



Project Manager
Retail banking market investigation
Competition and Markets Authority
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By email: retailbanking@cma.gsi.gov.uk

Dear Sirs

uSwitch response to the CMA Retail Banking Statement of Issues

We are writing in response to the CMA's call for evidence to the retail banking market investigation, following the publication of your Statement of Issues.

1 Background

uSwitch is an online and telephone price comparison and switching service, helping consumers get a better deal on gas, electricity, home phone, broadband, digital television, mobile phones and personal finance products including insurance, mortgages, credit cards, and current accounts. For current accounts, we offer a comparison of services, as well as consumer guides on how to get the best out of the market.

We believe that competitive retail markets, alongside good consumer engagement, lead to better consumer outcomes. We do not believe the current account market displays these characteristics given the concentration of market share among the biggest players. This has led to a lack of innovation and choice as well significant barriers to greater consumer engagement; most notably, a lack of clarity about what is on offer.

2 Lack of innovation and choice

We agree with the CMA's characterisation of the retail banking market set out in its Statement of Issues. We think it is clear that competition is not as healthy as it could be and this is bad for consumers. The high market shares of the big four banking groups in the UK have resulted in an oligopoly in current accounts that constrains consumer choice and the incentives for banks to innovate.

We believe true competition is needed.

2.1 Market structure

We think that more entrants are desperately needed in the retail banking market. During the course of the investigation, we would urge the CMA to keep a remedy of breaking up the existing big four on the table if there are no other remedies that are likely to have dramatic impact on the current market structure.

Our research suggests that consumers would trust new banks, indicating that intervention on market structure has the potential to be met with consumer demand. Our recent research tested several well-known consumer brands to see whether consumer trust was at a level to aid market entry. Following market entry

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by Tesco and Asda, consumers would trust other supermarkets such as Waitrose (45%), Morrisons (18%) and Aldi (12%) to do their banking if given the choice.¹ In fact, the findings suggest that if other high street brands moved into banking, they could be just as successful, with three quarters (77%) of consumers saying they would trust John Lewis to take care of their banking needs.

We need a plural current account market, with an increased choice of providers that caters for those demanding free current accounts where costs are recovered from additional services, and fee-paying current accounts where services are included in the price. More players in the retail banking market would open the opportunities for retail banks to specialise in customer segments not currently well served by a homogenous market. We suggest this would drive innovation in newer forms of digital banking while also promoting greater market efficiency with the optimum number of banks focusing on a branch network as their unique selling point.

2.2 Product differentiation

We believe a healthy level of switching is required to facilitate competitive retail markets. In the end, for any consumer to switch, there needs to be a better product for them to switch to.

If banks try to be all things to all people, they end up doing nothing particularly well. The highest levels of customer satisfaction we have seen in our research come from the retail banks that specialise in a particular customer niche. For example, First Direct, which focuses on online banking services, has the highest level of customer satisfaction according to research conducted for the 2014 uSwitch Current Account Award.² We have also seen new entrants, such as Metro Bank, focus on innovative branch services in the London area.

We think the CMA has an opportunity to kick-start this sort of innovative activity across the market, ensuring the benefits of competition reach more consumers.

2.3 'Free' current accounts

We have noted that some commentators have suggested that the CMA's investigation could lead to the end of free banking in the UK. However, we do not see any evidence to suggest this would be the case. One could argue it is in the banks' interests to seek a regulatory remedy forcing all players to charge a monthly fee for current accounts. We would argue it is counterintuitive for a competition regulator to create a quasi-cartel.

Free current account services are available on the market because consumers demand them. We last published consumer research on the appetite for current account fees in October 2012.³ This suggested 75% of people were against the idea of banks charging customers for having a current account, while 81% would not be willing to pay a small fee to own an account.

We do not see that banks, either current providers or new entrants, need a guaranteed revenue stream from fees to be incentivised to provide current accounts. More entrants, greater choice, and greater competition can be achieved through structural change in the retail market and increased consumer engagement.

¹ <http://www.uswitch.com/media-centre/2014/08/four-in-ten-more-likely-to-bank-with-a-new-entrant-than-a-year-ago/>

² <http://www.uswitch.com/media-centre/2014/07/tide-turns-as-three-quarters-of-consumers-now-trust-their-bank/>

³ <http://www.uswitch.com/blog/2012/10/03/consumers-against-an-end-to-free-banking/>



3 Lack of clarity for consumers

We see the most significant product differences in the current account market when we start to consider the opaque overdraft charges and other fees that can make a big impact on the cost of services to a consumer. We believe banks make it very hard to compare the differences in current account services and as a result very few customers actively monitor the relative competitiveness of their account. We see this lack of clarity as a significant barrier to consumer engagement and competition.

3.1 Ability to compare

We believe to increase consumer engagement in the current accounts market, it needs to be easy to compare the products available. Services like uSwitch.com play a part in that, but we are not convinced that enough is being done at an industry-wide level to break down the complexity associated with charges.

One simple change we suggest the CMA does consider is to make it compulsory for banks to share information about their account packages in a standard format to make comparison easier. If banks are more upfront about their charges, customers will have an easier time identifying which bank is offering the best deal. We note the use of the summary box in the credit card market which we suggest has helped consumers make informed choices and to stimulate competition.

3.2 Consumer misconceptions

We have seen some consumers hold the view that switching current accounts will create risks of hassle they are not prepared to take. New initiatives like the seven day switch scheme have made some headway here, but the switching levels are still far too low to organically solve the competition issues in this market. This is despite 70% of people in the UK being aware of the Current Account Switching Service.⁴

We believe there could be some progress made to tighten the guarantees associated with the Current Account Switching Service to help break down misconceptions that something may go wrong. We also believe more could be done to break down the expectations that being loyal to a bank will be beneficial to consumers, when in reality rewards for loyalty is not a significant feature of today's current account market.

We are happy to discuss any of these issues with you in more detail throughout the course of your investigation. Please do let us know if we can be of any further assistance.

Yours sincerely

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⁴ http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/3105/