the categories are mutually exclusive for each month, over the course of a year a customer can be an arranged-only user in some months and a user of both types of overdraft in others.

9. We first define heavy usage as usage for nine months or more in 2014 and find that heavy overdraft users also tend to use their overdraft facilities for more days in each month. The two measures of usage are therefore related. This is the case for all three types of usage.

Figure 3: Average days in overdraft as a % of all usage in each category

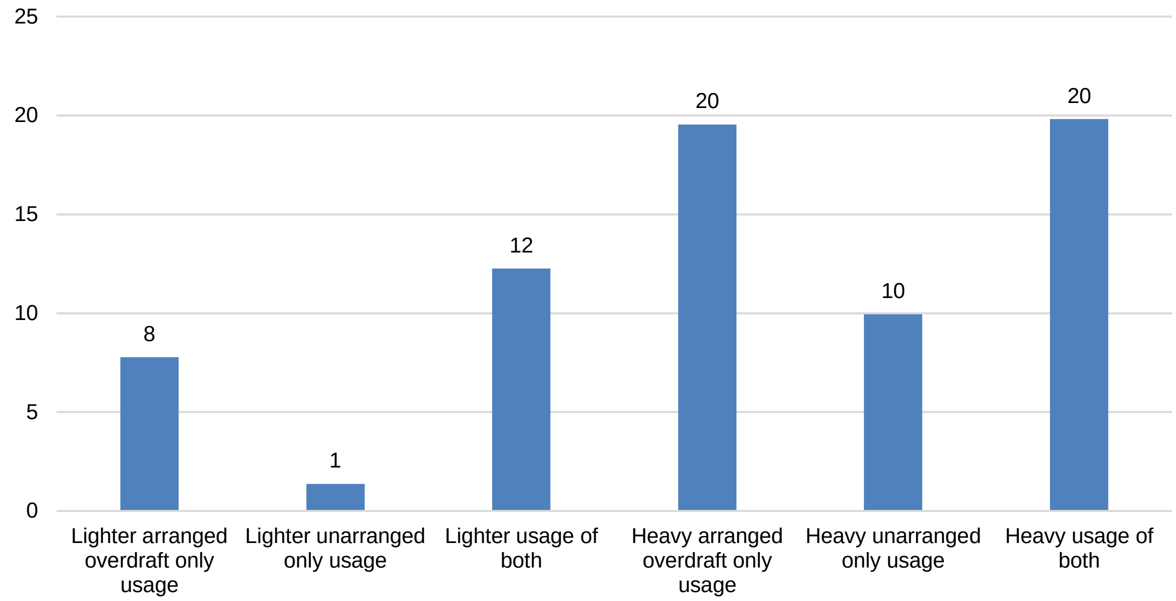


Source: CMA analysis based on the transactions data set (37,228 overdraft users in total).
Note: Average days in overdraft calculated as the average over all months in 2014, instead of only the months when the account was in overdraft.

10. That said, we find that the relationship is weaker for unarranged overdraft usage. Particularly, unarranged-only usage is likely to be for fewer days in a month. In fact, while a sizeable proportion of arranged overdraft usage is permanent – 17% of heavy arranged-only overdraft usage involves accounts that are in overdraft for 30 days per month, on average – there are almost no accounts in our data set that show a similar usage pattern for unarranged overdraft facilities.[79] The average for each type and pattern of usage is shown in the following graph.

[79] Specifically, there are five accounts in our transactions data set that were in unarranged overdraft throughout 2014, compared with 1,296 accounts for arranged overdraft. The latter figure represents 2% of all accounts, or 5.7% of all accounts that went into overdraft in 2014.

Figure 4: Average days per month in overdraft

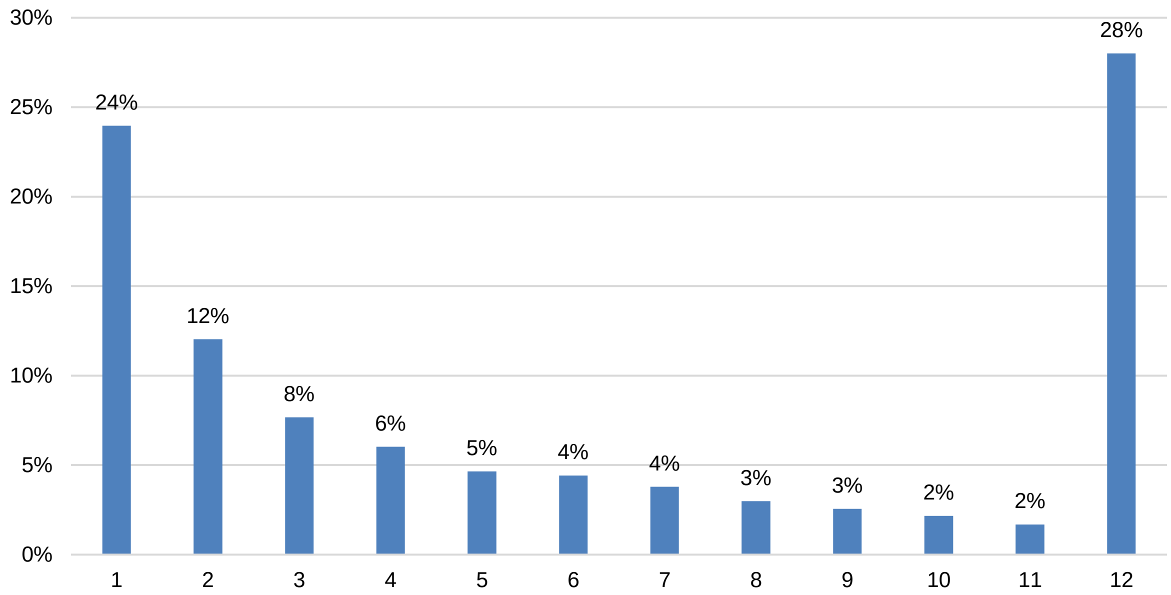


Source: CMA analysis based on the transactions data set (37,228 overdraft users in total).

Patterns of usage

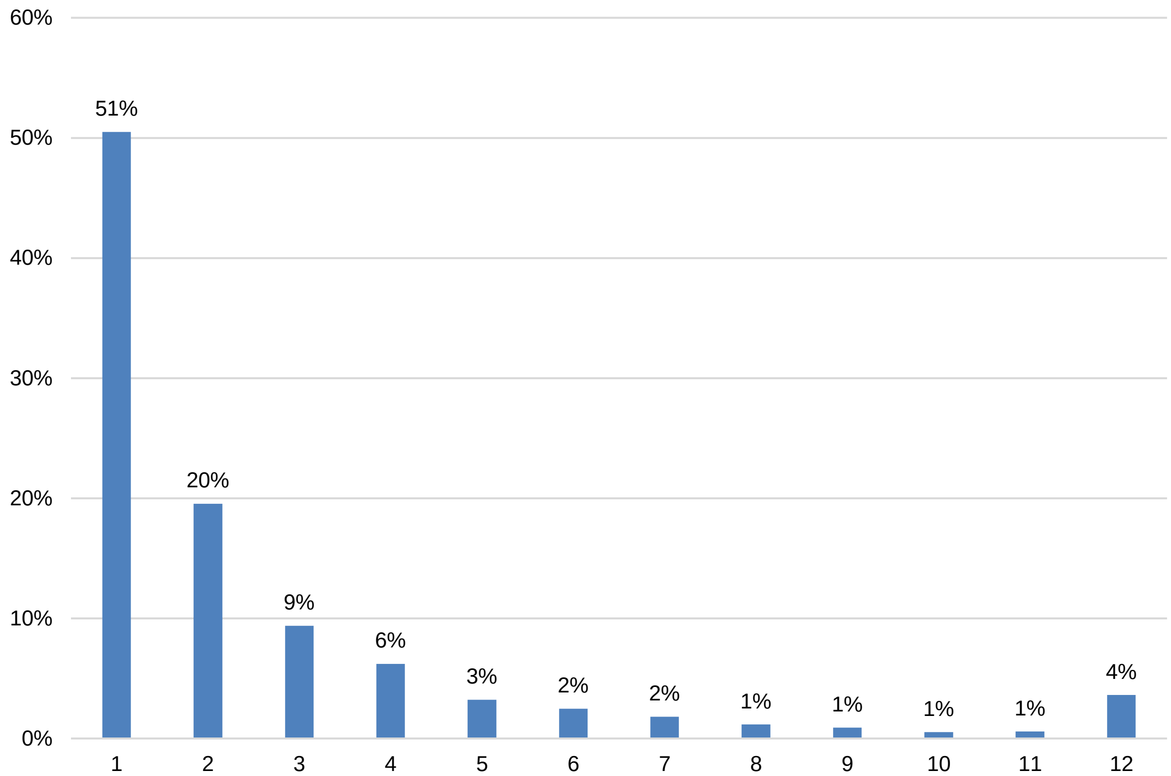
11. We also analysed both whether overdraft users go into overdraft consistently, every month for a period of time, and whether their usage pattern is more idiosyncratic. The following graphs set out the distribution of the maximum number of consecutive months that the accounts in our transactions data set were in either type of overdraft, in unarranged overdraft only, and in arranged overdraft only.

Figure 5: Maximum number of consecutive months overdrawn in 2014 (% of all overdraft users)



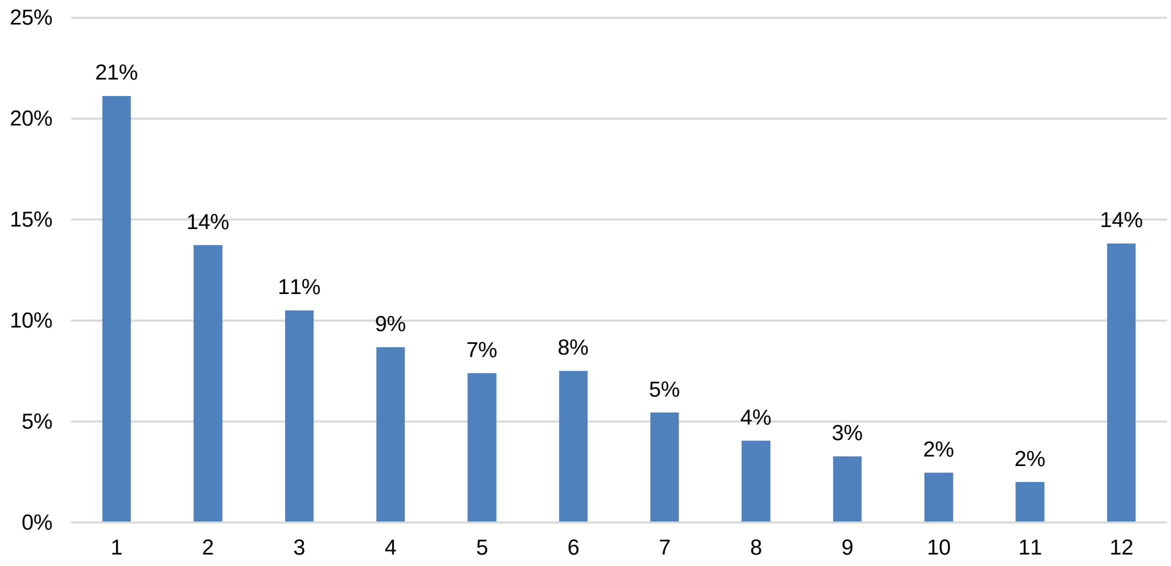
Source: CMA analysis based on the transactions data set (29,125 accounts that went into overdraft at least once in 2014).

Figure 6: Maximum number of consecutive months in unarranged overdraft only (% of all unarranged-only overdraft users)



Source: CMA analysis based on the transactions data set (2,979 that were unarranged-only for at least one month in 2014).

Figure 7: Maximum number of consecutive months in arranged overdraft only (% of all arranged-only overdraft users)



Source: CMA analysis based on the transactions data set (22,221 accounts that were arranged-only for at least one month in 2014).

12. We found that both arranged only and unarranged only overdraft usage are generally short-term, for less than the entire month and for relatively few months in a row. About half of users go into overdraft for no more than four months consecutively. The evidence also suggests that unarranged only usage is generally used for a smaller number of consecutive months than arranged usage. For example, around 50% of users of any type of overdraft facility used it for more than four months in a row at least once in 2014. Around the same proportion of users who only used an arranged overdraft used it for more than four months in a row. Unarranged-only usage, on the other hand, is typically only for one or two months in a row.

13. We note that it is possible that the figure for arranged-only overdraft usage gives an incorrect impression of the overdraft usage of the relevant individuals, since they might change from arranged-only to arranged and unarranged overdraft usage, rather than only from arranged-only to no usage. For that reason, we prefer not to place very much weight on data about arranged-only overdraft usage. However, we consider that this possibility does not affect our overall conclusion about unarranged-only users, because such users are users without an arranged overdraft facility, meaning that they can change to another type of overdraft usage only by setting up an arranged overdraft facility.

14. Lastly, we also looked at:

(a) the average number of days per month that an account was only in arranged overdraft in 2014;

(b) the average number of days per month that an account was in unarranged overdraft in 2014; and

(c) the greatest number of days in any given month in 2014 that an account was in unarranged overdraft.

15. Tables 1 and 2 show that on average most overdraft users who are only in arranged overdraft only use their account for few days each month. In GB, 15% and 25% of accounts that were only in arranged overdraft in 2014 were respectively in arranged overdraft for 8 to 14 days and 15 or more days in a month on average. In NI, 12% and 25% of accounts that were only in arranged overdraft in Q4 2014 were respectively in arranged overdraft for 8 to 14 days and 15 or more days in a month on average.

Table 1: GB average days per month only in arranged overdraft

%

2014 monthly arranged only usage	*Proportion of all users*	*Proportion of overdraft users*	*Proportion of arranged only overdraft users*
Average of 1-3 days in a given month	9.7	22.1	44.9
Average of 4-7 days in a given month	3.3	7.5	15.1
Average of 8 or more days in a given month	3.2	7.4	15.1
Average of 15 or more days in a given month	5.4	12.3	25.0
All arranged only users in a given month	21.5	49.4	100.0

Source: CMA analysis based on bank transaction data.
Notes: Because the underlying customer transactions data for certain banks' GB customers was incomplete in some respects, we have had to make annual projections based on customers' usage in the last quarter of 2014.

Table 2: NI average days per month only in arranged overdraft

%

2014 monthly arranged only usage	*Proportion of all users*	*Proportion of overdraft users*	*Proportion of arranged only overdraft users*
Average of 1-3 days in a given month	8.8	26.5	50.9
Average of 4-7 days in a given month	2.2	6.6	12.7
Average of 8 or more days in a given month	2.0	6.0	11.6
Average of 15 or more days in a given month	4.3	13.0	24.9
All arranged only users in a given month	17.3	52.1	100.0

Source: CMA analysis based on bank transaction data.
Notes: Because the underlying customer transactions data for all NI customers was incomplete in some respects, we have had to make projections based on customers' usage in the last quarter of 2014.

16. Tables 3 and 4 show that on average most unarranged overdraft users only use their account for few days each month. In both GB and NI, around 8% and 10 of accounts respectively that were in unarranged overdraft (in 2014 for GB and Q4 2014 for NI), were in unarranged overdraft for an average of 8 days or more per month.

Table 3: GB average days per month in unarranged overdraft

				%
	Proportion of all users			*Proportion of unarranged users*
2014 monthly unarranged usage	*Unarranged users with an arranged overdraft*	*Unarranged only users*	*All unarranged users*	*All unarranged users*
Average of 1-3 days in a given month	9.8	7.9	17.7	81.6
Average of 4-7 days in a given month	1.3	0.9	2.2	10.2
Average of 8 or more days in a given month	0.9	0.9	1.8	8.2
All unarranged users in a given month	12.0	9.8	21.7	100.0

Source: CMA analysis based on bank transaction data.
Notes: Because the underlying customer transactions data for certain banks' GB customers was incomplete in some respects and, we have had to make projections based on customers' usage in the last quarter of 2014.

Table 4: NI average days per month in unarranged overdraft

				%
	Proportion of all users			*Proportion of unarranged users*
2014 monthly unarranged usage	*Unarranged users with an arranged overdraft*	*Unarranged only users*	*All unarranged users*	*All unarranged users*
Average of 1-3 days in a given month	7.7	5.4	13.1	82.4
Average of 4-7 days in a given month	0.7	0.5	1.2	7.5
Average of 8 or more days in a given month	0.6	1.0	1.6	10.1
All unarranged users in a given month	9.0	6.9	15.9	100.0

Source: CMA analysis based on bank transaction dataset
Notes: Because the underlying customer transactions data for all NI customers was incomplete in some respects, we have had to make projections based on customers' usage in the last quarter of 2014.

17. Tables 5 and 6 also show that most unarranged overdraft users do not use their account for more than a few days each month in any given month during 2014 in GB and Q4 2014 in NI. These two tables are based on the maximum number of days per month an unarranged overdraft user was in unarranged overdraft out of all the months during 2014 in GB and Q4 2014 in NI (whereas the previous tables are based on the average number of days per month for a given customer).

18. In GB, 17% and 21% of accounts that were in unarranged overdraft in 2014 were respectively in unarranged overdraft for at most 8 to 14 days and 15 or more days in any month that year. Similarly in NI, 11% of accounts that were in unarranged overdraft in Q4 2014 were in unarranged overdraft for 8 to 14

days in any month that quarter, and another 14% on the basis of a maximum of 15 or more days of unarranged overdraft usage.[80]

Table 5: GB maximum days per month in unarranged overdraft

%

	Proportion of all users			*Proportion of unarranged users*
2014 monthly unarranged usage	*Unarranged users with an arranged overdraft*	*Unarranged only users*	*All unarranged users*	*All unarranged users*
Maximum of 1-3 days in a given month	4.6	3.8	8.3	37.8
Maximum of 4-7 days in a given month	2.9	2.3	5.2	23.6
Maximum of 8-14 days in a given month	2.2	1.7	3.8	17.3
Maximum of 15+ days in a given month	2.7	2.0	4.7	21.3
All unarranged users in a given month	12.3	9.8	22.1	100

Source: CMA analysis based on bank transaction dataset.
Notes: Because the underlying customer transactions data for certain banks' GB customers was incomplete in some respects, we have had to make projections based on customers' usage in the last quarter of 2014.

Table 6: NI maximum days per month in unarranged overdraft

%

	Proportion of all users			*Proportion of unarranged users*
2014 monthly unarranged usage	*Unarranged users with an arranged overdraft*	*Unarranged only users*	*All unarranged users*	*All unarranged users*
Maximum of 1-3 days in a given month	5.3	3.2	8.5	53.5
Maximum of 4-7 days in a given month	2.1	1.4	3.5	22.0
Maximum of 8-14 days in a given month	0.9	0.8	1.7	10.7
Maximum of 15+ days in a given month	0.7	1.5	2.2	13.8
All unarranged users in a given month	9.0	6.9	15.9	100

Source: CMA analysis based on bank transaction dataset.
Notes: Because the underlying customer transactions data for all NI customers was incomplete in some respects, we have had to make projections based on customers' usage in the last quarter of 2014.

19. Taken together, these findings suggest that unarranged overdraft usage is more likely to be temporary. Insofar as customers use unarranged overdraft for short periods of time, this could also suggest that some of this usage may be inadvertent. However, the results are also consistent with the view that unarranged overdraft usage is more likely to be used for unplanned

[80] These figures are lower than the GB figures in part because the dataset is limited to one quarter rather than the whole of 2014; there are fewer opportunities in one quarter, compared to a whole year, to build up a large number of days of unarranged overdraft usage in a particular month.

emergency borrowing, when the customer knowingly goes into unarranged overdraft because of an unusual pattern of income and expenditure.

Actual and perceived unarranged overdraft usage

20. We find that 50%[81] of overdraft users went into an unarranged overdraft, either because they did not have an arranged overdraft limit or because they exceeded their arranged limit. The proportion drops to 39% when only looking at those with an arranged overdraft limit. 30% of overdraft users were not aware that they went into unarranged overdraft, even though they did (23% of those with an arranged overdraft limit). Of those that used an unarranged overdraft, just over half[82] thought that they did not use an unarranged overdraft when in fact they did.[83,84]

Table 7: Usage of unarranged overdraft, share of customers

%

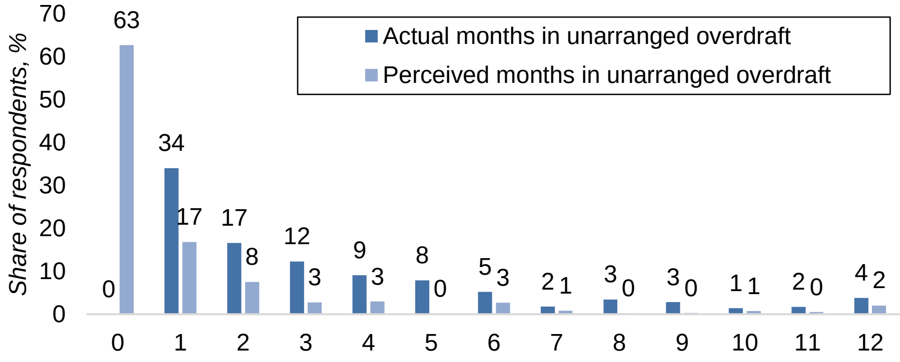
	Perceived (survey results)					
Actual (transaction data)	*Overdraft sample**			*Overdraft sample with arranged overdraft limit†*		
	No	Yes	Total	No	Yes	Total
No	46	4	49	57	5	61
Yes	30	20	51	23	16	39
Total	76	24	100	80	20	100

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*51 customers who used overdrafts are excluded where they responded that they: 1) did not know (or refused to say) whether they had an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit; leading to a total of 1,130 observations.
†51 customers who used overdrafts are excluded where they responded that they: 1) did not know (or refuse to say) whether they had an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit. A further 266 observations are excluded from the overdraft sample for customers did not have arranged overdraft limits, leading to a total of 866 observations. Incorrect responses are highlighted in red.

21. Figure 7 shows that about half of the overdraft users who went into unarranged overdraft did so for just one or two months in the year. However, heavy[85] use of unarranged overdrafts was not rare; 10% used it in nine months of the year or more. Those who used an unarranged overdraft went into an unarranged overdraft for three and a half months on average.

[81] This is the un-rounded figure as opposed to the figure in table 1.
[82] In Table 1, 23 who used an overdraft according to our transaction data but thought they hadn't divided by a total of 39 users who used an overdraft.
[83] This is based on the sample of actual unarranged overdraft users including those that said they did not know or refused to say whether they had exceeded their arranged limit (although such customers do not contribute to the proportion (half) of unarranged overdraft users that thought they did not use an unarranged overdraft). It is therefore different to the sample used in Figure 7.
[84] One bank told us that customers may not properly understand the survey questions, as the terminology used in the survey (eg 'arranged' and 'unarranged' overdrafts) is not always consistent with customer experience. It also told us that customers may not appreciate the distinction between days in overdraft versus days beyond their overdraft limit. We cannot exclude that the high share of those who are not aware that they went into unarranged overdraft could be influenced by the survey questions. However, we believe that the question was framed clearly.
[85] As defined in Annex A.

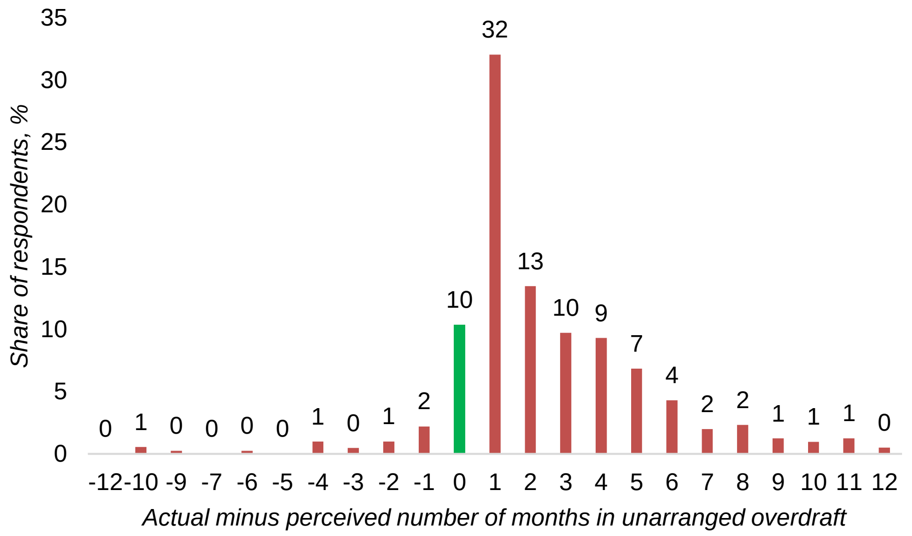
Figure 7: Actual and perceived months in unarranged overdraft per year (users of unarranged overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*104 observations are excluded from the overdraft sample where customers who used overdrafts responded that they: 1) did not know (or refused to say) whether they had an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit; and 3) did not know (or refused to say) how many months they were in overdraft. A further 522 observations are excluded from the overdraft sample for respondents who did not go into unarranged overdraft on at least one day in 2014, leading to a total of 555 observations.

22. Similarly to the previous analysis, customers perceived that they used unarranged overdrafts less often than they actually do, as well as perceiving that they did not use it at all when actually they did. As Figure 8 shows, users of unarranged overdrafts underestimated their usage much more often than they overestimated their usage. In particular, 55% misjudged their overdraft usage by two or more months. On average, unarranged overdraft users, misjudged their unarranged usage by three months. The same group also misjudged the number of months they were in overdraft by four months.

Figure 8: Difference between actual and perceived months in unarranged overdraft (users of unarranged overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*104 observations are excluded from the overdraft sample where customers who used overdrafts responded that they: 1) did not know (or refused to say) whether they had an arranged overdraft limit; 2) did not know (or refused to say) whether they exceeded their arranged overdraft limit; and 3) did not know (or refused to say) how many months they were in overdraft. A further 522 observations are excluded from the overdraft sample as respondents did not go into unarranged overdraft on at least one day in 2014, leading to a total of 555 observations.

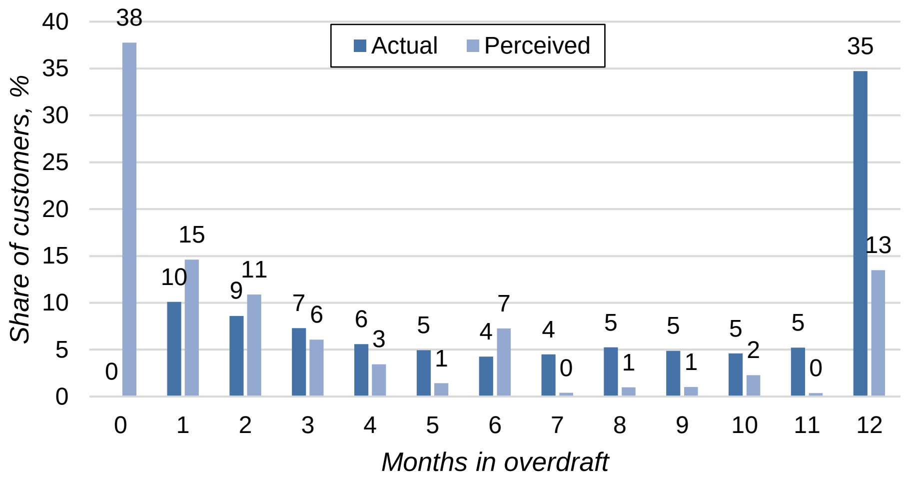
Annex D: Sensitivities

1. This annex provides further details on some of the sensitivity analyses we conducted.

Excluding respondents who have not been charged for using an overdraft

2. When excluding those respondents who had not incurred any charges from the analysis, Figure 1 shows that we did not observe any differences in the perceived number of months in overdraft compared to the main specification (see Figure 1 in the 'overdraft usage' section).

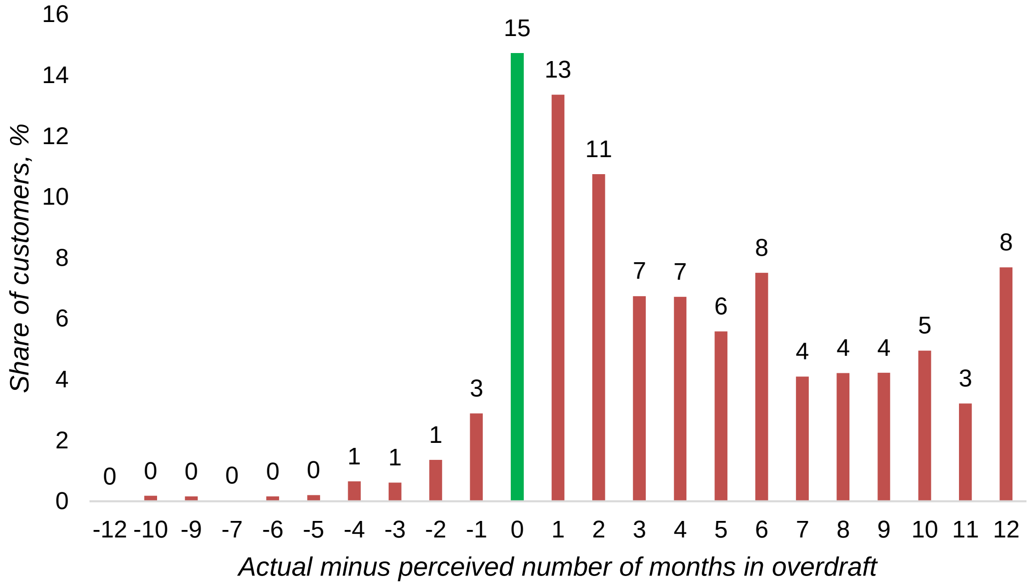
Figure 1: Distribution of actual and perceived number of months in overdraft excluding respondents that have not been charged for an overdraft (overdraft sample excluding free overdrafts*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*278 customers were not charged and are therefore excluded. A further 73 are excluded from the overdraft sample where customers responded that they did not know how many months they went into overdraft or refused to say, leading to a total of 830 observations.

3. Similarly, we did not observe significant changes in the difference between actual and perceived number of months in overdraft, as shown in Figure 2, compared to the main specification (see Figure 3 in the 'overdraft usage' discussion).

Figure 2: Difference between actual and perceived number of months in overdraft excluding respondents who have not been charged for an overdraft (overdraft sample excluding free overdrafts*)



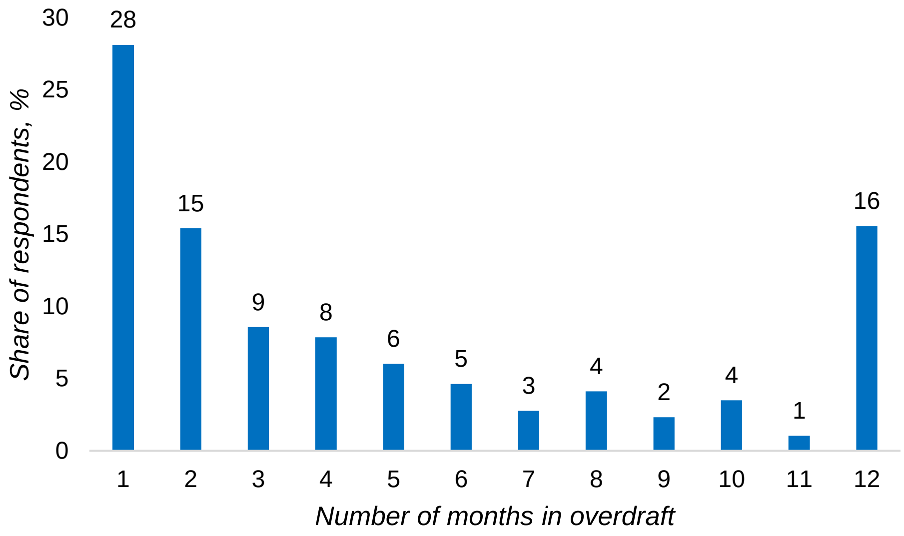
Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*278 customers were not charged and are therefore excluded. A further 73 are excluded from the overdraft sample where customers responded that they did not know how many months they went into overdraft or refused to say, leading to a total of 830 observations.

Excluding respondents who may not wish to talk about their usage

4. When we compare the distribution of actual overdraft usage of the overdraft sample (see Figure 1 in the 'overdraft usage' discussion) with the distribution of actual overdraft usage of respondents who said they did not use overdrafts even though the transaction data shows that they did[86] (see Figure 3 below), However, we also note that more respondents had used overdrafts for one or two months and less respondents had been overdrawn in all 12 months when we excluded these respondents.

[86] Those are the 42% of respondents of the overdraft sample who said that they had not used an overdraft, shown in Figure 1 in the 'overdraft usage' section.

Figure 3: Distribution of actual number of months in overdraft of those who said they were not in overdraft*

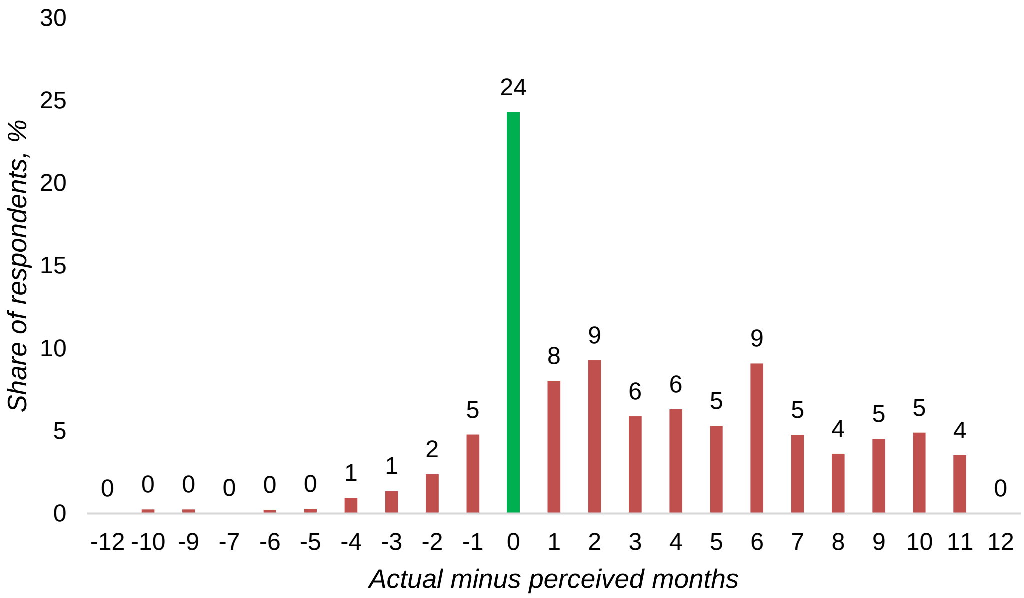


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*The sample size includes 466 respondents who said they were not in overdraft although they actually were in overdraft.

5. Figure 4 below shows results on actual and perceived number of months in overdraft when we exclude from the analysis those who perceived they did not go into overdraft when they actually did.[87] We found that 49% of customers estimated the number of months they used their overdraft with a tolerance of two months compared to 47% when the respondents who did not go into overdraft are not excluded (see Figure 3 in the 'overdraft usage' section). Similarly, 40% estimated the average number of days in overdraft with a tolerance of three days compared to 38% when the respondents who did not go into overdraft are not excluded.

[87] Specifically, 42% of respondents who said they did not go into overdraft at all even although the transaction data shows that they did

Figure 4: Difference between actual and perceived number of months in overdraft (overdraft sample excluding those who said they did not use overdraft*)



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey data.
*466 observations are excluded from the overdraft sample because they said they did not use overdrafts; 80 observations are excluded because they did not know for how many months they used an overdraft or refused to say, leading to 635 observations.

6. When we excluded from the analysis respondents who said that they had not used an overdraft, we further found that:

(a) 46% of customers correctly estimated the band within which their debit balances lay compared to 27% in the main specification.

(b) Overdraft users continued to underestimate their usage much more often than they overestimated it. For example, 57% of customers who used overdrafts underestimated the number of months they used it by more than a month. This compares to 63% from the main specification.

(c) 64% of customers who used overdrafts, and 60% of those who used overdrafts and had an arranged limit, knew their limit exactly compared to 63% and 57%, respectively, from the main specification.

(d) 40% of customers who either exceeded their arranged overdraft limit or went into an unarranged overdraft reported that they had not used an unarranged overdraft compared with about half in the main specification.

(e) 38% of customers were charged £5 or less per month for their overdraft and 42% of customers correctly estimated their overdraft charges within £5, compared to 50% in the main specification.

Using data for the last quarter of 2014 only

7. When using data for the last three months in 2014 only, we found that 36% of respondents estimated the average number of days in overdraft per month to a tolerance of three days, compared with 38% from the main specification. On average, customers misjudged the number of days per month by nine, the same as in the main analysis.

8. 29% of customers correctly estimated the band within which their debit balances lay, compared with 27% from the main specification.

9. As in the main specification, customers tended to underestimate their usage. The same proportion of customers underestimated (57%) the average number of days per month in overdraft with a tolerance of three days as in the main specification. Similarly, the same proportion (60%) of customers underestimated their debit balances, compared to the proportion in the main specification.

10. As in the main specification, roughly half of customers were charged £5 or less per month for their overdraft and 48% correctly estimated their overdraft charges within a tolerance of £5, compared to 50% in the main specification.

Appendix 6.5: PCA overdraft customer characteristics

1. In our analysis of PCA customer engagement, we have specifically considered the subgroup of customers who use overdrafts and the following is the analysis of demographic characteristics of this subgroup of PCA customers.

2. This demographic analysis is primarily based on the 2014 anonymised current account usage data, as provided by the banks (transaction data). When considering transaction data, we refer here to 'customers' for simplicity. However, transaction data contains a sample of accounts rather than customers. Therefore, for customers who hold more than one PCA, we do not observe all their activity but only that associated with the account included in our sample.[1] Where a customer characteristic was not available from the transaction data, we used the GfK PCA consumer survey data responses, which came from customers who were a subsample of the transaction data. Our analysis was based on the brands of those banks that provided data for the full year.[2]

3. For the purpose of the analysis, we divided customers into different groups based on overdraft used:

   (a) Non-users – customers who did not use an overdraft in 2014.

   (b) Arranged only – customers who only used arranged overdrafts in 2014.

   (c) Unarranged – customers who used unarranged overdrafts in 2014. This group includes both those who used unarranged only and those who used arranged and unarranged overdrafts.

4. To analyse any differences between customers who use overdrafts regularly and customers who use overdrafts occasionally, we further divided overdraft users into different groups based on how regularly they used overdrafts:

   (a) Light users – in this case customers who used either an arranged or unarranged overdraft for eight months or fewer in 2014.[3]

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[1] For example, a customer may have two accounts and only use overdraft on one of them, while the chances for any of the two accounts being in the sample are the same.
[2] These banks were Barclays, LBG (for its brands: BoS, Halifax and Lloyds), HSBCG (for all its brands: HSBC, first direct and M&S Bank), RBSG (for its brands: RBS and NatWest) and Santander.
[3] We define a customer as being in overdraft for a month if the customer was in overdraft for at least one day in that month.

(*b*) Heavy users – in this case customers who used either an arranged or unarranged overdraft for nine months or more in 2014.

5. Table 1 below shows the distribution of customers in the transaction data, as well as in the survey data, based on the type of overdraft used and the frequency of overdraft usage. The shares of the different groups of overdraft users drawn from the survey data reflects the shares observed in the transaction data. In the analysis, we excluded observations where a value in the transaction data was missing, and we excluded from the survey data observations where a customer responded 'do not know' or refused to answer the question.

Table 1: Distribution of customers by overdraft type used and frequency of overdraft usage

	Non-users	*Arranged only*	*Unarranged*	*Light user*	*Heavy user*	*Full sample*
Transaction data (share of the full sample), %	55	22	24	26	19	100
Transaction data, number of observations	44,796	15,616	17,987	20,441	13,162	78,399
Survey data (share of the all surveyed customers), %	56	21	23	25	18	100
Survey data, number of observations	1,729	576	633	737	472	2,938

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey.
Note: % in the table are rounded so individual rows may not add up to 100.

Overdraft users based on overdraft used

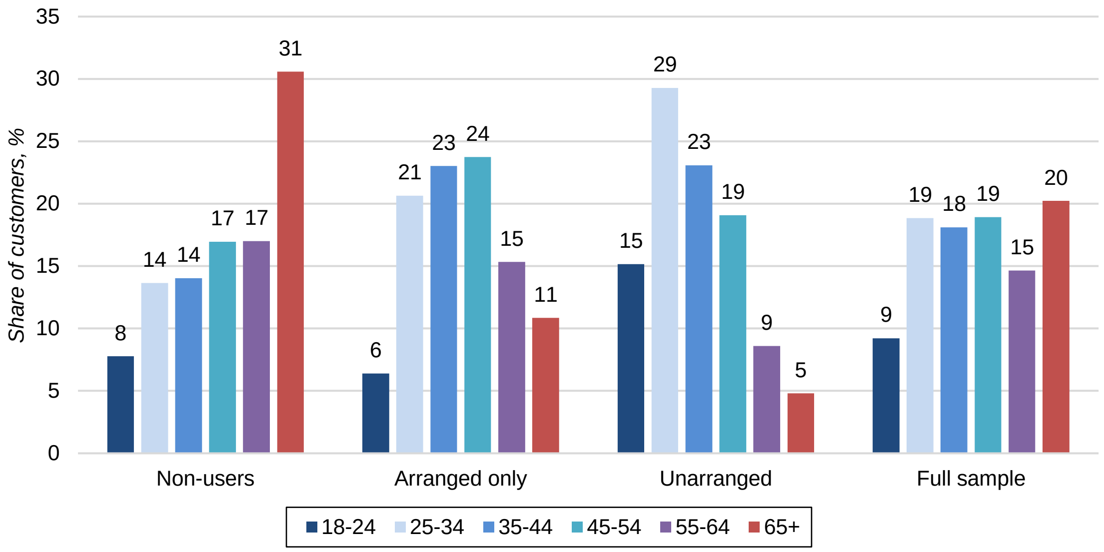
6. In the following section we analyse different characteristics of customers based on overdraft used. We only highlight differences that are statistically significant at a 95% level.[4] Further details on the results of statistical significance tests are provided in Annex A.

Age

7. The age distribution of the different groups is shown in Figure 1 below. Customers in the arranged only and unarranged groups tend to be younger than those in the non-users group, of which 31% are 65 or more years old. Customers in the unarranged group are more likely to be aged 18 to 34 (44%), than customers in the arranged only group (27%). The higher proportion of those aged 65 or more in the non-users group is consistent with other characteristics of this group, such as inflows and working status, which we consider below.

[4] We do not perform statistical significance tests when the sample size falls below 150.

Figure 1: Age profile of customers

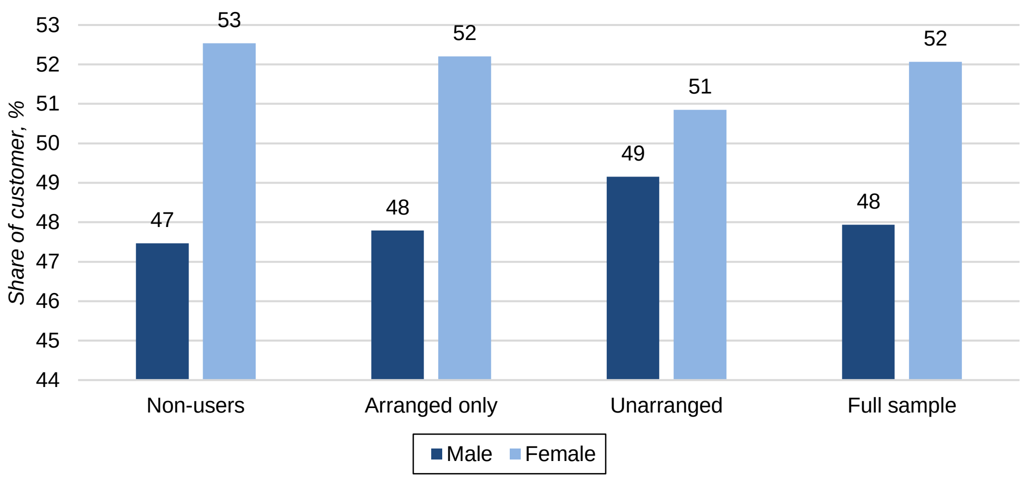


Source: CMA analysis based on banks' transaction data (sample base: non-users (44,438), arranged only (15,609), unarranged (17,963)).A small number of observations were excluded as banks did not provide age information for certain customers.

Gender

8. Figure 2 below shows the gender split of the different groups. Although the share of males in the unarranged group is statistically significantly different from the share of males in the non-users group, the difference is not substantial.

Figure 2: Gender profile of customers

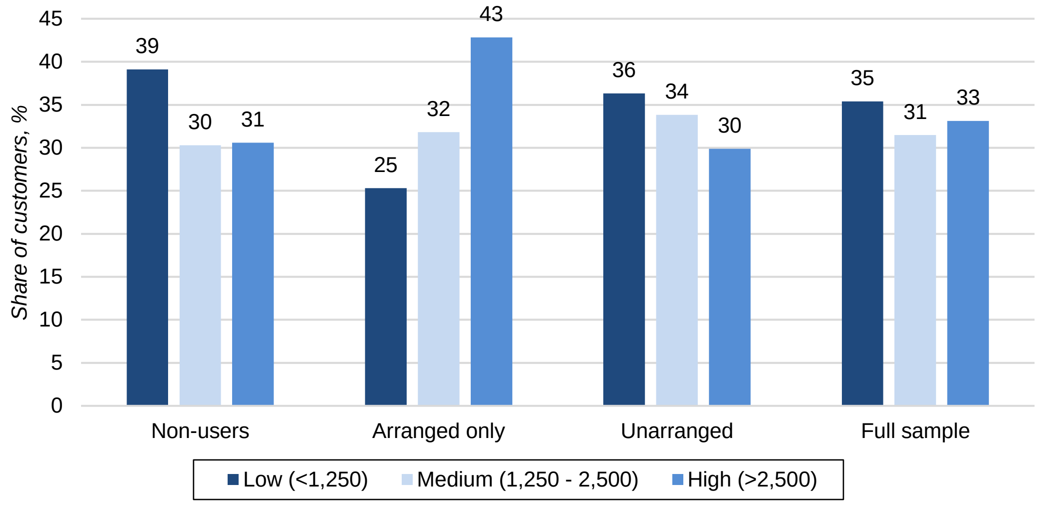


Source: CMA analysis based on banks' transaction data (sample base: non-users (44,669), arranged only (15,614), unarranged (17,986)).

Income

9. Figure 3 below shows the distribution of income (defined by inflows[5]) in the different groups. Customers in the arranged only group are more likely to have high income (43%), while only 25% in this group have low income. This contrasts with those in the non-users group, where 39% have low income. Among the unarranged group, the highest share (36%) have low income, but this share is slightly lower than the share in the non-users group.[6]

Figure 3: Income profile of customers



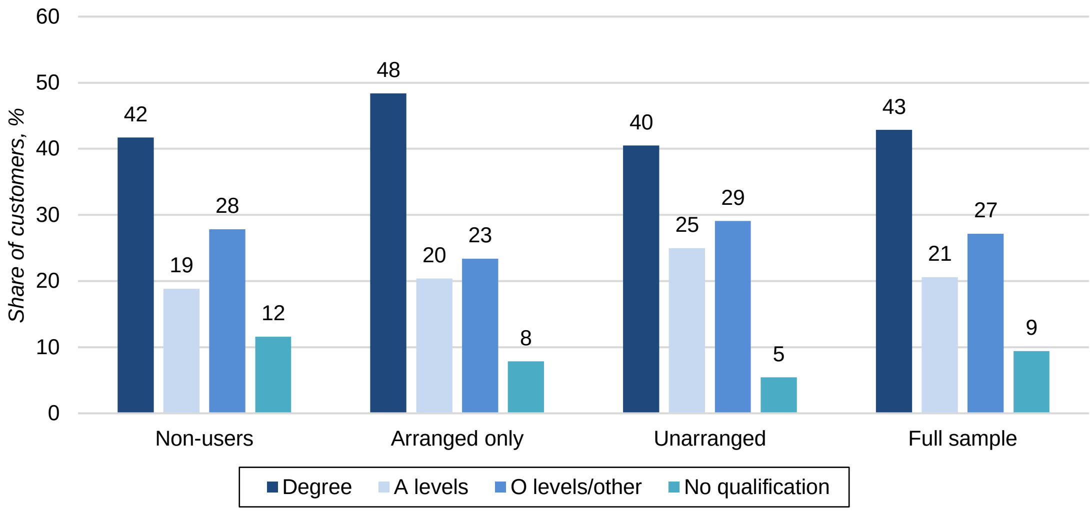
Source: CMA analysis based on banks' transaction data (sample base: non-users (44,228), arranged only (15,456), unarranged (17,549)).

Education

10. Figure 4 below shows the education levels across the different groups. Customers in the arranged-only group, compared to non-users and unarranged overdraft users, are more likely to have a degree-level education.[7]

[5] We use inflows into the account (defined as total value of payments and transfers into the account) as a proxy for customer income. We excluded accounts with zero inflows and calculated the average inflows based on three months from October to December in 2014.
[6] As the transaction data includes accounts that are used as secondary accounts, we sensitivity checked the results by considering only the main accounts as indicated by surveyed customers. The sensitivity results indicated the same distribution pattern in the different groups, except from the slightly lower share of low income customers in no overdraft group.
[7] The numbers of observations of customers who used an arranged overdraft and have A levels as well as O levels/other qualifications are too small to perform statistical significance tests. The number of observations of customers without qualification are also too small to perform statistical significance test.

Figure 4: Education profile of customers

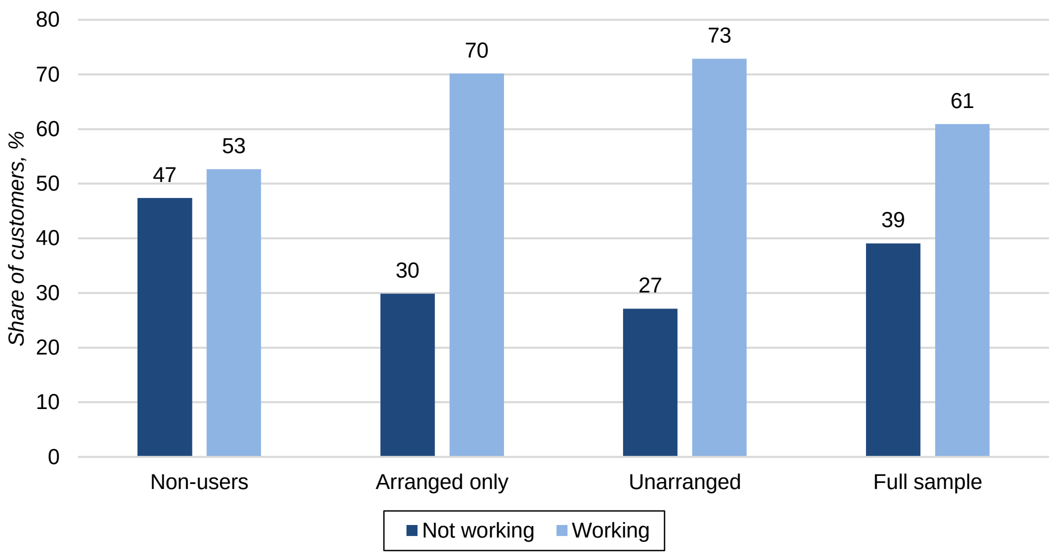


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey (sample base: non-users (1,658), arranged only (563), unarranged (610)).

Working status

11. The working status of customers is shown in Figure 5 below. Customers in the arranged-only group (70%) and customers in the unarranged group (73%) are more likely to be working (full time or part time), compared with customers in the non-users group (53%). The share of working customers in the unarranged group is not statistically significantly different from the share of working customers in the arranged only group.

Figure 5: Working status profile of customers

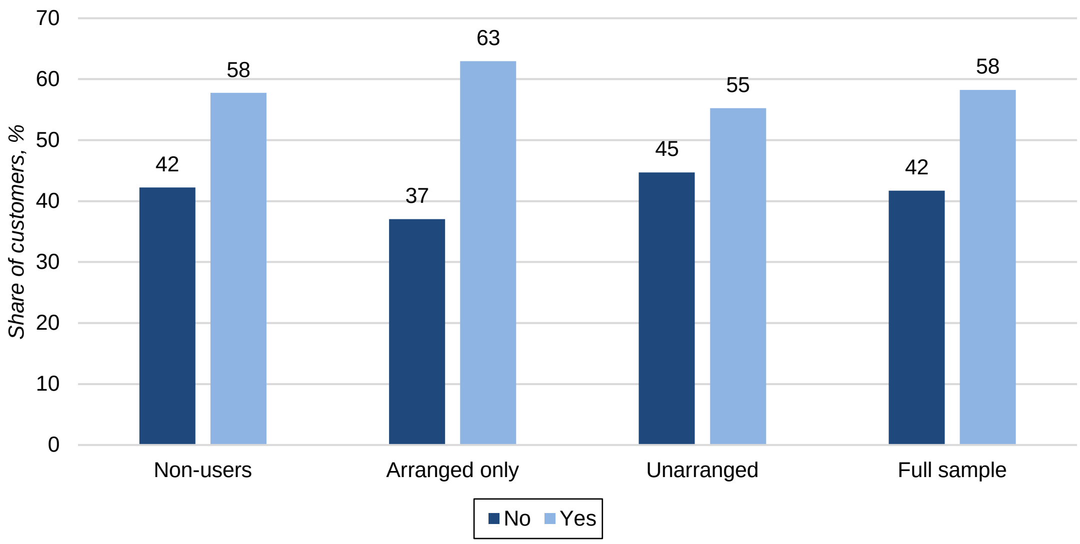


Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey (sample base: non-users (1,729), arranged only (576), unarranged (633)).

Financial literacy

12. Figure 6 below shows the financial literacy of customers.[8] Customers in the arranged-only group are more likely to be financially literate, compared with the other groups.

Figure 6: Financial literacy profile of customers



Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey (sample base: non-users (1,713), arranged only (568), unarranged (627)).

Overdraft users based on frequency of overdraft usage

13. We compared the characteristics of heavy overdraft users with the characteristics of light overdraft users. We found that customers in the heavy users group are less likely to have low income (27%), compared with light users (34%).[9] We also found that heavy users were more likely to be working full or part time (76%) relative to light users (69%).Apart from these differences, we did not find any other substantial differences between light and heavy users. Further details on characteristics between light and heavy overdraft users, as well as results of the statistical significance tests, are provided in Annex B.

[8] We define a customer as financially literate if she/he correctly answered the financial literacy question in the GfK PCA consumer survey. Base = All: Question K1 'I would like to ask you a question to do with working out things like bank charges. Suppose you took out a loan of £500, and the interest rate you are charged is 10% per month. There are no other fees. At this rate how much money would you owe in total after one month, if you hadn't repaid any of the loan?'

[9] Low income is defined as net inflows of less than £1,250 per month.

Annex A: Overdraft used

Results of statistical significance tests

Group	*Pair*	*Statistically significant at 95 % level*
Age		
18-24	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
25-34	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
35-44	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	
45-54	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
55-64	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
65+	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
Gender		
Male	No overdraft-arranged	
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
Female	No overdraft-arranged	
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
Income		
Low	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
Medium	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	Yes
High	No overdraft-arranged	Yes
	No overdraft-unarranged	
	Arranged-unarranged	Yes

Group	*Pair*	*Statistically significant at 95 % level*
Education		
Degree	No overdraft-arranged	Yes
	No overdraft-unarranged	
	Arranged-unarranged	Yes
A levels	No overdraft-arranged	Values too small
	No overdraft-unarranged	Yes
	Arranged-unarranged	Values too small
O levels/other	No overdraft-arranged	Values too small
	No overdraft-unarranged	
	Authorised-unarranged	Values too small
No qualification	No overdraft-arranged	Values too small
	No overdraft-unarranged	Values too small
	Arranged-unarranged	Values too small
Working status		
Working	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	
Not working	No overdraft-arranged	Yes
	No overdraft-unarranged	Yes
	Arranged-unarranged	
Financial literacy		
No	No overdraft-arranged	Yes
	No overdraft-unarranged	
	Arranged-unarranged	Yes
Yes	No overdraft-arranged	Yes
	No overdraft-unarranged	
	Arranged-unarranged	Yes

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey.

Annex B: Light and heavy overdraft user

Details on the characteristics of light and heavy overdraft users

Group	*Light users (%)*	*Light users, number of observations*	*Heavy users (%)*	*Heavy users, number of observations*	*Share of light users statistically significant at 95 % from the share of heavy users*
Age					
18-24	12	2,862	9	1,298	Yes
25-34	24	5,306	27	3,522	Yes
35-44	22	4,495	24	3,246	Yes
45-54	20	3,798	23	3,009	Yes
55-64	13	2,315	11	1,378	Yes
65+	9	1,641	6	702	Yes
Gender					
Male	48	9,927	49	6,437	
Female	52	10,512	51	6,724	
Income					
Low	34	7,038	27	3,559	Yes
Medium	31	6,427	35	4,670	Yes
High	35	6,571	37	4,740	Yes
Education					
Degree	46	320	42	192	
A levels	23	167	23	99	Values too small
O levels/other	26	188	27	129	Values too small
No qualification	5	38	8	40	Values too small
Working status					
Working	69	512	76	351	Yes
Not working	31	225	24	121	Values too small
Financial literacy					
No	41	301	41	192	
Yes	59	425	59	277	

Source: CMA analysis based on banks' transaction data and GfK PCA consumer survey.

Appendix 6.6: Banks' competitive PCA strategies

1. In this appendix we present evidence on the banks' competitive strategies including:

   (a) whether or not and how providers target specific customer groups;

   (b) to what extent and how providers compete on price;

   (c) to what extent and how providers compete on service quality;

   (d) how providers have developed their marketing strategies, including how providers varied in terms of their use of marketing spend, branches and comparison websites; and

   (e) how providers have developed their different overdraft features focusing on how providers vary in their provision of overdraft alerts and suspension periods.

Customer targeting

2. To look at how banks target different customer groups we looked at their:

   (a) overall strategies for customer targeting;

   (b) the types of customer they were gaining or losing through CASS switching;

   (c) strategies for existing customers and when new accounts were opened and

   (d) different strategies for overdraft users.

Overall strategy for customer targeting

3. [✂]

4. [✂][1,2]

5. [✂]

6. [✂][3]

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[1] [✂]
[2] [✂]
[3] [✂]

7. [✄]

CASS switching gainers and losers

8. [✄][4]

Existing customers

9. [✄][5,6]

Overdraft users

10. [✄]

Price competition

11. Evidence on the extent of price competition in the supply of PCAs covering arranged overdraft fees, unarranged overdraft fees, financial switching incentives, interest rates, rewards, and other financial benefits is summarised below. We then present evidence of the banks responding to the price strategies of their PCA competitors.

Arranged overdraft charges

12. [✄][7,8]

Unarranged overdraft charges

13. [✄]

Financial switching incentives

14. [✄]

Table 1: Switching incentives offered by the banks

[✄]

Source: Information provided by banks.

[4] [✄]
[5] [✄]
[6] [✄]
[7] [✄]
[8] [✄]

Interest rates

15. [✂][9,10,11,12,13]

Rewards

16. [✂][14,15,16,17]

Other financial benefits

17. [✂][18]

Responses to competitors' pricing strategies

18. [✂][19]

19. [✂][20]

20. [✂]

Service competition

21. Below is a summary of evidence on the extent of service competition in the supply of PCAs. We also present evidence of the banks responding to the service strategies of their PCA competitors:

[✂][21,22,23]

Responses to competitors' service quality strategies

22. [✂][24]

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9 [✂]
10 [✂]
11 [✂]
12 [✂]
13 [✂]
14 [✂]
15 [✂]
16 [✂]
17 [✂]
18 [✂]
19 [✂]
20 [✂]
21 [✂]
22 [✂]
23 [✂]
24 [✂]

23. [✄][25]

24. [✄][26]

Marketing strategies

25. In this section we present evidence on the marketing strategies adopted by the banks, focusing on advertising spend (including customer acquisition costs), branches, and their use of PCWs.

Advertising spend

26. To look at banks strategies in advertising we considered:

(a) Banks' submissions;

(b) Advertising spend over time using the FCA CASS report and Mintel data; and

(c) Estimates for banks' customer acquisition costs.

Banks' submissions

27. [✄][27]

Advertising spend over time

28. [✄]

29. [✄]

Figure 1: [✄]

[✄]

Source: [✄]

30. [✄]

31. [✄]

[25] [✄]
[26] [✄]
[27] [✄]

Figure 2: [✂]

[✂]

Source: [✂]

32. [✂]

Figure 3: [✂]

[✂]

Source: [✂]

Customer acquisition costs

33. [✂][28]

Figure 4: [✂]

[✂]

Source: [✂]

34. [✂]

Branches

35. [✂]

Table 2: [✂]

[✂]

Source: [✂]

Comparison websites

36. [✂][29]

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[28] [✂]
[29] [✂]

Providers' strategies on overdraft features

37. This section summarises providers' different strategies on overdraft features, focusing on the existing provision of:

    (a) suspension periods; and

    (b) different types of alert.

Suspension periods

38. A 'suspension period' describes a short period of time during which charging and/or pay/no-pay decisions[30] are suspended. This enables the customer, once made aware of a risk of unarranged overdraft use or actual overdraft use, to take action (during this period) to avoid or mitigate the resulting charges or possible adverse consequences such as declined payments. At the end of the suspension period, customers will become liable for any charges associated with their overdraft balance, or arising from any pay/no pay decisions that remain necessary, at that time.

39. Suspension periods can take various forms, but for convenience in this appendix we define two possible types of suspension periods as follows:[31]

    (a) 'Retry periods', which we define as periods during which customers may take action to avoid scheduled payments being declined and thereby avoid resulting unpaid item charges.

    (b) 'Grace periods', which for the purposes of this appendix will refer to periods during which customers may take action to avoid or reduce paid item charges and daily, monthly and/or interest charges resulting from overdraft use.

40. There are a number of existing industry initiatives relating to suspension periods, in particular the voluntary retry system established by the FCA in 2013 and, further to the November 2011 BIS/HMT review of consumer credit and personal insolvency, the voluntary agreement by the major UK PCA providers (including Barclays, HSBC, LBG, RBS and Santander) to make grace periods available by March 2013.[32]

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[30] This is when a PCA provider makes a decision on whether or not to process a transaction.
[31] These terms are used somewhat interchangeably by industry, so that what some PCA providers refer to as a grace period may be a retry period according to our definitions. Furthermore, a grace period and retry period overlap where a transaction that is retried would be paid despite insufficient funds.
[32] BIS/HMT Consumer Credit and Personal Insolvency Review: Formal Response on Consumer Credit, paragraphs 6 & 7.

41. At present, PCA providers[33] covering almost all of the PCA market are signed up to an industry agreement with Payments UK[34] and the FCA to a 'retry' system[35] for direct debits, standing orders and future bill payments (ie regular payments) where, if a customer does not have sufficient funds for the payment, the payment will be held in the system and retried later in the day before being declined if funds are not made available.[36] Some providers will retry the payment several times. The customer therefore effectively benefits from a 'retry period' (as defined in paragraph 39) up until the transaction is retried for the final time. Many, but not all, providers currently also include cheques in their retry period.

42. Customers may be alerted to this situation[37] so that they are aware of the opportunity to transfer sufficient funds into their account before the end of the retry period to avoid the payment being declined, and corresponding charges. By taking advantage of the retry period, customers can therefore avoid unpaid item fees.

43. The industry agreement sets a minimum 2pm deadline for the receipt of funds and the payment will be retried after this deadline. This 2pm deadline allows for PCA providers and other third parties to manage effectively their own internal clearing and settlement processes enabling timely payments to third parties, so that customers are protected from defaulting on third party agreements. PCA providers can also compete by retrying payments at later times (which some providers do).

44. PCA providers also operate 'grace periods' (as defined in paragraph 39). These grace periods are typically intra-day in nature, and often apply to both arranged and unarranged overdraft use and charges. Providers' systems typically do not calculate the daily and interest charges for an account until certain end-of-day[38] processes are run. If an overdrawn position is corrected within a day it will not therefore be charged for. If an account becomes

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[33] AIB, Barclays, BoI, Co-op Bank, Coventry Building Society, Clydesdale (Yorkshire Bank), Cumberland Building Society, Danske, Handelsbanken, HSBCG (including HSBC, first direct and M&S Bank), LBG (including Lloyds, Halifax, Bank of Scotland), Nationwide, RBSG (including RBS, NatWest, Ulster, Coutts, Adam and Company and Isle of Man Bank), Santander, Tesco Bank, TSB and Virgin Money.
[34] Formerly the Payments Council.
[35] FCA press release (7 June 2013): 'FCA secures commitment from high street banks to use a 'retry system' when processing payments to stop unnecessary penalty charges'.
[36] If a decision was made to send the payment, despite there being insufficient funds, and charge a paid item fee, the customer may also have until the cut-off time to pay in sufficient funds to avoid the paid item fee.
[37] To varying extents depending on the communications policies of the PCA provider and customers' stated communications preferences. See Table 4.
[38] References to the 'end-of-day' in this report are for convenience in order to explain the operation of grace periods. Such references are not intended to describe the length of a 'business day' for the purposes of the Payment Services Regulations. Providers would also of course need to comply with their obligations under the Payment Services Regulations, including Regulation 73 (Value date and availability of funds) and consider the overall effect of the two.

overdrawn after overdraft charges have been assessed that day, the resulting charges are carried over to the next day's grace period.

45. A customer's ability to take advantage of any available grace period will depend on:

(a) the extent to which they are alerted to the opportunity to use the grace period (and their communication preferences);

(b) the channels they can access to deposit funds during the grace period. Only funds that can be cleared by the end of the grace period (ie on the same day) will be taken into account when charges are assessed; customers' options are thus generally restricted to cash deposited in branch or funds electronically transferred via Faster Payments. For example, a customer who does not use online or mobile banking will only be able to benefit from a grace period up to, at most, the end of branch opening hours even if the actual grace period extends beyond this time.

46. The time by which providers' systems start assessing overdraft charges currently varies considerably across providers, ranging from 4.30pm onwards (see Table 3). The provision of alerts notifying customers when they may be able to take action to avoid charges, and the timings communicated within the alerts, are also variable. More details of providers' alerts are discussed later in this appendix and summarised in Table 4.

Table 3: PCA providers' grace period operating times, and timings for action communicated in alerts

PCA provider	*Indicative grace period operating times*	*Timings communicated in alerts*
AIB	18:00	N/A
Barclays	18:30	18:30
BoI	16:30	N/A
BoS	00:00	15:30
Clydesdale	17:00	N/A
Co-op Bank	21:00	N/A
Danske*	20:00	N/A
Halifax	00:00	'As soon as possible'
HSBC	23:45	23:45
Lloyds	00:00	15:30
Nationwide	18:00	14:30**
NatWest	18:30	15:30
RBS	18:30	15:30
Santander	17:00	16:00**
Tesco Bank	17:00	17:00
TSB	22:00	15:30

Source: PCA providers.
*Due to operational reasons, this estimate is given on a best endeavours basis.
** A time is communicated in a subset of this provider's alerts (ie retry alerts, which can help alert customers to the risk of exceeding a pre-agreed credit limit due to scheduled transactions). See Table 4 for more detail of the provision of alerts.
Notes:
1. Information for Barclays relates to charges for Emergency Borrowing usage.
2. Where multiple operating times apply (eg for assessing different charges), we have used the earliest time.
3. Where different times are communicated in different alerts that customers may receive if at risk of overdraft use, we have used the later time.
4. N/A means that the provider does not offer alerts or does not communicate a time by which customers should take action in alerts.

Existing provision of alerts

47. Most PCA providers[39] have some form of alert system in place to communicate account-relevant information to their customers.

48. The overdraft alerts that PCA providers offer, include:

(a) Imminent arranged overdraft alert: this informs customers whenever they are close to using their arranged overdraft facility (if they have one).

(b) Actual arranged overdraft alert: this informs customers whenever they have started using their arranged overdraft facility.

(c) Imminent unarranged overdraft alert (retry): this informs customers when there is an upcoming payment that will or may be declined due to lack of funds. Unlike the more general alerts above, this is only triggered by certain types of scheduled transactions (specifically direct debits, standing orders and future dated payments, under the retry system described in paragraph 41;[40] for some providers, these alerts are also triggered by cheque payments).

(d) Imminent unarranged overdraft alert (near limit): this informs customers whenever they are close to using an unarranged overdraft facility or are close to exceeding an arranged borrowing limit, based on criteria set by the PCA provider.

(e) Actual unarranged overdraft alert: this warns customers whenever they have exceeded an arranged borrowing limit. This can be triggered by periodic (eg end of day) overall account status changes, and/or by the processing of transactions, both scheduled and unscheduled, as they occur during the day. Unscheduled transactions include ATM withdrawals, debit card transactions, cheque transactions where not covered by banks' retry systems, or transactions initiated by the customer in branch or by telephone, mobile or online banking.

(f) Confirmed declined item alert: this informs customers whenever a PCA provider has refused payment due to lack of funds (and that this decision cannot be reversed).

49. Table 4 below sets out which PCA providers offer each of these alerts alongside balance alerts.[41] We note Barclays' views that the manner in which

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[39] Excluding, for example, AIB and BoI.
[40] While some PCA providers offer these alerts, they are not required under the voluntary retry initiative.
[41] Regarding Barclays, references to 'unarranged overdraft' alerts for the purposes of this analysis, should be taken to mean alerts offered for its Emergency Borrowing facility for the reasons outlined in Section 6.

this table characterises existing alerts is 'somewhat rigid and restrictive, both in terms of the defining characteristics of an overdraft proposition as well as the effective impact of both individual and the combined suite of alerts'.[42] We recognise that, given the variety of alerts offered and the fluidity of the circumstances in which customers can receive alerts, any specific categorisation for summary purposes may not fully capture the diversity and complexity of the offers available. However, we consider that a summary such as this table provides, remains instructive to provide a broad sense of the existing market practice.

50. Overall, the table shows that the range of overdraft alerts that customers are set up to receive is limited. No PCA provider in the UK offers (either on an opt-in or opt-out basis) all of the alerts specified in the list at paragraph 48 above.

51. In addition to overdraft alerts, PCA providers also provide balance alerts. Balance alerts are provided on an opt-in basis for all PCA providers that offer alerts, and the balance limits that trigger the alerts can be customised by the account holder. Balance alerts[43] can therefore in theory mimic some types of overdraft alert, for example by setting a low balance limit at the arranged overdraft limit. We distinguish this type of alert from overdraft alerts, which are specifically designed to be triggered by imminent or actual overdraft usage.

52. Most PCA providers that offer alerts also offer retry alerts. However, as discussed above, retry alerts are not triggered by all transactions, in particular debit card transactions as these must be immediately declined at point of sale if at all. We therefore distinguish this alert from more general near-limit alerts that warn the customer about the imminent risk of using an unarranged overdraft irrespective of the nature of the transaction. We further distinguish between retry alerts and declined item alerts (ie irrevocable decisions to refuse a payment due to lack of funds) and find that the latter are rarely offered (Santander is the only PCA provider we are aware of to offer this alert).

53. Arranged overdraft alerts (imminent and actual) are not widely used by PCA providers. We are only aware of Barclays offering an alert that warns its customers when they have started making use of their arranged overdraft facility.

54. As for unarranged overdraft alerts, some PCA providers (LBG, Santander and TSB) offer imminent unarranged overdraft (near limit) alerts. Many PCA

[42] Barclays response to provisional decision on remedies, paragraph 10.2.
[43] Or rather the combination of different balance alerts and possibly limit alerts.

providers (LBG, Santander, TSB, RBS and NatWest)[44] offer alerts which warn of actual unarranged overdraft usage. However, HSBC is the only PCA provider we are aware of that automatically enrols all relevant customers into an actual unarranged overdraft alert, where this is possible.[45] The others require a customer to opt in to the alert.

55. For alerts more generally, few PCA providers choose to automatically enrol their customers into them:

(a) As noted above, HSBC is one PCA provider that does this for all its customers where this is possible, for alerts relating to actual unarranged overdraft usage and for retry alerts.

(b) Tesco also automatically enrols all its customers into retry alerts where possible.

(c) Barclays automatically enrols all its customers for retry alerts (where this is possible).[46]

(d) RBS and NatWest automatically enrolled their existing customers into overdraft alerts[47] in 2015 and offer the service on an opt-in basis to new customers.

56. Coverage of alerts is high when there is some form of automatic enrolment. For example, HSBC estimated that it sent text messages to [✂]% of its customers using an unarranged overdraft facility. RBSG estimated that [✂]% to [✂]% of PCAs (excluding Ulster Bank) were registered for alerts.

57. By contrast, PCA providers that do not automatically enrol their customers into alerts have much lower take-up of alerts. For example, [✂]% of active PCA customers for Santander, [✂]% of the PCA customer base for Clydesdale, [✂]% of accounts for Lloyds, [✂]% of accounts for BoS and Halifax, [✂]% of accounts for Co-op Bank, and [✂]% of Danske's PCA customers are signed up for text alerts.[48]

58. Because few PCA providers automatically enrol their customers into alerts, and take-up is low without automatic enrolment, the number of customers

[44] Barclays offers an alert to its customers when they have started using their Emergency Borrowing facility.
[45] All customers for whom they have a valid mobile contact number and that have not opted out of the service.
[46] Barclays has also auto-enrolled for overdraft alerts, customers that in 2014 had signed up for at least one alert. Since the auto-enrolment is limited to customers that had previously opted into some alert, we do not consider it universal.
[47] Act Now alerts that are triggered in the following situations: account in excess; account in excess reminder after five days; account in excess and possible unpaid item; account in excess reminder after five days and possible unpaid item; possible account excess and likelihood of unpaid item; possible unpaid item and possible account excess.
[48] The definition of accounts or customers for this purpose varied by PCA provider.

receiving these types of alerts is limited. We estimate that around half of customers are signed up to receive any type of alert (see Appendix 15.1).

Table 4: Summary of existing provision of overdraft alerts

	LBG			*RBSG*				*HSBCG*								
	Lloyds	*Halifax*	*BoS*	*RBS*	*NatWest*	*Ulster*	*Barclays**	*HSBC*	*first direct*	*Santander*	*Nationwide*	*TSB*	*Clydesdale*	*Co-op Bank*	*Danske*	*Tesco*
Balance alerts																
High balance	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	✕	opt-in	opt-in	opt-in	opt-in	opt in	opt-in	opt-in	opt-in	opt in
Low balance	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt in	opt-in	opt-in	opt-in	opt-in
Monthly/weekly balance	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	opt-in	✕
Overdraft alerts																
Confirmed declined item†	✕	✕	✕	✕	✕	✕	✕	✕	✕	opt-in	✕	✕	✕	✕	✕	✕
Imminent arranged overdraft†	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕
Actual arranged overdraft†	✕	✕	✕	✕	✕	✕	opt-in	✕	✕	✕	✕	✕	✕	✕	✕	✕
Imminent unarranged overdraft (retry)	✕	✕	✕	opt-in	opt-in	✕	auto	auto	auto	opt-in	opt-in	opt-in	✕	✕	✕	auto
Imminent unarranged overdraft (near limit) †	opt-in	opt-in	opt-in	✕	✕	✕	✕	✕	✕	opt-in	✕	opt-in	✕	✕	✕	✕
Actual unarranged overdraft†	**opt-in**	**opt-in**	**opt-in**	**opt-in**	**opt-in**	✕	**opt-in**	**auto**	**auto**	**opt-in**	✕	**opt-in**	✕	✕	✕	✕
Mentions unarranged charges	✓	✕	✓	✓	✓	N/A	✓	✓	✓	✓	N/A	✓	N/A	N/A	N/A	N/A
Includes level of unarranged charge(s)	✕	✕	✕	✕	✕	N/A	✓	✓	✓	✕	N/A	✕	N/A	N/A	N/A	N/A
Specifies grace period	✓	✕	✓	✓	✓	N/A	✓	✓	✓	✕	N/A	✓	N/A	N/A	N/A	N/A

Source: Parties' responses.
'X' indicates that a party does not provide the relevant alert, or does not include the relevant feature in the alert it provides.
'Opt-in' or 'auto' indicates that a party provides the relevant alert on, respectively, an opt-in basis or by automatically enrolling all their customers where possible.
'✓' indicates that a party includes the relevant feature in the alert it provides.
*Regarding Barclays, references to 'unarranged overdraft' alerts should be taken to mean alerts offered for its Emergency Borrowing facility.
†To be considered as offering each of these alerts a PCA provider must send these alerts in all circumstances (eg regardless of the transaction that triggered it).
Notes:
1. We consider that a bank auto-enrols its customers to an alert service only when all customers (existing and new) are enrolled where feasible.
2. BoI and AIB currently do not offer any alerts and are therefore not included in the table.
3. It is possible for a combination of types of alerts to have broadly the same effect as another type of alert.
4. N/A = not applicable.

Appendix 6.7: Cross-product holdings

1. In this appendix we present evidence on the cross-product holding strategies adopted by the banks and on the level of cross-product holdings by PCA customers.

Banks’ strategies

2. Barclays told us that it used a range of channels and approaches for marketing financial products and services. Regular and ongoing ‘above the line’ campaigns covering a mix of television, radio, print and digital media targeted a broad cross-section of existing and potential customers for mortgages, savings and credit cards. [✂]

3. Clydesdale Group told us that it offered discounts on its mortgage products to Signature PCA holders.

4. Danske told us that [✂].

5. HSBCG told us that it targeted existing customers using [✂]. It was primarily used for mortgage offers, personal loan offers and credit card offers. These helped HSBCG to identify which of its customers were most likely to have a need for other products. [✂]. HSBCG told us that it aimed to build continuing relationships with customers and to ensure its PCA propositions continued to meet their needs over time. Furthermore, with the exception of mortgages and (recently) credit cards and selected savings products, HSBCG only marketed and sold other banking products to its PCA customers. HSBCG told us that it had only had modest success in its strategy of using the PCA relationship to cross-sell other HSBCG products to the PCA customer base: for example, [✂]% of primary-banked PCA customers held an HSBC mortgage, and [✂]% held an HSBC credit card. This was because the majority of PCA customers shopped around and readily used their non-PCA provider for mortgages and credit cards.

6. LBG told us that its levels of cross-holdings in loans reflected the fact that, for at least ten years prior to 2014, Lloyds did not sell loans to non-Lloyds customers (Halifax and BoS lent more widely, prior to the integration of Lloyds and HBOS). LBG told us that after the divestment of TSB, Lloyds now lent more widely and could now offer loans to customers without a PCA. LBG’s strategy with its new Club Lloyds account, was to offer customers access to savings accounts and mortgages at preferential rates.

7. Metro told us that it offered a range of products but did not refer to its approach as cross-selling, as its staff were not incentivised to do so.

8. Nationwide told us that its ability to understand customers' data across products (for example, a customer's financial needs and creditworthiness) enabled Nationwide to offer customers products tailored to their needs and take prudent/reasonable lending decisions. It also said it was appropriate that it rewarded members for the length of time they had been with the Society and also for the breadth of their relationship.

9. [✂]

10. TSB's Prospectus noted that the main driver of TSB's growth, along with its re-entry into the mortgage intermediary channel, was its share of PCA flow and associated cross-sales of savings accounts and unsecured lending products to these PCA customers.

Cross-product holding rates

11. We requested information from the banks on their PCA customers' holdings of other products with the same bank in order to understand the extent of cross-holdings.[1] Figure 1 below shows the results of our analysis. This shows that [✂]. It is difficult to interpret these figures, however, as different banks adopted different definitions of cross-holdings when responding to this question. For example, [✂].

Figure 1: 2014 Cross selling rates by PCA provider

[✂]

Source: CMA analysis.

12. We also investigated the average number of PCA customers' holdings of other products by analysing the responses to the GfK PCA consumer survey.[2,3] Figure 2 indicates that cross-holding rates vary significantly across different banks. [✂]

Figure 2: Cross selling rates by PCA provider, survey based

[✂]

Source: CMA analysis.

[1] We asked the banks to provide information on their PCA customers' holdings of BCAs, credit cards, insurance, investments, mortgages, personal loans, savings accounts (instant access and other) and other financial products.
[2] GfK PCA consumer survey QI1 'Which of the following do you have with any provider?' 1. Mortgage; 2. Personal loan; 3. Cash ISA/NISA; 4. Other cash savings; 5. Credit card.
[3] This analysis includes customers who have their main account with one of the banks listed in Figure 2.

Appendix 6.8: Dutch case study

Contents

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Introduction

1. The purpose of this appendix is to review the recent work of the ACM[1] and the DNB[2] on the Dutch retail banking market, in order to assess the extent to which (if any) its findings and recommendations may be relevant to the UK retail banking market and our market investigation.

2. In June 2014, ACM reported that the financial crisis had led to increased concentration in an already concentrated Dutch retail banking market.[3] It was concerned that this indicated a lack of competition which would have a detrimental impact on personal banking customers and SMEs, so it carried out a study to investigate the level of barriers to entry or expansion.[4]

3. More recently, ACM conducted another study looking specifically at the SME loans market (including overdrafts from BCAs), which it published in June 2015.

[1] ACM (Autoriteit Consument & Markt) is the primary competition authority in the Netherlands, providing consumer protection and market oversight.
[2] DNB (De Nederlandsche Bank) acts as both the central bank of the Netherlands (with duties regarding monetary policy), but has additional regulatory duties such as banking license authorisation.
[3] ACM (June 2014), *Barriers to Entry into the Dutch Retail Banking Sector*, p11.
[4] ACM defined barriers to entry as 'that which causes a smaller margin between the expected profits of entry and the sunk costs [cost incurred that can no longer be recovered]', as defined in ACM report (June 2014), p15 and the accompanying footnote.

4. The DNB also recently published (June 2015) a report considering the structure of the Dutch banking sector, and its effects on diversity and competition.

5. This appendix mainly focuses on the first ACM report published in June 2014, whilst considering the findings from the other two reports where relevant to our investigation.

Outline

6. In this appendix, we:

   (a) give an overview of the Dutch retail banking market, in particular its size, the levels of concentration, consumer behaviour and relevant trends in price and margins;

   (b) summarise the findings of ACM's June 2014 study with respect to barriers to entry and expansion in the Dutch retail banking market;[5]

   (c) discuss the relevance of these barriers to entry and expansion to our current market investigation, as well as the relevance of ACM recommendations to reduce or eliminate these barriers to entry and expansion for the consideration of remedies if appropriate;

   (d) summarise the findings from ACM's study into the SME loans market in the Netherlands; and

   (e) summarise the findings from DNB's study into the structure of the Dutch banking sector.

Overview of the Dutch retail banking market

Overall market features

7. The Dutch banking market is large relative to the country's gross domestic product (GDP). For example, ACM's report estimated that the combined balance sheet of Dutch banks was four times the GDP of the Netherlands, whilst the average for Europe was approximately three times.[6]

[5] This summary includes those barriers to entry that ACM considered but subsequently dismissed.
[6] UK equivalent is roughly five times; DNB (June 2014), *Structure of the Dutch Banking Sector* (in Dutch), p13 ('Verenigd Koninkrijk' = UK).

8. It is also highly concentrated, with the three largest participants (ABN AMRO,[7] ING Bank, and Rabobank) being designated as 'systemically important'[8] and estimated as having over 80% share of the total retail banking market in 2011 (and 94% of PCA market from 2002 to 2012). Following the financial crisis, a number of prominent subsectors, such as mortgages, appear to have become even more concentrated due to a combination of mergers, bankruptcies and international banks scaling back their activities.[9] See Annex A for estimated market shares of the different banks in the Netherlands.

9. ACM noted that in the period 1990 to 2007, Dutch banks became increasingly active internationally by acquiring foreign banks (eg British Barings Bank acquired by ING Bank).

10. Dutch consumers are generally digitally-savvy, having one of the highest percentage of internet users in Europe (94%) vs an average of 77% for the EU and 90% in the UK. In banking, online penetration in the Netherlands was the highest in the world at around 66% in 2012, with the UK reaching 53%, and the European average at 39%.[10]

11. There is significant public and political interest in the level of remuneration which senior management at these banks receive, for example, the recent announcement of large pay rises for state-owned ABN AMRO's management caused such a public outcry that it even delayed a potential IPO (initial public offering).[11]

Impact of financial crisis

12. The financial crisis had a particularly adverse impact on the Dutch retail banking market.[12] For example:

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[7] The RFS (a consortium of banks including RBS, Santander, and Fortis) acquisition of ABN AMRO in 2007 resulted in the Dutch assets of ABN AMRO largely being acquired by Fortis. RBS received some small components which were subsequently sold or closed. After the nationalisation in October 2008, the Dutch government merged the Dutch activities of ABN AMRO and Fortis. In 2009 the merged entity continued under the name ABN AMRO.

[8] The report describes a systemically important bank as one where its bankruptcy would endanger the financial system and cause considerable damage to the real economy; ACM report (June 2014), footnote 6. A fourth, smaller bank (SNS Bank) was also designated as systemically important, primarily due to the large amounts of (guaranteed) Dutch savings it holds.

[9] ACM report (June 2014), p11.

[10] KPMG (April 2014), *Barriers to Entry, Growth and Exit in the Retail Banking Market in the Netherlands*, p14; internet penetration figures updated to December 2013 using the same source (Internet World Stats) and used to obtain comparison figures for other countries UK and Europe online penetration retrieved from the same article as used by the ACM.

[11] Reuters (March 2015), *ABN AMRO remuneration committee head resigns over pay row*.

[12] Based on European Commission approved state aid for the financial crisis, the Netherlands requested 53.8% of its 2013 GDP in recapitalisation, asset relief, and guarantees/liquidity measures. This compares with 46% for the UK, and 44.1% average for the EU.

(a) the state nationalised the Dutch segments of Fortis/ABN AMRO;[13]

(b) domestic banks have reduced their range of services, partly driven by a decline in demand for products such as mortgages and SME loans. The domestic banks' combined balance sheets declined by 18.7% from 2008 to 2013;[14]

(c) foreign banks which had a presence in the Netherlands have also scaled back operations to concentrate on their domestic markets (with more stringent capital holding requirements resulting in deleveraging, often through reduction of international activities);[15] and

(d) there has been an increase in regulatory and legal requirements to mitigate a reoccurrence of the crisis.[16]

13. The Dutch government had to step in with a number of measures, such as nationalising certain assets, creating a capital injection facility for distressed banks and implementing a guarantee scheme for lending.[17]

PCAs

14. **Overview:** Like much of Europe, and unlike the FIIC banking model in the UK, PCAs in the Netherlands require the account holder to pay a monthly fee. This can vary from €15/year to €160/year, but averages as around €70/year.[18] ACM also stated that European studies have shown that PCAs act as a gateway for other functional products, allowing for cross-sell opportunities.[19] ACM's own survey appeared to corroborate this by showing that consumers deposited the majority of their savings in the same banks as their PCA.

15. **Size:** There are 15.5 million adult PCAs in the Netherlands (compared to an adult population of around 13.4 million).[20] This implies an average of 1.16 PCAs per adult, although 70% of adults only had a single account.

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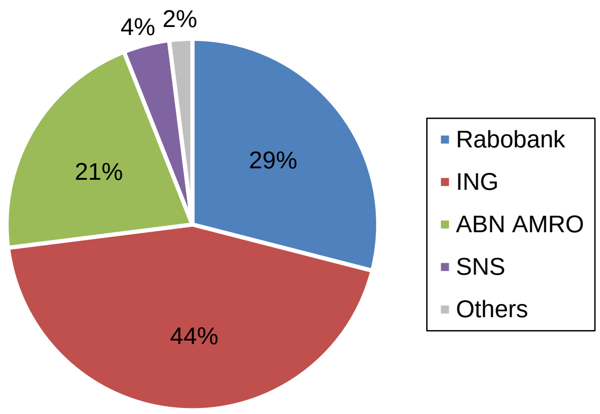
[13] ACM report (June 2014), p8; remains 100% owned by the state, but is considering an initial public offering (IPO).
[14] ACM report (June 2014), p20.
[15] ACM report (June 2014), p21.
[16] ACM report (June 2014), pp5 and 22.
[17] The European Commission allowed this state aid subject to a range of conditions (eg ING Bank was compelled to split into a separate bank and insurer, whilst other supported institutions had price leadership restrictions placed on them).
[18] €15/year based on ASN bank (part of SNS); €160/year based on Knab; estimates provided by ACM in response to our working paper. Average estimated as cost of a current account by users (those who did not answer 'do not know'), GfK (April 2014), *Consumer Survey on Personal Current Accounts*, p26. It should also be noted that there is some limited evidence that the cost of other PCA-associated services may be lower to offset this, for example, overdraft costs – see CEG (June 2014), *Overdrafts on Personal Accounts: A Study into Market Power* (on behalf of ACM report (June 2014)), paragraph 30.
[19] ACM quotes the CC, OFT, and European Commission as sources for this characteristic.
[20] Dutch population by age pyramid.

16. **Concentration:** The PCA market in the Netherlands is highly concentrated, with the three major banks having an estimated 94% of the market (the largest four providers have a 98% market share). Figure 1 shows average market share estimates for 2002 to 2012.

Figure 1: Dutch PCA market shares based on number of existing accounts, 2002–12



Source: ACM (June 2014), *Barriers to Entry into the Dutch Retail Banking Sector*, Figure 21, p75.

17. **Margins:** Due to cost allocation issues, the margins on PCAs are very difficult to determine. ACM referenced some older analysis[21] which indicated that PCAs were loss making (estimated as €642 million across the industry), although it commented that even in this analysis some of the cost allocation assumptions were unclear, and that across PCAs and BCAs combined, the banks appeared to break even.

18. **Consumers:** Numerous studies have shown that consumers rarely switch their PCAs. In its 2014 study, ACM stated that 73% of PCA customers had never switched banks, whilst another 24% had only switched once. On top of this, 35% of PCA customers stated that they would not switch PCAs for any price discount.

19. **Entrants:** There have been two recent notable entries into the PCA market, Triodos Bank (2006) and Knab (2012). However, combined, these players still have less than 2% of the market.

20. **Policy:** In 2004, the Dutch banks introduced an Interbank Payment Switching Service (IPSS) which aimed to ensure that direct debits and payments were forwarded to the switcher's new current account for 13 months. ACM stated that usage of the switching service is low, with only 60,000 to 100,000 PCA

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[21] ACM report (June 2014), p75. In 2006, on the instructions of the Netherlands Bankers' Association (NVB) and DNB, McKinsey conducted research into the expenses and revenues of providing current accounts. In 2010, the NVB performed an update on the basis of an extrapolation of the information from 2006 which reached roughly the same conclusions as the original study.

customers (ie less than 1% of all PCA customers) using the service per annum. It believes that this is partially driven by relatively low levels of awareness (only 37% of consumers are aware of the service, and half of these only know it by name), as well as ambiguity as to whether a customer's old current account needs to be kept open for the switching period (incurring a monthly charge for doing so). The IPSS was introduced instead of account number portability (ANP) due to the alleged high costs of implementing the latter. However, ACM reported that advice at the time (2002) from NIP Capital[22] implied that ANP could be implemented relatively easily and at low cost, and has launched a cost-benefit analysis of European ANP.

Personal savings

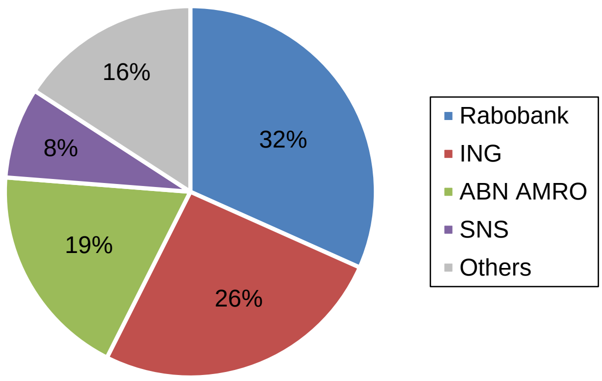
21. Although not included in our market investigation, personal savings were considered by ACM in its study on barriers to entry, and any conclusions were included in its recommendations. Therefore, this section is provided both to aid understanding of ACM's report and recommendations and to provide a more complete view of the overall similarity (or not) of retail banking in the Netherlands compared with the UK.

22. **Size:** The total value of Dutch savings is around €320 billion, which has been growing at approximately 6% per annum since 2004 (slightly slower since the financial crisis). The majority of this is held in instant-access accounts rather than fixed term products.

23. **Concentration:** The savings market is relatively concentrated with the three major banks having around a 77% share (the largest four providers have around an 84[23]% share). Figure 2 shows market share estimates from 2011.

[22] Analysed the ease of implementation of account number portability, to provide evidence to the market forces, deregulation and legislative (Marktwerking, deregulering en wetgevingskwaliteit) parliamentary working group.
[23] Please note that figure 2 in the chart suggest 85% as it is based on an un-rounded figure.

Figure 2: Dutch savings market shares, 2011



Source: ACM report (June 2014), Figure 18, p67.

24. **Price:** The interest rate in the Netherlands is relatively high compared with neighbouring countries (eg on average 60 basis points higher than Germany), and has remained so over the past 10 years. This is usually linked to the large 'funding gap' in the Netherlands (the outstanding balances on mortgages and loans is greater than the value of customer deposits). ACM also noted that the interest rates offered by the major banks is 'structurally lower' than that offered by smaller banks (around 50 basis points).

25. **Consumers:** Consumer behaviour appears polarised; there is a large group of consumers who are not price sensitive and rarely switch (most are with the major banks), and a small group who actively look for the highest rates and will switch regularly to get these.

    (a) A survey showed that half of consumers had never switched their savings accounts.

    (b) When questioned, one major consideration consumers had around switching was concern for the safety of their savings.

26. **Entrants:** Although there have been some new entrants into the market, the combined share of these players remains below 2%.

27. **Policy:** The Dutch government has a deposit guarantee in place which almost all banks in the Netherlands are subject to. This protects up to €100,000 of savings. However, many consumers are not aware that the deposit guarantee scheme applies to (almost) all banks in the Netherlands. Furthermore, national legislation limits banks from promoting the deposit guarantee scheme in their marketing material.

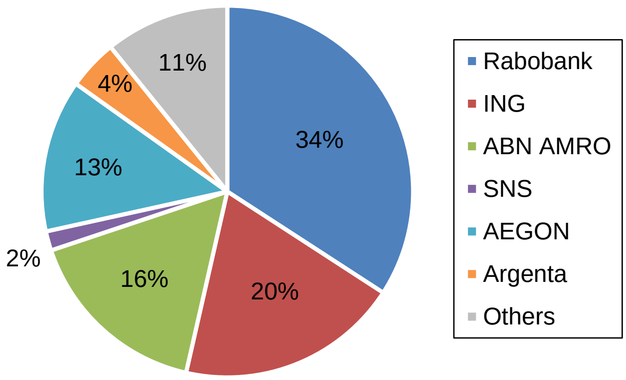
Mortgages

28. As with personal savings, mortgages are not included in our market investigation, but were considered by ACM in its study on barriers to entry. Again, we are including this section to aid understanding of ACM's report, and to provide a more complete view of the overall similarity (or not) of retail banking in the Netherlands compared with the UK.

29. **Size:** The outstanding mortgage loans to Dutch households was about €540 billion in February 2014, which accounted for approximately 30% of total lending in the Netherlands.

30. **Concentration:** The market is relatively concentrated, with the three major banks granting around 70% of all mortgage loans (the largest four providers grant over 80%). Figure 3 shows market share estimates.

Figure 3: Mortgage market share in Oct 2012 based on new mortgages



Source: ACM report (June 2014), Figure 13, p61.

31. **Price:** ACM noted that compared to its European neighbours, the Netherlands has relatively high mortgage rates, which have also dropped significantly less than neighbouring countries over the past 10 years. ACM acknowledged that interest rates depend on many factors rather than just competition.

32. **Margins:** In an earlier report (2013), ACM specifically investigated how mortgage margins had evolved in the past 10 years, finding that these had increased since the beginning of the financial crisis. It concluded that a combination of capacity constraints and lack of threat of new entrants had allowed incumbents to increase their margins.[24]

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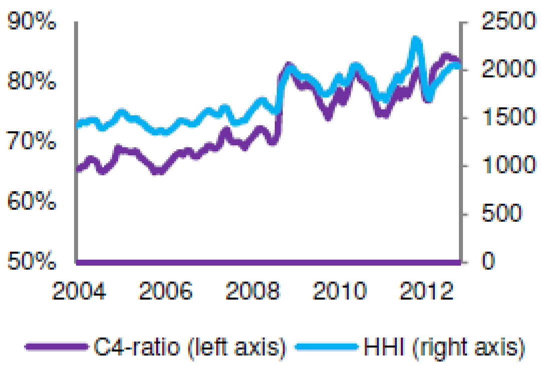
[24] ACM report (June 2014), p62; ACM specifically noted: 'The margins in oligopolistic markets with capacity restrictions are generally higher, as the capacity restrictions limit the opportunities for competitors to discipline each other'.

33. **Consumers:** ACM has also carried out an investigation into consumer switching behaviour which found that although switching costs were considerable, 60% of respondents believed that switching was easy or very easy, whilst only 9% considered it difficult or very difficult.

34. **Entrants:** Despite increasing margins, there have been barely any new providers entering the mortgage market whilst a number have withdrawn (eg GMAC and BNP Paribas) resulting in increasing levels of concentration, as can be seen in Figure 4 below.

Figure 4: Evolution of concentration ratios[25] in the Dutch mortgage market



Source: ACM report (June 2014), Figure 16, p62.

35. **Policy:** In the Netherlands, it is common to have high loan-to-value (LTV) mortgages due to incentives such as interest tax relief and a National Mortgage Guarantee. There is ongoing political debate around whether this is significantly distorting the market, and whether the laws should be changed to address this (eg by reducing this incentive or place a cap on LTV).

SME lending[26]

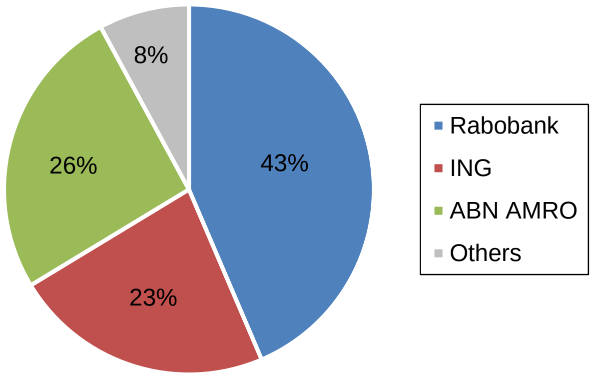
36. **Size:** Since the financial crisis, SME lending has been declining, with an estimated drop of 12% in loans by value from the start of 2010 to the end of 2012. Possible reasons for this are that credit risk may have been increasing, and/or that there has been increasing capacity constraints on supply.

37. **Concentration:** 80% of Dutch SME lending is provided by a bank. Of this lending, the three major banks have a 92% share. Figure 5 shows market share estimates for SME lending in 2014. The share of BCAs appears very

[25] The C4 ratio is defined as the sum of the market shares of the four largest lenders. The Herfindahl-Hirschmann Index (HHI) is defined as the sum of the squares of the market shares of all providers in the market.
[26] SME lending was the only area of SME banking considered in depth in the ACM report (June 2014). ACM did not focus on BCAs or other SME banking products, although the survey they conducted did include questions about BCAs.

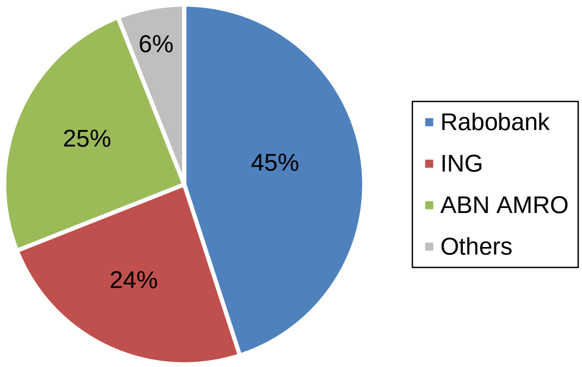
similar, with the three major banks having a 94% share, as can be seen in Figure 6.

Figure 5: Dutch SME bank lending market shares, 2014



Source: ACM report (June 2014), Figure 8, p53.

Figure 6: Dutch SME BCA market share, 2014



Source: GfK (April 2014), *Survey on Lending and Current Accounts for SMEs*, p21.

38. **Price:** ACM obtained data on the interest rates of newly provided business loans worth less than €1 million, which it states as being most relevant to SMEs. The data shows a decline in price since 2009.[27] However, ACM also investigated the expected profit margins made on these loans, and concluded that these have increased since 2011 and are relatively high in 2013 and 2014.

39. **SMEs:** There is no direct data available on levels of switching of SME loans. Instead, ACM relied on the fact that most SMEs opt for financing from their BCA provider, and 71% of SMEs have never switched their main BCA. This implies that SMEs rarely switch their loan provider. This is corroborated by the

[27] ACM SME loans report, p17 (in Dutch).

fact that around 75% of SMEs only ask for one offer, indicating little searching and switching behaviour.

40. **Entrants:** There have been a very limited number of new entrants into traditional bank SME lending,[28] however, there have been some exits from the market, such as Deutsche Bank mostly withdrawing from this service (only targeting specific niches). The ACM report specified that there had been growth in the form of new financing options – such as crowdfunding, credit unions and angel investors – however this growth was limited.

41. **Policy:** ACM noted that current laws do not differentiate between credit unions and traditional banks. Therefore credit unions were encumbered with the same regulatory burdens (eg capital requirements) as banks, which was not reflective of the level of associated risk. Following ACM's publication, the Dutch government introduced new, less strict regulation for credit unions, and is in the process of considering the regulatory framework for other alternative finance providers such as crowdfunding.

ACM's June 2014 study on 'Barriers to Entry into the Dutch Retail Banking Sector'

Purpose of the study[29]

42. ACM stated that the degree of competition in the Dutch banking sector was already suboptimal before the financial crisis and became worse from then on. It believed that the entry of new market participants in the Dutch banking sector, or the threat thereof, could encourage more competition.

43. Since removing or lowering the barriers to entry makes it easier for such new entrants to become active in the Dutch banking sector, ACM conducted its study to identify the main barriers to entry.

44. ACM believed that ultimately, additional competition would result in lower prices, better quality, increased innovation, and more lending to consumers and firms.

45. Annex B includes details on ACM's approach and methodology when completing its study.

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[28] For example, Svenska Handelsbanken became active on a national scale in 2012, but chose to grow at a very slow rate.
[29] ACM report (June 2014), p23.

__Summary of findings and recommendations__

46. ACM made nine official recommendations. However, there was also significant additional detail and discussions within the report both on these areas and other areas which were considered as potential barriers, but ultimately determined not to be.

47. Table 1 (below) provides a summary of ACM's nine recommendations, and the issues they were intended to address. Annex C includes a full list of potential barriers which ACM considered, details on why it believed these might be an issue, and its rationale in reaching a conclusion on whether they represented a barrier to entry or not.

48. The report also highlighted that stability and competition were not mutually exclusive, and that they could coexist, provided there was adequate prudential regulation.[30]

[30] ACM report (June 2014), Box 1 and p10.

Table 1: ACM perceived barriers to entry, and recommendations

	Barrier	*Impact on competition*	*ACM recommendation*
1	Implicit guarantee for systemically important banks	The implicit guarantee lowers financing costs vs competitors (estimated as 67 to 121 basis points)	Advocate for the improvement of the European resolution mechanism
2	Lack of single European deposit-guarantee scheme	Concern around whether domestic tax-payers of the headquartered country would be required to pay out for foreign national guarantees (eg Icesave)	Advocate for a European deposit-guarantee scheme
3	Complexity of regulations	High sunk (and often fixed) costs of regulatory compliance, which is continuing to increase	Strive for simplicity in laws and regulations at a national and European level
4	Banking license application process	Complex application process, with limited guidance available. Also some perception that the regulator is not very supportive	Simplify, increase transparency of banking license application process
5	Disproportionate regulatory requirements on small banks	Lack of regulatory differentiation results in new/smaller competitors being as heavily regulated as incumbents, despite the more limited associated impact of a default	Differentiate regulation depending on risk of institution
6	Barriers to SME lending including concentration, low switching, and possible capacity constraints	Large incumbency advantage for major banks	Less stringent supervision of credit unions
7	Regulatory uncertainty (particularly in the mortgage market)	Uncertainty around the regulatory environment increases risks, resulting in a lower likelihood of new entrants	Minimise uncertainty around regulatory changes
8	Consumer inertia in savings, with consumer concern around safety of savings being a major contributory factor	Concern around safety of savings gives major banks a perceived (but false) advantage over other competitors	Greater publicity about Deposit Guarantee Scheme
9a	Consumer inertia in PCAs	Lack of consumer switching restricts ability for new entrants to grow to sufficient scale, particularly where there are high fixed costs	Review ANP (using independent assessment, and including additional products for which PCAs act as a gateway)
9b			Improve and publicise switching service

Relevance to UK investigation

49. In its report, ACM made numerous comparisons and/or references to the UK when discussing its views, including on:

(a) Licence application process (example of better process).[31]

(b) Differentiated regulatory frameworks for credit unions (example of better practice in England).[32]

[31] ACM report (June 2014), p45.
[32] ACM report (June 2014), p57.

(c) Switching service familiarity (higher levels of awareness).[33]

(d) Consumer inertia (potential to be a barrier).[34]

(e) The potential need for branch networks (potential to be a barrier).[35]

50. This could imply that ACM saw the UK not only as a useful comparator, but potentially also as a leader in some areas.

51. In addition, the Dutch retail banking market appears to display a number of similar characteristics to the UK (eg large size and high levels of concentration), albeit with some differences (eg policy in certain areas such as mortgages[36] and smaller geographic size than the UK).

52. There are a number of specific findings on issues we have considered in our market investigation, particularly regarding potential barriers to entry/expansion:

(a) Concerns around the implicit guarantee of major banks (too big/important to fail).

(b) Price sensitivity remains low, even when paying for PCAs (rather than FIIC). Similarly, the banks rarely compete in this area.

(c) ACM's view that a branch network may not be a requirement for entry into banking services for PCAs or SMEs.

(d) ACM's view that, although an IT platform and marketing spend can represent relatively large costs, they are not prohibitive and are a fundamental part of entering the market. Therefore ACM did not feel the need to make any recommendations for these.

(e) Access to SME customer information was not seen as a significant barrier to entry, as this information is available to buy from third party providers.

ACM's June 2015 study on SME loans

Purpose and scope of the study

53. SMEs are an important part of the Dutch economy and, since the financial crisis, the monetary value of SME lending appears to have decreased, leading

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[33] ACM report (June 2014), p83.
[34] ACM report (June 2014), pp69 and 76.
[35] ACM report (June 2014), pp55 and 62.
[36] For example: interest tax relief and national mortgage guarantee.

to concerns from economic observers and politicians of a lack of competition in the market.[37]

54. The ACM's investigation aimed to assess the degree of competition in the SME loan market, focusing on traditional loans and BCA overdrafts, between January 2007 and September 2014.[38]

Summary of findings

55. ACM made a number of observations regarding the market:

  (a) 92% of SME bank loans and 85% of total SME financing were provided by the three major banks (ABN AMRO, ING Bank, Rabobank). These market shares had remained relatively consistent over the past 10 years.[39]

  (b) 70% of small business and 55% of medium business only applied for a loan to their main bank (defined as the bank where the company has its primary BCA).[40]

  (c) The bank loan application process took around one month to be approved and issued. It was only near the end of this process that the SME saw the full terms of the loan (including the price).[41]

  (d) The SME's primary goal was to secure funding, so they tended to accept the offer from their main bank. There was little evidence of shopping around for a better deal.

  (e) Many SMEs valued the relationship they had with their account manager/adviser, although this was less important than it used to be, due to the increase in the number of clients that each adviser managed and the higher likelihood of being switched between advisers in their current bank.[42]

56. ACM noted that many banks had scaled back their SME operations since the financial crisis (eg Deutsche Bank) or even exited the sector entirely (eg SNS Bank).[43] Those that did remain, had adopted niche positions. They were not

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[37] ACM stated that there was no unique definition of an SME. In this study, ACM tried to follow the definition of SME which the banks use themselves. Microenterprises (one employee) were excluded from the study because they often used their PCAs instead of a dedicated business account or business loan.
[38] ACM SME loans report, p3 (in Dutch).
[39] ACM SME loans report, pp3 and 8 (in Dutch).
[40] ACM SME loans report, p33 (in Dutch).
[41] ACM SME loans report, p32 (in Dutch).
[42] ACM SME loans report, p34 (in Dutch).
[43] ACM SME loans report, p26 (in Dutch).

overly ambitious in terms of growth, appearing content with growing slowly. Three banks were specifically mentioned:[44]

(a) Deutsche Bank was focused on larger/international businesses.

(b) Triodos was considered a 'Green Bank', supporting what it sees as socially responsible projects.

(c) Svenska Handelsbanken operated by giving its 25 branches significant autonomy, and acting as a local lender. It was believed to be particularly risk averse.

57. ACM conducted analysis on the expected profit margins on SME loans across this period, and found that they had been increasing from 2011 to 2014.[45]

58. This led ACM to conclude that competition amongst banks in SME loans was suboptimal and, in fact, had decreased in the past few years. In particular, it highlighted the following sources of market power:

(a) The existence of high barriers to entry and expansion, as highlighted in ACM's previous study (although some progress had been made, such as the introduction of a separate regulatory framework for credit unions).[46]

(b) Individual capacity constraints of the banks were acting to limit the supply of loans and hence reducing competitive pressure, particularly as a result of increased regulatory capital holding requirements.[47]

(c) Low levels of shopping around and switching by SMEs due to: a lack of transparent information to allow for comparisons, the requirement to change account numbers, and high financial penalties for switching during the 'fixed rate' period of the loan (often 1% of the loan).[48]

(d) Limited competitive pressure from alternative forms of financing such as crowdfunding, credit unions, and NPEX (a Dutch dedicated SME stock exchange).[49]

(e) Risk of tacit coordination between the three major banks due to the limited number of major banks, the existence of barriers to entry and expansion,

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[44] Based on interview with ACM, 26/02/2015.
[45] ACM SME loans report, pp4 and 25 (in Dutch).
[46] ACM SME loans report, pp3, 4 and 37–39 (in Dutch).
[47] ACM SME loans report, pp3, 4 and 27–30 (in Dutch).
[48] ACM SME loans report, pp3, 4 and 30–37 (in Dutch).
[49] ACM SME loans report, p4 and 47–50 (in Dutch).

and the publication on websites of overdraft ‘base rates’ which are tracked and compared by the three major banks.[50]

59. These limitations had resulted in SMEs paying higher interest rates on their loans.

60. ACM also made some comments on areas it saw which did not represent high barriers to entry, largely based on its interviews with smaller lenders. Specifically, it stated that the following did not represent prohibitive barriers:[51]

(a) access to payments systems;

(b) establishing a branch network; and

(c) credit information on SMEs.

Summary of recommendations

61. ACM laid out a series of recommendations to help address its concerns:

(a) Lower barriers to entry by continuing to implement recommendations from its 2014 study (eg improve licence application process), which should increase total financing capacity (lowering supply issues) as well as introducing innovative competitors.[52]

(b) Reduce costs associated with searching and switching. Searching costs could be reduced through improving information transparency ahead of the application process, while switching costs could be lowered through an improved switching service for business accounts, and examining the current penalty structure for early repayment/switching. ANP may also reduce switching costs.[53]

(c) Encourage growth of alternative forms of finance by setting out clear proportionate regulatory frameworks. Removing the bias of government guarantees towards bank funding would also provide a more competitive environment.[54]

(d) Reduce the risk of tacit coordination naturally through introducing new competitors (lowering barriers to entry), as well as adopting a more transparent fee structure where it is clear for SMEs whether increases in

[50] The publishing of these rates provides enough information for the other banks to track changes in pricing, but not enough for an SME customer to estimate it final price; ACM SME loans report, pp4 and 39–44 (in Dutch).
[51] ACM SME loans report, p39 (in Dutch).
[52] ACM SME loans report, pp5 and 52 (in Dutch).
[53] ACM SME loans report, pp5, 35 and 52 (in Dutch).
[54] ACM SME loans report, pp5, 6 and 50 (in Dutch).

the 'base rate' represent cost pass-through or increased margin for the banks.[55]

62. ACM also launched a study into the possible introduction of European bank ANP. ACM is intending to gather further information on the associated costs and benefits in order to support the European Commission when it conducts a new cost-benefit analysis of ANP in 2019.[56]

Relevance to UK investigation

63. As discussed with regard to the previous study, the Netherlands appears to be a relatively good comparison point for the UK. However, as one looks at a more granular level, social and political differences in the markets are likely to emerge. Therefore, some of the more specific findings in this study may not be relevant to the UK (such as the impact of publishing 'base rates' leading to a higher risk of tacit coordination).

64. There are also potential issues with the definitions of 'SMEs' used by the different banks and those used by the ACM and the CMA.

65. The 2015 ACM study builds on ACM's findings in 2014. Particular areas it highlighted, which may warrant further consideration during our investigation of barriers to entry are:

(a) The impact of regulatory capital holding requirements acting to reduce supplies of capital used for lending (such as SME loans), and leading to higher prices.

(b) A lack of pricing transparency acting as one potential barrier for SMEs to fairly compare potential providers.

(c) Smaller/niche competitors may only provide a limited competitive constraint on the major banks if they are reluctant to expand.

(d) Reiterating views that a branch network is not necessary to enter the SME banking market in the Netherlands, in part due to its limited geographic size.

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[55] ACM SME loans report, pp5 and 52 (in Dutch).
[56] Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, Article 28.

DNB's June 2015 study on the 'Structure of the Dutch Banking Sector'

Purpose and scope of the study

66. As an independent financial regulator (as well as central bank), DNB has duties with regard to the ongoing efficiency and stability of the financial markets in the Netherlands. It therefore conducts regular studies to assess the current state of the sectors, and suggest recommendations for improvements.[57,58]

67. This particular report aimed to describe the current structure of the Dutch banking sector and assessed its development with a view to the stability and efficiency of banking services.[59]

Summary of findings

68. DNB highlighted a number of concerns it had regarding the current structure of the Dutch banking sector.[60] Many of these are similar to concerns voiced by ACM in its previous studies and discussed previously in this paper; as such these points are only summarised here:

   (a) The Dutch banking sector is large, with the Dutch bank balance sheet being roughly four times the national GDP.[61]

   (b) The Dutch banking sector is concentrated, with the top five banks' balance sheets encompassing more than 80% of the total banking balances sheets.[62]

   (c) The Dutch banking sector shows little diversity, particularly due to the emergence of so-called 'universal banks', growing from around a 35% share of banking balance sheet assets in 1960, to 65% in 1985, to over 90% in 2010.[63] This loss of diversity has resulted in a greater likelihood of multiple banks becoming unstable at the same time (since shocks to the market will affect all of these banks in a similar way, rather than varying from bank to bank as it would if they differed from one another more).[64]

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[57] DNB mission statement.
[58] DNB summary of duties.
[59] DNB summary of report, *'Contributing to sustainable prosperity'* section.
[60] DNB summary of report and DNB report, p7 (index, in Dutch).
[61] UK equivalent is roughly five times; DNB (June 2014), *Structure of the Dutch Banking Sector* (in Dutch), p13 ('Verenigd Koninkrijk' = UK).
[62] Compared with around 44% for the UK; DNB report, p18 (in Dutch).
[63] DNB report, p21 (in Dutch).
[64] DNB summary, *'Banking landscape shows little diversity'* section.

(d) Foreign banks are not very active in the Netherlands, hence providing little competitive pressure on the domestic banks.[65]

(e) Domestic banks scaled back their international activities following the financial crisis, with associated activities halving since 2007.[66] This limits the potential for economies of scale/scope from integrating domestic and international activities.[67]

Summary of recommendations

69. DNB provided the following recommendations to help address these concerns:[68]

(a) **Size/scope:** Remove/minimise political interventions which are artificially distorting the market (eg implicit bank guarantees, mortgage interest tax relief).[69]

(b) **Concentration:** Reduce market concentration through promoting new entrants into the market (including those using technological innovation), simplifying legislation where possible, reducing government guarantees for incumbents, and making products more comparable for consumers.[70]

(c) **Limited diversity:** Encourage banks to specialise more to introduce more diversity, for example by placing more emphasis on risk management or prudent lending standards, and by banning 'double leverage'.[71]

(d) **Foreign banks in the Netherlands:** Encourage the entry of foreign banks, particularly those ready to invest in local customer relationships, and which are able to fall back on financially healthy parent companies if needed.[72]

(e) **Domestic bank's international activities:** Do not impose any advanced restrictions on the foreign activities of Dutch banks.[73]

70. DNB added two additional regulatory points in its report:

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[65] DNB summary, *'Foreign banks operating in the Netherlands'* section.
[66] DNB report, p24 (in Dutch).
[67] DNB summary, *'Dutch banks operating abroad'* section.
[68] DNB summary (in English) and DNB report, pp4–5 (in Dutch).
[69] DNB report, p34 (in Dutch).
[70] DNB report, p44 (in Dutch).
[71] DNB has launched a study into the most the significant technical innovations and their consequences for the business models and strategies of Dutch financial institutions (due to be published by the end of 2015); DNB report, p51 and Box 1 (in Dutch).
[72] DNB report, p54 (in Dutch).
[73] DNB report, p57 (in Dutch).

(a) It believed that the introduction of a 'financial stability' criterion into European legislation when assessing banking mergers and acquisitions would be appropriate.[74]

(b) It highlighted the importance of anticipating potential developments in the sector structure, such as the ongoing integration of the European banking market, and the increasing role of technological innovation.[75]

71. DNB ended by stating that, whilst these suggested policies may be detrimental to individual banks, they would be positive to society as a whole. It believed that they would lead to increased competition in the sector, as well as increasing both the efficiency and the stability of the sector overall.[76]

Relevance to UK investigation

72. As with the ACM studies, it appears that the Netherlands is a useful comparator for the UK in terms of its banking sector.

73. However, the study is relatively high level and is referred to as acting as a 'compass' for assessing future developments rather than a blueprint.

74. Therefore, we believe that this report provides limited specific insight which we can draw on for the purposes of our own market investigation.

Conclusions

75. We consider that the Dutch retail banking market represents a reasonable comparator for the retail banking market in the UK, with many similar characteristics, such as:

(a) large relative size;

(b) high level of concentration in key product markets (eg PCAs and SME loans);

(c) a number of large, systemically important banks, some of which required government assistance following the financial crisis;

(d) low levels of customer switching in the PCA, savings, and SME loans markets;

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[74] DNB summary, *'A compass for assessing future developments'* section.
[75] DNB report, p58 (in Dutch).
[76] DNB report, pp5 and 59 (in Dutch).

(e) complex national and European regulatory frameworks; and

(f) high levels of consumer technological savvy and an increasing use of digital banking.

76. Some differences between the markets do remain, although these are generally seen when considering a more granular level of detail, such as:

(a) use of FIIC PCA model in the UK;

(b) specific initiatives already introduced in the UK (eg banking licence application process);

(c) specific market features caused by political intervention (eg tax relief on mortgages in the Netherlands); and

(d) geographic differences.

77. Therefore, a number of the issues which ACM and DNB identified as representing competition concerns within the Dutch retail banking market were similar to ones that we have investigated:

(a) a highly concentrated market, dominated by non-diverse universal banks;

(b) overly complex regulation, which was particularly disproportionate for smaller banks/alternative funding sources where there was lower risk to the overall financial system;

(c) distortions from the implicit government guarantee provided to the large banks ('too big to fail') and capital holding requirements (limiting supply for loans);

(d) price sensitivity remaining low, even when paying for PCAs (rather than FIIC). Similarly, the banks rarely competed in this area;

(e) new entrants not providing sufficient competitive constraint on incumbents; and

(f) poor transparency of information for customers (particularly SMEs) which resulted in lower searching/switching activity, and the publishing of some partial information risking tacit coordination between the major banks.

78. We have also considered areas which ACM and the DNB found not to represent barriers to entry, and the rationale supporting these conclusions:

(a) a national branch network was not a barrier to entry in the market due to the increasing digitalisation of banking and digital operating model of some new entrants;

(b) IT and marketing costs were relatively high, but not prohibitive, and therefore, they did not constitute a barrier to entry;

(c) inter-bank payment systems were considered to work well in the Netherlands, with participants seeing them as low cost and efficient; and

(d) third parties could provide credit information on SMEs and, therefore, access to this information was not a barrier to entry.

79. The existence (or not) of these issues in the Netherlands does not in themselves indicate that there are equivalent concerns in the UK. Instead, we have taken any findings from ACM and the DNB in the context of our market investigation, remaining particularly aware of the different circumstances which may exist in the UK compared with the Netherlands.

Annex A: Updated retail banking market shares in the Netherlands

1. The table below shows estimated market shares in different sectors for banks operating in the Netherlands (please note that these values may differ from those in the rest of this paper as they will not necessarily be estimated on the same basis).

Table 1: Estimated market shares in different sectors for banks operating in the Netherlands

%

	PCAs	*SME BCAs*	*SME loans*	*Savings*	*Mortgages*
Rabobank	35	45	44	32	28
ING Bank	41	24	23	26	20
ABN Amro	20	25	26	19	22
SNS Bank	5	n/a	n/a	8	2
Aegon/Knab	< 1	< 1	n/a	< 1	13
Argenta	n/a	n/a	n/a	< 1	5
Triodos Bank	< 1	1	1	< 1	< 1
Deutsche Bank	n/a	1	1	n/a	n/a
Svenska Handelsbanken	< 1	< 1	1	n/a	n/a
Eureko (Achmea)	n/a	n/a	n/a	< 1	2
Delta Lloyd	n/a	n/a	n/a	< 1	< 1
Other banks	n/a	1	3	6	5
Other non-banks	n/a	n/a	n/a	n/a	3

Source: ACM, GfK Surveys on PCAs and lending and current accounts for SMEs, Netherlands Ministry of Finance.

Annex B: Methodology and process for ACM's June 2014 study

1. ACM conducted a thorough process, using a wide range of sources to draw conclusions from, including:[77]

   (a) a review of academic, legal, and regulatory literature;

   (b) a survey of a wide range of potential entrants, as well as interviewing other interested parties (such as existing banks, the Dutch central bank, and Ministry of Finance);

   (c) data-gathering and analysis on market participants; and

   (d) a consumer survey to investigate consumer behaviour.

2. Four different types of new entrant were specifically identified and considered when coming to findings and recommendations:

   (a) existing banks expanding their offerings;

   (b) other financial services institutions (eg insurance companies) offering banking services such as mortgages;

   (c) international competitors entering the Dutch market; and

   (d) new start-up banks.

3. When coming to its recommendations, ACM had regard to two key questions, designed to test materiality and practicality:

   (a) Is the barrier designated as important by (potential) entrants?

   (b) Is it possible to formulate a specific recommendation for reducing the barrier?

[77] ACM report (June 2014), pp15–16.

Annex C: Details on potential barriers identified in ACM's June 2014 study

1. This annex includes additional details on potential barriers to entry identified by ACM in their 2014 market study.

Table 1: List of potential barriers identified, and rationale for inclusion/exclusion

	Potential barrier	*Rationale*
Addressable barriers	Implicit guarantee for systemically important banks	The implicit guarantee lowers financing costs vs competitors (estimated as 67 to 121 basis points)
	Lack of single European deposit-guarantee scheme	Concern around whether domestic taxpayers of the headquartered country would be required to pay out for foreign national guarantees (eg Icesave)
	Complexity of regulations	High sunk (and often fixed) costs of regulatory compliance, which is continuing to increase
	Banking licence application process	Complex application process, with limited guidance available. Also some perception that the regulator is not very supportive
	Disproportionate regulatory requirements on small banks	Lack of regulatory differentiation results in new/smaller competitors being as heavily regulated as incumbents, despite the more limited associated impact of a default
	Regulatory uncertainty (particularly in the mortgage market)	Uncertainty around the regulatory environment increases risks, resulting in a lower likelihood of new entrants
	Consumer inertia	Lack of consumer switching restricts ability for new entrants to grow to sufficient scale, particularly where there are high fixed costs
Potential barriers to consider	Economic conditions	Although the depressed economy has substantially lowered the likelihood of new entrants, remedies to this cannot sensibly be considered to be in scope of this report
	IT investment	Recognised as a large cost, but ACM believed that the cost was inextricably linked to entering the market
	Initial marketing spend	Recognised as a large cost, but ACM believed that the cost was inextricably linked to entering the market
Not barriers	Inter-bank payment systems	New (potential) entrants were not concerned, and KPMG reported that the Dutch systems were efficient and low cost
	Access to SME customer information	New (potential) entrants were not concerned, mainly due to option to buy large amounts of information from private providers
	Need for an extensive branch network	May not represent a significant barrier in either personal or SME banking due to the presence of third party intermediaries (eg mortgage brokers) and increasing use of digital channels
	Pricing structures	The level of interest rates and associated risks can be priced into the cost of the relevant products

Source: CMA analysis.

Areas highlighted as addressable barriers

Implicit guarantees for systemically important banks[78]

2. These banks are considered 'too big to fail', so have an implicit government guarantee.

3. This results in a lower cost of financing (estimated as 67 to 121 basis points), as well as potentially incentivising riskier behaviour than otherwise.

Capital restrictions and lack of single deposit-guarantee scheme[79]

4. During and after the financial crisis, national regulators generally imposed more pressure (formal and informal) on banks around restricting their exposure to international markets, primarily to limit the impact of potential bankruptcies of foreign banks on the home country (eg cross-border interbank loans in the euro area declined by €670 billion). This included concerns around national deposit guarantees being compelled to pay out to foreign savers.

Complexity of regulations[80]

5. Laws and regulations for banks are highly complex, change often, and are costly to comply with. The interaction between European and national requirements adds an additional layer of complexity.

6. In particular, these requirements are becoming even more complex over time (eg Basel III guidance has 20 times as many pages as Basel I).

7. This results in increased overheads (since majority of compliance costs are fixed), higher sunk costs, and depressed profitability, all of which increase the barriers to entry and expansion.

Banking licence application process[81]

8. The process of applying for a banking licence is seen as relatively difficult/complex, and the regulator provides limited assistance either formally or informally. It is likely to have become even more complex since November

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[78] ACM report (June 2014), p24.
[79] ACM report (June 2014), p30.
[80] ACM report (June 2014), p39.
[81] ACM report (June 2014), p43.

2014 when the European Central Bank (ECB) became the formal issuing body.

9. The Dutch authorities now act as an initial screener, proposing that the ECB issues a licence. This is likely to result in an additional layer in the application process.

10. Three areas of the process were specifically highlighted as being issues:

    (a) The length of the process. Although this is formally limited to 13 weeks, the applicants believe it takes a total of 12 to 18 months including business plan preparation etc.

    (b) Uncertainty of the process itself, such as assessment criteria and likelihood of success.

    (c) The unforthcoming attitude of the regulators: 'DNB [Dutch central bank] is focused more on preventing future bankruptcies than on the positive impact of new entries, in part due to statements made by politicians'.

11. Finally, ACM pointed out that if the regulator is castigated by society every time a bankruptcy occurs (even if it is a correct and controlled bankruptcy), it will naturally adopt a risk-averse stance, increasing barriers.

***Limited differentiation in regulation to account for different risk*[82]**

12. Not all credit agencies represent the same risk to the economy if a bankruptcy was to occur. In particular, there are large differences between systemically-important banks and others (eg small banks or credit unions). Some of the regulatory requirements are determined by Europe, but there is also a degree of national control/discretion.

13. The Netherlands does currently differentiate slightly based on risk (in a framework called FOCUS!), however all new entrants are classified as 'high risk' and so exposed to increased regulatory burdens compared to an equivalent incumbent. This results in disproportionate levels of regulation for new entrants, increasing barriers.

14. In particular, ACM highlighted the fact that the Netherlands does not have a specific framework for credit unions hence they are considered as banks, and

[82] ACM report (June 2014), p49.

regulated as such. This limits their ability to enter the Netherlands market (vs in Canada where they supply 15% of SME lending).[83]

Regulatory uncertainty[84]

15. ACM particularly highlighted that there is significant regulatory uncertainty in the mortgage market, which will generally result in a lower likelihood for new players to enter the market until this is resolved.

16. There is a tension between attempts to stimulate the housing market following the financial crisis, whilst minimising competitive distortions. In particular, questions around an LTV cap, the current allowance of tax relief on mortgage interest, and the potential for a national mortgage guarantee are being discussed.

Consumer inertia

17. ACM conducted a survey to examine the major reasons for the limited levels of consumer switching in both PCAs and savings. Based on these, it provided a number of conclusions (in a rough order of importance):

    (a) **High perceived hassle of switching:** 37% of consumers believed that switching PCAs took too much time/effort.[85] This is despite a switching service being introduced in the Netherlands to attempt to ease this. There was relatively low awareness of the switching service,[86] and some concerns about the lack of government/regulatory involvement had left the banks to implement the switching service poorly (eg have to keep the old account open during the switch, so are paying for both).[87]

    (b) **Concern around the safety of savings:** 53% of non-switchers with savings accounts mentioned that 'diminished confidence in their current bank' would be a reason to switch banks and recent switchers highlighted safety as an important factor in picking their new bank. ACM therefore believed that the safety of savings was a major consideration around switching.[88] This was despite a national guarantee scheme for up to €100,000, of which consumers had poor awareness.[89]

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[83] ACM report (June 2014), p57.
[84] ACM report (June 2014), p65.
[85] ACM report (June 2014), p81.
[86] Only 37% of consumers have heard of the switching service, with only around 12% actually knowing what it does; GfK Consumer survey on personal current accounts (April 2014), pp22–23
[87] ACM report (June 2014), p83.
[88] ACM report (June 2014), p71.
[89] 61% of non-switchers say they are familiar with the deposit guarantee scheme, but only 30% of non-switchers actually know what it is; GfK Consumer survey on personal savings accounts, pp19–20.

(c) **Relatively low price sensitivity:** 31% of consumers indicated that switching PCAs yielded too few financial advantages.[90] ACM said that 31% of consumers told them they would only switch for a discount of at least €50, whilst an additional 35% would not switch for any discount.[91] In savings, interest rates were generally stated as being important, but around 25% of recent switchers and about 50% of non-switchers were unsure of their current rate.[92]

(d) **Mixed levels of satisfaction:** 27% of respondents indicated that they were not motivated to switch banks as they were satisfied with their current bank's PCA offering.[93,94] This appears potentially inconsistent with an NPS of –11 in PCAs.[95]

Potential additional barriers to consider

Economic conditions[96]

18. ACM stated that the current adverse macroeconomic circumstances in the Netherlands were one of the most important reasons for not entering the Dutch banking sector.

19. However, it made no recommendation on this as it was difficult to formulate a recommendation for this barrier that consisted of more than meaningless generalisations.

Other potential barriers

20. In passing, ACM also mentioned a number of potential further barriers, but ultimately concluding that these did not represent significant barriers to entry or expansion:

(a) **IT investment:** This was referenced as being a major cost, and hence an important consideration/potential barrier during the licence application process. However, ACM stated that it was not making a recommendation

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[90] ACM report (June 2014), p80.
[91] ACM report (June 2014), p76.
[92] GfK (April 2014), *Consumer Survey on Personal Savings Accounts*, pp17 and 30
[93] This was the second most popular reason for not switching accounts, after 'I have no reason to switch account' (41%).
[94] ACM report (June 2014), pp79 and 81; GfK (April 2014), *Consumer Survey on Personal Current Accounts*, p16.
[95] Net promoter score is calculated by asking on a scale 0–10 'how likely is it that you will recommend [company X] to a friend or colleague?', and is then calculated as the difference between the percentage of promoters (answering 9 to 10) and the percentage of detractors (answering 0 to 6); GfK (April 2014), *Consumer Survey on Personal Current Accounts*, p15.
[96] ACM report (June 2014), p23.

in this regard, as it believed that these investment costs were inextricably connected to entering the market.[97]

(b) **Initial marketing spend required:** Similarly this was mentioned in passing as being a potentially large cost, but ACM made no recommendation as it believed this was inextricably connected to entering the market.[98]

Areas highlighted as not being a significant barrier

Inter-bank payment systems

21. Although there are a number of potential payment systems available for the Single Euro Payments Area (SEPA), the largest provider is Equens which is owned by several Dutch and non-Dutch banks.

22. ACM claimed to have investigated the possibility of this representing a barrier, but received no specific reports that this was a concern.[99]

23. KPMG also identified the Dutch systems as being efficient and low cost.[100]

Access to SME customer information[101]

24. ACM acknowledge that some recent studies have shown this as a barrier, but determined that it did not have a substantial impact in the Netherlands.

25. This was due to (potential) new entrants not highlighting it as a key concern, as well as the existence of private companies such as Dun & Bradstreet and Graydon that provide a large amount of the information relevant to new entrants (for a surcharge).

The need for an extensive branch network

26. **Personal:** ACM highlighted a 2010 Office of Fair Trading (OFT) report which mentioned the requirement for a branch network, however, it also referenced a 2011 NMa (ACM's predecessor) report which concluded that the large number of intermediaries[102] (at least in the mortgage market) allowed new entrants to gain significant market share without a network of branches.[103] It

[97] ACM report (June 2014), pp43, 45 and 78.
[98] ACM report (June 2014), p78.
[99] ACM report (June 2014), p77.
[100] KPMG (April 2014), *Barriers to Entry, Growth and Exit in the Retail Banking Market in the Netherlands*, p15.
[101] ACM report (June 2014), p55.
[102] Such as mortgage brokers; NMa (2011), p43 (in Dutch).
[103] ACM report (June 2014), p63.

also references the increasing use of the internet, and the recent entry of two competitors (eg Knab) with no branch network as further evidence for this.[104]

27. **SMEs:** ACM again highlighted the OFT report which referenced the importance of a branch network for serving SMEs, however ACM declined to investigate this further.[105]

Pricing structures

Poor interest rates on lending[106]

28. Parties indicated that low interest levels offered a poor return compared to the associated risks. They asserted that banks compensated for this through cross-selling of additional products.

29. ACM noted that interest rates had recently been increasing, and had become more commensurate with underlying risk.

High loan-to-value mortgages[107]

30. High LTV mortgages in the Netherlands create the perception for foreign banks that the risk of an investment in the Dutch mortgage market is considerable, but ACM believed that this would simply be reflected in the mortgage rates.

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[104] ACM report (June 2014), p78.
[105] 'Pursuant to this report, ACM will not formulate a recommendation in this regard'*;* ACM report (June 2014), p55.
[106] ACM report (June 2014), p56; ACM SME loans report, p39 (in Dutch).
[107] ACM report (June 2014), p63.

Appendix 6.9: Free-if-in-credit analysis

Overview

1. This appendix sets out the supplementary results of our analysis on FIIC (free-if-in-credit) PCAs.

Consumer searching behaviour and switching rates

2. Table 1 presents results from the GfK PCA consumer survey on the proportion of customers who compared different current accounts according to whether the customer was currently on FIIC (standard), reward or packaged accounts. Table 1 also compares the switching rates for customers on FIIC, reward and packaged products.

Table 1: Proportion comparing different current accounts and switching by product type

Proportion of main accounts %

	All	Standard	Reward	Packaged
Proportion comparing different current accounts in last 3 years				
Did not search	73	74	71	71
Searched	27	26	29	29
Base size	3,701	1,660	1,746	295
Proportion comparing different current accounts in last 12 months				
Did not search	81	82	80	79
Searched	19	18	20	21
Base size	3,692	1,656	1,742	294
Proportion switching PCA to another bank in last 3 years				
Did not switch	92	96	89	88
Switched	8	4	11	12
Base size	3,709	1,664	1,748	297
Proportion switching PCA to another bank in last 12 months				
Did not switch	97	98	96	97
Switched	3	2	4	3
Base size	3,705	1,660	1,748	297

Source: CMA analysis of GfK PCA survey.
Notes: Main current accounts are PCAs only. Base size is the unweighted base size. The analysis is based on the following questions: F1 – 'In the last 3 years have you looked around to compare different current accounts?'; F2 – 'When was the last time you compared different current accounts? Was it in the last 12 months or longer ago than that?'; F3 – 'Have you personally changed your main current account in the last 3 years – this could be from one bank to another bank or just from one account to another within the same bank?'; F4 – 'When was the last time you changed your main current account? Was it in the last 12 months or longer ago than that?'.

Consumer perceptions of PCA comparability and differences

3. Table 2 presents results from the GfK PCA consumer survey on the perceived ease to which current accounts can be compared and customer perceptions on whether there are real differences between banks in the current accounts

they offer. The results are analysed separately for customers currently on a FIIC (standard), reward or packaged account.

Table 2: Ease of account comparability and perceived differences across PCAs

Proportion of accounts %

Proportion reporting it easy/difficult to compare between accounts††

	Standard	*Reward*	*Packaged*
Easy	70	66	74**
Base size	(1,147)	(1,160)	(213)
Difficult	24	20**	19
Base size	(405)	(315)	(57)

Proportion agreeing/disagreeing that there are real differences between banks in the current accounts they offer

	Standard	*Reward*	*Packaged*
Agree	45	51***	49
Base size	(836)	(864)	(154)
Disagree	23	22	21
Base size	(376)	(346)	(58)
Overall base size	(1,747)	(1,664)	(297)

Source: CMA analysis of GfK PCA survey.
Notes: Totals do not add up to 100% because other response categories not displayed are neither agree/disagree and don't know. Base size is the unweighted base size.
***/**/* Statistically significantly different from zero at 1, 5 and 10% confidence level.
†† Question F11 in PCA survey – 'How easy or difficult do you think it would be/did you expect it to be to make comparisons between current accounts?'.

Interest forgone

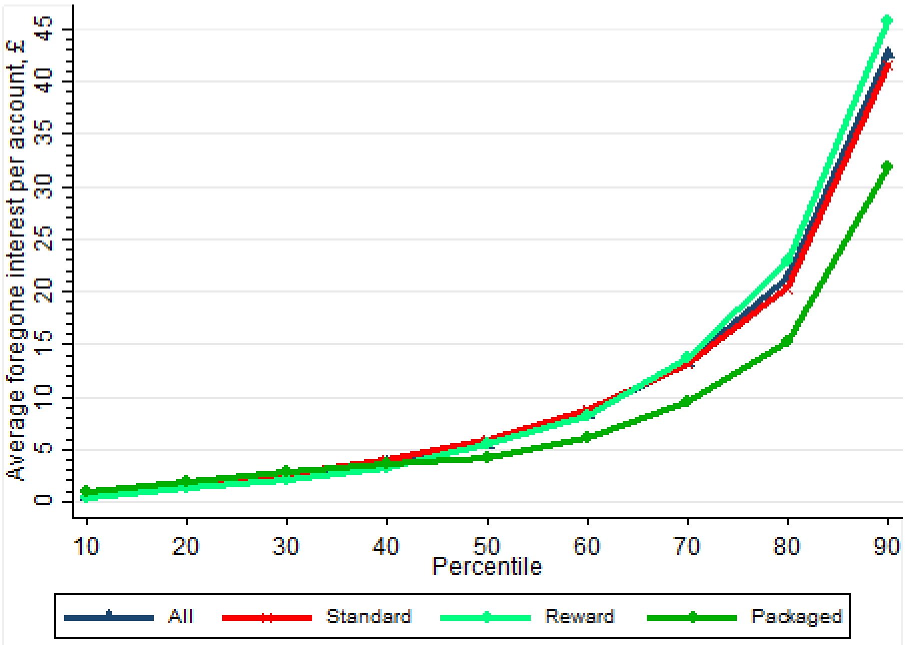
4. Figure 1 below shows the average interest forgone by product type. It shows that:

   (a) there is considerable variation in interest forgone between customer accounts – 10% of accounts in our sample cost up to £0.61 per month in interest forgone whereas the highest 10% cost over £42.66 in interest forgone;

   (b) for FIIC and reward accounts, the distribution of interest forgone is broadly similar; and

   (c) for packaged accounts, interest forgone tends to be lower than FIIC and reward for the highest cost accounts.

Figure 1: Monthly average interest forgone distribution by product type (£ per main PCA), UK 2014



Source: CMA analysis of transaction data supplied by banks.
Notes: Forgone interest calculated as BoE base rate on average credit balances less interest and non-interest payments to customers, monthly average across Q4 2014.

Average cost comparison by PCA credit balance

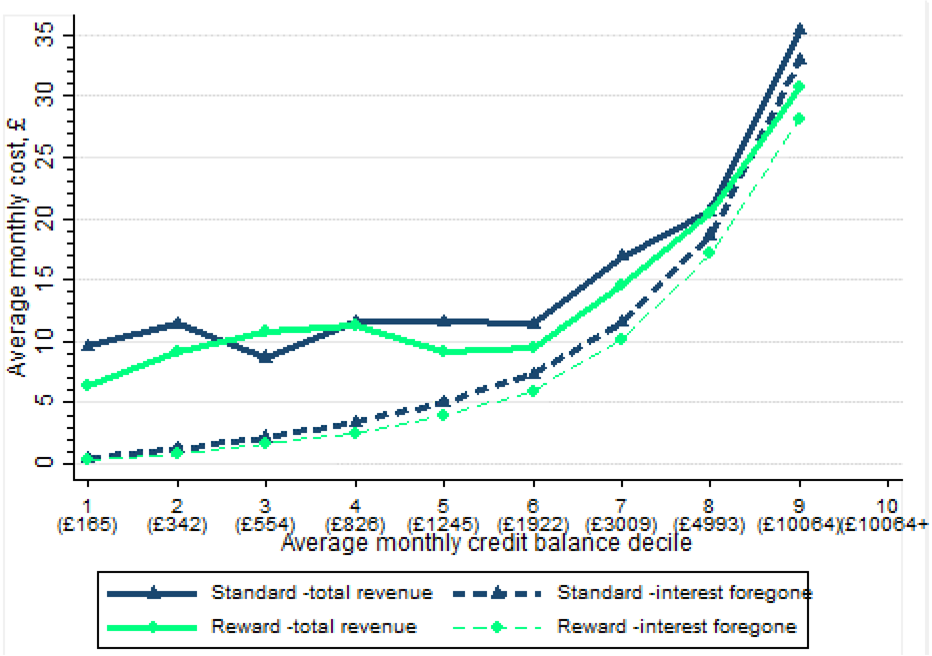
5. Figure 2 shows the average cost per account ranked by monthly credit balance. It shows that:

   (a) monthly average cost is higher for higher credit balances, particularly for FIIC accounts (£10 for accounts in the lowest decile compared to £142 for accounts in the highest decile);

   (b) interest forgone represents a greater proportion of costs for accounts with higher credit balance, than for accounts with lower credit balance (£0.4 for accounts in the lowest decile compared to £139 for FIIC accounts in the highest decile); and

   (c) this suggests that customers with high credit balances pay more (directly and indirectly through interest forgone) than customers with low credit balances. We also see that high credit balance customers would on average pay less with reward accounts.

Figure 2: Monthly average cost (including forgone interest) per account ranked by monthly credit balance decile in the last quarter of 2014, UK



Source: CMA analysis of data provided by banks.
Notes:
1. Analysis of main accounts.
2. Forgone interest calculated as BoE base rate on average credit balances less interest and non-interest payments to customers.
3. Average credit balance decile across reward and standard PCAs.
4. Average revenue for the 10th decile has been omitted from the figure to improve the readability of the scale for deciles 1 to 9. For standard products, average total revenue is £142 and interest forgone is £139 for the 10th decile. For reward products, average total revenue is £97 and interest forgone is £95 for the 10th decile.