

**DANSKE BANK
RESPONSE TO THE UPDATED ISSUES STATEMENT**

1. Introduction

- 1.1. Northern Bank Limited (trading as Danske Bank) (**Danske**) welcomes the opportunity to comment on the Competition and Market Authority's (**CMA**) updated issues statement (**UIS**) in relation to the market investigation into the supply of retail banking services to personal current account (**PCA**) customers and to small and medium-sized enterprises (**SMEs**) in the UK.
- 1.2. Danske has limited its comments contained in this response to the main issues identified in the UIS. Danske may wish to make further representations at a later stage in relation to any of the information contained in the UIS, its appendices and the GfK PCA survey report (**PCA Survey**), particularly once all of the working papers listed at Appendix A of the UIS appendices have been published and Danske has had an opportunity to review them in detail. Danske expressly reserves its position in this regard. Danske would be happy to discuss any of the comments made in this response with the CMA in further detail.

2. Definition of relevant geographic market

- 2.1 We note the CMA's statement in paragraph 24 of the UIS that *"our current view, based on the evidence reviewed to date, is that Northern Ireland remains a separate geographic market to the rest of the UK in relation to PCAs, BCAs and general purpose loans at least"*. We also note that there is currently no intention to publish a working paper relating to market definition. Clearly, the definition of the relevant market is crucial to any of the decisions which will be reached by the CMA. Danske is concerned that the CMA is expressing a view that Northern Ireland is a separate geographic market without providing any supporting evidence on which this view is based. This makes it difficult for Danske to comment on the CMA's view regarding market definition as Danske does not have access to the information which the CMA has collected using its statutory powers nor does it have access to surveys which the CMA has on previous occasions referred to (for example the Charterhouse business banking survey and Mintel retail banking studies).
- 2.2 Furthermore, Danske would be interested to understand what recent market changes the CMA is taking into consideration which suggest a geographic market combining England, Scotland and Wales and how the position differs in Northern Ireland. This is particularly in view of the fact that the HHI scores for Scotland are the highest for PCAs and business current accounts (**BCAs**) across all regions in the UK.
- 2.3 Danske continues to believe that Northern Ireland is part of the wider UK market for PCAs, BCAs and general purpose loans, principally for the following reasons:
 - i. There are no substantial barriers to entry and expansion into Northern Ireland, particularly from banks who already have operations in other parts of the UK. This is particularly so as financial institutions in all parts of the UK are subject to the same regulatory requirements.

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- ii. Danske has submitted to the CMA evidence showing competition has changed in Northern Ireland in recent years, and these changes are consistent with Northern Ireland being in the same market as the rest of the UK. A number of financial institutions predominantly based in Great Britain have successfully entered and increased their presence in Northern Ireland (e.g. Santander, Halifax and HSBC). Paragraph 5.3 of Danske's response to the market information request for PCAs shows that the combined PCA share of Santander, Halifax and Nationwide in Northern Ireland has increased by about [REDACTED] in recent years, such that they now account for [REDACTED] of the stock of PCAs in Northern Ireland and a flow share of [REDACTED]¹. Further evidence of the competitive constraint these banks pose for Danske is the introduction of cashback/reward accounts by Santander and Halifax which have led to over [REDACTED] Danske customers switching to Santander and Halifax since the introduction of CASS (which represents more than [REDACTED] of all switchers out of Danske via CASS). Work is ongoing at Danske to assess how best to react to this development.
- iii. This gain of customers and the increased presence of UK wide banks demonstrates the competitive constraint these banks place on other banks in Northern Ireland, and is driven by the economies of scale these banks enjoy in operations, marketing and product innovation. Moreover, the fact that these three banks all offer the same products and services in Northern Ireland as in the rest of the UK means there is a direct link between competition in Northern Ireland and the rest of the UK.
- iv. Finally, a number of financial institutions that have previously focused their activities in Northern Ireland are expanding their activities in Great Britain (e.g. Bank of Ireland through its Post Office offering) and this is further evidence of the geographic market being UK wide.

3. Theory of Harm 1: Customer behaviour

- 3.1 We note the CMA's comment that the three theories of harm are inter-related. It is important to ensure that the CMA does not effectively 'double count' issues that cut across the theories. For example, it is difficult to think of important concerns about concentration (i.e. theory of harm 2) that would not be solved by there being well-informed customers, low switching costs and low barriers to entry/expansion (i.e. in the absence of theories of harm 1 and 3).
- 3.2 The CMA refers to the PCA Survey as suggesting low customer engagement. The CMA states that the 3% switching rate for PCAs is low and compares this to higher switching rates in the car insurance and energy markets. However, both insurance and energy markets are very different markets from PCAs and Danske believes that it would be far more appropriate to compare the 3% switching rate with switching rates in the banking sector across the EU (see Figure 7, page D5 of Appendices to UIS) which show that the average switching rate across 10 EU Member States is 4%. The 3% switching rate in the UK is therefore more or less consistent with the EU average.

¹ Source: IPSOS MORI MFS NI. Data relates to Q1 2008-Q3 2014.

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3.3 The CMA also notes that “[l]ow rates of engagement in themselves may not be a concern if they reflect that customers are already getting good outcomes” (paragraph 58 of the UIS). The satisfaction rates of the PCA Survey show high satisfaction rates but the CMA appears to be reluctant to trust the outcome of the PCA Survey in relation to satisfaction rates. This is concerning as the high satisfaction rates reported in the PCA Survey accord with Danske’s own survey results which are contained in the off-the shelf material submitted to the CMA by Danske in November 2014.

3.4 Danske is also concerned that the way the CMA is presenting the results of the PCA Survey could be misinterpreted. In particular, we note the table contained in Figure 9 on page 6 of Appendix D, Annex 4 which is entitled “*Satisfaction with main current account bank, by bank*”. Danske believes that this heading is misleading as it only shows the percentage of customers by bank who are ‘very satisfied’ with their bank but not those which are ‘fairly satisfied’ with their bank. For example, Figure 9 of Appendix D, Annex 4 shows that only 41% of Danske customers are ‘very satisfied’ while Table 1 of the PCA Survey shows that 88% of Danske customers are either ‘very satisfied’ or ‘fairly satisfied’.

4. Theory of Harm 2: Concentration

4.1 Theory of Harm 2 is clearly closely linked to the definition of the relevant market and we have already noted above our very significant concerns in relation to the apparent lack of analysis by the CMA in relation to the definition of the geographic market(s).

4.2 The CMA notes the many innovations in the PCA sector. In addition we refer to our response to question 4 of the market information request for PCAs, which outlines the main innovations introduced by Danske in recent years, for example the launch of market leading Mobile and Tablet apps across various operating systems, the launch of PayM and the Spending Overview tool.

4.3 The CMA notes at paragraph 44 of the UIS that “*there appears to be less dynamism in the provision of BCAs than for PCAs*”. Danske does not agree with this sentiment. It has made significant investments in its digital banking functionality across both personal and business banking. The Business eBanking channel offers constantly developing functionality and Danske was the first bank in Northern Ireland to launch a dedicated business mobile platform when it launched the business App for IOS smart phones and tablets. In addition, as set out at paragraph 8.6 of Danske’s response to the market information request for SME banking, it has extended its mobile and tablet solutions across a wider range of devices and operating systems (e.g. now offering Android device solutions).

4.4 In addition to functional enhancements, Danske has invested in using the website as a channel through which it can communicate with and market to customers. Examples include the Danske “Working Capital Tool”, customer testimonial videos and instructional videos (for example, the avoiding Fraud video). Danske has also strengthened its business operations team with the appointment of a dedicated Business Banking Segment Unit and a Head of Small Business, the expansion of a specialist business team, the establishment of business acquisition teams and a dedicated telephone based relationship management unit (Business Plus).

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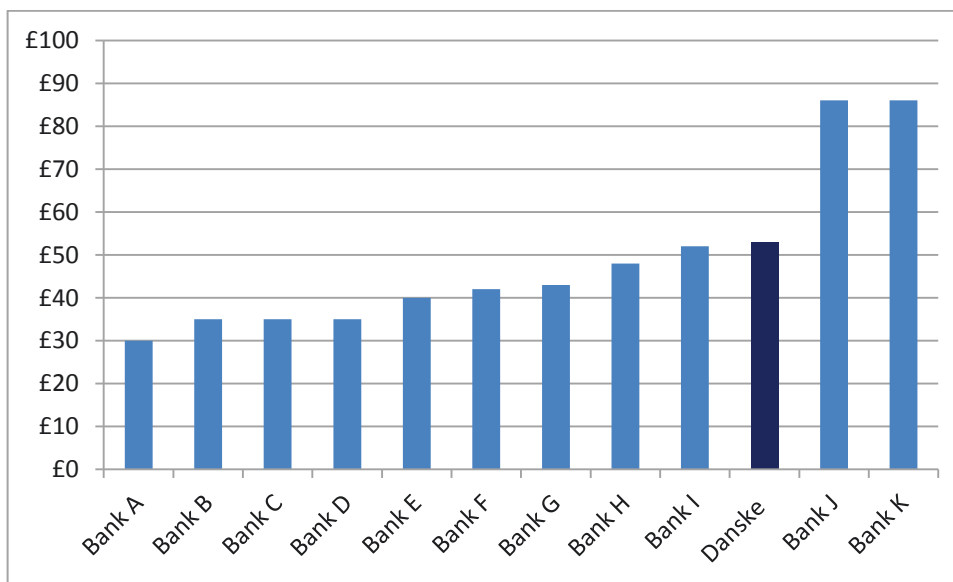
- 4.5 At an industry level, there has been the Better Business Finance initiative, (<http://www.betterbusinessfinance.co.uk/>) which provides impartial information and support to businesses and entrepreneurs looking to develop and grow, seeking finance, starting out or exporting abroad. It is managed by the British Bankers' Association in collaboration with its business and finance partners. The objectives of Better Business Finance are:
- to improve customer relationships by providing mentoring support, along with information on exactly what help and what finance is available;
 - improving access to finance, including creating new finance options like the Business Growth Fund, and building strategic partnerships with finance organisations such as business angels and Community Development Financial Institutions (CDFIs);
 - improving transparency, which includes helping businesses, explaining processes, listening and working with partners to improve service delivery in banks.
- 4.6 We note that the CMA has identified two main mechanisms through which there might be a link between concentration or market shares and outcomes. It is not clear how these two mechanisms relate to concentration and thereby to consumer outcomes. This should be explained further.
- 4.7 On differentiation, the CMA seems to say that a more concentrated market means banks are able to differentiate their products and reduce the competitive constraint. It is true that more differentiated products will exert a lower competitive constraint on each other, all else being equal. However, it is not clear how this effect relates to market concentration, as it could occur in both a highly concentrated market or a less concentrated market. We would also note that any differentiation observed may well be the result of banks attempting to meet different customer demands, something which suggests competition might have been working well as the banks are addressing consumers' demands.
- 4.8 On discriminating between customer types, the CMA should explain in more detail why it believes that larger banks might have a lower incentive to reduce prices or to innovate. It is not immediately obvious that a bank with more customers, but the same split between active/switching and inactive/non-switching customers, will price differently to one that has the same customer split and fewer customers. We would also note that an inability to discriminate between active/switching and inactive/non-switching customers may in fact offer better outcomes for consumers than the case where banks are able to distinguish between customer types.
- 4.9 Furthermore, Danske believes that it is too simplistic for the CMA to look at whether banks can discriminate between active/switching and inactive/non-switching customers. As set out in its responses to the market information requests for PCAs and SMEs, Danske targets certain customer groups at particular points in their life cycle, rather than how they run their bank account or whether they can be considered as switchers or non-switchers. While the customers Danske targets change over time, Danske currently focuses its marketing activities on particular customer segments, regardless of whether they are active or inactive customers.

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4.10 We note the initial results relating to the monthly cost of PCAs for six profiles, as set out in Annex 2 of Appendix C. It is important to note that not all of the banks in the UK were consulted on the proposed analysis and therefore some have not had an opportunity to comment on the profiles to date. Danske believes that the profiles do not take account of different charging structures used by banks in the UK (that is daily, monthly and event-based charging). In addition the profiles do not show that charges for customers of banks with daily charging structures will increase substantially over longer periods of overdraft usage. This explains why Danske’s charges for Profile 6, which relates to an unarranged overdraft over a three day period, appear disproportionately high. This is particularly relevant as Danske customers with an unarranged overdraft have on average been overdrawn for seven consecutive days.² Danske believes that the six profiles selected by the CMA may not therefore adequately represent the average number of days customers are overdrawn nor the fact that daily charging is more expensive for customers who are overdrawn for longer periods of time. We would therefore suggest that a wider range of scenarios should be included in the CMA’s analysis.

4.11 The chart would look rather different when charges are compared for a seven day consecutive overdraft:

Scenario 1: 7 consecutive days in unarranged overdraft of £100 in any one month + an unpaid fee³



4.12 In addition, the profiles are not currently balanced between arranged and unarranged overdrafts: Profiles 4 and 5 set out the charges for three and twelve days respectively in

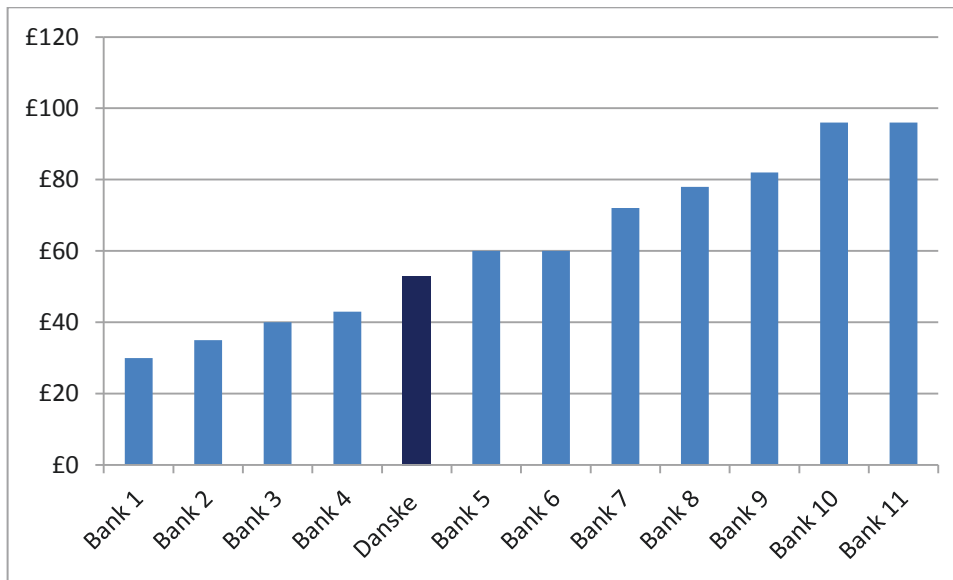
² Based on the average number of days Danske Choice customers were in unarranged overdraft between January – March 2015 (6.87 days), Of the Danske Choice customers in unarranged overdraft, approximately 18.3% were in unarranged overdraft for more than 11 days during the same period.

³ Please refer to Appendix 1 for a table with the assumptions on which this chart is based. The chart provided has been anonymised as it is for illustrative purposes only . It is designed to demonstrate Danske’s position vs the other UK banks with regard to unarranged overdraft charges.

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arranged overdraft while Profile 6 only sets out the charges for three days of unarranged overdraft with no corresponding profile for twelve days in unarranged overdraft. There is no explanation for this lack of balance between the two types of overdraft. The chart below provides an overview of how the charges between the banks compare for a 12 day unarranged overdraft.

Scenario 2: 12 consecutive days in unarranged overdraft of £100 in any one month + an unpaid fee⁴



5. Theory of Harm 3: Barriers to Entry/Expansion

5.1 The CMA has expressed its current view that Northern Ireland is a separate geographic market to the rest of the UK for PCAs, BCAs and general purpose loans. If this view is correct, the CMA will need to analyse each theory of harm separately for Northern Ireland. However, the case studies published by the CMA to date all relate to entry into the UK market but do not consider the expansion of UK wide banks in Northern Ireland.

5.2 As set out at paragraph 2.3 above, Danske does not consider that there are any substantial barriers for banks based in other parts of the UK to expand their operations in Northern Ireland.

6. 2002 SME Undertakings

6.1 The 2002 SME Undertakings (**Undertakings**) were designed around the Bacs ToDDaSO (Transfer of Direct Debit and Standing Orders) service. The ToDDaSO messaging service

⁴ Please refer to Appendix 2 for a table with the assumptions on which this chart is based. The chart provided has been anonymised as it is for illustrative purposes only. It is designed to demonstrate Danske’s position vs the other UK banks with regard to unarranged overdraft charges.

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facilitated the transfer of Direct Debit (**DD**) and Standing Order (**SO**) payment details from Old to New Bank, and provided a paper based process for the account balance transfer. The ToDDaSO system was decommissioned in December 2014 following the successful implementation of CASS.

6.2 We would like to highlight a number of concerns with the Undertakings, as follows;

- i. CASS has two different switching services. The full 7 day switch, backed by guarantee, with automatic 36 month payment redirection, balance transfer and account closure, and a more basic partial switch which allows for the transfer of selected payment arrangements to New Bank and cancellation of same at Old Bank. The partial switch is more open ended in terms of the time taken and therefore not covered by the 7 working day switch guarantee. This is due in part to the option that the new bank has of consulting with the customer as to which Direct Debits and Standing Orders they wish to switch to the new account.

Function	Full Account Switch	Partial Account Switch
Request account switch	Mandated	Mandated
Transfer all payment arrangements	Mandated	Possible
Transfer selected payment arrangements	Not possible	Yes, as required
Set up transaction redirection	Mandated	Not possible
Initiate payment arrangements cancellation	Not required	Yes, as required
Automated transfer of closing balance	Mandated	Not possible
Automated closing of old account	Mandated	Not possible
Complete switch	Mandated	Yes, as required
Redirection & forwarding	Mandated	Not possible

- ii. The switching requirements included in the Undertakings incorporate service level agreements (**SLA**'s) for elements that straddle both the full switch and partial switch services.
- iii. Where the switch falls within scope of the full 7 day switch, all of the requirements of the Undertakings are met or exceeded. However, the CASS partial switch service does not presently support a balance transfer or funding request, which means that the partial switch service does not meet the requirements of the Undertakings.
- iv. The Undertakings define an SME as a business with an annual sales turnover of no more than £25 million, whereas the CASS service defines an SME as;

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- a) Business with annual turnover of up to £6.5M and fewer than 50 employees
- b) Charity with an annual income of no more than £6.5 million
- c) Trust with a net asset value of less than £6.5 million

Only SMEs falling within the CASS definition can be offered a full 7 day switch.

- v. The Undertakings cover SME switches for both secured and unsecured accounts. Under the CASS service, accounts with connected security are out of scope for the full 7 day switch service.
- vi. In Danske's experience, most SMEs will opt for a partial rather than full 7 day switch, as this provides greater flexibility and allows more time for collateral and associated services, ie; Bacs, Merchant Acquiring, etc, to be set up at the New Bank. However, the CASS partial switch is limited purely to transfer and set up of SO and DD payment details, and does not extend to Balance Transfer as required in the Undertakings. Unlike the CASS full switch, the partial service does not include an instruction from the customer to transfer the residual balance in their account, nor does it facilitate the funding by the New Bank of a debit balance at the Old Bank. Under the old ToDDaSO service, there was a paper based solution to cover the Balance Transfer element. The partial switch does not provide a guarantee, nor does it provide the 36 month redirection facility that customers benefit from under the full 7 day service. We feel that a new "enhanced" partial service should be developed to allow SME's to switch all payment activity over a longer period, provide a balance transfer/funding option, and allow SME's to benefit from the redirection period.
- vii. Most SMEs, including those that fall within the £6.5M limit, will have associated products/services that are out of scope for the full switching service, i.e. Bacs Service User Registration and security credentials, Merchant Acquiring Facilities, etc. It is difficult to accommodate a switch of these facilities within the 7 day window demanded by the full switch service. Even within the partial switch service, there are no clear SLAs around switching of these ancillary services that are vital to SME customers.

Bacs and the CASS Management Committee have included a review of the partial switching service as a part of the CASS Scheme strategic plan. Danske would like to see the establishment of a more "encompassing" partial service for SMEs that can replace the current Undertakings' requirements.

7. Conclusions

7.1 In conclusion, Danske submits that:

- the geographic market is UK wide for PCAs, BCAs and general purpose loans;
- customer engagement is not low, particularly by reference to switching rates in other EU countries;

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- even if the switching rates are considered to be low, the PCA Survey supports the view that this is due to high satisfaction with banks by customers;
- the pricing profiles are misleading in that they favour the pricing structures of the largest banks;
- there are few barriers to entry/expansion by UK wide banks into Northern Ireland.
- there have been a sufficient number of changes in circumstances since the 2002 Undertakings to warrant the CMA opening an own-initiative review into the Undertakings.

APPENDIX 1

Scenario 1: 7 consecutive days in unarranged overdraft (all >£25) in any one month + an unpaid fee				
	Unarranged charges	Methodology	Unpaid fee	Total
Bank A	£20	Per month- capped 1 per month	£10	£30
Bank B	£35	£5 per day	0	£35
Bank C	£35	£5 per day	0	£35
Bank D	£20	Per event	£15	£35
Bank E	£15	£25 charged for debit position	£25	£40
Bank F	£42	£6 per day	0	£42
Bank G	£35	£5 per day capped at £35	£8	£43
Bank H	£42	£6 per day	£6	£48
Bank I	£42	£6 per day	£10	£52
Danske	£25	Per month- capped 1 per month	£28	£53
Bank J	£76	£6 monthly usage fee (arranged or unarranged) + £10 per day for amounts greater than £25, capped at 8 fees per month	£10	£86
Bank K	£76	£6 monthly usage fee (arranged or unarranged) + £10 per day for amounts greater than £25, capped at 8 fees per month	£10	£86

APPENDIX 2

Scenario 2: 12 consecutive days in unarranged overdraft (all >£25) in any one month + an unpaid fee				
	Unarranged charges	Methodology	Unpaid fee	Total
Bank 1	£20	Per month- capped 1 per month	£10	£30
Bank 2	£20	Per event	£15	£35
Bank 3	£15	£25 charged for debit position	£25	£40
Bank 4	£35	£5 per day capped at £35	£8	£43
Danske	£25	Per month- capped 1 per month	£28	£53
Bank 5	£60	£5 per day	0	£60
Bank 6	£60	£5 per day	0	£60
Bank 7	£72	£6 per day	0	£72
Bank 8	£72	£6 per day	£6	£78
Bank 9	£72	£6 per day	£10	£82
		£6 monthly usage fee (arranged or unarranged)		
Bank 10	£86	+ £10 per day for amounts greater than £25, capped at 8 fees per month	£10	£96
		£6 monthly usage fee (arranged or unarranged)		
Bank 11	£86	+ £10 per day for amounts greater than £25, capped at 8 fees per month	£10	£96