LLOYDS BANKING GROUP PLC

CMA RETAIL BANKING MARKET INVESTIGATION

Response to the CMA's Updated Issues Statement

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1. INTRODUCTION

1.1 Lloyds Banking Group ("**LBG**") sets out below its response to the CMA's *Updated Issues Statement* ("**UIS**") dated 21 May 2015. This follows LBG's letter of 27 May 2015 which made some initial observations on the UIS, particularly in relation to approaches to analysing pricing, volume vs value market shares, and determining links between concentration and customer outcomes.

1.1 At the outset of Phase II of the investigation, LBG wrote to the CMA ("**Initial Letter**") setting out 8 important questions that are critical to address during the investigation.[1]

1. How can customer engagement and the ability to switch be enhanced quickly and sustainably?
2. Which pricing structures recover costs appropriately and what does this imply in terms of "cross-subsidies"?
3. How should "customer satisfaction" be measured and how does it affect customer behaviour?
4. Will the CMA investigation be more effective if it focuses on smaller SMEs (such as those with a turnover below £1m)?
5. What is the impact of existing industry structure and concentration on the ability of smaller and newer providers to compete?
6. Can competition be assessed without considering explicitly both the regulatory context and wider government policies, such as basic bank account ("**BBA**") provision?
7. Can trials make potential market interventions more effective and efficient?
8. What impact has digital and mobile had in the last two years and what impact is it likely to have in the near future?

1.2 The UIS is clearly work in progress and the CMA is still to publish several important working papers. The CMA has made progress on several of these questions and the UIS is a balanced assessment of the issues.

1.3 LBG considers that the questions identified in its Initial Letter remain critical. In this response, LBG highlights how the eight questions above link to the CMA's key hypotheses and theories of harm and where further work is required. LBG will comment further on these points when it receives the CMA's working papers.

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[1] Letter to the CMA, 11 November 2014.

2. GENERAL COMMENTS

2.1 There are three issues that are relevant to all of the theories of harm: the diversity of customers; the need to find a robust method of assessing quality alongside price metrics; and the impact of BBAs.

2.2 First, there is a great **diversity of customers'** needs, behaviours and attitudes in both SME banking and PCAs. LBG has emphasised the concentration of income, and the complex distribution of customer account usage across multiple dimensions (for example the size and duration of credit balances, size and duration of overdraft balances, volume and type of transactions (e.g. debit card and direct debit), and volume of foreign debit card usage). This distribution is not normal and much of the income derived by providers comes from customer usage in the tails of the distribution.

2.3 This has important implications for assessing competition, pricing and profitability that have not been understood or explored properly in previous inquiries into these markets. The CMA has recognised this in some of its questions and analysis. But there is also significant diversity in customers' credit history, channel usage, attitudes to technology, risk aversion and life stage, amongst other dimensions.

2.4 This means that it is generally misleading to look at averages, representative profiles or volume metrics across all customer segments. LBG would suggest that each theory of harm should be considered and tested across customer segments and actual patterns of customers' account usage in all relevant dimensions that drive providers' income and costs. This includes answering questions such as:

(a) Is the willingness and ability to act an issue for all customer segments?

(b) How do potential gains from switching vary across different customer segments and patterns of use?

(c) Does customer satisfaction differ by income and channel usage, and how does this relate to market share in that segment?

(d) Are entrants' plans for market share greater when measured by value rather than volume?

(e) Do entrants want to achieve national scale and reach or are they focussed on the most profitable segments of the market?

(f) How do existing customers react to new products and service improvements from their providers that are launched to attract new customers and respond to competition?

(g) How much does this lead to the benefits of competition (new products, pricing changes and/or service improvements) spreading well beyond those customers that actively switch provider?

2.5 Second, and as the UIS makes clear in several places, the CMA needs to find a robust **method of assessing quality** alongside price metrics – this is necessary to understand customer switching behaviour, the impact (if any) of concentration on customer outcomes and different entry strategies. Customer satisfaction is one way to measure quality, although the CMA appears to suggest that this may be insufficient. The CMA should also explore how quality can be measured objectively, such as through customer service performance indicators, availability of relationship managers and/or digital functionality. Quality and satisfaction will also differ by customer segment, reflecting different customer needs.

2.6 Third, it is striking that the CMA does not comment on the **impact of BBAs** in the UIS, or in its working paper on regulation. This was a specific issue that LBG raised in both its Initial Letter and at its first meeting with the CMA, and LBG was under the impression that the CMA would explicitly consider the impact of BBAs as part of its analysis. There are around nine million BBAs in the market which create significant costs for the larger providers required to offer them. These costs need to be recovered elsewhere, given that HMT has recently required that these accounts must be provided for free with no fees, even though the relevant EU legislation allows for a small fee to be charged. This may drive differences in average revenue and pricing for other PCAs, which will affect the CMA's analysis of Theory of Harm 2. BBAs may also distort competition, including entry and expansion decisions, for some customer segments, and should be considered under Theory of Harm 3. This is because they provide a minimum relatively high level of service and functionality for free, which could reduce incentives for differentiation and innovation for those customer segments. LBG is not in a position to know the extent of these effects across the market, but would urge the CMA to explicitly consider these points.

3. THEORY OF HARM 1 – IMPEDIMENTS TO CUSTOMERS' ABILITY TO SHOP AROUND

3.1 LBG's first question in its Initial Letter was to consider how customer engagement and the ability to switch can be enhanced quickly and sustainably. LBG asked the question in this way because it has been clear, over several different investigations of these markets, that customer engagement can be enhanced. LBG's hope was that, even though the CMA needs to review evidence independently, more resources could be spent on trialling and testing to diagnose reasons for current levels of customer engagement and to find and test real improvements for customers, rather than on creating abstract theories of customer behaviour or creating (inappropriate and possibly misleading) comparisons to other markets. Previous regulatory interventions have often been disappointing because they were not planned and trialled correctly (such as the PCA annual statements mandated by the OFT that have been shown by the FCA to be ineffective at increasing customer engagement).

3.2 Different customer segments are likely to require different approaches to increase engagement. Many customers may be using a good product for them and have little to gain from switching, in terms of price, quality or service. Some customers may be comfortable with account switching and shopping around and the current suite of tools work well for them. Some customers may have difficulty accessing information, whilst others may have concerns about the switching process itself. Smaller businesses may have less resource to assist them in shopping around than larger businesses. Theory of Harm 1 should not be generalised to apply to all customer segments, but where engagement can be enhanced for any of these segments, it should be done quickly.

Developing practical methods to improve engagement

3.3 The CMA's focus to date has been on looking at why customers may not engage, using the "access, assess, act" framework. This may be helpful in designing potential remedies, but LBG is concerned that the lines between the different parts of this framework will ultimately blur and that time will be lost finessing the framework. What matters ultimately is whether there are actions that can be taken to improve engagement and LBG's Initial Letter also stressed the importance of creating enough time and opportunity to undertake trials of a number of different potential behavioural interventions, including looking at evidence of whether market-wide changes (such as the rapid adoption of mobile banking) or previous interventions are leading to changes in customer behaviour and increasing engagement.

3.4 LBG still thinks that the CMA should prioritise practical work on diagnosing reasons for current levels of customer engagement and potential enhancements. In LBG's view this work does not need to wait for any finding or provisional conclusion because such work is not only for the purpose of testing potential remedies. First, practical work on customer engagement should be a necessary element of testing various hypotheses and should be considered as part of the diagnosis phase as much as the remedies phase. Second, working through potential remedies now with providers that are willing to support improvements in customer engagement will give the CMA a head start in developing options that are more likely to succeed, even if they depend on the CMA's findings later on in the process. For this reason, LBG shared with the CMA its own plans to run a series of behavioural trials during the course of the inquiry as well as working with other companies to develop the SME Prize Fund and proof of concepts to demonstrate how it could be made much easier and simpler for customers to compare accounts to drive more engagement.

3.5 The following initiatives are examples of where the CMA could make progress now, but it would also make sense for the CMA to consult on these issues with the FCA and other stakeholders:

(a) the Government's midata programme has the potential to enable powerful, easy to use comparison tools that customers are familiar using when comparing other retail banking products and goods and services such as energy, insurance and mobile phones. But the current implementation is very poor. It is only available for PCA customers and cannot be used on tablet devices. It is much less easy to use than equivalent services in other markets. It does not allow customers to compare the costs and benefits of different accounts and the quality and range of service offered. These problems can be quickly and easily addressed. The midata programme can be enhanced by what LBG refers to as "midata 2". This would allow comparison websites, for the first time, to offer meaningful comparison services for BCA customers. Midata 2 will also be usable via multiple channels – desktop, tablet, and smart-phone. It will provide one click access - a big improvement on the current, cumbersome, customer journey, and give consumers access to un-redacted transaction data, compared to the mere 20% of data files that customers can access under the current system. LBG has been working with a comparison tool specialist, which has developed gocompare's current PCA comparison engine that uses midata files. LBG now has working prototypes that demonstrate what a good service might look like. Ultimately, rolling out midata 2 will require the support of the whole industry and the CMA can help to support this and build more momentum around the project;

(b) in light of the recent FCA findings on customer awareness, the CMA should also consider the potential impact of an increased and sustained campaign to raise customer awareness of CASS, particularly with smaller businesses. Bacs recently undertook a renewed marketing campaign for CASS. The CMA should examine the evidence of its impact on different customer segments, in particular for SME customers. The CMA may then want to consider the quality of this campaign and whether it could be improved. LBG believes that this was a poor quality campaign that did not appeal to customers in a relevant way. LBG is discussing with the FCA how a future campaign can be enhanced and LBG is happy to share these thoughts with the CMA;

(c) similarly, the UIS states that the awareness and interest in alternative finance amongst SMEs is currently low.[2] Alternative finance goes beyond recent innovations, such as peer-to-peer lending and invoice financing, and includes hire purchase and leasing (which have an aggregate value broadly equivalent to that of term loans). Rather than measuring current awareness and interest, why not investigate how to raise such awareness and then see what impact this has on interest in alternative finance? The CMA may also want to talk to organisations that specialise in trying to provide such information to SMEs, to understand the challenges they face and how they think improvements can be made. Good examples of such organisations are Bizfitech and the National Association of Commercial Finance Brokers, which operates a specialist platform to help SMEs with such issues;[3]

(d) the CMA states that it will consider the impact of an open API standard and the implementation of the EU PAD,[4] which LBG considers could have a significant and disruptive impact on both reference markets. There are obvious potential 'quick wins' to develop and implement simple open API standards to enable midata 2 services to develop quickly. Rather than try to assess what this impact will be or wait until the end of the inquiry, the CMA could explore with Government now how these changes can be accelerated and ensure that they are implemented quickly;

(e) for SME customers, the UIS states that the account opening process can be lengthy and onerous because of anti-money laundering regulations.[5] Before considering whether such regulations should be changed, the CMA could undertake specific behavioural research into the relationship between account BCA switching and perceptions of different account opening processes. Again, this is an area where the FCA may be able to support the CMA;

(f) LBG has identified a segment of PCA customers across the market who regularly use overdrafts and who may not be able to switch to another provider on the same terms because of a poor credit rating ("credit constrained switchers"). This issue has not been identified and explored in previous inquiries. It may explain the GfK survey finding that "*some participants, particularly those who relied on their overdraft for everyday living, were concerned that a new PCA provider would not want them as a customer*".[6] There may be a similar issue for smaller BCA customers, which has not been examined. LBG believes that improving the reality and perception of the ability to switch for these customers is something that should start now. There are a number of ways that the CMA can behaviourally test whether anything is constraining these customers and such research would be valuable. The specific barriers for credit constrained switchers are an important

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2 Paragraph 44 of the UIS.
3 See www.businessfinancecompared.com
4 Paragraph 65 of the UIS.
5 Paragraph 85(a) of the UIS.
6 GfK NOP PCA banking survey report, paragraph 202.

example of why different customer segments will need different approaches to increase engagement; and

(g) as the CMA is aware, LBG is also trialling a number of initiatives for both SME banking and PCAs to test whether customer engagement can be enhanced quickly. LBG will report back on these trials as they progress over the summer, and hopes that the CMA will then be in a position to set out designs for its own trials.

Measuring quality and satisfaction for different customer segments

3.6 LBG's Initial Letter also identified the need to properly understand customer satisfaction, and the UIS appears to recognise that both satisfaction and quality of service are relevant to understanding customer behaviour and competitive interactions. This is true for both PCA and SME customers, but the UIS recognises that "*the relationship and service component is often more important to SMEs than the price element*".[7]

3.7 Whilst the CMA has made some progress on undertaking more robust customer surveys, it still has much work to do if it is to understand the link between satisfaction, non-price variables and the degree to which customers are engaged or consider switching. LBG appreciates that the CMA is looking at several ways of achieving this, and LBG is aware that a formal switching model is being developed, so at this point LBG can only make two additional observations.

(a) all customer surveys, including those looking at satisfaction or advocacy (e.g. Net Promoter Score "**NPS**"), have some weaknesses and will be influenced by factors unrelated to quality, such as sample selection, customer mix or external context. The CMA should therefore also explore objective measures of quality in its analysis. LBG reviews objective measures using external benchmarking services, such as from [CONFIDENTIAL], as well as monitoring its own performance indicators.[8] These industry comparisons could be used to compare quality objectively across a range of different quality attributes to be used alongside survey evidence;

(b) whether customer survey responses or objective metrics are used in the analysis of quality, the CMA should look at each part of a provider's proposition and at different customer segments, rather than high level averages or totals. Customer behaviours and preferences differ significantly, as does the "quality performance" of different competitors for different customer segments. Some providers have better branch opening hours, whilst other providers are known for great telephone service. For SME banking, some providers offer named relationship managers or key market specialists at lower turnover thresholds, whilst others focus on superior digital technology. Higher value customer segments may receive a different quality of service; First Direct customers must meet minimum eligibility criteria (or pay a monthly fee) to receive a different level of service on average than providers with a broader customer base, which may increase average satisfaction scores. Quality can be measured for each of these service quality

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7 Paragraph 84(e) of the UIS.

8 For example, please refer to the following documents submitted by LBG which include objective metrics for monitoring PCA quality: benchmarking using [CONFIDENTIAL]in FDL annexes 13.07, 13.08, 13.09, 13.11 and MQ annex 11.41; [CONFIDENTIAL] in FDL annexes 13.02, 13.04 and 13.05; PCA service performance indicators in MQ annexes 11.06, 11.08, 11.38 and 26.15.

factors and customer segments, and the analysis will be richer and more robust if these are disaggregated.

3.8 Similarly, when considering the relationship between pricing, so-called "gains from switching" and the degree of customer engagement, the CMA should go beyond market averages and focus on specific customer segments. LBG suggested a number of ways that the CMA may be able to do this in its letter of 27 May 2015. There are a large number of customers for whom the (pricing) gains from switching are actually very small. Limited switching by these customers is entirely consistent with a well-functioning market.

Holistic assessment of free-if-in-credit pricing

3.9 LBG's Initial Letter asked the CMA to consider the price structures that would be expected in a well-functioning market, and specifically how free-if-in-credit ("**FIIC**") pricing should be assessed. LBG asked the CMA to complete a holistic assessment of this pricing structure against possible alternative forms of pricing that could occur in a well-functioning market.

3.10 The UIS sets out some partial views on FIIC that are not supported by any evidence at this stage and do not, in LBG's opinion, go far enough.[9] The issue of FIIC has also been raised in some of the entrant case studies. One question LBG raised is whether FIIC encourages multi-banking. This can lower customer inertia by removing some of the uncertainty about different product providers (an ability to "try before you buy"). LBG is not claiming that this is the most important effect of FIIC, but it is an example of why it is important for the CMA to complete a holistic assessment of this pricing structure. The FIIC debate has been going on for a long time and LBG hopes that the CMA can finally put it to rest.

4. THEORY OF HARM 2 – CONCENTRATION LEADING TO WORSE OUTCOMES

4.1 In its letter of 27 May 2015, LBG focused on Theory of Harm 2, and made the following points:

(a) the CMA's analysis of pricing will be much more robust (and representative) if it is based on real customer account behaviour. LBG shared some analysis of its customers based on midata files by a firm called Runpath. This analysis is much more sophisticated than has been conducted in any previous investigation. LBG has offered to waive any rights it has under its contract to allow Runpath to share its pricing engine with the CMA so that the CMA can independently check and validate the calculations and/or use Runpath independently to run any data analytics. LBG trusts that the CMA has discussed options for undertaking this analysis with Runpath and hopes that the CMA is able to take this forward;

(b) the CMA has used volumes of accounts to calculate market shares. Volume of accounts is misleading because of the low account usage of a large number of accounts; market share by value would be a much better metric. The CMA is in a unique position to properly measure market shares by value, for all providers, in both the SME and PCA markets, and LBG urged the CMA to take this opportunity to make its analysis more robust; and

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9 Paragraphs 67-69 of the UIS.

(c) the CMA has set out hypothetical mechanisms that may link concentration or market share to customer outcomes in the UIS. LBG is unclear as to the application of these mechanisms to the CMA's inquiry and raised a number of questions which it hopes can be addressed in the CMA's working papers.

4.2 To properly consider Theory of Harm 2, the CMA will need to conduct an analysis of customer outcomes against market share. LBG's general comments about customer segments and measuring quality are both relevant. The CMA recognises in its six 'profiles' that pricing is different for different types of usage, and LBG has previously commented that there is a much greater diversity of behaviours than is represented by these six profiles.

4.3 The relationship between prices, quality and market share may also differ by customer segment. Entry, service and the level of prices may be different for high value customers compared with customers who have low balances, low overdraft usage, or for digital customers compared with frequent branch users. Relationships between market share and outcomes in one segment may not be the same or as strong in another segment and looking at averages may be misleading because of the diversity of different segments, which may over- or under-state any relationship.

4.4 The UIS describes the different treatments of private banking services and the separation of these activities into different brands or divisions, as well as the provision of these services by other providers.[10] Given the high value of this customer segment, any differential treatment in the business model or data of each provider could potentially drive significant differences in average revenues between providers. The CMA will need to explain exactly what these differences are in its analysis of average revenues, together with other considerations that LBG has raised previously.[11]

4.5 LBG awaits the CMA's working paper on these issues. The CMA is already aware that LBG is extremely sceptical about claimed links between scale and competition and, in LBG's view, many previous inquiries have asserted such a relationship based on a mixture of fuzzy logic, incomplete or untestable hypotheses and/or weak reasoning. LBG's hope is that once it has fully reviewed the evidence, the CMA will not only come to the same conclusion, but will explicitly dismiss these assertions once and for all so that future debate and discussion can focus on real improvements for customers.

5. THEORY OF HARM 3 – BARRIERS TO ENTRY AND EXPANSION

5.1 The UIS recognises that there has been significant new entry in the provision of PCAs in the UK in the last five years, and that while there has been less new entry into SME banking, a number of specialist SME providers have entered, offering specific products.

5.2 Overall, LBG does not believe there are any significant barriers to entry into either of these markets. The CMA's evidence and case studies on recent entry appear consistent with this view. In addition, LBG does not believe that there are significant barriers to expansion, beyond the fact that it is possible to improve customer engagement across the market.

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10 UIS Appendix B, paragraph 3.

11 See LBG submissions "Comments on "Pricing analysis: proposed approach", 10 April 2015 and "Response to PCA Pricing putback", 18 May 2015.

5.3 LBG notes that the UIS suggests that there are "strong inter-relationships between the three theories of harm" and that the effects may work in combination to result in an adverse effect on competition.[12] The CMA's approach appears to be based on assessing the degree to which Theories of Harm 2 and 3 may result in worse outcomes for customers "over and above any adverse effects captured by our first theory of harm".[13] LBG believes this is important and that the CMA should consider how it would assess the evidence on barriers to expansion, including the evidence provided by smaller banks and recent entrants, if the customer switching rate was (say) 20% per annum.

5.4 As LBG has yet to see the evidence and analysis being undertaken by the CMA it is difficult to expand on these views. At this stage LBG offers four additional points.

(a) **Value vs volume**. As noted above, LBG believes it is important for the CMA to recognise that variations in customer behaviour mean that value is distributed unevenly across the reference markets. The CMA should <u>not</u> assume that recent entrants and smaller banks are trying to win significant market shares by volume (which the 8% share of entrants by 2020 in UIS paragraph 118 presumably refers to) or to achieve national reach. LBG's understanding of these competitors is that they are focused on targeting the most valuable customer segments of established successful businesses, older and higher income personal customers with more financial needs, or customers in metropolitan areas, and this appears to be supported by the CMA's case studies. For comparison, LBG's most valuable [CONFIDENTIAL]% of PCA accounts generate around [CONFIDENTIAL]% of value (pre-impairment) and the average revenue from LBG's PCA customers in London is [CONFIDENTIAL]% higher than customers in non-metropolitan areas, reflecting higher customer incomes in London. If the CMA (incorrectly) assumes that all recent entrants and smaller banks are trying to win significant market shares by volume then it will subsequently (and also incorrectly) conclude that their strategies are being frustrated. It is therefore critical that the CMA understands what these competitors are trying to achieve by *share of value* and corroborate any views expressed against internal strategy documents;

(b) **Payment systems**. The CMA should be aware that LBG is not currently able to provide indirect access to all of the relevant and necessary payment schemes with the necessary functionality to offer a personal and business current account.[14] LBG is committed to significant investment in its core payment infrastructure that will allow it to offer these services and functionality and increase competitive pressure in the supply of indirect access to payment systems.

As LBG noted in its Initial Letter, it has never seen robust evidence to support claims that access to, or the cost of access to, payments systems are barriers to entry or expansion. LBG is aware that such claims have been made many times and it therefore supports the CMA and/or PSR getting to the bottom of these issues once and for all. If there are potential problems, LBG would support

12 Paragraph 48 of the UIS.

13 Paragraph 50 of the UIS.

14 The UIS is correct to point out (in paragraph 141) that LBG is one of the banks that facilitates access to payment services for indirect participants, which includes institutions such as overseas banks (see PCA MQ Q29). However, this paragraph also gives the impression that LBG supplies such services to the main smaller and entrant banks within the reference markets. This is incorrect, LBG does not supply payment services to Atom, Aldermore, Handelsbanken, Metro Bank, Nationwide, Santander, Shawbrook, Virgin (except for cheque clearing services) or Tesco Bank. LBG does supply payment services to TSB including access to payment schemes.

appropriately targeted interventions to deliver cheaper and direct access to payment systems;

(c) **Branch network**. the CMA states that the evidence suggests the need for a branch network may be a barrier to expansion beyond a small scale.[15] LBG cannot comment in detail until it has reviewed the CMA's working paper on branches, but notes that this view has been repeated many times before without any analysis of the relevant costs and business cases for branches. Opening branches is no more costly than opening other retail outlets, particularly since planning regulations have recently changed as highlighted in Metro Bank's case study, and these costs can be recovered if the branch is successful. Therefore the CMA's evidence will need to consider what the cost of opening a branch is and the degree this represents a sunk cost that cannot be recovered if an entrant exited the branch and either sold or retained its stock of accounts. Against this cost should be considered the scale that entrants expect to achieve, measured by value rather than volume. To support this evidence, the CMA should look at how entrants have actually considered this decision in their internal documents. This evidence should look at whether entrants believe branches would be profitable absent any sunk costs, or whether they believe there are other models for serving PCA and SME customers that do not require branches, such as using the Post Office network as Atom are doing, and so the costs of establishing branches do not matter to them. If, after such a review, the CMA still thinks that better branch access is required for smaller banks, which cannot be provided through the Post Office network, LBG is willing to explore the feasibility of banks offering agency servicing arrangements for PCAs and enhancing existing arrangements for SMEs; and

(d) **SME risk assessment.** The CMA identifies the potential for recent legislation to improve the ability of banks and alternative finance providers to conduct accurate risk assessments on SMEs (in the form of the Small Business, Enterprise and Employment Act 2015 (**"SBEE Act"**)). This has the potential to help all providers, but the CMA should look at how this legislation can have the greatest impact. There are two possible enhancements: first, the development of processes to support 'footprint-free' quotations to enable customers to be confident in shopping around without fear of harming their credit rating; and second, the promotion of standard business reporting, such that financial accounts of businesses can be readily uploaded by any finance provider given access and analysed by systems with less manual intervention (similar to midata). As with other potential improvements identified above, LBG believes that the CMA should use its influence to increase momentum for such developments now rather than to wait until the end of the inquiry.

5.5 LBG considers that paragraphs 125 and 126 of the UIS (relating to Theory of Harm 3) were inconsistent and hopes the CMA can clarify this in the relevant working paper. Paragraph 125 appears to suggest that new entrants have no problems in raising funds, but paragraph 126 suggests they may have problems attracting deposits (which is the main source of funding).

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15 UIS paragraph 159.

6. CONCLUSION

6.1 LBG has highlighted above where it considers that further work is required by the CMA in light of the UIS. In summary:

(a) the CMA's analysis needs to consider different customer segments as it cannot rely on averages or representative profiles given the complex distribution and concentration of account behaviour and usage. This includes considering the different approaches that may be required to increase engagement for different customer segments, such as credit constrained switchers;

(b) any analysis should consider value and not volume, such as when calculating market shares or seeking to assess the aspirations of entrants;

(c) objective quality metrics should be explored alongside customer satisfaction or advocacy metrics. These should be disaggregated to look at how providers differentiate their offer and their focus on different customer segments;

(d) work to assess practical methods for improving customer engagement should be prioritised. Examples include midata 2, a future CASS marketing campaign, increased awareness of alternative finance, API standards and EU PAD, behavioural research into BCA account opening, and enhancements to the SBEE Act;

(e) the CMA should look at the costs of establishing and closing branches, whether such costs are sunk, and the actual business cases of entrants.

(f) any analysis of pricing should be based on real customer behaviour, such as that conducted by Runpath using LBG midata files;

(g) a holistic assessment of FIIC is required, especially given the views expressed by some entrants; and

(h) the impact of BBAs on the market cannot be overlooked and should be considered explicitly.

6.2 LBG has not sought to repeat many of the points made in previous submissions which it trusts will have been considered by the CMA in the impending working papers. LBG will respond in more detail on all of the points it has made to date and any new issues that emerge in response to those working papers.