

RETAIL BANKING MARKET INVESTIGATION

Summary of hearing with AIB Group (UK) plc on 16 July 2015

Introduction

1. First Trust Bank (First Trust), which was the trading name of AIB Group (UK) plc's business in Northern Ireland, had historically been one of Northern Ireland's 'big four' banks. It had experienced a notable decline in its position during the 'noughties', which was due to a combination of factors primarily associated with a lack of investment in infrastructure and systems, branches and people, and that was exacerbated by the recent economic crisis.
2. In late 2011, with the support of its shareholder, First Trust embarked on a major transformation programme as part of a strategic recovery plan. The commitment of the shareholder to this recovery plan represented a strong endorsement of the potential of First Trust to compete profitably with other providers in banking services to the personal and selected SME sectors in Northern Ireland.
3. First Trust had just commenced the third phase in its transformation programme to complete the migration to a modern banking platform, and in parallel was working to acquire new customers and retain existing customers.
4. It saw itself as a focused challenger bank to the two largest established banks in Northern Ireland (Danske and Ulster Bank), whereby it was focusing on the core mass personal market with a simplified range of products and targeting specific SME segments where it had a sectoral expertise.
5. First Trust believed that Northern Ireland was not a separate geographic market and it had seen ever-increasing competition from a range of GB-based banks. All banks competed for personal and business customers who had common needs across the UK market.
6. First Trust told us that the competitive landscape had shown marked change over the last ten to 15 years. There was now vigorous competition in the market from a number of new entrants comprising of traditional GB-based banks, such as Barclays, Halifax, HSBC, Nationwide and Santander, all of which had a strong presence in Northern Ireland.

7. First Trust said that it had continued to see significant numbers of its customers switching out to the traditionally GB-based banks of Santander and Halifax who had entered strongly in Northern Ireland and offered a competitive product proposition in terms of pricing and service. The level of personal current account (PCA) switchers to First Trust continued to be modest, even with the launch in January of the £125 incentive scheme to attract the main current account of new personal customers.
8. First Trust continued to review its PCA product proposition to respond to competitive pressures and to reverse the net outflow of customers.
9. It was beginning to experience success in growing the supply of its banking services, particularly loans, to target markets within the SME sector. Results showed an increase in the level of financial support provided to meet the needs of new and existing SME customers, but also in the growing number of invitations and opportunities to tender for their business.
10. In First Trust's experience, the SME customer chose its provider based on an overall package that met their needs, of which price was clearly an important factor, but digital capability, quality of service and most importantly of all trust in their banker all played a role.
11. Recent Ipsos MORI data for the end of the first quarter this year had shown First Trust's share of personal customers who considered it to be their main financial institution had recovered by [x]%, increasing to [x]%. This was a small increase, but it was in fact significant in terms of the trend over the last couple of years.
12. First Trust's net promoter scores, which were first introduced last year, were encouraging and benchmarked well against other market competitors. Its SME customer base was experiencing improved trends in the share of flow. Recent data showed that First Trust provided approximately [x]% by value of credit approvals in 2014 to the Northern Ireland SME sector, which comfortably exceeded its market share.
13. First Trust had recently formally reopened its main city centre branch in Donegall Square after substantial investment and refurbishment which adopted a new format in terms of design and operation and provided a highly automated service that was well placed to serve its customers. There were plans to roll out that refurbishment model over a selected number of branches in the network.
14. In late May, First Trust successfully launched a new £50 million Business Growth Fund in support of those businesses who wished to borrow in excess of £150,000 to expand and invest. This new fund supplemented the

£175 million of other funds First Trust had launched at various times since 2012.

Finance and strategy

15. First Trust [X].
16. Business banking was important to First Trust. Much of its personal lending growth came about because of the strong relationships it held with SMEs. During its current restructuring it had focused on improving its proposition and offering for the SME market. Recent investment had shown an increased share in terms of business growth.
17. Although First Trust [X] did make money from its customers both in credit and in debit and also from fees and charges incurred where, for example, customers had not arranged overdrafts. [X]
18. First Trust began a transformation programme in 2011/12. This involved restructuring to address its cost income ratio, which started out at [X]% and was now well into the low [X]s, since First Trust was now a leaner organisation. It also looked at making its services more available, particularly to the SME market, and streamlining how it provided services to customers through its branches. The current phase of the transformation involved using the capability of its parent group to provide a much more vibrant personal proposition in particular, but also to improve its business proposition.
19. Within the strategy for the personal market was [X] so that it was easier for customers to understand what choices were available to them. It also had in development [X]. Easy access to banking services was important for customers and for First Trust's ability to acquire customers, so it had [X] plans to improve its digital offerings, [X].
20. First Trust told us that following the recent economic crisis there was a market perception that the bank was closed for new lending. It had worked hard to redress that position by launching a business support fund and owner managed fund.
21. First Trust had been reviewing [X] and was in the process of planning a [X] within those sectors in order to provide products and services that address those specific sectoral needs.
22. First Trust told us that the banking market was vibrant and dynamic in Northern Ireland. The market consisted of the old, Northern Ireland-based 'big four' (First Trust, Danske Bank, Bank of Ireland and Ulster Bank) and a number of GB-based providers that had entered the market since 1998. There

was also investment in innovation within the industry, which was changing the marketplace.

23. First Trust felt that one of its competitive advantages in the marketplace was the personal service it offered, as evidenced by its strong NPS scores and constant feedback regarding customer satisfaction.
24. First Trust introduced its mobile app in 2013 and had since seen its adoption rate rise significantly. Mobile usage had outpaced that of online usage, and that was informing First Trust's decision to [X].
25. In the Republic of Ireland, First Trust's parent bank was seen as a bank that invested in technology. First Trust had a brand new website, which in itself refreshed its presence in the market, and it was working toward offering [X].

SME banking

26. First Trust believed that SME customers in Northern Ireland were loyal to Ulster and Danske banks who had been in the marketplace for a long time. So while it had had lots of opportunity to quote for business, First Trust found that there was a tendency for customers to revert to their incumbent bank to see if it would match or better the terms that First Trust had offered. It had a lower market share of the larger business market.
27. Customer acquisition was clearly key to First Trust's strategy. Over the course of 2014 its market share by value of credit approvals had reached around [X]%. That was higher than its historic market share, which gave indications that it was making inroads and was gaining customers. It had seen a fairly strong level of new-to-bank customers coming across its product range.
28. The business current account (BCA) was one of a number of products that First Trust offered, although a number of its customers only used it for treasury facilities. First Trust conducted an annual review with its SME customers to understand where it could offer other suitable products. Technology and internet business banking propositions were increasingly important and First Trust was aware that it had some catching up to do in terms of its offering in that respect.
29. First Trust had a business relationship manager in 30 of its locations. 30 members of staff had obtained the business start-up academy accreditation earlier this year in preparation for the launch of the business start-up fund. It had also put [X] members of its staff through an SME accreditation with the Institute of Bankers so was focused on ensuring that

people on its front line had the right composite skills to meet customers' needs.

30. Customers with a net credit exposure below £[X] would be dealt with in their local branch by a sufficiently-trained relationship banker who could look at their business in its entirety, as well as having the relevant banking technical and credit experience to ensure that they could meet their needs.
31. Where the net credit exposure was between £[X] and £[X], First Trust had four teams of SME specialists across the network who had specialist sectoral expertise and understood businesses at a deeper level. When such clients requested a meeting or First Trust was undertaking a review, the specialist would accompany the primary relationship manager to meet the customer and ensure that it was bringing the right level of skills to the customer's engagement.
32. For those customers with a net credit exposure of over £[X] First Trust had a Business and Corporate team who were based primarily in Belfast but reached out across the network and to their customers. First Trust had different levels of touch points with customers and worked hard to align them to the customer needs, bringing the right level of skill and expertise to the customers.
33. First Trust told us that it had seen an increasing awareness by customers of what was being offered by the different banks. Negotiations were more common. Businesses were more aware of what each bank could and could not provide which led to significant competition.
34. First Trust saw the SME market as a relationship-led engagement and believed that a change in a relationship manager could impact on customers, acting as a trigger for them to reassess the banking relationship and potentially switch providers. In that respect it believed the market was very competitive.
35. There were a number of competitor start-up propositions in the market that typically tended to offer a period of concession, eg free banking or access to a peer-to-peer advice website. First Trust was currently reviewing what start-ups most required from a bank. What was clear was that the fee-free transition was a key element.

PCA

36. PCA customers were increasingly attracted to what banks offered by way of technology. There were many new independent banks, eg Atom Bank and

Metro, which offered different types of technology and therefore increased competition.

Engagement in the marketplace

37. Switching numbers were one measure of engagement that had shown that competition in the market was strong. In the year to March 2015, [X] of First Trust's customers ([X]% of its active current account base) had switched. The customers who had left First Trust primarily went to [X]. However, First Trust had attracted [X] switchers.
38. First Trust's customer research had shown that the main reasons for considering switching were reaching particular points in a person's life cycle journey.
39. First Trust believed that there was sufficient competition and that customers could see and understand the differences between banks' offerings.
40. First Trust believed that in terms of the personal current account there were a number of factors playing out in the market. Firstly, in Northern Ireland a person's first bank account was traditionally the same bank that their parents used. Second there was the profile of the market and the PCA characteristics itself.
41. First Trust currently had five different types of current accounts [X]. Current competitive pressures were driven by marketing, profiling, branding and incentivisation.
42. Its recent campaign offering £125 to customers who switched had been backed by strong external marketing. [X] First Trust found that Santander's offer was particularly popular. Santander had a huge marketing machine behind it. Santander offered the 1-2-3 account, which was well publicised and offered rewards eg loyalty connections [X].
43. [X]% of First Trust's SMEs customers had banked with it for over ten years. Satisfied customers reflected the marketplace, but the trust and the build-up of a relationship over time also featured significantly.
44. First Trust's PCA position deteriorated during the financial crisis due to under-investment and First Trust's focus at the time on property-related lending. A number of the larger UK banks had entered Northern Ireland by that time and had brought the scale, the brand and the marketing machine that contributed to First Trust's heavy decline in the market.

Comparing products

45. With regard to PCAs, First Trust did not believe that comparison websites were widely used. Price was one element of a PCA. Others included rewards, branch footprint and access to digital channels, eg online and mobile. There were frequent campaigns advertised in local media, papers and digitally, and the pricing was transparent in those campaigns. First Trust believed there was more to a personal current account than just the price, and that these other aspects of a current account were challenging to compare on a comparison website.
46. For example, the reputation of a bank was also important. In the BCA market, First Trust believed accountants and advisers had a significant role to play in spreading the word about good accounts and banks.
47. In the PCA market, First Trust was aware that it would be difficult for it to compete against competitors such as Santander and [X]. Where it was stronger and seeing growth was in the business market, and First Trust was seeking to provide an alternative BCA banking arrangement for businesses. It had developed a 'bank at work' scheme whereby First Trust could support personal customers, making their banking easier.
48. When First Trust launched its Business Growth Fund, it launched it to a group of accountants and other professional advisers across Northern Ireland and also representatives from bodies such as the Small Business Federation as well as directly to customers. It had a marketing campaign with a tag line 'We see the potential too' which had struck a resonance with business customers. First Trust also sponsored the Small Business Awards, and that was the first dedicated small business awards programme in Northern Ireland. First Trust used a range of approaches to get its messages out to customers.
49. The market for lending was currently very competitive. There was a strong local enterprise organisational network across the various councils in Northern Ireland that typically supported new businesses opening up in an area, and they provided a very strong in-flow of information in terms of what was available and where they might be best supported for their business.

CASS

50. First Trust believed that CASS had been a success in terms of the number of switches that had taken place under the CASS arrangement. CASS was well understood and was prominent on websites.

Multi-banking

51. Multi-banking was a strong feature in the market. Only [X] % of First Trust's customers mandated their salary to their PCAs, although this may be due to First Trust having a history as a savings bank and accounts having not been opened as main bank accounts.
52. First Trust had been actively looking at ways to make opening an account easier for the customer and had introduced an account opening facility via iPads in branch, which was much more engaging for customers. Customers could also open accounts via First Trust's direct phone channel. [X]

Overdrafts

53. First Trust told us that it may be difficult for customers with overdrafts to switch if the customer was not living within its means.
54. First Trust said that otherwise it had no evidence that it was more difficult for customers with overdrafts to switch than it was for customers without overdrafts. In assessing a potentially-switching customer, repayment needs were a top consideration, but since the economy had recovered there was more understanding of people's individual financial needs. When a customer first engaged with First Trust there was a check for due diligence. When taking a new customer through their needs' analysis, First Trust checked whether an overdraft was something that might be useful for that particular customer. If it was, then First Trust would progress that within that account opening. A customer could, of course, open an account today and revert at any time for an overdraft application.

Banking models

55. First Trust felt that the free-if-in-credit model had become the market expectation, and trying to introduce charges was something that the customer might not welcome. Having said that, there were new models, eg reward accounts, that were attracting customers. It felt that any move away from free banking would need to be made across the market.

Concentration

56. First Trust believed that Northern Ireland should not be seen as a separate market, and indeed customer needs were the same across the market in the UK.

57. Competition was tougher in the personal market. While it was also tough in the SME market, First Trust had a basis on which to compete effectively, which was based around relationship management and quality of service. First Trust hoped that its transformation programme would increase its competition in the personal market.
58. First Trust told us that business customers selected their BCA provider based on a tendering process that would typically involve three or four banks at a time, including for example Danske, on a regular basis. There was clear competition in the SME marketplace. Another example was asset finance, where other players outside the banks had entered the market.
59. When Santander came together with its component brands and entered Northern Ireland it had more capability behind it to deliver to the market something that was innovative. It had a branding powerhouse which had shown that scale did make a difference in that sense. It had done an excellent job in terms of marketing its competitive offering, and had clearly made an impact in the market. First Trust had seen Santander competing with it in the micro SME market quite effectively. It had led to First Trust sharpening its offer in that area to make its start-up offering stronger.
60. In terms of concentration, the other factors at play were the emergence of non-traditional players such as, for example, Marks and Spencer, which now had a bank branch in Northern Ireland. There were new current account providers entering the market continually.

Barriers to entry and expansion

61. First Trust told us that the biggest challenges facing new entrants or smaller banks wishing to expand were issues relating to capital, IT, payment systems and branches.
62. In First Trust's experience as a business that had underinvested for a period of time, more investment was required for potentially a slower uptake in market share, particularly in the personal market. Phase 1 of First Trust's investment scheme had involved re-energising the brand and the SME offering.
63. First Trust told us the regulatory environment was very important to a bank wishing to expand. First Trust regularly engaged with the FCA to discuss the customer journey and the conduct aspects. Customers' needs were an important consideration when developing products.

64. First Trust believed it had the capability to increase its share of the personal market. It currently held around [redacted] or [redacted]% of the market. Although the entrance of new competitors to the market had an impact on it, First Trust hoped to increase its PCA market share to [redacted] or [redacted]%.
65. When asked about access to payments First Trust told us that, to operate as a full retail bank, access to payment systems was essential. First Trust was a member of BACS and a member of the Northern Ireland Cheque Clearing System, but it purchased participation in the payment systems via an agency agreement with [redacted]. Other new entrants potentially could follow a similar approach.
66. Innovations such as Apple Pay and Zapp would effectively have a disruptive effect on the overall payments market. First Trust was considering [redacted] and expected that innovations in this area would increase or intensify over the coming years.
67. First Trust told us that the younger generation operated in a world where they connected by mobile, and expected this to be the case in their banking experience. As this generation came through, that would be a basic expectation as opposed to an add-on.
68. With regard to capital requirements, First Trust was content to use the standardised approach [redacted].
69. First Trust told us that branches remained a critical entry point for customers. A measure of its confidence in that was the refurbishment programme for selected branches within its branch estate. First Trust had heavily invested in re-opening its city centre branch in Belfast with the latest innovations to enable customers to have a more digital experience, if that was what they chose. It had extended opening hours of that branch and was currently in the process of planning the next refurbishment. It had a clear investment strategy for its branch network, aligned with its belief that it remained an important offering for customers.
70. However, First Trust also understood that customer expectations were that they could connect with their bank across multiple channels and that that connection had to be consistent in terms of the experience. [redacted]
71. First Trust was aware of the need to support customers in areas where it did not have branches, and in particular for vulnerable customers. [redacted]
72. First Trust had seen its branch usage decrease by [redacted]% in the last four to five years. In parallel with that, the digital and online and mobile usage had increased substantially. There tended to be a time lag in innovation and

uptake in usage between the UK generally and Northern Ireland; however, First Trust believed that as the generational flow came through, that would be expedited.

73. Branches were important to First Trust's SME customers. They had a range of needs from cash handling to cheque engagement, and negotiation if they wanted to make payments and they were not enabled by appropriate online channels. SME customers also liked to seek support and advisory services from their relationship bankers.
74. Challenger banks entering the market could buy out-of-the box IT systems or buy proprietary software from someone in the banking area. Such a system would be advantageous to a new bank because it would have features like agility and speed that legacy systems did not have.

Review of Undertakings and Order

75. First Trust believed that since 2002, the market had changed significantly and that the need for the SME Undertakings had passed.
76. First Trust was pleased to see that the CMA was considering reviewing the 2008 Northern Ireland PCA Order. The existence of the Order made Northern Ireland banking, in its opinion, the most regulated in the UK. It pointed out the need for equity for customers across the UK.