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11<sup>th</sup> June 2015

Dear Sir/Madam,

### **CMA updated issues statement**

Tesco Bank welcomes the opportunity to respond to the Competition and Markets Authority updated issues statement. We will expand on our response in more detail when engaging with the CMA's future work programme, but we have outlined areas which we believe are significant as the CMA continues its investigation.

As we outlined in our initial response, Tesco Bank believes that a lack of consumer engagement on the demand side, and a lack of transparency and comparability on the supply side, to be among the key barriers to customers participating more actively in the PCA market and in switching current accounts. We have recently commissioned independent research on consumer perceptions of the PCA market and barriers to switching to understand measures which could improve consumer engagement. Our research has not yet concluded but we will share the results with the CMA at the earliest opportunity.

The majority of our comments relate to Theory of harm 1, as barriers to customers shopping around and switching are of critical importance. There are multiple factors which act as barriers to customers engaging with the market and exercising choice, which vary between different groups. These barriers include current communication of the switching process and a lack of awareness of the potential benefits of switching. These factors combine to create a complexity that will require a number of solutions to improve competition in the market. Success will come from a number of different and complementary improvements to overcome the major barriers. Crucially, it will require industry-wide engagement.

### **Response to CMA's initial observations**

As Tesco Bank does not offer current account services to SMEs, this response focuses on relevant information related to PCAs.

#### **Market definition and market outcomes**

- a) The CMA's investigation - There are a number of initial observations made by the CMA where we agree. In particular, the decision against widening the scope of the investigation beyond PCAs, retaining the geographic market definition and the conclusion that conducting a market-wide profitability assessment is complex (paragraph 24).

Theory of harm 1: Impediments to customers' ability to effectively shop around, choose and switch products or suppliers, resulting in weak incentives for banks to compete for customers on the basis of price, quality and/or innovation.

- b) Customer satisfaction - We note the CMA's reference to survey data which provides satisfaction rates with their current account provider. This is an important part of assessing the PCA market and requires a thorough analysis considering the complexity associated with determining customer satisfaction. We agree with the CMA's statement that satisfaction rates are potentially driven by customers' reasonable expectations when compared to alternatives in the market (paragraph 59). However, we acknowledge that customer satisfaction is complex and would encourage the CMA's research programme to consider customer expectations of their bank and how they define good service. For many customers, satisfaction levels are defined without a complete understanding of the cost of their current account relationship.

Tesco Bank's research demonstrates that a significant proportion of customers do not believe that their bank offers good service<sup>1</sup>. Furthermore, this research indicates that poor service remains an overwhelming factor in motivating people to consider switching to an alternative provider<sup>2</sup>. We would encourage the CMA to investigate further whether current satisfaction rates are linked to low expectations or a lack of knowledge of how switching could benefit customers as this is critical to understanding how to improve customer outcomes across the industry.

- c) Customer perceptions - We are pleased that the CMA will seek to understand customer perceptions about the costs of searching and switching compared with the actual costs as this will provide further insight on what drives competition (paragraph 60).
- d) Transparency - It is Tesco Bank's view that a lack of sufficient transparency inhibits the customer's ability to compare products in a way that would inject greater competition into the PCA market. Resolving this lack of transparency would change the current perception of satisfaction and would have a positive impact on current indicators. We believe that this will re-define what satisfaction should look like in the future and improve the customer experience.

We note the CMA's indication that complexity is hindering customers' ability to make meaningful comparisons (paragraph 89). We agree with this and restate our position that measures to make it easier for consumers to compare PCAs have great potential to increase customer engagement, making it easier for customers to navigate the different PCA products on the market.

Tesco Bank is now conducting significant research to understand the current customer experience. Part of this research is exploring whether simple customer-facing comparators, similar to those used in other sectors could be used to facilitate greater engagement to help customers assess the relative cost and benefits of the account. We anticipate that the findings of this research will be available to share by mid-July.

MiData - We welcome the principle of this initiative as a step in the right direction which has great potential to influence customer behaviour. We note the CMA's conclusion that it is too early to judge the extent of MiData's impact (paragraph 64). We agree with this assessment. While MiData is likely to be helpful for engaged and confident consumers, it remains to be seen whether it will be widely used and have a transformative effect on consumer behaviour. We reiterate our call for all PCA providers to participate in Midata and furthermore, we hope to see an evaluation take place a year from launch. Tesco Bank will allow customers to download their Midata file by the end of year.

- e) Free If-In-Credit model - We note that the CMA has received divergent views on FIIC (paragraph 68). The CMA's future analyses of the 'free in-credit' model on competition is

important as the perception that your PCA is “free” is preventing a real assessment of value which is meaningful to customers. However, we caution against presenting this as the single solution to deliver better competition. In the absence of increased transparency, it is not clear that such a move would drive a better deal for consumers, and there is a real risk that it could lead to a worse outcome for customers.

- f) Current Account Switching Service – We welcome the CASS as an important step to make the switching process easier and believe it to be operating well. We agree that the CASS appears to be working well (paragraph 73) and recognise that the majority of customers who have used the service have had a good experience<sup>3</sup>. We note that the CMA references the FCA’s review of the CASS which recently identified customers’ inertia as well as lack of awareness and confidence as areas for consideration (paragraph 74). We believe that it is important to consider how the industry can encourage more customers to become aware of and engage with the CASS, for example through further communications or marketing campaigns. These efforts would build greater understanding of how the process works and build consumer confidence.
- g) Pricing analysis – The CMA’s initial observation that there is a wide variation in PCA and BCA prices indicating potential gains from switching providers is welcome (paragraph 89). This underlines the importance of giving customers accessible information so they have the transparency of cost and benefit of different accounts and can easily compare products.

Theory of harm 2: Concentration giving rise to market power of some banks leading to worse outcomes for customers

- h) We are content with the CMA’s chosen mechanisms to gather views on concentration of the market and look forward to reviewing the results. We would like the CMA to recognise that while certain structural questions can be addressed, transparency and comparability remain paramount to alter market concentration.

In conclusion, Tesco Bank believes that a lack of transparency is leading to inadequate levels of customer engagement and will continue to hold the industry back if not addressed, even if there are further changes to the market including structural changes or more entrants. While transparency is not the only barrier to a competitive market, we believe that significant improvements on this front will support greater consumer engagement with the market, and encourage more competitive behaviour from PCA providers. Exploring what steps can be taken to help customers make easier comparisons between providers will make the process less complex, drive competition within the market and ultimately improve the customer experience of banking. We look forward to engaging with the CMA’s future work programme and will share our research with the CMA at the earliest opportunity.

Kind regards

David McCreadie  
Managing Director, Banking

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<sup>1</sup>Tesco Bank Research: 36% of customers didn’t feel valued as a customer, 27% cite poor customers service as second most frequent reason for switching. April 2014

<sup>2</sup>Tesco Bank Current Account Market report: March 2015

<sup>3</sup>FCA: Making current account switching easier: The effectiveness of the CASS and evidence for account number portability. Paragraph 1.7: 99% of switches are completed on time and 89% of switches complete without any errors.