

Retail banking market investigation final report

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Glossary

Appendix 13.1: Background to the development of the Open Banking remedy

1. In developing our remedy in this area, we have sought to build on the work of a number of government and industry initiatives that were either already underway when we began our investigation or which were launched during it.
2. In particular we took into account the experience gained from the Midata project, including from our own qualitative research,¹ and the proposals contained in the report of the Open Banking Working Group (OBWG)² on open API standards, both of which we now describe.

Midata

3. In our provisional findings we explained the background and purpose of HMT's Midata project, which launched on the Gocompare PCW in March 2015.³ Midata aimed to facilitate price comparisons between PCAs using customers' own transaction history.⁴ We said that although this was a positive development, in its current implementation it had some important limitations.⁵
4. For example, customers trying to compare prices of PCAs using Midata had to first locate their account history files on their bank's website, then download a .csv file containing their last 12 months' transaction information and finally upload it to the PCW.
5. Several parties including Which?⁶ and the major banks⁷ told us that this process had shortcomings. These included the relatively poor user experience arising from the cumbersome process of uploading and downloading the files described above, the fact that it could not be used on iPhones, iPads or other mobile devices running the iOS operating system,⁸ that some transaction history was redacted,⁹ and that its scope was limited to PCAs and therefore was not relevant to SMEs.

¹ [Optimisa Research report](#), Section 4.

² [The Open Banking Standard](#), 8 February 2016.

³ See [Which?](#), 18 March 2015.

⁴ See [provisional findings](#), paragraphs 7.94–7.96 and [Appendix 3.1](#), paragraphs 203–205. Subsequently, HMT launched a collaborative project with banks and FinTech organisations to design a framework for the development of an open API standard for PCA and BCA customers. For an explanation of the background to this initiative see the [relevant HMT webpages](#).

⁵ [Summary of provisional findings](#), paragraph 51 (d) and [provisional findings](#), paragraph 7.96.

⁶ See the [Which? assessment of Midata](#).

⁷ See for, example, [LBG response to the updated issues statement](#), paragraph 3.5(a).

⁸ Around 40% of smartphones in the UK currently run the on the iOS platform. See [Kantar](#) research.

⁹ Data identifying payees may be redacted for reasons of privacy, for example, and this may result in the value of cashback offers in respect of certain transactions being omitted.

6. The number of Midata downloads to date is low not just in absolute terms but also compared with the number of visitors to the relevant webpages.¹⁰ This also suggests that the current implementation of Midata is difficult to use.¹¹
7. In our [Remedies Notice](#) we proposed a measure, intended to build on the Midata initiative, which would make it easier for customers to compare current account prices. It had two elements:
 - (a) the adoption by providers of open API¹² standards; and
 - (b) the provision of BCA as well as PCA transaction data via open APIs.

Open API standards

8. In August 2015, HMT launched a joint industry and government initiative, the OBWG. Its terms of reference were to:
 - (a) deliver a framework for the design of an open API standard in UK banking focusing on PCAs and BCAs;
 - (b) evaluate how increased levels of open data in banking can benefit consumers, businesses and society; and
 - (c) publish recommendations in a paper by the end of 2015 outlining how an open API standard can be designed, delivered and administered, alongside a timetable and implementation roadmap for achieving this.¹³
9. It was hoped by government that delivering an open API standard in the UK would help to drive more competition and innovation in financial services for the benefit of customers and help to develop the UK's FinTech sector.¹⁴ Additionally, it was felt that agreeing and adopting open API standards in advance of the EU's plans, under the second Payment Services Directive (PSD2),¹⁵ to require banks to provide access to consumer data, could be advantageous to the UK.¹⁶ The benefits from the open API project were thus envisaged as extending beyond simply facilitating choice between current accounts.

¹⁰ [§]

¹¹ This was confirmed by our qualitative research. Out of five participants asked to use the current Midata service, only one has successfully done so. The inability to follow the steps required along with data security concerns were the main reasons for others not completing the task. [Optimisa Research report](#), p86.

¹² We explain what APIs do in paragraphs 17 to 19.

¹³ [OBWG terms of reference](#).

¹⁴ [Letter to the co-chairs of the OBWG from Treasury Minister Harriet Baldwin](#), August 2015.

¹⁵ See Section 3 and Appendix 3.1.

¹⁶ [OBWG Report](#), p2.

10. The OBWG report proposed that within 12 months of its publication a 'minimum viable product' would be delivered including a tightly scoped Open Banking API enabling read-only access to lower risk elements of the Open Banking framework. This 'reference data' would be publicly available information, for example the location of all ATMs, and, where it was in the public domain, the prices and terms of banks' SME loan products.
11. By the end of 2017 read-only access by third parties to Midata (ie redacted PCA) data sets would be enabled.¹⁷ By the end of 2018 it was proposed that this would be extended to BCA data sets and by the end of 2019 the remaining elements of the project would be delivered, including those generally regarded as higher risk, such as those facilitating third party write access, thus enabling, for example, payment initiation services.
12. We reproduce below a chart from the OBWG's report setting out its indicative release schedule.

Figure 1: The OBWG indicative release schedule

	Release 1: MVP: i.e. Open "available" data	Release 2: + Midata	Release 3: + Customer transaction data	Phase 4: +Write access
Scope of Open Banking Standard	<ul style="list-style-type: none"> Open "available" data - e.g. branch data (location, hours, address etc.), ATM data, contact details etc. 	<ul style="list-style-type: none"> Open "available" data Midata data-sets (e.g. running balances, debit/credits, merchant fields) NB All data-sets available on a read-only basis 	<ul style="list-style-type: none"> Open "available" data Midata data-sets Customer transaction data - e.g. Balance information, account details etc. NB All data-sets available on a read-only basis 	<ul style="list-style-type: none"> Open "available" data Midata data-sets Customer transaction data - e.g. Balance information, account details etc. NB Data-sets available on a read and/or write basis as appropriate
Milestones and supporting activities	<ul style="list-style-type: none"> Launch of the Standards Governing Body; delivery of simplified reference data model and Open API specification supporting initial data scope Announcement of first-adopter banks to release data via the Open Banking API Launch of Independent Authority Completed RFP, vendor selection and onboarding for sandbox and developer hub build 	<ul style="list-style-type: none"> Impact assessment of Midata transfer on existing infrastructure Establishment of required interaction mechanisms between Midata infrastructure and Open Banking entities Completion of Midata "migration" onto the Open Banking API Consumer awareness campaign to announce roll-out 	<ul style="list-style-type: none"> Significant progression towards target operating models for Standards Governing Body and Independent Authority (ex. Write access) Expansion of Standards to cover customer transaction data Review of key legislation to inform implementation compliance Preparation planning and community engagement for "go-live" on transaction data 	<ul style="list-style-type: none"> Engagement with EBA prior to write-access roll-out Progression towards full target operating models for Standards Governing Body and Independent Authority Assessment of greater attribute porting potential within and between industries Evaluation of further integration with cross-industry data sharing initiatives
	Q4 2016 (y/e)	Q1 2017	Q1 2018	Q1 2019

Source: [The Open Banking Standard](#), Figure 9.2.

13. The report envisaged that these technical developments would be accompanied by the adoption of appropriate governance arrangements to minimise the risk of breaches of confidentiality and fraud and to ensure that

¹⁷ As noted earlier, these data sets would only comprise data relating to PCA customers of the participating providers and would be redacted.

suitable redress was available to customers in the event that problems occurred.

How this remedy addresses the AECs and/or the resulting customer detriment

14. The remedy is designed to facilitate simple, quick and reliable comparisons between providers and enable the entry and expansion of new services to help customers move their money around, thereby addressing barriers to accessing and assessing information on PCAs and BCAs in GB and NI and barriers to comparing lending products in GB and NI, by requiring the leading providers to:
 - (a) adopt open API standards (for both transaction and open data); and
 - (b) make available through APIs SME banking product and reference data and, subject to appropriate privacy and security arrangements, BCA and PCA transaction data.
15. We explain below how each element of the remedy will address the AECs.

Open API standards

16. An open API standard will make it simpler and safer for SMEs and PCA customers to make reliable price comparisons between providers and products. It will enable PCWs and other FinTech companies, with the customer's permission, to view their transaction history for a specified purpose using industry standard technology. This represents a significant improvement over the current Midata service in terms of user experience (see paragraphs 3 to 6),¹⁸ is likely to be more acceptable to customers than solutions employing 'screen-scraping'¹⁹ and has important advantages over a situation where each individual provider adopts a proprietary standard for its APIs.²⁰

APIs

17. APIs are sets of instructions that allow one piece of software to connect with another. Outside of banking, APIs are used to provide a variety of functions.

¹⁸ Findings of our qualitative research suggest that an improved version of Midata where transaction data is accessed directly by a comparison site would be preferable to the current service as there are fewer steps in the process and therefore less effort is required on the part of consumers. [Optimisa Research report](#), p88.

¹⁹ Screen-scraping entails a third party being provided by the customer with their online banking log-in details then using them to access their account data on their behalf.

²⁰ The benefits of open standards for banking APIs are set out in Section 7 of the OBWG report. Although FinTech companies could cope with a variety of API standards in the same way that app developers adapt their products for different mobile platforms the adoption of common, industry standards is likely to be cheaper and more efficient.

Companies like Uber, for example, use APIs to connect their drivers with customers in real time.

18. APIs may be used to share both 'open data',²¹ for example reference data such as the location of bank branches and, if providers disclosed it, other information. The latter could include a bank's credit scorecards or service quality indicators such as survey data indicating the willingness of customers to recommend their bank to other people.
19. In addition, and with the customer's informed consent, 'closed data', for example their transaction history, could also be shared.
20. These examples illustrate the potentially wide impact of this remedy, including its relevance to our remedy to enable customers to make effective comparisons of service quality (see paragraphs 13.88 to 13.162), to our additional remedies addressing SME banking services²² and to our measures aimed at simplification and standardisation of BCA opening procedures.²³
21. The use of API technology would remove the need for customers to download and then upload their transaction data as they currently have to when using Midata. Instead, it would enable their bank's systems to communicate directly with those of the PCWs, or whichever entity the customer had consented to share their data with, and permit only information specified by the customer to be shared: API technology allows the information shared with third parties to be very precisely defined in terms of what may be shared, with whom, over what period and for what purposes.
22. API technology is also likely to represent a more attractive customer proposition than the process of accessing customer data through 'screen-scraping' used by most FinTech companies already operating in the UK. These include, for example, services allowing a customer to view all their payment and savings accounts through one portal, forecasting an account holder's cash flow and moving funds to their account to avoid overdraft charges, 'sweep' services which move surplus cash out of low/no interest accounts to those where a better return can be had or using an SME's transaction history to assess the affordability of a loan.
23. It is important to note that API technology does not require the customer to share their online banking log-in credentials with a third party. Data is made

²¹ See the definition of open data on the [Open Data Institute website](#).

²² Information on the terms, conditions and eligibility criteria that providers applied to lending products would also be relevant to our proposals regarding the creation of a comparison website for SME banking services. See Section 16.

²³ See Section 16.

available to the third party by the bank upon authorisation by the customer, not by the third party accessing the customer's account using their credentials. Because of this, the customer does not risk losing the fraud protection guaranteed by their provider, which could be invalidated if they had provided these details to a third party.²⁴

Open APIs

24. An open API is a means of accessing information based on an 'open standard', which is one that can be accessed or used by anyone.²⁵ An open API standard would entail UK banks developing a single and common API, which is publicly available and can be used by any FinTech company or app developer, to design products or apps which would work for all UK banks.
25. The creation of an open API standard would permit all banks and intermediaries to operate using the same technology. This is likely to stimulate product innovation since it would create a larger 'ecosystem' for FinTech companies and developers to work within, as a single application could then connect with, and be used by, customers from any bank.²⁶
26. We reproduce below a diagram setting out how an open API standard would help customers compare PCAs and other banking services.

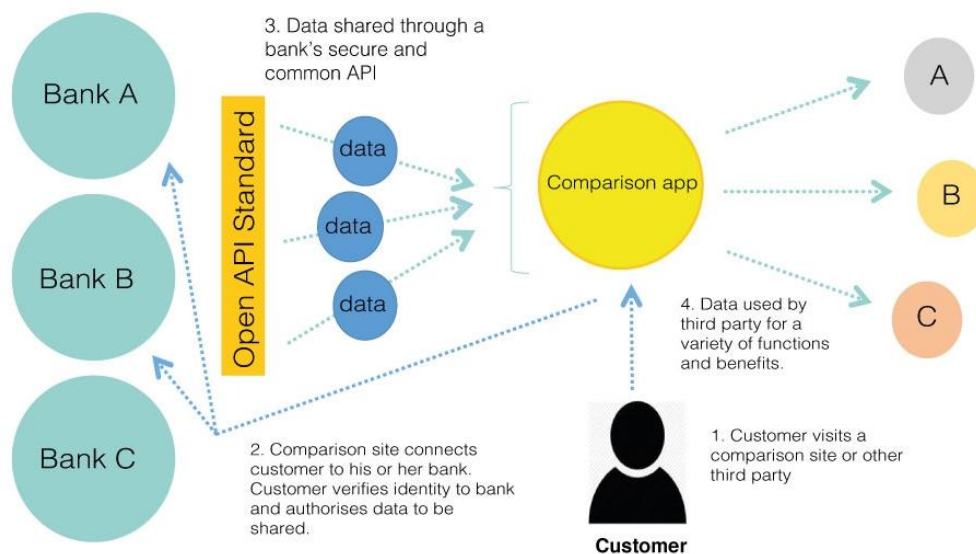
²⁴ See [Open Data and Data Sharing for Banks](#), paragraph 4.1.1.

²⁵ See the definition of an open API standard on the [Open Data Institute website](#). The Open Banking Standard would encompass both data and API standards.

²⁶ See HMT (March 2015), [Call for evidence on data sharing and open data in banking](#).

Figure 2: An open API standard

APIs: the process for the customer



Open standard API means one app can work with many banks

Source: [HMT Call for evidence on data sharing and open data in banking.](#)

Appendix 13.2: Evidence on facets of service quality and the types of metrics

Facets of service quality

1. In considering which facets of service quality are important for PCA customers and SMEs we:
 - (a) analysed survey evidence, both our own¹ and off-the-shelf material submitted by parties;
 - (b) looked at which service quality data is currently available to, and used by, customers;
 - (c) considered what parties told us about what information customers required;
 - (d) examined which aspects of service quality providers monitor themselves; and
 - (e) looked at quality data published in other sectors.

Survey evidence

2. Our research indicated that PCA customers and SMEs want information on service quality to help them compare products in the market.
3. Our quantitative research found that 'quality of staff and customer service' and 'quality and speed of handling problems', followed by internet banking, emerged as the most important aspects of the current account.²
4. Our qualitative research found that there were many similarities between the needs of smaller SMEs and personal customers but clear differences between their needs and those of medium and larger SMEs in the facets of service quality that they wanted to compare:³
 - (a) Small businesses/sole traders and consumers want 'at a glance' information that is easy to digest and compare as a proxy for the overall performance of the bank. They are also interested in reading customer-

¹ [Optimisa Research report](#).

² Customers were asked to rate the importance they attached to each of the nine features of the bank account. In response, 83% and 82% respectively said they found the 'quality of staff and customer service' and 'quality and speed of handling problems' essential or very important. Internet banking was rated as essential or very important by 62% of customers. [PCA survey](#), p36.

³ [Optimisa Research report](#), p100.

generated content and are familiar with seeking out reviews and exploring others' shared opinions online (eg [TripAdvisor](#)).⁴

(b) In contrast, the medium and larger SMEs told us they were less interested in comparing and contrasting broad 'at a glance' proxy scores for customer service and typically wanted details about the 'quality' of the personal relationship management from different providers. This included guarantees of the provision of a relationship manager and also the expected level of contact (channel and frequency) with their relationship manager. They were interested in how needs that are specific to the nature of their business would be managed, eg being able to switch money between accounts without incurring charges.⁵

(c) The quality of mobile apps and internet banking, and quality of branch staff are important facets to both SMEs and consumers, while branch opening hours, queuing time and number of complaints per 1,000 accounts are less important facets to both groups.⁶

5. Quantitative and qualitative research undertaken for BBI in October 2015 found that SMEs would like more insight into some of the more tangible aspects of banking, in particular relating to the level of customer service, number of branches worldwide, online services and strength of apps, and the availability of relationship managers.⁷
6. Quantitative and qualitative research for Tesco Bank undertaken in July 2015 found that the most important considerations for consumers when considering a new PCA⁸ are good online banking, good customer service and fair and clear fees and charges, while customer service, overdraft fees and charges, and credit interest rates are the most difficult elements to compare. The research also found that the benefits of switching are made clearer if information is presented in a way that enables 'at a glance' assessments, as it would raise standards (with pressure on poorly performing providers to improve) and it would enable high level comparisons across providers.⁹

⁴ [Optimisa Research report](#), p100.

⁵ [Optimisa Research report](#), pp100–101.

⁶ [Optimisa Research report](#), p103.

⁷ Data from BBI. Sample of 229 SME respondents.

⁸ Or reasons for choice of PCA in the case of respondents who had switched.

⁹ Although we note that the 'at a glance' labelling system tested with consumers (ie traffic lights) only included fees and charges rather than service quality measures.

Currently available information on service quality

7. We reviewed the information about service quality that is currently available to customers:
 - (a) Some provider characteristics and product features which might indicate aspects of quality (such as the ability to issue cheque cards in branch, branch numbers and opening hours) can be found on providers' websites.
 - (b) Provider-level complaint numbers are published by the FCA, though these are only available for the broad category of 'banking and credit cards', and only for those providers which have more than 500 complaints (in the half-year period covered) not resolved on the business day in which they were reported.¹⁰
 - (c) Provider-level complaint numbers are published by the Financial Ombudsman Service (FOS), though these too are only available for the broad category of 'banking and credit cards' and only cover complaints received by the FOS from customers dissatisfied with the financial provider's response to their complaint.¹¹
8. Some information on PCA customer satisfaction levels is published by Which? Compare¹² and MoneySavingExpert.com,¹³ though sample sizes for some banks in these surveys are relatively small.
9. In addition, Defaqto and PCWs¹⁴ collate data on PCA providers and product characteristics. Defaqto publishes star ratings for PCAs based on (according

¹⁰ See [FCA Complaints data](#). Note that from March 2017 the FCA's biannual complaints publication will change, such that the new data set will include all complaints (not just those not resolved within a pre-specified short period), will be broken down by product (so available separately for current accounts), and include figures to put the number of complaints into context in relation to the size of each business. See FCA (July 2015), [Improving complaints handling, feedback on CP14/30 and final rules](#).

¹¹ See [FOS Complaints data – showing individual financial businesses](#).

¹² Which? Compare publishes the following satisfaction ratings – these are key metrics consumers care about according to Which? research obtained from its own online survey of 6,299 consumers: satisfaction with customer service; satisfaction with clarity of statements; satisfaction with dealing with queries and complaints; satisfaction with service in branch; satisfaction with telephone service; and satisfaction with internet service. Which? also publishes customer scores which are worked out using a combination of overall satisfaction and how likely the respondents are to recommend their bank to a friend. See [Which? Bank accounts: Best banks for customer satisfaction](#).

¹³ The MoneySavingExpert PCW publishes [how banks rate on service](#) – three figures showing the percentage of respondents who consider service is great/OK/poor.

¹⁴ The MoneySavingExpert PCW publishes account criteria and benefits, and allows filtering by interest paying/switching cash/cashback/insurance/overdraft user/ethical/low or minimum pay-ins/basic bank account/student/graduate. Gocompare only publishes account criteria and benefits on the front page, and allows filtering by basic/standard/package account, and allows users to sort by product and provider/credit interest/arranged overdraft interest/yearly fee/switching incentive. Users are able to expand to view one account at a time, and access information on: account management (can account be managed via telephone/branch/post office/internet/smart phone/text alerts), benefits (preferential rates on/access to other products, cashback, exclusive offers and rewards, incentive to recommend account) and facilities (Apple Pay, type of debit card, ATM limit). Moneyfacts publishes account criteria and benefits in a comparison table, but consumers are able to compare up to three PCAs at a time to view: Account management (can account be managed via

to Defaqto research) product features most important to, or most likely to be beneficial to the customer, most frequently used features and features reflective of the broader product offering. As many as 40 publicly available features for standard accounts, 52 for added value accounts, and 58 for premium accounts (all excluding charges) are included in the star ratings, although only a handful of features are displayed on the website. Most of these features can be broadly defined as provider and product characteristics.¹⁵

10. Fairer Finance publishes data on satisfaction and trust (based on a biannual opinion survey), FOS complaints, and desk-based research on transparency (both for online account opening and readability, and accessibility of their policy documents, or terms and conditions) to produce overall scores for each provider which are shown on their website.¹⁶
11. We are also aware of the Fairbanking Foundation which awards its Fairbanking Mark¹⁷ to financial institutions with products that help customers improve their financial wellbeing.¹⁸ However, information (including the results of the customer survey) is only published on the Fairbanking Foundation website for the accounts which are awarded a mark.
12. Sources of service quality information for SMEs are more limited. The most comprehensive survey we are aware of is the BBI quarterly survey of 5,000¹⁹ SMEs which collects the following service quality data:²⁰
 - (a) overall recommendation score for each provider;
 - (b) satisfaction with a number of service aspects including ease of contact and timeliness of response to queries and complaints;²¹ and
 - (c) satisfaction with service received from account/relationship manager.

telephone/post/branch/post office/internet/smart phone apps), facilities (direct debit, standing orders, cheque book, ATM card, debit card (including which card), withdrawal limit, switching guarantee), availability of arranged/unarranged overdraft facility (yes/no) and benefits (cashback, insurance and preferential terms on other products).

¹⁵ See [Defaqto Star Ratings](#).

¹⁶ See [Fairer Finance: How we calculate our ratings](#).

¹⁷ The mark is based on the results of an online customer survey regarding how the product is being used and its perceived impact on customer money management practices, as well as desk-based research reviewing product descriptions, operational procedures, promotional materials, lending policies and customer complaint logs.

¹⁸ See [Fairbanking Foundation: How to get a Fairbanking Mark](#).

¹⁹ Results are shown across the most recent four quarters (ie moving annual results), meaning that the total sample size the results are based on is 20,000 SMEs.

²⁰ Not all collected data is currently published by BBI.

²¹ Timeliness of response to queries and requests, Understands your business, Shows that they have the interests of your business at heart, Goes out of their way to help you, The ease of getting in contact with someone who can help you, The level of charges and fees, Value for money, Clear and transparent charges, Clear and transparent terms & conditions, and Treats you fairly.

13. It is possible to filter the results by SME turnover, employee size, location, when the business was established, sector and whether or not the SME is internationally active.
14. For BCAs, the survey achieves robust sample sizes for larger providers (for example, over four quarters there were 4,232 Barclays customers, 3,588 NatWest customers and 2,519 Santander customers), but for smaller providers sample sizes are low (for example, there were 74 Handelsbanken customers and 53 Metro customers over four quarters), and sample sizes are further reduced once a filter has been applied to the data.²²
15. Based on our review of available data sources, we consider that, although there is some information regarding service quality already published, it has at least one of the following limitations: (a) it does not capture all of the key metrics (and specifically those related to customer service) which customers would like to have to inform their decisions; (b) is not consistent across providers; and (c) is not published where most customers are likely to find it.

Views of parties

16. Several providers told us that we should not require banks to publish so much service quality information that it exceeds the intended recipients' willingness or ability to absorb it:
 - (a) Santander, for example, in the context of SME banking services, noted that we had invited comments on 39 different service quality facets and said that mandating the provision of this range of measures would unnecessarily complicate the issue of service. Instead, it said that we should mandate the publication of a single satisfaction score on all PCWs, and that PCWs could add further information on multiple metrics at their own option.
 - (b) Barclays, similarly, said that measures of service quality needed to be straightforward to use and understand, and that displaying too many could hinder their impact.
17. We were also told, however, that because the needs and preferences of customers varied, to be meaningful for the full range of customers a range of facets should be measured:
 - (a) For example, Barclays said that a single measure of service quality was unlikely to be meaningful for the full range of PCA customers since PCA

²² Data from BBI.

customers were varied in their needs and preferences. Similarly, SMEs were not a homogenous group and therefore there were many different factors which were relevant for different businesses.

- (b) Nationwide also said that different services were important to different customers and that a comparison based on a prescribed list would not be sufficient to capture the range of their interests. It also told us that a system based on a very narrow range of service characteristics would be likely to focus competition on those areas only and could give rise to unintended consequences.
- (c) LBG similarly submitted that customers' perceptions of quality of service would depend on a customer's account usage and preferred channels. It also said that, while recognising the importance of service quality to customers, our remedies should be considered in the context of other initiatives that were already underway, including the development of the BBI website, the Nesta challenge prize and the OBWG initiative. It said that we should not decide which metrics customers would find most useful but instead let the operators of PCWs determine this.

18. Parties also drew our attention to what they saw as difficulties in making like-for-like comparisons between providers:

- (a) HSBCG, for example, pointed out that our proposed metric on the proportion of SMEs that had a named relationship manager could risk ignoring the fact that different providers had different models for the delivery of account management.
- (b) LBG made a similar point: that the definition of relationship manager differed between providers, some being specialised advisers for larger SMEs while for others they were generalist advisers based in branches. Comparing the number of relationship managers each provider employed could thus reflect differences in terminology rather than the level of service provided.

19. Parties have also told us which service quality facets they believe should be made available to customers:

- (a) In their responses to our [Remedies Notice](#), several providers and third parties stated that the facets of most importance to personal customers

related to customer service, complaint handling and quality of banking channels.²³

- (b) Further, Barclays stated that the facets of greatest importance to SMEs related to ease of use, consistency and responsiveness, while HSBCG stated that customer service provided by relationship managers or branch-based specialists and telephone operators was important to SMEs.²⁴
- (c) Several providers considered that survey-based measures such as satisfaction ratings and/or advocacy ratings, for example net promoter score (NPS),²⁵ should be published, as these were considered to be reasonable summary measures of both tangible and intangible aspects of service quality, such as customer service across banking channels, quality and speed of complaint handling, safety and functionality of banking channels, etc.^{26,27}

²³ Barclays told us that high-level themes of importance to consumers were ease of use, speed, empathy and understanding, availability and functionality of channels, and security and reliability ([Barclays response to Remedies Notice](#), paragraph 6.5). Nationwide told us that consumers needed information on quality of staff and customer service, quality and speed of data handling problems, features such as internet banking, mobile apps, telephone banking, contactless cards, Apple Pay and branch availability ([Nationwide response to Remedies Notice](#), paragraph 3.24). HSBCG told us that general customer service levels, quality of communications with customers, availability and reliability of channels of access, product offering and loyalty rewards were important in the context of PCAs ([HSBCG response to Remedies Notice](#), Part B, paragraph 89). Gocompare told us that according to 2015 research the most important factors when selecting a current account were good online banking, a branch near to where consumers lived, low bank charges, a good customer service reputation, and a traditional banking brand ([Gocompare response to Remedies Notice](#), paragraph 4.1). Bacs told us that service quality could include convenience, core product service, service encounters, response to failed service/complaints and ethical problems ([Bacs response to Remedies Notice](#), paragraph 8.2(a)). Virgin Money told us that ease of doing business (specific to channel); clarity, completeness and accuracy of information provided; timeliness of actions; do as you say/keeping promises/getting it right first time; issue resolution; staff behaviour and knowledge; availability and access to preferred channel/method of contact; access to and quality of self-serve/self-help options were important to consumers.

²⁴ Barclays: high-level themes of importance to SMEs were ease of use, consistency and responsiveness ([Barclays response to Remedies Notice](#), paragraph 6.5). HSBCG: for SMEs, customer service provided by relationship managers or branch-based specialists and telephone operators ([HSBCG response to Remedies Notice](#), Part B, paragraph 100(a)).

²⁵ NPS measures customers' likelihood of recommending a product or a service to others. It can be used as a proxy for customer satisfaction and/or loyalty. NPS is based on customers' answers to the survey question: 'How likely is it that you would recommend our company/product/service to a friend or colleague?' Responses are provided on a 0–10 scale and, based on their response, respondents are classified as follows: Promoters (scores 9–10); Passives (7–8); and Detractors (0–6). NPS is calculated by subtracting the percentage of customers who are classified as Detractors from the percentage of customers who are classified as Promoters.

²⁶ Clydesdale: trust and advocacy measures ([Clydesdale Bank response to Remedies Notice](#), paragraph 4.1). Barclays: survey-based approach ([Barclays response to Remedies Notice](#), paragraph 6.8). TSB: Use NPS ([TSB response to Remedies Notice](#), paragraph 52). Nationwide: Quality of staff and customer service should be based on satisfaction rating ... derived from results of a frequent and standardised customer survey ([Nationwide response to Remedies Notice](#), paragraph 3.27(i)). Santander: For PCAs, the FRS survey could compare service quality ([Santander response to Remedies Notice](#), Annex 2, paragraph 5.4). HSBCG: PCAs: assessment by a variety of survey methods. Mystery shopping where appropriate ([HSBCG response to Remedies Notice](#), Part B, paragraph 95). First Trust Bank: NPS provides a useful benchmark ([First Trust Bank response to Remedies Notice](#), Appendix 1, p8). Virgin Money: 'voice of customer' surveys.

²⁷ LBG told us that it was important that responses to questions reflected the level of quality alone, whereas questions that asked for 'satisfaction' or 'recommendations' might elicit customer responses that reflected both quality and price.

What do providers measure?

20. In addition to reviewing parties' submissions we also looked at the quality measures banks themselves track as we thought this would provide a helpful indication of the facets which they considered important to their customers.
21. Many providers, including smaller banks such as Handelsbanken²⁸ and Danske, monitor internally satisfaction and/or advocacy measures, eg NPS, both overall and by channel (in particular internet banking, telephone banking and main contact/relationship manager) showing that these are important considerations in the operation of the business.²⁹
22. All providers monitor complaints data (this is required by the FCA) and several monitor the average number of working days to resolve complaints.³⁰ Many monitor the time taken to answer calls to their call centres and call abandonment rates.³¹
23. Other indicators monitored by one or more providers include: new account opening NPS, complaints handling NPS, branch NPS, international payment NPS, relationship manager easy to reach, level of contact with relationship manager, IT service incidents, staff resource levels, availability of ATMs, and percentage of payments not made the same day when a customer has met the criteria. This suggests that these are also relevant considerations in the operation of the business.

Evidence from other sectors

24. Service quality data is also published in other regulated sectors. This typically includes both survey-based data and data compiled by the organisations operating in those sectors.
25. For example, in the healthcare sector, NHS Choices publishes the proportion of people who answered the biannual GP patient survey who would recommend their surgery, alongside an indicator showing whether the result is 'among the worst', 'in the middle range' or 'among the best' compared with all GP surgeries in the country, as well as NHS Choices user ratings and several measures derived from GP surgeries' own data.³²

²⁸ Handelsbanken participates in an independently run customer satisfaction survey ([EPSI Rating](#)).

²⁹ Other providers include LBG, HSBCG, Barclays, Santander and The Co-operative Bank (Co-op Bank).

³⁰ Documents submitted by HSBCG, Co-op Bank and Clydesdale show that they monitor average number of working days to resolve complaints.

³¹ For example LBG, HSBCG, Danske and Clydesdale monitor at least one of the measures.

³² See: [NHS Choices \(The proportion of patients who would recommend their GP surgery\)](#).

26. In the airports sector, airports publish a number of service quality indicators derived from monthly passenger surveys alongside performance data, such as the length of security queues, measured by the airport.³³
27. Ofgem publishes various metrics on the electricity and gas markets, including the following service quality measures (some of which are only published for the largest providers): satisfaction with supplier service, satisfaction with understandable bills, satisfaction with ease of contacting supplier, would recommend supplier, agree supplier values its customers, complaints per 100,000 customer accounts, complaints resolved by the end of the next working day (%), complaints accepted by the Energy Ombudsman per 100,000 customers, disconnections for a debt as a percentage of their customer base in debt, average length of debt repayment arrangements agreed, and average weekly debt repayment rates (£).³⁴
28. Ofwat calculates a Service Incentive Mechanism (SIM) score, which is based on customer contacts to the company and the results of a customer satisfaction survey, to measure the performance of the regulated water companies.³⁵ Penalties are imposed if companies' SIM scores are not satisfactory. SIM scores, which are colour-coded red, amber or green, are published on the Ofwat website.³⁶

Type of metrics

29. We considered the two main types of metrics for the survey-derived Core Service Quality Indicators: willingness to recommend and satisfaction.
30. Of these, our preference is for the willingness to recommend a provider to family, friends or other SMEs because in order to achieve a high rating a higher level of standard is usually required, and because it is part of the data already sourced and monitored by most providers who typically told us that it would be a useful measure to share with customers.
31. In addition, we consider that satisfaction measures may be less suitable because they relate to expectations which may be inherently low (eg nothing

³³ See for example: [Heathrow - Service Quality Rebate and bonus report \(December 2015\)](#) and [Gatwick Monthly Performance Report \(December 2015\)](#).

³⁴ See: [Ofgem Data Portal: Customer service indicators](#).

³⁵ This single number comprises customer contacts to the company and the results of a customer satisfaction survey. Greater weight is given to customer satisfaction (75% of the score). The customer contacts element measures the number of contacts, ranging from unwanted phone contacts to the Consumer Council for Water (CCWater) investigated complaints. 'Written complaints are weighted according to the stage of the resolution process. The initial complaint letter or email to a company has a low weight, while CCWater investigating a written complaint carries a heavier weight.' See Ofwat (March 2015), [Service incentive mechanism – guidance for collating customer service information for calculating the SIM score](#), 3).

³⁶ See [Ofwat website: Companies' performance 2014-15 – Customers](#).

has gone wrong) and based on the (usually) one product the customer holds, rather than best practice, or better products, available in the market.³⁷

32. In their responses to our [provisional decision on remedies](#), parties generally agreed with the publication of willingness to recommend metrics:
- (a) BGL told us that survey data indicating the willingness of customers to recommend their bank to friends, family and colleagues was a valuable indicator;³⁸
 - (b) RBSG told us that it supported the use and publication of willingness to recommend information;³⁹
 - (c) Barclays told us that it broadly supported the core indicators the CMA had proposed;⁴⁰
 - (d) Baringa Partners LLP told us that it agreed that advocacy was a key measure of service quality;⁴¹
 - (e) Money.co.uk told us that while willingness to recommend was undoubtedly a useful metric for assessing quality, customer satisfaction was more widely used outside of financial services;⁴² and
 - (f) the BBI told us that it agreed with the use of willingness to recommend indicators, which its own research found was valued by SMEs.

³⁷ This can lead to products offering quite different levels of service quality having the same satisfaction score, as customers adapt expectations to the level of service provided (especially where it is difficult to find information on other providers' service levels).

³⁸ [BGL response to provisional decision on remedies](#), paragraph 3.12.

³⁹ [RBSG response to provisional decision on remedies](#), paragraph 2.1(a).

⁴⁰ [Barclays response to provisional decision on remedies](#), paragraph 3.1.

⁴¹ [Baringa response to provisional decision on remedies](#), p3.

⁴² [Money.co.uk response to provisional decision on remedies](#), p1.

Appendix 13.3: Collation of survey data for core service quality indicators

1. We identified two main potential sources of survey data:
 - (a) each individual provider being responsible for procuring and collating data relating to their brand(s), according to specified criteria; or
 - (b) providers needing to obtain survey data deriving from the same independent survey covering PCAs and the same independent survey covering SME banking, which meet criteria specified by the CMA, including that they cover all providers within the scope of this remedy.
2. We think that the first option would be difficult and costly to monitor. There are risks of inconsistencies between providers even where recommendations on methodology and sampling are followed, and it may involve unnecessary duplication of resources if providers commission different survey companies to undertake their surveys.
3. Given their importance to customers, as well as the likely prominence that would be given to the Core Service Quality Indicators by providers and the media, it is very important that the survey data on which they are based is collected on a standard, common basis with robust sampling techniques and data collection methods.
4. A number of parties have a similar view, stating in their response to our [Remedies Notice](#) and [provisional decision on remedies](#) that service quality data should be collated by an independent third party. Nationwide, for example, recommended the use of existing market-wide surveys.¹ Business Finance Compared told us that service quality data needed to be collected by an independent third party² and HSBCG said, similarly, that surveys, to be useful and trusted by customers, should be conducted independently by an external agency.³ Further, Fairer Finance,⁴ Nationwide,⁵ LBG⁶ and RBS⁷ told us that they agreed that survey data should be collated by an independent survey agency.
5. Virgin Money stated that one option was for the FCA to gather and publish a broader range of quality information. However, Virgin Money also observed

¹ [Nationwide response to Remedies Notice](#), paragraph 3.27.

² [Business Finance Compared response to Remedies Notice](#), p21.

³ [HSBCG response to Remedies Notice](#), Part B, paragraph 88.

⁴ [Fairer Finance response to provisional decision on remedies](#), p1.

⁵ [Nationwide response to provisional decision on remedies](#), paragraph 3.13.

⁶ [LBG response to provisional decision on remedies](#), paragraph 3.5(b).

⁷ [RBSG response to provisional decision on remedies](#), paragraph 2.1(d).

that the preparation and publication of complaints metrics, for different banks, did not seem to have had a significant effect on customer behaviour.

6. Some providers, for example Barclays, pointed out that existing surveys faced limitations in reach and currently might include few of the smaller banks' customers.⁸ LBG said the problem of collecting statistically robust information was particularly acute in the case of SMEs, where users might wish to disaggregate data on the basis of a business size or type thus reducing sample sizes even more. However, we think that it would be possible to alter survey methodology, or design a new survey which overcomes these issues.

⁸ [Barclays response to Remedies Notice](#), paragraph 6.6.

Appendix 13.4: Remedy design considerations – measures to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements

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1. This appendix details our consideration of the key issues relating to the design of the remedy, covering:
 - (a) further testing of remedy design prior to implementation;
 - (b) the timing of messages to customers;
 - (c) the content and presentation of those messages;
 - (d) the source of prompts; and
 - (e) the medium of their delivery.

Further testing

2. In our [Remedies Notice](#), we signalled our intention to undertake customer research to help inform our judgements about whether to take forward particular remedies as well as how they might be designed.¹
3. We have conducted qualitative research to assess whether the use of event-based or situation-based trigger points and periodic reminders is likely to prompt PCA customers and SMEs to review their current account provider at times when they may have a higher propensity to consider a change of

¹ [Remedies Notice](#), p40.

provider.² This research³ has helped guide our selection of appropriate trigger points and periodic reminders.

4. In response, parties were generally of the view that for this remedy in particular, a further programme of trials and behavioural research was necessary to ensure that the prompts were likely to change customer behaviour. We agree with parties that further research is necessary to identify the most suitable design features of the remedy, such as the content and presentation of the prompts, as well as the most effective channels of communication.

Research programme

5. We have decided to recommend further research and field testing prior to the implementation of this remedy.
6. The research programme could help finalise the following design features of the remedy:
 - (a) Further assessment and refinement of the prompts that we have decided are more likely to impact upon customer awareness, attitudes and behaviour.
 - (b) Identification of the appropriate content and presentation of the prompts to drive action, including the degree to which language and presentation should be standardised.⁴
 - (c) Identification of the optimal channels to deliver the prompts.
7. The use of RCTs⁵ is likely to be most effective in developing the remedy, because the introduction of a randomly assigned control group eliminates external factors, such as response and measurement biases, which can affect the results of other forms of testing. Further, the use of RCTs allows a number of variables to be tested in respect of the timing, content and medium of the prompts, thus identifying those interventions that are most likely to impact upon customer awareness, attitudes and behaviour.⁶

² We [appointed Optimisa Research on 25 November 2015](#) to explore the extent to which PCA customers and SMEs were inclined to consider switching current account provider at certain times; customers' reaction to receiving prompts to consider switching; and customer views on the appropriate content and source of the prompts and the most effective medium(s) to deliver the prompts.

³ [Optimisa Research report](#).

⁴ This will include taking into account the standardisation to be required under PAD.

⁵ RCTs could be preceded by other forms of testing, such as lab trial, further qualitative research or quantitative research, to further refine the high level remedy design proposed in this document.

⁶ See [Test, Learn, Adapt: Developing public policy with RCTs](#).

8. We recognise that RCTs can be complex to design, organise and implement, and may only assess the direct effects of an intervention on customer behaviour. Further, RCTs may suggest variations in the approach to be tested rather than provide a conclusive answer within a single trial.
9. While it is feasible to undertake some testing within our statutory timetable, we will be unable to conduct a comprehensive research programme within this time frame.
10. We have therefore decided to recommend to the FCA that it undertakes a research programme, including RCTs, to inform the effective implementation of the prompts.
11. The FCA is best placed to assume this role, as it has existing expertise in conducting RCTs within the financial services sector. This supports Virgin Money's suggestion that the implementation of the remedy might benefit from participation by specialists in behavioural analysis.⁷ Further, the FCA has an ongoing regulatory function in relation to PCA providers.
12. With regards to the FCA's regulation of BCA providers, the FCA's BCOBS applies to microenterprises, which comprise around 97% of autonomous SMEs.⁸ For the remaining 3% of SMEs, we have decided to order BCA providers to also send the prompts to those SMEs not covered by the BCOBS, but included within our [ToR](#). We expect the Order or undertakings to apply to the BCA providers subject to the FCA's rules.
13. We consider that the FCA should assume responsibility for the design and management of the research programme, rather than, for example, providers designing and undertaking this programme (either independently or with regulatory oversight). Providers will not be suitably incentivised to design a research programme (and subsequent remedy) that could potentially cause their customers to switch to another provider.

Respective roles of the CMA and the FCA in remedy design and testing

14. The FCA and the CMA have concurrent competition powers and there is a commitment on both sides to work together to promote competition for the benefit of consumers. We do this by the sharing of expertise, information, ideas and experience while mindful of each other's statutory position and strategic objectives. In the spirit of that commitment, the CMA has consulted

⁷ [Virgin Money response to provisional decision on remedies](#), paragraph 48.

⁸ See the [FCA discussion paper on its approach to SMEs as users of financial services](#), p45 (November 2015).

with the FCA through the course of the retail banking market investigation on this remedy and a number of other remedies in our package.

15. The FCA will be responsible for the design, testing and implementation of this remedy, including:
 - (a) selecting which prompts to test;
 - (b) designing the prompts for testing;
 - (c) selecting which providers to work with; and
 - (d) finalising the evaluation framework for measuring the effectiveness of the prompts.
16. We expect the FCA to keep the CMA informed on progress and, where appropriate, to consult with the CMA at key decision-making points. We will, in turn, and to the extent legally possible, keep the FCA informed about our progress in developing the content of our orders and assessing their effectiveness, and will, where appropriate, consult the FCA at key decision-making points.
17. We expect the FCA to assess the effectiveness of the prompts by measuring their effect on customer engagement. The evaluation framework may include indicators relating to customer awareness and understanding, attitudinal change and behavioural change.
18. Such indicators might include:
 - (a) awareness and understanding of account usage and costs, alternative products and providers, and CASS;
 - (b) attitudinal change: willingness to search and switch and change in perceptions of products and providers; and
 - (c) behavioural change: improved account management, searching, multi-banking, internal and external switching.
19. A number of parties expressed concerns in relation to the measurement of attitudinal and behavioural change:

- (a) Barclays told us that while awareness and understanding was heavily impacted by prompts, willingness to search and switch were impacted by a multitude of other factors outside of prompts.⁹
- (b) HSBCG told us that it may be possible to assess customer awareness and attitudes, but such data was likely to be more difficult to collect in an objective manner. For example, it may need to be collected through surveys, where the very act of asking the survey question may cause customers in the control group to become more engaged than they would have been in the absence of the survey question.¹⁰
- (c) RBSG told us that it saw significant practical difficulties in identifying those customers who have searched, but not switched.¹¹
20. In our view, the purpose of the evaluation framework is to ensure that the assessment of the effectiveness of prompts takes into account measures in addition to switching rates. We do not think that the measurement of switching rates alone is likely to be an appropriate indicator of customer engagement, as this will not take into account those customers who review their banking arrangements, but decided not to switch provider for reasons other than low engagement. We would expect the FCA to use a range of tools, including both quantitative and qualitative research methods, to ensure that its assessment represents an objective appraisal of the effectiveness of prompts in increasing customer engagement.
21. The evaluation framework could be different for prompts aimed at PCA customers and those targeting BCA customers, as BCA customers may react differently to PCA customers. Further, both BCA and PCA customers are diverse and an effective remedy may drive different behaviours across different customer segments and different competitive responses from providers. The outcomes sought may also vary for different prompts.
22. It is important that the evaluation of the effectiveness of the prompts reflects that the research programme will be undertaken prior to the implementation of our full package of remedies, and that a number of our remedies are interdependent and it will be some time before they all take effect.
23. We expect that the FCA will prepare for testing following the publication of our final report, and begin testing following the making of the Order.

⁹ [Barclays response to provisional decision on remedies](#), paragraph 4.3.

¹⁰ [HSBCG response to provisional decision on remedies](#), page 4.

¹¹ [RBSG response to provisional decision on remedies](#), page 10.

Timing of messages to customers

24. In our [Remedies Notice](#), we suggested that in certain situations or following certain events, referred to as ‘trigger points’, current account customers may be more disposed to consider a change of product or provider.¹²
25. In response, parties were in principle supportive of the use of event-based or situation-based prompts to stimulate greater customer engagement. For example, the Behavioural Insights Team (BIT)¹³ told us that providing timely feedback was an effective method of encouraging behavioural change.¹⁴ Similarly, our qualitative research found that customers were open to engaging with prompts at certain trigger points.¹⁵
26. However, other parties told us that periodic prompts were more likely to increase customer engagement. For example:
 - (a) Danske told us that it favoured using periodic communications rather than trigger point based communications to prompt customers to review their current account provider, as the latter type of communication should focus on the resolution of the event that caused the trigger.¹⁶
 - (b) Nationwide told us that periodic prompts could be sent to all customers, and that such prompts would be easier to implement than those based on individualised events, as they could be sent out automatically at set intervals, and did not require any additional human intervention.¹⁷
27. In identifying prompts that are most likely to be effective in increasing customer engagement, and are likely candidates for testing by the FCA, we are mindful of the need to avoid excessively frequent contact with customers, which could result in the potential dilution (rather than reinforcement) of the message or its impact.
28. Our selection of the prompts we recommend for further testing is guided by an individual evaluation of various potential prompts, including those set out in our [Remedies Notice](#),¹⁸ and other trigger points or periodic reminders suggested by parties or identified in our qualitative research. We have also sought to strike a balance between those prompts that are likely to resonate

¹² [Remedies Notice](#), p8.

¹³ The BIT is a social purpose company (jointly owned by the government, Nesta (an innovation charity) and its employees) which applies behavioural sciences to make public services more cost-effective and easier for people to use.

¹⁴ [BIT response to Remedies Notice](#), p3.

¹⁵ [Optimisa Research report](#), p5.

¹⁶ [Danske response to Remedies Notice](#), pp1–2.

¹⁷ [Nationwide response to Remedies Notice](#), paragraphs 3.4 & 3.5.

¹⁸ [Remedies Notice](#), p9.

with customers, but only reach a small audience, and those prompts that may have a lesser impact on individual customers, but have the potential to reach a wider audience.

Event-based or situation-based prompts recommended for further testing

29. We have decided to recommend to the FCA that it tests the following event-based or situation-based prompts, in order to assess whether they are likely to increase customer engagement:
- (a) A material change in the key product features of a BCA or PCA.
 - (b) The closure of a customer's branch.
 - (c) The imposition of cumulative overdraft charges.
 - (d) The expiry of an SME's free banking period.
30. The list of prompts selected for further testing is not exhaustive and further testing may identify other viable prompts.
31. Barclays suggested that there should be a limit on the number of prompts that a customer can receive within a set period of time.¹⁹ Given our careful selection of prompts recommended for testing by the FCA, we consider it unlikely that a customer would receive too many prompts in a short period of time, such that the impact of these prompts is diluted.

A material change in the key product features of a BCA or PCA

32. Our qualitative research found that where changes to terms and conditions were felt by customers to have a material impact on their banking arrangements, they may be receptive to receiving prompts.²⁰ The research also found that there was greater potential for such changes to have an impact on SMEs, in particular where there were changes to lending terms (eg the reduction or removal of an overdraft facility); increase in banking charges; and a change in relationship manager (for larger SMEs).²¹
33. Subject to testing by the FCA, we consider that the following material changes to the key product features of a BCA or PCA could represent effective trigger points:

¹⁹ [Barclays response to provisional decision on remedies](#), paragraph 4.8.

²⁰ [Optimisa Research report](#), p32.

²¹ [Optimisa Research report](#), p33.

- (a) An adverse change to the pricing of the BCA or PCA (eg the removal of an introductory offer, such as an initial credit interest rate, or the increase of a BCA tariff).
 - (b) The withdrawal of a product (eg the removal of a legacy BCA or PCA).
 - (c) The withdrawal of a service (or services) from a product's offering (eg the reduction or removal of an overdraft facility).
34. We do not think that a change in relationship manager represents a particularly effective trigger point. We have found that only larger SMEs (ie those SMEs with turnover above £2 million) generally have access to a relationship manager and the remainder of SMEs typically have access to a call centre.²² Given that larger SMEs represent a small proportion of the overall SME population, this trigger point would not reach a sufficiently large target audience to make this a priority for further testing.
35. Further, there is likely to be some variation in the importance of a relationship manager to SMEs, such that the departure of a relationship manager may not cause some customers to reconsider their existing banking arrangements.

The closure of a customer's branch

36. Our qualitative research found that for some customers, particularly SMEs who typically accept cash and cheque payments, the closure of a branch represented a point at which customers could be receptive to messages encouraging the consideration of alternative products and/or providers, However, the research also indicated that the impact of the prompt would be likely to depend on the customer's use of their branch and the proximity of an alternative branch.²³
37. In response to our [provisional decision on remedies](#):
- (a) the Campaign for Community Banking Services (CCBS)²⁴ told us that by handing over to the FCA all research on the triggers, valuable opportunities to improve competition were being lost when at least one of the triggers (branch closure) could be tested with immediate effect and be

²² See Section 7.

²³ [Optimisa Research report](#), p31.

²⁴ CCSB is a coordinating body for national organisations representing sectorial interests adversely affected by the closure of local bank branches, particularly of the last or only bank in a rural or urban community.

taken into account in the concurrent independent review of the [Access to Banking Protocol](#);²⁵ and

(b) the Federation of Small Businesses (FSB)²⁶ told us to consider whether prompts and alerts could also be used to communicate more information to affected small business customers, when, for example, a bank initiated a consultation and/or community engagement on whether to close a branch, and how to access the published impact assessment on the effects of a relevant branch closure.²⁷

38. The purpose of the issue of a prompt upon the closure of a branch is to encourage customers to review their banking arrangements and, where appropriate, switch to a more suitable current account. In contrast, the purpose of the Access to Banking Protocol is to minimise the impact of branch closures by ensuring that customers still have banking services close at hand if a branch closes.
39. We have recommended that the FCA undertakes a research programme to inform the effective implementation of the prompts, as it is not feasible for us to conduct the necessary research within our statutory timetable, and the FCA has existing expertise in conducting such research within the financial services sector.

The imposition of cumulative overdraft charges

40. We have decided to recommend to the FCA to identify, research, test and implement measures to increase PCA overdraft customers' engagement with their overdraft usage and charges, including the use of prompts and alerts.²⁸
41. In addition to prompts and alerts intended to change transactional behaviour, we also see a need to encourage BCA and PCA customers to consider whether their existing banking arrangements are suitable for their needs, particularly with regards to their overdraft usage, or whether an alternative product and/or provider is more suitable.
42. Our qualitative research found that cumulative overdraft charges, such as those incurred over the course of a year, were more likely to capture a

²⁵ [CCBS response to provisional decision on remedies](#), p2.

²⁶ FSB is a non-profit organisation representing SMEs, providing services, such as advice and financial expertise and support.

²⁷ [FSB response to provisional decision on remedies](#), pp1 & 2.

²⁸ See Section 15.

customer's attention (than a prompt linked to the incurrence of a single overdraft charge).²⁹

43. We recommend that a periodic overdraft prompt is provided along with a periodic summary to PCA and BCA customers, whereby the prompt can be tailored for specific messages to overdraft users.

The expiry of an SME's free banking period

44. Most providers offer start-up SMEs (and, to a lesser extent, SMEs switching BCAs) free banking periods of between 12 and 24 months during which transaction fees are waived.
45. Subject to compatibility with PSD, the expiry of the free banking period seems a logical time to prompt SMEs to consider their banking needs. Not only will the SME begin to incur fees at this point, but their banking needs may also have begun to extend beyond the transactional aspects of its BCA.
46. HSBCG told us that there was a significant increase in switching rates at this point in time, which suggests that this is a good time to seek to engage customers to consider their banking arrangements.³⁰ Further, our qualitative research suggested that the end of the free banking period seemed a natural point for SMEs to reconsider their banking provider.³¹

Periodic prompts recommended for further testing

47. We have decided to recommend to the FCA that it tests the effectiveness of periodic prompts along with the issue of periodic summaries to PCA and BCA customers.

Annual summaries

48. Most providers issue their PCA customers with an annual summary on the anniversary of their account opening, which is intended to remind them of the costs and benefits of their account.³² Annual summaries typically provide a breakdown of any charges incurred and the amount of credit and debit interest accrued over the last 12 months.

²⁹ [Optimisa Research report](#), p35.

³⁰ [HSBCG response to Remedies Notice](#), paragraph 29(d).

³¹ [Optimisa Research report](#), p27.

³² The introduction of annual summaries to PCA customers was a voluntary initiative, established following the [OFT's 2008 report into PCAs](#), which included a number of initiatives to help customers understand and manage their PCAs.

49. Providers will soon be required to provide their PCA customers with an annual summary. Regulation 10 of the Payment Accounts Regulations 2015³³ (which implements Article 5 of PAD)³⁴ mandates the provision by PCA providers of annual summaries containing specific information.³⁵
50. Providers are under no legal requirement to provide annual summaries to their BCA customers and do not currently do so, and Regulation 10 of the Payment Account Regulations 2015 (see paragraph 49) does not apply to BCAs. Instead, BCA customers typically receive a monthly statement, which details the account's opening and closing balance and a summary of payments in and out.³⁶
51. The issue of a periodic prompt included within/upon the submission of an annual summary could encourage customers to actively review their banking arrangements on a regular basis, and at a time when they have to hand information about the costs and benefits of their existing banking arrangements.
52. Annual summaries have potentially even greater value to BCA customers. This is because banks typically either charge for each transaction or charge a monthly fee, which could include a specific volume of transactions within the fee.
53. The FCA recently found that annual summaries sent to PCA customers, as designed by the providers that they looked at, had no discernible effect on customer behaviour in terms of incurring overdraft charges, altering balance levels or switching to other providers.³⁷ However, findings from an RCT conducted by LBG suggest that a redesigned annual summary with an explicit call to action could prompt some PCA and BCA customers to review their banking arrangements.³⁸

³³ See [The Payment Accounts Regulations 2015](#).

³⁴ See [Directive 2014/92/EU](#).

³⁵ It remains to be seen exactly when firms will have to start providing consumers with an annual 'statement of fees', as the EU technical standards containing the necessary document templates have yet to be developed by the European Banking Authority, after which they are to be formally adopted by the EU institutions.

³⁶ Most providers allow the customer to choose the frequency of the issue of this statement.

³⁷ See [FCA occasional paper on the impact of annual summaries, text alerts and mobile apps on consumer banking behaviour](#) (March 2015).

³⁸ In this trial, the redesigned annual account review with a prompt to upgrade to the interest-paying Club Lloyds account led to a doubling in internal switching among LBG customers with credit balances above £5,000 receiving low interest and a 66% increase in those with balances between £1,000 and £5,000. Note that the trial was not designed to test external switching. A redesigned annual account review prompt to increase a planned limit to reduce unplanned overdraft usage was found not to have an impact on the behaviour of unplanned overdraft users. However, an SMS message with a similar prompt increased the proportion of customers increasing their planned limit by 42%. LBG has conducted an equivalent trial among SME customers with high/medium account costs, which more than doubled the rate of account opening (increase of 216% and 180% for SMEs with turnover below/above £1 million respectively), but had no impact on other metrics among this

54. We have decided to recommend to the FCA that it:
- (a) undertakes testing, in order to understand whether changes to the content, presentation and timing of annual summaries can encourage customers to take action upon receiving them; and
 - (b) considers requiring providers to provide annual summaries to their BCA customers.
55. **Content.** Subject to compatibility with PSD and PAD, the content could be enhanced to include information that helps customers to assess the true cost of their account. This could include information about the benefits of holding the account (eg cashback earned on purchases), and the associated costs (eg the amount of credit interest forgone).³⁹ The annual summary could also include indicators of service quality. PricewaterhouseCoopers LLP (PwC) told us that annual statements might also be effective if they include pre-defined behavioural information, such as the number of times a customer has gone into their overdraft, average balance, number and type of payments in, number of foreign exchange transactions and the total charges paid for each service over the year.⁴⁰
56. In addition to prompting SMEs about their banking arrangements, an annual summary could also include a message designed to encourage SMEs to consider alternative providers when requiring finance. We have found that SMEs typically approach their BCA provider for finance.⁴¹ The consideration of other lending providers could be facilitated by a link to sources of price and service comparison (see paragraphs 98 to 103).
57. **Presentation.** Our qualitative research found that disruptive communications would attract greater attention and invite engagement.⁴² Tesco Bank has proposed to us the use of traffic light colour coding to make clear to customers both the cost of their current account and how it compares to other products in the market.⁴³ Given the diversity of PCA offers in the market and

segment or on the behaviour of other segments of SMEs treated). Note that these are findings of a one-off trial and as such they are likely to be sensitive to a number of factors, such as the timing and the design of the treatment (including the nature of the call to action, its prominence and clarity, as well as the ease of action from the point of view of the customer), and sample selection (including whether segments targeted have an incentive to act). As LBG has told us, an iterative programme of trials with a number of variants tested is required to improve efficacy and ensure reliability of the findings.

³⁹ Interest forgone could be calculated with reference, for example, to the base rate, in order to ensure consistency and enhance comparison across providers.

⁴⁰ [PwC response to provisional decision on remedies](#), pp2 & 3.

⁴¹ Our [SME survey](#) found that around 90% of SMEs went to their main bank for overdrafts, general-purpose business loans and credit cards; 69% went to their main BCA bank for invoice discounting and factoring and 76% for commercial mortgages (see Section 8).

⁴² [Optimisa Research report](#), p38.

⁴³ [Tesco Bank response to Remedies Notice](#).

the importance of a customer's preferences in determining value for money, it may not be possible to represent a bespoke or individualised summary via standardised labelling. However, we agree with Tesco Bank's suggestion that a visual representation of costs and/or service may improve customer engagement.

58. **Timing.** For PCA customers, issuing an annual summary at the start or end of the calendar or tax year (rather than on the anniversary of account opening), when customers may be more prone to review their financial arrangements, could have greater impact. For SMEs, aligning the issue of an annual summary with the end of the tax year or with an SME's financial year-end may prove more effective than issuing an annual summary upon the anniversary of account opening. Alternatively, providers could allow customers to choose their preferred date of receiving an annual summary.

Other periodic summaries

59. TSB has proposed to us that all PCA customers should be provided with a standardised Monthly Bill, in order to encourage regular engagement with their banking arrangements.⁴⁴
60. Our current view is that a monthly summary will only provide a snapshot of the costs and benefits of a PCA and it is likely to be difficult for customers to extrapolate that information, in order to obtain a clearer view of their banking arrangements over the longer term. Further, RBSG told us that a monthly prompt could result in alert fatigue.⁴⁵ However, there could be some benefits in prompts with a shorter monthly or quarterly summary, which could complement the information contained in a more detailed annual summary.⁴⁶
61. We have decided to recommend to the FCA that it undertakes testing, to understand whether prompts with other periodic summaries, in addition to prompts along with the submission of an annual summary, can increase customer engagement.
62. In response to our [provisional decision on remedies](#), Nationwide proposed that providers with a market share of 10% or more should be required to send periodic prompts to customers on back book products or those customers who have not switched their PCA for more than ten years.⁴⁷

⁴⁴ TSB response to Remedies Notice, paragraphs 22 & 23.

⁴⁵ RBSG response to provisional decision on remedies, p11.

⁴⁶ To comply with PAD, any monthly or quarterly summary would need to be provided in addition to (and not in place of) an annual summary.

⁴⁷ Nationwide response to provisional decision on remedies, paragraph 2.8.

63. The benefit of periodic prompts is that they can reach all customers on a more regular basis than prompts triggered by certain events or situations. Excluding providers based on market share or customers based on length of tenure dilutes the impact of such prompts.
64. Instead, the content and presentation of the prompts could be tailored for different types of customers. It will be for the FCA to determine the most effective content and presentation, and whether the tailoring of prompts to different customer groups is likely to increase the effectiveness of such prompts. It is also important to note that low customer engagement, which this remedy is designed to address, is not isolated to banks with market shares above a particular level.

Prompts not recommended for further testing

65. We have decided not to recommend to the FCA that it tests the following event-based or situation-based triggers and periodic reminders, as we think that they are relatively unlikely to prompt customers to consider their banking arrangements:
 - (a) A serious or widespread loss of service to a provider's PCA or BCA customers arising, for example, from an IT breakdown.
 - (b) A data breach or data security issue.
 - (c) A major dispute between a provider and a customer.
 - (d) A PCA customer's transition from a student or graduate account to an adult account.
 - (e) The opening of a BCA for the first time.
 - (f) The refusal of credit by an SME's existing provider.
 - (g) The end of the tax year.
 - (h) Other major life events.

A serious or widespread loss of service to a provider's PCA or BCA customers

66. This does not appear to be an appropriate time to prompt PCA or BCA customers to consider switching current accounts for the following reasons:
 - (a) A number of parties told us that following the loss of service, customers, particularly SMEs, were more likely to be focused on swift resolution of the issue and minimising any adverse impact on their banking

arrangements. This typically involved continued dialogue with their existing provider. To the extent that there was an opportunity to prompt customers once the loss of service (and its consequences) had been resolved, the efficient resolution of the issue could potentially strengthen the customer's relationship with their existing provider (rather than encourage the consideration of alternative providers).

- (b) Our qualitative research suggested that a loss of service was only likely to drive customers to consider switching current account provider if it happened on multiple occasions.⁴⁸ This adds to the complexity of determining when to deliver the prompt.
- (c) There is a risk that customers could switch in response to a loss of service without undertaking a considered assessment of their current banking arrangements and any suitable alternative products or providers. This may not leave them in a better position than before the switch.

A data breach or data security issue

- 67. Given the increasing digitalisation of banking, the importance of data security and the risk of data security issues or breaches to customers is likely to increase over time.
- 68. However, our qualitative research found that if a data breach or data security issue was a one-off event and handled well by the provider, it would not be a suitable point at which to prompt customers to consider switching providers.⁴⁹
- 69. Further, we do not think that data breaches occur with sufficient regularity to enable them to act as effective trigger points, and it is not possible to test (through RCTs) the effectiveness of their occurrence as a potential trigger point.
- 70. We think that the increasing prominence of data security could be better addressed under our measure to increase customer awareness of and confidence in CASS. Under this remedy, Bacs could, for example, following the occurrence of a widespread data breach or data security issue, raise awareness of the benefits of switching via a mass advertising campaign.⁵⁰

⁴⁸ [Optimisa Research report](#), p37.

⁴⁹ [Optimisa Research report](#), p37.

⁵⁰ See Section 14.

A major dispute between a provider and a customer

71. Our qualitative research found that prompts sent during disputes are unlikely to be effective, as during this time customers were primarily focused on the swift resolution of the dispute and would have concerns that if they switched during this time, the issue would never be resolved.^{51,52}
72. As with a serious loss of service, the efficient resolution of the dispute could potentially strengthen the customer's relationship with their existing provider.

A PCA customer's transition from a student or graduate account to an adult account

73. Our qualitative research found that for recent graduates, the withdrawal of their interest-free overdraft was generally felt to be a more natural point to consider switching current account than the migration from a student to a graduate account. This was because graduation was felt to be a busy period, often involving job seeking, travelling and/or house-hunting, meaning that changing current account provider was not a particularly high priority at this point in time. Further, many student account benefits, including the interest-free overdraft, were retained for an interim period, meaning there was no immediate material change in their banking arrangements.⁵³
74. We have decided that the withdrawal of an interest-free overdraft would represent a more effective trigger point than a PCA customer's transition to an adult account. We consider that the withdrawal of an interest-free overdraft represents a material change in the key products features of a PCA (see paragraphs 32 to 35).

The opening of a BCA for the first time

75. Customers may have considered their options prior to selecting their preferred BCA provider and may not welcome a switching prompt at this point in time. Barclays told us that directing customers towards alternative products or providers at the start of the relationship was likely to give customers mixed signals and intimate that providers did not value their business, which may lead in turn to lower satisfaction, through no fault of the provider.⁵⁴

⁵¹ [Optimisa Research report](#), p37.

⁵² This finding is in line with the result of a trial conducted by LBG. LBG enclosed a leaflet outlining the simplicity of switching in letters sent to customers in response to complaints. LBG found no significant impact on switching rates (or other outcomes measured).

⁵³ [Optimisa Research report](#), pp27–28.

⁵⁴ [Barclays response to Remedies Notice](#), paragraph 2.2.4.

76. Further, our qualitative research found that it could be difficult to identify the trigger point, as it would not be immediately clear when an SME was in fact searching for a BCA. When it became known that an SME was looking to open a BCA, they would have likely already started searching for a suitable product and provider.⁵⁵

The refusal of credit by an SME's existing provider

77. At this time, an SME is likely to be focused on securing finance rather than considering their BCA arrangements. Further, the SME's current BCA provider may have had legitimate reasons for refusing credit (eg the customer had a poor credit rating or did not meet the provider's lending criteria), which will not necessarily be resolved by changing BCA provider.
78. Rather than prompting SMEs to consider switching BCA provider, this could be an opportune time to encourage them to consider alternative finance options. The [Small and Medium Sized Business \(Finance Platforms\) Regulations 2015](#) came into force on 1 January 2016.⁵⁶ It requires designated providers to pass on information about those SMEs they have rejected for a business loan or credit application to designated finance platforms.⁵⁷

Other major life events

79. Bacs told us that other life events, such as getting married or changing jobs, could also act as trigger points.⁵⁸
80. Our qualitative research found that life events were not seen as having obvious timelines when prompts could be delivered to customers.⁵⁹ Further, we considered that it would be difficult to identify the occurrence of such events.

⁵⁵ [Optimisa Research report](#), p29.

⁵⁶ These regulations were made pursuant to powers provided in the [SBEE Act](#). While they came into force on 1 January 2016, they will not have effect until the finance platforms and banks have been designated.

⁵⁷ It was recently announced that Bizfitech, Funding Options and Funding Xchange will be designated as finance platforms to help match rejected borrowers and alternative lenders. See [Budget 2016, Section 4: Backing business and enterprise](#).

⁵⁸ [Bacs response to Remedies Notice](#), p14.

⁵⁹ [Optimisa Research report](#), p30.

Content and presentation of messages

Content

81. Our qualitative research found that for the prompts to be effective, the message needed to provide a clear rationale for considering switching as well as guidance as to what to do next.⁶⁰
82. Our qualitative research also found that there was a degree of confusion among customers as to why their current account provider or a third party would prompt them to switch providers.⁶¹ Therefore, the prompts require appropriate framing, and an explanation of the reason for the prompt, in order to provide some context and elicit a positive response from the recipient. Further, our qualitative research also suggested that the provision of time frames would convey a sense of urgency and invite further consideration.⁶²
83. There are a number of common messages that could be included in the prompts to achieve these objectives:
 - (a) Advising customers to review their existing banking arrangements.
 - (b) Communication of the rewards or benefits of switching.
 - (c) Referral to sources of comparative information.
 - (d) Communication of the benefits of using CASS to switch current accounts.
 - (e) Referral to sources of further guidance.
84. This list is not exhaustive and each of these messages may not be suitable for all of the prompts that we have recommended to the FCA for further testing. We recommend that the FCA tests the precise messaging that is likely to be effective in changing customer behaviour for each of the selected prompts.

Review of existing banking arrangements

85. The prompt could advise the recipient to review their existing banking arrangements, in order to ensure that they adequately meet their needs.

⁶⁰ [Optimisa Research report](#), p7.

⁶¹ [Optimisa Research report](#), p22.

⁶² [Optimisa Research report](#), p57.

86. Our qualitative research found that personalised or tailored data heightened customer engagement.⁶³ Similarly, Fairer Finance⁶⁴ told us that banks should publish personalised pricing data on annual statements, showing how much a customer would have been charged by other banks if they had switched.⁶⁵
87. In order to facilitate a customer's review of their banking arrangements, the prompt could include a summary of (or link to) the costs and any benefits of the customer's current account over the past 12 months. The prompt could also include an estimate of the customer's likely future charges, based on their past account usage.
88. Information provided to customers to allow them to assess the costs and benefits of their account could include a summary of:
- (a) any arranged and unarranged overdraft charges (ie fees and interest) accrued;
 - (b) any fees associated with holding the account;
 - (c) any transactional charges (particularly relevant for SMEs);
 - (d) any credit interest accrued;
 - (e) the implicit cost associated with any credit interest forgone,⁶⁶ and
 - (f) any benefits or rewards associated with holding the account (eg cashback earned).
89. Where such information goes beyond that required by PAD,⁶⁷ the FCA will need to consider the application of PSD and the Consumer Credit Directive (CCD) in specifying the determination of the precise content of these prompts.⁶⁸

Communication of the rewards or benefits of switching

90. The rewards or benefits of switching could be illustrated to customers:

⁶³ [Optimisa Research report](#), p57.

⁶⁴ Fairer Finance is a consumer group representing the interests of consumers in the banking and insurance markets.

⁶⁵ [Fairer Finance response to provisional decision on remedies](#), p2.

⁶⁶ The provision of this information could have resonance with those customers with high credit balances. Interest rate forgone could be calculated with reference, for example, to the base rate, in order to ensure consistency and enhance comparison across providers.

⁶⁷ Or in the case of BCAs, goes beyond what would be required by PAD if it applied to BCAs.

⁶⁸ See Section 13.

- (a) through the recommendation of an alternative product and/or provider; or
 - (b) by presenting them with the financial gain or loss they could achieve or incur by switching or not taking action.
- 91. We are not in favour of the recommendation of an alternative product and/or provider for a number of reasons:
 - (a) The referral of a customer to a competitor could have an adverse impact on the provider's relationship with the customer.
 - (b) Parties told us that the customer was best placed to assess whether another product was more suitable for their needs, given that there were many product and service features to consider, and the provider could not be sure as to which of these features the customer valued most. We agree that the customer, through the use of price and comparison services and through access to further guidance, is best placed to consider alternative products and/or providers.
- 92. We consider that presenting customers with the financial gain or loss they could achieve or incur by switching or not taking action is more likely to drive action. Our qualitative research found that providing customers with the tangible benefits of switching, particularly through the use of personalised or tailored data, heightened customer engagement.⁶⁹
- 93. The financial gain or loss from switching or not taking action could be presented to customers in a number of ways:
 - (a) An average gain or loss based on the market as a whole.
 - (b) An indicative gain or loss based on different customer profiles (eg a heavy overdraft user or a customer holding a high credit balance in their current account).
 - (c) A personalised gain or loss based on a customer's transaction data, to the extent that this is compatible with PSD.
- 94. There are inherent challenges in the calculation of the gain or loss from switching or not taking action. For example, the exact quantum of the gain or loss will depend upon the features of the alternative current account identified as most important by the customer, which will likely reflect the customer's

⁶⁹ [Optimisa Research report](#), p57.

personal preferences, and this may not be solely based on price considerations, but also service and quality factors.

95. Both HSBCG⁷⁰ and Santander⁷¹ expressed concerns with the provision of information to customers about potential gains from switching and suggested prompts could instead refer customers to a price and service comparison tool.
96. To ensure that customers take into account non-price factors when considering alternative products and/or providers, the prompt could also direct customers to sources of price and service comparison (see paragraphs 98 to 103).
97. We recommend that the FCA tests the most effective way of presenting this information to customers, and works with providers to understand the feasibility of them providing such information to customers.

Referral to sources of comparative information

98. Our qualitative research found that the provision of comparison data would give the customer immediate, definitive evidence of the benefits of switching.⁷²
99. The prompt could direct customers to sources of price and service comparison, such as PCWs, where they could compare between prospective providers by accessing details of the available products and, when available, sharing securely their transactional history via open APIs. SMEs could also use PCWs and finance platforms to consider alternative lending products and/or providers.
100. HSBCG told us that banks should not be required to direct customers to PCWs, as customers did not expect their banks to encourage them to consider leaving for another bank.⁷³ As explained above, the prompts will require appropriate framing, including an explanation of the reason for the prompt, in order to provide some context for customers and elicit a positive response from the recipient.
101. This prompt could be supported by a number of our remedies in relation to facilitating price and service comparison between providers. In particular, we intend to:

⁷⁰ HSBCG response to provisional decision on remedies, paragraph 32.

⁷¹ Santander response to provisional decision on remedies, p18.

⁷² Optimisa Research report, p7.

⁷³ HSBCG response to provisional decision on remedies, paragraph 30.

- (a) require providers to adopt an open API standard for BCA and PCA customers, thus making customer-specific transaction data more easily available and usable, including by PCWs;⁷⁴
 - (b) require the collection and dissemination of service quality measures of PCA and SME banking services providers in a form that would enable customers to make valid comparisons between them;⁷⁵ and
 - (c) facilitate comparisons of BCAs and SME lending.⁷⁶
102. We expect the availability of sources of comparative information available to both PCA customers and SMEs to increase over time. Therefore, the prompt could refer customers to an independent portal or website that details all of the different comparison services available to customers.
103. It will be for the FCA to determine (through testing) whether the referral of customers to price and service comparison services is effective, and if so, the appropriate method of referral (ie to a specific service or to a portal listing all available services). We think that such a body should be independent and offer a 'whole of the market' appraisal of the available services.

Communication of the benefits of using CASS to switch current accounts

104. Our qualitative research found that while there was some awareness of CASS, there was little understanding of the benefits of using the service to switch current accounts, and that providing reassurances about the switching process would bolster the switching message.⁷⁷
105. The prompt could include a number of messages about CASS. For example, it could inform the recipient that under CASS:
- (a) the switch will only take seven working days;
 - (b) the new provider will take care of moving all payments going out (eg direct debits and standing orders) and all payments coming in;
 - (c) if anything goes wrong, the new provider will refund any interest paid or lost and charges made on either the customer's old or new account; and

⁷⁴ See Section 13.

⁷⁵ See Section 13.

⁷⁶ See Section 16.

⁷⁷ [Optimisa Research report](#), p58.

(d) the customer has the opportunity to try a new account and cancel the switch if they change their mind.

106. We recommend that the FCA considers further the content that is most likely to assure customers about the security and convenience of using CASS to switch current accounts.

Referral to sources of further guidance

107. Given the low level of customer engagement and the complexity of comparing current account providers, there may be some benefit in providing customers with access to further guidance on their banking needs.
108. For PCA customers, the Money Advice Service (MAS)⁷⁸ is currently responsible for enhancing consumer understanding and knowledge of financial matters and the ability of consumers to manage their financial affairs.
109. On 16 March 2016, the government announced its intention to replace MAS with a new organisation from April 2018. It will be for the FCA to determine the appropriate body to which PCA customers should be referred for further guidance on financial matters in place of MAS.
110. For BCA customers, there does not appear to be single source of guidance. The prompt could encourage SMEs to discuss their banking requirements with their individual trusted adviser, such as their accountant. We have also decided to recommend to BEIS that it works with the [British Business Bank](#) and professional associations, such as the [Institute of Chartered Accountants in England and Wales](#) (ICAEW) to explore ways in which their members can channel advice on identifying and choosing providers and sources of finance to SMEs.⁷⁹

Tailored messages by type of prompt

111. The common messages described above could be supplemented with or modified by messages tailored to reflect the particular circumstances for each prompt, although further testing will be required by the FCA to assess the likely effectiveness of any such content.
112. For example:

⁷⁸ MAS was set up by the government in April 2010 to offer free and impartial money advice to consumers.

⁷⁹ See Section 16.

- (a) A material change in the key product features of a BCA or PCA product used by the customer: the prompt could include a clear and concise description of the change(s), and any features of or benefits attached to the existing account that would be withdrawn or modified following the change.⁸⁰
- (b) The closure of a customer's branch: the prompt could include the details of three alternative providers with branches closest to the branch due to be closed. This could include the name of the provider, the location of the branch and confirmation that they offered BCA or PCA services.
- (c) The imposition of overdraft charges: the periodic statements could be modified to include:
 - (i) a breakdown of the charges incurred in the past year an estimate of the customer's likely charges for the coming 12 months, based on their past account usage;
 - (ii) clear and concise guidance on how to avoid future charges, for example, by signing up to pre-notification alerts; and
 - (iii) reassurance that overdraft users can switch current accounts using CASS.⁸¹
- (d) The expiry of an SME's free banking period: subject to compatibility with PSD, the prompt could include a warning that the SME was approaching the end of their free banking period, together with an estimate of their likely charges for the coming 12 months, based on their account usage during the free banking period.

Presentation

- 113. The manner in which a prompt is delivered, both in terms of the content used and its presentation, could impact the level of customer engagement with the communication.
- 114. For example, our qualitative research found that:

⁸⁰ This is required by [BCOBS 4.1](#).

⁸¹ Our qualitative research found that there was a lack of clarity over whether it was possible to switch current account providers with an overdraft or lending facility ([Optimisa Research report](#), p22).

- (a) letters received from a customer's existing provider tended to be opened, but were often only superficially reviewed;⁸²
 - (b) for emails, subject headings were important if the communication was to be opened and read;⁸³ and
 - (c) it was considered important that the prompts featured prominently to encourage engagement.⁸⁴
115. Our qualitative research found that disruptive communications would attract greater attention and invite engagement.⁸⁵ Tesco Bank's proposal on the use of traffic light colour-coding is one example of how this could be applied.⁸⁶ Although we have concerns with a standardised labelling approach, we agree with Tesco Bank's suggestion that a visual representation of costs and/or service may improve customer engagement.
116. We recommend that the FCA tests a number of presentational styles and formats, in order to understand how best to present the messaging to encourage greater customer engagement.

Standardisation of language and presentation

117. We received mixed feedback from parties in response to whether the content and presentation of the messages delivered to customers should be standardised, specified and approved by a regulator.
118. Some parties told us that standardised messages would be easier to draft and implement, given that they would not require tailoring to specific customer circumstances. Standardised messaging would also ensure consistency in messaging, which would promote customer trust.
119. Other parties were against the standardisation of language and presentation. For example:
- (a) The Institute of Directors told us that mandating messages to consumers or businesses in some cases would only serve to reinforce the notion that all providers were the same.⁸⁷

⁸² [Optimisa Research report](#), p48.

⁸³ [Optimisa Research report](#), p49.

⁸⁴ [Optimisa Research report](#), p8.

⁸⁵ [Optimisa Research report](#), p38.

⁸⁶ [Tesco Bank response to Remedies Notice](#).

⁸⁷ [Institute of Directors response to Remedies Notice](#), p2.

(b) Nationwide told us that it was essential that it was able to communicate with its customers using its own ‘tone of voice’, which it viewed as an important differentiator of its customer proposition and service quality.⁸⁸

120. As we have decided that a customer’s existing current account provider is best placed to deliver the prompts, allowing providers to prompt customers in line with their existing communications may bolster the authenticity and credibility of the messages. However, at the same time, some form of standardisation of content and presentation may ensure that a consistent message is delivered to customers by all providers.

121. We recommend that the FCA:

(a) considers the extent to which the content and presentation of messages should be standardised, in order to ensure that a consistent message is delivered to customers by all providers; and

(c) monitors the effectiveness of these prompts, and as and when necessary, redesigns the prompts to reflect market and regulatory developments, including the impact of our wider remedies package on customer engagement.

Source of prompts

122. Our qualitative research found that a customer’s existing provider emerged as the preferred source of the prompts, as they were perceived as a trusted, known source, whereas an approach from a commercial third party, such as a rival provider or a PCW, was considered intrusive and would raise data security concerns.⁸⁹ The research also indicated that non-commercial third parties, such as a regulator or consumer advice body, had more credibility, but would be best utilised by adding credibility to prompts delivered by a customer’s existing provider.⁹⁰

123. In our [Remedies Notice](#), we noted that there was a risk that providers could circumvent the remedy by framing the message in such a manner that the key messages in relation to searching and switching were obscured or given insufficient prominence.

⁸⁸ [Nationwide response to Remedies Notice](#), paragraph 3.9.

⁸⁹ [Optimisa Research report](#), p40.

⁹⁰ [Optimisa Research report](#), p42.

124. We suggested that this risk might be mitigated by facilitating access to relevant customers by a regulator or third party, so that they could deliver the message in place of the customers' existing provider.⁹¹
125. In response, a number of parties told us that this could have data security implications. For example:
- (a) The ICO⁹² told us that consumers had a range of concerns (in relation to the sharing of their data), including potential data loss, data misuse and unexpected data sharing.⁹³
 - (b) HSBCG told us that it did not believe that customers would welcome additional marketing communications from third parties, and that such a requirement would also conflict with the marketing preferences of many customers, who actively opted out of receiving marketing materials.⁹⁴
 - (c) The BCC told us that businesses must have confidence that the data was used fairly and lawfully, for specifically stated purposes, kept for no longer than was absolutely necessary, handled according to their data protection rights and kept safe and secure.⁹⁵
126. In addition to these concerns, there are also some practical barriers to the use of third parties in delivering the prompts:
- (a) Given the current low levels of customer engagement in the market, it is not clear to us that PCWs, which typically generate revenue by imposing fees on a provider upon click-through to their website or following a completed switch, yet have sufficient incentive to communicate the benefits of switching and to prompt investigation of other providers.⁹⁶ We consider that PCWs have an important role in this market in facilitating price and service comparison. However, they may not be best placed to stimulate competition.

⁹¹ [Remedies Notice](#), p10.

⁹² The Information Commissioner has responsibility for promoting and enforcing the Data Protection Act 1998, the Freedom of Information Act 2000, the Environmental Information Regulations 2004 and the Privacy and Electronic Communications (EC Directive) Regulations 2003. He is independent from government and upholds information rights in the public interest, promoting openness by public bodies and data privacy for individuals. He does this by providing guidance to individuals and organisations, solving problems where he can, and taking appropriate action where the law is broken.

⁹³ [ICO response to Remedies Notice](#), paragraph 10.

⁹⁴ [HSBCG response to Remedies Notice](#), paragraph 46.

⁹⁵ [BCC response to Remedies Notice](#), p3.

⁹⁶ Our remedies package intends to increase customer engagement, so PCWs may be incentivised to play a larger role in the market in the future.

- (b) The customer's existing provider can utilise its existing channels of communication, which are not available to third parties, to deliver the prompts.
 - (c) The customer's existing provider is best placed to identify a number of the proposed trigger points, such as branch closure and a material change in the key product features of a BCA or PCA.
127. Given the security concerns and practical barriers described above, and the findings of our qualitative research, we have decided that the customers' existing current account provider is best placed to deliver the prompts.
128. We think that any circumvention risk can be addressed by the FCA considering the extent to which the content and presentation of messages should be standardised, in order to ensure that a consistent message is delivered to customers by all providers.

Medium of delivery of prompts

129. Our qualitative research found that channel usage would likely be dependent on a customer's existing communication preferences, and where possible, the use of multi-channel communication could help maximise the effectiveness of the prompts.⁹⁷
130. For example:
- (a) A letter and/or email could be appropriate channels to initiate contact with the customer as these mediums were well-suited to communicate detailed messages.⁹⁸
 - (b) The initial communication could then be followed up by a notification or reminder via the customer's mobile banking application or a secure message via the customer's online banking portal.^{99,100}
131. Electronic channels are particularly effective in driving prompt action, as they allow the recipient to act immediately upon receiving the message by, for example, clicking on a link to direct them to their mobile banking application or to a portal listing all available price and service comparison services. For

⁹⁷ [Optimisa Research report](#), pp46–47.

⁹⁸ [Optimisa Research report](#), p57.

⁹⁹ Our qualitative research suggested that secure messaging was often ignored, and the prompts would need to appear at the log-in stage to attract attention ([Optimisa Research report](#), p50).

¹⁰⁰ Although the research suggested that customers were less familiar with receiving notifications via their mobile banking application, we consider that mobile banking adoption – which is largely driven by smartphone adoption, which is greater among the younger population – is likely to increase over time.

example, the FCA found that signing up to text alerts and mobile banking reduced the amount of unarranged overdraft charges incurred by customers by 24%.¹⁰¹

132. We recommend that the FCA undertakes further testing in order to determine the optimum multi-channel communication method.¹⁰²

¹⁰¹ See [FCA occasional paper on the impact of annual summaries, text alerts and mobile apps on consumer banking behaviour](#) (March 2015).

¹⁰² The consideration of optimal channels should allow for the development of new mediums in line with ongoing technological change.

Appendix 14.1: Remedy design considerations – reforms to CASS governance

1. This appendix details evidence relating to our consideration of the key issues relating to the design of this remedy.

Changes to CASS corporate governance

2. In the design of this remedy, we considered:
 - (a) the composition of the MC and its subcommittees/groups; and
 - (b) the need for greater transparency around the decisions made in these and CASS performance against KPIs.

Composition of the MC and representation of a wider group of stakeholders' interests

3. The MC, which is currently chaired by a Bacs board director and includes representation from CASS bank participants, is charged with managing the scheme from an operational and strategic perspective. It meets once every two months where a minimum of eight banks must be present for each meeting. Bacs told us that it also invited external attendees, for example regulators, the BBA, other scheme companies and appointed suppliers (eg VocaLink) to the meetings of the MC, but this was based on specific agenda items being discussed.
4. Bacs' executive management is represented in the MC by its Director of Product and Strategy, whose team also provides secretarial and administrative support for its meetings. The Bacs board receives, for information, regular updates on various aspects of CASS performance including operations, budgets, risk management and compliance. Under the MC's ToR, issues that cannot be resolved by the MC are referred to the Bacs board.¹

¹ Bacs told us that the Bacs board may overturn any decision taken by the MC where they were able to demonstrate that the integrity of the Bacs payment system was put at risk as a consequence of the decision, and/or the risk associated with a decision were deemed to be unacceptable to the Bacs Scheme Company Limited. In this situation, Bacs would provide the MC with details in writing.

5. The MC has also empowered the following subcommittees or groups to take decisions within their defined areas of responsibility:
 - (a) CASS Operations and governance committee;²
 - (b) CASS Strategic Communication Group;³ and
 - (c) CASS Redirection Technical Group.⁴
6. Bacs told us that each CASS subcommittee/group comprised subject matter experts drawn from the participant banks, and its chair was appointed by the MC. External specialists could also be invited to attend meetings, but this was ad hoc and agenda-driven. Although each subcommittee/group was empowered to take decisions within its sphere of responsibility, in practice they provided a report to the MC and where appropriate, the MC noted and confirmed the decisions taken by the subcommittees/groups.⁵
7. Banks that commented on this remedy were generally of the view that the current membership and voting structure of the MC did not blunt its incentives to promote switching between current account providers.
8. Virgin Money told us that the membership and voting structure of the MC were satisfactory and provided adequate representation for the smaller banks.⁶
9. HSBCG stated that there were 26 member banking groups on the MC, and each of these had a right to only one vote. Given that a 75% voting majority (ie 20 or more votes if all members voted) was required for measures to be implemented, it meant that smaller banks had a significant influence over policies, and it was not possible for larger banks to veto proposals.⁷
10. According to Danske, the voting structure was agreed as 'one man – one vote' to ensure that all participants had a voice and carried the same weight in discussions.⁸
11. Bacs told us that the MC worked on the basis of consensus and voting on issues was only required where agreement could not be attained. It stated

² This committee is responsible for product, rules, participant compliance, CASS operation and communications.

³ The main function of this committee is the delivery of the communications strategy to meet targets set by the MC.

⁴ Its main function is to ensure that the redirection technical solution complements the revised and strengthened customer guarantee as it is developed by the CASS Strategic Communications.

⁵ Bacs told us that the only scenario where the MC would be likely to overrule the subcommittees/groups was where the CASS budget was a critical consideration or where the integrity and/or reputation of CASS were deemed to be at risk.

⁶ [Virgin Money response to Remedies Notice](#), p20.

⁷ [HSBCG response to Remedies Notice](#), paragraph 144.

⁸ [Danske Bank response to Remedies Notice](#), paragraph 2.12(a), p31.

that voting was on the basis of ‘one person, one vote’ and this meant that participants with multiple brands only had one vote, and 75% majority of the votes cast was required before a decision was carried.

12. It stated that the only issue that had been presented for voting since the MC’s inception in 2014 related to a call for funding for additional communications activity that had not been in the service budget for 2015. It informed us that those voting for the additional funding had included a number of participants that had been net losers of accounts, contrary to what might have been expected. Bacs also told us that it was possible for a participant to change from being a net loser to a net gainer based on the timing of a new product and advertising campaign, and some net loser organisations had brands that were net gainers.
13. HSBCG told us while smaller banks had a significant influence over CASS policies, and it was not possible for larger banks to veto proposals, the governance of CASS could be improved, to ensure a more strategic and customer-focused approach. This could be done, for example, by having independent directors with votes, and allowing PCWs to sit on the MC since they were likely to have incentives to ensure that CASS was effective.⁹
14. LBG noted that, while the MC had been effective in developing and establishing the redirection service and that CASS was operating well,¹⁰ changes to its management structure were likely to be required to deliver effectively the enhancements to the CASS service envisaged by the CMA’s proposed remedies. LBG stated that it would welcome these changes.¹¹
15. Danske stated that CASS was a management committee rather than a company board, but it believed that elements of Principle 2 (Governance) of the CPSS-IOSCO¹² framework should apply to it. It also welcomed independent oversight of CASS. According to Danske, this could be achieved through having an independent Chair and/or by referring key matters for ratification/noting to a subset of the Bacs board.¹³
16. As we have stated, the MC, which is currently chaired by a Bacs board director and includes representation from CASS bank participants, is charged

⁹ Provided they were prepared to make a small contribution to its costs. [HSBCG response to Remedies Notice](#), paragraph 145.

¹⁰ LBG stated that this was acknowledged by the FCA.

¹¹ [LBG response to Remedies Notice](#), paragraph 12.1.

¹² Committee on Payment and Settlement Systems: Technical Committee of the International Organization of Securities Commissions. Bank for International Settlements (April 2012), [Principles for financial market infrastructures](#), Part 3.

¹³ [Danske Bank response to Remedies Notice](#), paragraph 2.12(d), p32.

with managing the scheme from an operational and strategic perspective. It is important that relevant stakeholders' interests are properly represented in the CASS decision-making processes. This can be achieved by having an independent Chair of the MC and opening up the membership of the MC and its sub-committees/groups to include independent members and representatives of relevant customer groups and intermediaries such as, for example, PCWs.¹⁴ This will provide a more balanced representation of the views of a wider range of stakeholders in the CASS decision-making processes, and help ensure that the service is developed in the interests of customers both in the short and the long term.

17. Barclays noted that there remained a need for the appropriate skill sets and experience of the MC to ensure that, at its core, CASS remained a technologically resilient, controlled and well-governed service.¹⁵
18. Similarly, LBG said that the CMA should recommend to Bacs that the Independent Chair of the MC should be a person with marketing skills, and the non-bank members of CASS' Strategic Communication Group should have marketing expertise.¹⁶
19. We agree that the independent Chair of the MC and other members of the MC and its sub-committees should have appropriate skills and experience, and expect that Bacs' selection process will reflect these requirements.
20. Barclays stated that if the MC is extended to include non-participants (eg PCWs) that are run on a fully commercial basis, there may be the potential for a conflict of interest. It noted that the approach to CASS funding decisions needed to be carefully considered, potentially limiting those decisions purely to participants of the service, while the strategy and development of the service might be guided by all members of the MC.¹⁷
21. A similar point was made by RBS, which stated that further diversifying the membership of the MC could increase the disconnect between those who voted for policies and those who ultimately funded them. It also saw a risk that the introduction of new members to the MC, such as PCWs could lead to 'scope creep'. It recommended that this could be addressed by ensuring that the CASS ToR were closely defined and that the Chair/or the PSR (if it was

¹⁴ These non-bank members should have full membership rights in respect of participating in the proceedings and decision making of MC and its sub-committees/bodies.

¹⁵ [Barclays response to provisional decision on remedies](#), paragraph 5.2.1.

¹⁶ [LBG response to provisional decision on remedies](#), paragraph 6.3.

¹⁷ [Barclays response to provisional decision on remedies](#), paragraph 5.2.2.

given regulatory oversight of CASS) ensured that discussions and initiatives in which CASS engages were squarely within those ToR.¹⁸

22. LBG made the point that non-bank members should account for up to 30% of voters on the MC, to provide an appropriate balance between bank and non-bank members, while the voting majority should remain at 75%.¹⁹
23. We do not think that the inclusion of additional non-bank members in the MC as envisaged in this remedy will undermine the ability of banks to influence CASS' strategy and decisions. This is because a limited number of new non-bank members relative to the bank members will be included in the MC and its sub-committees and groups to ensure greater independence, and diversity of views in CASS governance and decision making. Further, we expect the independent Chair to ensure that all members of the MC are provided with adequate opportunity to voice their views and have a say in CASS decision making. Therefore, it is also not necessary to limit specific types of decisions to only the bank participants of CASS.

Transparency

24. Although the MC is technically not a 'board', it plays a board-like role in respect of CASS operations, and greater transparency will help relevant stakeholders to better understand its decisions, raise any concerns, and ultimately help increase confidence in the service.
25. Therefore, we have decided that Bacs should take steps to have greater transparency around the MC's decisions and decision-making processes, as well as CASS performance against KPIs.

Regulatory oversight of CASS

26. Several parties²⁰ told us that some form of independent oversight of CASS would improve its governance.
27. However, RBSG made the point that CASS was already overseen by Bacs and was subject to scrutiny by the FCA/HMT, which was a satisfactory arrangement.²¹ Santander's view was that CASS governance worked well in

¹⁸ [RBSG response to provisional decision on remedies](#), paragraph 4.2.

¹⁹ [LBG response to provisional decision on remedies](#), paragraph 5.3.

²⁰ For example, HSBCG, LBG, Nationwide, TSB, Danske, FSCP.

²¹ [RBSG response to Remedies Notice](#), paragraph 3.12(d), p54.

practice, and awareness and promotion of CASS were more significant issues than further innovation.²²

28. LBG stated that CASS was already subject to oversight from the CMA, the FCA and the PSR. It told us that it may be preferable if CASS were principally accountable to a single regulator. It considered that the FCA was best placed to maintain regulatory oversight of CASS.²³
29. Virgin Money stated that it was not aware of any significant concerns that would justify independent oversight. If independent oversight of CASS was considered appropriate, Virgin Money suggested that it should be done by the PSR.²⁴
30. FSCP stated that it supported reforms to the governance of CASS to remove it from the control of the industry. It was of the view that CASS should either be governed by an independent board or brought within the oversight of the PSR.²⁵
31. While TSB has had no issues with its CASS membership and the management structure of CASS to date, it stated that greater regulatory oversight of CASS would be beneficial to ensure that the scheme was operated in the interests of the entire industry and customers. TSB suggested that the FCA adopts this supervisory role²⁶ but also saw merit in PSR oversight.²⁷
32. PwC questioned whether the PSR was best placed to regulate CASS, as proposed by the CMA. It believed that the regulatory activities proposed would be more effective if they were undertaken by the FCA in conjunction with its powers of enforcement in respect of competition.²⁸
33. Similarly, Bacs noted that many of the performance issues around CASS were related to participant conduct and consumer interests, and believed that the FCA may also have a role to play in CASS regulation.²⁹
34. Introduction of an effective regulatory oversight of CASS would enable the CASS regulator to review and report on governance and operations of CASS and recommend appropriate action as necessary. This will, in turn strengthen

²² [Santander response to Remedies Notice](#), paragraph 15.1.

²³ [LBG response to Remedies Notice](#), paragraph 12.2, p10.

²⁴ [Virgin Money response to Remedies Notice](#), p20.

²⁵ [Financial Services Consumer Panel response to Remedies Notice](#), p6.

²⁶ Given that the FCA has oversight of PCAs more broadly and has recently acquired competition enforcement powers, and CASS is integral to the PCA switching process ([TSB response to Remedies Notice](#), paragraph 60).

²⁷ [TSB response to provisional decision on remedies](#), p14.

²⁸ [PwC response to provisional decision on remedies](#), p3.

²⁹ [Bacs response to provisional decision on remedies](#), p2.

the incentives of the MC and Bacs' management team to run and develop the scheme in the interest of customers.

35. We note that the PSR and the FCA are two candidate organisations to oversee CASS, but consider that it is for HMT, while acting on our recommendation to introduce an independent regulatory oversight of CASS, to consider this matter further, and decide which of these two bodies or another appropriate body is most suited to assume this role.

Appendix 14.2: Remedy design considerations – the length of the redirection period

1. This appendix details evidence relating to our consideration of the key issues relating to the design of the remedy, covering:
 - (a) background on the current redirection period;
 - (b) the advantages of an extended redirection period over a perpetual redirection period;
 - (c) the customer impact of extending the redirection period through our proposal;
 - (d) the customer impact of introducing account number portability; and
 - (e) the cost of introducing account number portability.

Background on the current redirection period

2. CASS was launched in September 2013 to reduce barriers to switching by making the process simpler and quicker for customers. CASS guaranteed incoming payments being routed to a customer's new account for up to 13 months after a customer switched account to both prevent payments from going astray in that period, and provide third parties with a period of time to update their records with the switching customer's new details.
3. In its review of CASS, the FCA stated that there were some remaining operational issues with the service, the most significant being the risk of undermining confidence in the service when the redirection service ends (if third parties failed to update account details and incoming payments go missing).¹ It said that incoming payments were routed to a customer's new account for up to 13 months, and this gave third parties a period of time to update their records with a switching customer's new account details and meant that payments to switching customers should not go astray in that period.²
4. However, the FCA reported that around 8% of switched accounts still had at least one redirected payment after 12 months, after which the proportion of accounts with such payments fell further but much more slowly. It argued that if this problem was not addressed, there was a risk that when the redirection period ended, the number of payments that failed to be redirected would

¹ [FCA CASS report](#), p21.

² *ibid*, paragraph 1.7.

cause detriment to those affected customers and could also be sufficient to undermine confidence in the service.³

5. Following the announcement in the 2014 Autumn Statement to upgrade CASS to include 99% of SMEs and an extension of the redirection service, Bacs extended the CASS redirection period from 13 to 36 months, and this extended redirection period was subsequently included in the CASS Guarantee at the end of March 2015. However, FCA noted that despite the planned extension to the redirection period to 36 months, the issue still remained.⁴
6. Bacs told us that the introduction of CASS had highlighted an issue particularly with Bacs and Faster Payments service users failing to act on messages sent to them to update payment records. It stated that the Bacs members had recognised that this was a payment scheme rather than CASS issue and had put in place a range of activities to address this compliance issue. However, it noted that there will inevitably remain a risk (albeit small) that payments continue to be sent to the old account.⁵
7. Bacs also stated that based on the current finite redirection period of three years, circa 1.2% of those customers who switched using CASS could experience the hassle of failed payments long after their switch date.⁶

Extending the redirection period vs introducing a perpetual redirection period

8. Bacs told us that its research showed that the proposed extension to the redirection period⁷ would be a robust and effective solution to address the risk of undermining confidence in CASS because it provided:
 - (a) a strengthened 'CASS Guarantee' that all participants could stand behind;
 - (b) 'future-proofing' in that it would cover some of the most affected customers for an unlimited period;
 - (c) a safeguard for most recurrent day-to-day transactions which took place within a 13-month time frame; and
 - (d) an environment that ensured the integrity of the payment system was maintained.

³ *ibid*, paragraph 8.19.

⁴ *ibid*, paragraph 1.7.

⁵ [Bacs response to provisional findings](#), p39.

⁶ [Bacs further response to provisional decision on remedies](#), p9.

⁷ See Annex A.

9. We also considered an alternative approach of requiring an unlimited redirection period. The BoE told us that an unlimited redirection period could potentially give rise to operational risks in managing a much larger and complex redirection database, and increase risk to the smooth functioning of the Bacs and Faster Payment Service payment systems. Further, the BoE stated that it could provide a disincentive for the customers and payment initiators to update their records, which would create unnecessary dependence on the redirection system.
10. By contrast, the BoE told us that an approach along the lines of what had been proposed by Bacs would allow the redirection database to be cleansed of materially obsolete data and therefore prevent a build-up of multiple redirections, thus helping to minimise operational risk.

Customer impact of extending the redirection period

11. Of those ten parties⁸ that responded to our [Remedies Notice](#) and [provisional decision on remedies](#) that the current 36-month redirection period was not sufficient, eight parties were of the view that Bacs' proposal⁹ was a solution that would sufficiently reassure customers in the switching process.^{10,11,12} Many of these parties indicated that Bacs' proposal in effect created an indefinite redirection for the relatively small number of affected customers who still had a redirected payment 36 months after they had switched accounts.
12. Of those who did not consider that an enhancement to the extension period would be effective, Virgin Money believed that only ANP would be sufficient to increase switching, and BGL Group told us that ANP would induce more switching than an extended redirection period. The three others¹³ considered that the existing three-year redirection period was sufficient. RBSG and First Trust Bank considered that more time was needed to evaluate the recent extension to a 36-month redirection period before considering the effectiveness of a further extension.
13. To help us assess the potential impact of an extension to the redirection period, we referred to our omnibus survey results on an extension to the

⁸ Nationwide, Barclays, Danske, LBG, HSBCG, Virgin Money, FSCP, Christians Against Poverty, TSB and BGL Group.

⁹ Which HSBCG said was for regular payments.

¹⁰ Barclays, HSBCG, Nationwide, LBG, TSB, Christians Against Poverty, FSCP and Danske.

¹¹ Santander also told us that it believed that the proposal had already been implemented and therefore the issues we identified had already been addressed.

¹² Specifically, Barclays told us that the current 36-month redirection period might not be sufficient for some customers. It was of the view that the proposal being developed by industry was a solution that would provide reassurance for customers in the switching process. It also stated that the number of customers utilising the switching process after 36 months was estimated at [X]%.
[REDACTED]

¹³ TSB, Tesco Bank and the Institute of Directors.

redirection period and the FCA's evidence on an unlimited extension to the redirection service.

14. Our omnibus surveys suggested that by itself, an extension to the redirection period would only encourage a small proportion of PCA or BCA customers to switch account providers.¹⁴
15. The FCA's evidence painted a mixed picture. While the FCA's quantitative research results showed that an unlimited extension of the redirection service would not be a material improvement above extending the then 13-month period to the current 36-month redirection period,¹⁵ its qualitative research suggested that an unlimited incoming payment redirection service was a welcome improvement for users as there was even less risk of payments going missing once the switch has been completed relative to any form of capped extension to the redirection system.¹⁶
16. The Moorhouse report on ANP¹⁷ commissioned by the FCA noted that the customer experience from the perpetual CASS redirection model (for unlimited redirection) was likely to be positive since it provided more time for third parties to update records of customers' account details and therefore greater assurance to customers. Further, it noted that the disruption to the customer should be minimal since the new bank would be responsible for the transfer of outgoing mandates, and incoming payments would be rerouted.
17. We note that since all these sources assessed the effectiveness of proposed extensions to the redirection service on a stand-alone basis, in the absence of our remaining package of remedies, their findings should be treated as indicative of a lower bound on the potential effectiveness of the relevant proposals.

¹⁴ In response to the question, 'I am going to read out some changes which might be made to the switching process. For each one I'd like you to tell me if it would make you any more or less likely to consider changing your account?' 12% of PCA users said that they would be more likely to switch and 15% said that they would be less likely to switch if the redirection period of any payment made to their old account lasted for longer than 36 months, which is currently the case. See [PCA survey](#), p111. In response to the same question 11% of BCA users said that they would be more likely to switch and 14% said that they would be less likely to switch if the redirection period of any payment made to their old account lasted for longer than 36 months, which is currently the case. See [SME survey](#), p32. Note that the greater proportion of respondents saying they would be **less** likely to switch (compared with those saying they would be more likely to switch) may indicate that the question was misunderstood.

¹⁵ The results of this research indicate that extending the redirection period indefinitely would only lead to 4% more PCA customers being more likely to switch than if redirection remained at 36 months. The same was true for businesses but the result was not statistically significant. Report commissioned by the FCA. YouGov (March 2015), [Current Account Switch Service – Quantitative research](#).

¹⁶ Customers will still need to provide updated details of their new debit card numbers, if they used these to make certain payments. This is not true for ANP.

¹⁷ Report commissioned by the FCA. Moorhouse (March 2015), [Account Number Portability](#), p44.

Customer impact of introducing account number portability

18. In response to our [Remedies Notice](#) and our [provisional decision on remedies](#), Virgin Money said that only ANP would be sufficiently effective now or in future to address the issue of customers' concerns about missing payments. BGL Group told us that ANP would be sufficiently effective now or in the future to address the issue of customers' concerns about missing payments whereas an extended redirection would not be as ANP was a concept that most customers were familiar with and so presented less of a challenge in terms of customer understanding and engagement. FSB told us that while it recognised the cost implications of implementing ANP, it believed it offered the potential to increase confidence in the switching service. The CIC requested that the CMA revisits ANP with impact on the end user experience held in higher priority than cost of implementation. Other than the Social Market Foundation,¹⁸ the same parties¹⁹ that considered that an extension to the redirection period would not be effective also believed that ANP would not be.²⁰
19. To help us assess the effectiveness of introducing ANP we have considered the results from our omnibus surveys, the FCA's quantitative research and the FCA's qualitative research.
20. Our omnibus surveys results suggest that the introduction of ANP would encourage some PCA and BCA users to switch current account providers.²¹ In addition, out of all potential changes to the switching process mentioned in the survey, ANP was most popular among both PCA and BCA holders.²²
21. The FCA's quantitative survey results²³ suggested that the introduction of ANP would be perceived as more of an improvement over and above extending the, then, 13-month period to the current 36-month redirection period, than an unlimited redirection period. The results also suggested that a

¹⁸ Who told us that there was little evidence that ANP would encourage switching.

¹⁹ TSB, Tesco Bank, Institute of Directors.

²⁰ The FSCP told us that ANP, or a system that performed the same function, might be better in the long run, but it should be informed by a full cost-benefit analysis in response to our Remedies Notice. However, in response to our provisional decision on remedies, it stated that that indefinite redirection would remove the need to explore, and finance, ANP, and in the long run, APIs will allow single identifiers, which will also replace the need for ANP. [FSCP response to provisional decision on remedies](#), p3.

²¹ In response to the question 'I am going to read out some changes which might be made to the switching process. For each one I'd like you to tell me if it would make you any more or less likely to consider changing your business account?' 21% of PCA users said that they would be more likely to switch and 13% said they would be less likely to switch if they could keep their existing account number and sort code when switching. See [PCA survey](#), p120. In response to the same question 26% of BCA users said that they would be more likely to switch and 10% said that they would be less likely to switch if they could keep their existing account number and sort code when switching. See [SME survey](#), p34.

²² 45% of PCA holders and 49% of BCA holders who rated at least one of the proposed changes positively, selected ANP as a change most likely to encourage them to switch. See [PCA survey](#), p146 and [SME survey](#), p41.

²³ [Current Account Switch Service – Quantitative research](#).

greater proportion of PCA holders and SMEs^{24,25} would be more likely to switch if they could retain their existing account details or were to have portable account details compared with an unlimited extension period.

22. When given the choice to pick among a number of different improvements to the switching process that would make them more likely to switch (in the same context of a 13-month redirection period pre March 2015), 38% of businesses and 33% of customers chose the ability to keep the same account details as the option that would make them most likely to consider switching.²⁶ This result was not substantially greater than that for the unlimited redirection of payments.²⁷
23. At a high level, the FCA's qualitative research found that ANP was regarded to be more seamless and less risky than the existing means of switching accounts. It was also seen as an easier concept for users to grasp as there are fewer elements to take on board when compared with CASS.²⁸
24. ANP was also seen to address some of the barriers that were commonly associated with changing account details including the 'hassle' of changing account details (such as the need for notifications and the need for admin updates) and the risks of changing account details (if something changes it creates room for error). Businesses and charities who felt that they would be likely to experience greater inconvenience from changing account details than consumers would, found ANP to be particularly useful because it removed the need to notify customers of a change in details and make changes to stationery and invoicing documentation.²⁹

²⁴ 32% and 35% of PCA users respectively said that they would be more likely to switch providers in the next 12 months if they had portable account details or retained their account details when switching. This was compared to 24% of PCA users who would be more likely to switch providers in the next 12 months if their providers were to offer a 36-month redirection period and 28% of PCA users more likely to switch if they were offered unlimited redirection.

²⁵ 38% and 40% of BCA users said that they would be more likely to switch providers in the next 12 months if they had portable account details or retained their account detailers respectively when switching. This was compared to 26% of BCA users who would be more likely to switch providers in the next 12 months if their providers were to offer a 36-month redirection period and 30% of BCA users more likely to switch if they were offered unlimited redirection.

²⁶ The other options were incoming payments being redirected for an indefinite redirection, a guarantee that nothing will go wrong when switching, all payments, direct debits and standing orders being automatically transferred to the new account, the ability to choose the date of the switch, the switch taking place within five days and none of these.

²⁷ 30% of businesses and 29% of customers chose incoming payments being redirected for an indefinite period as the option that would make them most likely to consider switching.

²⁸ Optimisa report commissioned by the FCA (March 2015), [Engagement with current accounts and the switching process](#) ('FCA CASS qualitative research'), p53.

²⁹ [FCA CASS qualitative research](#), pp53–54.

25. However, ANP also caused customers to raise some concerns about security, in that it was felt that it could increase the risk and impact of fraud if account details were unique and it was so easy to switch banks.³⁰
26. Further, ANP may not completely eliminate the need to change some payment details when changing current account provider. Some international inward payments and regular payments associated with customers' debit cards would not be transferred automatically under ANP, unless separate and specific arrangements were incorporated into the system.³¹

Cost of introducing account number portability

27. Many parties told us that they had concerns about the proportionality of ANP. They considered that the cost of implementing ANP was high and the number of customers affected by payments going astray in the switching process was small, so given its high cost ANP would not be a proportionate remedy. However, two parties³² told us that a variant of ANP would be their favoured solution now or in future.
28. The Moorhouse report commissioned by the FCA identified three separate variants for ANP:³³
 - (a) The Retain Identifier Model provides ANP by using a customer's combined original sort code and account number as a unique identifier. This solution would run on the existing bank infrastructure, but would not integrate with international payments or other payment system provider solutions. It also puts restrictions on banks reallocating old account numbers. It would require a number of centrally managed services such as a repository for identifiers and a payments mandate database that are integrated with the existing payments infrastructure, along with active management of this repository to prevent the re-issue of account numbers.
 - (b) The New Identifier Model provides ANP by using an alternative identifier as a proxy to a sort code and account number. This solution would integrate with international payments or other payment system provider solutions. However, the viability of this option would depend on the selection of an alternative identifier, in terms of its uptake and integration

³⁰ [FCA CASS qualitative research](#), p55.

³¹ [FCA CASS report](#), paragraph 1.23.

³² Virgin Money and BGL Group.

³³ [Account Number Portability](#), p4.

with the existing payments infrastructure.³⁴ Similar to the Retained Identifier Model, it would require a number of centrally managed services such as a repository for identifiers, a payments mandates database and a payments redirection database that are integrated with the existing payments infrastructure.

- (c) The Central Utility Model could provide ANP through either an existing or new identifier. It could have wider benefits in addition to ANP in that it provides an opportunity to modernise banking infrastructure through a centrally managed core banking platform; enables wider capabilities such as the ability to retain historical payment records upon switching; and lowers the barriers to entry for challenger banks.³⁵ It would require a new redirection database, payments mandates database, and shared operations platform that would replace significant parts of the existing payments infrastructure, which would all be enhanced by a Know Your Customer (KYC) database.

29. We have used the same report to provide estimates of the likely cost and complexity associated with ANP.³⁶ It evaluated that:

- (a) The Retain Identifier Model, the most basic solution for ANP, has industry costs in the region of £2–£3 billion³⁷ and would take five to seven years to implement according to an estimate provided by VocaLink.³⁸ The implementation risk and operational financial stability of this option was considered to be low since it used existing technology and solutions.³⁹
- (b) The New Identifier Model, which enables greater integration with international payments and other Payment Service Provider (PSP) solution, has a total industry indicative cost range of £3–£4 billion and would take seven to ten years to implement according to an estimate

³⁴ In particular, if mobile telephone numbers were used as an alternative identifier, one would need to take account of the fact that they are regulated separately by Ofcom, and that any changes to the identifier would be outside of the banking industry's control.

³⁵ Through access to a common platform. [Account Number Portability](#), p5.

³⁶ [Account Number Portability](#).

³⁷ The Moorhouse Report stated that 'In addition, the cost of a payments mandates database is likely to range between £100–200 million. The total cost to implement CASS was estimated to be £750 million. Given that a similar infrastructure is required for the Retain Identifier model (redirection database), with the addition of a payment mandates database (£200–300 million), the incremental cost is likely to be in the region of £1–2 billion.' [Account Number Portability](#), p21.

³⁸ [VocaLink](#) was formed out of the merger between Voca Limited and LINK Interchange Network Limited on 2 July 2007. As part of the merger a newly established holding company was formed (VocaLink Holdings Limited) which acquired the entire share capital of both Voca and LINK Interchange Network Limited. VocaLink Limited is the principal trading entity, which is a wholly owned subsidiary of VocaLink Holdings Limited. A consortium of 18 banks and building societies own VocaLink Holdings Limited.

³⁹ [Account Number Portability](#), p22.

provided by VocaLink. Overall, the risk of using the new identifier model was considered to be medium to high.⁴⁰

- (c) The Central Utility Model, which would modernise banking infrastructure through a centrally managed core banking platform, was considered to be highly complex, very expensive and taking a long time to implement, which could also result in significant disruption to banks as they integrate systems to the new model.⁴¹ The Moorhouse Report cited a report by KMPG for the Payments Council, which estimated that the costs of building such a model were £5–£10 billion with annual running costs of over £1 billion. The migration costs for the largest individual banks were estimated to be over £1 billion. Overall, the risk for implementing this option was considered high.⁴²

⁴⁰ *ibid*, p30.

⁴¹ *ibid*, p37.

⁴² *ibid*, p38.

Annex A: CASS' Redirection and forwarding processes – high level description⁴³

1. Redirection and forwarding are significant processes within the CASS. Redirection ensures that, following a full switch, any payments made by Bacs (ie direct debits and Bacs direct credits) and Faster Payments (this includes standing orders) that still use the old account details are automatically centrally redirected to the new account. Forwarding ensures that credits of other payment types (eg CHAPS, SEPA, cross-border, cheque, and on-us) to the old account are forwarded to the new account by the old bank.
2. As part of the full switch process, originators of a customer's regular payment arrangements (for example, payers of salaries and benefits, and direct debit originators) are notified of the customer's new account details. On receipt of notification, the payment originator should update the account details that they hold. The redirection and forwarding processes provide payment continuity where the payment originators do not update the account details that they hold in a timely manner. With each instance of either redirection or forwarding, the payment originator is notified again of the new account details.
3. For each full switch, the redirection and forwarding mechanism applies for a minimum of three years. After which, customers who still require redirection, because one or more of their payment originators is still using their old account details, will continue to be supported by redirection and forwarding until such time as it is no longer required. After three years, redirection and forwarding will cease only when a 13 month period has passed without any redirected payments.

⁴³ [Bacs further response to provisional decision on remedies](#), Appendix 7.2.

Appendix 14.3: Remedy design considerations – provision of transaction history

1. This appendix details evidence relating to our consideration of the key issues relating to the design of the remedy, including the following:
 - (a) Should the provision of transaction history at the time of account closure be automatic or based on customers' request?
 - (b) For how long should a bank retain, and provide, transaction history to ex-customers?
 - (c) Should banks be allowed to charge for providing transaction history to customers?
 - (d) What role, if any, should CASS play in the provision of transaction history?

Should the provision of transaction history at the time of account closure be automatic or based on customers' request?

2. Many banks¹ expressed the view that requiring providers to offer transaction history on demand was more efficient both for the providers and the customer than if providers were mandated to automatically provide transaction history, which they may not need at the time of account closure.
3. LBG's view was that porting of transaction history should form part of the CASS switching service, and therefore transaction history should be provided automatically to the new provider when the account was closed.²
4. Although Clydesdale was unconvinced about the potential benefit of this remedy, it stated that if pursued, it should be integrated into the account closure process in order to reduce the burden of ad hoc transaction data requests.³
5. After considering the pros and cons of automatic provision of transaction history at the time of account closure, we have decided to adopt a remedy which requires banks to provide transactions history at the time of account closure, unless customers decide to opt out. This will reduce hassle factor for

¹ For example, responses of HSBCG, Nationwide, RBSG, Danske, Virgin Money to our Remedies Notice.

² [LBG further response to Remedies Notice](#), p43.

³ Clydesdale questioned whether, based on customer behaviour to date, customers would request and benefit from reviewing a five-year transaction history, particularly given that this information will be provided once customers have switched. [Clydesdale Bank response to Remedies Notice](#), paragraphs 6.1–6.2.

customers and provide a degree of certainty for customers about receiving their transaction history.

For how long should a bank retain, and provide, transaction history to ex-customers?

6. The responses we received generally expressed the view that although banks should not be required to retain details of BCA and PCA transactions over an unnecessary long period, a five-year period was broadly acceptable.
7. A few parties questioned the usefulness of providing such historical data, since lending applications and identity requirements were usually supported by much more recent data.⁴
8. Our view is that customers should have access to their transaction history for as long a period as practically possible, to give them confidence that it will be available in case they needed it after having switched accounts using CASS. This in turn, will reduce the perceived or real risk of switching. We understand that pursuant to the Money Laundering Regulations 2007 (MLR), banks retain transaction history of their customers for five years⁵ and many banks already have a policy to provide transaction history to their ex-customers.

Should banks be allowed to charge for providing transaction history?

9. Many parties who responded to this question in our Remedies Notice favoured levying a charge, which was proportionate to the actual cost of providing this information to ex-customers.
10. HSBCG pointed out to us that it charged a fee for the provision of copy statements (of account transaction history) for both existing and ex-customers, and suggested that providers should continue to be permitted to charge for the provision of this service as there were costs associated with storing data and also administrative costs of making the data available.⁶

⁴ For example, RBSG, Santander, First Trust Bank.

⁵ Paragraph 8.16 of the Joint Money Laundering Steering Group's (JMLSG) [guidance](#) on prevention of money laundering/combating terrorist financing for the UK financial sector (revised November 2014) states in relation to Regulation 19(3) of the MLR: records of all transactions relating to a customer must be retained for a period of five years from the date on which the transaction is completed.

⁶ [HSBCG response to Remedies Notice](#), paragraph 131.

11. Danske's view was that providers should be able to levy a charge for this information, which was proportionate to the actual cost of providing this information.⁷
12. Subject to the final design of this remedy, LBG did not consider that providers should be permitted to charge for this information except in certain situations, for example, if an ex-customer were to make a number of requests which required additional manual steps to process.⁸
13. Business Finance Compared stated that the provision of the transaction history should be free of charge where it is ported as part of the switching process and to be available at a minimum cost where the data is required post switching.⁹
14. RBSG suggested that a £10 cap for providing transaction history would be appropriate where the data is to be provided electronically, but that where it is requested to be provided in paper format, the CMA remedies should not engage in prescriptive price regulation and banks should be able to pass on to the customer the cost of providing the data. RBS also stated that it would encourage the CMA to allow for flexibility to vary the charge over time.¹⁰
15. After considering the responses received and the issues sought to be addressed by this remedy, namely reducing barriers to switching, we have come to a decision that customers should be able to receive (unless they opted out) their transaction history at the time of closing their account free of cost.
16. However, banks should be allowed to levy a charge if they so wished, when providing transaction history to customers after they had closed their account. This charge, however, should be not higher than what would be payable under the DPA (currently capped at £10) or any legislation which supersedes it.
17. We have also decided that the transaction history could be provided to customers either in electronic or physical format.

What role, if any, should CASS play in the provision of transaction history?

18. RBSG told us that Bacs/CASS could play a role in delivering the transaction data to the new bank, and this would open up an opportunity for the recipient

⁷ [Danske Bank response to Remedies Notice](#), paragraph 2.9(b).

⁸ [LBG further response to Remedies Notice](#), p43.

⁹ [Business Finance Compared response to Remedies Notice](#), p24.

¹⁰ [RBSG response to provisional decision on remedies](#), paragraph 6.1(c).

bank to provide this data electronically to the new customer. It stated that this solution would have a large impact on RBSG as it would require additional capability in respect of data storage and presenting the information. Further, CASS and CASS participating banks would also face considerable cost and challenge in building such a service. It submitted that there was little evidence of demand for this service, and further customer research would be required if this approach were to be pursued.¹¹

19. HSBCG did not consider it to be either necessary or appropriate for Bacs/CASS to have a role in providing transaction history to customers.¹² Danske stated that provision of transaction history was primarily a matter between the provider and the customer.¹³
20. A contrasting view was expressed by LBG, which favoured the porting of transaction history to become part of CASS, and provided automatically to the new provider when the account was closed. In addition, customers could also be prompted to port their transaction data with them when switching accounts using their Midata¹⁴ profile which could be provided automatically by providers at account closure.^{15,16}
21. Business Finance Compared told us that ideally Bacs/CASS could be one of the intermediaries which could access transaction data on behalf of the SME and pass this to the new provider. It stated that it might require technical investment by Bacs/CASS to enable secure retention and transfer of this data. Further, it was put to us by Business Finance Compared that by enabling open access to transaction data, the transaction history could be ported to the new provider removing the need for providers to hold archived information for previous customers.¹⁷

¹¹ [RBSG response to Remedies Notice](#), paragraph 3.9(e).

¹² [HSBCG response to Remedies Notice](#), paragraph 132.

¹³ [Danske Bank response to Remedies Notice](#), paragraph 2.9(e).

¹⁴ In our [provisional findings](#) we explained the background and purpose of HMT's Midata project, which launched on the GoCompare PCW in March 2015. Midata aimed to facilitate price comparisons between PCAs using customers' own transaction history. See [provisional findings](#), paragraphs 7.94–7.96 and [Appendix 3.1](#), paragraphs 203–205.

¹⁵ [LBG further response to Remedies Notice](#), p43.

¹⁶ LBG considered that a new provider would be in a better position to curate the transaction history and also, having the prime relationship with the customer, be best placed to guard against the potential risks of identity theft and other fraud which the retention model presented. [LBG response to Remedies Notice](#), paragraph 9.2.

¹⁷ Business Finance Compared is a platform dedicated to helping UK SMEs find and compare alternative sources of funding to grow and support their business through the use of innovative technology and analytics. [Business Finance Compared response to Remedies Notice](#), p24.

22. TSB suggested the introduction of a 'Credit Passport',¹⁸ which would provide absolute assurance to prospective switchers that they would not be losing their credit history in the event that they switched account.¹⁹
23. Although building a capability to port transaction history in CASS and introducing the Credit Passport could be attractive, we have concluded that the remedy we propose to adopt is a simpler and less onerous solution to effectively address the customers' concern around losing access to their transaction history after switching accounts.^{20,21}
24. Therefore, we are content with the current account providers being made responsible for providing transaction history to customers both at the time of, and after closing their account.

Other design parameters for the remedy

25. Some parties commented on the medium of delivery of transaction history to customers. For example, Barclays stated that for business customers, the choice (by customers) of medium was not necessary nor was it practical. It said that a very high proportion of SMEs were digitally active, with critical business activities carried out through digital channels, and that for an SME with turnover of up to £6.5 million the transaction history could include up to 15,000 transactions, and for a medium sized business printing out five years of transaction history could result in thousands of pages.²² Barclays suggested that in relation to SMEs, (as with other proposed remedies), the scope of this remedy be limited to those SMEs with turnover of less than £6.5 million.²³
26. Danske made the point that while implementing the remedy, we needed to give consideration to the manner in which information relating to past transactions was provided to customers, to ensure its confidentiality.²⁴ It also stated that the provision of the information in electronic format to ex-

¹⁸ Under the Credit Passport proposed, all PCA providers would be mandated to provide a centralised resource, such as an existing credit rating agency, with customers' account usage and transactional histories. The credit agency, when requested by the consumer, would make the data available, in a usable format, to any prospective alternative PCA provider. This would make it easier to assess an applicant's risk and affordability at the point of application or inquiry, thereby increasing the likelihood that a new provider will match a consumer's existing overdraft limit. [TSB response to Remedies Notice](#), paragraphs 35 & 36, p7.

¹⁹ [TSB response to Remedies Notice](#), paragraph 39.

²⁰ This also aligns with our guidelines for market investigations, which state that a proportionate remedy is one that is the least onerous if there is a choice between several effective measures. The [Guidelines](#), Part 4, paragraph 344(c).

²¹ Further, the sharing of PCA transaction data using APIs may perform the function of the 'Credit Passport' proposed by TSB.

²² [Barclays' response to provisional decision on remedies](#), paragraph 7.3.

²³ *Ibid.* paragraph 7.5.

²⁴ [Danske Bank response to Remedies Notice](#), paragraph 2.9(a).

customers posed potential security concerns as the transaction data can no longer be provided securely through eBanking.²⁵

27. LBG stated that the remedy should require the provision of hard copy statements, and should only extend to electronic format to the extent that a provider offers electronic statements to its current customers. This, according to LBG, would avoid the costs involved in creating a secure electronic statement capability exclusively for former customers.²⁶
28. After considering the responses received, and the proportionality of this remedy, we have decided to limit the coverage of this remedy for SMEs with turnover less than £6.5 million at the time of closing their account.²⁷
29. Regarding the timelines of delivery of transaction history, Danske told us that if the CMA decided to proceed with this remedy, depending on the medium by which the information was provided to ex-customers, one week (which was proposed in our provisional decision on remedies) may not be sufficient to provide what can be a very voluminous amount of information to ex-customers. It also stated that if the CMA was seeking to align the maximum fee that banks can charge for providing transaction history to ex-customers to the DPA, it would be reasonable and proportionate to also align the time period for providing such information to that in the DPA 1998, ie promptly or in any event within 40 days.²⁸
30. According to LBG, a seven working day period would be appropriate based on the time required to extract data from IT systems, and providers should be required to meet the target for at least 95% of requests, and transaction history would be 'provided' at the time they were posted. However, it stated that the requirement should be clarified to ensure that transaction histories should be provided within a defined period from the date on which the customer has provided the necessary information required by the bank to conduct its identity checks (rather than one week after the customer's request).²⁹
31. We want to make it easier for customers to receive their transaction history than it is under the DPA. Therefore, we have decided that transaction history would need to be provided to the customer within a reasonable period, but no later than seven working days after the customer has provided necessary identity/other documentation required by the bank for 95% of such requests

²⁵ [Danske response to provisional decision on remedies](#), paragraph 4.6.

²⁶ [LBG response to provisional decision on remedies](#), paragraph 8.6.

²⁷ This threshold should cover circa 99% of UK SME population. Source: Bacs.

²⁸ [Danske response to provisional decision on remedies](#), paragraph 4.4.

²⁹ [LBG response to provisional decision on remedies](#), paragraph 8.9.

and within 40 days for the remaining 5%. The transaction histories would be assumed to have been provided at the time they were posted or sent through electronic means in respect of physical and electronic copies respectively.

32. Nationwide's view was that DPA alone was sufficient to overcome customer concerns that they may lose such information as a result of the switching process. Further, it believed that requiring providers to automatically provide transaction data upon account closure would impose a disproportionate burden on providers in terms of the costs and time involved in producing and providing such data as a matter of course, especially for customers who hold multiple accounts with one provider. Nationwide also stated that there was no evidence of significant customer demand for this service, and that the CMA had not provided strong evidence that this service would encourage switching. Instead, it supported a measure requiring providers to actively inform customers of the procedures that are already in place.³⁰
33. As we have stated earlier, we want to make it easier for customers to receive their transaction history than it is under the DPA, to reduce the perceived or real risk of switching.³¹ This remedy will also provide a minimum standard across the industry about access to transaction history, and help in reducing this barrier to account switching. Further, our requirement for the provision of transaction history is not automatic but based on an opt-out choice to be made by the customer. The remedy also requires providers to publish on their website, their policy regarding retention of transaction history of old accounts, and the process and other requirements for requesting transaction history.
34. According to PwC, our proposal for banks to commit to holding and providing transaction history could be challenging, given that many banks have legacy back-office IT systems which may not readily accommodate this requirement. It stated this proposal may require a significant investment from the banks.³²
35. Banks already have a duty to retain transaction data of customers for five years. We have decided to oblige banks to provide transaction history to customers at the time of account closure on the basis of an opt-out choice, and have also allowed the banks to charge a reasonable fee for providing it to ex-customers after closing their account. Further, for SMEs, we have limited the coverage of this remedy to only apply to SMEs with turnover of less than

³⁰ [Nationwide response to provisional decision on remedies](#), paragraph 4.

³¹ In our qualitative research we found that one potential barrier to switching is that SMEs will lose access to their previous transaction history following a switch through CASS. This could potentially affect businesses' ability to apply for financial products in the future as they would not have proof of their transaction history. A customer survey commissioned by LBG found that customers believed that loss of history with their current provider was a potential barrier to them switching current accounts. See Section 14.

³² [PwC response to provisional decision on remedies](#), p3.

£6.5 million and to banks that have at least 150,000 PCAs or at least 20,000 active BCAs.

36. Overall, we expect the costs of implementing this remedy to be low.³³

³³ The responses we received to our provisional decision on remedies did not provide a specific estimate of costs of implementing this remedy.

Appendix 14.4: Remedy design considerations – measures to increase awareness of and confidence in CASS

1. This appendix details our consideration of the key issues relating to the design of the remedy, covering:
 - (a) the effectiveness of raising awareness of the benefits of switching through mass advertising;
 - (b) the scale and duration of promotional activity required to sufficiently raise awareness of and confidence in CASS;
 - (c) whether there are any particular customer segments that should be targeted by such promotional activity;
 - (d) who should undertake and manage the promotional activity; and
 - (e) how the effectiveness of promotional activity should be measured.

Benefits of switching

2. We considered that in addition to communicating the benefits of using CASS to change current account provider, the remedy could also increase public awareness of the potential savings or rewards that could be obtained by switching.¹
3. Santander told us that (general advertising) was a powerful tool in engaging customers to consider their banking arrangements, and that a general message was also far easier to implement than the specific and ongoing requirements to display switching benefits via prompts.^{2,3}
4. In contrast, Which? questioned whether a general advertising campaign would be effective in increasing public awareness of the potential savings or rewards that could be obtained by switching current account provider.⁴ Similarly, the MAS told us that an advertising campaign might raise awareness of improvements to the CASS process and how it worked, but it was unlikely to prompt people not already interested in the market to switch.⁵
5. We think that mass promotional activity similar to that required to raise awareness of and confidence in CASS is unsuitable to raise awareness of the

¹ Remedies Notice, pp12–13.

² Santander response to provisional decision on remedies, p19.

³ See Section 13.

⁴ Which? response to Remedies Notice, p2.

⁵ MAS response to Remedies Notice, p10.

benefits or rewards of switching, because the value of any such rewards, whether financial or related to service quality, are likely to be specific to each customer and therefore difficult to communicate via a mass campaign.

6. We have decided that the raising of awareness of the benefits of switching is better addressed under our proposed foundation remedy to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers (as set out in Section 13). Under these measures, the rewards of switching can be communicated to individual customers at times when they are more likely to be receptive to consider switching provider. We intend for this measure to focus on communicating to customers the security and convenience of using CASS to switch current accounts to address customers' negative perceptions of the switching process.
7. We intend to seek an undertaking from Bacs that its future promotional campaigns are aligned with our proposed measures to increase customer awareness of the potential benefits of switching and prompt further investigation of other providers in communicating the benefits of using CASS to switch current accounts.
8. For example, both the targeted prompts delivered to individual customers under our proposed foundation remedy to prompt customers to consider their banking arrangements and Bacs' mass promotional activity under this remedy could share common wording and messaging in explaining the security and convenience of switching current accounts using the service. Bacs' future promotional campaign under this remedy could also help in addressing data security issues we have highlighted earlier (see Section 13). Bacs could, for example, following the occurrence of a data breach or data security issue, raise awareness of the benefits of switching via a mass advertising campaign.

Scale and duration of promotional activity

9. We think that raising awareness of and confidence in CASS requires sustained investment over time. For example:
 - (a) Danske told us that a promotional period of one to three years seemed appropriate, where the promotion could be concentrated in the first year, with periodic reminders throughout years two and three.⁶
 - (b) HSBCG told us that a short-term promotional campaign of approximately 12 months would provide an initial boost and re-launch customer

⁶ [Danske Bank response to Remedies Notice](#), pp2.2, p6.

awareness, but it was imperative that promotion in the long term was considered so as to avoid a drop off in customer awareness as soon as any initial campaign was concluded.⁷

(c) The government's 'Power to Switch' campaign launched in February 2015 to encourage consumers to switch energy supplier.⁸ In March 2015, the government reported that more than £38 million was saved by 130,000 households switching energy supplier.⁹ However, BIT told us that switching rates in the energy sector fell in the months following the campaign.¹⁰ This suggests that the effect of the campaign was short-lived and required sustained advertising over a longer period to drive lasting behavioural change.

10. We have decided to seek an undertaking from Bacs that it works with participants to ensure their commitment to a long-term promotional campaign to increase levels of awareness of and confidence in the service, and to sustain these levels over time. These campaigns should also reflect any changes made to CASS as a result of our wider remedies package, for example an increase in the redirection period.
11. It is for Bacs, in consultation with participants, to determine the level of funding that it requires to first meet and then exceed the awareness and confidence targets agreed with HMT,¹¹ and to sustain these levels over time, and to meet any new targets set by the regulator overseeing CASS under our governance remedy (the CASS regulator). Our intended changes to the corporate governance of CASS, especially regulatory oversight and the need for greater transparency around achievement against KPIs, will support Bacs in achieving this objective.
12. We also expect CASS participants to ensure their commitment to Bacs' efforts to promote CASS, and in particular, support a long-term promotional campaign to be undertaken by Bacs as envisaged in this remedy.
13. We consider that the promotion of partial switching could also increase customer confidence in the switching process and encourage more people to switch, as under this service, the customer's existing account remains open.

⁷ [HSBCG response to Remedies Notice](#), pp52–55.

⁸ The 'Power to Switch' campaign ran for four weeks across the UK and included national, regional and online advertising. It focused on raising the awareness of the savings to be gained from shopping around for the best energy deal using Ofgem accredited sites, such as [uSwitch.com](#).

⁹ See DECC press release (24 March 2015): '[Millions saved in one month as switching energy supplier rockets](#)'.

¹⁰ [Behavioural Insights Team response to Remedies Notice](#), pp7–8.

¹¹ Prior to the launch of CASS, Bacs agreed with HMT targets of 75% consumer awareness and confidence in CASS (ie that 75% of consumers and SMEs were aware of and confident in the service).

Our quantitative research found that there was very low awareness of the partial switching service (5% and 8% of PCA and BCA customers respectively were aware of the service).¹²

14. We have decided not to introduce a partial switch service guarantee nor require all providers to offer the partial switch service.¹³ However, we support measures which will facilitate multi-banking, since it puts competitive pressure on banks, and we encourage Bacs to work with its partial switch service participants to raise the awareness of the partial switch service.

Target customer segments

15. In our [Remedies Notice](#), we stated that SMEs were relatively uninformed about CASS and were less likely to switch BCAs using the service, and regular overdraft users and customers with large credit balances might specifically be targeted since they could benefit substantially from switching provider.¹⁴
16. In addition to these customer groups, parties have also identified the young and the financially disadvantaged as being particularly disengaged with CASS.
17. In relation to SMEs, a number of parties have suggested that in addition to mass marketing campaigns, increasing awareness of CASS could also be achieved through more targeted means. For example, Business Finance Compared¹⁵ told us that SMEs responded very well to advice from their local network and peers.¹⁶
18. Bacs told us that it had established a working group to specifically address audience targeting, and this group would meet on a regular basis to share information and help inform the wider promotional campaign. For example, it told us that it had engaged with SMEs to understand in more depth their existing segmentation, bodies of research, campaigns that had worked well (and why), key contact methods and how they managed relationships. Bacs told us that the outputs from the working groups would enable it to create nuanced messaging, appropriate for the specific needs of each customer segment, and this would be reflected in communications from the second quarter of 2016. Further, it was currently investigating (with participants)

¹² See [PCA survey](#), p202 and [SME survey](#), p57.

¹³ See Section 14.

¹⁴ [Remedies Notice](#), p13.

¹⁵ Business Finance Compared is a platform dedicated to helping UK SMEs find and compare alternative sources of funding to grow and support their business through the use of innovative technology and analytics.

¹⁶ [Business Finance Compared response to Remedies Notice](#), p9.

audience mapping and segmentation, in order to establish effective ways in which customers could be segmented and targeted through paid, owned and earned media.

19. Bacs told us that it was also paying particular attention to the channels employed to deliver these messages by, for example, considering strategic partnerships with respected and trusted bodies, such as the Federation of Small Businesses (FSB)¹⁷ and the Forum of Private Business (FPB). Bacs told us that it had already been working with the FSB and the FPB, among other SME groups, in order to tailor activity directly for this audience and that specific campaigns targeting this group were being designed.
20. Given the ongoing efforts of Bacs in raising awareness of CASS among those customer groups that have low awareness of CASS and/or could benefit most from switching current account providers, we have decided to seek an undertaking from Bacs that it continues to target these customers, in future promotional campaigns. Bacs could demonstrate its commitment to this by, for example, allocating a suitable proportion of its annual budget to targeting these key customer segments, and ensuring that its annual and longer-term business plans reflect this allocation.

Management of promotional activity

21. We think that Bacs is best placed to undertake the long-term promotion of CASS for the following reasons:
 - (a) Bacs assumed ownership of CASS when it launched in 2013 and it remains responsible for the development and management of the service. Bacs told us that it had been selected as the most appropriate organisation to manage CASS in part due to its extensive experience in the development and marketing of the Direct Debit scheme. Bacs was directly involved in the development and execution of the CASS launch campaign, and has subsequently worked with participants to continue to build the brand.
 - (b) Bacs has been relatively successful to date in raising awareness of CASS, although further action is required to increase confidence in the service. Bacs told us that since launch, over 2.25 million consumers had used the service, which was now offered by 40 high street banks and

¹⁷ The FSB is a non-profit organisation that promotes and protects the interests of the self-employed and small business owners.

building societies.¹⁸ Bacs told us that to date, awareness of CASS had reached 74%, while confidence in CASS was currently 10% lower. It told us that the target for awareness would be achieved in 2016, and further work was under way to understand how best to achieve the confidence target.¹⁹

(c) Bacs appears committed to sustained public awareness activity:

- (i) In September 2015, Bacs launched a major new multi-million pound communications drive to coincide with the second anniversary of the switch service. Following this, awareness of the service rose to 77%, exceeding the 75% target set by HMT for the first time.²⁰
- (ii) Bacs told us that participants had committed to spending £9.2 million in 2016 on central activities to increase awareness of and confidence in CASS.
- (iii) Bacs told us that it would launch a new, fully integrated marketing campaign in September 2016 to coincide with the third anniversary of the switch service, and that this campaign had a paid media value of £3.6 million and would reach over 98% of the UK population an average of 13 times each.²¹

Measuring effectiveness of promotional activity

- 22. We think that Bacs' existing measures in relation to awareness of and confidence in CASS are important in measuring the effectiveness of ongoing and future promotional activity.²²
- 23. However, recent research by the FCA found that awareness of and confidence in CASS was lower than that reported by Bacs. The FCA found that:

¹⁸ [Bacs response to Remedies Notice](#), p5.

¹⁹ Bacs measures awareness of and confidence in CASS through an online, monthly omnibus survey. To measure awareness, respondents are asked whether they have heard of the service. To measure confidence, respondents are asked whether switching would be easy, quick and take very little effort; whether they would be in control of the process; and whether the process would be error free, and their responses to these five questions are used to derive a composite confidence metric.

²⁰ [Bacs response to provisional decision on remedies](#), p1.

²¹ [Bacs response to provisional decision on remedies](#), p6.

²² We do not think that the measurement of switching rates is an appropriate indicator of customer awareness of and confidence in CASS, as such measures do not take into account those customers who review their banking arrangements, but decide not to switch provider for reasons other than a lack of awareness of or confidence in the service.

- (a) only 41% of consumers and 47% of small businesses had heard of CASS prior to completing the FCA's survey; and
 - (b) consumers' biggest fear when switching was something going wrong and that the measure for confidence in an error-free process was much lower than the average confidence score of 65%.^{23,24}
24. Similarly, our quantitative research found that awareness of CASS among PCA customers was low (43% of those surveyed had heard of the service).²⁵ Further, understanding of its main features was superficial.²⁶ Awareness of CASS was much lower among SMEs (28% of those surveyed had heard of the service),²⁷ and understanding of its main features was minimal.²⁸
25. BIT told us that behavioural literature suggested that raising awareness did not automatically lead to changes in behaviour. Therefore, it recommended the consideration of a more in-depth measure of awareness, which assessed whether consumers were aware of the steps required to use CASS.²⁹
26. Bacs told us that it was conducting research with the University of Bristol to define a more appropriate measure of the competitive environment that took account of levels of engagement, and that one such measure might be consideration of switching (ie a metric that measured the level of customers actively looking at offers in the market).³⁰
27. In the meantime, Bacs told us that it was developing a number of initiatives to educate customers in using CASS, including:
- (a) the introduction of an infographic to be displayed on the CASS website, explaining the steps involved in using CASS;

²³ See [FCA CASS report](#).

²⁴ Bacs told us that it worked with an independent market research agency to understand the differences between its awareness tracking data and the research conducted by the FCA. The agency suggested that the differences were mainly due to different ways of asking the respondents about awareness and that both the FCA's and Bacs' questions introduced some element of bias, however, if the objective was to monitor changes in awareness over time, Bacs' question provided a consistent time series. Bacs told us that it had worked closely with the FCA during its assessment of CASS and to understand how its recommendations might best be fulfilled, including those concerning awareness and confidence.

²⁵ [PCA survey](#), p63.

²⁶ When asked about the features of CASS, the most popular responses given were: 'easy to switch/bank does it all for you/no paperwork' (36% of those who had said they were aware of CASS); 'bank will switch/set up all direct debits/standing orders' (16%); and 'rewards/incentives' (11%). In addition, 18% of respondents replied 'don't know/can't remember/only heard about it'. [PCA survey](#), p70.

²⁷ [SME survey](#), p22.

²⁸ For SMEs, the most popular responses to the same question were 'I'm generally aware' (41%); 'makes it easier/less hassle/minimises impact on your business' (14%); 'they switch direct debits' (13%). In addition, 20% of respondents replied 'don't know'. [SME survey](#), p23.

²⁹ [BIT response to Remedies Notice](#), pp6–7.

³⁰ The research is planned to report in the middle of 2016.

- (b) working with intermediaries, such as PCWs, to explain the benefits of using CASS; and
 - (c) focusing advertising in 2016 on confidence building, which would naturally develop customer understanding in the steps required to use the service.
- 28. Given the recent findings of the FCA (see paragraph 23) and the results of our qualitative research (see paragraph 24), we have decided to seek from Bacs undertakings to develop its awareness and confidence metrics to measure customer understanding of the switching process. Our proposed measure to strengthen CASS's corporate governance will ensure that both Bacs and the participants of CASS are suitably incentivised to operate and develop the service in the interest of customers.
- 29. In response to our provisional decision on remedies, LBG told us that:
 - (a) the CASS Management Committee or Strategic Communication Group should set an appropriate target for increasing awareness and confidence in CASS, as the current HMT target to increase awareness may distort any funding away from increasing confidence in the actual experience of switching;³¹ and
 - (b) transitional annual targets should also be set as a glide path towards any long-term targets, because it took time to raise awareness and confidence.³²
- 30. We do not think that transitional targets are necessary, because Bacs has recently achieved its awareness target (see paragraph 20(c)(i)) and is undertaking further activity to increase customer confidence in the service.
- 31. We think that Bacs should continue to work towards the targets set by HMT. It will be for the CASS regulator to decide whether other measures are required to determine the effectiveness of Bacs' ongoing efforts to increase customer awareness of and confidence in CASS.

³¹ [LBG response to provisional decision on remedies](#), paragraph 1.9(b).

³² [LBG response to provisional decision on remedies](#), paragraph 6.5.

Appendix 14.5: Current account switching package – measures not being taken forward

Enhancements to the partial switch service

- 1 In addition to CASS (referred to as ‘full switch’), banks operating in the UK can also offer the partial switch service to their customers.¹ The partial switch service can be used to transfer payment arrangements between accounts for PCAs and all SMEs and larger corporate entities. It is defined as such because not all payment arrangements need to be transferred from the old to the new bank during the switch and many other aspects of CASS are also not available to customers.²
- 2 We note that the partial switch service facilitates multi-banking, which puts competitive pressure on banks, and may also encourage switching. In our [Remedies Notice](#), we had spelled out the features that could be included in a partial switch service guarantee. These included automatic redirection of incoming payments, ability to choose a switch date and completion of switching within a seven-day period and refunding of any interest paid or lost and any charges made if anything went wrong with the switching process.
- 3 Regarding the automatic redirection of incoming payments, we were informed that this worked at sort code and account level under CASS, and therefore, building a facility under the partial switch service for certain payments to be transferred to the new account and for some to remain with the original account would be complex and costly. In particular, Bacs told us that it was technically more complex to identify which payments were to be redirected if both accounts remained open.
- 4 It was also pointed out to us that a guarantee for the partial switch service, particularly around timelines and redirection, would have significant limitations. We were told that since the partial switch service required additional communication with the customer to provide and select lists of payments that are to be transferred, a defined time period for completing the switch would be difficult to implement.
- 5 Bacs told us that timescales for a partial switch were agreed on a case-by-case basis between banks and their customers considering the complexity of the switch, and therefore switching on a time-limited basis might not be appropriate for customers switching using the partial switch service. Further, according to Bacs, since requirements for SMEs with turnover in excess of

¹ For description of full and the partial switch service, see [Bacs website](#).

² For example, the partial switch service does not guarantee completion of a switch within seven days.

£6.5 million (which cannot use CASS) were complex, full switching under CASS on a time-limited basis would not be appropriate for these SMEs.

- 6 Bacs told us that once the PAD was transcribed into UK law, payment service providers (PSPs) would only be able to offer consumers (personal customers) a PAD-compliant switching service operated in accordance with the regulations or a designated alternative that must meet the criteria stipulated in the regulations. Any PSP that is a member of a designated switching service need only offer consumers the designated alternative switching service.
- 7 Bacs also told us that it was possible for PSPs to offer the partial switch service to consumers alongside CASS (or a PAD-compliant switch service), but it was unlikely that Bacs would be seeking PAD designation for a second switching service (eg the partial switch service). However, Bacs informed us that it was reviewing the partial service proposition for different customer market segments while also taking into account the impending implementation of PAD.
- 8 Clarifying the issue of the possibility of offering the partial switch service under PAD, HMT has stated that:

The government considers that provided a payment service provider offers either a PAD compliant switching service or a designated alternative switching service, the payment service provider will also be able to offer a non-compliant service such as 'Partial Only'. The government considers that a non-compliant service such as 'Partial Only' may also be offered to customers alongside the PAD compliant service or the designated alternative switching service. This will ensure existing provision may be maintained and provides choice for customers.³
- 9 We recognise that many steps in the partial switch process require a customer interface, and are not in banks' control, and therefore, it is difficult to have an overall timescale for completion of a partial switch. Further, automatic redirection of incoming payments is not currently offered under the partial switch service, and it is difficult to introduce such a facility, since the old account remains open. Having two different types of guarantees under CASS and the partial switch service could also confuse customers.
- 10 Overall, we consider that a partial switch service guarantee is likely to be complex to implement, and after having considered the likely effectiveness

³ HMT (November 2015), [Implementation of the EU payment accounts directive: Consultation responses](#), paragraphs 60–61.

and practicality of introducing such a guarantee, we have decided not to pursue it further.

- 11 We also considered if all CASS participants should be mandated to offer the partial switch service both inwards and outwards.
- 12 Bacs told us that all CASS participants were required to support customers who wished to move their accounts to a new provider using the partial switch service, although a small number of banks did not support customers switching into them in this way.
- 13 Explaining the reasons for not offering the partial switch service and a partial switch guarantee to PCA customers wishing to switch to it, [redacted] outlined the following reasons:
 - (a) First, it was unnecessary since customers already effectively had the option of a partial switch since they could open a new account without switching their existing account, and after they had satisfied themselves that they were happy with their new provider, they could approach their bank at any time to carry out a full CASS switch.
 - (b) Second, it would be technically complex and costly to provide a CASS-type guarantee and redirection service, as this would require a move from simple account level redirection to redirection at the level of each individual payment instruction. It would be difficult and costly to re-engineer CASS for certain payments to be transferred to the new account, and for some to remain with the original account.
 - (c) Third, it would be counterproductive, since banks were targeting the primary banking relationships.
 - (d) Fourth, [redacted] had concerns about the risks and potential damage to confidence in CASS given that banks did not have control over customer behaviour. It therefore considered that there were likely to be more issues around guaranteeing a partial switch than a full switch.
- 14 Regarding SMEs, [redacted] recognised that there may be particular benefits to choosing certain mandates to be moved or not. However, its view was that, overall, these factors were not sufficient to justify the additional cost and complexity of guaranteeing partial switch under CASS in circumstances where SMEs could already effect a partial switch.

- 15 [redacted],⁴ which previously did so, no longer offers the partial switch service to PCA customers who want to switch to it. It told us that there were a number of issues which generated complaints related to the switching process from partial switch customers. Given that the partial switch service was not covered by the CASS switching guarantee (and therefore not bound by the same requirements and timescale obligations as full switching), [redacted] observed that this caused confusion for customers over the timescales and the account opening process. As a result of customers' feedback, [redacted] removed the partial switch-in option for new PCA customers in [redacted] and from the online channel in [redacted].
- 16 It appears that the decision whether to offer the partial switch service or not, is a decision taken by a bank based on various considerations including its technical and commercial viability, and the feedback from customers.
- 17 It is unclear to us that requiring all banks to offer the partial switch service both inward and outwards will be an effective remedy, since customers can already undertake an 'effective' partial switch by opening a new account, and at a later stage, make a full switch using CASS, if they were satisfied with their new account. Therefore, we have decided not to require all banks to offer the partial switch service.
- 18 Bacs told us that it was considering ways of meeting the requirements of customer segments which were not currently fully met by the current CASS or partial switch services, notably customers with overdrafts and SMEs. It is Bacs' intention to address the identified needs of these customer segments through the delivery of process harmonisation in the lead up to switch initiation.
- 19 In particular, Bacs stated that it was conducting a research-based approach to ensure that any changes to the lead up to switching fulfils the specific needs of overdraft users and in particular, how these needs might be addressed through the promotion of harmonised account opening processes. Further, Bacs plans to undertake research to break down the SME market into various segments to obtain data from participants on behavioural trends and perceived obstacles to switching. Following this research, Bacs will evaluate changes required to the central CASS propositions, such as an enhanced partial proposition specifically aimed at complex/additional needs.⁵

⁴ [redacted]

⁵ Bacs told us that at this stage, it was not considering implementing specific enhancements (for example, introducing a redirection service) to the partial switch service.

20 While not mandating a stand-alone partial switch remedy, we note that it facilitates multi-banking, and encourage Bacs to explore ways of developing an enhanced partial switch service based on the outputs of its proposed research, and work with its partial switch service participants to increase the customer awareness of this service.⁶

Continuous payment authorities

21 In our provisional findings,⁷ we noted that the non-transfer of continuous payment authorities (CPAs) was one of the outstanding operational issues in the CASS, and therefore requiring the automatic transfer of CPAs during the switching process could help instil greater customer confidence in the switching process. Accordingly, we included such a remedy in our [Remedies Notice](#).

22 In response, most parties considered that requiring the transfer of CPAs in the switching process would not be a proportionate remedy. Many of them told us that there was little evidence that the non-transfer of CPAs presented a material barrier to switching, and that the FCA had stated that this was not something that arose in its customer research and not something that appeared to have impaired the switching process.

23 Some responses also noted that a technical solution to transfer CPAs may compromise the integrity of the CASS switching service if CPAs were not 100% guaranteed to be transferred in the switching process. Only LBG and TSB were in favour of this remedy in principle.^{8,9}

24 To assess the impact of this remedy, we looked both at the customers who could potentially benefit from this remedy and the limitations and potential adverse impacts associated with its implementation.

25 To look at the number of customers who could potentially benefit, we used the results of our omnibus surveys and consulted with Visa and MasterCard,

⁶ Only 5% of PCA users and 8% of BCA users in our Omnibus surveys claimed they had heard of it – questions 19 and 23 in respective surveys) See [PCA survey](#), p202 and [SME survey](#), p57.

⁷ See [provisional findings](#), paragraph 7.107.

⁸ LBG considered that adding the transfer of CPAs would be a positive enhancement to the CASS service and customer experience, and noted that LBG customers had 1.5 million incorrect card details on their accounts, resulting in confusion, payment errors and customer annoyance. LBG also noted that implementation would require the engagement of the card schemes (such as Visa and MasterCard) as well as merchants. It was not something which the banks and Bacs could deliver alone, as they did not possess the relevant information to make a redirection (Bacs is not involved in processing CPAs, and LBG, as a card issuer, does not have the information regarding the arrangements between the customer and a merchant or payment service provider that is necessary to implement a switch). [LBG response to Remedies Notice](#), paragraphs 10.1–10.3.

⁹ TSB told us that it was open to exploring this remedy with the rest of the industry.

which have around [redacted]% and [redacted]% share of the UK debit card sector in the UK respectively.

- 26 Both MasterCard and Visa told us that the non-transfer of CPAs affected relatively few customers. MasterCard told us that in 2015 recurring transactions represented less than [redacted]% of transactions on its debit cards and credit cards, and Visa referred to industry statistics on UK consumer payments which indicated that in 2014, CPA transactions represented less than [redacted]% of the total recurring payments market. Both card schemes also informed us about the solutions they already had in place – updater services to address many of the perceived issues raised by the non-transfer of CPAs as part of the switching process. For these solutions, [redacted].¹⁰
- 27 The results of our omnibus surveys suggested that including the non-transfer of CPA payments in the switching process would not address a significant issue for consumers. There was a low reported usage of CPAs on debit cards among PCA and BCA holders¹¹ and among PCA holders, who were aware that they had CPAs linked to their debit cards, there was also a low level of awareness that CPAs are not transferred as part of the switching process.¹² According to these results, it is unlikely that the non-transfer of CPAs is a significant issue that prevents many customers from switching.
- 28 Bacs told us that, in practice there were a very small number of CPA transactions and processes were in place to enable a merchant to update its records when cards were replaced, including when an account was switched. Bacs also stated that none of its research or performance monitoring of CASS had identified customer concerns about the switching of CPAs and that it did not believe this issue had a material effect on customer switching behaviour.¹³
- 29 This suggested that contrary to our provisional findings, the non-transfer of CPAs was not a material issue that affected many customers' confidence in the switching process.
- 30 To look at the limitations and adverse impacts associated with the implementation of the automatic transfer of CPAs as part of the switching process we consulted with Visa and MasterCard.

¹⁰ [redacted]

¹¹ In response to 'Do you have any Continuous Payment Authorities linked to you debit card at the moment', 8% of BCA users and 19% of PCA users said yes. See [PCA survey](#), p174 and [SME survey](#), p49.

¹² In response to 'As far as you are aware, are Continuous Payment Authorities automatically transferred as part of the switching process', 30% of PCA users who believe they have CPAs linked to their debit card told us that they were transferred and 22% told us that they were not. The remaining 48% didn't know. See [PCA survey](#), p181.

¹³ [Bacs response to Remedies Notice](#).

- 31 Visa told us that the costs of implementing a solution that would integrate with CASS could be considerable for a number of stakeholders. It would require the construction of a CPA mandates database and that every merchant would be required to send its CPA mandates to the manager of the database which would require new messaging and connections to be put in place and maintained, creating additional costs to merchants relative to the current existing market solutions. It also told us that since our proposed remedy would only apply to the UK it would create an additional cost for cross-border merchants who would want to carry out business in the UK, particularly as enabling retailers to have one single method of payment accepted globally was a key benefit of CPAs for cross-border merchants.
- 32 MasterCard told us that although there were no technical limitations in the automatic transfer of CPAs during the switching process, it would require implementing a process and an interface for sharing information between banks. This was likely to include putting in place a coordinated process between a customer's old and new bank to ensure that a customer's new bank updated MasterCard after a customer had switched accounts.
- 33 Overall, our assessment of this remedy suggests that (a) few customers are likely to be adversely affected by the non-transfer of CPAs, (b) debit card scheme providers already offer a solution for many customers who could be affected, and (c) the likely cost and complexity of building a facility to automatically transfer CPAs as part of the switching process would be considerable.
- 34 Because of these factors, we consider that requiring the implementation of this remedy would not be proportionate. For this reason, we have decided not to pursue this remedy further.

Appendix 15.1: Remedy design considerations – unarranged overdraft alerts

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1. This appendix details our consideration of the following key issues relating to the design of the unarranged overdraft alert remedy:	
(a) The scope of the remedy.	
(b) Key design aspects of the Order:	
(i) the medium of the alert and how automatic enrolment in the alert will work;	
(ii) when the alert should be triggered and sent;	
(iii) the content of the alert, including references to a ‘grace period’ where relevant; and	
(iv) features of the grace period.	
(c) The recommendation to the FCA.	
(d) Relevant legal considerations.	
2. This appendix also provides additional detail of our assessment of the benefits that we expect could derive from unarranged overdraft alerts.	
3. More information about the alerts providers offer, and their grace periods, is set out in Appendix 6.6.	

The design of the remedy

The scope of the remedy

Focus on an unarranged overdraft alert

4. We have decided to limit the scope of our remedy to focus on alerting customers when they attempt to exceed, or exceed, a pre-agreed credit limit.¹ This alert is referred to in this appendix as an ‘unarranged overdraft alert’.²
5. As explained in Section 15, there is evidence that overdraft alerts are effective at helping customers engage with and manage their overdraft usage, and we consider that such measures can materially address the AECs found.
6. It is therefore important that a core overdraft alert capability is implemented in a timely manner. Nevertheless, we recognise the risk of alert fatigue should too many alerts be imposed on customers. Customers may become less responsive to the alerts if there are too many, with the unintended consequence of reducing, rather than increasing, overall engagement. We consider it important that research and testing is carried out to assess further what the overall impact of multiple alerts would be before implementing a more comprehensive alerts remedy.
7. We have therefore decided to make PCA providers subject to an obligation to provide a single type of overdraft alert (see paragraphs 20 to 71) while the FCA undertakes further work to consider the design and implementation of a full set of overdraft engagement measures (see paragraphs 72 to 85).
8. The initial core overdraft alert our Order will mandate is an unarranged overdraft alert. As unarranged borrowing is a product intended for short-term, emergency borrowing, and customers will not typically know in advance if it will be provided, this gives a strong case for ensuring that customers are quickly notified when this borrowing limit has been or is likely to be exceeded.
9. While PwC suggested the required alert should be extended to arranged overdraft use,³ we consider for the reasons set out above that it is more important to focus on quickly alerting customers to unarranged overdraft use.

¹ The pre-agreed credit limit, for the purposes of our remedy, should be deemed to be £0 where a customer does not have an arranged limit.

² Such alerts would include alerts relating to Barclays’ emergency borrowing facility for the reasons set out in Section 15.

³ [PwC response to provisional decision on remedies](#), p2.

However, the use of arranged overdraft alerts alongside this is something the FCA could consider as part of its research and testing.

10. We have not sought to take a prescriptive approach to the implementation of the unarranged overdraft alert. This is to permit PCA providers to continue to tailor the alerts to their specific PCA offer and thereby differentiate themselves. Moreover, this approach provides the FCA flexibility to test different aspects and combinations of alerts, to assess what is more effective and subsequently take a more prescriptive approach, if this is shown to be appropriate.
11. Providers are, of course, free to voluntarily exceed the minimum alerts requirements we have set out ahead of the FCA's further work. Some providers also offer additional support to help customers manage their PCA use.⁴ Nothing in our remedy is intended to constrain such innovation, which we welcome, as aspects on which banks can differentiate themselves and compete.

Focus on informing customers about a grace period

12. The remedy requires an alert if a customer attempts to, or is allowed to, exceed a pre-agreed credit limit. We considered whether the content of the alert should only be required to include references to a grace period or should also extend to the retry periods provided under the retry system described in Appendix 6.6.
13. We note that the two are distinct; as such it is valid to require a grace period independent of any voluntary participation in a retry system.
 - (a) A 'grace period', for the purposes of this remedy, applies when a provider allows a customer to exceed a pre-agreed credit limit. The customer has an opportunity during this period to take action to avoid or reduce the resulting overdraft charges.
 - (b) A retry period applies when a provider attempts to make a payment and finds that the customer has insufficient funds (ie it would be necessary for the customer to exceed a pre-agreed credit limit in order to make the payment). The provider may suspend the decision whether to decline the payment until the end of a retry period, hence allowing customers an opportunity during this period to take action to avoid declined payments.

⁴ An example is Halifax's Balance Extra, which is an online banking feature providing information on the amount of money customers actually have available to them before their next pay day. See [LBG's website](#).

14. We did not consider it necessary to intervene to amend the retry system.
- (a) Firstly, there is no clear reason to do so. As explained above, retry and grace periods are distinct and have different objectives. The retry system also already has a good level of participation and covers nearly all payments that PCA providers have the discretion to retry.
 - (b) Secondly, the FCA, having set up the retry system, is best placed to continue to monitor and work with providers as regards that system and any future developments to it.
 - (c) Finally, whether it would be appropriate to mandate in more detail how messaging for retry periods and grace periods should interact is a complex question that the FCA is best placed to consider, via the programme of testing we have recommended.
15. The majority of respondents to our [Supplemental Remedies Notice](#) were in favour of focusing on grace periods rather than retry periods and no alternative views were presented in response to the provisional decision on remedies.
16. However, we recognise that there are overlaps between grace and retry periods. Where payments are retried, a grace period will only be relevant once the retry period has elapsed (if, at that time, the payment is made, rather than declined, despite insufficient funds). Also, customers operating their PCAs at the boundaries of their arranged limits may find themselves in a position where they could benefit from both retry and grace periods that require them to take action at different times.⁵ We also consider that the grace period would work best alongside a retry period (given the different benefits they offer customers) and would not wish to see any change to the voluntary participation in the retry system. We consider that the flexibility we have allowed providers in designing this remedy will allow both retry and grace periods to effectively co-exist.⁶

⁵ Retry period timings are constrained by the need to ensure that counterparties receive funds on a timely basis – ie the policies and IT constraints of third parties receiving payments and payment schemes enabling these payments, which are outside a provider’s control, must also be taken into account.

⁶ For example, in some circumstances a provider’s existing retry alert might qualify as an unarranged overdraft alert (ie alerting customers to the imminent risk of exceeding a pre-agreed credit limit) for the purposes of our remedy, in cases where unarranged overdraft use is likely to be authorised even if the funds in the account remain insufficient when payment is retried. Furthermore, a grace period will not apply if the payment is declined, or sufficient funds are deposited to allow the payment to be made, when retried following a retry period.

General feedback on the remedy

17. We received strong support from the majority of respondents to our [provisional decision on remedies](#) in favour of alerts (including grace periods) in general.
18. We note that in response to our [Supplemental Remedies Notice](#), some providers suggested this remedy could be substituted by, or was unnecessary given, the rapid innovation occurring in payment services and the increasing control customers have over their account use. While such future innovations (which the PSR has an important role in fostering) may help and are welcome, their development is currently unclear. The promotion of grace periods and related calls to action has already been shown to be effective. We consider it preferable to secure in a timely manner the expected benefits for overdraft users (and indeed wider benefits of increased engagement) via this remedy. In the context of their work in relation to this remedy, and to the extent it is appropriate at the time, the FCA can consider innovations and their impact. Likewise, the CMA can note such developments in the monitoring of its Order.
19. Other responses to our [Supplemental Remedies Notice](#) raised the risk of unintended consequences, as this remedy could reduce competitive differentiation in the market. While we have considered this, and the possibility that the remedy could reduce the gains from switching and hence dampen incentives to switch that could in the long run be detrimental to competition, we consider that:
 - (a) This concern can only be realised if customers are engaging more actively with their accounts by noting their overdraft use and making use of the grace period. In our view, the potential long-run benefits to competition from such greater awareness and engagement are likely to outweigh any such risk of unintended consequences.
 - (b) This remedy has the additional benefit of addressing detriment even where customers do not switch.
 - (c) Providers retain considerable flexibility in implementing this remedy, under the principles-based approach we have adopted in designing the Order, which should promote continued differentiation.

Key design aspects of the Order

20. Our design decisions, as explained in more detail below, are based on the following objectives:

- (a) to ensure a high coverage of overdraft accounts, so that as many customers as possible can quickly benefit from the remedy; and
- (b) to support behavioural change by implementing the alerts in a manner that reasonably facilitates timely receipt and action by those customers who are able to and wish to react to them.

21. However, in designing the remedy we have been mindful to allow some flexibility for providers in advance of the further work we are recommending to the FCA, to avoid unnecessary regulatory duplication. For this reason we have focused on establishing design principles aimed at achieving the desired outcomes.

The medium of the alert into which customers are auto-enrolled, and how auto-enrolment will work

22. To maximise the effectiveness of the remedy, we considered that it was important to require providers to auto-enrol customers into the required alert. As detailed in Appendix 6.6, coverage of alerts is high when there is some form of automatic enrolment, while PCA providers that do not automatically enrol their customers into alerts have much lower take-up of alerts.
23. In response to our [provisional decision on remedies](#), there was broad support for automatically enrolling customers into a core set of overdraft alerts.⁷

The medium of the alert

24. We decided to require the alert into which PCA providers must automatically enrol customers, to be delivered either as a text alert or (where the customer is known to have installed and be using a mobile banking app) a mobile banking app push alert.
25. These media have been selected to maximise the coverage, quality and timeliness of the alerts. Given the high penetration of mobile phones in the UK, the inclusion of text messages should ensure that as many customers as possible can receive the alerts specified;⁸ while the inclusion of mobile apps is intended to encourage (and enable customers to benefit from) improved communications functionality and innovation.⁹ Compared to other means of

⁷ Subject to several points raised regarding the practicalities of auto-enrolment as discussed in paragraph 3.31.

⁸ According to Ofcom [CMR facts & figures 2015](#), 93% of adults in the UK personally own/use a mobile phone whereas 66% of UK adults own/use a smartphone.

⁹ Mobile application push notifications can be particularly effective if they facilitate action. Barclays provided customer research that found that text messages were the most appropriate channel for sharing urgent and personalised account information or when prompt action was required. This research also found that mobile

communication such as postal communications, these also have a higher likelihood of reaching the customer that same day and hence being timely in engaging the customer, as well as sufficiently prominent to draw the customer's attention (as new messages tend to be highlighted to customers).¹⁰

26. This measure has scope to benefit directly most customers, ie those with a mobile phone. The small number of customers without a mobile phone may also benefit indirectly if increased engagement of other customers with their overdraft puts greater pressure on overdraft charges for all customers.
27. Our recommendation to the FCA to conduct further research and testing of measures to increase customers' engagement with their overdraft usage and charges, will mitigate the risk that our selected media become outdated. If more effective means of alerting customers become available, the FCA could consider requiring providers to introduce such measures. To the extent that we do not revoke all of our Order in favour of FCA rules, we would take further alerts innovation into account in any future review of the Order.
28. Santander considered our proposal to require an unarranged overdraft alert to be delivered as text alerts or mobile banking app push alerts to be reasonable.¹¹
29. However, Danske raised a concern¹² that it considered its eBanking service to be a 'payment instrument' for the purposes of PSD and (as PSD was a maximum harmonising directive) it would therefore be unable to auto-enrol customers to its existing alerts given that these were a feature/function of its eBanking service.¹³
30. Danske's point may turn on specific circumstances unique to its business and while we do not immediately see a concern, we consider that this is a matter

application push notifications were perceived as less likely to be urgent than texts but that mobile banking users almost universally switched to push alerts if these could be actioned easily by swiping through to log into mobile banking. It found email to be the least effective of the channels and for most customers it was checked less frequently (daily rather than hourly). The inclusion of mobile banking push apps has the added benefit of allowing the required alerts to keep pace with innovation as mobile banking use increases and apps become more sophisticated.

¹⁰ This contrasts with, for example, email as many individuals already receive a high volume of email communications.

¹¹ [Santander response to provisional decision on remedies](#).

¹² [Danske response to provisional decision on remedies](#), paragraph 5.5.

¹³ We note that Danske's concern had been incorrectly characterised in paragraph 5.85 of our [provisional decision on remedies](#) as a concern about whether an alert would be a payment instrument for the purposes of the PSD.

that could be explored further during the implementation stage of the investigation.

How automatic enrolment in the alert will work

31. Some responses to our [provisional decision on remedies](#) noted practical challenges that would need to be addressed when implementing auto-enrolment.
 - (a) These included how to obtain contact details in sufficient volume and of sufficient quality to effect the remedy while avoiding negative consumer outcomes (for example sending the details to someone other than the account holder), and how to minimise customer disengagement or privacy concerns.¹⁴ Some respondents noted that while they could encourage customers to provide accurate and up-to-date contact details, their success depended on the customer's cooperation and was ultimately outside their control.
 - (b) Other respondents questioned the circumstances in which customers would be able to opt out from the required alert.
32. Under our remedy, all customers will qualify for auto-enrolment, with the exception of:
 - (a) Customers with PCAs that do not charge for exceeding or attempting to exceed an unarranged overdraft limit (such as basic bank accounts), as they face less detriment due to such use. However, banks may choose to auto-enrol such customers, for example for process simplicity or consistency.
 - (b) Customers who had already opted out of an alert that met the minimum requirements of our Order, or had indicated a preference for an equivalent alert via another medium, such as email.
33. For new customers, the default position as part of the account application and opening process will be to receive the mandated alert, although customers can opt out of the alert during this process. More generally, this remedy will allow (new and existing) customers to opt out of the alert at any time.
34. To support the automatic enrolment of alerts, PCA providers will need to ensure that they have their customers' mobile phone numbers. We would generally expect PCA providers to have customers' mobile phone numbers,

¹⁴ See also paragraphs 3.86 to 3.89 regarding the implications of data protection and other relevant law.

for example, in order to report fraudulent activity, and to have policies in place that aim to ensure that customers' contact details are kept up-to-date.

35. Nonetheless, we propose to place some requirements on PCA providers to collect mobile phone numbers. This is to reduce the risk that the remedy will be less effective as a result of fewer customers receiving the alerts. Specifically, we have decided to require PCA providers to collect an account holder's mobile phone number during the account application process and in instances when an account holder updates their contact details. The only exception to this will be when account holders expressly inform the PCA provider that they do not have a mobile phone. RBSG considered such a requirement to be unnecessary as providers are already strongly incentivised to collect customer contact information including mobile numbers where possible.¹⁵ However, data we have collected from providers, and responses to our [provisional decision on remedies](#), suggests that the level of contact information held is variable, we consider it preferable to retain this requirement.
36. We recognise that despite reasonable endeavours to obtain the information necessary to auto-enrol a customer (such as requesting the information at the outset and prompting for updates periodically), a provider will remain dependent on the customer providing timely and accurate information. We confirm that the obligations on providers should be interpreted as being on a best-efforts basis and we will clarify this in the text of the draft Order. We also expect providers to take the necessary steps to assess and remain compliant with data protection and other relevant laws in implementing the remedy, and that they will consider means of doing so which will be in their customers' best interests.

When the alert should be triggered and sent

37. The most effective alerts are those that are received with sufficient time for the recipient to take action. However, the circumstances triggering alerts can vary. Furthermore, the existing capability of providers to trigger alerts at different times and frequencies may vary depending on whether their IT systems are configured to communicate with customers on a real-time basis or only as part of batch processes that run periodically, as well as the combination of alerts they offer.
38. Bearing in mind differences in providers' processes, we are minded not to be unduly prescriptive in immediately mandating the timing and frequency of

¹⁵ [RBSG response to provisional decision on remedies](#), paragraph 8.1b.

such alerts – noting that these parameters could be further explored by the FCA as part of its wider programme of work on overdraft alerts.

39. We are therefore allowing PCA providers some flexibility as to the precise timing of the sending of the alert, subject to giving customers a reasonable opportunity to add funds. We are requiring the alert to be triggered when the PCA provider has information from which it:
- (a) would know that a customer had, at a specific point in time, exceeded a pre-agreed borrowing limit; or
 - (b) is reasonably able to determine that such limits are at significant imminent risk of being exceeded, taking into account information it knows or receives on transactions to be settled for that day (eg scheduled payments such as direct debits).
40. This may vary by type of transaction. We are requiring that:
- (a) For scheduled payments (direct debits, standing orders and future dated payments): an alert should be sent as early in the morning of the day of scheduled payment as reasonably possible. This is intended to fit with the current retry system voluntarily adopted by a number of providers.¹⁶
 - (b) For all other payments:¹⁷ an alert should be sent as soon as reasonably possible, but no later than the day after the alert has been triggered.
41. Santander¹⁸ and Money.co.uk¹⁹ considered the proposed timings of the alerts to be reasonable.
42. As proposed in our [provisional decision on remedies](#), we will also require that the alert should be triggered by or shortly before the commencement of each episode of PCA use in excess of a pre-agreed credit limit²⁰ or attempts to exceed a pre-agreed credit limit. However, so long as at least one alert is sent towards the beginning of each episode, we will not require further alerts to be sent, for example where an episode lasts for multiple days. This approach reflects the widespread concern regarding potential ‘alert fatigue’ which was

¹⁶ Ie, this may make it possible to use an existing retry alert to function as an unarranged overdraft alert for the purpose of this remedy, in cases where unarranged overdraft use is likely to be authorised even if an account has insufficient funds after a payment is retried.

¹⁷ This would include online authorised and offline authorised debit card transactions, as well as all other transactions occurring during the day (such as CPAs, cheques, ATM withdrawals and other customer-initiated payments).

¹⁸ [Santander response to provisional decision on remedies](#), paragraph 8.3.

¹⁹ [Money.co.uk response to provisional decision on remedies](#).

²⁰ An episode is defined as the period from the time a customer’s PCA exceeds a pre-agreed credit limit to the time it is returned within this limit.

raised in responses to our [Supplemental Remedies Notice](#). We consider it would be appropriate for the FCA to test the effect of combined and repeated alerts before mandating any greater frequency of alerts. LBG agreed that alerts should only be sent at the start of each episode, and considered that the frequency of alerts was an aspect that would be worthwhile including in the FCA's programme of work.²¹

43. Paragraph 5.63(b) of our [provisional decision on remedies](#) consulted on an alternative approach whereby a provider is required not to charge for the use of an unarranged overdraft facility where it has not sent at least one unarranged overdraft alert.
44. We received few representations on this proposed alternative.²² However, this alternative requires either that alerts are sent to customers more quickly (ie before charges are applied) or that the system recognises and keeps track of charges applied relative to alerts sent. Given the large volumes of daily transactions banks' systems handle, both these approaches may be relatively costly and complex for providers to implement, even if a provider already offers an alert. We consider the incremental benefit of this more prescriptive alternative, relative to its potential incremental cost, to be insufficiently clear to warrant immediate adoption. We note that the FCA could explore this further as part of its work on increasing customers' engagement with their overdraft usage and charges and, if appropriate, introduce rules for this purpose.
45. Other respondents considered that greater clarity will be necessary prior to implementation of the remedy, for example on when an account could be considered to be in an unarranged overdraft (eg where buffer zones are offered),^{23,24} and when a provider should be deemed 'reasonably able to determine [a] significant risk' of exceeding such limits.²⁵
46. We expect to further clarify such details during the implementation phase and to engage with providers in so doing through appropriate consultation. However, our current view is as follows:
 - (a) On when the alert will apply: we expect the alert to be triggered when the account exceeds, or is at significant imminent risk of exceeding, a pre-agreed credit limit, regardless of any buffer zone that may apply. For example, if a customer had an arranged overdraft with a limit of £1,000 and a £15 unarranged overdraft buffer, we would expect the alert to be

²¹ [LBG response to provisional decision on remedies](#), paragraph 9.4(a)i.

²² For example, Money.co.uk was in favour of it. See [Money.co.uk response to provisional decision on remedies](#).

²³ Buffer zones establish a debit balance within which arranged and/or unarranged overdraft fees do not apply.

²⁴ [BBA response to provisional decision on remedies](#).

²⁵ [Danske response to provisional decision on remedies](#), paragraph 5.10.

triggered relative to a debit balance of £1,000. However, some consideration may need to be given to noting only a risk of charges in such instances.

- (b) On assessing significant risk: it will be for each individual provider to determine a reasonable approach based on how its systems operate. However, providers could voluntarily choose to amend their operating processes to further enhance the effectiveness of the alerts.

Content of the alert

- 47. We have decided to require providers to ensure that the alert communicates that:
 - (a) the customer has exceeded, or is at significant imminent risk of exceeding, a pre-agreed credit limit, and could incur associated charges; and
 - (b) (where relevant)²⁶ the customer has a grace period during which they have an opportunity to take action to avoid or reduce charges.²⁷ The alert must inform customers of the time by which they should take such action.
- 48. We did not receive any objections to this proposal in our [provisional decision on remedies](#), and have therefore decided to proceed with it.

Grace periods

- 49. To strengthen the impact of the alert, we are requiring that it includes reference to a grace period during which customers, by adding sufficient funds to their account, can reduce or avoid charges relating to the use of funds in excess of a pre-agreed credit limit.
- 50. Providers will therefore need to continue to operate grace periods so that customers can benefit from them as part of the unarranged overdraft alert we are requiring. Operationally, this means that charges relating to the use of an unarranged overdraft will not be assessed until the end of the grace period.
- 51. The main aspects by which grace periods can vary relate to:
 - (a) the types of transactions and charges covered; and

²⁶ Eg where a customer has exceeded a pre-agreed credit limit, or the provider anticipates permitting scheduled payments that will cause the account to exceed a pre-agreed credit limit.

²⁷ Including specific charges would be compatible with this measure but would not be a specific requirement.

(b) the timings of the grace period:

- (i) the time from when charges are assessed (the operated or 'systems' timings,²⁸ as set up in the providers' systems); and
- (ii) the time by which customers are told they should act to benefit from a grace period (the 'communicated time').

52. The following paragraphs consider each of the above in more detail.

Types of transactions and charges covered

53. We considered the types of transactions and charges to which a mandated grace period will apply. For example, we considered whether arranged and/or unarranged overdraft charges should be included, and the implications for paid item fees.

54. In our [provisional decision on remedies](#) we proposed a grace period targeted specifically at unarranged overdraft usage.²⁹ We proposed that the grace period should comprehensively address all charges related to such use, across all transaction types. LBG and RBSG were both supportive of this proposal.³⁰ We did not receive any responses opposed to this proposal, and we consider that a comprehensive approach is likely to maximise the effectiveness of this remedy by increasing the incentives for customers to act.

55. Accordingly, we have decided to require the grace period to cover:

(a) All transactions not declined by the PCA provider, of any type, that result in a PCA exceeding a pre-agreed credit limit. This would include standing orders, direct debits, future dated payments, debit card transactions including CPAs, ATM withdrawals, cheques, and other payments originated through branch, telephone, online or mobile banking.

(b) All charges relating to exceeding a pre-agreed credit limit.³¹ This would include (where applied by a provider) paid item fees, daily or monthly

²⁸ The discussion of the appropriateness and calibration of systems timings in this appendix are only for the purpose of discussion of this grace period remedy. It is 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.

²⁹ While we welcome PCA providers offering a grace period for arranged overdraft charges, there are fewer reasons to mandate this as part of our remedies package.

³⁰ [LBG response to provisional decision on remedies](#), paragraph 10.3. [RBSG response to provisional decision on remedies](#), paragraph 9.1.

³¹ There are, potentially, some additional technical complexities in relation to how this remedy would affect the charges applied. In particular, providers may take different approaches to customers who only partially re-credit their account (ie only reduce, and hence still remain in, unarranged overdraft). For example, providers may differ

fees, debit interest and/or any other charges relating to the above circumstances.

56. For clarification, charges relating to a provider declining to offer funds in excess of a pre-agreed credit limit (ie unpaid item fees) are covered by existing voluntary retry periods and will therefore not be covered by this grace period remedy.

Grace period timings

- *Systems (operational) timings*

57. In our [provisional decision on remedies](#) we consulted on the length of time of the grace period providers would be required to offer in order to comply with our proposed remedy. We considered requiring that the grace period be operated on a daily basis (intra-day); for a longer period (inter-day) or be set relative to the time a transaction was processed (floating).
58. In our [provisional decision on remedies](#) we favoured an intra-day grace period and proposed that the time in a provider's system at which the grace period ends be no earlier than 5pm:
- (a) Allowing charges to apply the same day would promote rapid action by customers, maintain a sense of urgency and responsibility for their account position, and avoid undue system complexity/disruption in deferring charges beyond a day or tracking them against transactions.
 - (b) To limit operational disruptions given that grace period systems timings tend to be linked to other significant 'end-of-day' back-office processes, 5pm was selected as being a time generally compatible with existing systems (see Table 3 in Appendix 6.6).

- *Communicated timings*

59. Notifying customers of the time by which they can take action to avoid or reduce charges is important to encourage customers to act upon receiving the

in terms of the order in which they process the topped-up funds, or stipulate that customers would only benefit from the grace period if the account is fully re-credited by the end of the grace period. This may affect the extent to which charges can be avoided. However, we do not propose to seek to prescribe any of the above. For the remedy to be effective, it is sufficient that customers have a clear and simple opportunity to avoid charges. The most effective outcome would be for customers to be able to avoid charges altogether by bringing the account fully out of unarranged overdraft. The above assumes that such variations are not symptomatic of PCA providers systematically misusing transaction processing policies to treat customers unfairly. We have not seen evidence of this. However, if there were such evidence it would clearly be a matter that falls within the FCA's supervisory remit.

alert. The longer the time customers have to react, the more opportunity they will have to do so (particularly if this time extends beyond standard working hours, after which more customers may be able to readily access digital banking). However, too long a duration (for example over more than one day) could also reduce the urgency to act.

60. Providers currently take different approaches in communicating to customers by when they should take action to avoid or reduce overdraft charges:
 - (a) Some use the time by which additional funds can be guaranteed to reach a customer's account that day, across the range of platforms through which the customer can sufficiently quickly deposit funds for same-day use, for example in-branch or via Faster Payments. These times will vary by provider depending on their operational processes and IT capabilities.
 - (b) Some communicate grace period timings that are consistent with those they give customers as part of their retry systems. One reason they may do so is to seek to avoid potential confusion for customers by maintaining consistency of communication both in circumstances triggering retry periods and in circumstances triggering grace periods. Other providers communicate different times in these different circumstances.
 - (c) Others communicate an earlier grace period than allowed by their systems, to allow contingency in case of processing delays/issues and for attempted 'last-minute' transfers.
 - (d) Some providers may communicate different times for more immediate alerting purposes compared to their terms and conditions.
61. All of these decisions may be affected by the legislative framework governing payment services, and the complexity of the range of alerts offered by a provider as well as the frequency of such alerts. For these reasons, we observe a range of communicated timings in practice as set out in Appendix 6.6.
62. Our [provisional decision on remedies](#) consulted on communicated timings aimed at allowing customers some reasonable opportunity to add funds to their account to reduce or avoid unarranged overdraft charges, but no earlier than a specific time. 2pm was proposed as a minimum time as this would align with minimum retry period times, so that PCA providers could send unarranged overdraft alerts that support and fit well with their retry systems.
63. Our [provisional decision on remedies](#) also consulted on whether an alternative, more prescriptive approach (such as requiring communicated timings no less than one hour before the provider's actual grace period

(systems) timings) would be more appropriate either in all or specific circumstances (for example in cases where unarranged overdraft use is expected to be authorised, so that any overlaps with a retry period are minimised). We sought views on this alternative approach as we considered that seeking to maximise the length of time customers were notified would be transparent and beneficial to customers.

- *Responses and decision on timings*

64. We did not receive any views opposed to our proposal to operate grace periods ending no earlier than 5pm, although Money.co.uk suggested that those customers without online banking or contact details on file should be allowed a longer grace period. This would allow such customers sufficient time to respond to letters or calls.³² While we can understand the rationale for this, we consider such exceptions unnecessary and likely to be disproportionately costly to implement for limited incremental benefit, given the high proportion of customers who have mobile phones and could therefore already benefit from this remedy.
65. More generally, in regard to the communicated timings of grace periods (and the design of alerts generally) providers were supportive of allowing flexibility and differentiation, emphasising the complexity and multiplicity of:
- (a) possible circumstances triggering an alert (with the mix and number of applicable charges depending on how customers use their PCAs); and
 - (b) customer actions in response to an alert (with customers able to use different methods of depositing funds that may be processed differently by different providers).
66. Given this, LBG and TSB felt that it was unclear how customers would respond to a more specific requirement on communicated timings,³³ and so any such requirement would benefit from testing and should therefore be subject to the FCA's further work. RBSG felt that a minimum mandated communicated time was acceptable but a more prescriptive approach was unnecessary.³⁴ Nationwide and Santander noted the desirability of keeping messages simple and clear. Nationwide felt that consistency of messaging was an important aspect of this, considering that it could confuse customers and risk poor customer outcomes should communicated timings vary in different circumstances – for example, depending on whether a retry period

³² [Money.co.uk response to provisional decision on remedies](#).

³³ Such as described in paragraph 3.62.

³⁴ [RBSG response to provisional decision on remedies](#), paragraph 9.1.

with a different deadline also applies. Santander considered that requiring banks to communicate different periods in respect of paid/unpaid item fees and daily overdraft fees would not be appropriate, as this would risk confusing customers (for example, if a customer received both types of alert in one day), thus reducing the efficacy of the grace period and resulting in poor consumer outcomes. However, HSBCG believed it unlikely that varying calls to action would lead to customer confusion and considered that it was transparent to disclose the maximum time available to customers.

67. LBG considered that unduly restricting the timings of when alerts were sent and of the grace period communicated, risked restricting innovation in this area as, given the above complexity, there was no one-size-fits-all rule that that would work for all situations and customers. LBG further noted that technology and innovation were rapidly changing alerts offerings. LBG recommended a principles-based approach instead, to focus on the desired outcomes in a more flexible way. Similarly, Barclays suggested that an alerts remedy should focus on achieving the desired customer outcomes without being overly prescriptive on the specific form or content.³⁵
68. Having reflected on these representations, alongside current industry practice, we noted the risk of tension, on a matter that is inherently complex, between communication principles of simplicity, clarity, fairness and accuracy across a range of circumstances and within the constraints of short text messages. We also considered that stipulating a minimum operating or communicated time might incorrectly be interpreted as endorsing, normalising or validating the use of this minimum, reducing providers' own accountability for communicating a time appropriate to the prevailing circumstance and resulting in suboptimal customer outcomes. This is particularly the case given the variation in industry practice observed, with grace periods operating from 4.30pm to 11.45pm, variation in communicated times, and changes in technology. In this context, setting conditions that might inadvertently encourage a 'lowest common denominator' approach, might not be robust to future changes that could benefit customers, or may conflict with other regulatory requirements (in particular, the legislative framework governing the provision of payment services).
69. Taking the above into account, we consider that in advance of the further research on alerts that we are recommending to the FCA, rather than seeking to navigate a complex area by introducing design requirements which could inadvertently limit customer outcomes, it would be more effective (and better

³⁵ [Barclays response to provisional decision on remedies](#), paragraph 10.2.

allow for future changes) to rely on a principles-based approach focusing on desired customer outcomes.

70. We have therefore decided that the timing of the grace period will be determined by individual PCA providers,³⁶ subject to ensuring that the time by which the alert is sent³⁷ and the time communicated for action must:
- (a) allow customers a reasonable opportunity to take action to avoid or reduce charges and, in any event;
 - (b) meet the continuing obligations of providers to ensure their communications are fair, clear and not misleading in compliance with FCA rules³⁸ and consumer law;³⁹ and
 - (c) be compatible with their contractual terms and conditions, and regulatory requirements governing the provision of payment services, in respect of the timing at which fees and charges accrue.
71. To maximise the benefits to customers resulting from our alerts including making them aware of grace periods, we are also recommending the FCA considers grace period timings as part of the further work that we have asked it to undertake to enhance customer awareness and engagement with their overdraft usage and charges.⁴⁰ We discuss our recommendation to the FCA below.

The CMA's recommendation to the FCA

72. The aim of this remedy is to use alerts to increase overdraft customers' engagement with their overdraft usage. As explained in paragraphs 5 and 6, the high potential benefits of such alerts make it a priority to rapidly effect a certain minimum level of good practice by requiring providers to introduce a core unarranged overdraft alert. However, because such measures involve behavioural change, we consider it important that beyond this core alert, research and testing are used to determine what other measures are appropriate. This might potentially include FCA rules in relation to overdraft

³⁶ In so doing, they will have to take into account other legal obligations that exist for debit interest under the Payment Services Regulations. This remedy does not negate PCA providers' obligations under those, or any other, regulations.

³⁷ We consider that the requirements on the timing of when alerts are sent are consistent with the principles in this paragraph.

³⁸ See CONC 3.3.1R.

³⁹ Relevant consumer law includes the Consumer Protection from Unfair Trading Regulations 2008.

⁴⁰ [Money.co.uk response to provisional decision on remedies](#), paragraph 5.128, is supportive of a flexible approach but suggests an independent review six months after implementation. We do not consider this necessary – as outlined in this paragraph, the FCA could look at grace period timings as part of the programme of work we have recommended to it.

alerts which could take the place of the unarranged overdraft alert we are requiring by Order.

73. We consider that the FCA is best placed to undertake this research for the same reasons set out in relation to its role in our prompts remedy in Section 13. In particular, it has experience of conducting RCTs, which could be an effective way of testing the impact of different types and design of overdraft alert.
74. Alongside our Order implementing an unarranged overdraft alert, we are therefore recommending to the FCA that it identifies, researches, tests and, as appropriate, implements measures to increase overdraft customers' engagement with their overdraft usage and charges.
75. Respondents to our [Supplemental Remedies Notice](#) generally agreed that the design of the alerts should be subject to behavioural research and testing and that the FCA was the appropriate entity to take this forward. Respondents to our [provisional decision on remedies](#) were also generally supportive of the recommendation.
76. The FCA's research could result in the introduction of rules implementing an enhanced version of the unarranged overdraft alert we are requiring (for example enhancements to its medium, content, timeliness, frequency or auto-enrolment policies) or requirements to extend the set of alerts offered. It could also result in enhancements to the grace periods providers operate, and the grace period timings communicated to customers. Our Order could be removed in favour of alerts required by FCA rules, to avoid any regulatory duplication.
77. The precise programme of research would be for the FCA to determine. We set out below some elements that may be useful for the FCA to consider as part of its work programme, reflecting on the responses we received to our [Supplemental Remedies Notice](#) and our [provisional decision on remedies](#).

Overdraft alerts

78. We recommend that the FCA could consider, for example:
 - (a) The medium, content, timeliness and frequency of the alerts, and providers' auto-enrolment policies. For example, in response to the possibility of including charge information in the alerts as suggested in our [Supplemental Remedies Notice](#) some respondents noted alternative obligations addressing such information. In response to our [provisional](#)

[decision on remedies](#), LBG⁴¹ and Money.co.uk⁴² agreed that charges should not be incurred until an alert had been sent. LBG⁴³ also considered that further research on the frequency of alerts would be worthwhile. These are areas of possible enhancements that the FCA could explore as part of its research and testing.

- (b) As part of the content of the alerts, the FCA could also explore the communications and operations of providers' grace periods. For example, the FCA could consider how to enhance such communications, including the timings of the grace period communicated. The FCA could take into account how alerts for this purpose may interact with retry alerts, and consider whether the underlying system timings are appropriate. The FCA could then, if appropriate, introduce measures to enhance the impact of how PCA providers' grace periods are operated and/or communicated.
- (c) What set of alerts customers should be automatically enrolled into by PCA providers. While generally supportive of using overdraft alerts to increase the engagement of customers with their overdraft usage, respondents to our [Supplemental Remedies Notice](#) raised the issue that if customers received too many alerts it could reduce engagement. This is an area that the FCA could explore as part of its research and testing.

79. In doing this further research and testing, we recommend that the FCA seeks to identify alerts which result in:

- (a) increased awareness and understanding of overdraft usage and charges;
- (b) increased willingness of customers to manage their overdraft use with a view to reducing charges; and
- (c) behavioural change: for example, changes to overdraft usage and charges incurred by customers (such as charges avoided as a result of the alerts).

Industry terminology, including available funds

80. As part of its work programme we recommend that the FCA considers the terminology used by providers when communicating with customers about overdrafts, specifically the definition of available funds.

⁴¹ [LBG response to provisional decision on remedies](#).

⁴² [Money.co.uk response to provisional decision on remedies](#).

⁴³ [LBG response to provisional decision on remedies](#).

81. In Section 6, we noted that qualitative consumer research commissioned by the FCA found that there was a widespread perception that, as long as customers remained within the agreed limit, then the overdraft was free, with little or no understanding of interest being charged on any balance.⁴⁴ This research also found that overdrafts were rarely seen as debt among consumers and found that this was driven in part by the way providers often included the overdraft in 'available funds'.⁴⁵
82. Responses to our [Supplemental Remedies Notice](#) generally noted that it could be useful to clarify further whether an overdraft was included in available funds. In response to our [provisional decision on remedies](#), Barclays⁴⁶ considered it should not be included.
83. We consider that it would be useful for the FCA to assess how to articulate the available funds to customers, in particular whether this is inclusive or exclusive of an arranged overdraft. This is due to the risk that the effectiveness of overdraft alerts could be undermined if customers do not have sufficient clarity about what funds are available to use without incurring charges and due to the scope for the articulation of available funds to influence customer behaviour.⁴⁷
84. The FCA is well placed to undertake this work, having conducted a similar exercise in proposing standardised terms for PAD, and in its role as the regulator of suppliers of consumer credit.
85. Finally, respondents to our [Supplemental Remedies Notice](#) generally supported a review of terminology relating to retry and grace periods. We consider that the FCA would be best suited to undertake this as part of any testing it carries out in relation to overdraft alerts, and in monitoring the retry system. However, we do not consider this warrants a formal recommendation to the FCA.

⁴⁴ FCA (7 April 2014), [Consumer Credit Qualitative Research: Credit Cards & Unauthorised Overdrafts](#), p20.

⁴⁵ *ibid*, p11.

⁴⁶ [Barclays response to provisional decision on remedies](#), paragraph 10.4.

⁴⁷ For example, how actively they manage their account. One possible research question is whether making the available funds negative when a customer is in an arranged overdraft may lead to increased engagement with their overdraft usage.

The relevant law

86. The remedy design and implementation must comply with legal requirements.⁴⁸ Among these, we consider the following to be particularly relevant to this remedy:
- (a) Data protection legislation: Communications with customers must comply with the regulation of direct marketing provided for in the [Data Protection Act 1998 \(DPA\)](#)⁴⁹ and [Privacy and Electronic Communications \(EC Directive\) Regulations 2003 \(PECR\)](#). In particular, Regulation 22(2) of PECR prohibits the sending of direct marketing by electronic mail, which includes text messages, unless the recipient has provided opt-in consent or the requirements of Regulation 22(3) are met.⁵⁰
 - (b) The EU Consumer Credit Directive (CCD): Article 18 of the CCD is the material provision applying to ‘overrunning’, which we consider to include unarranged overdrafts.⁵¹
 - (c) The EU Payment Services Directive (PSD)⁵² implemented by the Payment Services Regulations 2009.⁵³ In particular:
 - (i) Article 46 of the PSD⁵⁴ concerns the provision of advance information at a payer’s request on the maximum execution time and charges payable by the payer for a specific payment transaction.
 - (ii) Article 47 of the PSD⁵⁵ concerns the information to be provided after the execution of individual payment transactions. This is not so

⁴⁸ See Section 3 and Appendix 3.1. It is likely that the European laws relevant to this report will continue to apply in a broadly similar way for at least two years. Many of the relevant European laws have been transposed into UK law and would not be automatically repealed on the UK leaving the EU, although the maximum harmonisation obligations imposed on the UK in the context of directives such as the Payment Services Directives could potentially be more immediately affected.

⁴⁹ Section 11 of the [DPA](#) defines direct marketing as ‘the communication (by whatever means) of any advertising or marketing material which is directed to particular individuals’. The ICO has also published [guidance on direct marketing](#) in which it sets out its application to not-for-profit organisations, which explains that the definition of direct marketing extends beyond commercial marketing and includes ‘the promotion of an organisation’s aims and ideals’.

⁵⁰ This allows for opt-out consent at the time of providing the details and at each subsequent communication if contact details are obtained in the course of the sale or negotiations for the sale of a product or service and the direct marketing is in respect of the provider’s similar products and services.

⁵¹ Our analysis is not materially affected where banks’ provision of unarranged overdrafts falls outside the definition of ‘overrunning’ and fall to be an overdraft facility regulated principally by Article 12 of CCD. See Articles 2 and 3 of CCD.

⁵² As set out in the prompts remedy in Section 13, PSD will be replaced by PSD2 once it has been implemented, the deadline for which is January 2018. None of the legal analysis turns on whether PSD or PSD2 applies and so for convenience references are only made to PSD.

⁵³ See also [The FCA’s role under the Payment Services Regulations 2009](#).

⁵⁴ See Regulation 44 of the Payment Services Regulations 2009.

⁵⁵ See Regulation 45 of the Payment Services Regulations 2009.

broad as to capture a requirement for an alert which does not provide information as to the nature of the individual payment transaction but rather the impending or actual use of an unarranged overdraft.

(iii) Section 2 of Chapter 3 of PSD⁵⁶ concerns the execution times and value dating of payment transactions. The implementation of this directive imposes obligations on banks in relation to these matters which, as with banks' other regulatory requirements, are unaffected by this remedy.

(d) The EU Payment Accounts Directive (PAD), which is expected to standardise terminology for common fees and charges, potentially including overdraft fees and charges.

87. We do not consider the unarranged overdraft alert we are requiring to fall into the definition of direct marketing, or in the scope of the CCD or PSD. Except for a concern raised by Danske in relation to auto-enrolment of customers (see paragraph 29), we did not receive representations to the contrary in response to our [provisional decision on remedies](#).
88. We will continue to consider the implications of the DPA, PECR, CCD, PSD and PAD in setting out our final Order. However, given our views on their scope as set out in paragraph 87, we do not anticipate any relevant legal issues. This is particularly the case as we are adopting a principles-based approach in our design of the Order. We expect PCA providers to use the flexibility allowed by this approach to ensure that they comply with the appropriate legal requirements when implementing the Order. For data protection legislation for example, this may involve amendments to their terms and conditions in relation to data protection and avoiding use of personal identifiers in text alerts. We do not consider that these considerations will act as a significant obstacle to the effective implementation of this remedy.
89. It will be for the FCA to take into account, as appropriate, the implications of the DPA and PECR and the scope of CCD, PSD and PAD, or any other relevant legislation, when carrying out the programme of work we have recommended. This is particularly the case when considering use of its rule-making powers to mandate additional information, such as previous overdraft usage and actual charges, to be included in alerts. Depending on the nature of the alerts it may wish to implement, the FCA may therefore

⁵⁶ See Regulations 69–73 of the Payment Services Regulations 2009.

need to adopt a variety of approaches to implementation including seeking voluntary agreement from PCA providers.

The potential benefits of the remedy

90. The following paragraphs describe how we estimated potential benefits to PCA customers from avoiding unarranged overdraft charges as a result of our overdraft alert remedy. We conclude by explaining why we consider these estimates to be conservative and why the overall benefits will be much higher.
91. There is evidence that alerts have a material impact on the incidence of unarranged overdraft charges. An FCA study⁵⁷ found that signing up to text alerts⁵⁸ reduced average monthly unarranged overdraft charges by 6% (£0.22). This estimate represents average gains across the active PCAs that are eligible for an unarranged overdraft. Given that the majority of PCA holders do not make use of unarranged overdrafts, the average gains are relatively small, but we would expect higher gains for those who do use unarranged overdrafts.
92. The FCA's findings are in line with PCA provider research pointing to alerts having a marked effect on customer behaviour and incurred overdraft charges:
 - As a result of an RCT run in 2015 by LBG, LBG found that automatic enrolment to near- and over-limit text alerts led to an average reduction of 6% ([£0.25–£0.75]) in monthly unarranged charges. It also found that the top 20% of overdraft fee payers saved on average 5% ([£1–£1.50]) per month in unarranged charges.⁵⁹
 - HSBCG provided evidence that the impact of automatically enrolling its customers to unarranged overdraft text messages had been very significant: it found the number of customers transferring funds on the first

⁵⁷ See FCA (March 2015), *Occasional Paper No. 10: Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour*. We only report results for Bank A.

⁵⁸ Results refer to any type of text alerts including regular balance alerts as well as alerts sent upon automatic triggers.

⁵⁹ See [LBG Trials Report](#), slide 42. The results of the FCA and LBG studies are not directly comparable because, among other reasons, (a) the FCA report evaluates the average impact of signing up to alerts whereas the LBG trial evaluates the impact of automatic enrolment to text alerts on monthly unarranged overdraft charges; (b) the FCA study assesses the impact of signing up to any type of text alert whereas the LBG study assesses the impact of near-limit and over-limit unarranged overdraft alerts; and (c) different sample selection – the FCA study takes into account only active PCAs that are eligible for unarranged overdraft whereas the LBG study restricts the sample to unarranged overdraft users (have been in unarranged overdraft at least once in the last three months) but not in the previous month.

day they went over their arranged limit increased from 16 to over 50% for HSBC and from 32 to 74% for first direct.

- [redacted]⁶⁰

93. Our estimated potential savings from avoiding charges as a result of the overdraft alerts remedy is based on reducing the £1.2 billion of annual unarranged overdraft charges in total in the UK⁶¹ by 6% (in line with the results of the FCA study and LBG trials noted above). However, we made some adjustments to take into account that some customers are already enrolled in overdraft alerts, some customers do not have mobile phones, and that some customers might opt out of the alerts:
- (a) Using data from PCA providers, we estimated that around 45% of PCAs are already set up to receive at least one type of alert. The detailed calculations are set out in Table 1.
 - (b) We estimated that the proportion of PCAs enrolled in alerts could increase by 48 percentage points to a maximum of 93%, the proportion of the UK population that own a mobile phone.⁶²
 - (c) We then estimated the number of newly enrolled customers (as the result of our remedy) that would subsequently opt out of the alerts. We used an opt-out rate of 10% based on the alert coverage rate for PCA providers that do automatically enrol their customers into at least one type of text alerts and a 7% opt-out rate found in the LBG trial.
 - (d) Combining (b) and (c) above, we estimated that, approximately, an additional 43% of PCA customers would be enrolled into alerts following our remedies.
94. Taking into account in this way the number of additional customers that would be enrolled into overdraft alerts as a result of our remedy, we estimated it would lead to customer benefits of approximately £35 million per year (assuming no customers opt out of the alerts) or £31 million (assuming a 10% opt out rate of newly enrolled customers as noted in paragraph 93).
95. These results give indicative and conservative estimates of the magnitude of the direct benefits of the alerts. While there are a number of caveats, we do not consider them to be an issue for the purposes of giving an indicative estimate. For instance, customers that deliberately sign up for alerts may be

⁶⁰ [redacted]

⁶¹ This is based on CMA calculations on data submitted by parties in response to information requests.

⁶² Ofcom, [CMR facts & figures 2015](#).

different from customers that are automatically enrolled, which could mean that the use of the 6% reduction in unarranged overdraft charges found by the FCA results in an overestimate of the impact of alerts. However, the results of the 2015 LBG trial (which assessed the impact of automatic enrolment) suggests that this is not a significant issue as it also found a 6% reduction in unarranged overdraft charges.

96. The overall benefits of the alerts remedy are likely to be significantly higher than our conservative and indicative estimates, in particular for the following reasons:
- (a) They do not take into account the larger impact of signing up to alerts when a customer is already using mobile banking. Given that many PCA customers already use mobile banking, and that usage will continue to grow, the overall benefits of alerts are likely to be significantly higher. The FCA study found that customers signing up to mobile banking alone reduces unarranged overdraft charges by 8%. If customers also signed up to text alerts, the FCA found the total reduction in these charges to be 24%. This suggests that the effect of signing up to text alerts on customers already using mobile banking would be a 16% reduction (ie on top of the 8% reduction from mobile banking there is a further 16% reduction from introducing alerts for these customers, leading to a combined reduction of 24%). This is much higher than the 6% reduction we have used in our estimates.
 - (b) We have assumed that benefits will only accrue to those PCA customers that are currently not enrolled to receive any type of alert. However, other customers may also benefit from our remedy, for instance if they are already enrolled in an alert but not an unarranged overdraft alert. Our remedy will also ensure that customers are aware that they have a grace period to avoid or reduce charges.
 - (c) Our indicative estimates do not take into account the wider benefits from alerts including how they increase the constraints on unarranged overdraft charges and how they contribute to higher engagement of customers with their choice of PCA.

Table 1: Existing coverage of alerts

<i>PCA provider</i>	<i>Alert coverage ^[1] (%)</i>	<i>Number of active accounts at year end (2015)</i>	<i>Number of customers enrolled ^[2]</i>	<i>Number of customers not enrolled for alerts ^[3]</i>
AIB	[X]	[X]	[X]	[X]
Bol	[X]	[X]	[X]	[X]
Ulster	[X]	[X]	[X]	[X]
BoS	[X]	[X]	[X]	[X]
Barclays	[X]	[X]	[X]	[X]
Clydesdale	[X]	[X]	[X]	[X]
Co-op Bank	[X]	[X]	[X]	[X]
Danske	[X]	[X]	[X]	[X]
first direct	[X]	[X]	[X]	[X]
HSBC	[X]	[X]	[X]	[X]
Halifax	[X]	[X]	[X]	[X]
Lloyds	[X]	[X]	[X]	[X]
Nationwide	[X]	[X]	[X]	[X]
RBS & NatWest	[X]	[X]	[X]	[X]
Santander	[X]	[X]	[X]	[X]
TSB	[X]	[X]	[X]	[X]
Total	45 ^[4]	70,336,858	31,628,691	38,708,167

Source: CMA calculations and parties' responses to CMA's information requests.

Notes:

^[1] % of customers signed up to receive any type of alert; customers may refer to customers or PCAs and in some cases relate only to those that are active. For the purposes of this analysis, we do not distinguish between these definitions and simplify the analysis by treating each customer as having one PCA.

^[2] # of customers enrolled = # of active accounts × % of customers enrolled

^[3] # of customers not enrolled for alerts = #of accounts – # of customers enrolled

^[4] total avg alert coverage rate (%) = $\frac{\text{\# of accounts enrolled to some type of text alert}}{\text{\# of active accounts}}$

Some parties did not provide an overall rate but coverage per type of alert in which case we have used an average on the basis of this information. In addition to that, our PCA-level data is restricted to main parties whereas unarranged overdraft charges reflect the total PCA market.

Appendix 15.2: Remedy design considerations – monthly maximum charge

1. In this appendix we explain:
 - (a) how the design of the remedy reduces the scope for potential unintended consequences;
 - (b) why we are giving PCA providers the flexibility to set different MMCs for different PCA products;
 - (c) why we have chosen a monthly period over which the total maximum charge should apply;
 - (d) what charges will be covered by the MMC; and
 - (e) our proposals on the communication and prominence of the MMC.

Designing the remedy to reduce the scope for potential unintended consequences

2. In designing the remedy we sought to ensure that in remedying one aspect of the AEC we did not cause additional detriment or distortions, which we refer to as ‘unintended consequences’.
3. The risks that we and parties identified primarily relate to the potential to distort the supply of overdraft facilities and the potential to distort customer behaviour. Having taken into account the responses to our [Supplemental Remedies Notice](#) and our [provisional decision on remedies](#), and the scale of the detriment we have identified, we think that the risk of unintended consequences of requiring PCA providers to set MMCs is low and unlikely to outweigh the potential benefits.

PCA providers’ willingness to lend

4. We considered the potential concerns that an MMC might reduce PCA providers’ willingness to offer unarranged overdraft facilities to customers and/or affect the amount and type of lending offered. We do not consider these to be significant concerns, due to the flexibility that PCA providers will retain over their overdraft offers. PCA providers will be able to offer higher arranged limits and select an MMC to balance the benefits of being able to communicate a more attractive MMC, against the unarranged lending they provide. As explained in paragraphs 15 and 16, we have also decided that PCA providers are able to set different MMCs for different PCA products to reflect different customer preferences. The MMCs can also form part of a PCA

provider's responsible lending policy. Providers could consider whether it is responsible to extend further unarranged lending to customers that reach the MMC limit.

5. To explore the risk that an MMC may distort the unarranged lending offered, we asked seven PCA providers¹ to describe whether their existing caps on some or all unarranged overdraft charges changed the unarranged lending they offered. None of them said that the caps had changed what unarranged lending they offered either at all or in any material way.
6. The evidence provided by the seven PCA providers is consistent with our view that the risk of an MMC distorting the lending on offer is low.
7. Further, to the extent that unarranged lending is intended to be on a short-term emergency basis, some constraint on the amount of unarranged lending offered by PCA providers is not necessarily of concern. This is particularly the case where the balance of overdraft lending is shifted to arranged overdrafts and is in line with responsible lending requirements.²

Distorting customer choice

8. Requiring PCA providers to set MMCs has the potential risk that if there is undue focus on MMCs, some customers may choose a PCA that is less suitable for their overdraft needs. For example, lighter overdraft users may choose a PCA with a low MMC but which is actually more expensive for them based on their lighter usage. This may be exacerbated if PCA providers design overdraft tariffs that exploit this type of customer behaviour (such as high daily charges relative to the MMC). Alternatively, providers might offer low MMCs but in return provide very limited unarranged lending.
9. We consider that these types of risk are low.³ The other elements of our remedies package will mitigate the risk that customers make poor choices. In particular, our measures to facilitate comparison services that draw on a customer's previous account usage can help customers, such as lighter overdraft users, choose an account based on their usage. Our decision to recommend to the FCA to review the ongoing effectiveness of the MMC and consider whether measures could be taken to further enhance its

¹ The six largest providers of PCAs in GB (Barclays, HSBCG, LBG, Nationwide, RBSG and Santander) and Danske.

² For example, assisting customers in financial difficulties to consider the credit options most suitable for their circumstances.

³ For this reason we do not consider there is particular merit in LBG's suggestion to us of requiring PCA provider's to publish the 95th percentile of the actual highest monthly fee paid. While LBG argued that this reduced incentives for PCA providers to increase average unarranged charges (even if they lowered the MMC), it would be more complicated for a customer to understand what a 95th percentile is compared to a maximum. It would also not prevent PCA providers from charging some customers in excess of this 95th percentile.

effectiveness will further mitigate the risk that MMCs are given undue attention in the medium to long term.⁴

Potential rebalancing of charges

10. The introduction of an MMC might have the effect of reducing the revenues to PCA providers, and corresponding contribution to their overall profits, from unarranged overdrafts. To the extent this occurs, this could result in pressure on providers to increase charges on other aspects of their PCA proposition to compensate. While this may occur, we would expect any such rebalancing of charges to be limited and incomplete.
11. Our AEC analysis in Section 6 indicates that competitive pressure is weakest for the heaviest users of unarranged overdrafts. The implication of this is that other customers will be more price sensitive. Given this, PCA providers will be less able to pass on any fully compensating increase in charges to these customers without risking losing business.
12. Our other proposed measures will increase the price sensitivity of these other customers, as comparing PCAs and switching will be easier. This will further reduce the ability of providers to increase charges.
13. Therefore, to the extent there is a rebalancing of charges between customer groups, we would expect this to be, at most, partial, such that the overall impact of the MMC on PCA customers will be beneficial.

Increased customer usage of unarranged overdrafts

14. It is possible that some customers may feel protected by an MMC, which could lead to increased unarranged overdraft usage and higher charges on average. We consider that this risk is mitigated by the other, complementary elements of the remedies package targeted at overdraft users:
 - (a) Measures to increase customer engagement with their overdraft usage, including our overdraft alerts and grace period remedies, will raise customer awareness of their unarranged overdraft use and assist customers to avoid unarranged overdraft charges.
 - (b) Measures to facilitate greater transparency on the service quality experienced by overdraft users, thus incentivising providers to engage with overdraft customers and placing pressure on overdraft charges,

⁴ We identified the risk that encouraging customers to focus on the MMC over other information could distort customer PCA choices and overdraft use, or that customers fail to understand that unarranged lending is not guaranteed.

including the MMC, will also further limit the detriment that could arise from unarranged overdraft charges in general.

Giving PCA providers the flexibility to set different MMCs for different PCA products

15. We have decided to give PCA providers the discretion to set different MMCs for different PCA products. This approach was generally supported by respondents to our [Supplemental Remedies Notice](#).
16. This approach allows PCA providers to satisfy a range of different customer preferences and reduces the risk of unintended consequences, such as distorting the amount of lending a provider would be willing to supply for any given PCA product where the MMC was not well matched to the needs of that PCA product's target customer base. Moreover, such flexibility in setting the level of an MMC can facilitate greater competition and customer choice, as customers can compare MMCs alongside other product features across the range of PCA products offered by a range of PCA providers.

The period over which the total maximum charge would apply

17. We have decided that the total maximum charge would apply over a monthly period, as we are aware of research showing that consumers are comfortable with prices being expressed on a monthly basis, and many other products and services are organised on this basis.⁵ Further, this proposal received broad support from respondents to our [Supplemental Remedies Notice](#).
18. A monthly period could refer either to a calendar month or to a PCA provider's monthly charging period. We would give PCA providers flexibility over the specific monthly period to use so that the MMC can readily be integrated into different providers' billing cycles.

The charges to be included within the MMC

19. We have decided to make all charges that a customer could incur as a result of exceeding or attempting to exceed a pre-agreed credit limit subject to the maximum total charge. This would include interest for the amount borrowed beyond a pre-agreed credit limit, as well as monthly charges, daily charges, paid and unpaid item fees and all other fees applying in the above circumstances.

⁵ See, for example, the CC's market investigation into PPI, [final report](#) (29 January 2009), paragraphs 10.205–10.208.

20. Responses to our [Supplemental Remedies Notice](#) and [provisional decision on remedies](#) included a range of views as to the charges appropriate to include in the MMC. RBSG considered that all unarranged charges should be subject to the MMC.⁶ However, Barclays argued that unpaid item fees should be excluded from MMCs on the basis that they did not relate to the extension of a lending facility.⁷ Barclays also argued that its emergency borrowing facility should be excluded as it did not consider it to be an unarranged overdraft.⁸
21. First Trust Bank considered that interest should be excluded.⁹ LBG and HSBCG also argued that only interest beyond the arranged overdraft rate should be subject to the MMC.¹⁰ Both LBG and HSBCG considered that this would make it simpler to calculate the MMC. LBG also submitted that this would avoid the risk of providers re-pricing unarranged interest. HSBCG did not view charging standard interest on the unarranged portion of an overdraft balance as being incurred as a result of exceeding an arranged overdraft. It submitted that this may lead it to increase its current cap on unarranged fees to accommodate interest charges and that this could penalise customers with low overall balances but high unarranged overdraft usage.
22. Santander considered that arranged overdraft charges should also be included in the MMC.¹¹ Virgin Money made a slightly different suggestion of having an additional MMC for arranged overdrafts as well.¹² Santander argued its proposal would help customers assess the total cost of an overdraft including the arranged component (which it submitted could have a material impact on overall fees). It also submitted that there was a risk of providers rebalancing charges towards arranged overdrafts if we did not widen the cap to arranged overdrafts. Virgin Money made the same argument for its proposal, which it also considered would make the remedy easier for customers to understand.
23. In order for an MMC to be effective, it needs to be simple and therefore include all charges associated with exceeding or attempting to exceed a pre-agreed credit limit. This includes interest on any unarranged lending and unpaid item charges as well as any daily or other periodic charges for

⁶ [RBSG response to Supplemental Remedies Notice](#), pp13 & 14. [RBSG response to provisional decision on remedies](#), p19.

⁷ [Barclays response to Supplemental Remedies Notice](#), paragraph 6.1. [Barclays response to provisional decision on remedies](#), p16.

⁸ [Barclays response to provisional decision on remedies](#), paragraph 12.3 and [Barclays response to Supplemental Remedies Notice](#), paragraphs 4.1 & 6.1–6.5.

⁹ [First Trust Bank response to Supplemental Remedies Notice](#).

¹⁰ [HSBCG response to provisional decision on remedies](#), paragraphs 50 & 51. [LBG response to provisional decision on remedies](#), paragraph 11.5.

¹¹ [Santander response to Supplemental Remedies Notice](#), paragraph 5.5. [Santander response to provisional decision on remedies](#), pp4 & 21–23.

¹² [Virgin Money response to provisional decision on remedies](#), paragraphs 81 & 82.

unarranged borrowing. This approach also reduces the risk of unintended consequences as it does not favour one type of charging structure over others. It would apply to Barclays' emergency borrowing facility as this is used once a pre-agreed credit limit is exceeded.¹³ Further, it avoids the circumvention risk of PCA providers setting higher unarranged interest charges or unpaid item charges, or replacing unarranged overdraft facilities with alternative charged-for lending facilities that are not unarranged overdrafts but fulfil a similar purpose to them.

24. We do not consider that including unarranged interest within the scope of the MMC materially makes it more complicated for PCA providers. The only change would be that PCA providers must split out the balance in excess of a pre-agreed credit limit and the interest charges paid on this balance. These interest charges are incurred as a result of exceeding a pre-agreed credit limit. Including interest may result in some PCA providers adjusting their existing caps or charging structures. We are not concerned by this in light of how including all charges is more transparent and simpler to understand.
25. While excluding interest from the MMC could give PCA providers more flexibility to offer more unarranged lending, we consider that letting a PCA provider set an MMC on different PCA products gives it sufficient flexibility to ensure it can lend an appropriate amount on an unarranged basis. To the extent that customers seek more credit, PCA providers can take this into account when considering how much they offer customers as part of an arranged overdraft.
26. Conversely, including arranged overdraft charges in the MMC is not necessary to target the concerns identified relating to significant detriment from unarranged overdraft use. It is also not necessary to address the potential re-balancing of charges to arranged overdrafts as we expect this to be limited for the reasons set out in paragraphs 10 to 13 above. Moreover, widening the scope of the remedy could also unduly increase the risk of adverse unintended consequences, including wider distortions to overdraft supply.

The communication and prominence of the MMC

27. In order for the MMC to be effective, it needs to be visible and understood by customers. We are aware that existing legislation and consumer regulations (including the Consumer Protection from Unfair Trading Regulations 2008,

¹³ It also addresses the same concerns we have with Barclays' emergency borrowing as we have with unarranged overdrafts (regardless of whether or not emergency borrowing is classified as an arranged or unarranged overdraft). See Section 15 for further details.

CCD, Consumer Credit Act 1974 (amended 2006), CONC and PSD) safeguards a minimum level of information provision to customers such that providers would already be expected to ensure that customers receive appropriate information, with an appropriate level of prominence, on the overdraft facilities and charges of their PCAs. This would also include MMCs once introduced.

28. PCWs will be able to choose to communicate and display the MMC in the way they consider most useful to customers and we would not seek to constrain this ability.
29. In light of the above, we consider there is limited need for us to specify the content or prominence of MMC disclosures, save that PCA providers should make them no less prominent than the presentation of other information on overdraft fees and interest. This requirement would reinforce rather than aim to go beyond the requirements of existing legislation that the MMC would also be subject to.

A standardised term and definition

30. Moneysupermarket in its [response to our provisional decision on remedies](#) suggested that we require PCA providers to present the MMC to customers in a clear, standardised way that is easy to compare. BGL also told us that it was in favour of standardising how the MMC is defined by PCA providers and described to customers.
31. We agree that there is merit in standardising the term and definition that PCA providers use to refer to the MMC. It would help facilitate like-for-like comparisons on the MMCs. We will set out our proposals on this as part of our consultation on the draft Order for this remedy. We plan to use customer testing to inform what term and definition to use as it can help make sure the term and definition are easy for customers to understand.
32. We note the requirements of the PAD for providers to adopt standardised terms and definitions to describe some of the services linked to payment accounts. Standardising the term and the definition of the MMC would draw on and complement the work of the FCA on standardised terms and definitions for this purpose.¹⁴ We will take into account the findings of the FCA's customer testing, in particular that terms and definitions should:

¹⁴ See, for example, the FCA's [Feedback Statement](#) (September 2015) on the terms and definitions for services which are linked to payment accounts and subject to fees.

- (a) be short - as few words as possible but that a longer, more descriptive term is preferred if a short term is hard to understand;
 - (b) communicate only key information;
 - (c) avoid abbreviations and use simple language constructions; and
 - (d) use very well-known terms that are generally accepted despite not being clear or descriptive of the service.¹⁵
33. We will also take into account the following terms and definitions notified to the EBA and the European Commission by the FCA, under PAD.
- (a) **Arranged overdraft:** when we agree in advance that you can borrow up to a certain amount of money if you have no money left in your account.
 - (b) **Unarranged overdraft:** when you borrow money when you have no money left in your account (or have gone past your arranged overdraft limit) and this has not been agreed with us in advance.
 - (c) **Refusing a payment due to lack of funds:** when we refuse a payment from your account because there is not enough money in it (or it would take you past your arranged overdraft limit).
 - (d) **Allowing a payment despite lack of funds:** when we allow a payment to be made from your account although there is not enough money in it (or it would take you past your arranged overdraft limit).

Standardised term

34. On the basis of the above considerations, there are a number of potential candidates on what wording to include in the MMC term, for example:
- (a) whether to refer to a 'cap', 'maximum' or 'limit';
 - (b) whether or not to include 'monthly' or 'each month' in the term to indicate the time period over which the MMC applies; and
 - (c) whether to refer to charges for using an 'unarranged overdraft', 'emergency borrowing' or a more general reference for charges due to 'lack of funds' or 'going past an arranged overdraft limit'.

¹⁵ FCA's [Call for Input](#) (June 2015) on the terms and definitions for services which are linked to payment accounts and subject to fees, pp27 & 28.

35. Using the term – ‘unarranged overdrafts’ – would have the advantage that it is (or will be) widely used by PCA providers and so be more familiar to customers. The fact that the MMC also covers unpaid item fees (ie for refusing a payment due to lack of funds) could be explained in the definition.
36. A term such as ‘emergency borrowing’ would have the advantage that it could be defined as a broader term than ‘unarranged overdraft’, reflecting that the MMC applies to all credit facilities that are used after exceeding a pre-agreed credit limit (regardless of whether or not these are classified as an unarranged overdraft facility according to the definitions that will be required by PAD).
37. A term that is linked to exceeding or attempting to exceed a pre-agreed credit limit could be used, such as charges due to ‘lack of funds’ or because a payment ‘would take you past an arranged overdraft limit’. Such terms may avoid giving the impression that unpaid item fees are excluded.

Standardised definition

38. We can also draw on the terms and definitions already submitted by the FCA under PAD to define the MMC for customers. On this basis, the following type of definition could be used:

The cap on your charges each month due to not having enough money in your account (or going past an arranged overdraft limit). This cap covers any interest and fees for using an unarranged overdraft, for when we allow a payment despite lack of funds and for when we refuse a payment due to lack of funds.

39. This may be subject to any modifications to the terms and definitions in the EU standardised terminology under PAD. The FCA has stated that it is unlikely that the new terminology will have to be used by providers before autumn 2017.¹⁶

Customer testing

40. We plan to use customer testing to inform further our thinking on standardising the term and definition. We plan for this research to start shortly after the publication of this report and we plan to consult further on standardising the term and definition as part of this work.¹⁷

¹⁶ FCA [Feedback statement](#) (September 2015), on the terms and definitions for services which are linked to payment accounts and subject to fees, paragraph 1.12.

¹⁷ See the [Invitation to Tender](#) for further information on the objectives of this testing.

Appendix 15.3: Remedy design considerations – increasing customers’ engagement with their PCA overdraft features

1. In this appendix we explain how we have developed the proposals for this remedy from that set out in our [Supplemental Remedies Notice](#) and set out the responses received to our provisional decision on remedies.
2. In our [Supplemental Remedies Notice](#) we outlined a possible remedy requiring providers to allow new customers an active choice at account opening of whether to have an unarranged overdraft and to allow existing customers to similarly opt out of an unarranged overdraft, in order to raise customers’ awareness of and engagement with their overdraft choices and use.
3. In response to our [Supplemental Remedies Notice](#) parties broadly supported helping customers to be better engaged in making choices on overdrafts but also raised a number of concerns with the remedy as proposed which related to its effectiveness, the unintended consequences of providing an opt-out or the focus on unarranged overdrafts without reference to arranged overdrafts.¹
4. The issues identified by parties included:
 - (a) The scope of the remedy and customers’ understanding of the interaction of arranged overdrafts and unarranged overdrafts:
 - (i) An overemphasis on unarranged overdrafts rather than overdrafts as a whole.
 - (ii) Consumers’ ability to understand the distinction between arranged overdrafts and unarranged overdrafts² and the impact of opting out of an unarranged overdraft³ or unarranged overdrafts for certain types of transaction, which could lead to potential adverse consequences⁴ (considered further below).

¹ Our expectation in setting out a potential remedy in our [Supplemental Remedies Notice](#) was that any opt-out of unarranged overdrafts would be in the context of customers being provided with more information on both arranged overdrafts and unarranged overdrafts.

² This could manifest itself in information being provided that does not challenge customer behaviour, either through a lack of clarity or accessibility, or ‘information overload’ arising from an excessive amount of information being provided.

³ For example customers might incur late payment charges or loss of service where funds are not available and a customer has chosen not to use an unarranged overdrafts. Failed or missed payments may then impact on a customer’s credit history.

⁴ [Danske response to Supplemental Remedies Notice](#), p6. First Trust Bank further noted that it would not be possible to ensure no unarranged overdraft arises unless access to certain payment methods was restricted (see [First Trust Bank response to Supplemental Remedies Notice](#), p2).

- (b) Customer optimism bias with respect to their use of overdraft facilities, resulting in poor decision-making in advance of such eventualities and the unintended consequences of customers opting out:⁵
 - (i) The unintended impact of any prompt or opt-out on other aspects of decision-making.
 - (ii) The potential for PCA providers to increase other fees and charges to compensate for any loss of revenue arising from reduced unarranged overdraft usage, especially in the event of design choices requiring opt-outs to be offered for all full-facility PCAs or constraining the incremental charges for such options.⁶
- (c) Reduced differentiation across providers.⁷
- (d) Challenges to ensuring any measure was effective:
 - (i) The necessity to conduct comprehensive behavioural research to ensure the remedy is effective and the short time frame available for this.⁸
 - (ii) The risk that over-prescription of a remedy renders it outmoded as a result of technological or other change.⁹
 - (iii) The redundancy of the need for an opt-out where a PCA provider offers a number of different PCAs with different overdraft options.¹⁰
 - (iv) Limited customer appetite for any remedy that, subject to design, might curtail their payment options.¹¹

5. In considering responses to our [Supplemental Remedies Notice](#) we have given particular consideration to the potential unintended consequences of any remedy that may lead to customers choosing to opt out of unarranged overdrafts. We noted that several parties identified the potential impact on customers' credit records, disruption to services such as domestic utilities (where payments did not clear) and the ability to access funds in an emergency if they had no access to an unarranged overdraft.

⁵ HSBCG and Santander responses to Supplemental Remedies Notice.

⁶ HSBCG and Santander responses to Supplemental Remedies Notice.

⁷ LBG response to Supplemental Remedies Notice, paragraph 2.4.

⁸ HSBCG and Santander responses to Supplemental Remedies Notice.

⁹ Danske and LBG responses to Supplemental Remedies Notice.

¹⁰ LBG and Santander responses to Supplemental Remedies Notice.

¹¹ HSBCG response to Supplemental Remedies Notice.

6. We further note that our research found that customers underestimated their use of unarranged overdrafts and therefore might not be able to assess the impact of opting out of unarranged overdrafts. As a result of this risk we considered whether more general engagement by customers at account opening in considering overdraft features would be more effective and have fewer unintended consequences. For the reasons set out in Section 15, we consider that the FCA is well placed to undertake this work.
7. The responses we received on our new proposal set out in our provisional decision on remedies were broadly supportive. There were only a few suggestions on how we could develop it further.
 - (a) RBSG encouraged us to consider recommending that the FCA also looks at ways for PCA providers to engage existing customers, specifically heavy unarranged overdraft users, to support them in reviewing their existing overdraft usage, and not only customers in the process of opening a PCA.¹² Similarly, Defaqto suggested that customers should be made aware of overdraft control facilities when facing or approaching an overdraft situation.¹³
 - (b) Baringa suggested increased investment in financial education to ensure that customers understood their bank account, the implications of going overdrawn and the actions they could take to mitigate.¹⁴
 - (c) In contrast to RBSG, Defaqto and Baringa, Santander argued that we should define the scope of any review role by the FCA to avoid re-investigating issues that we had settled. It submitted that the recommendation to the FCA included reviewing overdraft opt-outs and that it was not clear on what basis there was merit in conducting a further review.¹⁵
 - (d) Barclays stressed that there were a number of other remedies that would drive greater engagement with overdrafts and that therefore any future proposals should be considered in light of the impact of the other remedies.¹⁶
8. We have considered each of these suggestions.
 - (a) Regarding suggestions to broaden our recommendation to existing customers, we have separately recommended to the FCA that it considers

¹² [RBSG response to provisional decision on remedies](#), pp20 & 21.

¹³ [Defaqto response to provisional decision on remedies](#), p3.

¹⁴ [Baringa response to provisional decision on remedies](#), p5.

¹⁵ [Santander response to provisional decision on remedies](#), paragraphs 4.6(b), 11.1 & 11.3.

¹⁶ [Barclays response to provisional decision on remedies](#), paragraph 13.2.

measures to increase customers' engagement with their overdraft usage and charges such as through overdraft alerts (see Figure 15.1 in Section 15). It is therefore not necessary to broaden our recommendation to the FCA on engagement with overdraft features at account opening. We have recommended further work on overdraft engagement at account opening as overdrafts are an important feature of a PCA for customers to consider when choosing and opening an account. Defaqto's specific suggestion that customers should be made aware of overdraft control facilities when facing or approaching an overdraft situation is a point for the FCA to consider as part of its work on overdraft alerts.

- (b) Regarding increasing investment in financial education, we welcome the work of the UK's Financial Capability Board on [Financial Capability Strategy for the UK](#). We believe our remedies complement this work.
 - (c) On Santander's submission about the scope of our recommendation to the FCA on engagement with overdraft features at account opening, we have not specifically suggested that the FCA reviews overdraft opt-outs.
 - (d) Barclays' point above is one for the FCA to consider as part of its work on our recommendations.
9. Having considered the views of respondents we have decided that this remedy should be a recommendation to the FCA to look at ways for PCA providers to better engage PCA applicants in the decision on whether to have an overdraft facility (arranged or unarranged) and with the features included with such a facility on an account.
10. In reaching our decision we considered how our overall package of remedies addressed the AECs with respect to overdrafts. Specifically we identified that our remedies providing for unarranged overdraft alerts and grace periods (set out in Section 15) would facilitate greater customer engagement with overdraft usage through a more flexible mechanism, while identifying that there are potential benefits of enhancing customer engagement with overdraft features at the point of application or opening a PCA.

Appendix 15.4: Remedy design considerations – facilitating account searching and switching for overdraft customers

1. We set out below details of our reasoning for making recommendations to the FCA on overdraft eligibility tools, and obtaining undertakings from Bacs on overdraft switching processes, to address the additional barriers faced by overdraft customers identified in Section 11: the uncertainty around the overdraft amount they would be offered if they were to switch to a new PCA provider; and the uncertainty surrounding acceptance and timing of an overdraft approval.

Indication on overdraft eligibility

2. If providers were to offer tools¹ giving an indication of overdraft eligibility to potential PCA customers on their websites or through PCWs, this would help address the issues that overdraft customers:
 - (a) may either falsely perceive that they would not be offered the same amount if they decided to switch to a new provider; or
 - (b) would like to know, in advance of any application to switch, if other providers offered the same or improved overdraft conditions as their current provider.
3. Three PCA providers² views supported the introduction of online overdraft eligibility tools.
4. Several parties raised concerns around implementing an online overdraft eligibility tool. Some PCA providers told us that an online tool would not be useful for overdraft users because overdraft users should already be aware of the overdraft they were offered³ before they completed the account opening process.⁴ Some PCA providers told us that a tool might put too great a data collection burden on customers when comparing providers or might require greater amounts of underwriting at an early stage in the application process. Some PCA providers were concerned that any indication provided by a tool would lack sufficient accuracy.⁵ BIT and RBSG told us that the implementation of tools might give rise to several behavioural biases and could result in

¹ Such a tool could be based on a quotation search (ie a 'soft' credit search) so as not to impair a customer's credit history.

² HSBCG, RBSG and LBG.

³ Santander told us that overdraft users were already aware.

⁴ Barclays told us that customers could already be given certainty of the size and availability of an arranged overdraft prior to deciding to switch and close their old account.

⁵ Barclays told us that it was concerned that any indicative view provided by a tool would lack sufficient accuracy where size and availability of an overdraft was the primary concern of the customer.

some account providers initially making attractive indicative offers within the tool to attract switching customers, but that sometime after a customer had switched to their new bank, the customer's new PCA provider might increase fees or customers more generally might become over-reliant on indicative overdraft offers.

5. To help assess the potential impact of requiring PCA providers to offer an online overdraft eligibility tool, we considered the results of our PCA omnibus survey, our qualitative research commissioned from Optimisa and LBG's RCTs:
 - (a) Our PCA omnibus survey results suggested that having information on overdraft availability before deciding to switch could make a significant proportion of PCA overdraft users more likely to consider switching their current account.⁶
 - (b) Our qualitative research suggested that the availability of the overdraft facility was seen as something important to check prior to application by overdraft customers, although they were more in favour of a tool if it provided a firm confirmation rather than an indication of eligibility.⁷
 - (c) By contrast, the results of an LBG trial, which tested a specific implementation of an online overdraft tool, showed that the tool did not increase the rate of account opening for customers visiting the PCA application pages on the Lloyds or Halifax websites.⁸
6. While the evidence on the potential impact of this remedy is mixed, overall we believe that the introduction of an online overdraft eligibility tool would increase overdraft users' propensity to switch their PCA provider. While the results of LBG's trial imply that the introduction of an overdraft eligibility tool would not encourage overdraft customers to switch, those results are dependent on the specific implementation trialled by LBG. In particular, a PCW that shows indicative overdraft offers from a number of PCA providers is

⁶ 35% of PCA overdraft users said that being able to check what overdraft they were likely to be granted by the new bank before they decided to change bank would make them more likely to consider switching and 6% said they would be less likely to switch. See [PCA survey](#), p310.

⁷ See [Optimisa Research report](#), p104.

⁸ In fact, the results suggest that the tool and process used in the trial discouraged some customers who would be eligible for an overdraft from applying for an account. Halifax customers seeing the overdraft checker (the treatment group) were less likely to successfully open an account than the control group. (This is because fewer customers in the treatment group completed the application process.) No significant results were found for Lloyds customers. [LBG Trials Report](#), slide 9. Note that these findings are based on a one-off trial which tested a specific implementation of the tool. As LBG has told us, refinements can be made to the treatments used in this trial to identify more effective ways to implement the tool, such as making it easier to verify contact details.

likely to be more effective.⁹ LBG considered that further enhancements to the tool might be possible, which could improve its usefulness.

7. We note that none of the research cited above takes account of the potential benefits of open APIs which are yet to be implemented. In particular, open APIs are expected to have the potential to improve the accuracy of overdraft eligibility indications by removing informational asymmetries between account providers; and also to result in a reduced data collection burden for customers.^{10,11}
8. Further, neither LBG's trial¹² nor our omnibus survey results take into account that an overdraft eligibility tool may be implemented in such a way that it is incorporated with comparison websites which, according to our Optimisa research,¹³ would make it more appealing for customers.
9. Overall, our analysis suggests that requiring PCA providers to offer an indication on overdraft eligibility is likely to be an effective measure for overdraft customers, provided that the tool is implemented appropriately.
10. In considering whether to require implementation ourselves or by means of a recommendation, we were mindful of the interaction between the measure and open APIs. Open APIs may lead to significant improvements in the accuracy of overdraft eligibility tools and a reduced burden on users,¹⁴ and may also facilitate the development of market-driven initiatives which would solve many of the issues that eligibility tools address.
11. Open APIs are expected to increase the choice of credit products readily available to customers as a substitute for their current overdraft facility (effectively 'unbundling' credit from the PCA offering)¹⁵ and increase the scope for innovative money management services. For example, open APIs will facilitate the sweeping of funds between accounts to avoid overdraft charges or deliver new mechanisms by which customers can be made better aware of and engage with their overdraft use.¹⁶ Furthermore, by providing secure access to customers' transaction data¹⁷ they will reduce the

⁹ Also, if the tool trialled had provided greater accuracy in indicating the overdraft offered this may have been more useful to customers.

¹⁰ HSBCG and TSB.

¹¹ TSB also mentioned that a credit passport could also improve the accuracy of overdraft eligibility indications and reduce the data collection burden.

¹² LBG's trial did not test placing the overdraft eligibility tool on the specific switching and product comparison pages of both brands, or making it available on third party comparison websites.

¹³ [Optimisa Research report](#), p104.

¹⁴ In terms of the reduced data they were required to provide to use the tool.

¹⁵ The Open Banking Standard, 6.1.3 Proposition 3: access to credit.

¹⁶ The Open Banking Standard, 6.1.2 Proposition 2: personal financial management and [HSBCG supplemental paper on PCWs](#).

¹⁷ The Open Banking Standard, 6.1.3 Proposition 3: access to credit.

information asymmetry providers face in offering competitive arranged overdraft limits, within a reasonable degree of certainty, to new customers, and hence reduce overdraft customers' searching costs.

12. Because the effectiveness of the tool will be significantly higher when implemented with open APIs and we expect that a potential market-driven solution may well arise after open APIs have been implemented, we proposed in our [provisional decision on remedies](#) that our overdraft eligibility tool measure should take the form of a recommendation to the FCA.
13. In response to our [provisional decision on remedies](#), Barclays and Nationwide were not in favour of this recommendation. Nationwide reiterated its belief that indications of overdraft eligibility would not provide the certainty required by customers and could lead to bad customer choices. Nationwide considered that the evidence available did not support the likely effectiveness of this tool.¹⁸ Likewise, Barclays maintained its view that such a tool would not provide customers with the certain and clear information they sought.¹⁹
14. However, we still consider for the reasons previously outlined that the evidence on balance suggests that such a tool, particularly if facilitated by developing API technology, has good potential and should therefore not be discarded. We also note LBG's opposing view that the tool had sufficient value that it should be introduced immediately, with the recommendation to the FCA focusing on reviewing the effectiveness of the tools introduced.²⁰
15. We also received additional responses that were supportive of this recommendation:
 - (a) Moneysupermarket strongly supported these recommendations as it believed that customers should be able to see what overdrafts were available to them and whether they would be accepted before they applied.²¹
 - (b) PwC considered that the more of the application that could be done online and pre-populated, the more bank account switching would be seen as the norm.²²
16. RBSG also supported our recommendation to the FCA, including the proposal that the FCA should undertake any such work following the introduction of open APIs. RBSG considered that a market-driven solution may well arise

¹⁸ [Nationwide response to provisional decision on remedies](#), paragraphs 5.4–5.10.

¹⁹ [Barclays response to provisional decision on remedies](#), paragraph 14.1.

²⁰ [LBG response to provisional decision on remedies](#), paragraph 1.7.

²¹ [Moneysupermarket response to provisional decision on remedies](#).

²² [PwC response to provisional decision on remedies](#).

after the implementation of open APIs that would make further work by the FCA unnecessary.²³ Santander considered that the CMA should define the scope of any review role by the FCA, to avoid re-investigating issues that have been settled by this investigation.²⁴ BGL, while welcoming the CMA's views that an online overdraft eligibility tool integrated in a PCW is likely to be an effective measure to facilitate switching, cautioned that such a tool would only be effective if the information provided by PCA providers is accurate and comprehensive for all PCWs.²⁵ We consider that the FCA is best placed to assess what scope of further work it undertakes and can consider issues such as those raised by BGL should it proceed with such work.

17. In light of the generally favourable response to our proposed recommendation, and the risks of an unfavourable implementation should the remedy be imposed too early to benefit from technological innovation, we have decided to recommend that the FCA should consider, after open APIs have been developed and embedded in the market, whether it should require or take other measures to encourage PCA providers to implement an overdraft eligibility, or similar, tool. The FCA, as the sector regulator, would be best placed to take account of market developments. In doing so it will need to consider the implications (if any) of CCD and PSD at the design and implementation stage of any tool.

A firm decision before switching

18. If providers were to arrange their application process in such a way that customers were given a firm decision on the overdraft offered before a customer had closed their old account, it would address the issue that some customers may be deterred from switching because they may be unexpectedly left with a less favourable overdraft facility at their new provider.
19. Seven PCA providers²⁶ told us that they already provided new customers with a firm decision on the overdraft offered during the account opening process. However, Clydesdale told us that although it was its policy only to switch a customer after they had agreed their overdraft limit, it was technically possible for PCA customers to switch accounts without them agreeing to the overdraft limit.²⁷ LBG told us that when it had attempted an online application with some providers, it found that in some cases a firm decision on the overdraft offered

²³ [RBSG response to provisional decision on remedies](#), paragraph 11.2.

²⁴ [Santander response to provisional decision on remedies](#), paragraph 11.3.

²⁵ [BGL response to provisional decision on remedies](#), paragraph 2.7.

²⁶ Santander, HSBCG, RBSG, LBG, Nationwide, Co-op Bank and Danske.

²⁷ But they did not verify that this occurred amongst any specific banks in practice.

was not provided before a customer made a commitment to open an account and switch.

20. The Institute of Directors raised a note of caution related to the implementation of a firm decision on overdraft eligibility before switching, and that this would create unwelcome demands on smaller account providers which would inhibit their ability to compete with larger providers.
21. Since many providers have told us that they already provide a firm decision, and no provider has explicitly told us that they do not, we do not intend to require PCA providers to offer such a firm decision. However, we note the issues related to the perception of getting a firm decision or other process gaps that LBG's research suggests, which may prevent customers from accessing or effectively using a firm decision on the overdraft offered.
22. In considering such issues, we are aware that Bacs is currently working to deliver harmonised account opening commitments to assist customers with overdrafts who would like to switch.²⁸ Bacs anticipates that this work will take the form of:
 - (a) A cross industry commitment to ensure that customer confidence in CASS will be boosted through harmonisation (rather than standardisation) of elements of the account opening process. The aim is to build a process that ensures banks provide overdraft customers with a clear message about the process and the decision steps such as:
 - (i) the initial overdraft approval (including the amount and terms of the overdraft) and reassurance that this will be confirmed to the customer before they agree to commence the CASS process;
 - (ii) as part of the above, whether an overdraft facility at the old bank can be matched;
 - (iii) a commitment to repay some or all of a debit balance at the customer's old bank; and
 - (iv) the fees and charges applicable.
23. We consider that this proposed work will help address the uncertainties overdraft customers may have about the switching process that could inhibit switching. We also consider that given this proposed work and their extensive knowledge of the switching process, Bacs is best placed to examine this matter. While LBG raised concerns that seeking an undertaking from Bacs to

²⁸ [Bacs further response to provisional decision on remedies.](#)

work with industry could delay enhanced customer outcomes and favoured the CMA obtaining undertakings directly from providers,²⁹ we consider that the advanced nature of Bacs' planning for this work and its extensive existing industry relationships make it likely that any resulting measures to address the AECs can, if appropriate, be promptly introduced. Furthermore, we expect that Bacs will undertake its work within six months of the CMA accepting undertakings from it.

24. To this end, we have decided to seek undertakings from Bacs (or failing that to issue an appropriate Order) to ensure that Bacs will undertake the further research planned as outlined above, which will ensure common processes that improve transparency in relation to the opening and closing of accounts.
25. Any changes arising from Bacs' work, with CASS participants, to review the account switching process will help to address concerns that in some circumstances an overdraft customer who had applied to and switched to a new provider may not know the overdraft offered until after closing their old account. Such enhancements may include new processes to ensure that account providers arrange their application and switching process in such a way that new overdraft customers are given a firm decision on overdraft facilities before closing their original account.

²⁹ [LBG response to provisional decision on remedies](#), paragraph 1.7.

Appendix 16.1: Measures to increase transparency of the cost of and eligibility for SME lending

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1. This appendix covers parties' overall views on our measure requiring relevant lenders to publish prices for specified SME lending products and the considerations we undertook in reaching design decisions.
2. The same issues are then covered for the measure requiring Barclays, HSBCG, LBG and RBSG to develop online loan price and eligibility indicator tools.

Parties' views on publishing rates on SME lending

3. There was a broad range of views among parties on the feasibility and benefits of publishing rates on SME lending.
4. Some parties felt that greater transparency could be beneficial. For example, HSBCG told us that it was currently not standard market practice for SME lenders to publish annual interest rates/annual percentage rates or headline rates which made it difficult for SMEs to shop around for loans quickly and easily. HSBCG felt that there was scope for increasing transparency and comparability for unsecured lending products (below £25,000 including business loans and overdrafts that were Consumer Credit Act regulated) by publishing prices. Responses to our [provisional decision on remedies](#) were generally supportive of the aims of this remedy.
5. LBG told us that there were three approaches that could be used in markets where prices were bespoke, for example insurance products, overdrafts or loans. These were: setting and advertising a single standard rate for all customers; publicising representative rates that were applicable to at least half of customers; or enabling customers to get personalised quotes via a tool. With regard to publishing representative rates, LBG told us that it allowed the lender some flexibility over eligibility, compared with using a single standard rate, and allowed lenders to offer higher prices to riskier customers. The downside was that customers might be attracted by the representative rate,

but might then either be offered a higher rate or declined to ensure that no more than 49% of applications were above the representative rate. LBG told us that this meant representative rates were less meaningful for customers where there was a wider distribution of prices which depended more on factors such as risks which were specific to each loan application.

6. Barclays, LBG and RBSG also mentioned a potential negative consequence from publishing representative rates: they told us that introducing a representative rate could have an adverse effect due to lenders being less inclined to lend to riskier segments in order to maintain a lower representative rate to obtain customers. We do not consider this is likely to be a significant risk as it would involve not lending to some (high-risk) customers in order to gain other customers, and it was not clear that this would be a commercially optimal strategy, for example that it would be possible to gain more customers this way or that the customers gained would be more profitable. We also thought that lenders would have to reject a lot of high-risk customers in order to have even a modest impact on the rate they offered, reducing the likelihood that this strategy would be employed.¹
7. LBG also told us that for its personal customers, where it published representative rates, it monitored this on a forward-looking basis and if it identified that it might potentially not meet the 51% target, it raised its advertised rates to reflect the changing risk profile of applicants.
8. We consider that there would be strong incentives for banks to look ahead and to advertise rates which they expect to be realistic, as pricing unrealistically low and then rejecting customers would be a less commercially optimal approach. We also consider that banks could offer higher rates than the representative rate to up to 49% of customers and that the measure should therefore not have a significant detrimental impact on higher-risk customers.
9. In addition, LBG told us that a representative price would reflect the relative distribution of customer risk profiles, rather than the relative competitiveness of prices for specific types of risk and would therefore be meaningless for most customers. LBG therefore considered that it would be more effective to develop and improve the ability of SME customers to make personalised comparisons across providers using online tools.

¹ This is because assuming a normal or nearly normal distribution of SME customers in risk terms, most customers would be clustered around the representative rate (assuming lenders published a median interest APR/EAR), and so it would be necessary to reject a large number of high-risk customers to have a significant impact on the representative APR/EAR they could offer.

10. We agree with LBG that online tools have the potential to help SMEs make personalised comparisons across providers. However, we do not agree with LBG that a representative price would be meaningless for most customers. Even if a representative price will be somewhat affected by relative risk profiles, lenders' distribution of customer risk profiles would have to vary considerably for this to be the case. Furthermore, it is likely that SME customers will have some information about the lenders which are most suitable to them, for example if certain lenders operate in a particularly high-risk sector, which the SME also operates in, they may be able to take this into account when comparing representative prices.
11. Handelsbanken told us that the remedy would cut across its customer service-based model, that it would be challenging to implement and of no benefit to its customers who liked their local, bespoke approach.² We considered that publishing prices would not have a material impact on lenders' business models as publishing rates should not affect the level of customer service they provide. Furthermore, we did not consider that the remedy should be very onerous to comply with. For example, as noted in paragraph 35, we do not consider that it should involve a material change to lenders' pricing models, and consider that challenges for smaller banks should not be too considerable as we will assess their compliance based on providing rates which they reasonably expect to be representative, as set out in Section 16. We further consider that having a wide range of providers' prices published would help transparency within the market and facilitate comparisons between providers.
12. Some parties, such as Danske, told us that publishing rates would prevent them from negotiating prices, which could have a negative impact on SMEs, and in particular low-risk SMEs.³ We consider that publishing prices will not prevent SMEs from negotiating prices, rather it may actually aid and encourage negotiation as SMEs will be more aware of prices charged by providers other than their BCA provider and so would be more likely and able to negotiate as they have better information at their disposal. A related argument was put to us by LBG: that if a low-risk customer applies to a lender who has advertised a representative rate which is higher than that which they are able to receive due to being low-risk, the lender may try to charge the SME the representative price as the SME has revealed willingness to pay it.⁴ We consider again that if this were to happen there would be nothing in the design of our remedy which would prevent the SME negotiating a lower price

² Handelsbanken response to provisional decision on remedies, p2.

³ Danske response to provisional decision on remedies, section 7.

⁴ LBG response to provisional decision on remedies, paragraph 13.9(a)(ii).

from this or other lenders, and so consider there are unlikely to be significant negative consequences in this regard.

13. LBG further told us that it considered that our measures regarding the publishing of prices for SME lending could be disproportionate, as LBG considered the measure would mean it had to change its pricing model to offer much fewer pricing points. Reducing the number of pricing points would impact on LBG's model, which provided SMEs with a tailored lending rate based on a range of variables including SME-specific risk score, amount, term and sector, as opposed to offering a single market rate. LBG also considered that our proposal to order specified banks to develop online tools to give SMEs tailored indications of price and eligibility could, when delivered, make the publication of representative rates redundant. We consider this is not the case, because we do not accept that lenders would have to simplify their pricing models, and because we consider that the two SME lending transparency remedies complement each other in addressing the AEC identified in SME lending.
14. Danske also told us that publishing prices and setting a representative rate could be more difficult for smaller lenders that had less historical and pooled data upon which to calculate the (representative) rate at which they reasonably expected to offer lending products to at least 51% of SME customers. We recognise that there could be challenges for smaller or new lenders in this regard and have therefore decided that we will take this into account in our monitoring the compliance of smaller lenders. We discuss this issue further in Section 16.
15. Danske went further in telling us that the challenges it highlighted would make the remedy disproportionate for smaller lenders. We do not consider this to be the case as we consider that wide transparency across GB and NI markets would be most effective in addressing the AEC we have identified, as more comparisons between lenders' offers could be made, and that smaller banks should be able to publish prices on the basis of their reasonable expectations even if they are more limited in terms of the past data they have available.
16. Money.co.uk noted some merits of the APR/EAR metrics we proposed in our [provisional decision on remedies](#) but suggested customers may find some further information helpful, in the form of applicable term and acceptance criteria.⁵ RBSG also noted merits of these metrics, but noted that some further information might be useful for SME customers, for example a representative example. RBSG further said that we would not need to require a

⁵ [Money.co.uk response to provisional decision on remedies](#), p2.

representative example, however, as banks would have the option to provide this fuller information if they considered it helpful for customers.⁶

17. There is a broad agreement among parties that despite the heterogeneity of SMEs, it is possible to distinguish between those that have much smaller and simpler borrowing requirements (eg unsecured loans below £25,000 and overdrafts) and those with more complex lending needs. Santander and HSBCG, for example, already publish rates for unsecured loans and overdrafts up to £25,000. Co-op Bank believe the industry should be striving towards more transparent pricing structures for loans up to £25,000 and for overdrafts up to £10,000. Barclays told us that its position on the publication of rates for unsecured loans up to £25,000 could alter in future.

Remedy design considerations for publishing rates on SME lending

18. We considered the following remedy design considerations:
 - (a) what products should lenders be required to publish price information on and up to what value;
 - (b) what pricing information should lenders provide and in what format; and
 - (c) which lenders should be required to publish prices.

What products should lenders be required to publish price information on and up to what value

19. We consider that it would be beneficial for prices to be published for as wide a range of products as possible, so that price transparency would benefit a large number of SMEs. However, we want to avoid requiring banks to publish representative prices for larger, or complex, products where this could be misleading or impractical, and therefore ineffective in addressing the relevant AEC. We thought this could occur because large loans are frequently negotiated and because prices for complex products vary significantly depending on the nature of assets or agreements involved.⁷ Parties were largely in agreement with this point.
20. Our analysis shows that some lenders already publish prices for unsecured SME loans and overdrafts up to the value of £25,000, demonstrating proof of concept. Of those large banks that do not publish rates, many suggested that

⁶ [RBSG response to provisional decision on remedies](#), section 12.

⁷ We understand that for invoice and asset finance, terms and prices vary considerably, for example for invoice finance these can vary based upon factors such as the nature of the SME's agreements with its customers and the SME's invoicing processes.

doing so could be feasible for overdrafts and unsecured products up to £25,000, but not beyond this. We are not aware of banks publishing prices for values above £25,000 for SME lending products.

21. A number of parties told us that it would be misleading or impractical to publish representative prices for larger amounts, such as for above £25,000. This was because there was a wider spread of prices for larger lending than for smaller lending, and because individually tailored and negotiated prices were more common for larger lending than for smaller lending. One exception to this perspective was Growth Street, which considered that we should include larger products than £25,000.⁸ However, we consider that the views and evidence supplied by parties support the proposal made in our [provisional decision on remedies](#) and have decided not to include lending products above £25,000 in value within the scope of our requirements.
22. We consider that this scope would give a considerable degree of coverage of SME lending:
 - (a) A number of banks told us this would cover a high proportion of SME lending, in particular for simple products demanded by small SMEs.^{9,10}
 - (b) Of all loans taken out for less than £25,000, approximately 65% were unsecured.¹¹ Analysis of SME Finance Monitor data found that 78% of SMEs' unsecured borrowing was for amounts less than £25,000. We found that increasing this to £50,000 would only increase coverage to 87% (see Table 1).
 - (c) The SME Finance Monitor shows that approximately 80% of overdrafts that were granted to SMEs in 2015 were less than £25,000.¹² This is similar to data from the Charterhouse UK Business Banking Survey, which shows that of SMEs who regularly use overdrafts 88% tend to be overdrawn by £25,000 or less.¹³ Increasing this threshold to £50,000

⁸ As noted in Section 16, small partnerships and unincorporated associations borrowing less than £25,000 benefit from certain protections under the consumer credit regime. Growth Street suggested this threshold from the personal consumer side had remained unchanged since the introduction of the Consumer Credit Act 1974 and was therefore unsuitable for use in our remedy ([Growth Street response to provisional decision on remedies](#), paragraph 12). We found that this was not the case, and that the £25,000 value was introduced as part of the amendments to the consumer credit regime brought about by the Consumer Credit Act 2006.

⁹ Barclays told us that applications in the size range of unsecured term loans and overdraft limits with a value up to £25,000 represented more than half of the total volume of new term loans and overdraft limits seen by typical providers. In an earlier comment, Barclays told us that aligning tools with the Consumer Credit Act threshold of £25,000 would cover the simpler borrowing needs of 80 to 90% of SMEs at the smaller end of the market. [Transcript of roundtable hearing with Barclays, HSBCG, Nationwide and Santander](#), p88.

¹⁰ HSBCG told us that 'based on recent data in respect of HSBC's lending activity for borrowing under £300,000, HSBCG estimates that [X]% of the applications (by volume) were for borrowing amounts below £30,000.'

¹¹ [SME Finance Monitor, An independent report by BDRC Continental, March 2016](#), p192.

¹² *ibid*, p179.

¹³ We note that this measure of overdrafts is restricted to the proportion of the number of businesses whose main account is usually in debit at the end of each month.

would only increase the proportion of SMEs covered by this measure by five percentage points for overdrafts, to 93% (see Table 1).

Table 1: Product coverage by size of lending – unsecured loans and overdrafts

Size of lending (up to)	Product		%
	Unsecured loans*	Overdrafts†	
£25,000	78	88	
£50,000	87	93	
£100,000	95	96	

Sources: *SME Finance Monitor Q2 2012 to Q3 2014; †Charterhouse BBS 2014.

Base:

1. SME Finance Monitor: 923 SMEs who successfully applied for a new or renewed secured loan facility in the 12 months prior to the interview, 587 SMEs who successfully applied for a new or renewed unsecured loan facility in the 12 months prior to the interview.

2. Charterhouse survey: 1,227 SMEs who had held a business loan/commercial mortgage in the 12 months prior to the interview, 667 SMEs whose main account was usually in debit at the end of each month, 2014.

Note: All figures exclude businesses who did not provide information on loan/mortgage or overdraft size when asked.

23. Our scope also aligns with the approach taken under the UK consumer credit regime for personal customers, where most banks regularly publish rates for personal unsecured loans and overdrafts up to £25,000.¹⁴ We have not undertaken additional analysis to suggest that £25,000 would be a better threshold than other similar potential thresholds such as, say, £20,000 or £30,000. The alignment with the existing personal consumer credit regime, the evidence we have reviewed above, and the fact that a number of parties have suggested this value to us, lead us to conclude that this is an appropriate value.
24. We also noted in Section 11 that smaller SME customers are less able to negotiate terms and are most likely to be adversely affected by the reduced competitive constraints on banks in SME lending. These SMEs are most likely to borrow smaller amounts, and hence targeting this measure at small loans will be likely to be beneficial for these SMEs in particular.
25. We also considered whether lenders should be required to publish rates for more complex SME lending products such as secured loans, invoice finance and asset finance. Some parties also suggested a wider product scope.¹⁵ While this would provide greater coverage of SME lending, we decided against this for the following reasons:
- (a) The nature of the assets involved in secured lending, asset finance and invoice financing can vary significantly between SMEs. Including these

¹⁴ It should be noted that requirements of the consumer credit regime can apply to credit of any amount, subject to certain exceptions.

¹⁵ [Growth Street in response to our provisional decision on remedies](#) (paragraph 9) suggested secured lending, invoice and asset finance. [LBG in response to our provisional decision on remedies](#) (Section 13) suggested asset finance.

products would mean that the rates which were published varied even more widely than for the unsecured lending already in scope, and could vary to such an extent that they could be misleading.

(b) The valuation of assets and receivables in the case of asset finance and invoice discounting is frequently not a straightforward process. Multiple parties told us that this often meant obtaining significantly greater information from SMEs.

(c) We are not aware of any banks publishing representative prices for secured lending, other than for mortgages.

26. We considered that of more complex products, asset finance would have the greatest potential for prices to be published. However, we found that SMEs shop around more frequently for asset finance, with 37% of SMEs taking asset finance from their BCA providers in the GB market, and 50% in NI.¹⁶ We therefore did not consider further whether it would be feasible for asset finance to be included as we did not consider it necessary.

What pricing information lenders should provide and in what format

27. We have decided to order all relevant lenders¹⁷ to publish certain information on the cost of credit for unsecured loans and overdrafts up to £25,000.¹⁸ We have decided they should do so in the form of representative APRs for loans and EARs for overdrafts, which are used under the UK consumer credit regime for personal customers.^{19,20} We additionally require contextual information on how the APR was calculated to be published for loans, and information reflecting additional charges for overdrafts. Furthermore, we are proposing that banks should be required to always use the same format when publishing SME lending prices in marketing and advertising materials when

¹⁶ See Section 8.

¹⁷ Meaning those that provide unsecured loans and overdrafts to SMEs, for values under £25,000 and which fall within our ToR. See Appendix 1.1 for details of our ToR.

¹⁸ We are therefore not requiring lenders to publish prices for other SME lending products such as secured loans, secured overdrafts, asset finance, invoice finance or trade finance.

¹⁹ We note that this framework does apply to SMEs which are sole traders and to partnerships with three or fewer partners. However, we also note, first, that analysis by the FCA found that over half of all overdrafts and loans (55%) to SMEs fell outside the perimeter of the consumer credit regulation, having no protection at all (FCA discussion paper '[Our approach to SMEs as financial users](#)', Annex 4, paragraph 40). Second, the FCA noted that with respect to financial promotions and communications, including the information that lenders are required to provide consumers, none of these are applicable to SMEs (including sole traders and partnerships with fewer than three partners) under some circumstances: 'CONC 3 rules on financial promotions and communications do not apply to financial promotions and communications which indicate clearly that they are solely promoting credit/hire for the purposes of a customer's business.' (FCA discussion paper '[Our approach to SMEs as financial users](#)' Annex 4, paragraph 41.) This point is reflected in CONC 3.1.6.

²⁰ Under the UK consumer credit regime for personal customers, the standard information to be included in a representative example includes the rate of interest. Where the agreement provides for compounding (for example for overdrafts), the rate of interest should generally be the effective annual interest rate. See CONC 3.5.6G (2).

certain trigger points occur. This would be in line with the provisions of the personal consumer credit regime which state that a particular format should be used whenever marketing or advertising materials activate designated triggers, such as if they quote a price or cost.²¹

28. We recognise that there are a number of factors which determine loan prices, and that this can lead to a significant price variation.²² To make price information useful rather than overwhelming to SME customers, we have decided not to order lenders to publish full matrices of prices derived from the interaction of these variables. Instead we have decided to:
- (a) require lenders to publish a representative APR for unsecured loans and EAR for overdrafts offered to SMEs of value up to £25,000, and to use this format when publishing SME lending prices in marketing and advertising material for these products when certain triggers are met;²³
 - (b) require contextual information on how the APR was calculated to be published for loans, and information reflecting additional charges for overdrafts;²⁴
 - (c) require lenders to make available to comparison sites and finance platforms data on how these representative rates change with loan and overdraft size (up to £25,000) and with loan term.²⁵ We note that this is the data behind simple calculators such as are offered for many personal lending products.²⁶ These would allow customers (through comparison sites and finance platforms) to adjust the size of the loan or overdraft, and the term for loans, to see the representative rates relevant for the borrowing they require; and
 - (d) encourage these lenders to publish simple calculators, as described immediately above, on their websites.
29. In terms of the format in which these prices should be published, we note that under the UK consumer credit regime, lenders offering credit to personal

²¹ We outline the triggers which should be used for this remedy in Section 16.

²² In Section 8, we note: size of the loan; security; term; SME business sector; risk band of SME.

²³ Paragraph 30 notes that a representative APR is one of the key pieces of information involved in a representative example, as used under the existing personal consumer credit regime.

²⁴ See paragraph 38 for further considerations in this regard. We will consult upon the exact requirements at the implementation stage of the investigation.

²⁵ Of the factors which determine loan prices, the size of the loan and the term are the key factors which are relevant to all customers and for the products within scope. Each SME's business sector and risk band would mean that an advertised price would be relevant only to a subset of customers.

²⁶ For reasons of practicability we consider it may be worth limiting the number of loan and overdraft increments at which lenders are required to publish prices, in terms of loan/overdraft size, and loan term. This point was raised by [Barclays in response to our provisional decision on remedies](#) (p19). We will consult on this question at the time of the publication of the Order.

customers are subject to certain obligations on the calculation and disclosure of the total charge for credit and the APR in advertising and financial promotions,²⁷ as well as in pre-contractual information²⁸ and quotations.²⁹

30. One feature of this regime is that 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. This representative example must include the following information:³⁰
- (a) the rate of interest, and whether it is fixed or variable or both, expressed as a fixed or variable percentage applied on an annual basis to the amount of credit drawn down;
 - (b) the nature and amount of any other charge included in the total charge for credit;
 - (c) the total amount of credit;
 - (d) the representative APR (except in relation to overdrafts);
 - (e) in the case of credit in the form of a deferred payment for specific goods, services, land or other things, the cash price and the amount of any advance payment;
 - (f) the duration of the agreement;
 - (g) the total amount payable; and
 - (h) the amount of each repayment of credit.
31. The representative APR is an APR at or below which the lender reasonably expects, at the date on which the financial promotion is published, that credit would be provided under at least 51% of the agreements that will be entered into as a result of the financial promotion. The other information in the representative example is then representative of agreements to which the representative APR applies.³¹

²⁷ See CONC 3, [Consumer Credit sourcebook](#), FCA, 2016.

²⁸ See section 55 of the Consumer Credit Act 1974, the Consumer Credit (Disclosure of Information) Regulations 2004, the Consumer Credit (Disclosure of Information) Regulations 2010 and CONC 4. As noted above, the framework does apply to a subset of SMEs.

²⁹ See CONC 4, [Consumer Credit sourcebook](#), FCA, 2016.

³⁰ See CONC 3.5, [Consumer Credit sourcebook](#), FCA, 2016.

³¹ See Glossary, FCA Handbook, FCA, 2016, definition of Representative APR.

32. In relation to our remedy, to be considered representative, an APR/EAR should be the rate at or below which the lender reasonably expects to offer to at least 51% of SME customers to which it makes offers resulting from the promotion. In the case of the APR/EAR that is published on the lender's website, this should be representative of the rate that the lender reasonably expects to offer SMEs which may see, respond to and be eligible for it. This rate should therefore be representative for the full range of SMEs to which the lender would expect to offer the relevant products.
33. Some parties suggested to us that we should require lenders to use alternatives to a representative rate. For example, LBG³² and Santander³³ suggested requiring ranges be published instead. We considered that there are some benefits to ranges in comparison with a single representative rate, as ranges give a greater idea of the extent or distribution of prices.³⁴ However, we considered that ranges would be potentially misleading for customers,³⁵ could be difficult to understand³⁶ and would be difficult to compare between providers.^{37,38}
34. LBG also told us that requiring a single representative APR/EAR to be published on lenders' websites could reduce the range of options a provider could offer its customers.³⁹ We do not consider that this remedy is a material restriction on lenders' pricing flexibility, as lenders could continue to offer rates both higher and lower than the representative rate. Furthermore, we consider that our remedy would not restrict lenders to using a single representative APR/EAR when advertising products. This is because the representative APR should be representative of the agreements that the lender reasonably expects to enter into as a result of the advertising or marketing material. If, based on reasonable expectations, the lender determines that it will only enter into the types of agreement featured in the advertising or marketing material (for example because this is clearly targeted at a particular subset of products

³² [LBG response to provisional decision on remedies](#), paragraph 13.14.

³³ [Santander response to provisional decision on remedies](#), paragraphs 13.4–13.6.

³⁴ Two ranges suggested to us were a 'simple' range, for example lenders would be required to say '60% of customers get between x and y' and an interquartile range, where the first quartile and third quartile prices would be published. The first of these would give an indication of the extent of prices, in practice being likely to show the lowest price and the 60th percentile price, but would give little idea of the distribution.

³⁵ For example with a 'simple' range, one very low price may be offered and then a large number of prices bunched around the 60th percentile price, but this would not be clear to customers. The interquartile range option would be less susceptible to this problem as it would give greater information on the distribution of prices, as it would show the middle bounds within which half of customers received prices.

³⁶ We considered that an interquartile range may be difficult to express in simple terms and may not be easily understood by SMEs.

³⁷ For example comparing ranges of different sizes that overlapped could be challenging for consumers, and it is unclear how best-buy tables or price comparison websites would rank such ranges.

³⁸ We also considered that an approach based upon using ranges would lose one of the benefits of a representative price based upon a median: that it would be more difficult to change a median price by rejecting high-risk customers because more customers are likely to be clustered around the median price.

³⁹ [LBG response to provisional decision on remedies](#), paragraph 13.6(a).

or customers) then the representative APR would only need to relate to those agreements.⁴⁰

35. Danske told us that it was concerned that the lack of representative data could lead to a contravention of the FCA regulations relating to a representative APR. Similarly, LBG told us that it did not publish rates for SME lending products in generic advertising, as its risk pricing model provided a broader range of rates than were offered to, and taken by, 51% of any single cohort, as LBG considered was required by FCA regulations on publishing a representative APR. We consider that this would not be an issue, because first, CONC 3 does not apply to lending that is clearly labelled as being for business purposes. Second, with regard to LBG's point, as noted in paragraph 31, above, the FCA's CONC regulations require the representative rate to be a rate *at or below which* the lender reasonably expects, at the date on which the financial promotion is published, that credit would be provided under at least 51% of the agreements that will be entered into as a result of the financial promotion. The representative rate therefore does not need to be offered to 51% of customers, and does not mean that pricing structures would need to be simplified.
36. Given that there is already an existing framework in place that both lenders and SMEs as personal customers are familiar with, we have decided to require lenders to adopt some key features of this framework when displaying prices to SMEs.
37. This approach of using a representative APR which would be offered to at least 51% of customers has the advantage of increasing transparency to enable customers to compare prices across banks, while still allowing banks to set higher prices for higher-risk SMEs, rather than rejecting them as might occur if they were obliged to publish prices applicable to all SMEs.
38. Requiring lenders to publish some contextual information on how the APR for loans was calculated, and information reflecting additional charges for overdrafts, will allow SME customers viewing lenders' individual websites to get an understanding of the characteristics of the representative APR they are being shown or the charges that accompany the EAR. We will consult upon the exact requirements in this regard at the implementation stage of the investigation. For loans this is likely to include at a minimum the size and term of the loan associated with the representative APR. For example, stating that the representative APR of, eg 7.5% was based upon a loan of £10,000 for three years. For overdrafts this is likely to include either a warning that

⁴⁰ For equivalent legislation under the personal consumer credit regime, see CONC 3.5.6G (1A) and paragraph 6.8 of [BEIS guidance on regulations implementing the CCD](#).

additional charges will be involved, or information on these key charges. For example, stating that the EAR, of eg 5% was for an overdraft of £8,000, and showing an accompanying table listing the most significant charges associated with the overdraft. We considered that some contextual information such as these likely minimum items would be necessary for SMEs to adequately understand and compare the rates we are requiring lenders to publish.

Parties' overall views on the loan tool price and eligibility indicator tool

39. The majority of parties who responded to our proposal were broadly positive. Barclays, HSBCG, RBSG, Santander,⁴¹ the Institute of Directors and Business Finance Compared were broadly supportive of the aims of the remedy at a general level. This was primarily due to the role loan price and eligibility indicator tools could play in increasing price transparency and helping SME customers to understand which products they might be eligible for.
40. LBG supported the development of comparison services and loan price eligibility checkers, and considered that this could be most effectively achieved through the proposed challenge prize approach.
41. A number of parties made the point that simple lending products, of limited size, would be best suited to inclusion within the scope of the tool, and were supportive of a tool on this basis. The scope of products we decided should be included in the tool is discussed below.
42. We note that RBSG already has an online tool which provides tailored price and eligibility indications for personal credit cards using CRA data. A number of banks have facilities for their existing SME customers to see what lending products and limits they may be eligible for, and to apply instantly online.⁴²
43. Similarly, in March 2016 HSBCG launched an online tool which gives SME customers who do not currently bank with HSBC an indication of their

⁴¹ However, Santander considered that indicative pricing and eligibility tools were unlikely to be used by larger businesses. In Santander's experience, larger businesses did not purchase or compare loans simply on the basis of price. Moreover, pricing would reflect a number of variables, such as the purpose of the funding, the type of funding, term over which financing is sought, whether the rate was fixed or variable, security, arrangement fees and any applicable covenants. Even for smaller businesses, an eligibility/pricing tool was mainly helpful where an applicant had decided that a term loan was an appropriate source of funding (rather than, for example, invoice or asset finance) or was seeking to understand roughly what a loan would cost. Santander considered that, while indicative pricing tools were helpful, their design and content should be left to individual banks' discretion.

⁴² Barclays told us that a customer that had a pre-existing risk profile seeking unsecured term or overdraft lending of £25,000 or less could apply instantly online. LBG's 'straight through processing', described above, allowed existing customers with estimated turnover less than £1 million, borrowing less than £50,000, and 'straightforward banking needs', to obtain finance through an automated process up to £10,000 via a digital channel (increasing to £[redacted] for overdrafts during H1 2016).

eligibility for SME lending products (although it does not give indicative price quotes), and [X].⁴³ This tool requires a small number of input fields to be filled in by an SME customer, and incorporates CRA data from Equifax.⁴⁴

44. Some respondents did not view the remedy positively. Some of these were banks that placed a particular emphasis on the role of the relationship manager and a personal, judgement-based approach to SME banking. For example, Danske and First Trust Bank considered that the use of tools could remove the existing benefits of customers negotiating a bespoke loan price/product. Secure Trust also said that greater transparency could provoke an 'online price comparison war' which would unfairly favour incumbents due to capital and funding differentials in their favour.⁴⁵
45. We have decided that SMEs should have access to the tools they need to effectively compare different providers' loans, including their prices, and that this will stimulate competition between lenders. If SMEs are able to more readily switch providers, this will reduce the advantages enjoyed by incumbent BCA providers and facilitate expansion by smaller providers. The availability of such tools would not prevent lenders continuing to provide bespoke services. It is possible that SME customers may first look at lenders using online tools, and then enter into bespoke pricing discussions with a selection of lenders.
46. Some parties also told us that it would be more suitable for the tool to be developed for small SMEs with simple lending requirements, given the often more complex requirements of larger, more complex SMEs. However, it was not clear to us whether or not this differentiation between the sizes of SMEs meant in fact a requirement to distinguish between the lending products which vary in terms of complexity.
47. Some parties also expressed concerns that banks' underwriting systems would not be sufficiently automated to allow indicative offers to be assessed. However, we found that many major providers (eg HSBCG, LBG) already have automated credit underwriting systems which are capable of making

⁴³ HSBCG told us that in March 2016 it launched a business lending eligibility checker tool for new-to-bank customers seeking to borrow up to £30,000 via unsecured loans, overdrafts and commercial credit cards. The tool enabled HSBCG to provide an indication of the likelihood that an SME would be able to borrow their requested amount ('likely', 'maybe' or 'unlikely') based on a minimum amount of information it requested from SMEs. It did not provide an indicative price quote.

⁴⁴ Although one bank already has a tool similar to what we are proposing to order specified banks to develop, we think that our remedy would nevertheless be effective in leading to greater transparency within the market. This is because the existing tool still does not have the full functionality we envisage, and so it requires further development. In addition, through our remedy multiple banks providing a significant proportion of SME lending would be required to have these tools available so that customers could make meaningful comparisons between lenders' personalised quotes and therefore be inclined to consider other lenders, not just their own BCA provider.

⁴⁵ Our assessment of the existence of barriers to entry and expansion due to funding differentials and capital requirements is set out in Section 9.

decisions for lending products of the kind included within the scope of our remedy. Moreover, it should not be necessary for banks to make use of their full underwriting processes to provide indicative offers. This is because banks should be able to make these offers based upon analysis of their past lending decisions and how these relate to the characteristics of the SME's application. This is, for example, the approach taken by HSBCG's tool.

Remedy design considerations for the loan price and eligibility indicator tool

48. The remedy design considerations we outline are:

(a) the scope and coverage of the tool including:

- (i) which lending products the tool should apply to, and up to what value of lending;
- (ii) which banking groups should be required to implement this remedy; and
- (iii) who should be provided access to the tools' outputs; and

(b) the format the tool should take including:

- (i) the information input requirements; and
- (ii) the minimum information provided to SMEs and the speed in doing so.

49. In this section we outline which lending products the tool should apply to, and up to what value of lending; which banking groups should be required to implement this remedy; and who should be provided access to the tools' outputs.

Which lending products the tool should apply to, and up to what value of lending

50. For the publishing prices for SME lending products measure, we decided that only unsecured lending and overdrafts up to £25,000 should be included within its scope.

51. With the ability of banks to receive more bespoke information about applicants through an online tool we proposed in our [provisional decision on remedies](#) that it may be feasible and desirable to raise the threshold in terms of value to a higher level, such as £50,000 (this is discussed in paragraphs 57 to 62). For the same reason, we proposed in our [provisional decision on remedies](#) that it

could be feasible to expand the scope of the tool to include secured loans (this is discussed in paragraphs 53 to 56).

52. Including secured lending would increase the amount of SME lending covered by this measure. Indeed, the SME Finance Monitor shows that 40% of business loans were secured.⁴⁶ Moreover, secured lending is generally higher value than unsecured loans: SME Finance Monitor data shows that only 27% of secured loans were under £25,000 (compared with 78% of unsecured loans). Increasing the scope of the tool to include secured loans up to a higher value would therefore increase coverage more significantly than for unsecured loans. Increasing the threshold to £50,000 would increase the coverage 15 percentage points, to 42% (see Table 2).

Table 2: Product coverage by size of lending – unsecured loans, secured loans and overdrafts

Size (up to)	Product		
	Unsecured loans*	Secured loans*	Overdrafts†
£25,000	78	27	88
£50,000	87	42	93
£100,000	95	57	96

Sources: *SME Finance Monitor; †Charterhouse BBS

Base:

1. SME Finance Monitor: 923 SMEs who successfully applied for a new or renewed secured loan facility in the 12 months prior to the interview, 587 SMEs who successfully applied for a new or renewed unsecured loan.

2. Charterhouse survey: 1,227 SMEs who have held a business loan/commercial mortgage in the 12 months prior to the interview, 667 SMEs whose main account was usually in debit at the end of each month, 2014.

Note: All figures exclude businesses who did not provide information on loan/mortgage or overdraft size when asked.

Secured lending

53. Prior to publication of our [provisional decision on remedies](#) a number of parties told us that it would be challenging to include secured lending in a price and eligibility indicator tool. The primary reasons for this were that the nature of assets involved in secured lending varied considerably and that valuation was frequently not straightforward. Multiple parties told us that this meant that greater information requirements and frequently an element of judgement were involved in valuing assets for secured lending. Another concern was that valuations would not be done in a consistent way, which would lead to incorrect comparisons between providers.
54. Although parties were generally not in favour of including secured lending within the scope of the tool, a number of parties did make reference to how this might be achieved. For example, RBSG mentioned that a tool should enable customers to enter 'details of any security available to enable us to

⁴⁶ SME Finance Monitor, [An independent report by BDRC Continental, March 2016](#), p192.

calculate a loss given default'.⁴⁷ Barclays considered that eligibility tools covering secured lending might be placed on banks' websites, but would not be suitable for comparison through comparison sites.⁴⁸ Barclays further told us that 'many of the items funded by asset finance offer the prospect of a standardised approach for at least a proportion of applications, while there are similar factors for term loans secured on land/property and certain fixed assets.'

55. Some assets which SMEs may wish to secure their borrowing against are difficult to value through automated processes.⁴⁹ However, there are some assets for which valuation can be automated to some level for personal lending, in particular cars and houses.⁵⁰ One party told us that there might be the potential to apply standardised approaches to many of the items funded by asset finance and loans secured on land or property. We consider that a substantial proportion of SME assets are likely to be potentially open to standardised approaches compatible with automated online tools, for example properties and vehicles.
56. We considered in our [provisional decision on remedies](#) that it may be possible for tools to include a small number of fields that would allow customers to enter details of security, for example type (eg land, property, vehicles and other relevant types of security) and value, and for banks to provide indicative responses based upon this. In response to our provisional decision on remedies, some parties agreed that it may be possible to include secured lending within the tool, for example, RBSG told us that whilst it would be possible, it would not be useful for secured loans which were typically more bespoke and negotiated, and it was unlikely there would be customer demand for such an automated tool for larger loans or secured loans.⁵¹ However, parties' views were generally that secured lending was unsuitable for inclusion, for a range of reasons. For example, the increased information requirements could make tools complex⁵² and difficult to use for SMEs, and the valuation of security frequently involved an element of judgement and/or the involvement of a relationship manager.⁵³ LBG considered that asset finance up to £25,000 could be included within scope of the tools.⁵⁴ We considered that this would not be necessary for the same reasons we decided to exclude it from our measure requiring lenders to publish prices for SME

⁴⁷ [RBSG response to Remedies Notice](#), p59.

⁴⁸ [Barclays response to Remedies Notice](#), section 16.

⁴⁹ For example inventories, IT systems or bespoke equipment.

⁵⁰ [Experian's response to the role of comparison sites for SMEs in addressing the AEC working paper](#) noted this fact, at the same time as raising concerns about the suitability of much of secured SME lending for automation.

⁵¹ [RBSG response to provisional decision on remedies](#).

⁵² [Barclays response to provisional decision on remedies](#), p20.

⁵³ [RBSG response to provisional decision on remedies](#), p24.

⁵⁴ [LBG response to provisional decision on remedies](#).

lending products. See paragraph 26 above. We have therefore decided it may not be effective and would be unlikely to be proportionate to include secured lending in the scope of the remedy. We therefore decided to keep in scope only unsecured loans and overdrafts. We consider that banks would still be able to include secured lending if they wished to do so.

A higher threshold, for example £50,000

57. In our [provisional decision on remedies](#) we noted that including a higher threshold would achieve a greater coverage of SME lending, in particular for secured lending if this was also included. We did not consider it appropriate to have a value higher than £25,000 for our provisional decision to order banks to publish prices for SME lending products. This was primarily because for higher values, prices vary more considerably and because they are more frequently negotiated.
58. While we recognised that including a higher value threshold of £50,000 may be more challenging, we note that one party, Business Finance Compared, suggested £50,000 as a potential ceiling.⁵⁵ With the degree of information about SME customers submitted to banks through the online tools, we considered they should be able to provide meaningful indications of eligibility and price for loans up to a higher value than £25,000, for example to £50,000. We also note that these indicative offers may not have to be correct for at least 51% of customers, as would be the case for our order requiring the publication of representative prices.
59. Parties' views were generally opposed to our requiring the inclusion of products up to a higher value than £25,000, such as £50,000. Reasons for this were that the threshold should be consistent with our measure requiring the publishing of prices for SME lending,⁵⁶ and that most lending over £25,000 was secured,⁵⁷ meaning that there would be little increase in coverage of loans from extending the scope to £50,000 if secured lending were not included.
60. We have decided that as we are not including secured lending in the products which tools are required to cover, there would be only limited benefits from raising the scope to a higher value such as £50,000 and that it would not be proportionate to do so.⁵⁸ We therefore decided the scope of products for

⁵⁵ [Business Finance Compared response to Remedies Notice](#), p35.

⁵⁶ [Santander response to provisional decision on remedies](#), p26.

⁵⁷ [LBG response to provisional decision on remedies](#), p30.

⁵⁸ We found that moving from a scope of £25,000 to £50,000 increased the proportion of unsecured loans covered by the measure by only nine percentage points, from 78% to 87%, and increased the number of overdrafts by only five percentage points, from 88% to 93%, according to SME Finance Monitor and Charterhouse BBS 2014 data respectively. See paragraph 47 for further details.

which lenders should be required to provide offers for through the tool should be limited to £25,000 and that would give us a considerable degree of coverage of SME lending.

61. Two parties mentioned the issue of total indebtedness of an SME applicant to us as an additional complicating factor for the operation of the tool. RBSG suggested that there be a disclaimer for customers using a tool, that results would be based on an assumption of the SME having no existing debt which in addition to the amount being requested would put the SME's total debt over £25,000.⁵⁹ HSBCG suggested that the £25,000 threshold should apply to total aggregated facilities held by the SME, as lenders need to take into account the overall indebtedness when assessing both eligibility and price. Going above this limit would require a manual input to the underwriting process.
62. We have decided not to change the tools' thresholds to be in terms of total indebtedness of £25,000. This is because such an approach could significantly reduce the lending covered by the tools and therefore the effectiveness of the remedy in addressing the AEC. We do, however, consider that banks may wish to address this issue in the design of their tools, for example, by stating clearly upfront that total indebtedness may play a significant role in determining the final offer made to the SME, or by including fields for the SME to enter its total indebtedness.

Which banking groups should be required to implement this remedy

63. In our [provisional decision on remedies](#) we proposed that RBSG, LBG, Barclays, HSBCG, Santander, Danske, BoI and AIBG should be required to develop a loan price and eligibility indicator tool.
64. We considered that lenders required to develop tools should provide good coverage of SME lending at the UK, GB and NI levels, and that they should be leading lenders in these markets. We therefore looked at which lenders had a market share over 5%:⁶⁰
 - (a) Aggregated data on SME lending at the UK level from our [provisional findings](#) showed that RBSG, LBG, Barclays and HSBCG had a market share over 5% (by number of loans); and
 - (b) We did not have data for market shares of SME lending disaggregated for GB and NI markets. However, we considered that looking at BCA data for GB and NI was likely to provide a reasonable proxy for this, given our

⁵⁹ [RBSG response to provisional decision on remedies](#), p24.

⁶⁰ Market shares were based on 2015 data supplied by banks.

finding that 90% of SME loans are currently taken out with SMEs' BCA provider.⁶¹

(i) The GB providers with over 5% of active BCAs (by number) were RBSG, LBG, Barclays, HSBCG and Santander.⁶²

(ii) The NI providers with over 5% of active BCAs (by number) were RBSG, Danske, Bol, AIBG and Santander.⁶³

65. Taking into account these approaches for assessing coverage, there were eight banking groups – RBSG, LBG, Barclays, HSBCG, Santander, Danske, Bol and AIBG – that we proposed should be included in the scope of our remedy. We provisionally decided that it would not be necessary or proportionate to include banks with smaller market shares than these eight banking groups. Smaller banks would of course be free to develop a tool if they wish to do so.
66. We noted that we might refine the exact measure we use to determine which banks to include in the scope of this remedy, for example by using more disaggregated data regarding loan sizes, if we were to have this available at the time of our final report. We noted that the principle of ensuring major lenders are included and good market coverage is achieved in both GB and NI would still remain our goals.
67. In response to our [provisional decision on remedies](#), two providers told us that our proposed coverage of the remedy was too wide. Santander disagreed with our methodology for identifying leading lenders: it considered that it was inappropriate to use BCA market shares as a proxy for market position in SME lending. It also told us that it would not be proportionate to require smaller lenders that lacked existing sophisticated credit underwriting tools to implement sophisticated online eligibility/pricing indicator tools requiring credit inputs.⁶⁴ AIBG told us that we should have a separate threshold for bank brands but not for entire banking groups so smaller brands with minimal coverage of the market, such as AIBG in GB, would not be included.⁶⁵
68. On the other hand, two providers told us that we should increase the coverage of the remedy. LBG told us that the coverage should be increased so that providers above the 2% BCA market share threshold should also be

⁶¹ See [provisional findings](#), pp31–32.

⁶² Market shares calculated based on banks' data. Provisional findings, [Appendix 6](#), ppA6.1–10.

⁶³ Market shares calculated based on banks' data. Provisional findings, [Appendix 6](#), ppA6.1–7.

⁶⁴ [Santander response to provisional decision on remedies](#), section 13.

⁶⁵ [AIBG response to provisional decision on remedies](#).

included to ensure that all major SME providers were included.⁶⁶ Barclays told us that while it understood and agreed that the costs would be disproportionately high for small lenders, providing greater transparency for only the most substantial lenders might be unhelpful as their supply and pricing would be observable in a way that was not true of other providers' products.⁶⁷ We decided that widening the scope of the remedy to include more, smaller banks would not be necessary because, as we stated in our provisional decision on remedies, our intention is to include leading lenders and to have good market coverage, and the banks we have decided to include are sufficient to achieve this.

69. With better data on SME lending market shares disaggregated at GB and NI level, it is clear to us that Santander does not have a market share of over 5% (by number of loans) at GB or NI level. In light of this and taking into account Santander's response to our [provisional decision on remedies](#) we decided that it would not be proportionate to include Santander within the scope of the order.
70. Furthermore, we considered that, as we have decided that all relevant lenders will be required to publish rates for specified SME lending products, the AEC we identified in SME lending would be addressed to some degree without online tools being developed, although as set out in Section 16, we consider there are benefits which tools will bring over and above this. Danske told us that it would be disproportionate to expect a small bank like Danske to implement in the same timeframe as a large bank such as HSBC.⁶⁸ Looking at the size of the three lenders that we included due to their NI market share alone, Danske, Bol and AIB, and considering that the development of online tools are likely to have a fixed cost which is not entirely proportional to the size of the bank and the benefits of the tool, we decided that it would be disproportionate to require these three banks to develop tools. We therefore decided to require only RBSG, LBG, Barclays and HSBCG to develop online tools.
71. As these four banks account for 86% of loans at a UK level (by number, at year end for 2015),⁶⁹ we consider that this requirement, in combination with our other remedies to increase SME engagement and to reduce the strength of linkages between BCAs and SME lending, could act to change SMEs' expectations. This could mean that loan providers seeking to grow would

⁶⁶ Including Co-op Bank, TSB and Clydesdale (see [LBG response to provisional decision on remedies](#), paragraph 13.28).

⁶⁷ [Barclays response to provisional decision on remedies](#), paragraph 15.21.

⁶⁸ [Danske response to provisional decision on remedies](#), p11.

⁶⁹ See Appendix 7.1.

benefit from developing an online loan price and eligibility tool, regardless of whether they are required to or not.

Who should be provided access to the tool's output

72. Multiple parties told us that there were benefits for customers to be able to access a range of lending offers in one location, such as comparison sites or finance platforms.
73. In our [provisional decision on remedies](#), we outlined three options for how providers could provide access to the tools output:
- (a) banks could disclose the algorithms which they use to determine price and eligibility offers to SMEs within the tool to these finance platforms and comparison sites so that these third parties could run calculations themselves;
 - (b) banks could connect up their systems such that finance platforms and comparison sites could transmit information entered by SME customers on their websites to banks, which would then be required to run their algorithms and return the results to a platform or a comparison site to display; or
 - (c) a third option would be for a 'black box' provider to sit between the comparison site and bank, and to run the bank's algorithms on its behalf.
74. We also stated that, of these three approaches, the first would appear to be simpler and would align with our proposed remedy on Open Banking, and therefore we were minded to adopt this approach, although we invited views as to its appropriateness and practicability.
75. In response certain parties agreed with our proposal (b) and others preferred (c). Banks were generally opposed to option (a) as they did not wish to share their algorithms with intermediaries. We decided that the optimal choice of these solutions for providing access to third parties may vary between banks and we will therefore only require that banks provide access to any two finance platforms designated under the [SBEE Act](#) for a period of three years and any two comparison sites, using either options (b) or (c): banks may therefore choose to use either of these two approaches.

The information input requirements

76. Parties provided a range of views on whether tools should be standardised either fully or through certain minimum requirements. Some were in favour of standardisation: this would make tools easy for use by SMEs, because results

would be comparable, and this would also mean that they could be easily connected to comparison sites. Others saw it as limiting competition through differentiation. Some parties suggested a degree of standardisation of inputs, through an industry guide or an independent body.

77. We decided that the information input requirements for loan price and eligibility indicator tools should primarily be determined by banks themselves, but that they should work with comparison sites to develop certain minimum standards in this regard.
78. LBG and Danske⁷⁰ also suggested a degree of standardisation of inputs, through an industry guide or an independent body. In particular, LBG suggested that standardisation should be achieved through an independent body because it had concerns that if it tried to do so through coordination with comparison websites it would require the sharing of its detailed credit policies and proprietary models, which contained competitively sensitive information.⁷¹ We consider that this would not be the case, as the range of input fields would be visible once tools were published, regardless of whether there had been a process of standardisation while they were developed, furthermore, this information is unlikely to be sensitive.
79. Although we welcome that banks engage with independent bodies or industry guides to attain a level of standardisation which would aid comparison between tools, we do not consider it necessary for us to require banks to do so, or for us to specify the body or means by which they might achieve this. The challenge of coordination should also be less significant with only four banks required to offer tools.
80. In our [provisional decision on remedies](#) we did not set out the minimum information that banks' tools should require from SMEs. We did, however, state that lenders and comparison sites should also consider carefully the degree of information they require customers to input to the price and eligibility tool. This should strike a balance between requesting enough information to enable sufficiently accurate quotes to be provided, and avoiding over-burdening users such that they would be discouraged from using the tools.⁷²

⁷⁰ Danske response to provisional decision on remedies, paragraph 7.6.

⁷¹ LBG response to provisional decision on remedies, paragraphs 13.31–13.37.

⁷² This concern regarding the optimal amount of information that should be asked of the tools' users is in accordance with the issues highlighted in the [BIT response to the Remedies Notice](#). BIT considered first that the data input process should be as easy as possible or else customers were less likely to use the tool due to the time costs of doing so. Second, customers would have lower search costs if they were required to enter information as few times as possible.

81. We note that the most advanced eligibility tool of which we are aware, developed by HSBCG in partnership with Equifax, uses the following information:
- (a) information about the business and the lending request – the amount of borrowing (up to £30,000), the business activity and legal structure;
 - (b) information about the people involved in the business (up to two proprietors) – name, addresses and date of birth; and
 - (c) Equifax Credit Report.
82. We consider that this may provide a reasonable approach to the number and range of fields which relevant banks should include in their tools.⁷³

The minimum information provided to SMEs and the speed in doing so

83. In our [provisional decision on remedies](#) we suggested that the minimum information which should be returned to the SME customer should be:
- (a) an indication of eligibility in a clearly understandable format, for example a percentage indicating the likelihood of being eligible for a given product at a given rate. This is in line with our understanding of the format in which at least one existing lending platform displays eligibility information; and
 - (b) an indicative rate including information in the same format as required in our proposed order regarding the publishing of prices, paragraph 25(a) and (b), above.⁷⁴ This is also used in the format the existing indicative offers are provided to customers by lenders who currently do so.
84. HSBCG said that requiring a percentage indicating the likelihood of eligibility presented a very significant technical challenge.⁷⁵ However, we are aware that results are returned in this manner by at least one online personal loan eligibility indicator tool and one existing SME lending platform. We also note that these indications of eligibility will not be binding. We will consult upon the

⁷³ [RBSG in its response to our provisional decision on remedies](#) (p24), told us that while for smaller SMEs a soft call could be made to the credit reference bureau to determine the absence of anything that would immediately prevent lending, automating an eligibility assessment would be difficult for larger SMEs and limited companies. It suggested that the tools be limited to small SMEs. We considered that this was unlikely to be a significant problem as larger companies would typically be less likely to use the tools (especially with the more limited scope we have decided upon subsequent to that which we outlined in our provisional decision on remedies), and that credit information was usually better for larger than for smaller SMEs.

⁷⁴ We note that this may differ somewhat from our order regarding the publishing of prices as the APR/EAR given will not need be as strictly representative as used under that remedy. Instead, see paragraphs 87–95, below, for further discussion regarding how to ensure the price and loans eligibility indicators give meaningful quotes.

⁷⁵ [HSBCG response to provisional decision on remedies](#), paragraph 67.

exact format to be used for paragraph 83(a), above, at the implementation stage of the investigation.

85. With regard to how quickly such tools should provide indicative price and eligibility quotes, it is clearly desirable that this should be done as quickly as possible.⁷⁶ We noted in our [provisional decision on remedies](#) that:
- (a) many banks which give indicative quotes to SMEs are able to do so almost instantaneously for relatively simple SME lending products;⁷⁷ and
 - (b) HSBCG's tool is able to provide users with an indication of eligibility 'within minutes'.
86. We therefore proposed in our [provisional decision on remedies](#) to require that relevant banks design loan price and eligibility tools such that SMEs can receive indicative quotes within 24 hours. No parties disagreed with this and so we have decided to keep this conclusion.

How to ensure the price and eligibility indicators give meaningful quotes

87. There was widespread agreement among parties that indicative quotes which were the same or very similar to the final quote offered to SME customers were of more use than ones where there was a significant degree of variation between the indicative and final offers provided.
88. At the same time, most parties' views were that quotes should not be entirely binding. This was for a number of reasons: for example, that it would be unfair to bind lenders to offers based on incomplete information and that SME customers' creditworthiness might change between the indicative and final offer and so lenders would be bound into irresponsible lending.
89. We largely agree with this assessment. Fully binding lenders into offers on the basis of limited information could reduce their incentive to provide tools that help SMEs identify the best products for them. On the other hand, the absence of any obligation on lenders to offer realistic indications of rates could weaken the credibility of these tools.
90. In our [provisional decision on remedies](#), we considered whether banks would have an incentive to provide offers that are lower than they realistically

⁷⁶ In Section 11 we identified that the nature of demand for SME lending products was a contributing factor to an AEC in the provision of SME lending. One feature mentioned in this regard is that SMEs quite often require finance on short lead times, and that waiting for the lender's decision can increase the costs for SMEs to obtain quotes from several providers.

⁷⁷ Banks provided us with a range of responses regarding the indicative offers they currently give to SME customers (which are frequently existing customers), and whether they do so at all. Some provide responses instantly, while some take up to 72 hours or longer.

expected to make when making a final decision, therefore impacting on the credibility of the tools. We thought that, in doing so, banks may be able to attract customers who may be unlikely to back out of completing a loan application once they have gone through a full application process with the lender they choose based on indicative offers.⁷⁸ Equally though, banks may not wish to do so as they could develop a bad reputation with customers. It is not clear which of these effects would dominate.

91. We identified four possible options for ensuring that price and eligibility estimates are realistic:
- (a) Each bank's final offers in terms of price should be required to be the same or better than the indicative offer they provide at least 51% of the time. This would be similar to the rule for publishing prices, outlined above. This would have the benefit of incentivising banks to provide most customers with realistic quotes, and ensuring that the majority of SMEs receive these. It would not, however, prevent banks from offering a minority of customers higher final prices, or limit how much higher these could be.
 - (b) There is a rule limiting the difference between each indicative and final offer made to an SME. This could be a given percentage, for example 10%. This would give SMEs understanding of how similar the final offer they receive is likely to be to their indicative offer. However, it may encourage banks to price offers conservatively, or to consistently price down towards the limit of how much their final offer is allowed to differ from the indicative offer, for example by up to 10% if that were the limit.
 - (c) A second variation of the rule (b), above, where banks' **average** variation between indicative and final offers should be no more than a given amount, for example 10%. This use of an average variation measure would mean that if one final offer turned out to be the same as the indicative offer, the bank could 'save' this variation and apply it to another customer, by varying its offer by up to 20%. The advantage of this rule would be that it incentivises banks to offer accurate indicative offers, allows them to increase final offers for customers who turn out to be higher risk, and also incentivises them to limit how much higher they price final offers on these occasions. However, banks may still have some margin in which to price indicative offers higher than they would

⁷⁸ BIT highlighted a number of behavioural factors and potential risks along these lines. [BIT response to Remedies Notice](#).

reasonably expect (if they wished to avoid being tied in to prices which were too low) or lower (if they wished to try to draw in customers).

(d) A requirement that banks must give information to the SME at the time of application on the proportion of all customers using their tool who received an end quote that was the same, or within a 10% range, of the indicative quote (eg 90% of SME customers received an end quote in line with the indicative quote). This would have the advantage of allowing customers to have a very good understanding of the likely relative accuracy of the offers they were being provided, and would avoid setting any rules on prices themselves. However, it would not directly prevent banks from offering indicative prices different to their expectation of final process, if they chose to do so.

92. We also note that a potential disadvantage of rules that make offers more binding is that it may be that the more binding the offer or rule is, the stronger the incentive for banks to increase the amount of information required from customers in order to improve the accuracy of their quotes. A greater information burden could lead to some SMEs being discouraged from using the tools. As noted in paragraph 80, there is a balance to be struck between requesting enough information to enable accurate quotes to be provided, which is beneficial for SMEs, and avoiding over-burdening users.
93. We also stated in our [provisional decision on remedies](#) that we were minded to require banks to follow option (d), ie lenders being required to give information on the proportion of customers who have received a final quote that is the same or very similar to their indicative quote.
94. In response to our [provisional decision on remedies](#), LBG, RBSG and Danske supported our proposal. HSBCG supported the broad principle of publishing a confidence range to ensure the indicative quotes are realistic. However, HSBCG considered that a less complex alternative would be preferred. Given HSBCG's SME loan pricing tools [X], HSBCG considered that an option should be open to banks to simply publish the proportion of SME credit applications where the indicative quote matched the final price offered (ie [x]% of SMEs were offered an actual price which matches the indicative quote). HSBCG considered its proposal would be less complex and easier for SMEs to understand.
95. Having considered these responses, we decided that our proposed option is more appropriate because, unlike HSBCG's proposal, it would not lower the accuracy score for banks' tools for banks which use a more granular pricing

model.⁷⁹ As no other parties objected to our proposal, we decided to require that banks give information to the SME at the time of use of the tool on the proportion of all customers using their tool who received an end quote that was the same, or within a given range (such as +/-10%) of the indicative quote. We will consult on what range to use at the implementation stage of the investigation.

Timing of implementation

96. In our [provisional decision on remedies](#) we proposed that loan price and eligibility indicator tools should be developed, and made available, within six months of us making the Order, to address the AEC in SME lending as soon as is practicable.
97. In response, only LBG told us that it would be able to meet such a deadline.⁸⁰ Two banks told us that a more appropriate deadline was between 12 and 24 months. One bank told us that 18 months was more appropriate.
98. We have decided on a transitional period of 12 months as we consider that banks should implement tools as quickly as is practicable and because we consider this should be achievable having assessed parties' arguments, and given the more limited scope of tools we have decided to require in comparison with that which we outlined in our [provisional decision on remedies](#). We also consider that banks should be able to adhere to this timeline because they will be able to consider the issues involved from the time of our final report and there may be an element of 'learning by doing' in banks' interactions with third parties such as CRAs.⁸¹

⁷⁹ Although we acknowledge that some providers currently use a discrete pricing model with a minimal number of price points, we note that others may use a much greater number of price points and may be adversely affected if, for example, they are able to achieve high levels of indicative accuracy in a narrow band around the actual price, but would not always offer the exact price point given in the indicative offer. Because we consider that providers should not be penalised for offering this type of pricing model now or in the future, we have decided to require banks to report according to our preferred option outlined in our [provisional decision on remedies](#).

⁸⁰ [LBG response to provisional decision on remedies](#), paragraph 13.36.

⁸¹ We also note that this timetable will be faster than is likely to result from our remedy regarding personal banking overdraft eligibility checker tools, described in Section 15. This is because we are recommending the FCA delays introduction of such a tool until after the implementation of APIs for sharing transaction data. The availability of transaction data through APIs is likely to be less significant for loans than for overdrafts, and as loans are also a central focus for the SME lending tool, we consider that there is less reason to delay implementation of this remedy until the introduction of transaction data through APIs has occurred.

Appendix 16.2: Measures to facilitate comparisons of SME banking

1. In our [Remedies Notice](#) we invited parties' views on how comparison tools for SME banking services could be created. We subsequently published a [working paper](#) and our [provisional decision on remedies](#) which summarised the responses we had received and set out our evolving thinking.

Responses to our working paper

2. In our [working paper](#), we compared the merits of three options for bringing about the creation of SME banking comparison services:
 - (a) Adopting measures to help existing SME-focused websites to widen their scope to include price comparisons. These would include sites such as BBI or commercially operated comparison tools.
 - (b) Mandating the creation of an industry-funded comparison tool. This would entail the CMA specifying the content and functionality of a comparison tool and making arrangements for its funding and governance.
 - (c) Building on the Nesta challenge prize to deliver comparison tools. Nesta, an independent charity, is developing a challenge prize to identify innovative and sustainable solutions to the problem we have identified with SMEs' access to information on banking products.

Adopting measures to help existing SME-focused websites to widen their scope to include price comparisons

3. There was support from several parties for building on the work of existing SME sites, both those providing comparisons of service quality and those offering price comparisons of SME banking services more generally, such as the designated finance platforms.
4. The BCC¹ said we should promote existing initiatives such as BBI. HMT said that, given that its infrastructure for non-price comparison had already been developed, adapting BBI to be compatible with and complementary to price comparison tools potentially emerging from the Nesta challenge prize would be preferable to replacing the infrastructure and brand of BBI altogether.
5. Some respondents, however, suggested that we should focus on other sites which compare SME banking products.

¹ [BCC response to working paper](#).

6. Santander² recommended that we support existing, commercial propositions in the market, in particular those designated as finance platforms as part of the [SBEE Act](#).³ It said that existing PCWs had demonstrated 'significant successes' and supporting these would be more certain, timely and less expensive than the Nesta challenge prize. It suggested that we require banks to provide data and display links to one or more of these sites on their websites.
7. Business Finance Compared⁴ said we should support existing sites to expand their scope. Funding Options⁵ said we could give more prominence to the compliant referral platforms designated as part of the [SBEE Act](#). It suggested that SMEs could be referred to these sites prior to rejection by banks. It felt that this would be more effective and faster than the Nesta challenge prize. Both Business Finance Compared and Funding Options challenged our view that [Better Business Finance](#) and [BBI](#) are the most developed sites in the market.

Mandating the creation of an industry-funded comparison tool

8. There was very little support for an industry-funded comparison tool although LBG⁶ said that it supported a backstop obligation to fund and establish a comparison service.
9. Barclays⁷ said that there should not be a commitment for the industry to fund a comparison tool as an alternative to the Nesta challenge prize. This was in part because, if the challenge prize did not produce a commercially sustainable site, this might point to a lack of demand or need from SMEs.
10. Business Finance Compared⁸ felt that an industry-funded site would not be perceived as independent and would be unlikely to succeed.

² [Santander response to working paper](#), paragraph 1.4.

³ This requires that, subject to consent, SMEs' details are passed on to designated finance platforms when their applications for lending are rejected by a bank. Currently the designated finance platforms are: Bizfitech (which operates Business Finance Compared), Funding Xchange and Funding Options.

⁴ [Business Finance Compared response to working paper](#).

⁵ [Funding Options response to working paper](#).

⁶ [LBG response to working paper](#), paragraph 2.6(c).

⁷ [Barclays response to working paper](#), paragraph 5.3.

⁸ [Business Finance Compared response to working paper](#), p9.

The Nesta challenge prize

Overall views of the parties

11. The majority of responding banks were positive about the Nesta challenge prize. Barclays⁹ said that it offered a way to create sustainable comparison tools by encouraging innovation within a broad framework. LBG¹⁰ welcomed and fully endorsed our support for the Nesta challenge prize. HSBCG¹¹ said that the Nesta challenge prize had the potential to provide a framework for a market-led and innovative practical solution to emerge. However, it was concerned that the prize parameters might not be sufficiently aligned with our remedies.
12. Santander,¹² however, was sceptical that a challenge prize was the most appropriate way forward. It was concerned that the outcome was uncertain and supporting comparison tools currently operating in the market could be more effective and proportionate. If it was pursued, it said that the design of the Nesta challenge prize should ensure fair competition between existing operators and potential new entrants. It also said that if the Nesta challenge prize resulted in a successful solution, it would be in the interests of smaller challengers to engage with the resultant solutions.
13. The finance platforms could see some value in the Nesta challenge prize, but two had some reservations. Business Finance Compared¹³ was concerned that it would divert banks' attention from working with existing sites, which would delay the delivery of the remedy. It also said that, when split across several winners, the Nesta challenge prize fund was too small to create a sustainable PCW solution or robust platform. Funding Options¹⁴ said that the needs of SMEs would not be met by a basic price comparison tool. It also said that there were risks associated with the Nesta challenge prize and our comparisons remedies should not rely solely on it.
14. Business Finance Compared¹⁵ suggested that the Nesta challenge prize could run in parallel with banks supporting existing comparison tools.

⁹ [Barclays response to working paper](#), paragraph 1.2.

¹⁰ [LBG response to working paper](#), paragraph 1.1.

¹¹ [HSBCG response to working paper](#), paragraph 4.

¹² [Santander response to working paper](#), paragraph 1.4.

¹³ [Business Finance Compared response to working paper](#), p7.

¹⁴ [Funding Options response to working paper](#), p6.

¹⁵ [Business Finance Compared response to working paper](#), p10.

15. The BCC said that it would be open to BBI entering the Nesta challenge prize and that it was, in principle, open to providing access to aggregate BBI data via the 'data sandbox'.¹⁶
16. HMT noted that the Nesta challenge prize did not have a certain timescale and outcome, and noted the risk of a negative impact on the overall SME framework even if the solution itself was positive if it led to the loss, or weakening, of existing tools.
17. In addition to these general views parties raised some specific issues.

Dependency on and relevance to Open Banking

18. Barclays¹⁷ said there would be advantages to aligning the Nesta challenge prize with the OBWG timetable for the adoption of Open Banking Standards, including open APIs, but this was not essential as banks could consider the use of direct data feeds or closed or proprietary APIs. LBG¹⁸ said that APIs would enable the sites to expand beyond BCAs to more individualised comparison of small unsecured lending and potentially other products. LBG¹⁹ also said that providers should supply data for the 'data sandbox' in advance of banking APIs. HSBCG²⁰ said it would be willing to provide customer data for the 'data sandbox'. It also said that we should seek to speed up the delivery of open APIs. Santander²¹ recognised the importance of APIs, but felt that the Nesta challenge prize was not a prerequisite for APIs to develop and that APIs would help the development of existing sites. Business Finance Compared²² said that access to the API 'sandbox' data would be a good incubator for innovation and designing solutions to deliver better customer experiences.

Funding

19. Barclays²³ said the overall cost of the Nesta challenge should be allocated proportionately across funders but suggested that consideration should be given to including contributions from providers beyond the larger banking groups. It said that funders should be consulted on costs and be assured that

¹⁶ [BCC response to working paper](#), p2.

¹⁷ [Barclays response to working paper](#), paragraph 2.2.

¹⁸ [LBG response to working paper](#), paragraph 2.2.

¹⁹ [LBG response to working paper](#), paragraph 2.2.

²⁰ [HSBCG response to working paper](#), paragraph 25.

²¹ [Santander response to working paper](#), paragraphs 3.17–3.19.

²² [Business Finance Compared response to working paper](#), p10.

²³ [Barclays response to working paper](#), paragraph 4.2.

these would not increase beyond the level agreed. LBG²⁴ suggested an order that required financial and data contributions from the leading providers. HSBCG²⁵ said it would expect all SME providers, including Santander and challenger banks, to participate and contribute to the Nesta challenge prize. It said that, subject to its concerns about the parameters of the prize being addressed, it would be prepared to make a 'funding contribution'. Santander²⁶ said that funding could be substantial and potentially open-ended. It was also concerned that requiring 'challenger banks' to fund this would divert resources from investments that would help smaller banks grow and challenge the incumbents. Secure Trust²⁷ said that banks which did not offer BCAs should not be required to fund a comparison tool.

Governance

20. Barclays²⁸ and LBG²⁹ said that the independence of the site would be addressed by Nesta (an independent charity) managing the challenge prize. Barclays³⁰ said that banks should not be involved in judging the prize, but should provide input and guidance.
21. Regarding ongoing CMA involvement, Barclays³¹ suggested appointing a member of the CMA to the Nesta Prize Committee. LBG³² suggested a monitoring trustee and/or appointing a representative to the governance body managing the proposed challenge prize competition. HSBCG³³ suggested that 'a project management capability' or monitoring trustee was appointed to ensure that the remedies package was delivered beyond the end of the Nesta challenge prize. HSBCG³⁴ also said it would be supportive of a role for the CMA in the governance of the Nesta challenge prize.
22. LBG³⁵ recognised data sharing, privacy and data security concerns, but felt these could be suitably dealt with.

²⁴ [LBG response to working paper](#), paragraph 2.6(a).

²⁵ [HSBCG response to working paper](#), paragraph 24.

²⁶ [Santander response to working paper](#), paragraphs 2.3 & 3.2.

²⁷ [Secure Trust response to working paper](#).

²⁸ [Barclays response to working paper](#), paragraph 6.1.

²⁹ [LBG response to working paper](#), paragraph 3.1.

³⁰ [Barclays response to working paper](#), paragraph 6.1.

³¹ [Barclays response to working paper](#), paragraph 6.1.

³² [LBG response to working paper](#), paragraph 3.1.

³³ [HSBCG response to working paper](#), paragraph 22.

³⁴ [HSBCG response to working paper](#), paragraph 29.

³⁵ [LBG response to working paper](#), paragraphs 3.4–3.5.

Transitional measures

23. There was agreement that at least some interim support should be provided for BBI, though there was disagreement about how long that support should continue.
24. While the BCC³⁶ welcomed our comments on BBI, it was concerned about uncertainty over our long-term support for BBI. It said we should mandate the BBI survey data as the default option for providing quality data and mandate all banks to support this initiative by working to promote the BBI website among their customers.
25. Barclays³⁷ said [✂].
26. LBG³⁸ agreed that support for BBI should continue for an initial period. It felt that BBI would be entitled to compete for the challenge prize itself and/or innovate further to compete or collaborate with entrants. It felt that the CMA should engage with BBI to discuss how the survey could be improved, to provide more robust results.
27. HSBCG³⁹ said that it favoured support of the BBI so that it could be built into the remedies package in a steady state environment. It also said it would support a recommendation from the CMA that the BBI survey be incorporated into any solutions arising from the Nesta challenge prize.
28. Santander⁴⁰ said that BBI was not a PCW, and the continuation of BBI should not be dependent on the development of a comparison tool for SMEs. Instead, the CMA should look to BBI to share data with comparison tools.
29. Funding Options⁴¹ suggested that BBI ratings were offered across the SME comparison market via open APIs, so their positive impact was magnified.

³⁶ [BCC response to working paper](#), p3.

³⁷ [Barclays response to working paper](#).

³⁸ [LBG response to working paper](#), paragraph 2.6(d).

³⁹ [HSBCG response to working paper](#), paragraph 33. HSBCG also responded on this point in its response to our [provisional decision on remedies](#). It said that it would favour support of the BBI if it could be built into the remedies package in a steady state environment, in the context where it could be incorporated into any solutions arising from the Nesta challenge prize.

⁴⁰ [Santander response to working paper](#), paragraph 3.20.

⁴¹ [Funding Options response to working paper](#), p6.

Remedy design considerations

Scope and coverage of services

Products

30. We considered which products should be included within the scope of the obligation to provide information to comparison websites in addition to BCAs, overdrafts and unsecured loans.
31. We thought it would be unnecessary to oblige providers to list on comparison websites products where they already compete with each other and with alternative lenders, for example asset finance or invoice financing. However, we thought it would be reasonable to require providers to list on comparison websites those products for which SMEs did not shop around and for which they tended to go straight to their current account provider, ie BCAs, overdrafts and unsecured loans.⁴²

Providers

32. We have also considered to which banks the remedy should apply, given the need to address the AEC in NI as well as in GB and also taking into account the costs of compliance to the smaller banks, including those predominantly operating in NI.
33. We thought that market shares of BCAs and SME lending would provide a reasonable basis for specifying this aspect of the remedy, to reflect that SMEs tend to go to their BCA provider for lending products.
34. To ensure good coverage of the market, we thought it reasonable to include only those banking groups with a BCA or SME lending share of over 5% in GB or NI.
35. On this basis, the banking groups that would be included are RBSG, LBG, Barclays, HSBCG, Santander, Danske, BoI and AIBG.

Creating an SME comparison website

36. Having considered the responses to our working paper, our view is that the Nesta challenge prize is the most promising of the three options set out in paragraph 2 and that it offers the best prospect of identifying an innovative,

⁴² See Section 11.

sustainable and comprehensive solution to the competition concerns that we identified in Section 11.

37. This is because we believe that:
- (a) It is more likely to give rise to innovative and commercially sustainable solutions than a website designed by a regulator.
 - (b) Although there are several comparison websites currently available on the market, they each individually offer only a part of the service required to enable SMEs to compare SME banking products and providers. Websites such as [Better Business Finance](#) and [BBI](#)⁴³ focus on specific aspects of SME banking, such as service quality. Finance platforms that currently operate in the market (including Bizfitech,⁴⁴ Funding Options and Funding Xchange) provide information on alternative sources of finance to the large banks but offer limited comparisons of other services such as BCAs. SMEs would be better served by 'one-stop-shop' tools which would enable them to quickly and reliably compare banks on price, quality of service and lending criteria across the whole range of providers.
 - (c) It encourages new suppliers to enter the market without precluding existing providers of comparison services, such as listed above, from continuing to offer services or, indeed, competing for the challenge prize.

⁴³ The BBI is not a price comparison site. However the BCC has told us that it is considering the addition of comparative price information.

⁴⁴ Which operates Business Finance Compared.

Appendix 16.3: Remedy design considerations – reducing incumbency advantages by increasing the sharing of SME data

1. This appendix details our consideration of the key issues relating to the design of the remedy, covering:
 - (a) the type of information required by a provider to issue an indicative lending decision to an SME;
 - (b) the feasibility of sharing a common set of information that would allow providers to issue an indicative lending decision to SMEs; and
 - (c) the recent commercial, technological and regulatory developments that are likely to facilitate the sharing of SME information.

Type of information required for an indicative lending decision

2. It is not feasible for providers to issue quick firm lending decisions for larger finance requests, as due to the inherent complexity and increased risk of such requests, providers typically require more information and time to undertake a credit risk assessment.
3. However, an indicative lending decision for those SMEs seeking higher-value finance would provide them with a measure of certainty of the availability of finance and the likely pricing of that finance. This would enable SMEs to compare the range of finance options available to them in the market.¹
4. The type of information that providers would require to issue an indicative lending decision would be dependent on the provider's requirements, the individual circumstances of the SME and the type of finance that they required, but would likely include the following information:
 - (a) background information about the SME, such as information about senior management;
 - (b) financial information, such as historical accounts and forecasts;
 - (c) the reason for the finance requirement;
 - (d) the amount of finance required;
 - (e) the type of finance required;

¹ We acknowledge that even the provision of an indicative lending decision is likely to become increasingly difficult as the quantum and complexity of the finance request increases.

- (f) the structure of the debt (ie the term and the amortisation/repayment profile); and
 - (g) details of the security being provided (if applicable).
5. We agree with the BCC that for purposes of data security, the information required must be strictly limited to the necessary information needed for the finance provider to be able to make a reasonably informed decision.²

Feasibility of a common information set across providers

6. The feasibility of sharing a common set of information that would allow all or a substantial proportion of providers to issue an indicative lending decision to SMEs will likely depend on ensuring that the information supplied by SMEs is sufficiently broad to capture the different parameters on which banks base their indicative lending decisions.
7. Although this will require consultation with providers, the type of information required by providers to issue an indicative lending decision is much narrower in scope than that required to perform a credit risk assessment for the purpose of a firm lending decision. The standardisation of credit risk assessment among providers is neither likely nor desirable.

Recent and ongoing commercial, technological and regulatory developments

8. There are a number of commercial, technological and regulatory developments that are likely to facilitate the sharing of SME information, which should enable SMEs to consider a wider pool of providers when seeking finance, including higher-value loans.
9. This suggests that initiatives designed to facilitate the greater sharing of SME information, which could be used to support multiple finance applications, could emerge out of the normal competitive process.

Factern

10. Factern is an initiative led by Oliver Wyman that provides a data routing platform to enable SMEs to share their public and commercially sensitive data with counterparties in a controlled and structured format. It was set up as a result of an industry-led Business Data Initiative (BDI).³

² [BCC response to our provisional decision on remedies](#), p2.

³ The BDI is a commercial initiative developed in partnership by Santander, Experian, KPMG, Oliver Wyman and AgFe.

11. The purpose of this solution in the first instance is to reduce friction in the SME account opening process, but it has wider data-sharing applications for SMEs including, but not limited to, applying for credit, thereby supporting our measure to standardise and simplify the BCA opening process. However, the platform could be used by SMEs to submit documentation, such as business plans, required for indicative lending applications.

Account aggregation services

12. Account aggregation services, such as Daily IQ⁴ and Xero,⁵ currently have limited presence in the UK, but their presence and use is likely to increase over time. For SMEs, these services are more focused on business accounting and enable SMEs to manage their business accounts, reconcile data from different sources, manage invoices online and obtain a real-time view of their cash flow. However, Xero can also serve as a platform for other applications.⁶ Therefore, such tools could also be developed to allow SMEs to submit documentation for indicative lending applications.

Open data and APIs

13. As set out in Section 13, one of our foundation measures aims to build on the OBWG work by ensuring the timely development and adoption of open API standards together with appropriate data and security standards.
14. Specifically, this would enable read and write access to BCA customer transactional data by early 2018, which should reduce the information asymmetry between a customer's BCA provider and other prospective finance providers.

SBEE Act

15. The [SBEE Act](#)⁷ requires banks (meeting certain market share thresholds) to share data on their SME customers with other prospective lenders through CRAs, and requires those CRAs to provide equal access to that data to all lenders.

⁴ See [CommonwealthBank website](#).

⁵ See [Xero website](#).

⁶ See [Deloitte report on the impact of innovation in the UK retail banking market](#), p42.

⁷ The [SBEE Act](#) received royal assent on 26 March 2015 and comes into force at staggered periods over 2015 and beyond.

16. Further, regulations made under the [SBEE Act](#)⁸ require designated banks to pass on information about those SMEs they have rejected for a business loan or credit application to designated finance platforms.⁹

⁸ Small and Medium Sized Business (Finance Platforms) Regulations 2015.

⁹ Bizfitech, Funding Options and Funding Xchange have recently been designated as finance platforms to help match rejected borrowers and alternative lenders. See [Budget 2016, Section 4: Backing business and enterprise](#).

Appendix 16.4: Remedy design considerations – making account opening easier and improving the switching process

1. This appendix details evidence relating to our consideration of the key issues relating to the design of the remedy, covering:
 - (a) Applicability: which parts of the BCA opening process should the remedy apply to?
 - (b) Scope/coverage: to what types of SME should the remedy extend to?
 - (c) The desirability of having an outcome measure on the length of the BCA opening process.

Applicability to BCA opening process

2. At a high level, a stylised BCA opening process can include the following main steps or activities:¹
 - (a) The SME, or a third party on its behalf, accessing and completing the account opening form² and providing the required supporting information and evidence to the bank.
 - (b) Processing of the application by the bank, including carrying out necessary AML compliance activities and CDD checks (which might include seeking further information and evidence as necessary and appropriate in the circumstances of a specific application).
 - (c) Other account onboarding processes, including issuing debit/credit card, cheque book, providing online access, communicating details about account features, facilities etc.
3. We have decided that only those activities which relate to step (a) in paragraph 2 above should be standardised at the industry level. On the other hand, standardisation of steps (b) and (c) are either not practicable or desirable due to regulatory, competition or other reasons.

¹ Barclays told us that while this was sensible in theory, the practical application of this was more complicated. For example, through the ongoing work Barclays had participated in, it had become clear that each of the banks had a different approach to elements (a), (b) and (c), such that some banks included elements of (b) and (c) within the front-end form that the customer had to fill in ([Barclays response to provisional decision on remedies](#), paragraph 18.9).

² We recognise that for many providers, not all information is collected through a 'BCA opening form' but provided by the customer or sourced by the providers through other means eg verification through Companies House.

Regulatory requirements

4. During the BCA opening process, UK banks must comply with [Money Laundering Regulations 2007](#) (MLR) aimed at preventing money laundering and combating terrorist financing. The MLR establishes a risk-based regime where banks are expected to apply the rules in a manner proportionate to the risk assessed, and this approach enables providers to exercise appropriate discretion in the implementation of their AML processes.
5. While the MLR³ allow a bank to rely on the CDD measures undertaken by another bank, the relied-upon bank needs to give its consent, and the relying bank remains liable for any AML deficiencies.
6. We are of the view that step (b) of the BCA opening process mentioned in paragraph 2 would not be appropriate to be standardised across the industry. Banks should have the flexibility of asking for further information to fulfil their AML responsibilities, and undertake necessary checks and CDD based on their assessment of risk.⁴
7. Therefore, while a core set of standard information can be adopted by BCA providers, they should be entitled to ask for additional information in specific circumstances for example where additional AML checks were required or related to additional services or account features.⁵

Effect on competition

8. There was some concern expressed in the responses we received that standardisation of procedures could inadvertently reduce providers' incentives to innovate in relation to simplifying account opening procedures, and thereby mute competition.
9. It was, however, also suggested that any unintended consequences of the remedy could be mitigated by appropriately designing the remedy, so that it enabled innovation and improvements to the entire experience of the customer onboarding. For example, since banks competed with other providers on aspects related to customer servicing and relationship building, standardisation of these parts of the account opening process could stifle competition.

³ Regulation 17 of the MLR.

⁴ Thus, adopting a core set of standard information and evidence requirements will not include harmonising the way banks assess risk or use and interpret the information provided by a customer to meet their regulatory obligations (eg AML).

⁵ We note that there will be incentives for banks not to ask an excessive number of additional questions.

10. HSBCG told us that standardisation of the account opening process could never cover every aspect of procedures and data capture, and that banks must be free to improve and compete on certain aspects of the account opening process.⁶
11. Barclays submitted that there could be unintended consequences in introducing standard common form for account opening. It stated that a substantial amount of innovation and competition in banking products had been created by those competing to offer the best customer experience and fastest processes. However, according to Barclays, this risk could be mitigated by limiting the mandatory common sections to the core KYC sections, enabling innovation and improvements to the entire experience of onboarding.⁷
12. Barclays also stated that focusing on standardising the BCA opening procedures may result in the majority of processes in the industry being made longer for the sake of standardisation, and that the more prescriptive the remedy, the less scope there was for financial institutions to react to customer behaviour and deliver an improved customer experience. It also made the point that standardisation may restrict new innovations to improve the customer experience either by new solutions being outside the confines of the prescriptive 'standard form' or diverting resources which could be spent driving improvements to the customer journey to building a new standard form.⁸
13. LBG made the point that requiring providers to standardise the wording of questions could result in a more onerous customer experience. For example:
 - (a) some providers would ask a UK registered limited company applicant for its registered name, registered address and the names of its directors. However, including these questions on a 'standard form' would be detrimental to SMEs applying to other providers (such as LBG) which only requested the company number, and used the Companies House database to obtain information on registered name, registered address and directors; and
 - (b) some providers had invested in electronic identification and verification to verify the identities of its applicants instead of requiring documentary evidence. Accordingly, it would be more onerous for SMEs applying to

⁶ [HSBCG response to Remedies Notice](#), paragraph 114.

⁷ [Barclays response to Remedies Notice](#), paragraph 7.11.

⁸ [Barclays response to provisional decision on remedies](#), paragraphs 18.1 & 18.16.

these providers to have to provide documentary evidence (if this were part of a 'standard form').⁹

14. LBG also felt that it was inappropriate to focus on absolute number of common and additional questions.¹⁰
15. RBSG stated that the CMA's proposal was open to a number of different interpretations and welcomed clarity on the exact scope of application envisaged by the CMA. Further, RBSG welcomed clarification on whether the CMA envisaged a single core set of questions for all banks, or whether the intention was that banks determined their own questions provided that the data required from customers was broadly similar across banks (ie a common answer set). Further, RBSG welcomed further clarity from the CMA as to how the remedy was intended to apply given the increasingly dynamic nature of the account opening process, in particular, relating to BCAs. Specifically, RBSG noted that there was no single 'standard form' for applying for a BCA. Smaller customers who approached RBSG intending to open a new BCA were typically directed to online and telephone-based application processes.¹¹
16. Santander's view was that rather than focusing on the form itself, this remedy should focus on the data that SMEs required to satisfy BCA opening forms and other banking services applications.¹²
17. FSB stated that since this remedy would be creating a 'minimum standard', it expected to see at least 70% of questions in the BCA opening process standardised. Further, it stated that this would be a reasonable measure as most banks were likely to require similar basic account opening information.¹³
18. Santander told us that this remedy did not reduce banks' incentives to compete, since it would be a 'minimum standard'. It also stated that this remedy would not prevent banks from offering additional innovations to make their own processes even easier, if they felt that such differentiation would give them a competitive advantage.¹⁴
19. Barclays told us that seeking convergence of 80% of the front-end customer facing form would result in the majority of forms needing to be lengthened, for the sake of standardisation. However, this would not meet the CMA's core objective of simplifying and speeding up the process for an SME attempting to

⁹ [LBG response to provisional decision on remedies](#), paragraph 15.10.

¹⁰ *Ibid*, paragraph 15.15.

¹¹ [RBSG response to provisional decision on remedies](#), paragraph 15.1.

¹² [Santander response to provisional decision on remedies](#), paragraph 16.1.

¹³ [FSB response to provisional decision on remedies](#), p2.

¹⁴ [Santander response to Remedies Notice](#), Annex 2, paragraph 6.2.

open an account.¹⁵ Further, it mentioned that based on its existing BCA opening process, following successful integration of Companies House data only 35% of personal data and 20% of business data (for sole traders and single directors) would need to be collected from the customer.¹⁶ This represented a substantial improvement in customer experience through reduced and quicker data input for the SME. However, there were risks that mandating a remedy to standardise the BCA process may result in innovations such as this being restricted.¹⁷

20. Our view is that there are limitations in respect of standardising AML/CDD checks by banks as part of the BCA opening process. Further, many aspects of the customer onboarding processes can be a source of competitive differentiation for banks, and therefore should be left to the individual banks to decide.
21. However, standardisation of some aspects of the BCA opening process through implementing a core set of standard information and evidence requirements (high level activities described in step (a) in paragraph 2) are feasible, and can contribute towards simplifying the account opening and switching process for SMEs.
22. After considering the responses received to our [provisional decision on remedies](#) and the progress made by Project Bulldog in relation to this remedy, we consider that the focus of this remedy should be on a core set of standard information and evidence requirements for opening a BCA rather than having a standard account opening form.
23. A core set of standard information requirements would also enable capture of consistent data needed to open a BCA across the industry. However, the mechanism for capturing this data or how the information is sourced will continue to provide opportunities for innovation by banks, and could be collected at different points in banks' processes and using different methods for example directly from Companies House.¹⁸
24. The core set of standard information and evidence requirements specified should be sufficient to allow a customer to open a BCA in most circumstances. While developing its proposal for CMA's approval, the BBA-led industry group should aim for a minimum amount of core information and

¹⁵ [Barclays response to provisional decision on remedies](#), paragraph 18.10.

¹⁶ Similarly, Barclays stated that it was working with the Government Digital Service (GDS) department to look into innovative solutions for identifying and verifying individuals in the UK ([Barclays response to provisional decision on remedies](#), paragraph 18.14).

¹⁷ [Barclays response to provisional decision on remedies](#), paragraph 18.13.

¹⁸ In some instances, this may also include collection of information soon after the account has been opened.

evidence requirements for opening a BCA, taking into account their regulatory duties for example regarding AML.

25. We consider that an industry group convened by the BBA with FCA attending as an observer is best placed to make a proposal to the CMA regarding the core set of standard information and evidence requirements for opening a BCA.¹⁹
26. The proposal from the BBA-industry group should also allow for adequate flexibility for banks so that they can continue to innovate to make the account opening process easier for BCA customers.

Scope/coverage of the remedy

27. The general view expressed in the responses we received highlighted that introducing standard questions and evidence requirements were more likely to be practicable only for those SMEs that were likely to be 'low risk' from the point of view of AML compliance and CDD checks, as all banks are likely to ask for similar basic account opening information.
28. For example, HSBCG told us that this remedy was unlikely to suit SMEs considered a higher risk from an AML perspective with complex business structures, or businesses with multiple levels of ownership or overseas ownership, as BCA providers would typically require more information and supporting evidence from these types of businesses in order to conduct more in-depth AML and KYC checks.²⁰
29. RBSG stated that standardisation of account opening forms might need to be limited to 'low risk' customers, and should be viewed as ensuring a minimum standard which could be enhanced by banks to meet their AML requirements to avoid any abuse of this regime.²¹ It stated further that the focus of this remedy – and certainly to the extent that a common form with the exact same set of core questions is envisaged – should be on micro businesses ie sole traders, simple partnerships, non-complex limited companies as currently considered by Project Bulldog.²²
30. According to RBSG, if the CMA were minded to extend the scope of this remedy to include SMEs beyond micro businesses, it recommended adopting a principles-based approach where banks would agree key elements that

¹⁹ See Section 16 where we discuss our decision on the design of this remedy after considering the responses received.

²⁰ [HSBCG response to Remedies Notice](#), paragraph 111.

²¹ [RBSG response to Remedies Notice](#), Section 3.6, p34.

²² RBSG also noted that the precise scope was an area which the BBA should consider further ([RBSG response to provisional decision on remedies](#), paragraph 15.1).

would need to be established before these more complex SMEs were able to open a BCA, but that did not seek the same level of harmonisation as could be achieved in relation to smaller and less complex SMEs. RBSG suggested that this should take place in a second phase of the remedy after consideration by the CMA and/or the BBA as to whether this would result in tangible benefits to customers.²³

31. Barclays considered that the scope of this remedy should be limited to SMEs with turnover of less than £6.5 million.²⁴ Regarding standardising evidence requirements, while Barclays supported the CMA's findings that transparency can be improved by converging the types of evidence required across each of the banks, such that the majority of businesses applying for BCAs are required to bring the same types of information (for example, passport or driving licence), it stated that making changes to the documentary requirements would involve complex amendments and alignments of policy across financial institutions and changes to a number of interdependent back-end systems supporting the capture, checking and storage of documentation.²⁵
32. According to LBG, the initial focus of the remedy should be on building on the initial positive progress made by Project Bulldog in relation to simpler SMEs, such as UK domiciled firms that are sole traders, partnerships, or single director limited companies (who together are estimated by LBG to represent around 90% of all SMEs). Further, it stated that in deciding which types of SMEs should be included within the remedy, the CMA should be mindful of the risk that customer confusion could undermine the effectiveness of the remedy if there were too many variants of the standard question types and guidance materials. Further, it may also be disproportionate to agree, implement and subsequently update the remedy for categories of SME with few members.²⁶
33. Our view is that while it may be more practicable to develop a core set of standard information and evidence requirements for SMEs with less complex needs and ownership structures, the remedy could also be extended to other, more complex SMEs, although we recognise that there are limitations in respect of implementing these to cover all categories of SMEs.
34. An industry group convened by the BBA, and with the FCA attending in the capacity of an observer, is best placed to propose the coverage and

²³ [RBSG response to provisional decision on remedies](#), paragraph 15.1.

²⁴ [Barclays response to provisional decision on remedies](#), paragraph 18.2.

²⁵ *ibid*, paragraph 18.6.

²⁶ [LBG response to provisional decision on remedies](#), paragraphs 15.18 & 15.19.

applicability of this remedy requirements to the CMA. It should develop appropriate segmentation of SMEs in the context of this work, and make a recommendation to the CMA on segments of the SMEs that ought to be taken out of scope of the remedy.

Outcome measure related to the length of the BCA opening process

35. In our [Remedies Notice](#), we invited views as to the appropriateness of prescribing an outcome measure, such as the average or minimum time it took BCA providers to process an application, as the basis for our remedy. Several parties pointed out limitations around prescribing such an outcome measure, since they considered that the timing of the process was not typically fully under the banks' control, and also depended on the type and size of the SME.
36. For example, HSBCG noted that the time it took to open an account (or indeed any product) was dependent on factors including: (a) when all the necessary information had been received from the customer; (b) the channel (internet, branch, relationship manager) used to make the application; and (c) where the customers required confirmation of lending products such as loans or overdrafts before opening the account, whether a scored or judgemental credit process was utilised.²⁷
37. RBSG stated that the wait time to open a BCA was due to customers providing information, mainly because with larger customers, the person interacting with the bank did not always have the necessary information. It felt that setting average or minimum timescales might be reasonable for 'less complex' customers, but for other customers the process was too detailed and/or bespoke to be subject to time restrictions.²⁸
38. Business Finance Compared recommended a remedy for banks to have to disclose their average processing and opening times to enable these to be easily compared by SMEs.²⁹
39. Due to the practical difficulties in prescribing an outcome measure or a target for average time it takes a bank to open a BCA, we have decided not to mandate this as part of this remedy. This aspect of the account opening process is addressed in our remedy to enable consumers and SMEs to make comparisons between providers on the basis of their service quality as set out in Section 13.

²⁷ [HSBCG response to Remedies Notice](#), paragraph 113.

²⁸ [RBSG response to Remedies Notice](#), Section 3.6, pp37–38.

²⁹ [Business Finance Compared response to Remedies Notice](#), p23.

40. FSB asked us to consider whether there was scope, in certain circumstances, to issue a prompt following ‘a maximum period of time’. This, according to FSB, could help address those business customers that had begun the opening process for a BCA, but may have since delayed or temporarily halted the exercise, because they did not understand a feature of the application process or required more advice.³⁰ Although such a prompt could be useful, given the practical difficulties in prescribing a ‘maximum period of time’, it would not be practicable to include such a measure as part of this remedy.

Other design considerations

41. According to Barclays, more could be done to ‘demystify’ the account opening process. It mentioned that this could be achieved by clearer communication to customers on how a customer could apply for a BCA, across branch, telephony, online and mobile, and that this information should also aim to include guidance on what types of information would be required for each of the relevant businesses. Further it stated, that this information could be promoted through the following means:
- (a) Standard information and terminology could be deployed on all of the participating banks’ websites and literature.
 - (b) Guidance could be given through FSB and other industry bodies, either digitally or the creation of a booklet with key information and guidance.
 - (c) Such guidance could also be included in CASS material, with links from CASS advertising and inclusion on the CASS website.³¹
42. Similarly, LBG told us that based on its discussions with SME representative groups, material benefits could be achieved by providing clear, standardised and readily accessible guidelines to SMEs on the types of questions that may be asked by banks; the purpose of the questions being asked; and the types of response and evidence required. This would facilitate SMEs in opening new accounts (at start-up) and switching, whether they applied to a single provider or multiple providers.³²
43. LBG also stated that SME representative groups had explained to LBG that it was not necessary for each bank’s questions and application processes to be completely ‘standardised’, and it was more important to simplify the process of engagement with banks, including by providing clear, standardised and readily accessible guidelines to SMEs on the types of questions that may be

³⁰ [FSB response to provisional decision on remedies](#), p2.

³¹ [Barclays response to provisional decision on remedies](#), paragraph 18.7.

³² [LBG response to provisional decision on remedies](#), paragraph 15.2.

asked by banks; the purpose of the questions being asked; and the types of response and evidence required.³³

44. FSB suggested that the CMA considers the extent to which guidance might be produced alongside both standardised and non-standardised questions included within the BCA opening process. For example, the industry group taking this remedy forward might want to consider whether a 'hover and click' function could be incorporated into the BCA opening process so that the small business customer had more information about specific terminology and/or product offerings that were referenced. For those filling out a hard-copy BCA application, improvements to existing guidance should also be considered.³⁴
45. We agree that having clearer communication, terminology and guidelines regarding account opening can help simplify BCA opening procedures for SMEs. We have therefore provided for the BBA-convened industry group to include the following in its proposal to the CMA for implementing this remedy:
 - (a) Prescribe where the core set of standard information and evidence requirements (including, where appropriate, proposed changes to these) for opening a BCA will be made available (eg online) to SMEs along with clear terminology, instructions and guidelines, including what was required for verification, either in person at a bank branch, or online or via the telephone.
 - (b) Develop guidelines regarding how banks promote and communicate the requirements for opening a BCA in respect of the core set of standard information and evidence requirements to SMEs.

³³ Ibid, paragraph 15.7.

³⁴ [FSB response to provisional decision on remedies](#), p3.

Appendix 19.1: Summary of remedies

1. Table 1 sets out our remedies which will be implemented by way of a CMA Order or by accepting undertakings. The table also includes details of the commencement dates for when we currently expect the remedies will come into effect.

Table 1: Summary of remedies to be implemented by Orders and undertakings

<i>Remedy</i>	<i>Responsibility</i>	<i>Order or Undertakings</i>	<i>Commencement date – by or between</i>
Development and adoption of an open API standard	Largest banks in GB and NI	Order	Q1 2017 and Q1 2018
Service quality metrics: core measures	All banks*	Order	Q3 2018
Prompts: cooperate with FCA research and trials	All banks*	Order	Q1 2017
Facilitating switching: CASS governance	Bacs	Undertakings	Q3 2017
Facilitating switching: CASS awareness and confidence	Bacs	Undertakings	Q3 2017
Facilitating switching: CASS redirection	Bacs	Undertakings	Q4 2017
Transaction history for customers	All banks*	Order	Q1 2018
Overdraft alerts with grace periods	All PCA providers*	Order	Q1 2018
Alerts: cooperate with FCA research and trials	All banks*	Order	Q1 2017
Monthly maximum charge	All PCA providers	Order	Q3 2017
Firm overdraft decision to customer prior to switching account provider	Bacs	Undertakings	Q3 2017
Development of a comparison services for SMEs	Largest banks in GB and NI	Order	Q1 2017
Publication of SME lending product prices	All SME lenders	Order	Q3 2017
Development of SME loan price and eligibility tool	Largest banks in GB	Order	Q1 2018
BCA opening procedures	All banks*	Order	Q1 2018

* Subject to a de minimis threshold.

2. Table 2 sets out the remedies where we are making a recommendation to another body.

Table 2: Summary of recommendations

<i>Who</i>	<i>What</i>
FCA	Undertake a programme of research into customer prompts and to implement measures as appropriate
	Additional measures of providers' service performance
	Identify, research, test, and, as appropriate, implement measures to increase customers' engagement with their overdraft usage and charges
	Assess ongoing effectiveness of the MMC and consider whether other measures could be taken to further enhance its effectiveness
	Consider requiring PCA providers to offer online tools indicating customers' overdraft eligibility
	Investigate how to engage customers more in considering overdraft features during the PCA opening process
	Attend the BCA opening industry group as an observer
HMT	Give an authority powers to have regulatory oversight of CASS
	To work with CRAs and SME lenders to enable SMEs to undertake soft searches for loans
	Review commercial, technical and regulatory developments in the area of sharing SME data
BEIS	Work with the BBB and professional associations to explore ways in which their members can channel advice on identifying and choosing providers and sources of finance to SMEs

Glossary

2002 SME Undertakings	CC investigation in 2002 into the supply of banking services by clearing banks to SMEs .
2008 NI Order	The Northern Ireland PCA Banking Market Investigation Order 2008 was put in place following a review by the CC into the PCA banking market in Northern Ireland in 2006. It was reviewed and varied in 2011.
4MLD	Fourth Money Laundering Directive.
ABCUL	Association of British Credit Unions Ltd.
ABI	Association of British Insurers.
AEC	Adverse effects on competition.
AER	Annual equivalent rate.
AIB	Allied Irish Bank, the trading name of AIBG in Great Britain.
AIBG	AIB Group, the parent company of AIB and First Trust Bank .
Aldermore	Aldermore Bank.
ALRB	Additional leverage ratio buffer.
AML	Anti-money laundering.
ANP	Account Number Portability.
API	Application program interface.
APR	Annual percentage rate.
Arranged overdraft	A type of overdraft facility that is agreed by the customer with their bank, allowing them to borrow money up to a certain amount if there is no money left in the account. This is put in place by the customer prior to needing to use funds that exceed their account balance.
Atom	Atom Bank. A digital-only bank.
Bacs	Bacs Payment Schemes Limited. Bacs is a membership company limited by Guarantee, with responsibility for the

schemes behind the clearing and settlement of UK automated payment methods, direct debit and Bacs direct credit, as well as the provision of managed services for third parties, such as the Cash ISA Transfer Service, and the development, management and subsequent ownership of **CASS**.

Bank	Includes banks and building societies for the purposes of this report.
Barclays	Barclays Bank plc.
BBA	British Bankers' Association . A trade association for the UK banking sector with 200 member banks headquartered in over 50 countries with operations in 180 jurisdictions worldwide.
BBB	British Business Bank .
BBF	Better Business Finance .
BBi	Business Banking Insight .
BCA	Business current account.
BCA market study report	Banking services to small and medium-sized enterprises: a CMA and FCA market study .
BCBS	Basel Committee on Banking Supervision.
BCC	British Chambers of Commerce.
BCCA	BCCA Limited (formerly the British Cheque and Credit Association), a trade association for providers of unsecured short-term loans such as payday, instalment and guarantor loans; credit brokerage; and third party cheque cashing services.
BCOBS	The FCA's Banking Conduct of Business Sourcebook .
BDRC	BDRC Continental.
BEIS	Department for Business, Energy and Industrial Strategy.
BIT	Behavioural Insights Team.

BoE	Bank of England.
Bol	Bank of Ireland.
BoS	Bank of Scotland, a subsidiary of LBG .
BRRD	Bank Recovery and Resolution Directive.
CA98	Competition Act 1998 .
CASS	Current Account Switch Service.
CBI	Confederation of British Industry.
CC	Competition Commission. (As from April 2014, the functions of the CC were taken over by the CMA .)
CCD	Consumer Credit Directive.
CCG	Consumer Challenge Group.
CCTA	Consumer Credit Trade Association, a trade association representing all businesses involved in consumer credit.
CDD	Consumer due diligence.
CHAPS	Clearing House Automated Payment System.
Charterhouse	Charterhouse Research. A company specialising in financial research.
Charterhouse follow-up surveys	Charterhouse follow-up surveys comprise the following areas of the Charterhouse BBS : <ol style="list-style-type: none"> 1. SMEs applying for finance; 2. How start-ups choose their business bank account (BCA); and 3. What happens after the end of the free banking period.
Charterhouse BBS	Charterhouse Business Banking Survey.
Charterhouse NI BBS	Charterhouse Business Banking Survey undertaken in NI.

Citizens Advice	A registered charity and government-funded provider of consumer education, providing advice, advocacy and education to consumers in Great Britain.
Clydesdale	Clydesdale Bank. A subsidiary of the Clydesdale Group .
Clydesdale Group	The Clydesdale Group comprises the Clydesdale and Yorkshire Bank brands.
CMA	Competition and Markets Authority.
CONC	The FCA Consumer Credit sourcebook .
Co-op Bank	The Co-operative Bank.
CPA	Continuous Payment Authority.
CRA	Credit reference agency.
CRD	Capital Requirements Directive.
CRD IV	An EU legislative package covering prudential rules for banks, building societies and investment firms.
CRR	Capital Requirements Regulations.
CTS	Corporation tax surcharge.
Danske	Northern Bank Limited, trading as Danske Bank.
Deloitte innovation report	A report commissioned by the CMA and undertaken by Deloitte to investigate the impact of innovation in the UK retail banking market.
Deloitte	Deloitte LLP. A global professional services company.
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union.
DPA	Data Protection Act 1998 .
Dutch case study	A case study undertaken by the CMA of the Dutch retail banking market.
EA02	Enterprise Act 2002 .

EAR	Effective Annual Rate or Equivalent Annual Rate (are frequently used interchangeably).
EU	European Union.
FATF	Financial Action Taskforce.
FCA	Financial Conduct Authority.
FCA CASS report	A report by the FCA into the effectiveness of CASS , published (March 2015).
FCA CASS qualitative research	The FCA's CASS qualitative research: Optima research (March 2015), Engagement with current accounts and the switching process .
FIIC	Free-if-in-credit.
FinTech	Financial technology.
first direct	A subsidiary bank brand of HSBCG .
First Trust Bank	The trading name of AIBG in Northern Ireland.
FLS	Funding for Lending scheme.
FOS	Financial Ombudsman Service.
FPC	Financial Policy Committee.
FPS	Faster Payments Service, operated by the Faster Payments Scheme Limited.
FS Act	Financial Services Act 2012 .
FSA	Financial Services Authority (replaced by the FCA in April 2013).
FSB	Federation of Small Businesses.
FSBRA	Financial Services (Banking Reform) Act 2013 .
FSCP	Financial Services Consumer Panel.
FSMA	Financial Services and Markets Act 2000 (as amended by the FS Act).

FTP	Funds transfer price is the means by which banks attribute funding costs to the business unit making use of the deposits raised (ie loans originated) and to attribute income to the business unit generating the deposit (ie deposits taken).
GfK	GfK NOP Ltd. A global market research company.
GfK FRS	GfK Financial Research Survey, which annually undertakes interviews with 60,000 GB consumers in the home or online.
GfK PCA report	The published report containing both the quantitative and qualitative work undertaken by GfK for the CMA .
Guidelines	Guidelines for market investigations: Their role, procedures, assessment and remedies, CC3 Revised . These Guidelines have, with effect from 1 April 2014, were adopted by the CMA .
Halifax	A subsidiary bank brand of LBG .
Handelsbanken	A retail bank offering PCAs and services to SMEs operating in the UK. Owned by Svenska Handelsbanken AB (publ), a Swedish banking group.
HBOS	Halifax Bank of Scotland, a wholly owned subsidiary of LBG , comprising the Halifax and BoS brands having been taken over in January 2009.
HHI	Herfindahl-Hirschman Index. A measure of market concentration.
HMT	HM Treasury.
HSBC	HSBC Bank, a subsidiary of HSBCG .
HSBCG	HSBC Group: the parent company of HSBC , first direct and M&S Bank .
ICAEW	Institute of Chartered Accountants in England and Wales .
ICB	Independent Commission on Banking.
ICO	Information Commissioner's Office.
IFR	Interchange Fee Regulation.

IRB approach	Internal ratings-based approach, a method by which banks may calculate the credit risk capital that prudential regulation requires them to hold.
Issues statement	Issues statement published by the CMA on 12 November 2014 taking into account the Market studies .
JMLSG	Joint Money Laundering Steering Group.
KYC	Know Your Customer is the process of a business verifying the identity of its clients.
LBG	Lloyds Banking Group, the parent company of HBOS and Lloyds .
LINK	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.
Lloyds	Lloyds Bank, a subsidiary bank of LBG .
LTV	Loan-to-value.
M&S Bank	Marks and Spencer Bank, a subsidiary of HSBCG .
Market studies	The two separate market studies (the personal current accounts study ('the PCA Market Study') and the personal current accounts and banking services to small and medium-sized enterprises study ('the SME Market Study')) leading to this investigation which focused on the supply of PCAs , and on the supply of banking services to SMEs (together 'the Market Studies').
MAS	Money Advice Service.
MC	Management committee.
Metro	Metro Bank, a retail bank operating in the UK.
Midata	Part of the UK government's consumer empowerment strategy, a project aiming to help consumers utilise their

data (eg bank data, energy bills) to search for suitable products.

MLR	Money Laundering Regulations 2007 .
MMC	Monthly maximum charge.
MoU	Memorandum of Understanding.
Multi-banking	When a customer holds more than one (current) account with different banks.
Nationwide	Nationwide Building Society, the largest building society in the UK.
NatWest	A subsidiary bank of RBSG .
Nesta	Nesta, is an independent charity, considering a challenge prize to identify innovative and sustainable solutions to the problem the CMA have identified as regards SMEs' access to information on banking products.
NII	At a bank level, net interest income is the difference between the interest received on assets (loans) and that paid on liabilities (deposits). Net interest income is then used to determine the bank's overall NIM .
NIM	Net interest margin, at a bank level, is typically calculated as the bank's total NII expressed as a percentage of the bank's average interest-earning assets during a year.
NPS	Net promoter score, a measure of customer satisfaction focused on whether customers would recommend a brand to a friend or colleague.
OakNorth	OakNorth Bank Limited is a new specialist bank authorised in March 2015 for SME banking but not BCA .
OBWG	Open Banking Working Group.
OFT	Office of Fair Trading. (As from April 2014, the functions of the OFT were taken over by the CMA .)
Omnibus survey	To guide the development of the measures aimed at improving the account opening and switching process, the

CMA appointed **BDRC** and **GfK** to conduct [quantitative research](#) for **SMEs** and **PCA** customers, respectively.

Optimisa	Optimisa Research.
Optimisa Research report	A report commissioned by the CMA and undertaken by Optimisa to inform the development of some of the proposed remedies aimed at increasing engagement in the retail banking market.
Overdraft	When a customer has no money left in their account but their bank provides them with a limited extension of credit enabling the customer to continue to withdraw money or make payments. They can be arranged or unarranged .
PAD	Payment Accounts Directive, EU legislation that sets common regulatory standards that EU member states must meet in order to improve transparency and comparability of fees related to current accounts; facilitate switching of those accounts; and ensure access to bank accounts with basic features.
Paragon	Paragon Bank.
Paym	Mobile payment service launched in April 2014 that enables consumers to send and receive payments directly to a current account held with a participating bank or building society using just a mobile number.
PCA	Personal current account.
PCBS	Parliamentary Commission on Banking Standards.
PCW	Price comparison website.
PECR	Privacy and Electronic Communications (EC Directive) Regulations 2003 .
Pingit	Service offered by Barclays to consumers which enables them to send and receive payments directly to a current account using a mobile phone number.
PISP	Payment initiation service provider.
PRA	Prudential Regulation Authority, part of the BoE . Under the Bank of England and Financial Services Act 2016 , the PRA

will become the Prudential Regulation Committee (PRC) of the BoE, following the integration of the PRA into the Bank, ending its status as a subsidiary of the BoE.

Provisional decision on remedies	Our provisional decision on remedies published on 17 May 2016.
Provisional findings	Our provisional findings report published on 28 October 2015. (A summary of our provisional findings report was published on 22 October 2015, alongside our Remedies Notice .)
Provisional findings addendum	Our addendum to the provisional findings published on 15 April 2016.
PSD/PSD2	Payment Services Directive and Second Payment Services Directive.
PSP	Payment service provider – provides payment services to payment service users ranging from cash deposits and withdrawals, credit transfers, direct debit, payment card transactions and money remittance.
PSR	Payment Systems Regulator.
RBS	Royal Bank of Scotland, a UK retail bank and subsidiary of RBSG .
RBSG	Royal Bank of Scotland Group, the parent company of RBS , NatWest and Ulster . RBSG is used to refer to the RBS Group including RBS , NatWest and Ulster bank brands. However, in many cases RBSG distinguishes Ulster from RBS and NatWest . This is explained in the text where appropriate.
RCBs	Relevant customer benefits.
RCT	Randomised controlled trial.
Remedies Notice	Our Notice of possible remedies published on 22 October 2015.
Research Works	A qualitative research company.

Research Works SME qualitative research	SME qualitative research undertaken by Research Works for the CMA .
ROE	Return on equity.
RoU	Review of Undertakings.
Runpath	Runpath Digital Ltd, a financial technology company.
Runpath PCA analysis	Runpath's calculations of the value of different PCA products for a sample of account holders provided by the CMA (see Appendix 5.4).
SA	Standardised Approach.
Santander	Santander UK. A retail bank operating in the UK, and part of the Spanish banking group Banco Santander SA.
SBEE Act	Small Business Enterprise and Employment Act 2015 .
Secure Trust	Secure Trust Bank, a retail bank operating in the UK.
Shawbrook	A UK bank which specialises in lending to SMEs and consumers.
SME	Small and medium-sized enterprise.
Starling	Starling Bank. A digital-only retail bank offering PCAs .
Supplemental Remedies Notice	Our supplemental notice of possible remedies published on 7 March 2016.
TBTF	Too-big-to-fail.
Tesco Bank	Tesco Bank, a retail bank operating in the UK, and a wholly owned subsidiary of Tesco plc.
TLAC	Total Loss Absorbing Capacity.
ToR	Terms of reference.
TSB	TSB Bank, a retail bank operating in the UK, recently acquired by the Spanish bank Sabadell.
TSC	Treasury Select Committee.

Ulster	Ulster Bank, a subsidiary bank of RBSG .
Unarranged overdraft	A type of overdraft where the customer borrows money when there is no money left in their account (or has already gone past their arranged overdraft limit) which has not been agreed with their bank in advance. An overdraft facility put in place by the bank at the point when a customer withdraws funds that exceed their account balance.
Updated issues statement	Updated issues statement published by the CMA on 21 May 2015.
Virgin Money	Virgin Money, a new entrant to the banking market.
Which?	The Consumers' Association, which uses the brand 'Which?' is a registered charity.
Yorkshire Bank	A subsidiary of the Clydesdale Group .