Retail banking market investigation: Updated issues statement

Appendices

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*This working paper is likely to be published in August.

Appendix B: Products and initial evidence on outcomes

PCAs

1. 94%[1] of adults in the UK have at least one PCA. PCAs comprise a number of different services: to make and receive payments with and without using cash;[2] to store money; and most also offer a facility to borrow money on a short-term flexible basis (overdraft facilities). Short-term borrowing may be arranged (ie where the bank agrees in advance to extend credit beyond the customer's credit balance) or unarranged.

2. Banks offer a range of PCAs:

   (a) Standard accounts: approximately 75% of all PCAs in the UK in 2014 were standard accounts. Such accounts usually do not charge regular fees for using the account or for using its core services. However, fees are usually charged on arranged and unarranged overdrafts and for additional services such as foreign exchange and banker's drafts. Most standard accounts currently pay zero or very low rates of interest on credit balances although several banks have recently introduced interest-bearing accounts including LBG, Santander, Nationwide, TSB, Clydesdale and Allied Irish Bank (AIB). Such accounts accounted for about 12% of all PCAs (and 15% of main PCAs)[3] in 2014. As a proportion of new PCAs, interest-bearing accounts have risen significantly between 2011 and 2014 from approximately 8% to 25% (and for new PCAs which were main PCAs from about 10% to 37%).

   (b) Packaged accounts: such accounts offer the same facilities as standard accounts but also include additional services such as travel insurance, car breakdown cover and mobile phone insurance. Such accounts have monthly or annual fees and accounted for about 9% of UK PCAs (and 13% of main PCAs) in 2014.

   (c) Basic accounts: whilst similar to standard accounts, they typically do not provide a cheque book or overdraft facility. Such accounts accounted for approximately 11% of UK PCAs (and 7% of main PCAs) in 2014.

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[1] Mintel (June 2012), Packaged and Current Accounts – UK.
[2] Non-cash forms of payment include cheques, switch payments, bank transfers, standing orders and direct debit.
[3] In obtaining information from banks, we defined a main PCA as one with average credit inflow of more than £500 per month.

(d) Student accounts: these are similar to standard accounts but tend to offer more extensive and lower-cost or interest-free overdraft facilities. Graduate accounts are similar to student accounts but are directed towards recent graduates and may also provide access to other graduate lending products. Student and graduate accounts comprised nearly 3% of PCAs in 2014.

(e) Youth accounts: these are typically available to customers under 18 years and often have reduced functionality offering no debit cards, cheque books or overdrafts. They accounted for 3% of UK PCAs in 2014.

(f) Mortgage offset accounts: these are PCAs linked to a mortgage where any positive balance on the PCA account is offset against the customer's mortgage. Most such accounts comprise two separate accounts, the PCA account and the mortgage account.[4]

3. Most banks also offer separate private banking services to high income and high-net-worth customers. Such banking services are more personalised and tailored in the products and services provided by the bank. Banks typically tend to service such customers from separate divisions or under different brands than other PCA customers.[5] In addition, there are several banks that provide personal banking services to such customers, including Credit Suisse, Goldman Sachs, UBS and JP Morgan.

4. Other financial providers offer one or more of the services provided by most PCAs, such as savings accounts, credit and debit cards, personal loans and payday loans. In addition, newer services such as digital wallets currently offered in the UK by PayPal and Amazon, provide some payment services and can store money.[6]

5. PCAs remain an important route for sales of other retail banking products. Over 80% of customers with a personal loan have a PCA with the same bank. Similarly, 60% of those banks' personal instant access savings and insurance customers, 50% of their other savings and investment personal customers and 40% of their mortgage and credit card personal customers have a PCA with the same bank.

6. Over 40% of respondents to our PCA survey had a credit card with their main PCA provider and approximately 30% had a cash ISA and or other cash

[4] As set out in our statement of issues, whilst the mortgage account falls outside our terms of reference, the PCA falls within even though the products are linked for the purposes of interest calculations.
[5] For example, RBSG's Coutts Bank and Barclays' Private Banking division.
[6] The range of payment services offered by such providers is limited because membership of some payment networks is limited to authorised credit institutions that have a settlement account at the Bank of England. This, for example, limits the payment of customers' salaries into digital wallets.

savings with their main PCA provider. Our analysis of banks' data suggests similar proportions of PCA holders who have other products with their main PCA provider.

7. Approximately half of all start-up SMEs with a BCA in 2014 held the BCA at the same bank with which they already held a PCA. Annex 1 contains our initial analysis on PCAs.

SME retail banking

SMEs

8. By number, SMEs currently account for over 99% of all businesses in the UK and have a combined annual turnover of £1.6 trillion, approximately half (47%) of all UK private sector turnover.[7] Since the recession in 2008, there has been a large rise in the number of SMEs, up from approximately 4.3 million in 2008 to 5.2 million in 2014.[8] SMEs are a highly diverse set of businesses, operating in different sectors of the economy and regions, at different sizes in terms of turnover and employment and at different life cycles with different ambitions. SMEs therefore have significantly differing needs and complexities in terms of retail banking services. For example, sole trader SMEs tend to more closely resemble the characteristics and banking needs of personal customers and start-ups may require more active management and support from their bank to help them through the early stages of growth. On the other hand, larger more complex businesses tend to require more bespoke banking products and services.

9. Banks primarily segment their SME customers based on turnover broadly as follows: £0 to £500,000 – start-ups; £500,000 to £2 million – established less complex SMEs; and £2–£25 million – more complex SMEs. This segmentation by banks affects the products available to an SME, the nature of the relationship management and support they receive. For example, start-ups will often benefit from introductory offers on opening a BCA and will generally have access to a call centre and/or multi-banking channels similar to personal customers. Larger SMEs will typically have a charged account and will be serviced by commercial divisions within the banks with dedicated relationship managers. Some banks also segment SMEs, for example, by reference to borrowing requirements, sectors of the economy and/or whether they trade internationally. All the larger banks provide accounts for charities, clubs and societies and, some, for other specialist organisations such as

[7] BIS, Business Population estimates 2014.
[8] Ibid. Much of this growth has been among zero-employee businesses, the number of which has increased by approximately 30%.

schools and educational establishments. These are generally non-fee-paying accounts similar to standard PCAs.

10. For many SMEs the quality of services and the relationship component can often be a more important feature than price. SMEs often look for a bank that has someone who is readily available, understands the business and is able to resolve problems quickly.

11. The churn rate for SMEs is high. In 2013, there were approximately 346,000 new registered SME businesses and SME survival rates are low. Whilst 90% of businesses survive their first year, by year 3 this drops to 60% and by year 5 to around 40%.[9]

Nature of BCAs

12. Like PCAs, BCAs are generally used to make and receive payments and to manage cash flow and will usually include an overdraft facility. Unlike most PCAs, BCAs are mostly charged accounts. Some BCAs may have a combination of the two types of charges and some banks also offer specific types of BCA, for example foreign currency accounts. The level of charges depends both on the type of BCA the SME chooses as well as the amount and type of transactions it makes. Unlike PCAs, prices for SME banking services can be negotiated. This means it can be difficult to make meaningful comparisons between different banking providers and different types of banking service.

13. New customers, whether start-ups or those switching from other banks, often benefit from a period during which they do not pay fees ('free banking'). Such periods vary between 12 and 24 months although for switchers this is generally limited to six months. Our initial analysis suggests that there are significant differences between the banks in terms of the relative proportion of their BCA customers who are on free banking terms, standard tariffs and bespoke terms. This may reflect differences between banks in the proportion of start-ups in their customer base.

14. Like PCAs, BCAs are an important route to sales of other SME retail banking products. Approximately 90% of banks' sales of commercial mortgages and over 80% of general purpose business loans are originated from BCA customers. Over half of banks' invoice and asset finance sales are to existing BCA customers. The products most frequently bought by BCA customers from their BCA provider are deposit accounts, general purpose business

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[9] ONS Business Demography 2013.

loans and credit and debit cards. For example, approximately 20% of BCA customers also have a deposit account with their BCA provider and 10% a credit card or general purpose business loans.

Nature of general purpose business loans

15. For many SMEs an important role that banks play is to facilitate credit. This may be to cover a short-term shortfall in funding as a result of a supplier not paying (or paying late), or to invest in their business to drive growth. We are examining, in particular, the tendency of SMEs to obtain credit from their main bank rather than searching for different providers and types of finance.

16. General purpose business loans are lending products whereby a bank lends a specific amount of money to an SME with the requirement that it is repaid over a fixed time period. In 2014, approximately 7% of SMEs used business loans as a source of finance.[10] These are subject to different fees: an interest rate, arrangement fee and, for secured loans, a security fee. Loan pricing depends on the nature and size of the loan, the risk associated with the borrower, the amount of collateral that is placed against the loan and may be subject to negotiation.

Nature of other forms of SME finance

17. Business credit cards work similarly to personal credit cards and are primarily used for short-term financing. They provide quick and easy access to funds and often allow cash withdrawal. Interest rates and other benefits such as interest-free periods, reward points or cashback will depend on credit score. Asset finance includes leasing and hire purchase and is commonly used for the purchase of equipment. Asset finance is provided by a broad range of firms, not just banks, including for example GE, Siemens and Hitachi. Asset finance currently accounts for around 6% of SME financing.[11] Invoice finance enables SMEs to transfer claims on outstanding invoices to a finance provider who in exchange for a fee transfers a certain percentage of the outstanding invoice value upfront in advance of payment of the invoice. Invoice finance accounts for approximately 2% of SME financing.

18. Alternative finance encompasses a broad range of lending that matches lenders with borrowers directly with each other without involving a financial intermediary. These include web-based platforms that allow funders to support and invest in specific projects/businesses (crowd-funding) or that put

[10] SME Finance Monitor.
[11] SME Finance Monitor.

borrowers directly in touch with savers who want to lend money (peer-to-peer lending). They also include invoice trading, community shares, pension-led funding and debt-based securities. Those SMEs using alternative finance tend to particularly value speed, ease of use, transparency and flexibility. Whilst the sector grew by 160%[12] in 2014, the use of alternative finance by SMEs is less than 1%.[13] Only 44% of SMEs were aware of some type of alternative finance and only 14% of SMEs planning to raise funds indicated that they would approach alternative finance providers.[14]

[12] Nesta (2014), *Understanding Alternative finance*.
[13] SME Finance Monitor.
[14] Nesta (2014), *Understanding Alternative finance*.

Annex 1: Personal current account outcomes – initial evidence

Overview

1. This annex provides information on the following:

   (a) Account volumes and market shares:

      (i) Account volumes by brand and by group.

      (ii) Proportion of new/main/active bank accounts by brand.

      (iii) Distribution of account types by bank.

      (iv) Distribution of accounts by type.

      (v) Market shares by brand and by group.

      (vi) Market shares and HHIs for the devolved nations and for regions within England.

   (b) PCA churn:

      (i) Account opening and closures – by group and by brand.

      (ii) Switching.

   (c) Cross-product holdings:

      (i) Proportion of other product accounts held by existing PCA customers.

      (ii) Proportion of PCA customers holding other products with the same bank.

   (d) Overdraft usage.

   (e) Channel usage: proportion of accounts registered with different banking channels.

General caveats

2. The results presented here are based on banks' responses to our data request. Information was requested from 13 banking groups.[15]

[15] AIB, Barclays, BoI, Clydesdale, Co-op, Danske, HSBCG, LBG, Metro, Nationwide, Santander, RBSG and TSB.

3. We are relying on the information provided by banks, which leads to some important caveats. Some of the banks were unable to provide full data for all years requested, and in some cases we requested a more limited set of data from the smaller banks.[16] Where there are gaps in the data, this is explained in the notes to the charts. Particular caution should be exercised in interpreting the results.

4. The results are indicative at this stage. We will also continue to verify the consistency of findings against other sources such as customer surveys.

Account volumes and market shares

5. Table 1 shows data on the number of PCAs derived from banks' responses to our aggregate data request. There has been notable growth in the number of accounts, in particular the number classified as 'main' PCAs, ie PCAs with average incoming payments of more than £500 per month.

Table 1: Total account numbers for all banks in UK[17]

£ million

Year	*All accounts*	*Active accounts**	*Main accounts†*	*Number of new accounts opened*	*Number of new main accounts opened*
2011	75.1	64.4	44.1	5.9	2.6
2012	77.0	66.0	46.5	5.9	2.7
2013	78.7	67.5	48.1	6.0	3.0
2014	80.6	69.1	50.1	6.1	3.3

Source: CMA estimates based on banks' responses to data request.
*Active accounts – accounts with at least one customer-generated transaction in the previous 12 months.
†Main accounts – accounts with average monthly incoming payments of more than £500.

6. The following charts show account volumes by brand and group in 2014. In total, across the 13 banking groups for which we gathered information, there were just over 80 million PCAs. Of these, around 69 million were active (having at least one customer-generated transaction in the previous 12 months), and just over 50 million were main accounts.

Figure 1: Account volumes by brand in 2014

[✂]

Source: CMA estimates based on banks' responses to data request.

[16] We requested Metro and Co-op to submit 'lite' questionnaires and therefore less granular information is available for these banks.
[17] The Co-op did not provide data for main accounts and new main accounts for 2011–2013. To correct for this we estimated its numbers of main accounts and new main accounts based on the 2014 data: *(a)* for each type of account we calculated weights as a ratio of main accounts/new main accounts and all accounts/all new accounts; *(b)* using the weights we calculated the main account and new main account volumes for years 2011–2013; *(c)* yearly account totals were calculated as the sum of all account volumes. Similarly, Danske did not provide data for active accounts for 2011–2012. Danske's active account volumes were calculated using its active accounts/all accounts ratio in 2013 as a weight.

Figure 2: Account volumes by group (eg LBG includes Lloyds, BoS and Halifax)

[✂]

Source: CMA estimates based on banks' responses to data request.

7. The following charts show the proportion of all accounts that were active, main and new by brand. The proportion of main accounts varies significantly between brands, from approximately 84% to 40%.

Figure 3: Proportion of all accounts that were active/main/new by brand (2014)

[✂]

Source: CMA estimates based on banks' responses to data request.

8. We also gathered information on account type, as shown in the following charts.

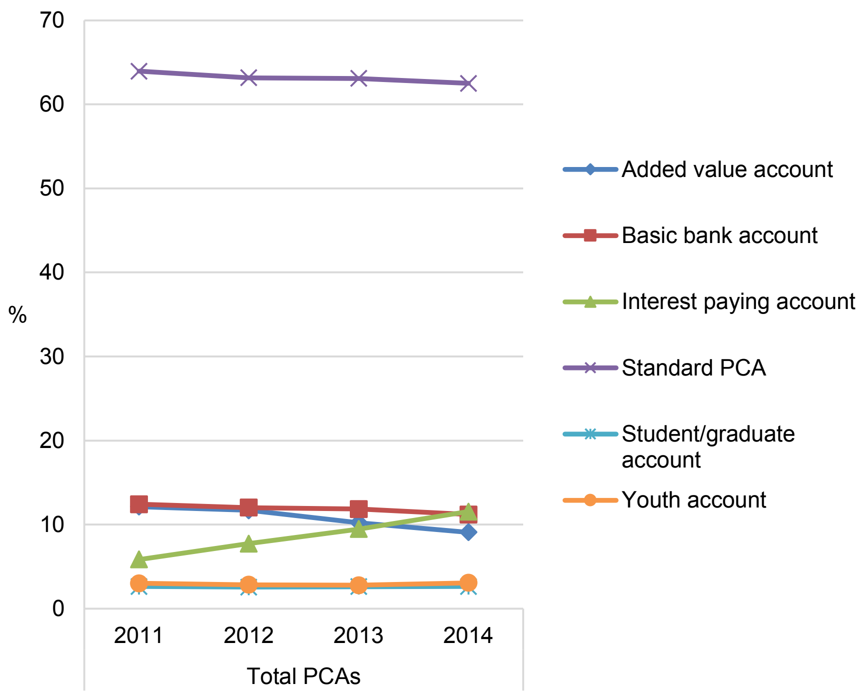
Figure 4: Distribution of types of accounts by bank brand (2014)

[✂]

Source: CMA estimates based on banks' responses to data request.
Note: This is based on banks' own classification (in one case subject to further verification).

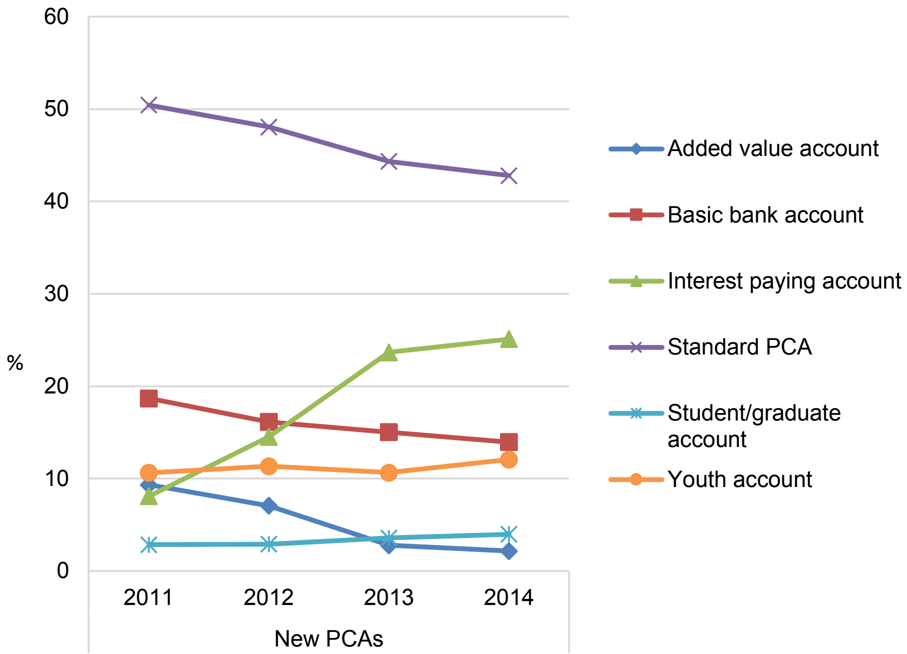
Figure 5: Distribution of accounts by type – total PCAs and new PCAs

Proportion of all accounts by type, %



Source: CMA estimates based on banks' responses to data request.

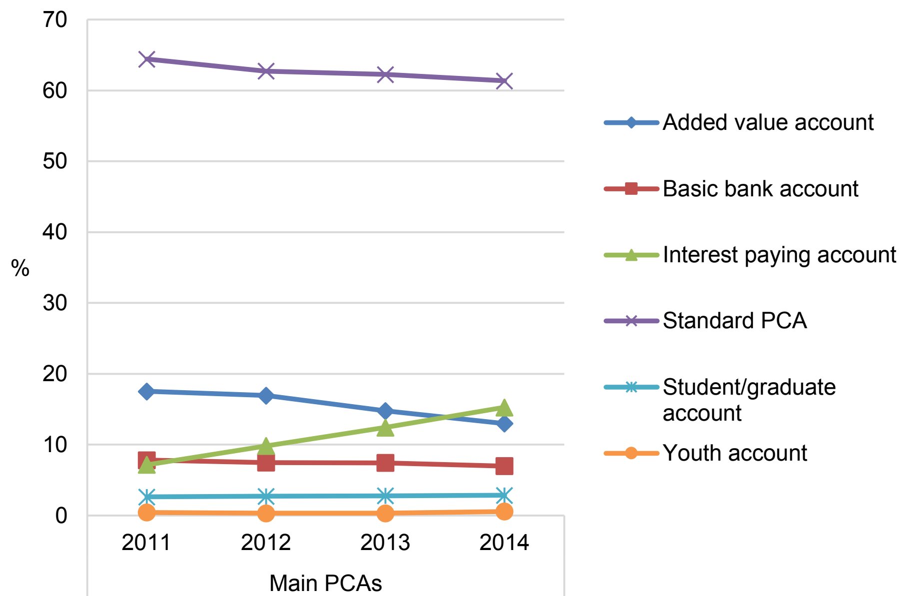
Proportion of new accounts by type, %



Source: CMA estimates based on banks' responses to data request.

Figure 6: Distribution of main accounts by type – main PCAs and new main PCAs[18]

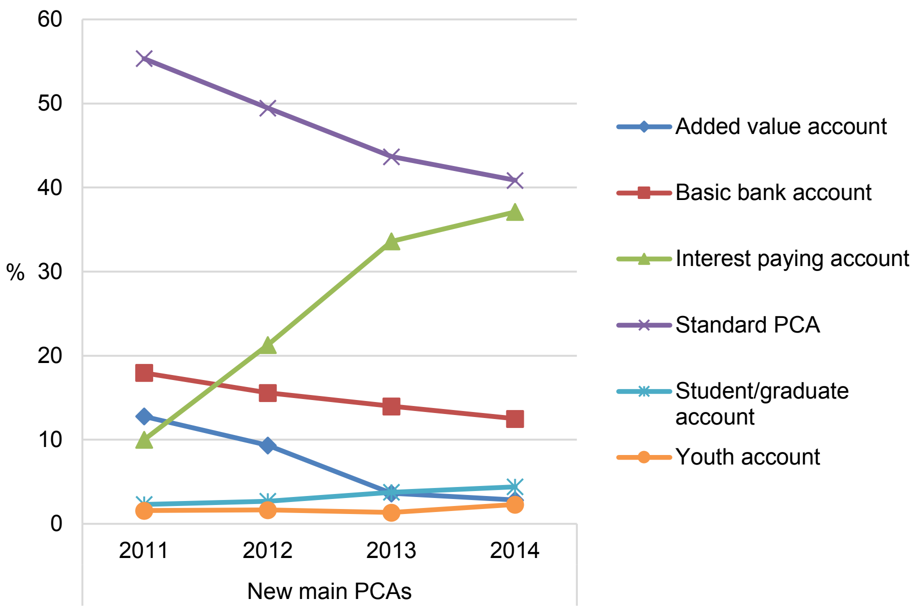
Proportion of main accounts by type, %



Source: CMA estimates based on banks' responses to data request.

[18] As before, the Co-op's main account and new main account volumes were calculated using the main accounts/ all accounts (new main accounts/all main accounts) ratio in 2014 as a weight.

Proportion of new main accounts by type, %



Source: CMA estimates based on banks' responses to data request.
See note to Figure 4.

Market shares and concentration

9. Market share data is based on information from the 13 banking groups from which we requested data. There are a number of other smaller PCA providers in the market.

10. We also set out below alternative estimates of market shares based on the GfK FRS survey. These allow us to measure trends in market shares over the past ten years. Note that the FRS survey figures cover Great Britain only.

11. The data shows that market shares have been relatively stable over time, with the exception of changes in market shares resulting from bank mergers and divestments. Although market shares have been relatively stable, Santander, Nationwide and Co-op banking groups have increased their market share while HSBCG, RBSG and Clydesdale have experienced declining market share.

Figure 7: Market shares: share of all main PCAs over time for the UK – by brand and by bank

[✂]

Source: CMA estimates based on banks' responses to data request.

Figure 8: Market shares: share of all main PCAs over time for Great Britain by brand

[✂]

Source: GfK FRS.

Figure 9: Market shares: share of all main PCAs over time for Great Britain by bank

[✄]

Source: GfK FRS.
[✄]

Concentration measures

12. We have used our market share estimates to calculate simple measures of concentration for PCAs.

13. The HHI is a common measure of concentration, computed by summing the squares of the market share of all firms, thus giving more importance to the larger firms.[19]

14. Relying solely on market concentration measures does not necessarily mean that there are concentration concerns in the market. Other conditions, such as barriers to entry and expansion and the general competitive environment should also be taken into account.

15. Overall, the estimates below suggest that the PCA market is concentrated at a national and regional level. Scotland is the most concentrated region, with an estimated HHI slightly over 2,000.

Figure 10: Market shares for England and Wales, Scotland and Northern Ireland (group level) – main PCAs

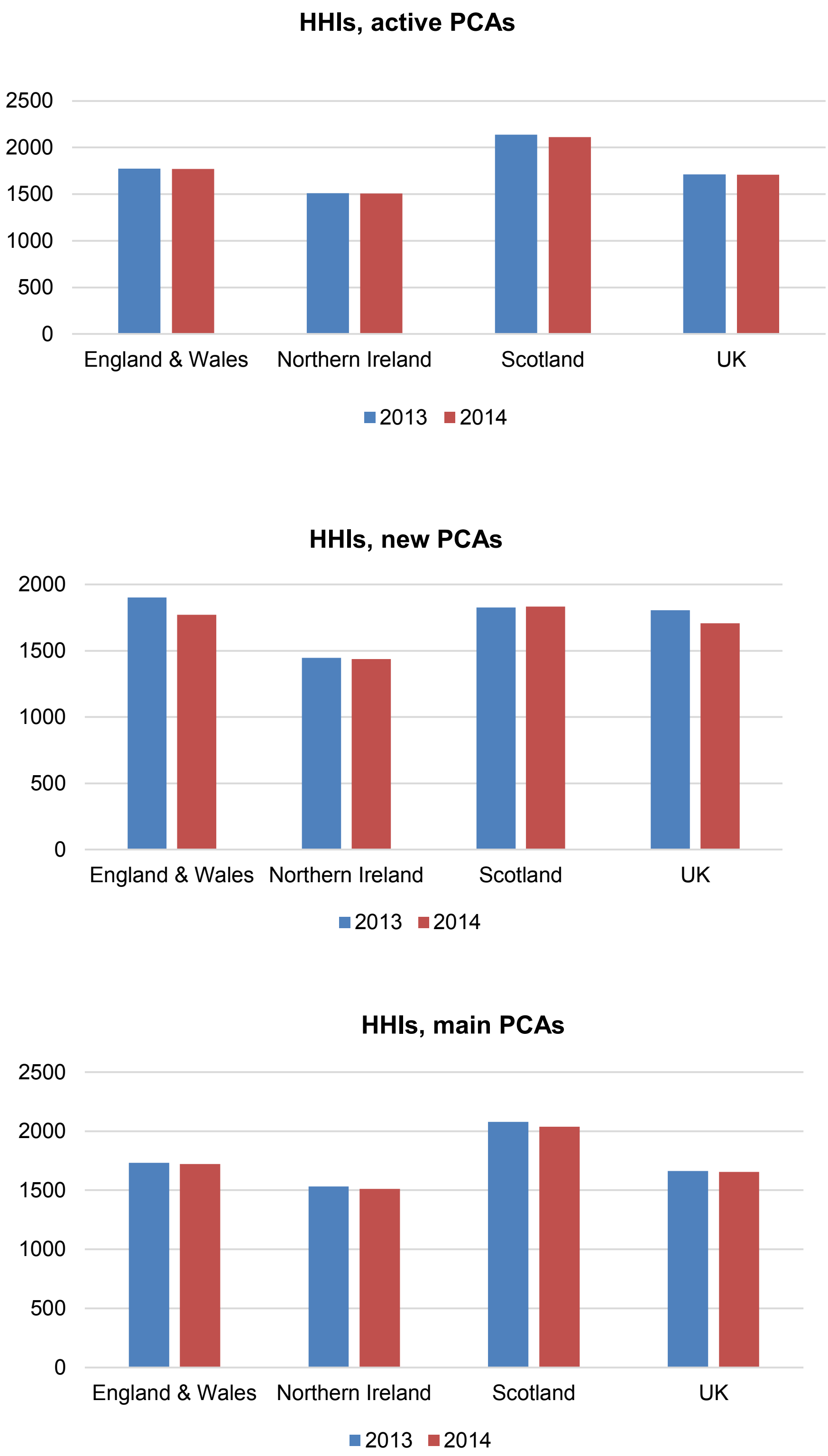
[✄]

Source: CMA estimates based on banks' responses to data request.
[✄]

16. The following charts show estimates of HHIs separately for England & Wales, Scotland and Northern Ireland. They are based alternatively on shares of active PCAs, new PCAs and main PCAs.

[19] See the CMA *Market Investigation Guidelines (CC3)*, Annex A.

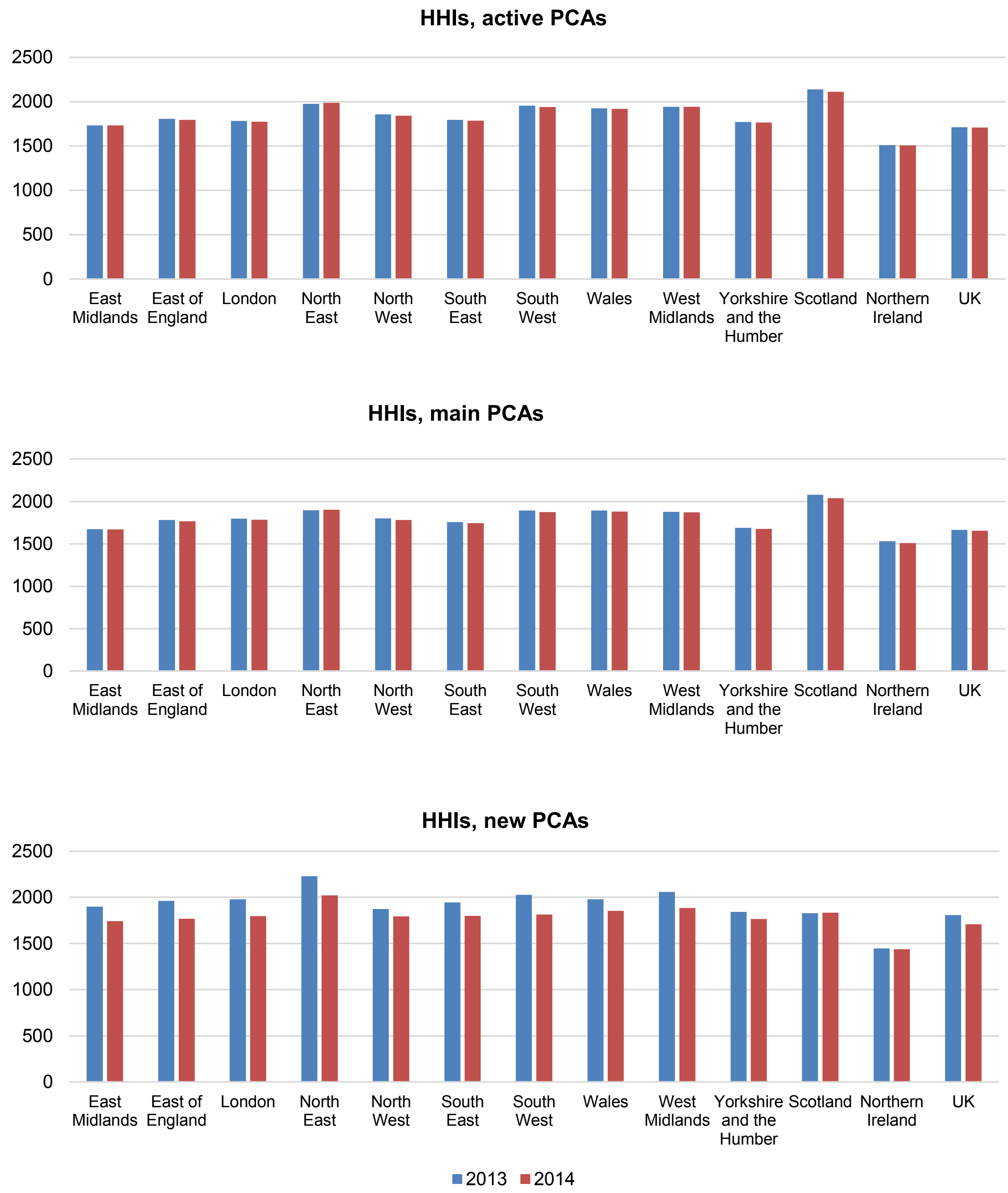
Figure 11: HHIs for UK, England & Wales, Scotland and Northern Ireland



Source: CMA estimates based on banks' responses to data request.
Notes:
1. The concentration of active and main PCAs is relatively similar.
2. Scotland is the most concentrated market.
3. Overall concentration has fallen marginally over the past two years.

17. We have also estimated HHIs for separate regions within England as well as the devolved nations. This suggests that there is relatively little variation (except for Scotland having slightly higher concentration).

Figure 12: HHIs for regions of England and devolved nations



Source: CMA estimates based on banks' responses to data request.

Personal current account churn

18. In this section we present evidence on the number and share of account openings based on information provided by the banks. We look at three indicators:

    (a) Net account openings (ie total account openings less closures) – total account openings includes customers who are new to the PCA market and 'soft switching' (where a customer opens a new account but does not close the old account) as well as standard switching.

    (b) Total account openings – based on the evidence below, the overall rate of account openings is around 7.5% as a proportion of all accounts.

    (c) Switching – the figures set out below are those recorded as switches by the banks (now using CASS). This represents a subset of account openings.

Figure 13: Net account openings – all PCAs and main PCAs

[✂]

Source: CMA estimates based on banks' responses to aggregate data request.
[✂]

Figure 14: Banks' share of new accounts over time – by brand and by bank

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

Figure 15: Banks' share of new main accounts over time by brand and by bank

[✂]

Source: CMA estimates based on banks' responses to data request.

Figure 16: Switching as a subset of overall account openings and closures (2014)

[✂]

Source: CMA estimates based on banks' responses to data request.

Figure 17: Net PCA switchings (2014)

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

Figure 18: Average account balances switched (2014)

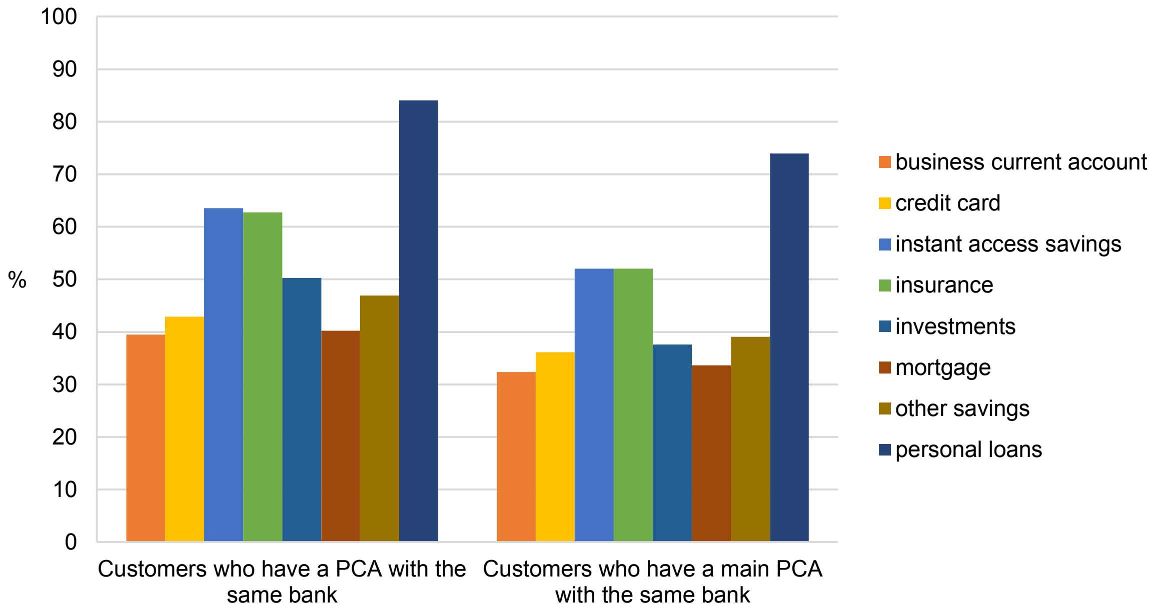
[✂]

Source: CMA estimates based on banks’ responses to data request.
[✂]

Cross-product holdings

19. This section shows estimates of the proportion of PCA customers that had one or more of the products with the same bank. We note that, as with previous results, there are some inconsistencies between the data provided by banks.[20]

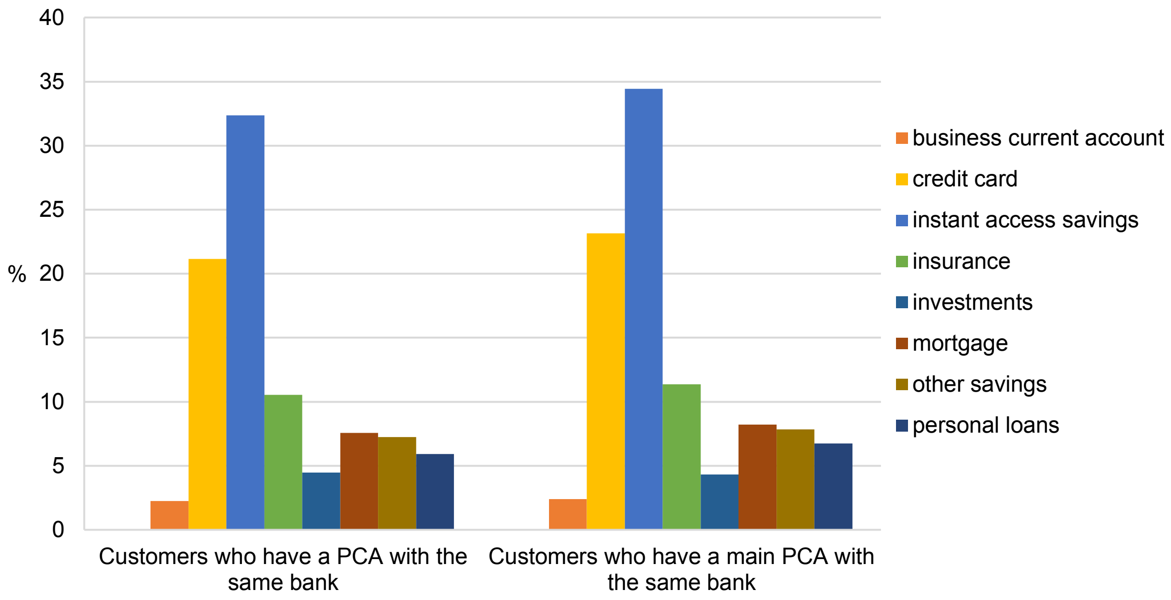
Figure 19: Proportion of customers of other non-PCA products who have a PCA/main PCA with the same bank (2014)



Source: CMA estimates based on banks’ responses to data request.

[20] No data is available for Co-op, Metro and BoI.

Figure 20: Proportion of PCA holders who have other products with the same bank (2014)



Source: CMA estimates based on banks' responses to data request.

Overdraft usage

20. This section sets out high-level evidence on the distribution of overdraft charges applied by the banks on PCAs. The results reflect the data submitted by banks to date. Clydesdale did not provide information on accounts that did not incur unarranged overdraft charges. Data is unavailable for Metro, Co-op and Ulster. M&S Bank does not provide unarranged overdrafts.

Figure 21: Distribution of all overdraft charges and unarranged overdraft charges by brand (2014)

[✄]

Source: CMA estimates based on banks' responses to data request.
[✄]

Figure 22: Monthly distribution of unarranged overdraft charges applied by brand (2014)

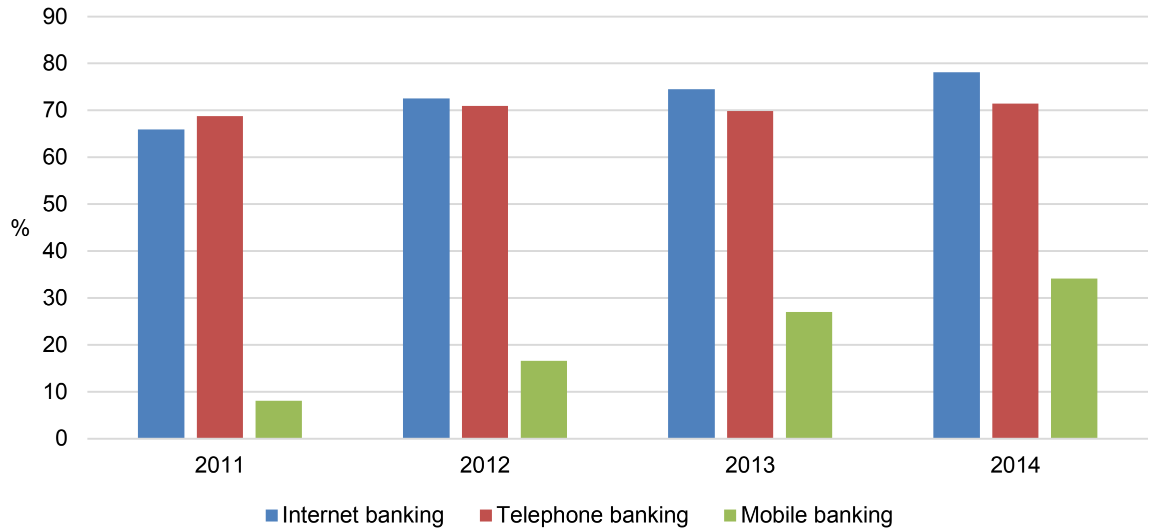
[✄]

Source: CMA estimates based on banks' responses to data request.
[✄]

Channel usage

21. This section provides an initial indication of the proportion of PCA customers registered with different banking channels (internet, mobile and telephone). It is important to note that data was not available for all banks.

Figure 23: Proportion of all accounts registered with different banking channels



Source: CMA estimates based on banks' responses to data request.
Notes:
1. This excludes Metro, Co-op, AIB and Ulster, which did not submit channel usage data on accounts registered.
2. The total number of accounts was modified to take into account that LBG, Barclays and TSB did not submit data on number of accounts registered for mobile banking, and that TSB, M&S and Danske did not submit data for all years.

Annex 2: Small and medium-sized enterprise outcomes initial evidence

1. This annex sets out the initial evidence on SME outcomes, including:

   - BCA volumes – by SME size;
   - BCA market shares – by SME size and devolved nation;
   - general purpose business loans (GPBL) market shares – by SME;
   - other SME products – market shares;
   - cross product holdings; and
   - BCA account opening and closures.

2. The results presented here are primarily based on banks' responses to our data request. Where possible we have sought to cross-check these findings against those obtained from the Charterhouse Business Banking Survey.

3. As a general principle we would expect our data request responses to provide more reliable information at a total level, and the Charterhouse Business Banking Survey to be the most reliable source for disaggregations by SME characteristic (eg by size of SME).

4. An important caveat to the analysis presented here is that data is not available for all banks in all years (as denoted in the notes to the charts, where applicable). Where this is the case, particular caution should be exercised in interpreting market shares.

BCAs

5. The UK BCA markets remain 'concentrated'[21] in 2014 with HHIs around 1,700 across a number of market share definitions (see Figure 3). The four largest firms hold a combined market share of about [80–85]% of active and new accounts.

6. While Santander has increased its share of UK BCAs by [✂] since 2012, its share of active BCAs has increased by [✂] and, along with Handelsbanken

[21] According to the definition of a concentrated market set out in *CC3*, Annex A, paragraph 7.

and Clydesdale, it has the highest proportion of inactive accounts in 2014 ([✂]%).

7. Over the same period the four largest banks have seen a reduction in combined share of around 3 percentage points, however within this there is variability between banks.

8. Market shares for Great Britain, Scotland and England & Wales are presented both using data from the Charterhouse Business Banking Survey and the aggregate data provided by banks. Generally the results are very similar.

9. The market shares calculated from both data sources show that Scotland remains a 'highly concentrated' market with HHIs in excess of 2000 in 2014 (see Figure 8).

Figure 1: Account volumes: all SMEs

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

Figure 2: Account volumes: by size of SME

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

Figure 3: BCA market shares: UK

[✂]

Metric	Active BCAs	New BCAs	Unique BCA customers	Revenue from BCA customers
HHI in 2014	1719	1703	1685	1689

Source: CMA analysis based on banks' responses to data request.

Figure 4: BCA market shares: Impact of Williams & Glyn

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

Figure 5: BCA market shares: Great Britain

[✂]

Source: CMA estimates based on banks' responses to data request and Charterhouse Business Banking Survey.
[✂]

GB – All SMEs, active BCAs at year end		
	2012	2014
HHI	1932	1825

GB – All SMEs, BCA held with main banking provider		
	2011	2014
HHI	1942	1795

Source: CMA estimates based on banks' responses to data request.

Figure 6: BCA market shares: England & Wales

[✂]

Source: CMA estimates based on banks' responses to data request and Charterhouse Business Banking Survey.
[✂]

E&W – All SMEs, active BCAs at year end		
	2012	2014
HHI	2070	1993

E&W – ALL SMEs, BCA held with main banking provider		
	2011	2014
HHI	1960	1832

Source: CMA estimates based on banks' responses to data request.

Figure 7: BCA market shares: Impact of Williams & Glyn

[✂]

Source: CMA estimates based on banks' responses to data request.
Note: Data for accounts held outside Northern Ireland not available for AIB

Figure 8: BCA market shares: Scotland

[✂]

Source: CMA estimates based on banks' responses to data request
[✂]

Scotland – ALL SMEs, active BCAs at year end		
	2012	2014
HHI	2938	2507

Scotland – ALL SMEs, BCA held with main banking provider		
	2011	2014
HHI	2832	2349

Source: CMA estimates based on banks' responses to data request.

Figure 9: BCA market shares: Impact of Williams & Glyn

[✂]

Source: CMA estimates based on banks' responses to data request.
Note: Data not available for Coop and Handelsbanken.

Figure 10: BCA market shares: Northern Ireland

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

All SMEs, BCAs at year end		
HHI	2012	2014
	2111	2032

Source: CMA estimates based on banks' responses to data request.

Figure 11: BCA market shares: by SME size

[✂]

Source: Charterhouse Business Banking Survey.

General purpose business loans

10. The UK GPBL (including commercial mortgages) market is more concentrated for BCAs with HHIs above the threshold for a 'highly concentrated' market. The four largest banks hold a combined market share of [over 85%] of the number of outstanding loans in 2014 (see Figure 12).

11. However, the market is less concentrated when measured by the value of outstanding loans with the four largest banks holding a combined market share of [70–80]%. The individual market shares of some banks vary substantially when measured by volume versus value.

12. The market for GPBL (including commercial mortgages) is more concentrated for smaller SMEs (see Figures 14 and 15). The HHI index for the share of loans provided to SMEs with annual turnover less than £2 million was 2,629 in 2014, compared with 2003 for SMEs with annual turnover greater than or equal to £2 million.

Figure 12: GPBL (including commercial mortgages) market shares: UK

[✂]

Source: CMA estimates based on banks' responses to data request.
Notes: (1) Santander data not available in 2011, (2) Data for accounts held outside Northern Ireland not available for AIB.

Figure 13: Market shares: GPBL (including commercial mortgages) vs BCAs

[✄]

Source: [✄]
[✄]

Figure 14: GPBL (including commercial mortgages) market shares: SMEs by size (1)

[✄]

Source: CMA estimates based on banks' responses to data request.
Notes: (1) Customer type used as proxy for SME turnover for Danske, (2) Data not available for AIB, BoI, Metro and TSB.

Figure 15: GPBL (including commercial mortgages) market shares: SMEs by size (2)

[✄]

Source: CMA estimates based on banks' responses to data request.
Notes: (1) Customer type used as proxy for SME turnover for Danske, (2) Data not available for AIB, BoI, Metro, and TSB.

Other products

13. In general, there are more participants in the other SME lending and business deposit product markets, compared with GPBL and BCAs. However, data from the banks on other products is only available for accounts held by BCA providers. As such, caution should be exercised in interpreting market shares and concentration indices where it has not been possible to collect external information on other providers.

14. The asset finance market appears to be less concentrated than that for BCAs and GPBLs. While the market share of the four largest banks is high ([over 60%]), there are a number of medium-sized participants and independent lenders resulting in a HHI of about 1552 (see Figure 16).

15. It is more difficult to draw inferences on concentration from the market share data for invoice finance, business deposit accounts and credit card products due to the number of market participants for which data is not available.

Figure 16: Other SME lending products

[✄]

HHI: 1553 (Asset finance).

Notes: (1) Market includes a number of participants for which data is not available. As such, the market shares displayed in the chart will be overstated. (2) Proxy data (loan book values) for Investec, Hitachi and Skipton sourced from respective company accounts and proxy value supplied by Close Brothers. Figures may include loans to SMEs with turnover >£25m. (3) Data not available for Metro.

Market includes a number of participants for which data is not available, including:

- ABN AMRO Commercial Finance
- Ashley Commercial Finance
- Bibby Financial Services
- BNP Paribus Commercial Finance
- Centric Commercial Finance
- Coface
- Creative Capital
- Davenham Group
- Factor 21
- GE Capital Commercial Finance
- Gener8 Finance
- Independent Growth Finance Leumi
- Positive Cashflow Finance
- Regency Factors
- SME Invoice Finance
- Ultimate Finance
- Venture Finance

HHI: 1857 (Invoice finance)

[✂]

Source: CMA estimates based on banks' responses to data request.
Notes: (1) Market includes a number of participants for which data is not available. As such, the market shares displayed in the chart will be overstated. (2) Proxy data (loan book values) for Investec, Hitachi and Skipton sourced from respective company accounts and proxy value supplied by Close Brothers. Figures may include loans to SMEs with turnover >£25m. (3) Data not available for Metro.

Figure 17: SME credit cards

[✂]

HHI: 2135 (Credit card accounts)

Source: Charterhouse Business Banking Survey.
Notes: (1) Market shares calculated using data on deposit accounts held with main banking provider only. Market total and shares exclude accounts held by SMEs with other providers. (2) Data not available for Metro.

Figure 18: SME deposit accounts

[✂]

HHI: 1888 (Instant access deposit accounts)

Source: Charterhouse Business Banking Survey.
Notes: (1) Market shares calculated using data on deposit accounts held with main banking provider only. Market total and shares exclude accounts held by SMEs with other providers (including building societies). (2) Data not available for Metro.

Cross-product holdings

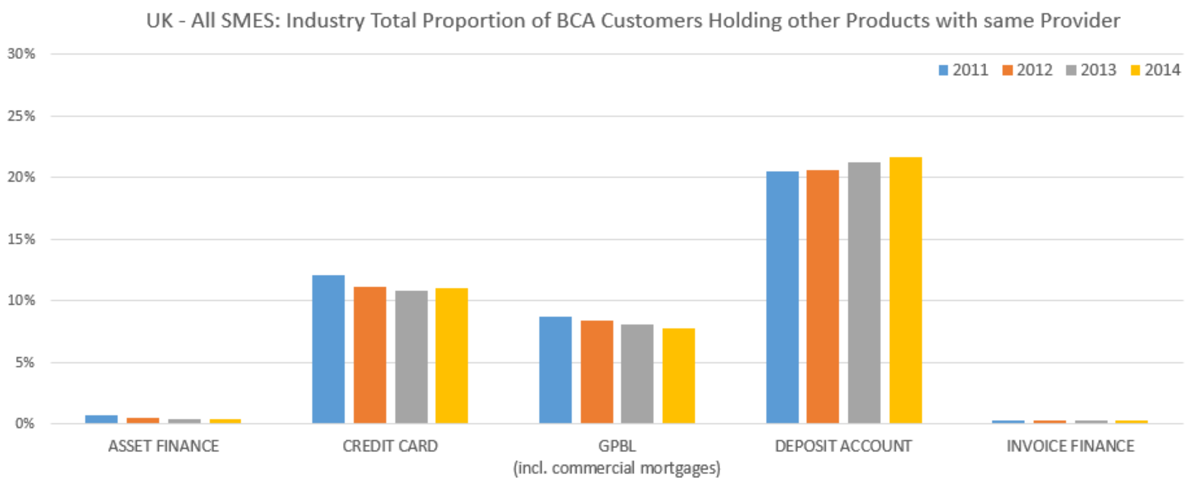
16. The other SME banking products most frequently held by BCA customers are:

- deposit accounts (about 20% of BCA customers also have a deposit account with the same provider); and
- GPBLs (including commercial mortgages) and credit cards (about 9% of BCA customers have a GPBL or card with the same provider).

17. BCAs appear to remain an important route for the sales of other products. The majority of lending and deposit products openings are originated from existing BCA customers (see Figure 20). For example:

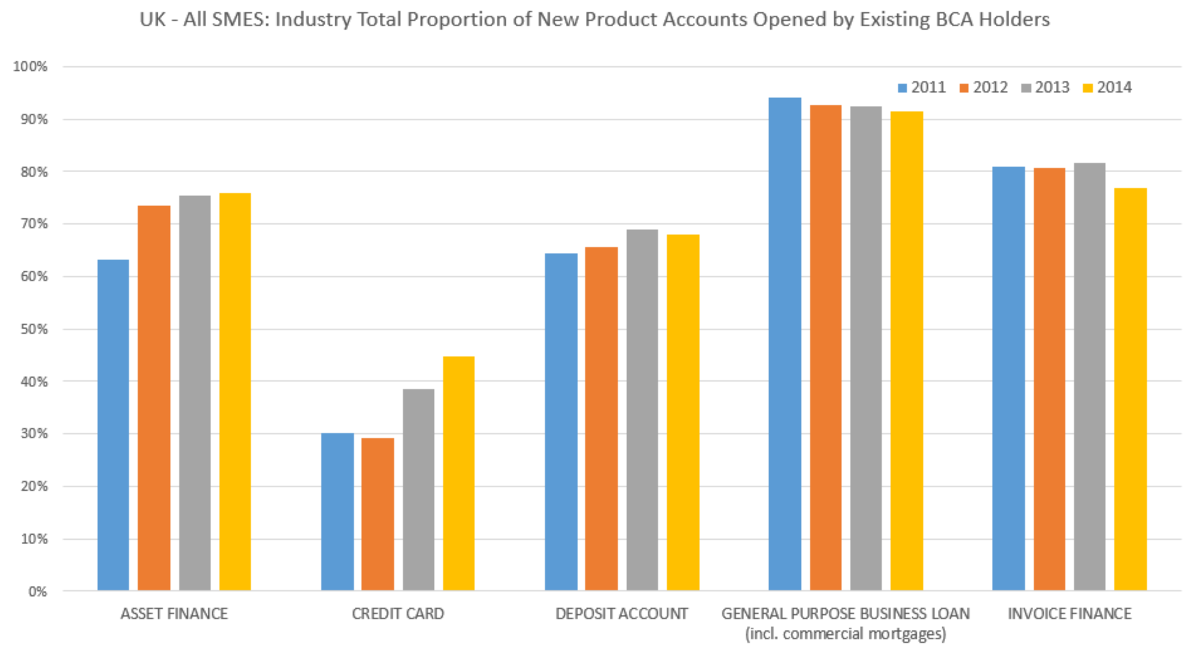
- approximately 90% of banks' total sales of GPBLs and commercial mortgages are to BCA customers; and
- approximately 70% of deposit account sales and over half of banks' invoice finance and asset finance product sales are to BCA customers.

Figure 19: Cross-product holdings – industry total



Source: CMA estimates based on banks' responses to data request.
Note: Industry total represents the proportion of cross-product holdings across all banks/products for which data is available.

Figure 20: New product openings – industry total



Source: CMA estimates based on banks' responses to data request.
Note: Industry total represents the proportion of cross-product openings across all banks/products for which data is available.

BCA churn

18. The total size of the UK BCA market has remained broadly constant since 2012, and net account openings at a market level were close to zero in 2014. Within this, however, there is considerable activity with total BCA turnover at approximately 25% in 2014.[22]

19. Of the largest four banks, only Barclays and (since 2014) RBSG have experienced a net inflow of new accounts (see Figure 23). Among them, HSBCG has seen a net outflow since 2013 (representing around [✂]% of its total accounts).

20. In contrast Santander, Metro and Handelsbanken have had the greatest rate of net account openings (as a proportion of accounts) in 2014. [✂] However, the absolute number of net accounts opened for Handelsbanken remains small.

Figure 21: BCA openings

[✂]

Source: CMA estimates based on banks' responses to data request.
[✂]

[22] Defined as the account openings plus account closing divided by the year average number of accounts.

Figure 22: BCA closures

[✂]

Source: CMA estimates based on banks’ responses to data request.
[✂]

Figure 23: BCA net opening

[✂]

Source: CMA estimates based on banks’ responses to data request.
[✂]

Appendix C: Personal current account and business current account pricing analyses – initial results

Summary of methodology

1. This appendix sets out our approach to comparison of prices across PCA and SME banking providers. It is structured as follows:

   (a) Introduction: questions we are addressing and approaches we are pursuing.

   (b) Bottom-up analysis: this uses published prices to compare the monthly cost per account for representative customers.

   (c) Top-down analysis: this uses aggregate revenue data and numbers of accounts to calculate net revenue per account.

   (d) Issues that need to be considered when interpreting the analysis.

Introduction

2. We are asking three main questions with our pricing and revenue analysis:

   (a) Do banks with a higher market share charge higher prices than smaller banks?

   (b) How much variability is there in banks' prices?

   (c) From where do banks earn their revenues on PCAs, BCAs and other banking products? For example, do they earn revenues primarily through interest forgone on credit balances, through overdraft fees and charges, or through other revenue sources? How do these revenue sources vary between banks and over time?

3. Comparison of prices for PCA and SME banking products is not straight-forward because:

   (a) Pricing of SME banking products may be bespoke, at least for larger SMEs. This point is particularly relevant to SME loan products, for which there is little published pricing information.

   (b) Different providers may have different pricing structures. Consequently, which product is cheaper may depend on customer characteristics (eg whether the customer has a credit balance or is overdrawn).

(c) Most banks have many different PCA and SME banking products and tariffs. Some banking groups have different brands with different offerings (eg Lloyds and Halifax within LBG, HSBC and First Direct within HSBCG). Furthermore, while banks provide fewer SME banking than PCA products, they usually offer customers a choice of BCA tariff.

4. We consider there are two broad approaches that may be pursued when comparing average prices of different providers:

(a) a 'bottom-up' comparison of amount paid by representative customers (based on published prices); and

(b) a 'top-down' comparison of net revenue per account.

5. In the remainder of this appendix, we set out the approach we are pursuing in the pricing analysis for the 'bottom-up' and 'top-down' analyses. We also refer to some of the issues arising in the interpretation of both 'bottom-up' and 'top-down' analyses.

'Bottom-up' analysis

6. In the 'bottom-up' analysis, we compare the monthly cost of accounts for different customer profiles, based on published prices. We propose to do this for PCAs and BCAs. We do not propose to extend this analysis to other SME banking products, such as loans, as there is insufficient published price information.

PCAs

7. Using data from banks' questionnaire responses, we have developed the six broad profiles described in Annex 1 of this appendix.

8. Our initial analysis of prices for standard and interest-paying PCAs for these profiles is summarised in Annex 2. This initial analysis illustrates:

(a) There is considerable variation in banks' charges (see Annex 2, Figures A1 to A6). The difference between the cheapest and the most expensive account is at least £5 per month for each profile, rising to over £30 per month for profile 6 (involving an unarranged overdraft).

(b) There seems to be a tendency for banks with larger market share to have higher monthly charges for two of the profiles (see Annex 2, Figures C5 and C6) though not the other profiles (see Annex 2, Figures C1 to C4).[1]

9. We intend to extend this analysis using transactions data for a representative, large sample of PCA customers.[2] The advantage of using transactions data is that it enables the comparison to be based on actual transactional behaviour and facilitates comparisons between providers across all customers.[3]

BCAs

10. The phase 1 market study carried out an analysis using ten different transactional customer profiles (see Annex 3). The profiles did not include assumptions on overdraft charges as many SMEs negotiated the terms of their overdraft facilities, and not all banks publish their interest rates for overdrafts.

11. The profiles used in the phase 1 work were derived from work done by one bank some time ago and they may not be representative of BCAs today. We asked each of the five largest banks to submit five transactional profiles that were broadly representative of its commercial BCA customers on standard tariffs, and covered transactions outlined in Table 1, Annex 3.[4] For each of the five profiles, we also asked the banks to indicate the approximate proportion of relevant customers of which it is representative.[5]

12. We limited this request to the five largest banks as together they account for a large proportion of BCA customers and hence are more likely to be representative of all customers in the market, and because we considered they had the greatest capacity to respond to requests of this type. We asked that the exercise be limited to SMEs on standard (rather than bespoke) prices and those that are commercial businesses (rather than charities or schools) because we are seeking to compare published BCA prices, customers with bespoke pricing pay less than published prices, and different tariffs may apply to charities and schools.

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[1] Figures C1 to C6 are based on market shares for Great Britain. At this stage we have not carried out separate analyses for England/Wales and Scotland. Figures C7 to C12 show a similar analysis for Northern Ireland (where market shares are materially different from those of Great Britain). Results are broadly similar, though there is less suggestion of an association between market share and price for profile 5 (Figure C11) than there is for Great Britain (Figure C5).
[2] This is the data set we obtained from PCA providers for our survey sample.
[3] The six broad profiles in Annex 1 are not necessarily representative of a similar number of customers; hence, a simple average of monthly charges across the six profiles may not be representative of all customers.
[4] By 'transactional profile', we mean a set of assumptions on the transactions that a representative customer would make, covering the items shown in Table 1, Annex 3.
[5] Relevant customers are SMEs on standard (rather than bespoke) prices and those that are commercial businesses (rather than charities or schools).

13. Four of the five largest banks have provided us with profiles, and two also provided information on the proportion of customers for which their profiles were representative, based on a systematic analysis of their relevant BCA customers. Our current intention is to compare average monthly charges using these profiles as well as publicly available data on tariffs.[6] We will attach more weight to comparisons based on profiles from those banks that provided information on the proportion of customers for which the profiles were representative, based on systematic analysis.

14. We have considered the use of full transactional data for BCAs similar to that for PCAs (see paragraph 9). However, unlike for PCAs, we do not have the transactional data and we consider that the costs of obtaining it at this stage would not be proportionate to the benefits for this analysis, given that we have obtained some representative profiles.

'Top-down' analysis

15. A top-down analysis of pricing requires estimates of net revenue and the number of accounts, or the number of active accounts. At the simplest level, net revenue for each of BCAs and PCAs may be calculated as:

> {fees paid by customers **plus** interest charged to customers on overdrawn accounts **less** interest paid on accounts in credit}.

16. In our analysis, we seek to control for the effects of certain differences in average customer characteristics between banks on net revenue:

    (a) Average balance per account. PCAs and BCAs tend to have a net positive balance per account (ie balances of customers in credit exceed balances of customers in debit), but the average positive net balance is likely to differ between banks and across products. Banks obtain a benefit from the net positive funds in PCAs and BCAs because this reduces the cost of funding loans, but the amount of benefit per account is likely to differ between banks due to variations in average net credit balance. We adjust for this by estimating the value of funds to each bank, using its average balance through the year and a standardised estimate of the average value of funds (as a percentage).[7] We then add this to net revenue (as defined at paragraph 15 above).

[6] We intend to use tariff data from *Business Moneyfacts*.
[7] Each bank will have its own estimate of the value of funds (funds transfer price, FTP) but we have used a standardised value for comparability purposes. We have based the standardised value of funds on a weighted average value of FTPs across all banks, though different approaches are possible. Since we have data only on average annual balances, the calculation is approximate.

(b) Interchange fee income. Average use of debit cards for PCAs may differ between banks. Use of debit cards generates interchange fee income, and we have adjusted for any differences by adding interchange fee income to net revenue from customers.

17. The amended calculation of net revenue would therefore be:

> {fees paid by customers **plus** interest charged to customers on overdrawn accounts **less** interest paid on accounts in credit **plus** imputed value of funds from net credit balances **plus** interchange fee income}.

18. Under the top-down approach, it is necessary to normalise net revenue to obtain numbers that are comparable between banks (all else being equal, a bank with many customers will have greater revenue than one with few customers):

(a) We normalise PCA net revenue using account numbers (number of main accounts, ie with average monthly incoming payments of more than £500). Hence, we would calculate net revenue per account. In doing so, we take the account as the basic unit of analysis.[8] This is reasonable as long as differences between banks in average customer characteristics per account do not impact materially on operating costs (we are already adjusting for differences in average balances; see paragraph 16 above).

(b) Similarly, we normalise BCA net revenue by using the number of active accounts. We note that this appears more problematic for BCAs than PCAs as cost per account is more likely to be affected by factors such as the amount of advice received (eg type of relationship manager) and whether SMEs make use of overdrafts. These points might be mitigated by making separate comparisons of BCA net revenue for SMEs with turnover above and below £2 million, and by making separate comparisons for transactional net revenue per account and overdraft net revenue as a percentage of debit balances.

19. Our initial top-down analysis for PCAs and BCAs is presented in Annex 4.[9] In relation to the analysis for PCAs, we identified two possible extensions to the analysis:

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[8] For the top-down analysis to be valid, differences in net revenue per account need to be reflective of price rather than cost differences.
[9] This is based on each banks' revenue from customers throughout the United Kingdom.

(a) Deducting the cost of benefits for packaged accounts from the revenue for those accounts.[10]

(b) Adjusting for default losses on overdrafts.

We requested information on these costs from the five largest banks for 2011 to 2014, and are currently assessing this information.

20. We are also intending to carry out exploratory analysis for other SME products. In relation to loans, we intend to compare fees and interest charged as a proportion of average loan amount. However, complexities might limit the conclusions we are able to draw. In particular, such a comparison would be affected by differences in average riskiness and size of loan as well as other factors such as the proportion of loans on fixed versus floating terms and, if fixed, distribution of loan periods.

Interpretation of pricing analysis

21. We note that the following points need to be considered in interpreting pricing analysis:

(a) Banks often make offers to new customers: for example, a one-off reward for switching PCA or a period of free banking for BCAs. On BCAs, charges may be negotiated with SMEs, particularly larger SMEs (bespoke pricing). The effects of such factors would not be included in the bottom-up analysis and would need to be considered separately (although they would be taken into account in the top-down analysis since they would affect net revenue). Also, if banks wish to target different types of customers at different points in time, their prices may vary over time, and a snapshot pricing comparison would not capture such competitive dynamics.

(b) Differences in prices may reflect quality of service differences. We are looking separately at data on quality of service, and differences in quality of service will need to be borne in mind when considering any price differences. We do not consider that the value to consumers of quality of service differences can be calculated with sufficient accuracy to calculate prices adjusted for quality of service. Therefore, the results of pricing and quality of service comparisons will need to be considered together.

[10] In principle we would wish to include the value of the benefits that customers obtain from the rewards/incentives. However, it is difficult to establish the value when customers receive benefits in kind (eg insurance as part of an added value account). An alternative, therefore, is to use the average cost per customer to each bank of providing the package of benefits.

(c) Beyond the question of quality of service differences, it may be argued that PCAs and BCAs are highly differentiated across a wide range of dimensions and competitive parameters, and that product and proposition differentiation is naturally a source of price differences.[11]

(d) If the analysis is to be used to compare the prices of different groups of banks (eg large and small banks or incumbents and challengers), it is necessary to identify which banks fall into each of these two groups.

(e) Any differences in average prices between providers may have a number of explanations, including growth strategy (an expanding bank may have lower prices because it has more active and fewer inactive customers) and balance sheet strategy (a bank wishing to reduce its loan-to-deposit ratio may offer a low price on PCAs to attract more funds).

[11] These points were made by HSBC. HSBC said that the different parameters included breadth of overall product range, the expertise of staff, the availability and quality of channels, and prudential strength. It also suggested that there were many different PCA models in the market, with the rewards of some PCAs mainly relating to the products themselves (eg credit interest, cashback), while others, such as HSBC Advance, rewarded customers via preferential rates on other products (eg savings, mortgages).

Annex 1: PCA customer profiles (bottom-up analysis)

1. In our initial analysis, we calculate the overall monthly cost of a PCA using assumptions on the following:

   (a) arranged and unarranged overdraft charges;

   (b) unpaid item charges;

   (c) interest earned on credit balances;

   (d) foreign transactions fees (ATM cash withdrawals and debit card point of sale charges); and

   (e) monthly fees (together, where appropriate, with rewards/incentives offered by banks).

Overdrafts and credit balances

2. For the purpose of calculating overdraft charges, unpaid item charges and credit interest, we include six customer profiles for all banks (these are based on analysis of data submitted by banks – see paragraph 5 for further details):

   (a) No overdraft and average credit balance of £5,000.

   (b) No overdraft and average credit balance of £2,500.

   (c) No overdraft and average credit balance of £500.

   (d) Three consecutive days in arranged overdraft of £100 and average credit balance of £500 for the remainder of the month.

   (e) Twelve consecutive days in arranged overdraft of £500 and average credit balance of £500 for the remainder of the month.

   (f) Three consecutive days in unarranged overdraft of £100 and average credit balance of £500 for the remainder of the month, and one unpaid item totalling less than £50.

Foreign transactions

3. We include in all profiles the charges for a cash withdrawal in foreign currency via a non-partner ATM amounting to £100 (occurring 1.2 times per year, or 0.1 times per month), and for a debit card payment in foreign currency amounting to £50 (occurring 3.6 times per year, or 0.3 times per month).

Monthly fees and rewards/incentives

4. We include any monthly fee applicable to that account. In the case of accounts that offer rewards/incentives offered by banks to their PCA customers, we would, in principle, wish to include the value of the benefits that customers obtain from the rewards/incentives. However, it is difficult to establish the value where customers receive benefits in kind (eg insurance as part of an added value account). An alternative, therefore, would be to use the average cost per customer to each bank of providing the package of benefits.

How we constructed profiles

5. We used data obtained from banks in order to form our assumptions on six representative customer profiles. We analysed data on average credit and debit balances, days in overdraft, the number of unpaid item fees, and the number and amount of foreign transactions.

   (a) We found that the average debit balance was between £0.01 and £100 for the majority of PCAs. For these customers, the median number of days in overdraft was three. The second most common debit balance was between £101 and £500, with the median number of days in overdraft equal to 12.

   (b) We found that the most common credit balance was between £101 and £500 for the majority of PCAs. We also included customers with higher average credit balances, ie £2,000 and £5,000, in our analysis. We expect that these profiles will have lower weight in our conclusions.

   (c) We found that, for those paying unpaid item charges, the most common number of such charges was one per year.

Annex 2: Initial results for PCAs (bottom-up analysis)

1. In this annex, we set out our initial results from comparing the monthly cost of PCAs for the six profiles set out in Annex 1. First, we summarise our approach together with initial comments we received from the five largest banks that we consulted on the proposed analysis. Figures A1 to C12 contain our preliminary results and are therefore highly provisional. This analysis is ongoing and we welcome comments from interested parties on the approach we have taken. The remainder of this annex is presented as a series of summary slides.

PCA analysis – summary of approach

2. Coverage: our analysis focuses on standard accounts, but also includes interest-paying accounts. This covers almost 60% of customers.

3. Data: data for prices in January 2015 published on banks' websites; data on the number of accounts submitted by the banks.

4. Fees included: account fee, overdraft fee, unpaid item fee, foreign card payments and cash withdrawal fees.

5. Rewards included: (as negative price) interest earned on credit balances and monetary monthly rewards.

6. Fees excluded: standing order and direct debit fees, foreign transfer fees, statement fees and one-off incentives.[12]

7. Weighting of different accounts: for each banking brand and group with more than one account included, we weight the cost per month of each type of account included in the comparison by the number of accounts of that type.

Banks included in the analysis

8. The following banks were included: AIB (First Trust), Barclays,[13] Bank of Ireland (including the Post Office PCA), Clydesdale (including Yorkshire), Co-

[12] We have also not taken into account the value/cost of funds to the bank as, for each profile, this will depend only on the interest rate at which funds are valued (funds transfer price, FTP). If we use the same FTP for each bank (as we do in our top-down analysis), the effect of including the value/cost of funds would just be to change the monthly cost for each bank for each profile by the same amount.
[13] Barclays introduced a rewards scheme (blue). This is not included in the results that relate to January 2015.

op,[14] Danske,[15] HSBCG (including First Direct), LBG (including BoS and Halifax), Metro, Nationwide, RBSG (including NatWest and Ulster), Santander and TSB.

Comments made by parties on the approach

9. We should take into account product differentiation and quality.

10. We should take into account introductory offers, such as switcher rewards, and other offers, such as cashback (which are significant parts of the customer offer in which providers have invested and will have ongoing costs).

11. We should take into account start-up and student accounts, and look at customer banking life cycle.

12. We should take into account customer eligibility. (Providers target specific customer segments with particular products, through pricing, quality and eligibility criteria and monthly fees if they are not met. This means some scenarios are not relevant for some products or providers.)

13. Banks wish to target different types of customers at different points in time. A snapshot pricing comparison will not capture these competitive dynamics.

14. Customer profiles may not comprehensively cover the customer bases of banks (ie like-for-like profiles may not be compared). The customer profiles should represent a broad range of customer types. All customer characteristics with a significant effect on fees paid should be incorporated into the customer profiles; examples of additional characteristics to capture include minimum monthly payments and frequency of payments made when overdrawn.

15. Each customer profile should be applied only to relevant PCA tariffs, as there are significant differences in usage patterns, which are not necessarily similar across tariffs.

16. The distribution of prices for PCAs is multi-dimensional and non-normal, with a high concentration of revenue in a relatively small group of customers. This means a provider may offer a better price for most customers and still be more profitable by charging more to a relatively small group in any given year. This distributional effect is not reflected in this analysis.

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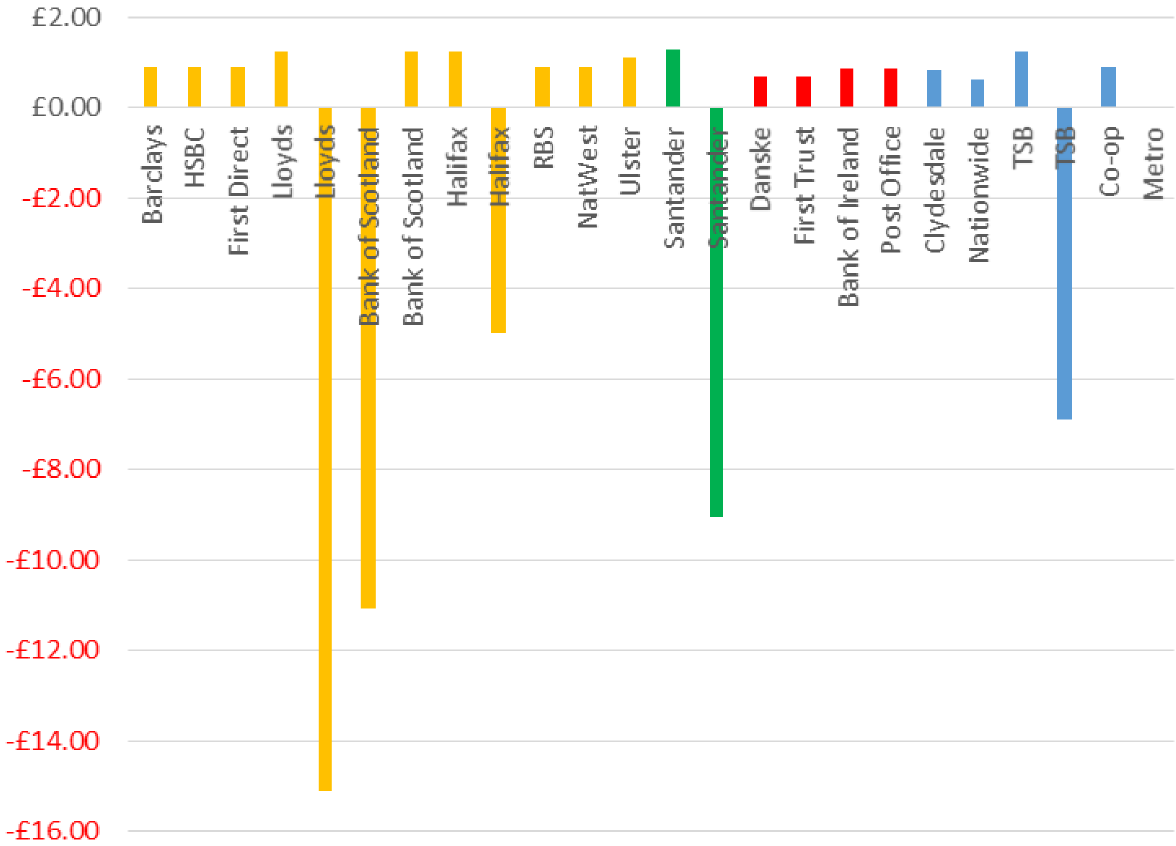
[14] The Co-op made significant changes to its overdraft proposition in April 2015, including significant reductions in its overdraft fees and charges. These are not included in the results that relate to January 2015.
[15] Danske altered its foreign transactions charges in April 2015 these are not included in the results which relate to January 2015.

17. Where there is a cross-subsidy occurring at a bank, the estimated monthly cost of accounts may suggest that a bank's PCA and BCA prices are low, even though other products sold by the bank are priced high. Consequently, if a bank in reality has market power, it may not be shown to have 'high' PCA prices on this measure.

Initial results – total charges by customer profile[16]

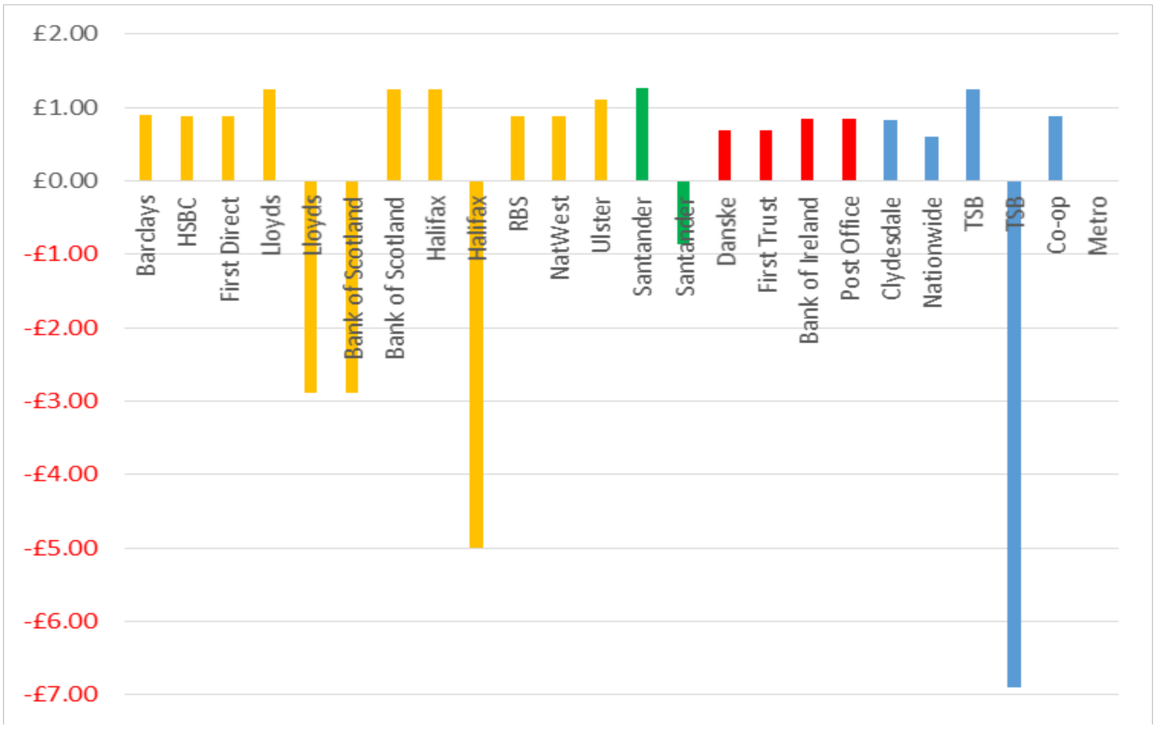
Figure A1: Profile 1 – no overdraft and average credit balance of £5,000



Source: CMA analysis based on public information taken from banks' websites.
Note: Where there are multiple bars per bank, one corresponds to the standard account and the other to the interest-paying or reward account.

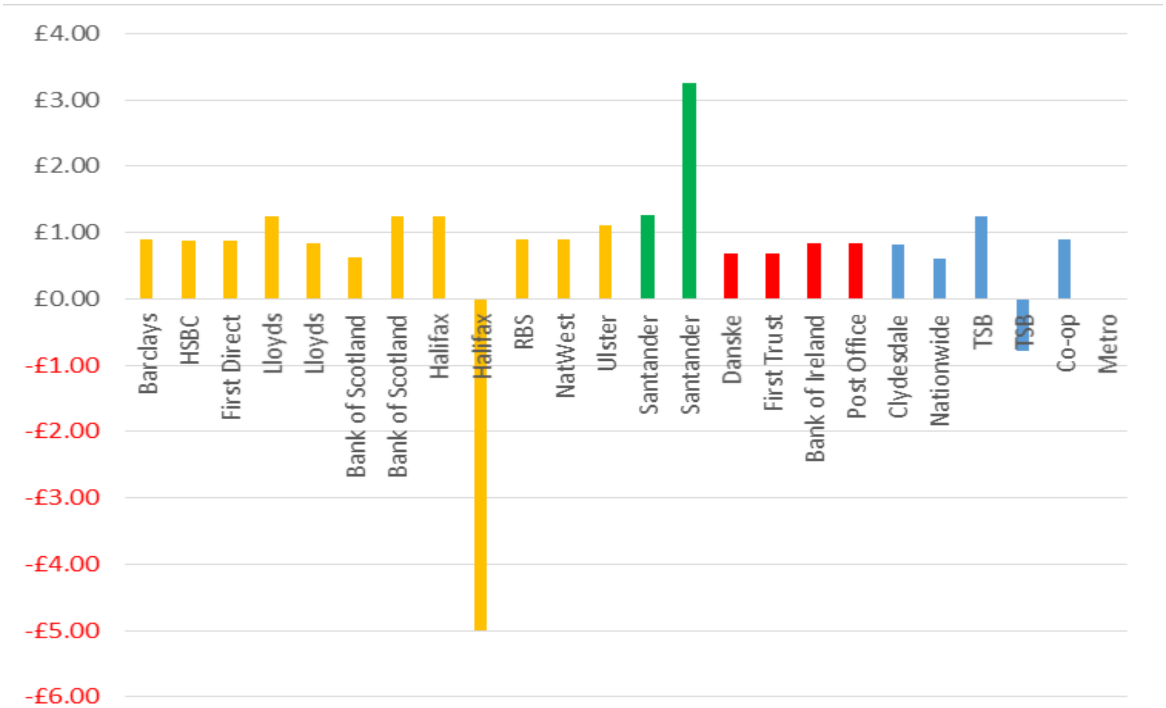
[16] Yellow bars correspond to the four largest bank groups, blue bars to smaller banks and red to Northern Ireland banks, with Santander shown in green.

Figure A2: Profile 2 – no overdraft and average credit balance of £2,500



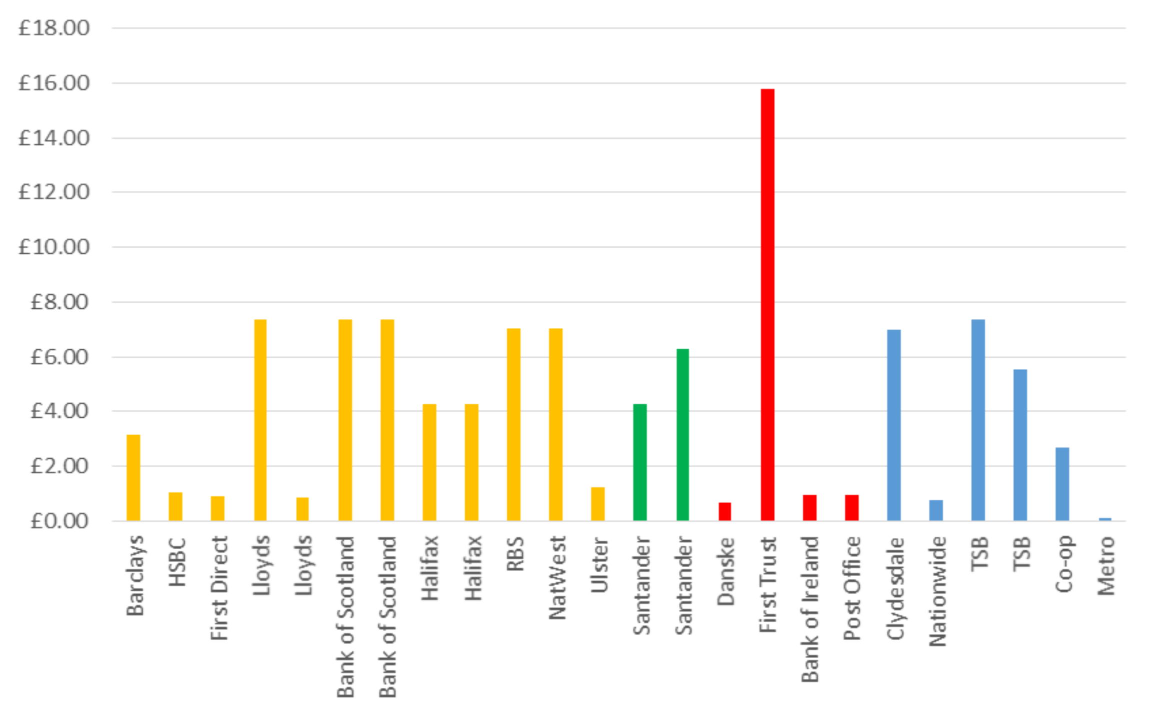
Source: CMA analysis based on public information taken from banks' websites.
Note: Where there are multiple bars per bank, one corresponds to the standard account and the other to the interest-paying or reward account.

Figure A3: Profile 3 – no overdraft and average credit balance of £500



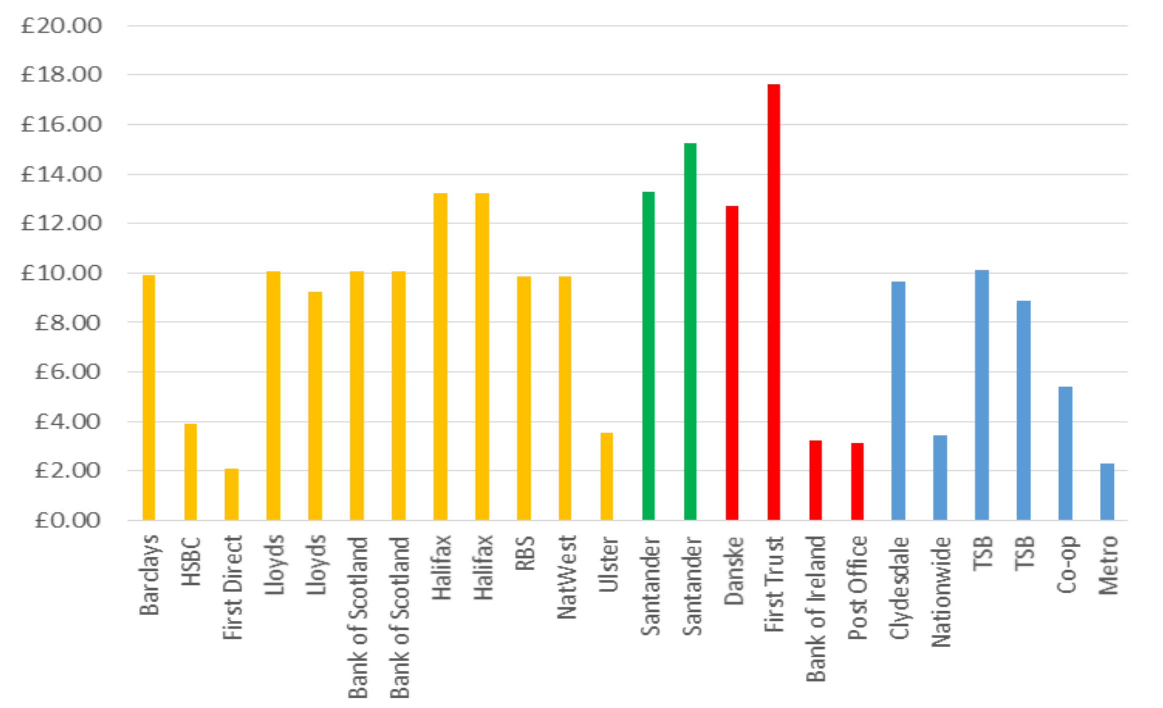
Source: CMA analysis based on public information taken from banks' websites.
Note: Where there are multiple bars per bank, one corresponds to the standard account and the other to the interest-paying or reward account.

Figure A4: Profile 4 – three consecutive days in arranged overdraft of £100 and average credit balance of £500 for the remainder of the month



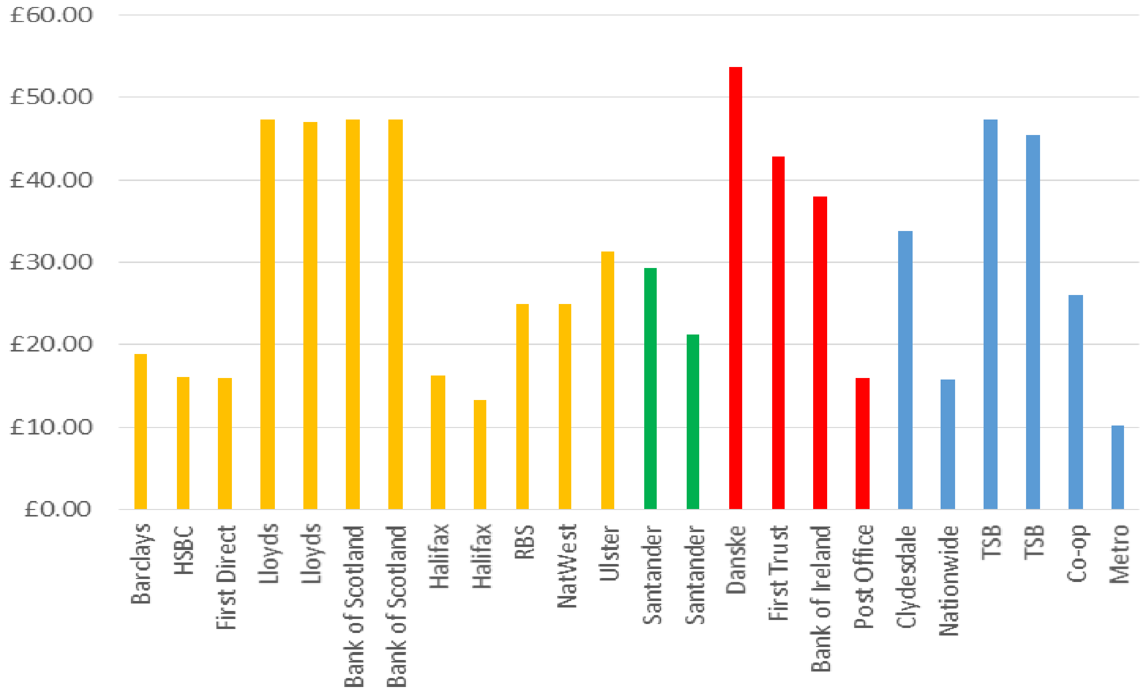
Source: CMA analysis based on public information taken from banks' websites.
Note: Where there are multiple bars per bank, one corresponds to the standard account and the other to the interest-paying or reward account.

Figure A5: Profile 5 – 12 consecutive days in arranged overdraft of £500 and average credit balance of £500 for the remainder of the month



Source: CMA analysis based on public information taken from banks' websites.
Note: Where there are multiple bars per bank, one corresponds to the standard account and the other to the interest-paying or reward account.

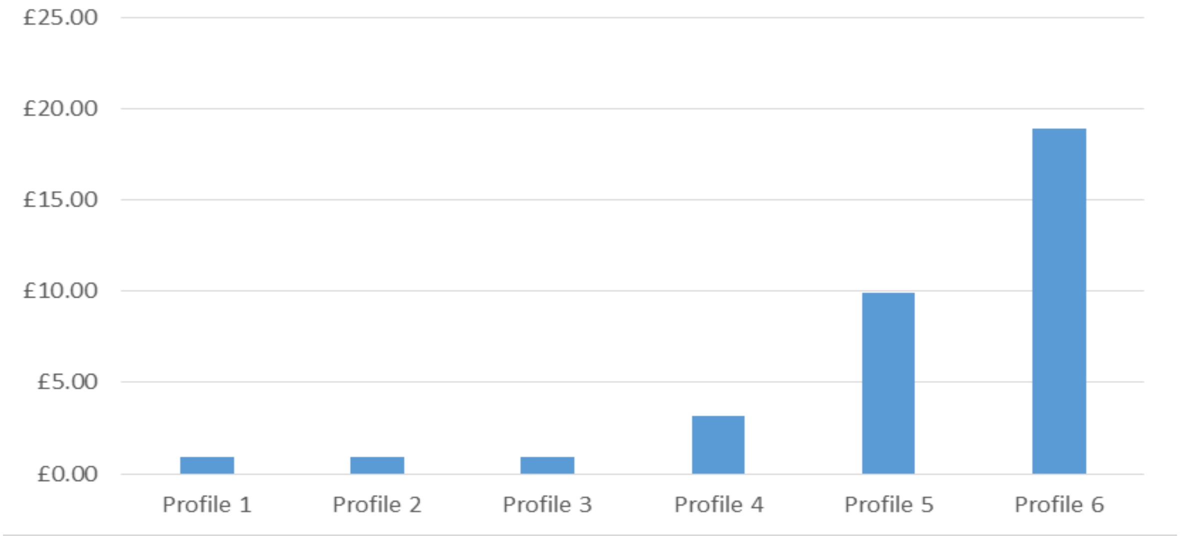
Figure A6: Profile 6 – three consecutive days in unarranged overdraft of £100 and average credit balance of £500 for the remainder of the month, and one unpaid item totalling less than £50



Source: CMA analysis based on public information taken from banks' websites.
Note: Where there are multiple bars per bank, one corresponds to the standard account and the other to the interest-paying or reward account.

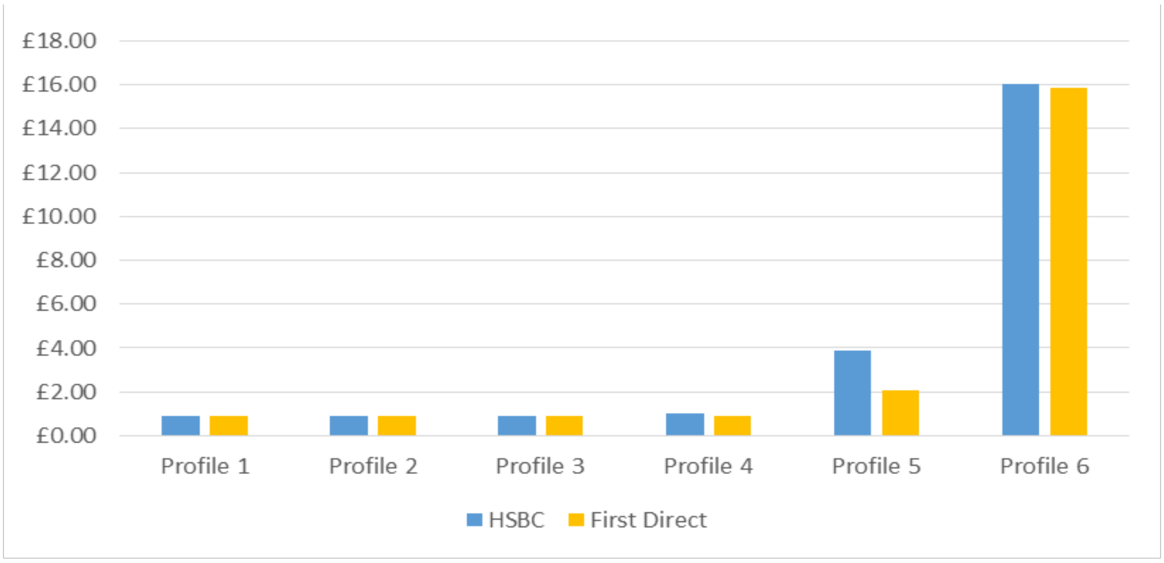
Initial results – monthly charges by bank for each profile

Figure B1: Monthly charge by bank for different profiles: Barclays



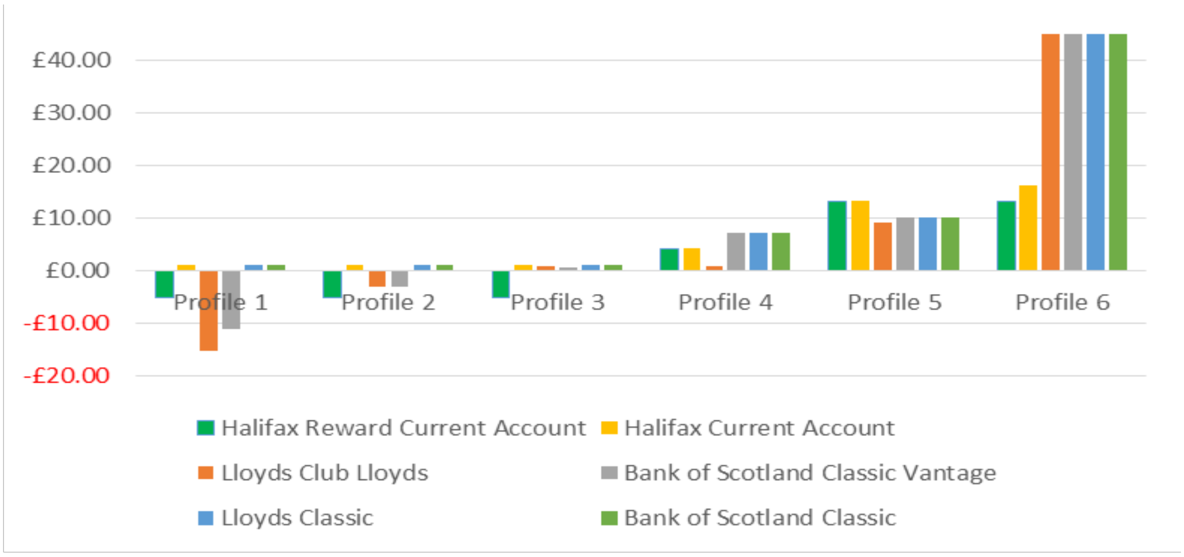
Source: CMA analysis based on public information taken from banks' websites.

Figure B2: Monthly charge by bank for different profiles: HSBCG



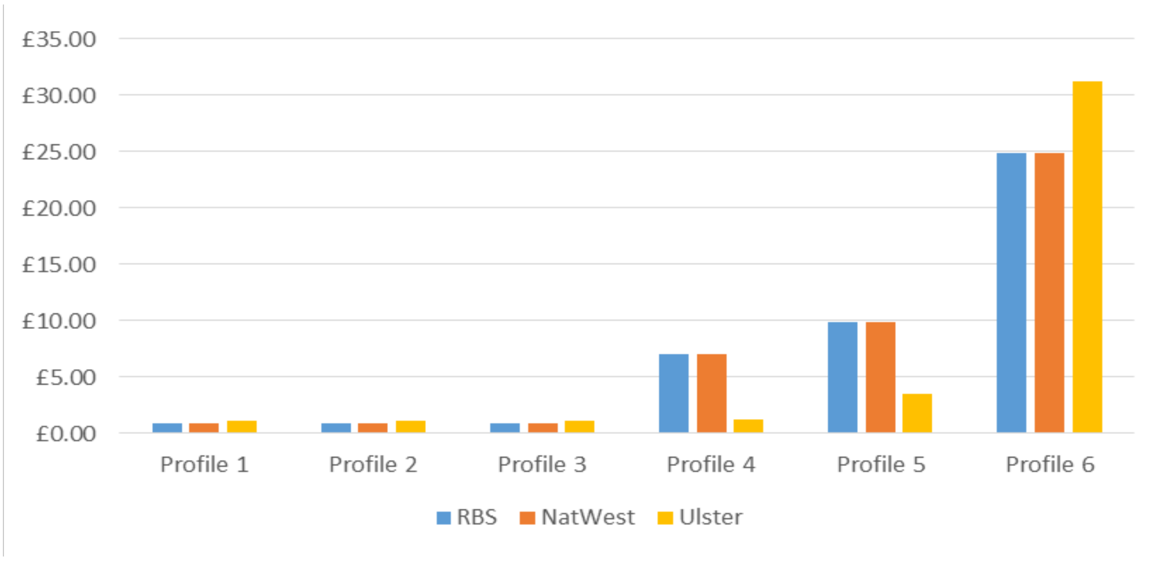
Source: CMA analysis based on public information taken from banks' websites.

Figure B3: Monthly charge by bank for different profiles: LBG



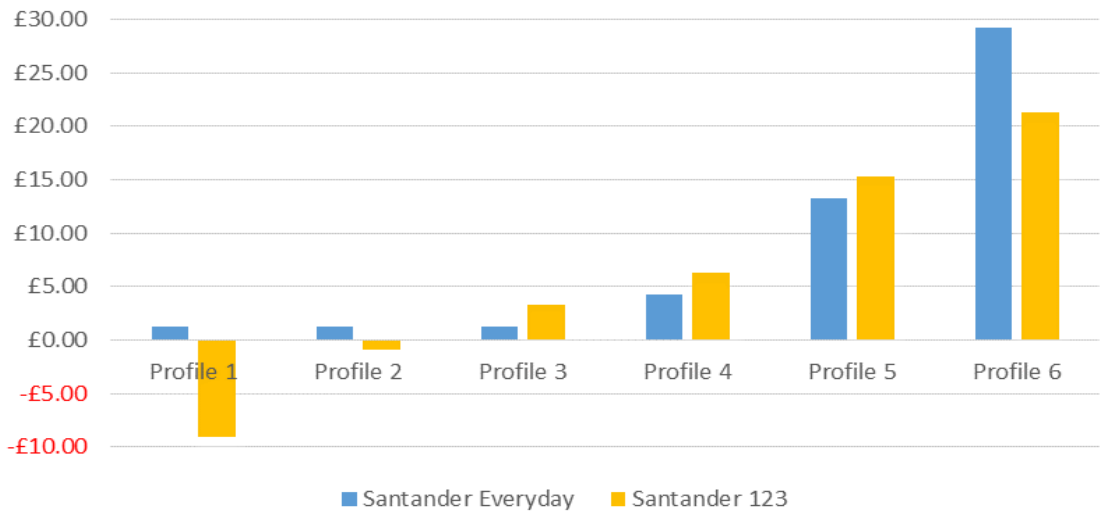
Source: CMA analysis based on public information taken from banks' websites.

Figure B4: Monthly charge by bank for different profiles: RBSG



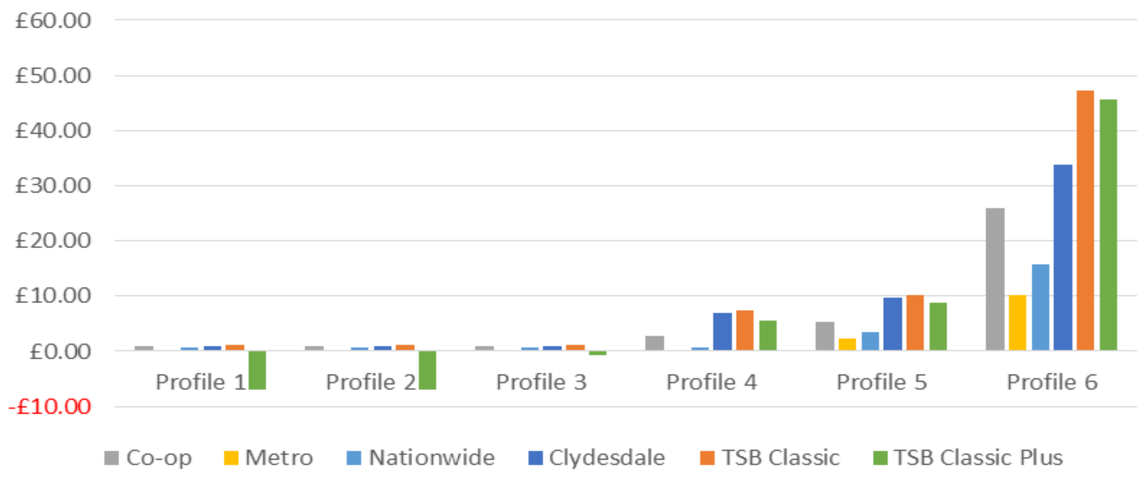
Source: CMA analysis based on public information taken from banks' websites.

Figure B5: Monthly charge by bank for different profiles: Santander



Source: CMA analysis based on public information taken from banks' websites.

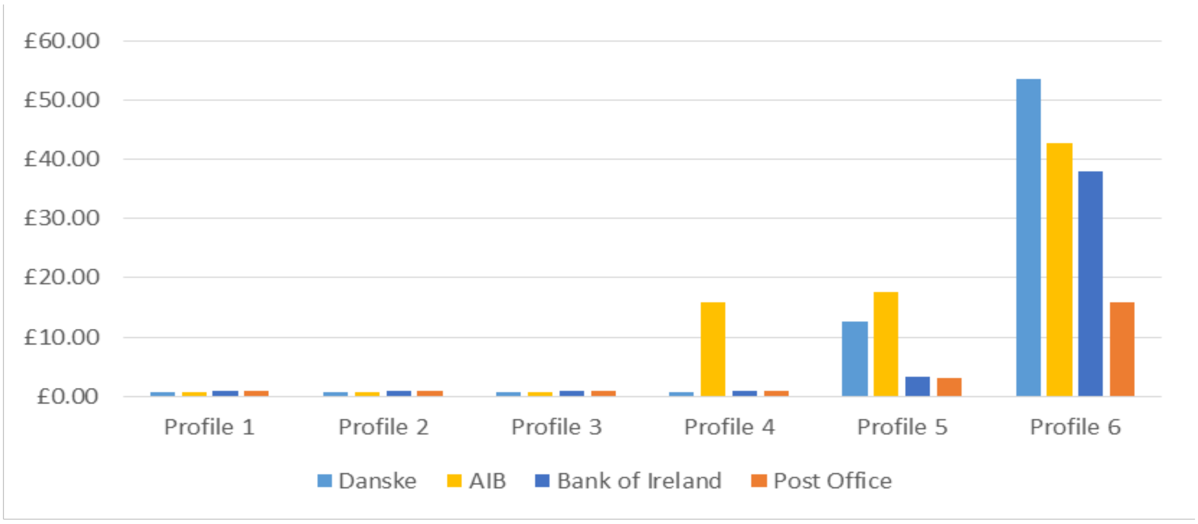
Figure B6: Monthly charge by bank for different profiles: small banks



Source: CMA analysis based on public information taken from banks' websites.

Initial results – Northern Ireland banks

Figure B7: Monthly charge by bank for different profiles: Northern Ireland banks[17]



Source: CMA analysis based on public information taken from banks' websites.

Initial results – monthly price by bank and market share by customer profile: Great Britain

Figure C1: Scatter plot for profile 1: no overdraft and average credit balance of £5,000

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

[17] The Post Office current account has been included here as it is provided by BoI.

Figure C2: Scatter plot for profile 2: no overdraft and average credit balance of £2,500

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C3: Scatter plot for profile 3: no overdraft and average credit balance of £500

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C4: Scatter plot for profile 4: three consecutive days in arranged overdraft of £100 and average credit balance of £500 for the remainder of the month

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C5: Scatter plot for profile 5: 12 consecutive days in arranged overdraft of £500 and average credit balance of £500 for the remainder of the month

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C6: Scatter plot for profile 6: three consecutive days in unarranged overdraft of £100 and average credit balance of £500 for the remainder of the month, and one unpaid item totalling less than £50

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Initial results – monthly price by bank and market share by customer profile: Northern Ireland

Figure C7: Scatter plot for profile 1: no overdraft and average credit balance of £5,000

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C8: Scatter plot for Profile 2: no overdraft and average credit balance of £2,500

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C9: Scatter plot for profile 3: no overdraft and average credit balance of £500

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C10: Scatter plot for profile 4: three consecutive days in arranged overdraft of £100 and average credit balance of £500 for the remainder of the month

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C11: Scatter plot for profile 5: 12 consecutive days in arranged overdraft of £500 and average credit balance of £500 for the remainder of the month

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Figure C12: Scatter plot for profile 6: three consecutive days in unarranged overdraft of £100 and average credit balance of £500 for the remainder of the month, and one unpaid item totalling less than £50

[✂]

Source: CMA analysis based on public information taken from banks' websites and banks' responses to data requests.

Annex 3: Phase 1 analysis for BCAs (bottom-up analysis)

1. This annex sets out further information on the pricing analysis carried out in the phase 1 market study, including the customer profiles used.[18] BCA tariff information was obtained from Business Moneyfacts.

2. The phase 1 analysis excluded:

   (a) BCAs that have specific terms and conditions, such as promotional offerings (eg Santander's 'free banking for life');

   (b) BCAs that are aimed at a particular type of business (eg clubs and societies);

   (c) legacy tariffs (ie tariffs that are not available to new customers, but are still applicable to existing customers);[19] and

   (d) any considerations of inappropriate use of tariff (ie even when banks offer more than one BCA and segment their BCAs by channel usage, they may not restrict which accounts can be used by which SMEs; consequently, an inappropriate tariff would incur additional banking expenses to an SME).

3. The phase 1 BCA profiles did not cover interest paid on credit balances or overdraft charges. The phase 1 study found that differences in credit interest were small and stated that no comparison could be made between overdraft charges as many SMEs negotiated the terms of their overdraft facilities.

4. The phase 1 market study used ten customer profiles submitted by one bank. These profiles reflected different usage of the various BCA services that are available to SMEs (see Table 1 below).

   (a) Profiles 1 to 5 related to light branch users conducting the majority of their business banking through electronic channels (eg the internet, mobile banking and telephone banking).

   (b) Profiles 6 to 10 related to generally heavier branch users.

5. For each of these customer profiles, the cost to an SME for each bank was constructed by applying the monthly usage patterns in Table 1 to each bank's tariffs.

6. The customer profiles included the following types of electronic transaction:

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[18] See paragraphs 9.25 to 9.33 and Annex E of the phase 1 market study.
[19] The Barclays Business Free Automated Transactions (FAT) and Credit Interest tariffs were included in the analysis as a high proportion of SMEs that banked with Barclays were on these tariffs.

(a) auto credit – an electronic credit paid into the account;

(b) bill payment – a bill payment that is debited to the account via a telephone banking service and credited to a recipient;

(c) internet bill payment – a bill payment made through business internet banking;

(d) debit card – a debit to the account following a business debit card payment;

(e) BIB BACS – charge for each BACS payment credited to a beneficiary made through business internet banking;

(f) direct debit – a direct debit payment made from or returned to the account; and

(g) standing order – a standing order payment made from the account.

7. In regard to branch/other transactions, the profiles included the following types of transaction:

(a) branch paying in – credit paid in over branch counter (containing cash and/or cheques);

(b) branch withdrawal – cash withdrawal over branch counter (ie when cashing a cheque);

(c) branch cash in – a charge in addition to the 'branch paying in' charge for cash paid in at branch (as percentage of the value deposited);

(d) branch cash out – a charge in addition to the 'branch withdrawal' charge for cash withdrawal over branch counter (as percentage of the value withdrawn);

(e) ATM cash out – a charge for debit associated with cash withdrawal from self-service machine (one debit per withdrawal), and an additional charge for cash amount withdrawn from self-service machine (as percentage of the value withdrawn);

(f) cheques paid in – a charge in addition to the 'branch paying in' charge for cheques paid in at branch; and

(g) cheques issued – a charge for processing cheques written by the account-holding SME.

Table 1: BCA profiles used in phase 1

Number of transactions per month unless specified otherwise

Profile	*Light branch users*					*Heavier branch users*				
	1	2	3	4	5	6	7	8*	9	10
Electronic transactions										
Auto credit	3	5	7	8	12	10	11	17	17	23
Bill payment	0	0	0	0	0	0	0	1	1	1
Internet bill payment†	2	5	6	9	10	12	9	16	11	18
Debit card	4	4	5	5	7	4	4	4	4	4
BIB BACS†	0	0	0	1	1	0	0	0	0	0
Direct debit	3	4	5	5	8	8	7	10	11	13
Standing order	1	1	1	1	2	2	1	2	2	2
Branch/other transactions										
Branch paying in	1	1	2	2	5	1	3	4	6	7
Branch withdrawal	0	0	0	0	0	0	0	0	1	1
Branch cash in (£)	31	45	138	179	397	477	1844	3155	4218	5843
Branch cash out (£)	9	37	65	92	151	134	345	559	671	897
ATM cash out (£)	64	71	79	78	111	88	89	81	84	81
Cheques paid in	1	1	3	4	10	3	7	10	15	18
Cheques issued	1	2	2	3	5	5	6	9	10	13

Source: Profiles submitted by a bank.
*This profile also had one other credit transaction.
†Charges for these transactions are not available in *Business Moneyfacts*.

Annex 4: Initial analysis of net revenue (top-down analysis)

1. This annex sets out the initial results of our top-down analysis of net revenue per account. It covers the following:

   (a) Description of approach and data used.

   (b) Banks' comments on the methodology.

   (c) Initial results, PCAs:

   (i) summary;

   (ii) breakdown of aggregate bank revenue per main PCA and trends over time (a main PCA is defined as one with average monthly incoming payments of more than £500); and

   (iii) comparison of revenue per main PCA across banking groups.

   (d) Initial results, BCAs:

   (i) summary;

   (ii) breakdown of aggregate bank revenue per active BCA and trends over time (an active BCA is defined as one that has received at least one customer-generated payment or transfer coming into or leaving the account within the last 12 months); and

   (iii) comparison of revenue per active BCA across banking groups.

Description of approach and data used

2. We have calculated net revenue as:

   {fees paid by customers **plus** interest charged to customers on overdrawn accounts **less** interest paid on accounts in credit **plus** imputed value of funds from net credit balances **plus** interchange fee income}.

3. We calculated revenue per account by dividing net revenue by the number of main accounts (PCAs) or active accounts (BCAs).[20]

[20] See discussion at paragraphs 16 to 17 of the main text of this appendix.

4. The banks provided the data used in response to our aggregate data request (part of the market questionnaire). The analysis in this annex covers:

   (a) For PCAs: AIB, Barclays, BoI, Co-op, Clydesdale, Danske, HSBCG (including First Direct and M&S Bank), LBG (including BoS and Halifax), Metro, Santander, TSB, RBSG (including NatWest) and Ulster.[21]

   (b) For BCAs: AIB, Barclays, BoI, Clydesdale, Danske, HSBC, LBG, Santander, TSB, RBSG (RBS and NatWest branded accounts) and Ulster.[22]

5. Each bank provided us with data on revenue across all of its UK customers. Since the majority of banks provide PCAs and BCAs across the UK, we are unable to disaggregate revenue between the constituent countries of the UK.

Comments by parties on the methodology

6. As noted above, we asked the five largest banks for information on the costs of packaged account benefits and expected default losses,[23] providing background on our methodology.

7. Points made by parties included the following:

   (a) Average net revenue is not a measure of price faced by individual customers and will reflect differences in customer characteristics. Averages per account depend on the mix of customers served, which will vary across banks, reflecting their respective business models and the customers they target and attract.

   (b) Many providers use increasingly sophisticated eligibility criteria (and often monthly fees for customers not meeting those criteria) to control and influence the customer mix they attract. A provider may therefore have lower average revenue than another provider because its customers make less use of overdrafts, hold lower balances or transact less, rather than because of any difference in prices. Furthermore, any comparison of average prices alone also does not account for: quality (eg mobile app features, ease of use and access, range of products, and service); customer mix (eg eligibility criteria will determine revenue per customer as well as price levels); costs of service (different business models, such as different credit risk appetite or branch availability, have different costs to

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[21] RBSG submitted a separate return for Ulster.

[22] As part of our targeted and proportionate approach to evidence gathering, smaller banks were sent a 'lite' version of the market questionnaire which did not include revenue data for BCAs.

[23] We also asked for BCA profiles for the bottom-up analysis.

serve); and customer life stage (providers with newer customers have a higher proportion of customers on introductory offers, particularly for BCAs).

(c) It was difficult to make adjustments for differences in cost to serve: different banks were unlikely to measure the costs of packaged account benefits in the same way, and default information needed to be very detailed.

(d) Interchange fee income, which was included in our analysis, would change following the implementation of the European Union's Interchange Fee Regulation.

(e) A top-down approach, in which financial data is used to estimate a unit cost paid by customers at different providers, offers the potential to provide a useful sense-check to the results of the bottom-up analysis. However, to provide meaningful results, the CMA would need to undertake much more detailed analysis that fully controlled for the differences in services provided. Essentially, this would require the CMA to conduct a product profitability assessment.

PCAs

Summary

8. A number of issues arise when interpreting our initial work.[24] We need to consider these further, but the following points are suggested:

(a) Net revenue per main account has declined since 2011. The reasons for this (see paragraph 10(a)) include declining revenue from monthly account and overdraft fees, increasing interest payments on credit balances and lower net value of funds from credit balances (up to 2013, lower interest rates on credit balances more than offset an increase in average balances per main account).

(b) Banks still value funds from PCA credit balances at substantially more than short-term interest rates, and, although declining, the value of funds remains the largest source of PCA net revenue.

(c) Comparison across banking groups suggests significant variation between groups in net revenue per main PCA.

[24] See paragraph 11 below.

Aggregate bank revenue per main PCA

9. Table 1 outlines revenue aggregated across all the banks mentioned in paragraph 2. We have considered net revenue comprising the following:

   (a) receipts from fees and interest charged on overdrafts;

   (b) receipts from other charges and sources of PCA revenue, including interchange fees;

   (c) **less** any interest paid to customers on credit balances together with any other payments made to customers (eg cashback); and

   (d) **plus** the value that banks obtain from net credit balances (ie the value of funds from credit balances less the cost of funding overdrafts).

Table 1: Analysis of revenue (£ per main PCA*)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*2014 %*
Arranged O/D	36.95	36.09	35.80	35.41	20
Unarranged O/D and unpaid item fees	29.04	29.17	27.18	24.84	14
Foreign ATM and debit card fees	9.77	8.79	8.74	8.81	5
Interchange fees (debit card)	15.34	15.96	16.70	17.28	10
Monthly account fees	29.48	26.22	23.81	21.57	12
Other receipts (net)	3.94	2.18	2.73	3.59	2
Total receipts from charges and interest	124.53	118.41	114.96	111.50	62
Interest payments to customers	–8.12	–7.64	–12.15	–18.46	–10
Other payments to customers	–0.09	–0.82	–2.03	–3.04	–2
Net value of funds†	96.80	86.42	81.89	89.43	50
Net revenue	213.12	196.37	182.67	179.43	100

Source: CMA calculations based on data submitted by banks in response to data requests.
*Aggregate revenue is divided by average of number of main PCAs at start and end of year (except for 2011, when only number of accounts at end of year is available).
†Banks' own assessment of value of funds from PCA credit balances less cost of funding PCA debit balances (except for Clydesdale, Co-op and Metro, where the weighted average for the other banks has been used).
Note: 2011 data is not available for Clydesdale, Danske, Santander and RBSG; 2012 data is not available for Danske.

10. The results in Table 1 reflect a weighted average across PCAs. Trends over time will reflect both general trends affecting all accounts and the composition of accounts (eg the introduction of Santander's 123 account has affected interest payments and average balances and hence the net value of funds). The following points emerge from Table 1:

    (a) Aggregate net revenue has declined over time. The main factors behind this are:

    - decline in monthly account fees (possibly associated with a tightening of point of sale regulation on packaged accounts);
    - decline in unarranged overdraft and unpaid item fees (revenue from arranged overdraft fees has also declined slightly);
    - increase in interest paid on credit balances; and

- decline in net value of funds on credit balances (up to 2013, lower interest rates on credit balances more than offset an increase in average balances per main account); this reflects the decline in expected future interest rates and might reverse if and when interest rates increase.

(b) In 2014, the most important sources of PCA revenue were overdraft and unpaid item fees (accounting for about one-third of net revenue) and the value of funds from net credit balances (accounting for about half of net revenue, or 40% if interest paid to customers is subtracted).

(c) No bank included revenue from cross-selling other products to PCA customers.

11. There are a number of potential issues in interpreting the data in Table 1:

(a) The net value of funds is an important source of PCA revenue but different banks have different transfer prices. This point is discussed further below (see paragraphs 12 to 16).

(b) Interest, cashback and other payments to customers are included, but non-pecuniary customer benefits are mostly omitted. Packaged or added-value PCAs include various types of insurance as a benefit, and the omission of any valuation of this benefit is likely to lead to overstatement of the net revenue from these accounts. We have asked the banks to provide estimates of the costs incurred in providing these benefits; these will be included in further work.

(c) There may be differences between banks in how they have defined revenue and how or when they recognise revenue.

(d) Limited data is available for 2011 (see note to Table 1).

Value of PCA funds

12. We asked the banks to provide data on annual average credit balances and the value of funds from these balances, together with data on debit balances and the cost of funding these balances. We used this data to estimate the average transfer price for credit and debit balances, and the net value of PCA funds (ie the value of funds from credit balances less the cost of funding debit balances divided by the aggregate net credit balance).

13. Table 2 summarises this data. It also shows the average net balance per main account that is also a driver of the net value of funds in Table 1.

Table 2: Value and cost of funds applied to credit and debit balances of PCAs

	Value of funds (credit) %	*Cost of funds (debit) %*	*Net value of funds %*	*Average net balance per main account*	*Number of main accounts§*
By bank for 2014					
LBG	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC Group	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster	[✂]	[✂]	[✂]	[✂]	[✂]
Danske	[✂]	[✂]	[✂]	[✂]	[✂]
AIB	[✂]	[✂]	[✂]	[✂]	[✂]
BoI	[✂]	[✂]	[✂]	[✂]	[✂]
Metro				[✂]	[✂]
*By year**					
2011†			3.54	2,738	
2012‡			3.15	2,739	44,540,701
2013			2.62	3,124	46,562,428
2014			2.42	3,694	48,402,951

Source: CMA calculations.
*Weighted average for all banks except Clydesdale, Co-op and Metro.
†Excludes Danske, RBSG and Santander.
‡Excludes Danske.
§Average of number at start and end of year.
Note: The net value of funds is the absolute difference between the value and cost of funds as a percentage of net balances. So, the net value of funds is (vB–cD)/(B–D) where v is value of credit funds (%), B is average credit balance over the year, c is cost of debit funds (%) and D is average debit balance over the year.

14. Table 2 shows that there are differences between banks in the valuation of funds, presumably reflecting differences in transfer pricing policies (which are extremely complex for the larger banks). One reason for differences may be that different banks have different loan-to-deposit ratios. Given that it is difficult and/or costly to raise funds for loans in the market, a bank with a high loan-to-deposit to ratio (or wishing to increase its loans) may put a higher value on funds from its PCAs.

15. Banks tend to place a value on funds higher than the short-term interest rate (0.5% throughout the period 2011 to 2014). Net revenue in Table 1 would be considerably lower if funds were valued at short-term interest rates.

16. The value placed on funds has, however, declined over time, presumably reflecting a reduction over time in forecast future interest rates.

17. Average net balance per account increased from £2,739 in 2012 to £3,694 in 2014.

Comparison of revenue per main PCA across banking groups

18. In order to make comparisons between banking groups, we have used a standardised percentage net value of funds for each banking group. This is the weighted average across banks, ie the value shown in the lower section of Table 2 (eg 2.42% for 2014).

19. Table 3 shows the comparison for 2014 across all accounts offered by each banking group. These initial results show significant variation in net revenue per account between the banking groups. It should be noted that average net revenue per main account is affected by the composition of accounts: it will tend to be higher for banking groups with a high proportion of packaged accounts, since these tend to have high net revenue.

Table 3: Analysis of net revenue per main PCA using standardised net value of funds, 2014

Bank	*Arranged O/D*	*Unarranged O/D and unpaid item fees*	*Foreign ATM and debit card fees*	*Interchange fees (debit card)*	*Monthly account fees*	*Other receipts (net)*	*Total receipts from charges and interest*	*Interest payments to customers*	*Other payments to customers*	*Standardised net value of funds*	*Standardised net revenue*
LBG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RBSG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC Group	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nationwide	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Co-op	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Danske	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
AIB	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
BoI	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Metro	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

BCAs

Summary

20. A number of issues arise in interpreting our initial work on BCAs.[25] These are generally more serious than for PCAs, and are associated in particular with differences between SMEs, and between banks in the characteristics of the SMEs served. The following initial points are suggested:

    (a) Net revenue per active account has been declining over time. The reasons for this include declining revenue from arranged overdrafts and transaction charges and a lower net value of funds from credit balances.

    (b) As with PCAs, most banks still value funds from BCA credit balances at substantially more than short-term interest rates; and, although declining, the value of funds still accounts for around half of BCA net revenue.

    (c) Comparison across banks shows significant variation in net revenue per active BCA, although this may reflect differences in SME customer characteristics. We find that banks with higher overdraft revenue from charges and interest (as a percentage of debit balances) tend to have lower non-overdraft revenue per active BCA, and vice versa.

Aggregate bank revenue per active BCA

21. Table 4 shows a breakdown of revenue aggregated across the banks from which we have collected revenue and balance data. We have considered net revenue as comprising the following:

    (a) receipts from fees and interest charged on overdrafts;

    (b) receipts from other charges and sources of BCA revenue, including interchange fees;

    (c) **less** any interest paid to customers on credit balances together with any other payments made to customers (eg cashback);

    (d) **plus** the value that banks obtain from net credit balances (ie the value of funds from credit balances less the cost of funding overdrafts).

[25] See paragraph 23 below.

Table 4: Analysis of revenue (£ per active BCA,* 2014 prices)

Type of revenue	*2011*	*2012*	*2013*	*2014*	*2014 %*
Transaction charges	138	143	125	114	16
Arranged O/D	194	219	171	156	21
Unarranged O/D & unpaid item fees	48	54	42	36	5
Interchange fees (debit card)	0	4	5	5	1
Monthly account fees	26	30	28	30	4
Other receipts (net)	47	83	75	67	9
Total receipts from charges & interest	453	535	446	408	55
Interest payments to customers	–22	–23	–24	–25	–3
Other payments to customers	0	0	0	–3	0
Net value of funds†	434	335	399	356	48
Net revenue	865	846	820	735	100

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
*Aggregate revenue is divided by average of number of active accounts at start and end of year (except for Danske data in 2013, when only number of accounts at end of year is available).
†Banks' own assessment of value of funds from BCA credit balances less cost of funding BCA debit balances (except for Danske, where the weighted average for the other banks has been used).
Note: Excludes AIB, HSBCG and RBSG, for which a full revenue breakdown is not available. Data is not available for Clydesdale and LBG in 2011, and for Danske and Santander for 2011–2012.

22. The results in Table 4 reflect a weighted average across BCAs. Trends over time will reflect both general trends affecting all accounts and the composition of accounts. The following points emerge from the table:

(a) Aggregate net revenue has declined over time. The main factors behind this are:

- a decline in revenue associated with the arrangement, renewal, extension and day-to-day use of arranged overdrafts and buffers (revenue from unarranged overdraft fees has also declined but to a lesser extent);
- decline in revenue from transactions charges;
- decline in revenue from other sources (including occasional charges, account management charges, charges for failing to meet account criteria but excluding transaction charges, overdraft charges, interchange fee income monthly account fees);[26] and
- decline in net value of funds on credit balances.

(b) In 2014, the most important sources of revenue were arranged overdraft fees (accounting for around a fifth of net revenue), transaction charges (around 15%) and the value of funds from net credit balances (accounting for about half of net revenue, or 45% if interest paid to customers is subtracted).

[26] While revenue per active account from other receipts appears to have increased in 2014 relative to 2011, this is due to the absence of [✂] from the sample [✂]. When measured over the entire period for which [✂] is present in the sample [✂], revenue per active account from other receipts declined by around 20%.

23. There are a number of potential issues in interpreting the data in Table 4:

(a) The net value of funds is an important source of BCA revenue but different banks have different transfer prices. This point is discussed further below (see paragraphs 24 to 28).

(b) There may be differences between banks in how they have defined revenue and how and/or when they recognize revenue. We have also noted differences in the overall quality of response between banks, and we need to clarify some points with individual banks.

(c) We are unable to control for the volume of transactions carried out that may impact the interpretation of changes in revenues from transaction charges over time (eg if trends over time are partly driven by an overall reduction or increase in SME activity).

(d) Limited data is available for 2011 and 2012 (see notes to Table 4).

Value of BCA funds

24. As for PCAs, we asked the banks to provide data on annual average credit balances and the value of funds from these balances, together with data on debit balances and the cost of funding these balances. We used this data to estimate the average transfer price for credit and debit balances, and the net value of BCA funds (ie the value of funds from credit balances less the cost of funding debit balances divided by the aggregate net credit balance).

25. Table 5 summarises this data. It also shows the average net balance per main account, which is also a driver of the net value of funds in Table 4.

Table 5: Value and cost of funds applied to credit and debit balances of BCAs

	Value of funds (credit) %	*Cost of funds (debit) %*	*Net value of funds %*	*Average net balance per active account*	*Number of active accounts*
By bank for 2014					
LBG	[✂]	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]	[✂]
Clydesdale	[✂]	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]	[✂]
Ulster	[✂]	[✂]	[✂]	[✂]	[✂]
Danske	[✂]	[✂]	[✂]	[✂]	[✂]
BoI	[✂]	[✂]	[✂]	[✂]	[✂]
AIB	[✂]	[✂]	[✂]	[✂]	[✂]
*By year**					
2011†			3.74		
2012‡			2.51		
2013			2.74	12,509	3,665,556
2014			2.16	14,795	3,648,750

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
*Weighted average for all banks except Danske, 2014 prices.

† Data not available for Clydesdale and Santander.
‡ Data not available for Santander.

26. Table 5 reveals a similar pattern and trends to Table 2, which shows comparable data for PCAs (see paragraphs 12 to 16).

27. The average net balance per account varied widely between banks, ranging from approximately £6,000 to approximately £23,000 in 2014. The relative size of this range, in comparison to average net balance per PCA account, is likely, in part, to be reflective of greater heterogeneity in BCAs than PCAs. For this reason, it is difficult to draw any strong inference from the difference in average net balance between banks, particularly where we suspect high or low values result from problems with the underlying data.

28. Average net balance per account has increased over time. This is accompanied by a small increase in interest payments to customers per account.

Comparison of revenue per main BCA across banking groups

29. In order to make comparisons between banking groups, we have used a standardised percentage net value of funds for each banking group. This is the weighted average across banks: that is, the value shown in the lower section of Table 5 (eg 2.16% for 2014).

30. Table 6 shows the comparison for 2014 across banking groups.

Table 6: Analysis of net revenue per active BCA using standardised net value of funds, 2014

Bank	*Transaction charges*	*Arranged O/D*	*Unarranged O/D and unpaid item fees*	*Interchange fees (debit card)*	*Monthly account fees*	*Other receipts (net)*	*Total receipts from charges and interest*	*Interest payments to customers*	*Other payments to customers*	*Standardised net value of funds*	*Standardised net revenue*
LBG	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
RBSG	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Barclays	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
HSBC	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Santander	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Clydesdale	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
TSB	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Ulster	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Danske	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
BoI	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
AIB	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: CMA calculations based on data submitted by banks in response to data request.

31. Table 6 shows significant variation between banks in average net revenue per account.

32. In addition to the points raised in paragraph 23, we note there are further potential issues in making comparisons in net revenue between the banks:

(a) The analysis presented implicitly assumes a common cost per account across banks (such that differences in net revenue per account can be interpreted as pricing differences). However, in practice, the quality of the relationship management service offered is expected to differ both across banks and between different types of account within a given bank. Where a higher-quality relationship management service is offered, differences in net revenue per account may reflect cost rather than pricing differences.

(b) It is not possible to control directly for differences in costs due to losses associated with defaults on overdraft debt. This may be problematic where the average characteristics of SMEs, with respect to overdraft debt and creditworthiness, differ between banks (and over time).

33. To consider this further, Table 7 contains net revenue from (a) charges and interest on overdrafts and (b) all other receipts normalised separately, as a percentage of average debit balances and by number of active BCAs. In doing so, the intention is to control for differences in the profile of SMEs between banks in terms of the size of debit balances held (and therefore also the losses associated with defaults on overdraft debt).

Table 7: Comparison of normalised BCA revenues by source, 2014

				Revenue
			% average debit balance	*£ per active account*
Bank	*Arranged O/D*	*Unarranged O/D and unpaid item fees*	*Total receipts from O/D charges and interest*	*Total receipts from charges (excluding O/D)*
LBG	[✂]	[✂]	[✂]	[✂]
Barclays	[✂]	[✂]	[✂]	[✂]
HSBC	[✂]	[✂]	[✂]	[✂]
Santander	[✂]	[✂]	[✂]	[✂]
Clydesdale	[✂]	[✂]	[✂]	[✂]
TSB	[✂]	[✂]	[✂]	[✂]
Ulster	[✂]	[✂]	[✂]	[✂]
Danske	[✂]	[✂]	[✂]	[✂]
BoI	[✂]	[✂]	[✂]	[✂]

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Note: Breakdown of total revenue from charges and interest not available for AIB and average debit balance data not available for RBSG.

34. As plotted in Figure 1, banks do not appear to earn higher (or lower) net revenues across both sources of income consistently. For example, while [✂] received the lowest net revenue per active BCA from total receipts excluding those associated with overdrafts, they also earned the highest revenues on

charges and interest from overdrafts (as a percentage of average debit balances).

Figure 1: Comparison of normalised BCA revenues by source, 2014

[✄]

Source: CMA calculations based on data submitted by banks in response to data request.

Net revenue by SME size

35. Table 8 shows aggregate net revenue (across all providers) split by SMEs with annual turnover less than and greater than £2 million. There are differences in the composition of net revenue per account; these may, in part, reflect differences in the characteristics of SMEs in each group.

36. For example, whereas unarranged overdraft and monthly account fees account for a comparatively larger proportion of net revenue from BCAs held by SMEs with turnover less than £2 million, other receipts and interest payments to customers account for a higher proportion of net revenue from SMEs with turnover in excess of £2 million.

Table 8: Comparison of net BCA revenue (excluding value of funds) by size of SME, 2014

	SMEs with annual turnover <£2m		*SMEs with annual turnover >£2m*	
Type of revenue	*£ per active account*	*% of net revenue per account*	*£ per active account*	*% of net revenue per account*
Transaction charges	98	35	724	35
Arranged O/D	93	33	832	41
Unarranged O/D and unpaid item fees	35	13	83	4
Interchange fees (debit card)	4	1	3	0
Monthly account fees	37	13	49	2
Other receipts (net)	22	8	601	29
Total receipts from charges and interest	290	103	2293	112
Interest payments to customers	–10	–3	–243	–12
Other payments to customers	–2	–1	–9	0
Net revenue excluding value of funds	280	100	2049	100

Source: CMA calculations based on data submitted by banks in response to aggregate data request.
Notes:
1. Excludes HSBC, for which a full revenue breakdown is not available.
2. Breakdown by SME size is not available for AIB, Danske and TSB.

37. Total net revenue per account is substantially greater for BCAs held by SMEs with turnover in excess of £2 million. This may reflect, among other things:

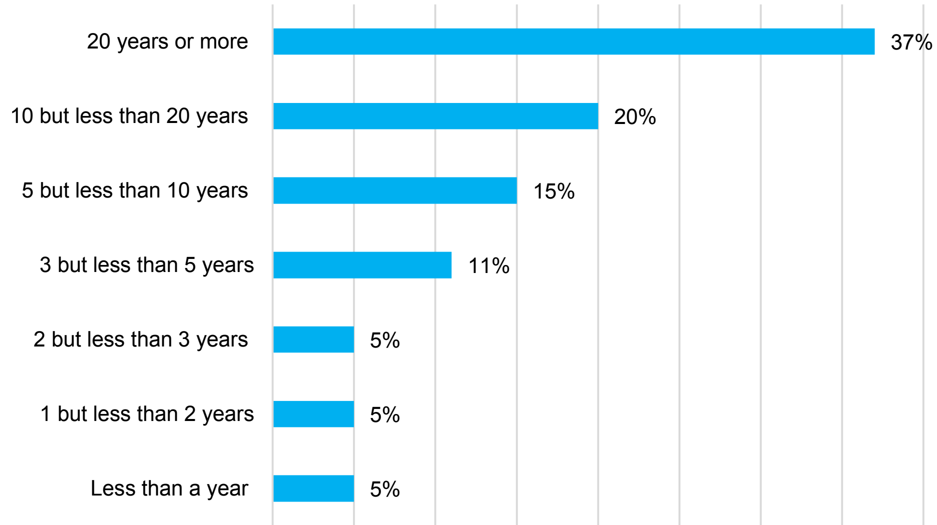
- the more complex needs of larger SMEs, including the costs of providing a greater depth of relationship management service to these account holders;
- the greater volume of transactions carried out by larger SMEs; and
- the higher credit and debit balances held per account by larger SMEs.

Appendix D: Personal current account customer engagement indicators

1. This appendix summarises some of the statistical evidence referred to in the updated issues statement in relation to PCA customer engagement. The intention is to set out factual evidence rather than to draw any initial conclusions.

2. Figure 1 shows that 37% of respondents to our PCA survey[1] had been with their main PCA provider for more than 20 years and a further 20% for between 10 and 20 years.[2]

Figure 1: Length of time account used as main current account

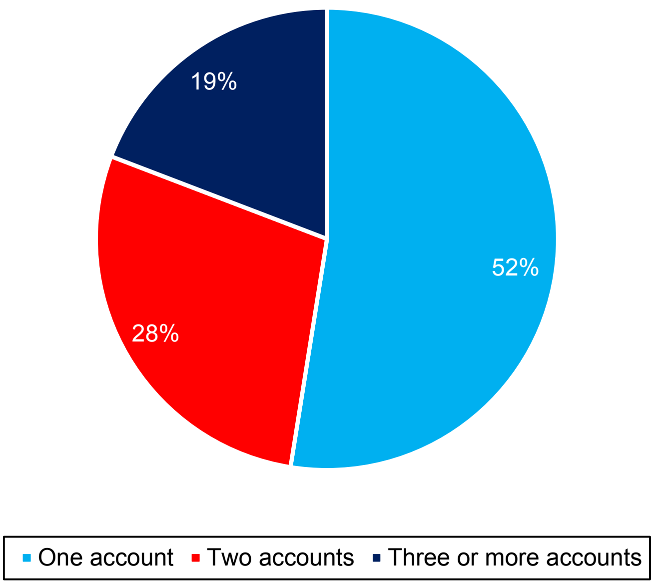


Source: GfK PCA survey.

3. 52% of respondents had one PCA account and a further 28% had two PCAs, as Figure 2 shows.[3]

[1] Quantitative and qualitative research conducted by GfK NOP which is being published alongside this statement.
[2] Base= all (4549). B1. For how long have you been using this account as your main current account?
[3] Base=All (4549). A7 Can I just check, do you have any **other** current accounts with {bank}, either just in your name or jointly with someone else? B4 How many UK current accounts do you have with other banks apart from {bank}?

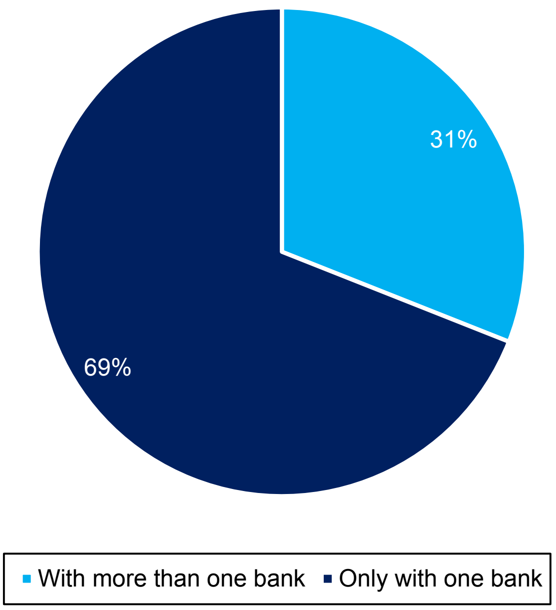
Figure 2: Total number of current accounts held



Source: GfK PCA survey.

4. 31% of respondents had PCAs with more than one bank provider, as Figure 3 shows.[4]

Figure 3: Proportion of PCA holders who have current accounts with more than one bank

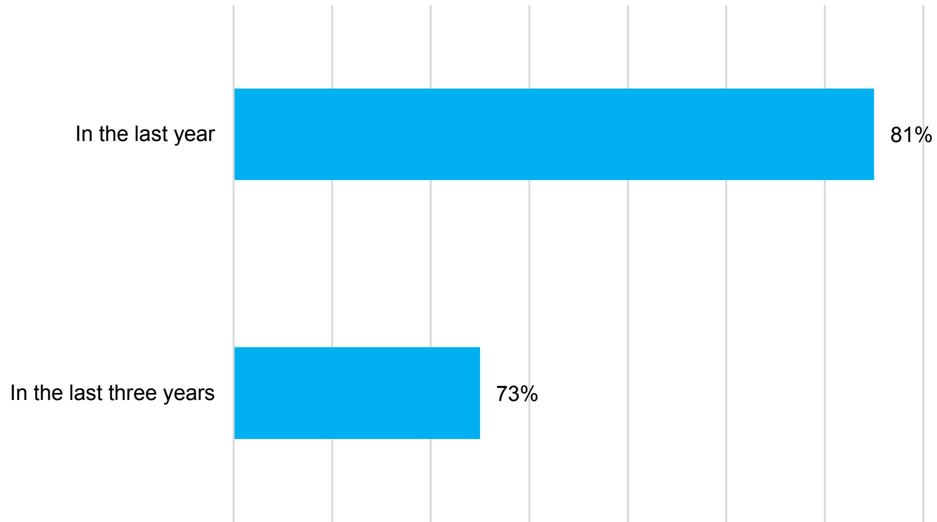


Source: Gfk PCA survey.

[4] Base=All (4,549). B3 Do you have any current accounts with anyone else apart from {bank}, either sole or joint accounts?

5. As Figure 4 shows, 73% of customers have not shopped around in the last three years,[5] and 81%[6] have not done so in the last year.[7]

Figure 4: Respondents who have not shopped around

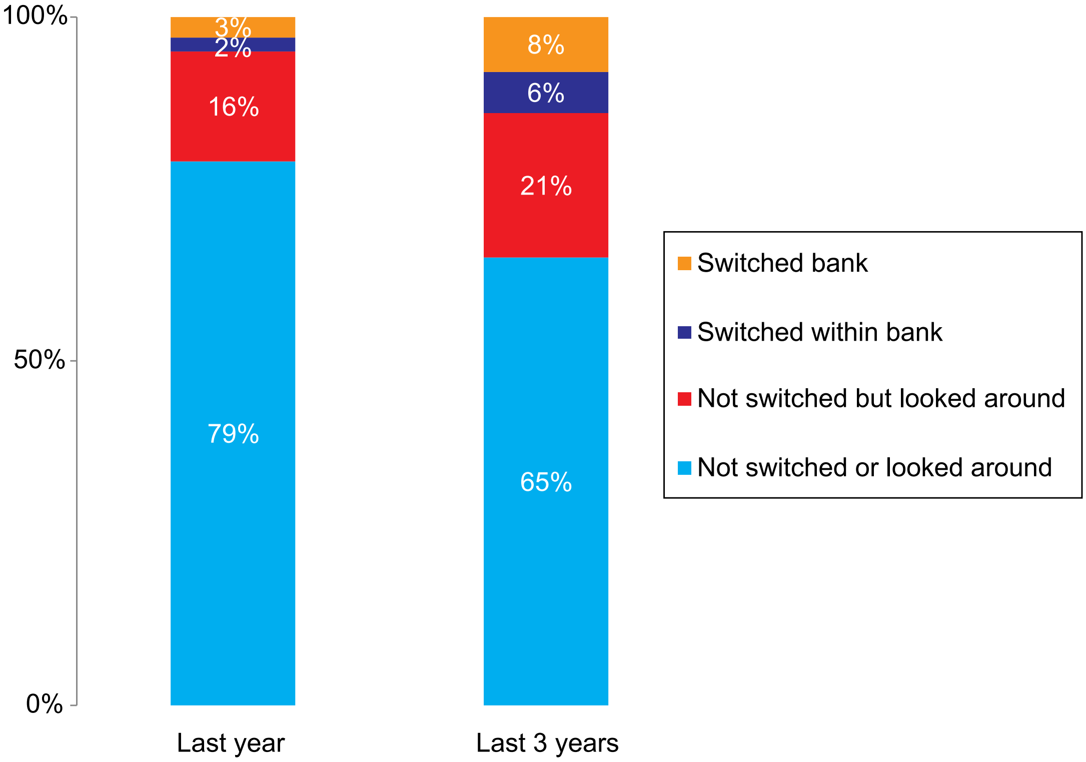


Source: GfK PCA survey.

6. Last year approximately 3% of customers switched their main PCAs between banks. This increases to approximately 5% with the inclusion of internal switchers (ie switching PCA within a customer's existing bank), as shown in Figure 5.[8]

[5] Base=All (4,549). F1: In the last three years have you looked around to compare different current accounts? Yes/No.
[6] Note that this figure is slightly higher than 79% of respondents (reported in Figure 6 below) that did not switch or look around in the last year, as it includes respondents who switched but did not look around.
[7] Base: All who have not looked around in the last year (3,436). F1 In the last three years have you looked around to compare different current accounts? F2 When was the last time you compared different current accounts? Was it in the last 12 months or longer ago than that?
[8] Base=All (4,549). F1 In the last three years have you looked around to compare different current accounts? F2 When was the last time you compared different current accounts? Was it in the last 12 months or longer ago than that? F3 Have you personally changed your main current account in the last three years – this could be from one bank to another, or just from one account to another within the same bank? F4 When was the last time you changed your main current account? Was it in the last 12 months or longer ago than that?

Figure 5: Summary of searching and switching behaviour

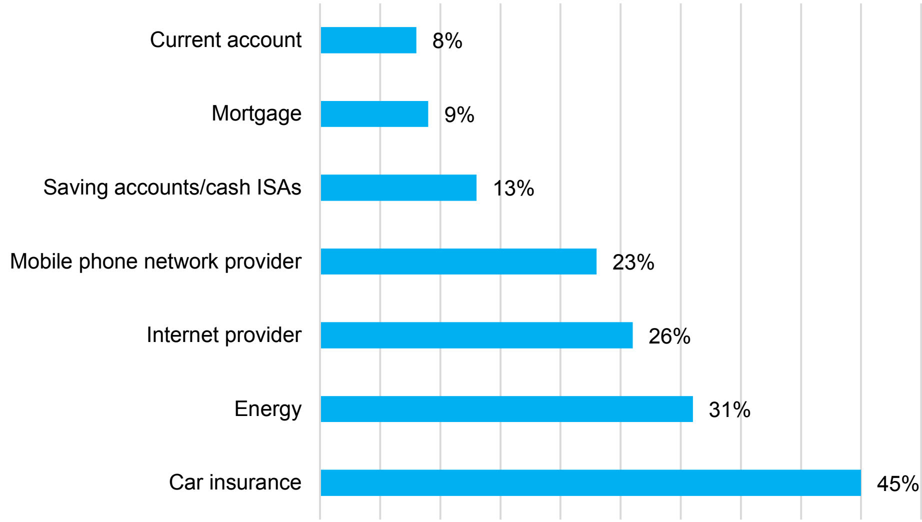


Source: GfK PCA survey.
Note: Figures calculated from F1–F4.

7. Initial evidence suggests that these switching rates are lower than in other UK retail markets such as car insurance and energy.[9]

[9] Base: All who have each product/service (Mobile phone = 4,254, Car insurance =3,700, Current account = 4,549, Mortgage = 2,265, Energy = 4,136, Internet provider = 4,028, Savings accounts/cash ISAs = 3,684) | Switched current account between banks (253), not switched (4,198).
J1. In which if any of the following have you changed supplier within the last three years? If you don't have one of these please say so.

Figure 6: Proportion of customers who have switched supplier in different markets in the last three years



Source: GfK PCA survey.

8. A 2012 study by the European Commission[10] found that the number of UK customers switching in the previous two years was close to the EU average, as shown in Figure 7.[11]

Figure 7: Comparison of switching rates across the EU in 2012

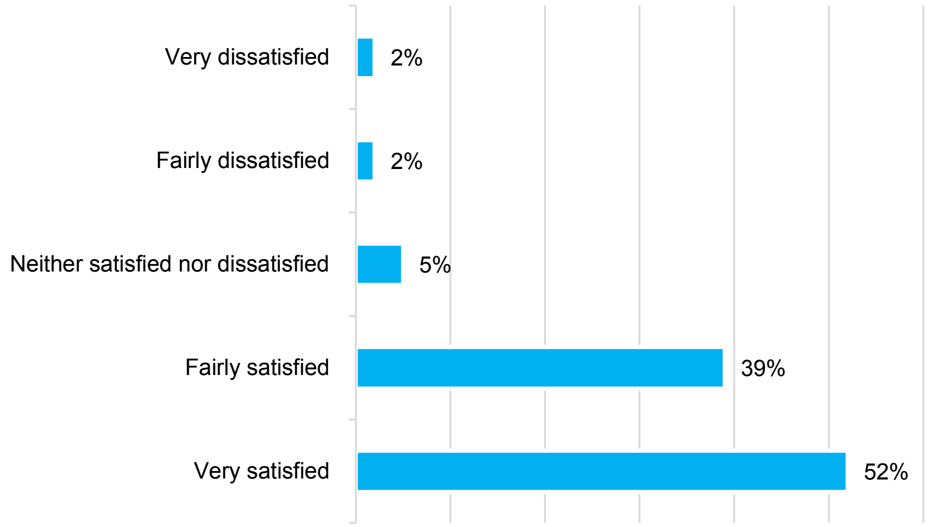
	Total 'Switchers' [switched within last 2 years or current switching process]
EU10	4%
DE	3%
IE	4%
ES	6%
FR	2%
IT	5%
LV	2%
NL	2%
RO	8%
SE	4%
UK	4%

Source: Directorate-General for Health and Consumers (2012), *Bank fees behaviour study*.

[10] Directorate-General for Health and Consumers (2012), *Bank fees behaviour study*, p28.
[11] It is important to note that different member states operate under different banking structures and markets may have changed since 2012.

9. Our PCA survey indicates that a relatively high proportion of customers appear to be satisfied with their main current account provider, with 52% and further 39% stating they are 'very satisfied' and 'fairly satisfied' respectively.[12]

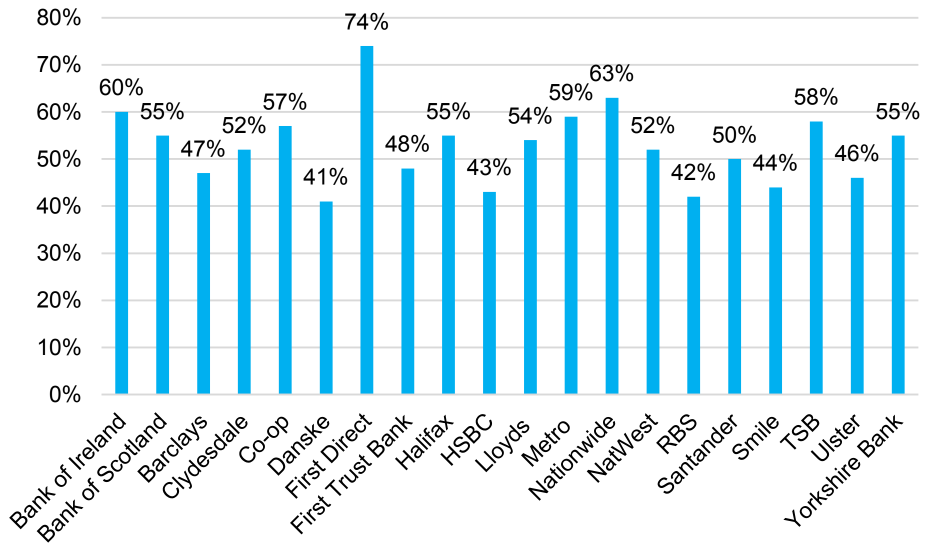
Figure 8: Satisfaction with main current account bank



Source: GfK PCA survey.

10. However, there is greater variation in the proportion of respondents reporting themselves to be 'very satisfied' with their provider, which ranges between 74% and 41%.[13]

Figure 9: Satisfaction with main current account bank, by bank



Source: GfK PCA survey.

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[12] Base = All (4,549). E2. Overall, how satisfied or dissatisfied are you with your main current account bank? Would you say...

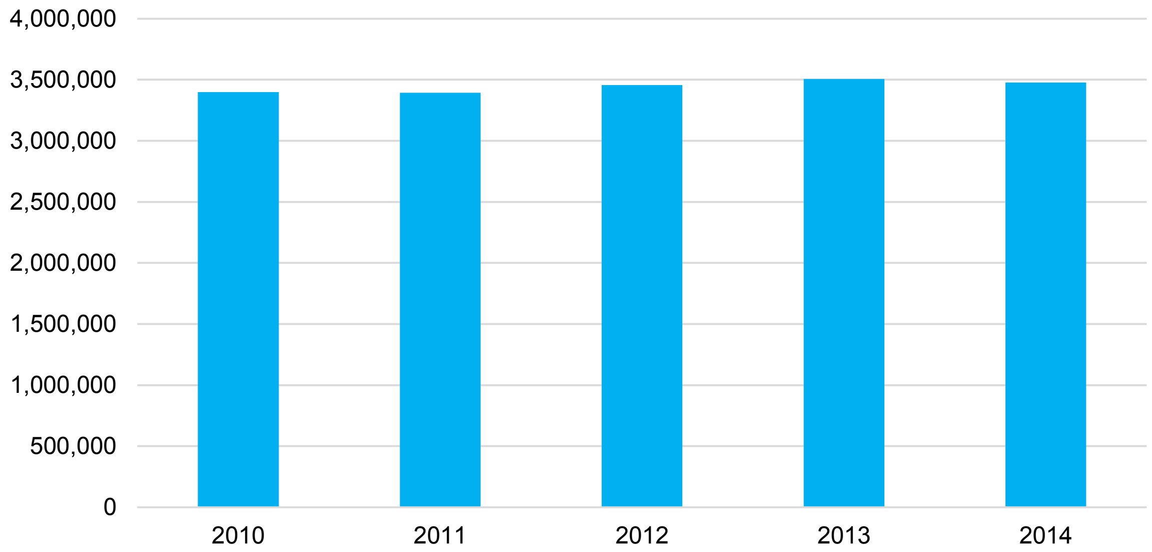
[13] Base = All (4,549). E2. Overall, how satisfied or dissatisfied are you with your main current account bank? Would you say...

Appendix E: Small and medium-sized enterprise customer engagement indicators

1. This appendix summarises some of the statistical evidence referred to in the updated issues statement in relation to SME customer engagement. The intention is to set out factual evidence rather than to draw any initial conclusions.

2. The total number of BCAs has remained broadly static over time at around 3.5 million.

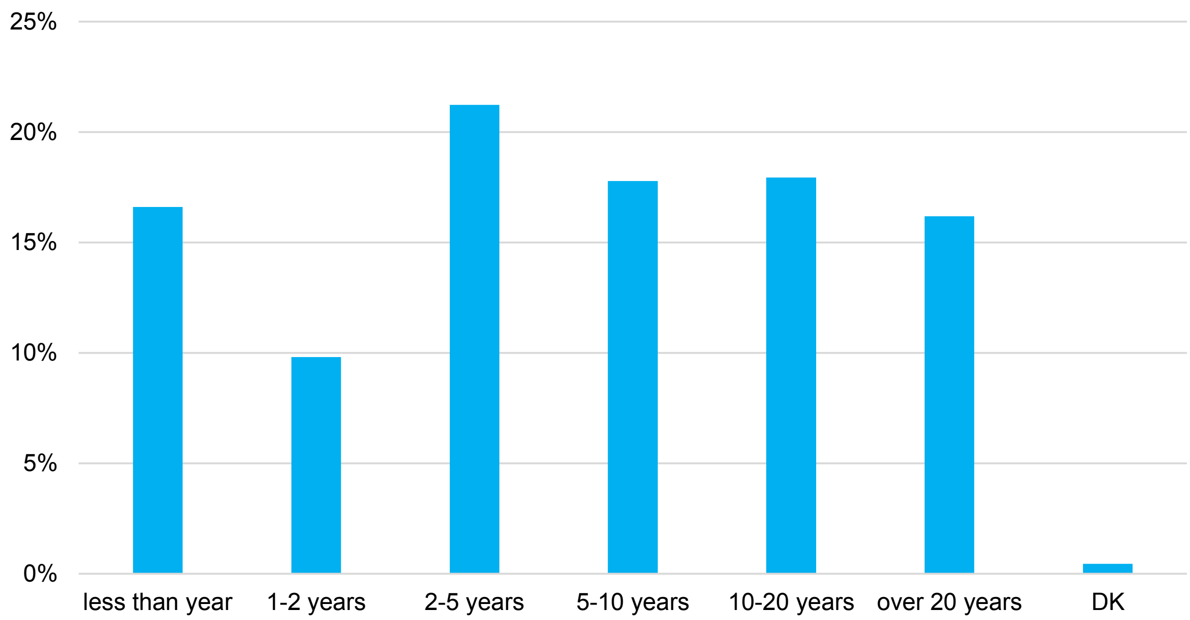
Figure 1: Total number of BCAs



Source: Charterhouse Business Banking Survey 2010–2014. [✂]
Base: All SMEs 2010 (15,883), 2011 (16,188), 2012 (15,746), 2013 (15,838), 2014 (14,239).
Note: Accounts are for main bank only. Therefore it is assumed that every SME that identifies a main bank has its BCA at that bank, and that it only has one BCA.

3. Approximately 70% of businesses have been with their main bank for over two years and 30% have been with their main bank over ten years.

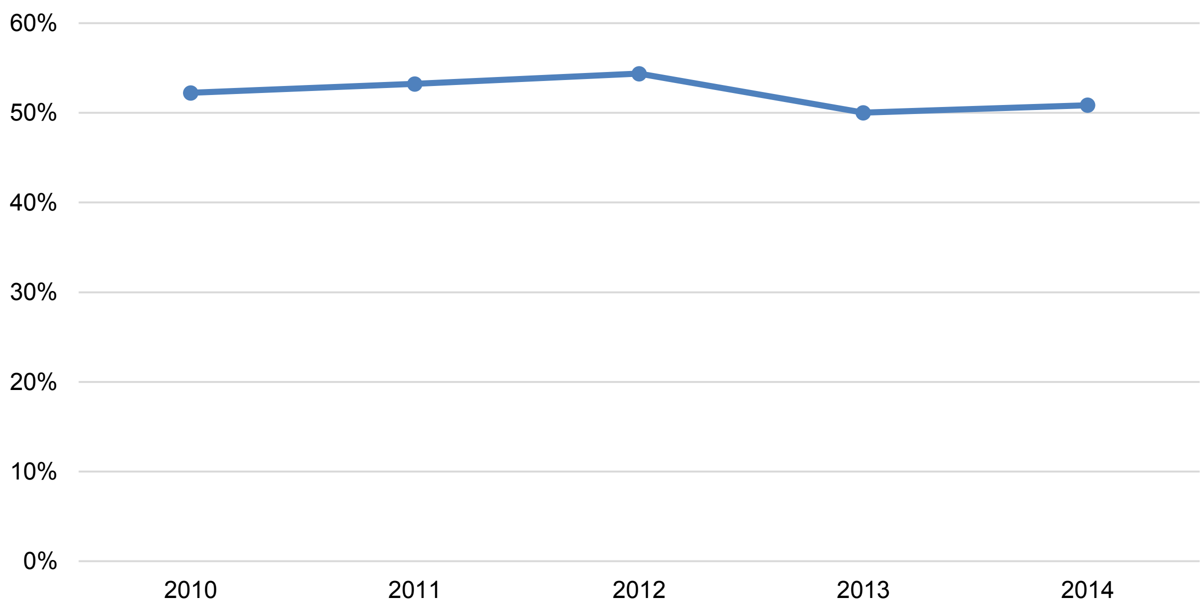
Figure 2: Length of time with main bank (2014)



Source: Charterhouse Business Banking Survey 2014. [✂]
Base: All SMEs 2014 (14,239).
DK: Don't know.

4. Just over half of all BCA customers hold their PCA at the same bank. This has remained relatively constant between 2010 and 2014.

Figure 3: Proportion of customers who hold their BCA and PCA at same bank (2010–2014)



Source: Charterhouse Business Banking Survey 2010–2014. [✂]
Base: All start-ups 2010 (4,344), 2011 (4,713), 2012 (4,337), 2013 (4,378), 2014 (2,920).

5. Figure 4 shows indicators of SMEs' reported satisfaction with their main bank.

Figure 4: Satisfaction with main bank by bank

[✂]

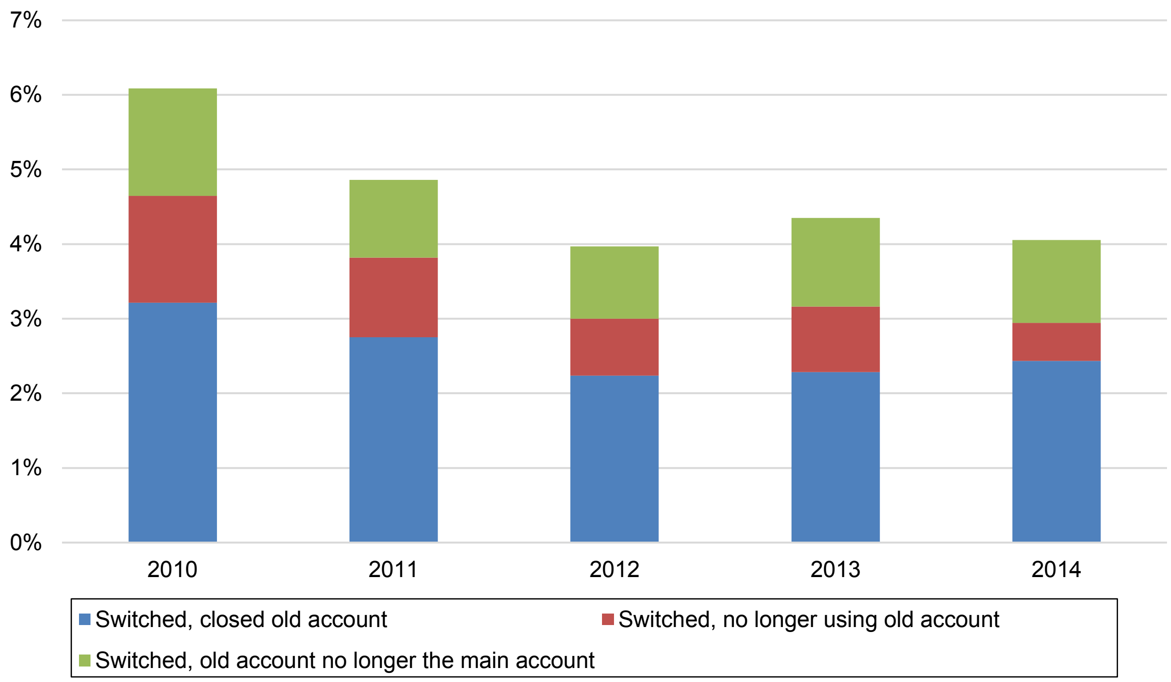
6. Despite high levels of satisfaction advocacy rates by SMEs with their main bank are low, with just over a quarter of businesses reporting that they would recommend their main bank. Overall net promoter scores (NPS) are negative (–9.6%), as shown in Figure 5.

Figure 5: Net promoter scores by bank

[✂]

7. Annual switching rates in the market are low at around 4%. Figure 6 shows the trend in switching rates over the past five years. Approximately a quarter of businesses that have switched have partially switched, ie they have switched their main bank account providers, but are still dealing with their old bank.

Figure 6: Switching rates over time, including partial switching

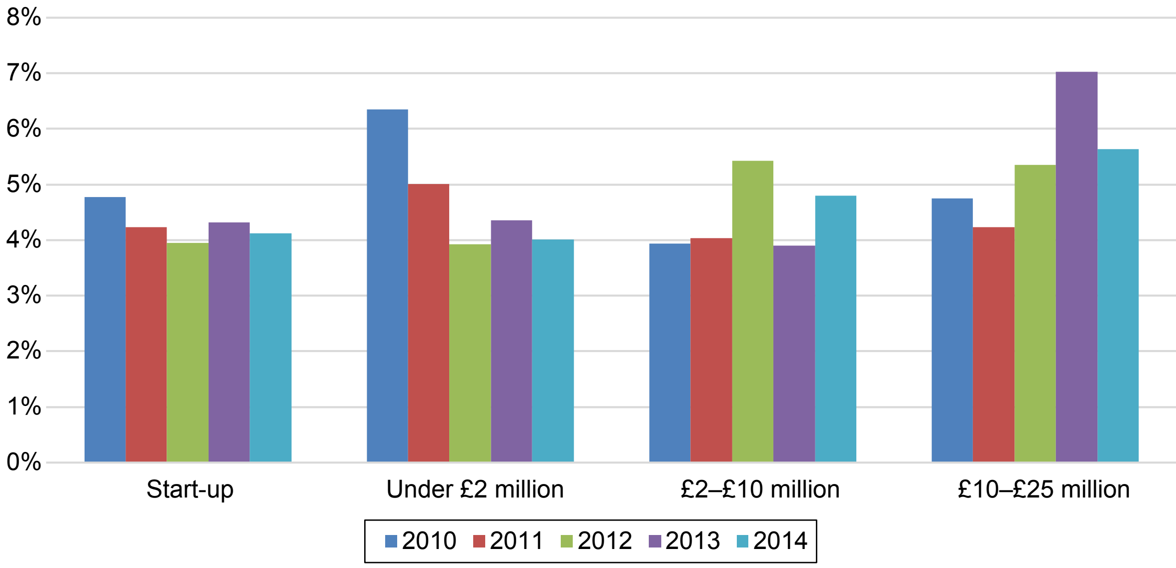


Source: Charterhouse Business Banking Survey 2010–2014. [✂]
Base: Total switching rates: All SMEs 2014 (14,239), 2013 (15,838), 2012 (15,746), 2011 (16,188), 2010 (15,866); type of switch: All switchers 2014 (569), 2013 (692), 2012 (622), 2011 (704), 2010 (792).

8. Figure 7 shows that businesses with higher turnover appear to switch more than smaller businesses. However, this pattern is not consistent over time. In 2010 and 2011 switching rates were highest among businesses with a turnover under £2 million. Switching rates for this group have since declined and have so far failed to recover. Much of the decline in the overall headline

rate of switching seems to have been driven by a decline in switching rates of SMEs with turnover under £2 million.

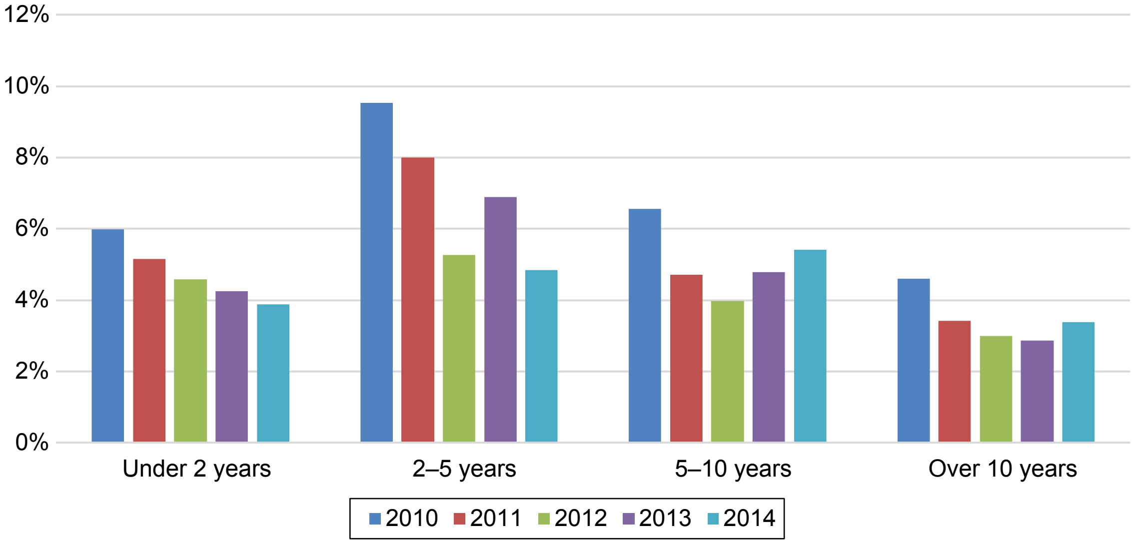
Figure 7: Switching rate by turnover (2010–2014)



Source: Charterhouse Business Banking Survey 2010–2014.
Base: All start-ups 2010 (4,408), 2011 (4,731), 2012 (4,337), 2013 (4,379), 2014 (2,920); all SMEs under £2 million: 2010 (9,128), 2011 (9,093), 2012 (9,100), 2013 (9,073), 2014 (8,938); all SMEs £2 to £10 million: 2010 (1,931), 2011 (1,977), 2012 (1,906), 2013 (1,940), 2014 (1,942); all SMEs over £10 million: 2010 (416), 2011 (387), 2012 (403), 2013 (446), 2014 (439).

9. Figure 8 shows that switching rates also appear generally to be higher for businesses aged between two and five years old. Switching rates among older businesses over ten years old generally appear to be relatively low.

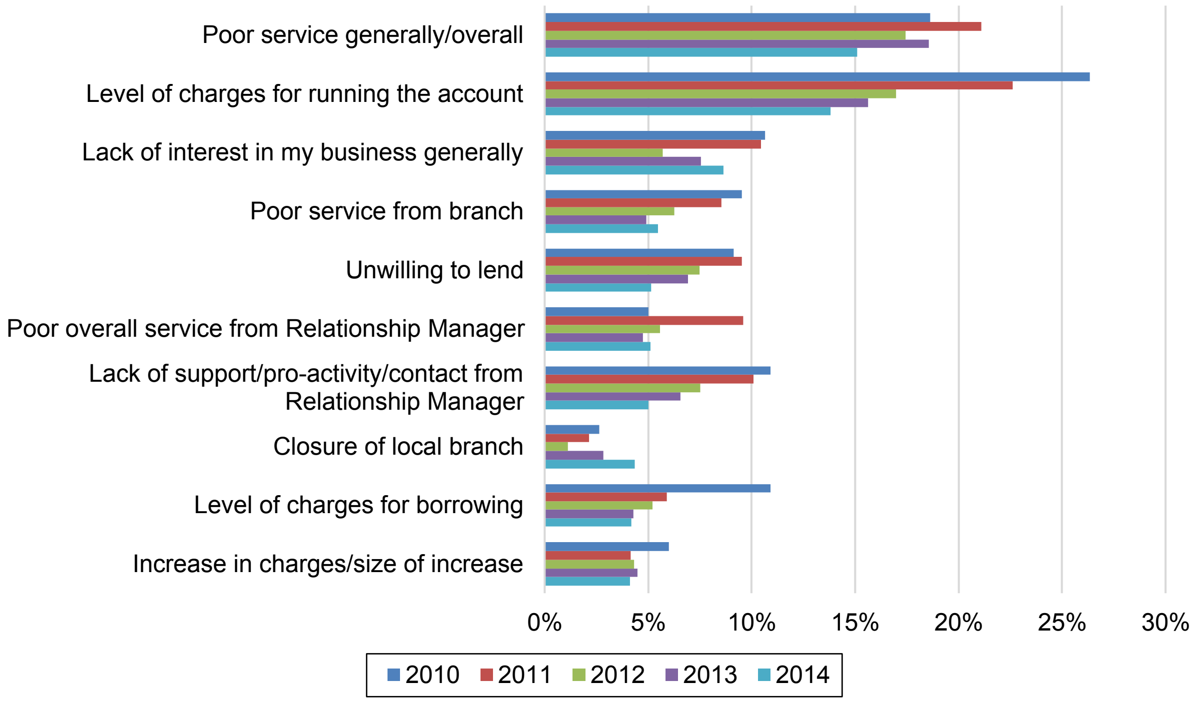
Figure 8: Switching rates by age of business (2010–2014)



Source: Charterhouse Business Banking Survey 2010–2014.
Base: All SMEs under 2 years 2010 (5,143), 2011 (5,333), 2012 (4,886), 2013 (4,866), 2014 (3,239); all SMEs 2–5 years: 2010 (1,825), 2011 (1,979), 2012 (2,263), 2013 (2,264), 2014 (2,159); all SMEs 5–10 years: 2010 (1,051), 2011 (1,404), 2012 (1,472), 2013 (1,566), 2014 (1,593); all SMEs over 10 years: 2010 (7,760), 2011 (7,364), 2012 (7,057), 2013 (7,025), 2014 (7,061).
Note: Charterhouse's Business Banking Survey records the year the SME started trading. However, where this date is before 2005 this is just recorded in 5-year bands. This means, depending on the year of interview, it is not always possible to accurately identify whether an SME is 5–10 years old or over 10 years old when it begin trading between 2000 and 2005. In these cases a proportion of cases have been randomly assigned to the 5–10 years or over 10 years band depending on the likelihood of being in that band. For example, for the 2013 dataset, 1/5 of those who started trading 2000–2004 are assigned to 5–10 years (as only those who started in 2004 would enter that band).

10. When businesses change banks, they may do so either because they were unhappy with some element of the offering from their previous bank and/or they were particularly attracted to the offering of their new bank. Figure 9 lists the stated factors from the former category.

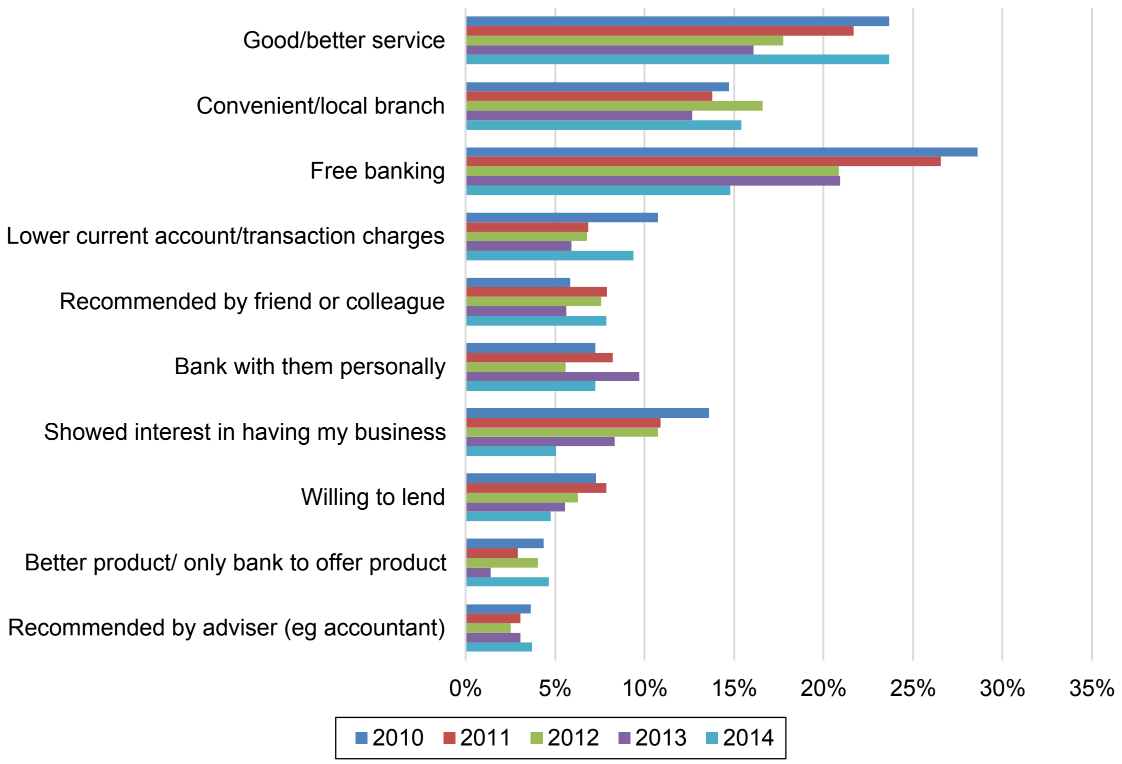
Figure 9: Reasons for switching – top 10 push factors (2010–2014)



Source: Charterhouse Business Banking Survey 2010–2014. [✂]
Base: All SMEs that switched: 2014 (569), 2013 (692), 2012 (622), 2011 (704), 2010 (792).

11. Figure 10 lists the stated factors related to the offering of a new bank.

Figure 10: Reasons for switching – top 10 pull factors (2010–2014)



Source: Charterhouse Business Banking Survey 2010–2014.
[✂]
Base: All SMEs who switched: 2014 (569), 2013 (692), 2012 (622), 2011 (704), 2010 (792).