Which?

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Which? response to the CMA's Retail Banking Market Investigation updated issues statement and working papers

Which? is the largest consumer organisation in the UK with more than 1.2 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers and funded solely by our commercial ventures. We receive no government money, public donations or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

Which? welcomes the opportunity to respond to the CMA's further working papers, in support of its updated issues statement.

For many years, Which? has been concerned that retail banking is not sufficiently competitive, and that this has led to poor outcomes for consumers – as explained in our previous responses to the CMA during their initial consultation, as well as our submissions to previous investigations of the PCA market by the Office of Fair Trading, the Independent Commission on Banking and the Parliamentary Commission on Banking Standards.

Summary

The overall picture painted by the CMA's working papers is that customers in credit have low incentives to switch, and customers who are heavy users of overdrafts are very unlikely, or are unable, to switch. Against this background, we expect the CMA to find that there are problems and retail banking is not delivering good outcomes for consumers.

No matter how detailed the CMA's analysis may be, unless it puts in place a robust process to deliver insightful remedies that are fully tested for effectiveness, the investigation will fail to deliver for consumers.

- The CMA should focus on possible remedies to address the issues identified, and it should take the necessary time to work with firms, consumers, and consumer groups, to test remedies to ensure that they will be effective.

- The CMA should explore, in detail, remedies that focus on three main issues of fairness, control and transparency. The CMA should consider:
    - measures to deliver clear information on price, accessible price comparisons, and trouble free switching processes;
    - greater clarity about what the "deal" is for consumers in terms of accessing emergency funds from their PCA provider;

- whether it would be in consumers' best interests for there to be restrictions on the ways in which banks are able to determine the price of overdrafts when a pre-agreed limit is exceeded;
- how rules and transparency requirements around opt-ins and opt-outs to unauthorised overdrafts, controls on overdrafts and various forms of notifications could be put in place to improve matters for consumers;
- measures which provide a clear indication of how individual banks deliver for customers, in the form of league tables or similar, and how these could be based on consumers actual experience of price and service from their banks;
- whether increased compensation levels for customers who experience poor quality service would act as a spur to improve banks' responsiveness to customers;
- whether measures should be put in place that encourage a culture change in large banks, and a reassessment of how to judge whether banks are treating their customers fairly.

There are a number of regulators associated with the personal current account market. The investigation must bring together their knowledge and expertise, and ensure that there is no duplication or isolation of work.

- The CMA should work together with other regulators, including the Financial Conduct Authority (FCA), the Payment Systems Regulator (PSR) and the Prudential Regulation Authority (PRA), to explore both issues on the supply side, including barriers to entry, expansion and innovation in the market, and on the demand side, including factors which decrease customer engagement. The CMA should take on the role of coordinating a response in determining what interventions are necessary to stimulate effective competition – and track progress and measure improvements in the future.

The implication of the additional material set out in the working papers is that the CMA's competition analysis – as outlined in its issues statement - would benefit from being more granular to better reflect the wide range of consumers that use personal current accounts, their different needs and circumstances, and how these influence their behaviour, and so influences the competitive conditions in the market.

- The CMA should incorporate into its analysis the ways that different people use current accounts and the very different nature of the products involved – bank accounts, and provision of credit. Future competitive conditions are likely to vary considerably between, for example, a person shopping around for the best interest rate on money in a current account, and people who are struggling to manage household finances, and may often be overdrawn and are using an unauthorised overdraft on a regular basis.

- The CMA should consider not only how prices vary between banks, but how prices vary for different people. The CMA's draft analysis shows high prices for those using unauthorised overdrafts compared to other customers – it seems to us that the CMA should consider whether the behaviour of people who use unauthorised overdrafts identifies them as being unlikely to shop around and switch. Instead of the banks using these indicators as a trigger to increase the price, they should instead offer assistance to these people in terms of how they might best manage their finances.

- Clear and transparent information on price, accessible price comparisons, and trouble free switching processes are basic requirements for a well-functioning market, and improvements could be made in all of these areas. These measures alone are unlikely to deliver a good deal for consumers – in particular those who are unlikely to switch regardless of how easy price comparisons may be and this may be a large number of people. The CMA of course needs to make sure that these basic “hygiene” factors are resolved in the market, but also need to be realistic about how many consumers are likely to benefit from such measures and when we might see those benefits. We would view remedies that are limited to improving price transparency as very necessary but insufficient.

Annex 4 of this response provides a summary of the available Which? research relevant to PCAs.

1. Overall comments on analysis (including market definition)

The CMA states that it considers the market *no wider* than PCAs and that:

We … do not intend to define separate markets for different types of PCA or service elements within PCAs (such as overdrafts) – we will consider relevant differences as part of our competitive assessment.

Which? appreciates the CMA's point that market definition is a tool, and not an end in itself, but the CMA should explicitly consider in its competition analysis that there are very different services provided in a PCA. The CMA's working papers show[1] that people use these different services in very different ways, and display different behaviour and biases in the choices they make.

It is important that the CMA's analysis clearly identifies the different types of services that are typically provided as part of a PCA, and the varying demand-side characteristics that underpin the use of these different services. These highly relevant differences can be easily missed if the focus remains on more bundled definitions.

In particular, it seems likely that competitive conditions for overdrafts and unauthorised overdrafts may differ substantially from services supplied to those in credit. An analysis of the choices consumers make or fail to make about the use of overdrafts, may be usefully grounded by considering what alternatives source of credit and emergency funds may be available to them, and how those other products are currently regulated. This is likely to be important in terms of any remedies the CMA may need to consider.

In line with our comments above, the CMA suggests in the updated issues statement that it will consider whether some banks may have unilateral market power in terms of *parts* of their customer base – i.e. those customers less likely to switch. In which case, the market in which this unilateral market power exists is not simply "PCAs" but some sub set defined by customer type or by the products different people use. This further underlines our point that the CMA needs to incorporate into its analysis the different types of products used, and the behaviour and needs of different types of consumer depending on their circumstances.

Without the CMA's competition analysis being more granular, and considering different products and different types of customers, the CMA may find itself in a weak position in terms of designing and implementing remedies that are realistic, and take into account the need to help different consumers in different ways.

2. Unauthorised overdrafts

It is important to note that different banks use various terminology to describe an unauthorised overdraft including: informal overdraft, unplanned overdraft, emergency borrowing and unarranged overdraft. For simplicity, this response refers to these facilities as an unauthorised overdraft.

[1] The GfK survey, Actual and perceived behaviour of personal current account customers, and Quantitative analysis of searching and switching in personal current accounts.

The CMA's final pricing analysis will be an important update for the inquiry. From the draft analysis, there appears to be an increase in price for some profiles – including profile six (in the CMA's pricing analysis working paper), customers making use of an unauthorised overdraft.

The CMA's discussion of its draft pricing analysis is focussed on comparing prices between banks, and between different types of banks. The CMA should also focus on what the picture of price comparisons might show between different types of customer, in a context where the CMA's initial analysis has suggested that overdraft usage is a key driver of PCA profitability.

One of the reasons why the prices may rise for profile six customers is that the behaviour of these customers is such that they are easily identified as people who are unlikely to shop around, and unlikely to switch. So the change in price - unauthorised overdraft charges - reflects price discrimination to the disadvantage of a certain type of customer.

Consumers often do not understand unauthorised overdraft charges, and are unlikely to shop around on the basis of them. Firstly, the charging structure for unauthorised overdrafts, and indeed many other products within the PCA product bundle, is extremely complicated. Also, people tend to be overconfident about their ability to control their behaviour, so many customers are likely to believe that they will not use the unauthorised overdraft facility[2].

If consumers do not expect to use unauthorised overdrafts, they are not going to shop around for unauthorised overdraft fees. Furthermore the behaviour of a customer who regularly makes use of an unauthorised overdraft may not reflect a person carefully managing their finances and shopping around for the best deal for sources of credit. It is much more likely that this type of person is struggling to manage their finances and is experiencing difficulties. They are likely to need help and assistance, and may not to be able to readily navigate the difficulties of price comparisons to determine whether they are getting a good deal.

If this type of customer has the characteristic of not shopping around, then the fact that prices may differ between banks is unlikely to be of any benefit – i.e. the competitive picture for these types of customer, or the particular type of products they use, may be very different from that for other customer types or products.

Given these facts – customers identifying themselves through their use of an unauthorised overdraft, and price increases at that point over the cost of an overdraft - it may be the case that the increase in price seen in the draft pricing analysis reflects price discrimination, against a certain type of customer who is unlikely to switch and who will continue to pay a higher price.

While it may be the case that the cost to serve users of unauthorised overdrafts may well be higher than for other customers, the extent of such cost differences merits careful examination in a context where overdraft usage has been identified as a key driver of profitability, and where there may be significant differences within the set of users of unauthorised overdrafts. The concept of an overdraft being unauthorised is somewhat misleading. A bank has agreed to the customer making use of an additional overdraft facility when it releases the money, it just also applies a higher price at this point by

[2] CMA's Actual vs perceived working paper, and Which? research – please see **Annex 4** of this response

introducing additional fees and charges (including through the application of unpaid item charges when specific payments are not authorised).

Which? supports the finding of the GfK survey and the CMA's working paper[3] that engagement is likely to be lower among less advantaged groups and much lower among those who were most often overdrawn because those most overdrawn feel that they would be unable to change banks as other banks were unwilling to take them on. The ability to charge high levels of unauthorised overdraft charges is underpinned by the costs that can be associated with payments being blocked. Blocks on payments can be very expensive and have knock-on consequences for people. This may mean that consumers would, in the short term, be willing to pay very high amounts to access funds so that payments can go through.

A key feature of unauthorised overdrafts is that the bank has discretion at a critical point in time. This means that when considering PCA switching, customer experience over the use of that discretion may be very relevant. That is, if a payment would be blocked but for the provision of an unauthorised overdraft, then the comparison between a person's current provider and alternatives does not simply turn on the cost of an unauthorised overdraft, but also and critically on expectations over whether it would indeed be provided.

Lack of transparency over what the PCA deal actually is in terms of unauthorised access to funds, or emergency funds, can therefore create a significant barrier to switching.

The focus of the CMA's working paper on *Actual vs Perceived*[4] is on consumers paying too much because they are getting it wrong – underestimating their need for unauthorised borrowing. Even if customers were "getting it right", the switching decision is a complex one, because it involves questions about the likely availability as well as the likely cost of emergency funds. There is therefore a strong case for considering these issues in the broader context of emergency funds available to consumers – as we describe in section 1.

3. Engagement, satisfaction and switching

The CMA's analysis is right to identify the range of indicators that point to low consumer engagement and this is particularly important when considering customer satisfaction. The CMA states that:

We note that reported levels of satisfaction are potentially driven by customers' reasonable expectations, which may themselves be influenced by the alternatives currently available in the market.

This is a critical point. Customers may have low expectations of the current banking offerings, and with limited new entry, this may distort the picture of satisfaction.

The data in the CMA's working papers indicates that people think the gains from switching would be low – that is, there is insufficient incentives for a lot of people, particularly so

[3] Quantitative analysis of searching and switching in personal current accounts

[4] Actual and perceived behaviour of personal current account customer

when for many the cost of not switching does not represent an out of pocket expense under a free if in credit model.

This is supported by the GfK survey, which suggests that customers' needs and demands from a current account are not complex – the key thing for many is that standard PCA transactions are executed correctly, and that mistakes are rectified quickly when things go wrong.

The CMA is rightly wary of relying on satisfaction measures as an indicator of good outcomes for consumers. Although the CMA acknowledges this point in the issues statement, it then appears to point, in the summary at paragraph 88, to customer satisfaction as an indicator that all may be well.

The CMA was correct in its initial view that the low observed switching rates are not consistent with an effectively competitive market. The CMA should consider very carefully what remedies might be put in place after considering the incentives and barriers to switch for different types of customer - those in credit, and those not - and how these may, or may not, change over time if we see more new entry into the market.

4. Understanding the experiences of consumers using banks

The CMA is right to state that more could be done on providing good comparative information on banks' service quality, such as customer service and bank errors, to customers and potential customers. It is important to note that experience of poor quality service is a key driver of switching as set out in the CMA's working papers.

It is disappointing that the CMA's working papers do not include more analysis on quality and service standards, such as the Financial Ombudsman Service's data, as it appeared the CMA intended when it published the updated issues statement.

An analysis of the reasons why people complain about their bank would be useful. Although Which? has not carried out a detailed analysis, a brief review that we have conducted of 112 cases considered by the Financial Ombudsman Service indicated that there may be some themes which the CMA could usefully explore in terms of the problems most often encountered by consumers which include:

- Banks failing to show proper consideration to those in financial difficulties, or experiencing difficult personal circumstances;
- Poor service, delays in responding to customers, failures to put right obvious mistakes; and
- Problems in switching, and delays in resolving these.

5. Transparent pricing and price comparisons

Clear information on price, accessible price comparisons, and trouble free switching processes are basic requirements for a well-functioning market, and improvements could be made in all of these areas.

The OFT’s 2008 review of the PCA market found that consumers tended to focus on the more visible fees rather than on less visible elements, including overdraft charges. Even where a consumer focuses on overdraft charges, as the CMA updated issues statement highlights, the number of different overdraft charges and the different circumstances in which these apply are likely to make it difficult for customers to compare different overdraft charges across PCA providers. Annex 1 sets out the overdraft structures we found for most of the main accounts in the market in April 2015.

Waivers	Daily fees for authorised overdrafts	Fees for unpaid items
Monthly charge cap	Monthly fees for authorised overdrafts	Charge-free buffers
Quarterly charge cap	Annual fees for authorised overdrafts	Debit interest
Different caps for authorised and unauthorised overdrafts	Daily fees for unauthorised overdrafts	Paid item fees for unauthorised overdrafts
	Combined daily and monthly fees for unauthorised overdrafts	
	Monthly fees for unauthorised overdrafts	

Which? research has found evidence of the difficulties that consumers can experience in understanding and comparing the costs of overdrafts. See Annex 4.

Also in April 2015, Which? tested consumers’ ability to assess which bank account, from a selection, offered the best overdraft. The results, which are included in Annex 2, indicated that consumers have difficulty understanding even simplified information in a stylised scenario, and that often their ability to identify the right product was not different from if they had been asked to select at random.

The CMA is right to consider whether there are any behavioural biases which might limit customers’ ability to accurately assess alternative offers. In 2013, Which? undertook research that evidenced the role of optimism bias and bounded rationality in consumers making sub-optimal choices between personal current accounts. Further details are set out in Annex 3.

The Midata initiative may also help with effective switching decisions, by providing information on customers’ account usage. However, to be effective, customers will need to be aware of it and Midata will need to be sufficiently easy to use. Currently Midata still requires consumers to go through a lengthy process of downloading a CSV file and only one price comparison website (PCW) is engaged in the process. As a result it will be some time before it has a significant impact on shopping around or switching.

6. Market power

The CMA’s comments on its work on theory of harm 2 relate to the retail level, however there is a gap in the analysis if the CMA is ignoring possible co-ordinated behaviour at other market levels. It may be critical to understand the likely success of new entry driving good outcomes for consumers.

For example, there are a complex set of interactions between the banks at the payment systems level which could be characterised by a form of joint or collective market power. While the Payment Systems Regulator is active in this area, a proper analysis by the CMA of market power at both the retail and the relevant wholesale levels is necessary for a proper competition assessment and to underpin effective remedies whether imposed by the CMA, PSR and FCA. The PSR has embarked on a comprehensive programme of work, which will take some time. Nevertheless, providing clarity in terms of a robust diagnosis of the sources of problems and potential problems – at all relevant levels of the market - should be at the heart of the CMA's role regardless of the existence of other regulators.

7. Remedies

No matter how detailed the CMA's analysis may be, unless it puts in a place a robust process to deliver insightful remedies that are fully tested for effectiveness, the investigation will fail to deliver for consumers. The CMA should focus on possible remedies to address the issues identified, and take the necessary time to work with consumers, and consumer groups, to test remedies to ensure that they will be effective.

The CMA has not, at this stage, raised the possibility of any remedies. The CMA should therefore provide a full analysis of the possible remedies that could be deployed, the costs and benefits, and a plan to test these remedies, as soon as possible. It is critically important that the CMA does not treat the matter of remedies as an after thought, leaving insufficient time to properly test what might be effective.

More generally, since the question of time to properly consider remedies is a point made by Which? in other responses to the CMA, it is important that remedies should be considered much earlier in the CMA's processes. Consideration of remedies at an early stage can assist with the process of identifying relevant counterfactuals when the potential problems are being examined. Weak competitive pressure has been an identified problem in relation to PCAs over many years, and it would have been reasonable for the CMA to have set out potential remedies for discussion at an earlier stage.

There are many different types of remedies the CMA may wish to consider including those that address barriers to entry and expansion. In terms of the consumer facing remedies that the CMA should consider, at least the following should be explored:

<u>Transparent prices and clear price comparisons</u>

Clear information on price, accessible price comparisons, and trouble free switching processes are basic requirements for a well-functioning market, and the CMA should propose improvements in all of these areas.

Should the CMA be minded to include information remedies around price then it should properly assess and test the information, taking into account how people actually assess and act, so it has a high likelihood of being effective.

Given that the CMA intends to continue to analyse barriers to switching, including switching with overdrafts, the impact of cross-product holdings, CASS and the account opening processes – any specific problems identified should be reflected in the remedies the CMA proposes.

Unauthorised overdrafts

The CMA should consider whether the concept of an unauthorised overdraft is one that simply allows banks to price discriminate against a certain group of customers that identify themselves as unlikely or unable to switch by their own behaviour.

The CMA should investigate whether it would be in consumers' best interests for unauthorised overdrafts to take a different form, and whether there should be restrictions in the ways banks can determine the price applied to overdrafts and unpaid items when a pre-agreed limit is exceeded. Banks could be required to be more proactive in helping these customers manage their finances in a better way – both in terms of notifications, but also when data indicates that a customers may be in financial difficulties and banks could help by being proactive and reaching out to customers to ensure they are being treated fairly, including looking at whether they may be vulnerable in any way. Customers spending many months in a year using an unauthorised overdraft, or even an overdraft, is easily identified as a person who could be assisted with information about their options and alternatives. Rules of course would need to be carefully designed to provide sufficient consumer protection and access to emergency funds – and clarity about what the deal is for consumers in terms of accessing emergency funds could reduce barriers to switching.

If the CMA is minded not to make a change to the structure of pricing between authorised and unauthorised overdrafts, then it should fully explore how rules around opt-ins and opt-outs to unauthorised overdrafts, controls on overdrafts and various forms of notifications could be put in place to improve matters for consumers.

Improved incentives for banks to be more responsive to customers

In circumstances where there are low levels of customer switching, low incentives to switch, and barriers to switching, where new entry that might dramatically change this picture may be some way off and existing large banks may hold substantial market power for a significant period, the CMA should consider how banks can be incentivised to better respond to their customers.

This could include measures which provide a clear indication of how individual banks deliver for customers, in the form of league tables or similar and this should be based on what real consumers actually experience in terms of price and service from their banks, filling an existing gap in terms of information about service quality.

Progress has been made by the Financial Ombudsman in publishing the performance of different banks in terms of customer complaints. However this information is not designed in the form of a league table, and is not reported in a form likely to be used by the average consumer, but possibly could be incorporated into the design of one. The data published by the FCA is also not in a form that could be easily put to use in the form of a league table.

A single, clear measure of how well banks deliver for their customers – in a form that is easily understood by consumers – may improve switching and act as a spur to banks to improve their performance.

Alongside this, the CMA should consider the current incentives that banks have to strive to provide good outcomes for their customers – again, we can see from the current performance of some banks in terms of involvement of the Financial Ombudsman Service in making awards for distress and inconvenience, that there are failings. Currently only a small percentage of customers take their complaint as far as the ombudsman.

In line with a theme to provide spurs to the banks to improve their responsiveness to customers, it is important to note that the Financial Ombudsman Service's levels of compensation are not designed to penalise the banks[5] and are generally modest. The CMA could consider whether increased compensation levels for quality failings could heighten awareness (both consumers and the board of banks) and drive improvements.

The CMA, and FCA, could consider whether the available information – listening to real consumers who complain – should prompt regulatory investigations of banks failing to treat their customers well, or at least a name and shame initiative, which may have the added benefit of a wider impact on switching levels.

Finally, given the picture of large banks having power over consumers who are unlikely to switch – for various reasons including competitive pressures are such that incentives to switch are low – and this picture may persist for a substantial period of time, the CMA should consider obligations designed to change the culture of banks towards these customers. Annex 4 includes Which? research into the culture of how banks interact with their customers.

This could include changes to Board or governance structures. Or it could include obligations to involve consumers in assessing really how fairly a bank treats its customers, including those in financial difficulties.

[5] Financial Ombudsman Services's website

Annex 1

Examples of overdraft structures for main current account products in April 2015

Overdraft charging structures			
Bank	**Account Name**	**Authorised overdraft fee structure**	**Unauthorised overdraft fee structure**
Barclays	Bank Account	Fee free buffer, daily usage fee at different amounts depending on how much is borrowed	This is an opt-in Emergency Borrowing feature. Fee free buffer, daily fee (capped per month), unpaid item fees (capped per day)
Lloyds	Current Account	Interest free buffer, interest, daily usage fee capped monthly	Fee and interest free buffer, interest charged up to a certain amount, monthly usage fee capped per month and daily usage fee capped per month (amount differs depending on how much is borrowed), unpaid item fees capped daily
HSBC	Bank Account	Interest	Fee free buffer, interest and daily usage fee capped per month
RBS/Natwest	Select Account	Interest free buffer, interest, monthly usage fee	Fee free buffer, daily usage fee capped per month, unpaid item fee capped per month
Santander	123 Account	Fee free buffer, daily usage fee	Fee free buffer, daily usage fee capped per month
Halifax	Current Account	Fee free buffer, daily usage fee at different amounts depending on how much is borrowed	Fee free buffer, daily usage fee
Nationwide	FlexAccount	Interest	Interest, unpaid and paid item fees and card misuse fee, all capped monthly

First Direct	1st Account	Interest and fee free buffer, interest charged over a certain amount borrowed	Free fee buffer, interest and daily usage fee capped per month
TSB	Classic Account	Interest and fee free buffer, interest charged over a certain amount borrowed, monthly usage fee	Interest and fee free buffer, interest, monthly usage fee (capped), daily monthly usage fee capped per month (amount differs depending on how much is borrowed), unpaid item fees capped per day

Annex 2

April 2015 Which? research on consumers' ability to assess which bank account offered the best overdraft

Which? presented respondents with a series of stylised scenarios based on hypothetical consumers' circumstances, intended to assess consumers' understanding of the value offered by a bank account. We then provided consumers with a choice of five accounts, based on real products but with the provider's identity removed, and asked consumers to identify the best and worst accounts from the same choice of five for the hypothetical consumer based on the information presented in each scenario. The scenarios were presented so that there would be an objectively 'correct' answer in each case, and by removing branding from the accounts we attempted to remove extraneous features such as brand preference.

These scenarios equated to a consumer who was in credit all the time, one who used an authorised overdraft, one using an unauthorised overdraft and one using both an authorised and unauthorised overdraft. The tables below show the number of respondents who correctly identified the best and worst accounts for each scenario, and how many failed to identify the correct answer. We have also shown how many respondents made completely the wrong choice when asked for the best or worst account for a particular scenario, identifying the worst account for the consumer in the choice of five when prompted to ask for the best, or vice versa. In none of the scenarios did a majority of consumers successfully identify either the best or worst account.

The in-credit scenario was the most straightforward, with a significant minority of respondents were able to identify the best and worst account, but most respondents still did not get the 'correct' answer.

Scenario 1: In credit banking, base: 690

All consumers (690)	**Correct** (i.e. successfully identified the best or worst account)	**Incorrect** (i.e. failed to identify the correct option)	**Picked the worst option** (i.e made completely the wrong choice)
Respondents identifying the *best* account in this scenario	39%	61%	13%
Respondents identifying the *worst* account in this scenario	42%	58%	8%

In the authorised overdraft scenario, respondents were as likely overall to pick completely the wrong option when trying to identify the best account, with 30% giving the worst account (the worst possible answer) and 26% choosing the best (the correct answer). The results were similar when looking at consumers who self-identified as overdrawn.

Scenario 2: Authorised overdraft, base: 699

All consumers (699)	Correct	Incorrect	Picked the worst option
Best	26%	74%	30%
Worst	40%	60%	11%

Overdraft users (219)	Correct	Incorrect	Picked the worst option
Best	27%	73%	28%
Worst	43%	57%	9%

A second overdraft scenario, asking respondents to identify the best account for a consumer using both an authorised and unauthorised overdraft, found that a significant minority of all consumers and roughly one-third of overdrawn respondents were able to successfully select the right account. However, one in nine selected the most expensive account (the worst answer) as the best. Respondents were less successful in identifying the worst account in the scenario, with more giving the worst possible answer (i.e. best value) than correctly identifying the worst value scenario.

Scenario 3: Authorised and unauthorised overdraft, base: 682

All consumers (682)	Correct	Incorrect	Picked the worst option
Best	38%	62%	11%
Worst	23%	77%	24%

Overdraft users (193)	Correct	Incorrect	Picked the worst option
Best	31%	69%	11%
Worst	23%	77%	26%

The results were most dramatic in the unauthorised overdraft scenario. Only 12% of all respondents, and 15% of those who self-identified as being overdrawn, were able to correctly identify the best account. Given that we would expect to see 20% of consumers selecting the best account if respondents simply chose at random, this is especially worrying. Three times as many of all respondents (36%) misidentified the worst option as the best as got the correct answer, as did over twice as many (34%) of those who were themselves overdrawn. One-fifth of both all consumers and overdrawn respondents were able to successfully identify the worst account for this scenario, whereas 27% of both all consumers and overdrawn respondents picked the completely wrong answer.

Scenario 4: Unauthorised overdraft, base: 705

All consumers (705)	Correct	Incorrect	Picked the worst option
Best	12%	88%	36%
Worst	19%	81%	27%

Overdraft users (219)	Correct	Incorrect	Picked the worst option
Best	15%	85%	34%
Worst	20%	80%	27%

Annex 3

Which? research on how customers experienced the PCA switching journey

From mid-September to December 2013, Which? conducted a qualitative and semi-ethnographic study to gain an in-depth understanding of how consumers experienced the switching journey following the launch of the Current Account Switching Service (CASS). This involved 18 consumers recording their experience via an online diary, where they could write or upload visuals of anything connected to the decision making and switching process.

The findings were revealing despite the small sample size. We saw evidence of optimism bias in that few participants considered overdraft charges, even where they had incurred them with their current provider. In one instance, a participant justified choosing an account with significantly higher unauthorised overdraft charges (when they had used their unauthorised overdraft fairly frequently in the past) by stating they would ensure they would not go over their authorised overdraft in the future.

We also saw evidence of bounded rationality. We found that the way participants accessed and used information did not necessarily lead to the best outcomes in terms of account choice. Our participants tended to 'mentally shortcut', so begin researching with a (sometimes subconscious) list of providers they wanted to look into, which had been influenced by advertising or experiences from friends and family and other trusted sources. This meant that research was often limited to a handful of products and much of the time participants relied on a Google search to direct them. Furthermore, when participants did consider different products, they found it difficult to accurately compare accounts on information on quality and/or cost and so tended to default to choosing accounts with a cash incentive that offered a tangible reward.[6]

[6] Which? Consumer Insight: The Real Consumer experience of the 7 day switch, December 2013. Accessed at: http://www.staticwhich.co.uk/documents/pdf/real-consumers-7-day-switch-experience-364351.pdf

Annex 4

Available Which? evidence and research summary

Which? has conducted a number of pieces of primary and secondary research to support our submission to the CMA on the investigation into personal current accounts.

Below is an overview documenting our evidence in summary. If you would like any further information about any of these please contact us.

This annex includes:

1. Consumer research on overdraft charges
2. Bank staff research on culture
3. Consumer focus groups on banking experience
4. Secondary data analysis of the ONS's Wealth and Assets Survey
5. Consumer research and choice modelling on PCA features
6. Further analysis on choices - segmentation and profiling

Which?

1. Consumer research on comparing bank overdraft charges

Overview

We conducted a survey that explored consumers' views about comparing bank overdraft charges. It also included two pieces of testing. The first was an attempt to evaluate whether consumers could pick the best and worst value bank account for four specific scenarios (i.e. the one that would cost least, or generate the most interest, depending on the scenario); the second was designed to understand whether the way that bank balances are presented affects consumers' understanding of how much money they have.

Methodology

Populus, on behalf of Which?, surveyed 2,063 GB adults online between 8th and 10th May 2015. Of these, 1,367 passed our data checks and proceeded to undertake the questionnaire. Data were weighted to be representative of the GB population.

Summary of key findings

Attitudinal survey overview

- One in five overdraft users say they have been put off switching because of the complexity of working out which account is best
- One in five authorised overdraft users have been surprised by the amount they've paid in overdrafts - this is one in three for unauthorised overdraft users.
- 58% of overdraft users disagree that overdraft charges are easy to compare
- 55% of overdraft users agree that it is hard to work out how much they will pay in overdraft charges
- 54% of authorised overdraft users say that the authorised overdraft fees are too complex

Test of bank account cost comparison

We showed each respondent two of the below four scenarios, each with a list of five accounts to choose from. The accounts were all examples of real bank accounts on the market at the time of research. Respondents were asked to select the best and worst value account for the particular scenario. Below are the scenarios and the results:

1. In credit scenario: Last month, Alan paid his salary of £2000 into his account on the 1st of the month. He withdrew £500 cash on the 8th of the month and paid £500 worth of bills on the 15th. He had a £1000 balance on the last day of the month.

- 39% correctly identified the best account - 13% got this completely wrong
- 42% correctly identified the worst account - 8% got this completely wrong

2. Authorised overdraft scenario: Charlie has an arranged authorised overdraft with her bank of £500. Last month, on the 15th, she went overdrawn by £200. She was overdrawn by £200 until the end of the month.

- 26% correctly identified the best account - 30% got this completely wrong
- 40% correctly identified the worst account - 11% got this completely wrong

3. Authorised and unauthorised overdraft scenario: Ben has an agreed authorised overdraft of £100 with his bank. Last month: On the 14th a direct debit payment meant that he was overdrawn in his authorised overdraft by £50. A further payment of £60 on the 18th took him into his unauthorised overdraft. On the 20th, Ben paid in £40 into his account so that he was in his unauthorised overdraft for 2 days. On the 24th, Ben paid another £60 into his account. He remained £10 in his authorised overdraft until the end of the month (the 30th).

- 38% correctly identified the best account - 11% got this completely wrong
- 23% correctly identified the worst account - 24% got this completely wrong

4. Unauthorised overdraft scenario: Donna hasn't agreed an authorised overdraft with her bank. Last month she started the month with a balance of £100 in her account. At the start of the 1st she made a direct debit payment of £200 out of her account. On the 2nd another direct debit for £60 was paid leaving her overdrawn by £160. She was overdrawn for two days until she paid £200 cash in on the 4th.

- 12% correctly identified the best account - 36% got this completely wrong
- 19% correctly identified the worst account - 27% got this completely wrong

Test of balance comprehension

We split respondents in two groups.

Group A was shown the following screen:

Current Balance: £500 Available Balance: £600

And group B was shown the following:

Current Balance: £500 Available Overdraft: £100

Both groups were told to assume that they wanted to withdraw all their money and close the account; they were asked how much they have to withdraw.

- 82% of group A got the answer correct, while 88% of group B got the answer correct
- Among overdraft users the difference was larger: 76% and 85% respectively.
- 16% of group A said £600, while only 4% of group B said £600

2. Banking staff research on culture

Overview

This research was a follow up to a larger piece of research conducted in 2012 with 500 customer facing bank staff. The research was designed to understand the extent of pressure on staff to sell within the large banks. The full report from that work can be found here: http://www.which.co.uk/documents/pdf/our-research-on-banking-staff-pdf-305345.pdf

Methodology

ComRes, on behalf of Which?, interviewed 100 people who work for one of the five main banks (HSBC, Lloyds Banking Group, RBS, Santander and Barclays) in a customer facing role (daily interaction with customers) and who were no higher than middle level management. Interviews were conducted by phone between 6th and 27th May 2015.

Summary of key findings

Compared to 2012 banks do seem to have improved when it comes to sales culture and incentivisation, but there are still problems. For example bankers who sell are less likely to say they think their bank's approach to sales is unethical and more likely to say the emphasis is on proving good customer service than on the need to sell.

Customer service

- Half of employees surveyed have say they have a personal or team target which relates to customer service. Of those who have a target, including those who have it at branch level, 3 in 10 report having a daily target and third a weekly target.

- Of those who have customer service targets over half say they receive a financial incentive for meeting customer service targets.

- 6 in 10 employees say at their bank there are customer services schemes, which are not associated with targets, but which reward good customer service.

- Nearly 9 in 10 of those who have sales as a part of their job say that their bank has become more focused on the customers' interests.

Selling

- 7 in 10 employees surveyed said if they were a customer at their bank they would be irritated by staff trying to sell them financial products inappropriately.

- Of those who have a sales role a third say they are uncomfortable with their bank's approach to sales.

Pressure to sell

- Of those who have a sales role, a quarter said there is day to day emphasis from managers on the need to sell.

- 1 in 7 said that, if they were at a customer at their bank, they would feel pressured to buy financial products.

Needs-based selling

- Of those who have a sales role, 3 in 10 say that their manager will monitor their interactions with customers throughout the day. If they don't attempt to sell, because they considered it not to have been appropriate, their manager will ask why.

- 1 in 5 say that they accept the need to sell products when it's appropriate, but sometimes they feel they're expected to sell regardless of whether it's appropriate or not.

- 4 in 10 said that although employees are told to only do "needs-based" selling this is not enforced.

3. Consumer focus groups on culture and banking experience

Overview

- To find out to what extent, if at all, perceptions of culture in the banking sector affect people's behaviour (and inertia) with regards to current accounts.
- Does a perception of poor culture mean that people are less likely to switch banks?
- Do people think that their bank provides acceptable service and behaves well, but that other banks in the market do not?

Methodology

- Two focus groups were conducted on 20th May 2015 in Bristol, and 21st May 2015 in Manchester and each group lasted 90 minutes.
- All participants were current account holders. In addition, participants were recruited to ensure a good spread across demographics and type of banking (e.g. fee/paid for, online/telephone/branch).

Summary of key findings

- Banks were generally trusted to be competent at the basics of what they do, such as keeping money safe and making payments correctly. However, there was very little trust in banks to behave in a way that looks out for the best interests of their customers, rather than profits.
- There was very little differentiation between banks, with the sector perceived as generally homogenous both in its culture and in what it offers customers financially. The PPI scandal and financial crisis, both of which engulfed all major banks, contribute to this.
- Bank account switching was seen as difficult, risky and a lot of hassle. There was no sense of a guarantee that things will go well, and any risk was perceived to be borne by the consumer.
- Therefore, unless a significant negative experience occurs, a significant financial reward or product that meets a particular need (usually financial, e.g. a mortgage) were the only incentives likely to actively prompt a switch. Promises of a better culture are likely to be dismissed or ignored. However the reward on offer has to be large in order to overcome the perceived risk and hassle of switching.
- Banking culture was intrinsically linked to a bank's financial dealings with customers, as the only way people will experience a bank's culture is through how the bank deals with them financially.
- Therefore, it is likely that the best way for banks to demonstrate how they are putting customers first is by expressing this in their financial dealings with customers.

4. Secondary data analysis of the ONS's Wealth and Assets Survey

Overview

Analysis of the Wealth and Assets Survey in order to gain an overview of consumers use of Current Accounts, Savings Accounts and Overdrafts – including the amounts and the characteristics of Current Account, Savings Account and Overdraft users in Great Britain.

Methodology

The Wealth and Assets Survey is a longitudinal, nationally representative survey, designed and implemented by the Office for National Statistics. It tracks the overall wealth (income, pensions, investments etc) of people in Great Britain. We analysed Wave 3 of the survey, which collected data between 2010 and 2012.

Summary of key findings

- The median value of a household current account is £1,000.
- The median value of a household overdraft is £550.
- On average, overdrafts make up 33% of a household's financial liabilities and equate to 6% of its net income.
- The median value in household savings accounts is £200 while 50% of households have no money in their savings accounts.

We have broken down the value of current accounts in credit, overdrafts, savings accounts, financial liabilities and loans by a various demographics such as age, socio-economic status, education level, household type, etc. More details available upon request.

5. Consumer research and choice modelling on PCA features

Overview

Which? conducted research to understand and rank people's preference of Current Account features, to inform our understanding of how people make choices in this market.

Methodology

Which? reviewed Current Accounts on offer at the time of the research and elicited a long-list of features. After review, a final list of 26 features was agreed to test. These included features that are ubiquitous in the market as well as others that are not as frequently offered.

In order to establish a preference rank of these features, we used Maximum Difference Scaling, in which participants were shown 20 screens of 4 features each and were asked to choose their most and least preferred feature out of the 4 shown each time. The presentation was designed in such a way that all features were compared to each other.

Populus, on behalf of Which?, surveyed 2,066 UK adults online between 29th and 30th April 2015. Data were weighted to be representative of the GB population.

Summary of key findings

Results showed that *Debit Cards* and *Internet Banking* were the two most preferred features, while *Opt-out of Unauthorised Overdrafts* and *Text Message Balance Alert Service* the least.

The full order of feature preferences is:

1. Debit card
2. Internet banking
3. Interest on credit balances
4. Free in-credit banking
5. Monthly reward payment
6. Branch network
7. UK-based call centres
8. Cashback on some bills or purchases
9. Credit card loss service
10. Fee-free overdraft buffer
11. Authorised overdraft facility
12. Cash incentive to switch
13. Capped overdraft charges
14. Discounts on linked financial products (e.g. mortgages, savings accounts or insurance products)
15. Cheque book
16. Mobile phone banking 'app'
17. Automatic saving
18. Discounts on retail entertainment purchases or services (CDs/DVDs/Streaming subscriptions etc), supermarket purchases or travel
19. Contactless debit card technology
20. Credit balance 'scraping'

21. Telephone banking
22. Personalised customer service
23. Commission free or discounted travel money
24. Opt-in to unauthorised overdrafts
25. Opt out of unauthorised overdrafts
26. Text message balance alert service

While the most preferred features are similar amongst all sub-groups, there was some variation between the weight that different groups put on each factor. These differences were more pronounced among the factors that were least preferred rather than those at the top of the list, which were relatively consistent:

Age

- The rate of interest is more important to over 45s than to under 45s.

- On average, those over 65 rated branch networks more highly than any other age group; this was also true for UK based call centres and credit card loss service.

- Those over 65 rated cheque books as much more important than any other age group.

- Those over 65 also gave a higher average rating to free in credit banking, compared to younger respondents.

- Those under 45 rated capped overdraft charges as more important than those over 45.

- Younger people (under 35s) were much more likely to rate mobile phone banking apps as more important than older respondents.

- Those under 35 favoured both 'discounts on retail entertainment purchases' and 'contactless debit card technology' more than older respondents.

Socio-Economic Group (SEG)

- Those from ABC1 SEG were more likely to rate internet banking higher than those from C2DE SEG.

- Those from C2DE were more likely to value a fee-free overdraft buffer than those from ABC1.

<u>Other findings</u>

Unsurprisingly, people who have used overdrafts in the last year (either authorised or unauthorised) rate features such as *Fee-free Overdraft Buffer* and *Authorised Overdraft Facility* amongst their most preferred.

People were also surveyed on whether they had switched their current accounts in the previous year and whether they had used authorised or unauthorised overdrafts in the same time.

Just over a third of people had switched. Young people were less likely to switch than people in older age groups (24% of 18-24 year olds compared to 40% in the 25-44 and 43% 45-54 age groups). People in higher socio-economic groups were also more likely to switch than those in the lowest (43% of people in the AB group switched accounts in the last year, compared to 33% of people in group DE).

Young people were also more likely to have used both authorised and unauthorised overdrafts than people over 45.

In order to test the value that people placed into each of these products an additional question was included in the survey. Participants were split into three groups and asked whether they valued the 26 bank features enough to pay £1, £3 or £5 per month for them. Around 75-80% of people did not think that the features listed were important enough to pay even £1. Exceptions were *Internet Banking* and *Debit Cards* where around half of respondents said they would be willing to pay that £1.

6. Further analysis on choices - segmentation and profiling

Overview

The aim of this analysis was to find out whether people tended to prefer similar groups of features and whether these preferences could be predicted from demographic factors.

Methodology

Populus, on behalf of Which?, surveyed 2,066 UK adults online between 29th and 30th April 2015. Data were weighted to be representative of the UK population.

We used Latent Profile Analysis to find out whether we could identify different and distinct groups (or *profiles*) of respondents with similar patterns in their preferences of current account features. Profiles are mutually exclusive, i.e. each respondent can only belong to one profile. We then used the profiles generated as depended variables (whether a person belonged or did not belong to each profile) in a series of binary logistic regressions, with income, age, gender, marital status and socioeconomic group as independent variables as well as whether respondents had used an Overdraft facility and whether they had ever switched their Current Account. A Bonferroni correction was applied to ameliorate the effect of multiple comparisons ($a = 0.007$).

Summary of key findings

We originally ran this analysis using all 26 features that we tested but they were too many to produce any meaningful and easily interpretable results, so we conducted a principal components analysis to reduce the data into a smaller number of summary factors (or components) and use these components to derive the profiles. The aim was to reduce the data into a smaller number of dimensions while at the same time explaining as much of the variance observed as possible. The solution we finally accepted reduced the 26 original dimensions (one for each Current Account feature) into 6. These explained 62% of the variance observed in our original data.

The six components were:

- Overdrafts - this included all overdraft related features such as *Capped overdraft charges, Opt-in to unauthorised overdrafts, Authorised overdraft facility, Fee-free overdraft buffer* and *Opt out of unauthorised overdrafts.*
- Modern Banking - which included *Mobile phone banking "app", Contactless debit card technology, Interest on credit balances and Text message balance alert service.*
- Everyday Banking - *Debit card, Free in-credit banking, Internet banking, Discounts on linked financial products, Discounts on retail entertainment purchases or services, supermarket purchases or travel and Commission free or discounted travel money.*
- Cash Incentives - *Cash incentive to switch, Cashback on some bills or purchases, Monthly reward payment and Credit card loss service.*
- Traditional Banking - *Personalised customer service, UK-based call centres, Branch network, Cheque book and Telephone banking.*

- Savings - *Credit balance "scraping", Automatic Saving.*

These were the components that were entered in the Latent Profile Analysis.

The most parsimonious model consisted of 7 profiles. The numbers in parentheses indicate the percentage of the sample that belongs to each group.

<u>Profile 1</u> (23%)

Respondents belonging to this group showed a low preference for *Traditional Banking*, *Cash Incentives* and *Overdrafts* and somewhat higher preference for *Everyday Banking* features as well as *Modern Banking* features. Compared to respondents who have not used their overdraft facility, respondents who had no overdraft facility were 72% more likely to belong to this group and respondent who had used an authorised overdraft were 90% more likely to belong to this group.

<u>Profile 2</u> (6%)

Respondents in this group showed the most marked preference for *Savings* and a low preference for *Cash Incentives* and *Everyday Banking*. They scored negatively for *Traditional Banking, Modern Banking* and *Overdrafts*. Compared to respondents who had not used their overdraft facility, people who had used their authorised overdraft were 79% less likely to belong to this group.

<u>Profile 3</u> (14%)

Respondents belonging to this group showed a small preference for *Cash Incentives* and *Modern Banking* and scored slightly negatively for *Savings*, *Traditional Banking* and *Overdrafts*. Respondents in the third income quintile were more than twice as likely to belong to this group (compared to respondents in the lowest income quintile). People who had used their authorised overdraft were less likely (68%) than people who didn't, to belong to this group as were respondents in the oldest age band (65+), who were 65% less likely to belong to this group compared to respondents in the youngest age band (18-24).

<u>Profile 4</u> (13%)

This group showed a preference for only *Everyday Banking* features and had fairly high negative scores for *Savings* and *Modern Banking* features. Older groups (45-54 and 55-64) were more than three times as likely to belong to this group compared to those in the youngest age group (18-24). Respondents in the highest income quintile were 58% less likely to belong to this group compared to the lowest income quintile and respondents who had used their authorised overdraft were 64% more likely to belong to this group than respondents who had not used their overdraft at all.

<u>Profile 5</u> (11%)

This group showed a fair preference for *Savings* and *Modern Banking* and had negative scores for *Everyday Banking*. They also showed a slight preference for *Traditional Banking* and *Overdrafts*. Age appeared to be a good predictor for this group with age groups 45-54, 55-64 and 65+, being less likely to belong to this group than people between 18 and 24, and also being less likely the older the age group they belonged in. Respondents who had switched their current accounts using the Current Account Switching Service, were twice as likely as those who had never switched to belong to this group.

Profile 6 (20%)

This shows a group of people with a high preference for overdrafts. This is also the one of the largest profiles with 20% of the sample belonging to it. We can tell from the regression that people who have used an authorised overdraft in the last year are 2.5 times more likely to belong to this group than people who have not used overdrafts at all in that time and that people who use unauthorised overdrafts are over 4 times more likely to belong to this group compared to the same. No other demographic factors appear to predict membership in this group.

Profile 7 (14%)

In contrast to the previous profile, this is the one that has the highest negative score for *Overdrafts* while *Modern Banking* to a much smaller extent *Everyday Banking,* also score negatively. *Traditional Banking* shows a small preference but overall this is a group that is largely defined by what its members do not prefer. Age is a strong predictor for membership to this group with groups 45-54, 55-64 and 65+ being, 8, 7 and 13 times more likely to belong to this group compared to 18-24 year olds. Respondents who had used their authorised overdraft were 95% less likely to belong to this group, compared to those who had not used their overdraft at all.