

**DANSKE BANK
RETAIL BANKING MARKET INVESTIGATION
RESPONSE TO STATEMENT OF ISSUES**

1. Introduction

- 1.1 Northern Bank Limited (trading as Danske Bank) (**Danske**) welcomes the opportunity to comment on the Competition and Market Authority's (**CMA**) statement of issues dated 12 November 2014 (**Issues Statement**) in relation to the market investigation into the supply of retail banking services to personal current account (**PCA**) customers and to small and medium-sized enterprises (**SMEs**) in the UK (**Investigation**).
- 1.2 Danske has not been involved in Phase 1 of the Investigation and therefore has not had an opportunity to review all of the documents relating to the Investigation and previous reviews of the sector in detail. The comments provided in this response do not therefore address each of the points raised by the CMA in the Issues Statement in detail and Danske may wish to make representations on such points at a later stage and reserves its position in this regard.
- 1.3 Danske has focused its comments on those areas which it believes the CMA should pay particular attention to or where it is concerned that the CMA has not to date taken full account of market developments and/or customer behaviour. Danske will co-operate fully with the Investigation and would be happy to discuss any of the comments made in this response in more detail.

2. The CMA's approach

Previous reviews and current/future developments

- 2.1 Danske does not have a firm view on how previous reviews of the sector as well as current and future developments should be taken into account in this Investigation. As a general comment, Danske believes that the CMA should not be constrained by views expressed or conclusions reached in past investigations but should adopt an open and flexible approach on the current state of the sector, taking into consideration all recent and future developments.
- 2.2 The Investigation should, of course, draw and build on previous reviews of the sector.

Definition of SMEs

- 2.3 We note the definition of SMEs in the Terms of Reference and are concerned that this definition has been reached in view of the size of customers of the four largest banks in the UK.
- 2.4 According to the Federation of Small Businesses in Northern Ireland, small businesses account for 99.9% of all businesses (by number) in Northern Ireland.¹ The SME definition adopted in the Terms of Reference therefore includes virtually all businesses in Northern Ireland. This means that the vast majority of

¹ <http://www.fsb.org.uk/ni/policy-home>.

Danske's business customers are included in the Investigation, whilst this is not necessarily the case for the four largest financial institutions in the UK. It is vital for the CMA to take this into consideration during its Investigation.

Definition of PCA

2.5 We also note the definition of retail banking services in the Terms of Reference. This is in contrast to the definition of a PCA contained in the Northern Ireland Personal Current Account Banking Market Investigation Order 2008 (**Order**) (as varied in 2011), which specifically excludes basic bank accounts (**BBAs**). Danske believes that it would be misleading to include BBAs in the definition of a PCA for the following reasons:

- BBAs are accounts specifically designed for customers who are otherwise unable to open a bank account and are in receipt of state benefits or a small salary/wage.
- BBAs are only available to customers who meet defined eligibility criteria.
- BBAs are standardised products, which do not offer an overdraft or chequebook facility. This means that there is limited scope for product differentiation and innovation, thus reducing the competitive dynamic in relation to BBAs.

2.6 On this basis, Danske believes that any analysis of PCAs and customers' behaviour in relation to PCAs would be distorted if BBAs were included in the definition of a PCA. [REDACTED]

2.7 Danske believes that any analysis of PCAs would also be distorted if bank accounts for customers under the age of 18 are included in the definition of PCA for the purposes of this Investigation. In Danske's experience, customers under the age of 18 only rarely switch accounts and their online banking usage is limited. [REDACTED]

3. Sector characteristics

3.1 We would now like to consider each of the sector characteristics which the CMA has listed at paragraph 19 of the Issues Statement in turn. For ease of reference, we have retained the numbering of the CMA but have not reproduced the CMA's full wording for each heading.

(a) The activities of retail banks are highly regulated

3.2 Danske acknowledges that the activities of retail banks are highly regulated but does not believe that any such regulation is excessive or disproportionate. Furthermore, Danske, despite being significantly smaller than other financial institutions in the UK⁴, is subject to full regulation and does not consider this an impediment to competing for business.

⁴ Danske currently has approximately 1,200 staff members and a total of approximately 450,000 customers.

(b) *If in credit, PCAs are generally free for customers whereas SMEs will generally pay for their BCAs, by way of a monthly or per transaction fee. In addition, banks can and do differentiate their pricing between customers, in particular between new and existing customers*

- 3.3 Danske agrees with the statement that PCAs are generally free for customers (if in credit) whereas SMEs will generally pay for their BCAs by way of a monthly or per transaction fee.
- 3.4 [REDACTED]. Relationship managers and branch managers have authority to negotiate terms within a set matrix.
- 3.5 Start Up Businesses⁵ and switchers⁶ can choose between two pricing options, both of which offer transactional fee free banking⁷. Additionally, switchers can avail of other benefits, for example, 12 months' fee free access to the Business eBanking Payments module.
- 3.6 Danske does not generally differentiate its pricing between PCA customers, [REDACTED]. The same rates are offered to all PCA customers (that is, new-to-bank, switchers and existing customers), except during specific marketing campaigns when short term incentives may be offered.

(c) *Customers generally prefer to use a single bank to meet the majority of their banking needs*

- 3.7 Danske does not believe that the statement above accurately reflects customers' behaviour over the last number of years. Danske believes that multi-banking is prevalent among PCA customers and SMEs.
- 3.8 Paragraph 4.42 of the PCA Update cites a report from Mintel that 28% of UK customers hold two PCAs and a further 7% hold three PCAs or more. These figures show that a third of PCA customers spread their PCA requirements across several banks, which represents healthy engagement by customers. Research by Ipsos MORI shows that [REDACTED]% of personal consumers have a relationship with more than one financial institution¹⁰ and [REDACTED]% have more than one PCA.¹¹
- 3.9 Furthermore, Danske believes that, if multi-banking were extended to cover other financial products, such as invoice and asset finance for SMEs and mortgages or credit cards for personal customers, these figures are likely to be significantly higher.

⁵ Subject to criteria. <http://www.danskebank.co.uk/en-gb/Business/Business-customers/Pages/become-a-business-customer.aspx>

⁶ Subject to criteria. <http://www.danskebank.co.uk/en-gb/Business/Small-business/Accounts-and-cards/Pages/switch-business-account.aspx>

⁷ Ancillary charges apply as part of both packages.

¹⁰ Derived variable from total number of financial institutions mentioned across products, i.e. during the course of answering other questions about products, customers confirmed/alluded to operating/ having a relationship with more than one financial institution. Source: Ipsos MORI MFS NI. All data based on 4 quarter rolling average, updated Q3 2014.

¹¹ Customers were asked 'How many personal current accounts do you hold?' Source: Ipsos MORI MFS NI. All data based on 4 quarter rolling average, updated Q3 2014.

(d) Customers consider that there is little differentiation between providers and switching rates remain relatively low for both PCA customers and SMEs

3.10 In relation to customers who have switched using CASS, Danske is observing that a large majority of these customers have moved to [REDACTED]. Similarly, Danske has observed that 24% of SME customers who have switched over the last year have moved to [REDACTED] while 5% have moved to [REDACTED].¹²

3.11 However, we note that the CMA acknowledges that it does not have reliable statistics for switches completed outside of CASS. In Danske's experience, many customers, in particular SMEs, prefer to manually switch their accounts over a prolonged period rather than use CASS. The use of manual switching is likely to contribute to the large number of customers who multibank, as set out in paragraphs 3.7-3.9 above.

3.12 Furthermore, Danske notes the results of the Which? Consumer satisfaction survey of March 2014;¹³ this demonstrates that 67% of consumers did not switch as they were happy with their PCA. The Which? Consumer satisfaction survey of August 2014 shows a customer satisfaction score of 66% for Danske, which is the fifth highest score of the 24 banks included in the survey¹⁴. Throughout the PCA Update, the CMA does not appear to accept customer satisfaction as an acceptable explanation for what it claims are low levels of switching.

(e) Many products and charging structures can be relatively complex. Customers may find it hard to understand the true costs of products and to compare different products. SMEs may also find it difficult to negotiate terms

3.13 Danske does not believe that this statement is true for all or a majority of customers and disagrees with the statement that SMEs may find it difficult to negotiate terms (refer to paragraphs 3.4-3.5).

3.14 Danske welcomes and fully supports the recent initiatives in place to improve comparisons of bank accounts, for example the Money Advice Service and Business Banking Insight (**BI**). In addition, Danske has initiated a number of programmes which have improved the transparency of banking services it offers. These include a spending overview tool, an alert service, tips and advice on how to reduce account fees and educational programmes for customers, such as the Step by Step programme and Moneyville, Danske's educational website and app. Furthermore, Danske's website contains illustrative charging scenarios and signposts to third parties who can offer impartial advice on customers' banking needs, for example the Citizen's Advice Bureau.

(f) There are significant linkages between products. The provision of PCAs and BCAs may enable banks to link or cross-sell other important retail banking services ... [F]or example, more than half of SMEs obtain their BCA from their PCA provider and almost 90% of SMEs take out a loan with their main BCA provider.

¹² 13 month period Sept 2013 - Sept 2014 inclusive. Includes full and partial switches.

¹³ See also paragraph 4.67 of the PCA Update.

¹⁴ In addition, Danske's app consistently achieves a high 4.5/5 star rating on the app store.

3.15 In relation to the last sentence above, Danske is concerned that the CMA appears to be relying on data relating to the four largest financial institutions in the UK to draw conclusions for all banks in the UK. This is likely to lead to distortions, given the range of different financial institutions involved in the Investigation, with Danske being one of the smallest in terms of customer base and employees. It is therefore important that the CMA takes account of this range and the differences between the financial institutions involved.

3.16 In Danske's experience, the linkage between PCAs, BCAs and other retail banking services has diminished and is continuing to diminish further. This is to a large extent due to the customers' increasing willingness to multi-bank and to cherry-pick different products from a wide range of banks (as referenced in paragraph 3.8).

(g) Both the SME and PCA banking sectors are relatively concentrated throughout the UK. The Market Studies have found that the four largest banks accounted for 85% of BCAs and 77% of PCAs in England and Wales. Scotland and Northern Ireland are more concentrated...

3.17 Danske notes, as at paragraph 22 of the Issues Statement, that the CMA specifically states that it will consider whether there are separate geographic markets. Danske believes that the Northern Ireland banking sector is part of the wider UK market, principally for the following reasons:

- a number of PCA & BCA providers predominantly based in Great Britain have successfully entered, supplied PCAs and BCAs and increased their presence in Northern Ireland (for example: Santander, Halifax, HSBC). This demonstrates that there are no, or only limited, barriers to entry and expansion and that suppliers of PCAs and BCAs compete across the wider UK market.
- a number of financial institutions that have previously focused on the Northern Ireland market are either expanding their activities in Great Britain or are being more closely integrated into their UK parents (for example, Ulster Bank and Bank of Ireland).
- All financial institutions in the UK are subject to the same regulatory requirements.

3.18 It is clearly vital that the CMA does not make assumptions in relation to the definition of the relevant market without undertaking a detailed analysis and that any conclusions reached in relation to levels of concentration are based on relevant and up to date figures.

3.19 However, even if the CMA concludes that the geographic extent of the relevant market is limited to Northern Ireland, Danske does not believe that high concentration or relatively high and stable market shares in and of itself amount to a restriction of competition nor does Danske believe that it necessarily gives rise to competition concerns.

(h) The four largest banks in particular have extensive local branch networks.

- 3.20 Danske is concerned that the CMA is overemphasising the importance of an extensive local branch network. Whilst Danske acknowledges that physical branches are still important to some customers, Danske has [REDACTED] decreased its branch network from [REDACTED] branches at the end of 2007 to [REDACTED] by the end of 2014 in response to changing customer behaviours.
- 3.21 In addition, Danske is aware that other financial institutions with a physical presence in Northern Ireland have also decreased their branch numbers.
- (i) ***New entrants require access to a number of key inputs such as finance, IT, customer creditworthiness information and payment systems. New entrants and smaller operators may depend on the larger incumbent banks for such inputs.***
- 3.22 It is worth noting that Danske is a user, as well as a provider, of agency arrangements for clearing. Danske provides clearing services to 11 other operators in the UK and has clearing and payment services provided to it in England by other providers. Danske has not had any problems in gaining membership of a scheme and is unaware that any new provider has been denied similar membership/services. Being a user of agency arrangements itself, Danske does not believe that the larger banks have a competitive advantage over smaller banks in relation to such arrangements.
- 3.23 Furthermore, in the second half of 2014, Danske became a member of the FPS and BACS schemes.
- (j) ***There have been in recent years and will continue to be a number of developments in the sector.***
- 3.24 Danske notes the many regulatory changes which have occurred in recent years and will occur in the near future, including the new regime for authorising banks, the introduction of CASS, the establishment of the Payment Systems Regulator, the development of alternative payment systems such as PayPal and the implementation of the EU Payments Accounts Directive. Danske welcomes these changes.
- 3.25 Danske believes that the most significant changes in the banking sector in recent years have been the introduction and growing popularity of alternative channels, particularly online banking as a result of an increased demand for greater convenience and accessibility of banking services by consumers. The introduction and increasing reliance on internet banking has in many ways revolutionised the way in which customers fulfil their banking needs. This, in turn, has directly and positively affected the competitive landscape.
- 3.26 Danske has enhanced its online and mobile banking services over the last number of years by introducing mobile banking and tablet apps for business and personal customers, PayM and online meetings. Danske plans to continue to invest in delivering a programme of innovative and market leading enhancements to its online and mobile banking services.

4. Market definition

4.1 Danske notes that the CMA will consider, for each separate product market, whether there are separate geographic markets in each of England & Wales, Scotland and Northern Ireland or whether the geographic market is wider than this, i.e. Great Britain or the UK. For the reasons set out in paragraph 3.17 it is Danske's belief that the Northern Ireland banking sector is part of the wider UK market. However, Danske has not yet had an opportunity to consider this in depth and would therefore like to reserve its detailed views on this issue until a later date.

5. Theories of harm

5.1 While Danske is aware that the theories of harm contained in the Issues Statement are only hypotheses for investigation, it would like to comment on a number of statements contained in paragraphs 24 – 50 of the Issues Statement.

5.2 In paragraph 32, the CMA notes that “[f]aced with customers’ lack of knowledge and confusion, banks may have reduced incentives to compete on “pricing, service and/or quality”. As stated at paragraph 3.13 above, Danske does not believe that customers are necessarily confused or lack the necessary knowledge to make informed decisions in relation to their banking requirements. Danske has developed a number of initiatives which are aimed at providing clarity on banking options for customers. These are referred to at paragraphs 3.14 above. Nonetheless, Danske acknowledges that more can be done and welcomes recent initiatives, such as Money Advice Service and BBI, aimed at increasing transparency in the sector further.

5.3 In addition to our efforts to facilitate enhanced customer awareness, knowledge and understanding, maintaining and increasing customer satisfaction scores is, and will continue to be, a priority for Danske. Achieving this goal is predicated on offering a strong, competitive value proposition for customers.

5.4 The CMA notes that “in a competitive market, one would expect firms to compete on the quality of service provided to the customer”.¹⁵ As noted above, Danske has invested significant resources in developing its online and mobile offering and is continuing to make significant investments in improving the quality of its service offering to PCA and SME customers, particularly in the area of online and mobile banking.

6. Conclusions

In conclusion, Danske believes that:

- the Northern Ireland banking sector is part of the wider UK market;
- there is significant competition in the UK marketplace and there are no adverse impacts on competition;
- customers in the marketplace have access to a full range of banking products and services;
- as with many industries, customer behaviours have changed as a result of advancements in technology, which means that an extensive branch network is no longer a requirement to compete in the marketplace;

¹⁵ Paragraph 6.18 of the PCA Update.

- the level of regulation in the marketplace is not an impediment to competition;
- multi-banking is prevalent among PCA and SME customers;
- it has a very high level of customer satisfaction for both business and personal customers which is a contributor to low levels of switching;
- the CMA should reconsider the definition of SME due to the fact that the majority of businesses in NI are 'small businesses';
- it would be misleading to include BBAs and under 18's in the definition of PCAs.

8 December 2014