RETAIL BANKING MARKET INVESTIGATION

Summary of consumer roundtable discussion on PCAs on 18 June 2015

Representatives from the following organisations attended the Consumer Roundtable discussion:

Financial Services Consumer Panel (FSCP)
Step Change
Which?
Money Advice Service
Money Saving Expert
Citizens Advice Scotland
Citizens Advice
Consumer Council of Northern Ireland (CCNI)

Consumer engagement

1. There was a common perception that consumers were not making informed choices. Citizens Advice emphasised that there was a need for greater clarity on prices, particularly in relation to services that consumers had not anticipated that they would use when opening their account, such as overdraft charges. The Financial Services Consumer Panel (FSCP) would like banks to provide more information on costs to customers, such as interest forgone. However, customers should not just be given more information: this information should also be meaningful to customers. The Money Advice Service, in relation to free-if-in-credit (FIIC) accounts, agreed that there was not enough information about the real costs of accounts.

2. Switching behaviour in consumers appeared to be driven by push factors rather than pull factors. There was a shared view that one of the main reasons why customers were not switching was because banks offered, or were perceived to offer, the same products, and there was no decisive pull to move consumers away from their current products. Banks appeared to choose not to compete for engaged customers. Limited innovation was having some effect in drawing consumers away from their current products, eg Santander's 123 account.

3. There was a shared view that while PCAs were similar, it was difficult to compare the different offerings. Which? believed that PCAs were a bundle of different services, rather than a single product, which further complicated comparisons between different providers. It was suggested that in a properly competitive market, banks would be expected to design products to appeal better to different segments of consumers, rather than a bundle of products that did not meet customers' needs.

4. The FSCP advocated common terminology, which would make comparisons between banks easier. It had worked with the British Bankers' Association (BBA) on this, but banks had not taken this forward. However, it was acknowledged that for the most common services this should be achieved by the EU Payment Accounts Directive.

5. It was noted that consumers viewed their bank accounts as utility products, and therefore were not inclined to switch. There was also a lack of trust in the banking market.

6. In light of recent problems in Northern Ireland, the Consumer Council of Northern Ireland (CCNI) had conducted research, and while consumers said they would be tempted to switch at the time, when this was followed up the majority had not switched as people had forgotten about the glitches and went on as normal.

7. Citizens Advice shared research it had conducted on what triggered consumer switching. The push factors that were required for switching were financial loss and a loss of trust, which would make consumers question the services they receive from their bank. However, Citizens Advice also believed that this impetus only lasted for a limited period after the initial financial loss and loss of trust.

8. Step Change raised the point that in reality for many customers, particularly those in financial difficulties, a PCA was not a free service as they incurred overdraft charges or returned item fee charges. This raised the question of potential cross-subsidies from customers who were in financial difficulty.

9. It was considered that banks were not flexible about applying charges if a person went overdrawn due to their automated systems; there was no personal judgement anymore. However, it was acknowledged that banks were getting better at intervening earlier when there were significant overdraft costs involved.

10. UK banks would be unlikely to move away from the FIIC model because their own market research indicated that unilaterally imposed charging would result in customers moving elsewhere, where FIIC was still offered. However, the

most successful product on the market was considered to be Santander's 123 PCA, and it was attracting a large market share. It was suggested that part of the reason Santander's 1-2-3 product was attractive was due to its clear and transparent pricing.

11. Some consumer groups suggested that a lack of consumer engagement could be a result of concentration and barriers to entry being high, which may have been holding larger banks back from engaging consumers and driving interest in different offers.

12. There was a suggestion that a focus of banks' strategies was on building long-term relationships with customers and driving profitability through cross-selling products.

13. Which? compared the retail banking market to the general insurance market, suggesting that one of the reasons that consumers were more engaged with the insurance market was because they received annual reminders. A suggestion was made that similar annual reminders in retail banking could influence customers to consider switching. Price comparison websites also factored into the insurance market and were more developed there than in retail banking.

14. There was a general agreement that although mobile banking had changed some consumers' behaviour, it was unclear how much of a difference this had made. Which? mentioned that banks argued that innovation, such as text alerts, were having an impact, and a survey was quoted that showed that text alerts had led to a reduction of 25% in consumers going into overdraft.

15. It was noted by the CCNI that the procedures for switching in Northern Ireland appeared to be more cumbersome and less streamlined. More of the processes needed to be conducted in branch rather than online. The CCNI also noted that the Northern Ireland Banking Order appeared to have made a difference for new entrants as there were strict rules on overdrafts and permission to have overdrafts.

16. Citizens Advice Scotland stated that the CMA's research indicated that Scotland was the least competitive area in the UK in terms of market share, as there were two big banks which owned the majority of branches. The majority of people chose a bank based on branch location, rather than better deals, despite being able to bank using digital and online channels.

Transparency and comparability

17. PCA consumers were a diverse group with different needs. The cohort of older customers typically preferred a more traditional banking relationship with branch access and a chequebook. Younger customers did most of their banking using a mobile phone app. Despite these differences, it was hard to say which socio-economical group understood PCAs better. However, some consumers seemed to behave in a way that could act as an impediment to them enjoying the full benefits of competition.

18. Consumers who were in financial difficulty behaved in a complex way when choosing their products. There were often factors such as embarrassment about having a high overdraft, not just cost-benefit analysis, that influenced people's behaviour and prevented them from switching to an alternative banking provider.

19. Step Change noted that for consumers who had been overdrawn it was harder to switch to an alternative banking provider. One potential solution suggested was for banks to be able to better share information, so overdrawn consumers were not wasting time searching for a provider that would not give them an account.

20. Some of the barriers to switching for consumers who were in financial difficulty had been noted as being reluctant to move to a different bank due to the fear of the unknown, feeling vulnerable, inertia and a sense of loyalty.

21. In Northern Ireland, it was noted that when consumers had been surveyed, online banking had not been seen as a pull when choosing a PCA. The survey also demonstrated an age divide regarding views on online banking.

22. The FSCP shared research it had conducted on scoring and ranking banks as a way to engage customers using a variety of dimensions, eg how often a bank had been fined and how much. Previous research had indicated that consumers wanted to know which banks 'had behaved badly' and how to avoid them.

23. There was a common view that banks should be able to share customer data, such as credit history or transactional data, so that customers could make comparisons and decisions based on their personal banking data. Midata could be transformative if it was implemented in the right way; similar to the effect that price comparison websites had had on the insurance market. One concern identified was that consumers were not aware of the midata programme as there was virtually no promotion or advertising associated with the programme.

24. GoCompare was currently the only organisation that had used midata. Which? suggested developing the midata initiative by implementing access to real-time data, similar to a bill monitoring app. It was noted, however, that sharing consumer data with third parties bore some risks that had to be carefully taken into account (for example, the risk of breaching a PCA's terms and conditions). The FSCP suggested that independent rankings of banks and information on how banks treat consumer complaints could help consumers to make better choices

25. The consumer groups agreed that consumers should not be blamed for disengagement, as it should be the market participants' task to engage them. It was suggested, therefore, that this was potentially a feature of a poorly performing market.

26. Structural remedies alone would not engage customers, eg the TSB divestment had not created much difference as the new bank's products and business model were hard to differentiate from Lloyds.

27. For banks to reach the top of comparison tables they would have to offer a switching bonus between £100 and £150; therefore many banks competed on this model. Money Saving Expert considered that many of the price comparison websites focused on price, and they would like more substantial use of midata to enable a comparison of other factors, such as local branch locations, fines and complaints data.

28. Guaranteed access to basic bank accounts was discussed as a potential remedy for consumers who were in financial difficulty. There was agreement that a basic bank account would have appealed to consumers who did not require an overdraft and wanted simple access to payment systems, a debit card, direct debits and somewhere to receive their salary every month. Mandating the provision of a basic bank account by all banks would be a good starting point for comparison between providers.

29. Which? reiterated its belief that a key reason for lack of engagement from consumers was lack of engagement from the market. Factors that contributed to this were considered to be complex information, homogeneity of products and services, the issue of free banking and lack of triggers that were driving switching. Which? argued that consumers needed more triggers to switching and to engage them in the market. Initiatives such as midata, that allowed consumers to have access to their own data, could have a big impact. Money Saving Expert also suggested that grouping consumers into different types of users may help them to make comparisons across banks and to have a better understanding of how switching could be beneficial to them.

Switching

30. Promoting CASS to make consumers aware of the service was difficult, although the consumer groups did promote it. However, there was agreement between them that unless there was a national TV campaign it would be hard to reach everybody.

31. Which? mentioned research it had commissioned on consumers' experience of CASS which indicated that consumers considered the reliability and quality of the service more valuable than the speed of switching.

32. There was a shared view that it did not matter how good the switching process was, if consumers did not see the merits in switching. However, the quality of the switching process mattered. Which? research from 2013 stated that 27% of CASS switches missed the seven-day target for switching, and 65% using the new service had some sort of problem with the switch. The FSCP remarked that such stories about switching with CASS going wrong were impeding others from shopping around and attempting to switch. Money Advice Service suggested that trial periods, which allowed customers within a fixed period to switch back to their original bank, could give consumers more confidence to try out different providers.

33. However, all the consumer groups agreed that, broadly, consumers who had used the service were happy with it.

34. Within the process of switching, identification was believed to be a key issue due to anti-money laundering (AML) regulations. Even if a consumer used CASS, they might still need to go into a branch to show some form of identification. At the lower end of the market, some customers did not own a passport or they did not have another form of ID, eg utility statements.

35. Citizens Advice Scotland noted that overdraft users may be more hesitant to switch, as they may feel embarrassed to discuss their overdraft usage and may fear that their application would be rejected. Other participants agreed and considered that a guarantee by banks of offering at least a basic bank account to every consumer, as discussed earlier, could remedy this barrier to switching. Money Saving Expert suggested that a requirement on banks to match a customer's agreed overdraft for a fixed period of time could also help overdraft users to switch.

36. Participants did not consider that bank account portability would be a very useful initiative to facilitate switching, particularly as sort codes would still differ.

37. The participants emphasised the continued importance of local branches for customers. In particular, in Scotland and Northern Ireland there was evidence that suggested that the more branches banks had, the bigger their market share.

38. The consumer groups noted that branch sharing could improve competition, particularly in rural areas. They also agreed that the Post Office was a good substitute for a branch for simple transactions like withdrawing money and payments, but not for more complex banking services such as discussions about overdrafts.

39. ‘White label branches’ were discussed, where banks would share access to a branch and the cashier would be authorised to deal with any participating brands. However, it was suggested that banks would not be attracted to this idea due to the lack of ability to cross-sell other products to a consumer.

40. It was agreed that while it could be a generational issue, there was still the need for branches for consumers who were not comfortable with technology and also in general for when things went wrong. There was a perception that telephone banking was not enough.

41. The participants remarked that banks had introduced some positive innovations for customers, namely contactless payments and new ways for consumers to access their accounts.