

The logo for Which?, featuring the word "Which?" in white text on a red square background.

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Consultation Response

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Which? response to CMA Retail Banking Market Investigation – Statement of Issues

About Which?

Which? exists to make individuals as powerful as the organisations they deal with in their daily lives. We are now the largest consumer body in the UK with almost 800,000 members: we understand consumers and what makes them tick. We operate as an independent, a-political, group social enterprise working for all consumers and funded solely by our commercial ventures. We receive no government money, public donations, or other fundraising income. We plough the money from our commercial ventures back into our campaigns and free advice for all.

Introduction

Which? supports the CMA's decision to launch an investigation into the competitiveness of the Personal Current Account (PCA) and Small to Medium-Sized enterprises (SMEs) banking markets. Our response to the CMA's provisional decision, as well as our submissions to previous investigations of competition in the PCA market (including those undertaken by the Office of Fair Trading, Independent Commission on Banking, and Parliamentary Commission on Banking Standards) highlight our understanding of the problems faced, and detriment experienced, by consumers in this market.

As part of this investigation, we strongly encourage the CMA to examine the behaviour of 'real consumers', and ensure that any proposed consumer remedies undergo thorough behavioural testing. Consumer behaviour is notoriously unpredictable and affected by multiple social, environmental and individual factors; behavioural testing can help ensure the proposed solutions achieve the desired outcomes and avoid unwanted and unexpected side effects. Such testing should involve real-world, randomly assigned control groups that the outcomes of other groups exposed to the behavioural remedy can be tested against. The CMA should follow similar procedures to those of the FCA's behavioural unit within the chief economist's department.

During the 18 month investigation by the CMA's Independent Panel, we will provide further supporting analysis and evidence to help identify the extent of consumer detriment experienced. We

Which? Is a consumer champion

We work to make things better for consumers. Our advice helps them make informed decisions. **Our campaigns make people's lives fairer, simpler and safer.** Our services and products put consumers' needs first to bring them better value.

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will also offer our expertise to the Panel as it determines the interventions necessary to stimulate effective competition and a PCA market that works for consumers

Response to Statement of Issues

Overall, we support the CMA's framework for their investigation as outlined within the Statement of Issues. However, we draw attention to two areas of concern and offer the following feedback:

1. *'Free-if-in credit' banking*

On page 6, the CMA indicated that *'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.'* While an upfront fee is generally absent for PCA customers (except in the case of packaged back accounts), we disagree with the statement that PCAs are free for customers, including those in credit.

As we outlined in our response to the CMA's interim report (attached), banking is not free for those holding positive balances who potentially forgo interest that otherwise would have been earned in a savings account. We note that the OFT stated in their assessment of the PCA market in 2012 that the concept of 'free-if-in-credit' banking was 'a myth that misrepresents the cost of these accounts to customers'.¹ While the impact of foregone interest is raised later in the statement, this must be clarified upfront. The CMA should revise their issues statement to accurately reflect that banking is not free for personal current account customers, which includes in-credit customers as well as those using their overdraft.

2. *Hypothesis 1b (Assess): Product and pricing structures exploit customers' cognitive limitations and behavioural biases and inhibit their ability to compare offers and understand true costs of banking products*

While we acknowledge the importance of exploring the impact of pricing structures and potential exploitation of consumer bias, we reiterate the importance of ensuring that this is appropriately explored. Any related remedies must undergo thorough behavioural testing to demonstrate their impact on real consumers. Furthermore, we caution against a disproportionate focus on pricing structures as the way to engage consumers rather than looking at other supply side constraints to competition (including barriers to entry and expansion) as well as demand-side factors (including issues related to comparison, transparency and switching).

Lastly, we reiterate our call for the CMA to work together with other regulators, including the Financial Conduct Authority, Payment Systems Regulator and Prudential Regulation Authority, and to lead a coordinated response to implement the interventions necessary to stimulate effective competition in the market. We look forward to engaging with the Independent Panel as it undertakes its investigation.

Which?

3 December 2014

¹ OFT, PCA Review Report, para. 3.6, pg. 27