RETAIL BANKING MARKET INVESTIGATION

Summary of hearing with the Royal Bank of Scotland on 30 June 2015

Introduction

Technology and new entrants

1. The Royal Bank of Scotland (RBS) told us that the financial markets in the UK for retail and SME customers were facing dramatic change due to a technology revolution. Since 2010 branch usage was down by one third, and this number was still declining. Customers engaging with RBS's digital platforms were ever-increasing and RBS's mobile app attracted approximately 22 million logins every week. It was the preferred choice of the customer.

2. RBS embraced the new technology and had recently added Touch ID to its award winning-mobile app.

3. Both PayPal and Apple Pay were investing heavily in new payment systems and RBS interacted with them. Other new technology-driven entrants included TransferWise, Amazon, Ripple and Nutmeg, which all offered targeted services to pick away at the traditional current account value chain. Such firms may manage their systems exclusively through an online cloud server environment, with no branch activity.

4. RBS was confident that it would be able to compete with the influx of new entrants who all operated under lower-cost platforms, although incumbency and scale was far from an obvious advantage in all areas of its business (and was sometimes a hindrance).

Customer engagement and choice

5. RBS believed that customer inertia had created problems in the functioning of the market, and also created problems for RBS as a competitor in the marketplace. When RBS offered customers a better, fairer product, they often were unable to recognise this, and this in turn limited its ability to rebuild the trust that it was trying to create in the marketplace.

6. One controversial subject that openly got in the way of customer choice was free-if-in-credit. It was misleading for customers and reduced the financial

incentive to switch. However, RBS believed no one bank could move away from that model on its own since it believed such a move would result in considerable customer losses.

7. The SME market was different, and free-if-in-credit was not the prevailing pricing model, and this showed through in the way that RBS's customers engaged with its services. RBS's 'share of wallet' of the SME market was below its headline market share. The new Small Business Act would add to that pressure, and RBS would be obliged to provide more information to credit reference agencies and to refer customers whose loan applications are declined to a new set of portals offering alternative finance. Once the portals were up and running next year, they could really change the market for business lending in the UK.

8. RBS felt that banks in recent years had struggled to build trust with their customers. Although customers were overwhelmingly satisfied with their core banking experience, RBS was constantly investing in its existing services and pushing itself to be innovative and customer-centric. For example, RBS was also cutting the process of opening new accounts from five days to one day. It had also banned teaser rates across its product range. RBS believed that leading the market in customer fairness and transparency was the best way of delivering long-term value to all of its stakeholders over the longer term.

9. RBS told us that an increasing number of its customers were multi-banked. In the personal current accounts (PCA) market, across the industry multi-banked customers were up from 18% from when the OFT examined the market some years ago to over 30% today.

Profitability (SME & PCA banking)

10. RBS viewed the profitability of PCAs not only at a product-line level but through attributing costs, to achieve a more granular level in terms of account and, therefore, customer-level profitability.

11. [✂]

12. When looking at drivers of revenues and of costs and how RBS measured those, its revenues for PCAs were composed of interest income and fees. The interest income arose from the margin it received on those balances. Fees were a declining source of revenue for a number of reasons. Such fees broke down into product fees (for paid for accounts) debit card-related fees, overdraft-related fees and, within that, authorised and non-authorised overdraft fees. These were the drivers of RBS's revenue line.

13. Its costs line was principally driven by the behaviour of the customer, and RBS saw a wide spectrum of marginal profitability differences. For example, a customer with a low balance who chose to frequently withdraw small amounts at the counter would most likely be marginally unprofitable.

14. RBS had some 'basic' account types which were guaranteed to be marginally unprofitable. Larger banks, by agreement, had to bear the burden of social inclusion to allow people of lower economic means to participate in the economy. Such accounts did not make RBS any money because they were almost free of revenue but still carried the full range of costs for RBS. Another marginally unprofitable group was those with accounts that had limited activity.

15. RBS had seen a large number of its customers switch to banks that offered bounties and cashback schemes. By way of a response, RBS was [✂]. It had lost nearly [✂] customers since the introduction of the CASS cashback switching schemes, and RBS hoped [✂] not only attract new customers but also encourage existing customers to use RBS as their main bank. [✂]

PCA fees – overdrafts

16. RBS believed that all of its customers, other than those with basic bank accounts, should have an authorised overdraft, even if not used, because they were transparent and offered at a fair price and better than risking going into unarranged overdraft. It had approximately [✂] customers who did not have an authorised overdraft in place. However, RBS believed that it was important to consider the borrowing needs of its customers and would address the individual needs of each customer. Overdraft borrowing, particularly unauthorised, should be short-term, and customers relying on overdrafts on a permanent or semi-permanent basis were approached about restructuring the debt onto a loan to eliminate the overdraft dependence.

17. On unauthorised overdrafts, RBS did not compete to drive up the revenue and in fact had taken direct action to reduce it. Customers could sign up to receive alerts on their mobile phones when they were at risk of running into unauthorised overdraft charges to allow them to take avoiding action.

18. Customers with authorised or unauthorised overdrafts were generally profitable. With regard to the level of its charges, RBS's strategy was [✂]. It hoped that customers would choose RBS because it offered a better quality of service, help and guidance than the average bank in the marketplace.

19. The PCA market had changed dramatically over the last five years. For example, RBS would [✂]. Once, such lending would have been the domain of the bank connected to either an overdraft or a personal loan.

20. In the last 18 months RBS had re-structured the frequency and amount of its overdraft charges and now restricted the amount a customer could be charged.

21. RBS believed that the importance of overdrafts as an income and profit source would reduce, partly through its own actions in reducing unauthorised overdrafts. [✂]

22. RBS generally viewed profitability product by product and not on a customer-segment basis.

SMEs

23. RBS's strategy regarding SMEs was a business-needs-led approach that focused on the needs of the client. It was important to RBS to build long-term relationships with its business customers and to become their trusted adviser. SMEs wanted someone who they could talk to and who could help navigate them through financial solutions to their needs and help them achieve their business ambitions.

24. However, it was not unusual for SMEs to cherry-pick their different financial requirements from different banks, and there were a number of options from which to choose. These included traditional banks with a branch footprint, direct online providers and niche players that concentrated on the most profitable segments.

25. It was therefore important to ensure that the relationship model was run well, was cost-effective and met the needs of the SMEs. SME research had shown that a good relationship manager who understood their business and could bring added value was a prized asset in terms of an SME's trust and perception of a bank.

26. [✂]

27. [✂]

Branches

28. RBS believed while branch usage was declining significantly, branches were still important for some customers and some situations. Although there were a

number of products that customers were happy to arrange and service online or by telephone ([✂] of personal credit cards were now opened online), there were others, for example, mortgages, that customers tended to want to arrange face-to-face with someone because they were more complex.

29. Although customers could access their bank through a number of different ways, there were customers who still valued branches. RBS as at the end of June 2015 had 1,800 branches (including RBS, NatWest, Ulster Bank and Williams & Glyn) and had actively considered which branches should be retained, which updated and which closed (and even if the network should be retained). RBS believed that in time there would be little need for transactions through a physical branch network, and the branch network would evolve into a place where customers came for advice, guidance and help.

30. When evaluating a branch RBS looked in particular at usage, for example, how and why a customer visited a branch. RBS had developed a relationship with the Post Office and this had increased its points of presence, with customers having access through 11,500 branches of the Post Office. RBS also put renewed emphasis on mobile branches, serving remote areas and areas with limited physical branch presence. The change in distribution and in branch networks was just enormous at the present time.

31. It also closely monitored the level of customer satisfaction. Its customer satisfaction index was an internal measure that involved telephoning, writing or emailing customers and inviting them to provide feedback on service.

32. Another challenge that RBS faced was the ongoing cost of investing in the branch building. There was a constant need to ensure that branches remained visually ‘fresh’ and provided services that reflected the changing habits and needs of customers. For example, the need for self-service machinery with even greater functionality, and in-branch access to Wi-Fi and online banking. Even though the size of its network was reducing, RBS was still investing in new branches, reflecting the growth in/shifting population and business activity in new areas. Investment decisions were [✂].

33. RBS’s view of how customers interacted with it was undergoing a total revolution. It was currently rolling out vScreen, which allowed a customer sitting with a tablet or at a PC to see whatever the adviser who was speaking to them on the telephone wanted them to see, with visualisation of the sale or comparisons. It was also trialling [✂].

34. Customer behaviour and the traditional routes in which customers interacted with RBS was changing significantly. This was true for both PCA and SME

customers, with the trends moving to online, mobile and much more technology-based banking. Although physical branches might not be so important to customers, it was still important for them to be able to talk to people. In time, that might be people who were real, or it might be people on a video link. Other banks, eg Tesco Bank, did not have many physical locations but had lots of customers and had been successful at looking at a mono-product, mono-line approach to acquisition.

New entrants

35. RBS paid attention to the innovative ideas that new entrants introduced and the impact it had on the market. As a result of Metro's branch strategy it had extended the opening hours of some of its branches, with some even open on bank holidays. It was also aware of new technology players who might enter the market, and how it could respond to them in and around its current account. TSB was one example of a bank making an impact by using online technology and taking a different approach, as was Metro, which was opening branches in prominent sites and opening for longer hours. These different players all added to the level of competition in the marketplace.

36. New entrants were not stuck with the trust dimensions and challenges of the legacy banks, particularly since the crisis and some mis-selling issues. Customers were more receptive to new entrants to the market, whether they were a reinvigorated TSB or a Metro Bank, who did not have that handicap to overcome.

37. New entrants to the market, particularly in the small business lending area, were offering different models and focusing on online platforms. They were leveraging off the infrastructure that RBS offered. New entrants were making a lot of money as lenders without the need to obtain a traditional banking licence.

38. RBS told us that there was an increase in entrants into the market, with more than 13 banking licences being approved in the last few years. New entrants were picking up some of RBS's business, partly because they were willing to take risks that did not suit RBS's appetite. New entrants such as PayPal had had an impact on RBS's revenue, and there had been a loss of income from debit and credit card interchange. PayPal had 19 million users in the UK, and 25% of those customers were noted as saying that they would not have done a particular transaction at all if it had not been for the PayPal platform.

Innovation and data

39. The use of technology and data points was very important, and this was an area that RBS was developing further from virtually scratch. For several years RBS had had a CRM – customer relationship management – solution in business banking from Microsoft Dynamics. Within that, it did have some analytic capability to enable 'next-best' conversation with customers. Relationship managers had a portfolio of [✂] customers whom they needed to work closely with, and other teams had telephony operation, with [✂] customers to look after. The 'next-best-action-activities' was a positive tool for relationship bankers to have and provided them with data to go and speak to their customers about their financing needs. RBS was currently benchmarking across the UK, looking at its different teams and their use of technology, with the aim of sharing that best practice.

40. Across personal banking there were a lot different strategic ways of using data. The idea was to be transparent so that customers could see the data for themselves. For example, a customer who went into an unauthorised overdraft could request a text message alert as soon as it happened. If a customer could quickly move the money from one account into another so that they were no longer overdrawn, they would not be charged on that day. RBS also used data to help consider what other products and services a customer might be interested in.

41. Value-added customer data was only limited by RBS's ability to analyse it. The difficulty was removing it from the multiple systems, of which RBS ran [✂]. Other players such as Amazon or PayPal had entered the market with just one system and were therefore in a better position to analyse their data than RBS was.

42. RBS did not have exclusivity of its data, and there were plenty of examples of credit reference agencies providing a richer source of data to other buyers. Since restructuring its business last year, RBS had moved its rich source of data under the control of one person within the technology administration team. This person had the knowledge of how to pull the various systems together and knew how to work the data. RBS had also worked on getting the data to its businesses for them to use. [✂]

43. In terms of transparency, RBS had provided its business bank customers with what was called a 'statement of appetite', whereby RBS reviewed customers' data and approached customers with offers for facilities/lending rather than the customer having to approach the bank. Customers had responded positively to this approach, since it gave SMEs a clear message that credit

was available and that RBS were open for business. It gave SMEs confidence that they could borrow. Secondly, it gave a clear transparency of what RBS thought they could borrow.

Mobile banking

44. With regards to usage of mobile banking, RBS found quite good acceptance across all age ranges. The pick-up on mobile was incredible, and today RBS had [✂] customers using mobile banking. Taking mobile and online banking together RBS [✂] and the use of mobile was going up exponentially.

45. Those customers using mobile technology also reported the highest level of customer satisfaction.

46. RBS's core underlying technology, which had [✂] systems and applications, needed to be reduced dramatically. For example, it currently ran [✂] payments systems and was working to reduce this number to just [✂]. Although it had some of the smartest mobile technology in the marketplace, it was also carrying out a lot of work around its mobile platforms and looking at areas where it could make the customer experience more simple.

47. RBS told us about the government initiative to provide customers with the opportunity to go online and search for a number of different business banking opportunities. Although there were four or more different comparison websites that already offered this service, RBS [✂]. RBS thought there was still a gap in the market. It was important to provide customers with more information but in a way that was digestible.

48. RBS had committed to spending [✂] a year on investment, most of which would be spent on technology and reshaping the bank for the future.

SME banking

49. RBS's primary focus was to improve customer trust and its service levels, eg improving its account opening and lending processes. By doing a better job with its existing customers, RBS hoped to attract new customers. It was particularly focused on [✂]. One recent development had been RBS's partnership with Entrepreneurial Spark, which had led to opening eight accelerator hubs across the UK in order to support start-ups and coach entrepreneurs.

50. RBS was interested in developing asset and invoice financing. Its cross-selling statistics showed [✂], and RBS was focused on improving its

customer service and building trust. RBS believed that if it was more efficient and worked at understanding its customers better it would deserve more of their business.

51. Neither BCAs nor PCAs were central to the overall banking relationship. The card industry, with other providers mono-lining into those areas and the way the mortgage market had developed, with [✄] of customers coming through brokers now, showed that BCA/PCA accounts were no longer necessarily required as “gateways”. One of the effects of the financial crisis was that increasingly people, particularly businesses, sought to multi-bank. They had accounts with a number of different providers and also used a number of different providers for transactions.

52. The availability of credit and the number of competitors that were around in terms of credit over the last five years had more than doubled. There was intense personal loan competition in terms of pricing in particular, led by supermarkets and some of the smaller players and newer entrants.

53. In the BCA market, traditionally lending was done via an overdraft or through some form, including invoice financing or short-term lending, for example. Today, companies such as Square were lending to companies by looking at their accounts and lending against what they saw flowing in and out of a customer’s account.

Relationship banking

54. RBS were currently building the capability of its relationship bankers. A well-trained relationship banker who had the appropriate credit and lending skills, the appropriate conduct skills and the appropriate professionalisation that was going to build trust was important to RBS.

55. One of RBS’s key proposals in terms of service and trust was that you had a qualified, well-trained relationship banker who was going to focus on the needs of a business. A needs-led approach was critical to RBS in terms of building trust.

56. RBS had a different service model to cater for the smaller end through to the commercial businesses and up to the corporate end. All SMEs with a turnover of above [✄] were offered a relationship manager. Below that, RBS had a team of business managers and business specialists who were based in about [✄] of the largest towns in the UK, with a telephony team in Birmingham, and together, they provided a portfolio service for those smaller

customers. RBS believed it was important to match the banking requirements of an expanding business so that it could help its customers grow.

57. Free-if-in-credit banking for businesses was not something that RBS supported as an organisation. In general, it believed that since much of the market was actually in business, then it was fair to charge proportionate to the benefit that you received.

58. The first two years of a business account were free. At the end of that two years, [✄] of customers had either not activated their account or their business had not got off the ground. [✄] It was quite a competitive market when a bank introduced the charging base at the end of the fee-free period. RBS was supportive of new starters and believed it was worthwhile offering that two-year fee-free period at a time they needed minimal costs.

Loans income

59. RBS believed there was competition in all areas of the market, eg larger banks, challenger banks and asset financers. For lending in particular there was a whole range of different lending providers. The results of the 2014 Charterhouse survey showed that [✄] of SMEs had a financial product away from their main bank. This showed that SMEs had access to other providers with another financial product.

60. RBS found the market increasingly aggressive, and it was seeing [✄]. Its strategy was [✄].

61. RBS was investing in technology to assist in account opening and lending processes.

62. In terms of personal accounts, RBS looked at what the market was doing and tried to position itself [✄]. From a business perspective, it was RBS's intention to [✄]. Pricing against the competitors was one dimension. It was currently rolling out a set of pricing principles which would underpin the trust dimension in a much more powerful way. The principles cover aspects of transparency, aspects of fairness, consistency and multiple channels. Such issues played strongly to the trust dimension with customers across the PCA and BCA marketplace.

Ulster Bank

63. RBS had completed a strategic review of Ulster Bank in November 2014. It was apparent that the business had evolved considerably over time. When

the bank started, 179 years ago, it was one bank, market, currency and had one regulator. Now it was one bank, two markets, two currencies, and four regulators. It now made more sense, from the Northern Ireland context, to align its Northern Ireland business with [✄]. This should provide customers with enhanced products and services more quickly and efficiently. [✄]

SME lending

64. Since the start of the economic recovery, SMEs had shown that they were not yet ready to invest. A key message in Sir Andrew Large's report had been that the market did not feel that banks were open for business. RBS had responded by being proactive with its customers and reassuring them about the availability of credit. RBS predicted that as they gained more confidence in the sustainability of the economic recovery they would start borrowing again. The last six to eight months had shown an improvement in that confidence and an improvement in its lending levels. For the first time in three to five years, RBS was seeing positive net lending across its books. The financial crisis, trust metric and the issues in the financial services sector had been a concern to RBS. SMEs were borrowing from different sources but, clearly, RBS had had to rebuild trust with its customers.

Start-ups

65. RBS had seen an increase in the number of start-ups entering the market over the last three years, especially around the entrepreneur side and a disproportionate growth in the financial technology side. Since the failure rate for start-ups was particularly high, RBS was focused on supporting them, particularly during that first two-year period, and offered an infrastructure and a support system, be it through equity financing or through grants from LEPs on the government side.

Searching and switching

Customer engagement

66. In terms of driving dynamism, RBS believed it was important to offer a broader range of features, functions and capability. Building [✄] was one of the first things that RBS was addressing. Next, RBS was offering a lot more features and capabilities to make the market and segment interesting and innovative, eg payments features and Apple Pay.

67. Technology today meant that customers were able to become more engaged, taking more control of their current account. They could check updates on a daily basis, with many of the features and functions that RBS offered making accessing accounts easier, for example, text alerts and checking account balances via a mobile phone.

68. With regard to SMEs, RBS was working to improve its transparency and simplify its product range, both of which would help the customer make a much clearer choice regarding products. A customer would switch for a number of different reasons, for example, if they were dissatisfied, if they had a need that was not being met by their current bank or they could get a better offer somewhere else. Service levels and trust were important. It was important to RBS to increase customer awareness, arrange for decisions to be made quickly and simplify the product range.

69. [✂]

70. RBS referenced the three week period in 2012 when Ulster Bank's IT systems were unavailable. There was no doubt that it suffered, both in terms of customer satisfaction as well as reputational damage as a consequence. Satisfaction scores and Net Promoter Scores went from around [✂]. It had taken Ulster Bank [✂]. At the time the bank extended its opening hours to seven days a week in some locations and relationship managers were out with customers, so even though customers were inconvenienced, Ulster Bank were still able to help customers through that period with manual processes. A number of customers, as a result did switch banks, but some relationships with existing customers became stronger, even though there was a lot of overall dissatisfaction in the market and negative media.

Transparency and comparability

71. There was an increasing amount of choice in the market and the rise of a lot of comparison type websites was helpful to customers. On the downside such websites tended to be over-focused on price, particularly promotional price. Which?, for example, was trying to find a balance between customer service and pricing. RBS believed it was important to ensure that such websites were working well and offered balanced advice to customers.

72. RBS was strongly focused on service and used Net Promoter Score to capture the levels of customer advocacy. Its target was to score significantly above the rest of the market and offer outstanding customer service. However, customer service across all banks was difficult to measure and not

recorded by any one company. RBS would support comparison websites offering such a service.

73. On the business side, RBS found that simplifying products and product ranges made it easier for customers to understand, choose and compare these. Not having teaser rates and the same offers for existing and new customers was important, because such offers made it difficult for a customer to see what deal they were getting.

74. When asked about industry best practice, RBS thought it was important for customers to be able to compare service, as well as products. A look at products held by customers in small businesses in the market showed that a massive proportion of those were products were no longer on offer, which made it difficult for customers to compare their product with what was currently available.

75. RBS was supportive of midata and was actively involved in the working group and its launch. Frontline and centre-based staff had been made aware of it and were able to update customers on it.

Arranged overdrafts

76. One way for a consumer to compare overdrafts was to look at the six standard OFT tests that appeared on a number of websites. The tests involved different scenarios that tried to cover the different charging bases of different providers. This enabled a customer to try and match themselves against one of the typical users and read across competitors to see what they offered.

77. Customers had a range of borrowing products to choose from, for example, short-term loan, credit card or longer term, which might be a loan. People were more thoughtful about longer term loans, which might well cost them more over that period.

78. Over the last six years, RBS had changed its unauthorised charges three times in response to changes in the marketplace. Its authorised overdrafts had changed structure once over the last year. The industry had moved away from its previous structure and RBS had introduced new and revised some aspects of its structure in the last couple of years.

79. Business customers operated in a different way to personal customers and would approach a bank with a business plan and strategy which might involve growth or lending and RBS had a range of products which it could offer them.

Multibanking

80. The recent financial crisis had led to more people having multiple accounts and, as a result, greater/easier access to financing. Statistics from Charterhouse for 2014 showed that [✂] of businesses had at least one product with another finance provider. Switching levels did not necessarily highlight the multi-banking aspect.

81. RBS believed that the concept of a main bank was diminishing because of the distribution and the ease of access that technology in particular had enabled. From a business perspective, the attractiveness of a customer was the account that they were using to spend their money, which might not necessarily be their main bank account. The most important business relationship would be with the lender rather than the BCA provider (if they were different).

CASS

82. RBS did not feel that Current Account Switching Service (CASS) was quite as recognised as it would like it to be. The industry spent approximately £700–£750 million putting the system in place, and it was not quite as well known or appreciated as RBS would like, given this investment. However, 83% of those who had used it were enthusiastic or, at least, positive about the process. RBS thought that it was a good step forward and placed the UK in a good competitive position compared to the rest of the world.

83. RBS was keen to promote the message that CASS was a simple and straightforward process and although awareness of it was increasing it was important to keep on increasing people's awareness of it.

84. RBS believed that CASS had contributed to the rate at which it had lost customers to [✂].

85. Standardisation of terminology across banks was not consistent. There would also be some benefit to moving to a more standardised anti-money laundering (AML) process. RBS believed there would be some merits in looking at a more utility-type of arrangement, either for customer identification or some way of businesses using Companies House as a central depository of key data to perform AML checks as part of a more standardised process.

86. Opening a business account involved a certain amount of back and forth between the customer and the bank, and one way of improving switching would be to reduce the hassle factor of opening an account. RBS believed that one way to simplify this process would be to have one standard form that

customers could draw on when switching. Once completed, it could act as a 'passport', confirming AML criteria when a customer wanted to switch.

87. RBS told us that there were no barriers to overdraft users switching banks, although this was an area that would benefit from greater promotion and awareness. When acquiring customers, RBS was thoughtful about how to embed in the process an assessment of that customer's creditworthiness, so that it was able to take on any lending piece as well as the current account.

88. Since PCA/BCA accounts were separate from customers' loans, customers were free to switch their account away from RBS and continue their loan arrangement with them.

89. RBS was currently developing and piloting [✂] because it would make it a lot simpler for the customer.

90. Formal applications for credit left a footprint, and the number of recent credit inquiries could be part of a lender's application criteria and act against the applicant. [✂] The customer benefit of that was that they could look at different loan requirements and avoid having a credit footprint.

Free-if-in-credit banking

91. RBS had concerns that the free-if-in-credit model distorted customer perceptions of the true costs of banking. It made it difficult to assess alternatives, reduced the level of engagement and incentives to shop around.

92. RBS's preference was to have total transparency in banking and it saw free-if-in-credit as a barrier to complete transparency.

93. A bank not offering free-if-in-credit banking unilaterally was however, running a very big risk. When RBS stopped offering 0% balance transfer on its credit cards and replaced it with a card offering a permanent charge of 7.9% [✂]. It did not think that any one bank would withdraw its free-if-in-credit accounts unilaterally due to this.

94. RBS believed that if there was no free-if-in-credit banking accounts it would be easier for people to enter the market, perhaps with more varied offers. It might also encourage consumers to be more engaged, make easier comparisons between providers and pay more attention to what was on offer in the market.

Theory of harm 2

95. RBS viewed the UK banking market as one market and did not differentiate between different regions across the markets. It saw competition cross all aspects of the market, coming from, for example, Lloyds and Santander and, increasingly, in different markets, it saw new entrants coming in and taking market share from RBS.

96. RBS did not price its products differently across the UK and did not negotiate on its PCA products. It was important for RBS to be fair, open and transparent.

97. Most of RBS's competitors did not vary their offers, their products or their terms geographically. It had seen evidence of competition from other banks in areas such as Scotland and Northern Ireland. The shift in share had gone to those that were operating nationally, for example, the likes of Santander, Halifax and Nationwide now had [✄] of all the new business and new accounts that had been written in Northern Ireland. This was also despite the fact they did not have heritage (Scottish or Northern Irish) brands but were operating a UK-wide brand and model; in fact, Nationwide, for example, had rebranded Dunfermline to Nationwide.

98. RBS was rationalising its back book and removing older products so that the products that people currently had were the on-sale products that were available to all customers.

99. RBS were aware of the price competition and what its competitors were charging. Sustaining, over a longer term, transparency, fairness of pricing and value propositions were components of pricing that RBS valued because it believed they supported a longer-term trust dimension which was core to RBS's strategy.

100. RBS had not noticed any significant impact from the recent Lloyds-HBOS merger. However, when Santander merged with a number of smaller building societies, it became a more effective competitor. Halifax and Santander (partly due to the introduction of its 123 account) had been the two banks that had noticeably increased the number of customers, making them more effective and challenging competitors.

101. [✄]

Vickers ring-fencing

102. RBS believed that the Vickers ring-fencing would act as a competitive disadvantage to established banks because significant investment would be required in creating the separation. Additional investment in technology, in infrastructure, in governance to separate would also be required. New entrants would be in a position to come in and pre-empt that.

103. [✂]

Barriers to entry and expansion

104. RBS did not view access to payment systems as a significant barrier to entry or expansion. It saw the amount and the variety and availability of payment systems as being relatively straightforward and easy.

105. The payments infrastructure was one area where RBS believed there would be significant change. However, it did not foresee such change preventing expansion.

106. RBS felt that the IT off-the-shelf packages were capable of complex multi-product applications. Unfortunately, RBS had an old infrastructure with a number of dated IT systems. It hoped that once it had finished the journey it was currently undertaking to simplify its IT systems, it would be in a stronger position and be more flexible. Work was ongoing, and the bank was considering the best way to move with the market. Legacy IT systems were a competitive disadvantage for incumbent banks compared to new entrants.

107. Its IT costs were significant. Trying to move existing customers and systems onto new platforms was both complex and difficult. For example, when trying to move a customer with a 25-year mortgage, RBS would need to move all of the data that the customer had accumulated since they had taken out the mortgage, so it was important not to underestimate the IT part of a bank's business.