

Retail Banking Market Investigation – Baringa Partners LLP response to provisional remedies notice

November 2015

About Baringa Partners LLP

Baringa Partners LLP is an award-winning management consultancy that specialises in the energy, financial services, utilities and telecoms and media markets in the UK and continental Europe. Our banking practice works with a range of clients from established financial institutions to new 'challenger' market entrants to deliver upon their objectives to customers, investors and the regulator.

Overall feedback on the provisional findings and notice of possible remedies

The CMA's findings provide banks with an environment that is not further hampered by structural reform. These findings will offer customer more effective comparison of their current accounts across multiple dimensions. Banks are encouraged to disclose key aspects of their service that are most important to customers, and intervene at key moments of truth. It offers banks the opportunity to develop better products and services for their customers without the burden of additional regulation. SMEs will benefit from transparent and clear comparison of pricing across the market, though the same service transparency for consumers must be provided to SMEs also. Recommendations are encouraging, however it is not yet clear how financially vulnerable customers are going to be supported in this ongoing free banking model.

Based on our extensive industry experience and insight, we have made specific comment on selected remedies with suggested development points for further consideration to ensure that these will achieve positive customer outcomes.

Remedy 1: Prompt customers to review their PCA or BCA provider at times when they may have a higher propensity to consider a change

Baringa's viewpoint: We welcome the introduction of 'triggers' to the PCA and BCA market as an important step in raising the awareness of switching banking providers with customers. However, we note that the current 'triggers' suggested will only impact customers who have suffered some level of detriment to their service. This will not impact the wider customer base who's accounts may operate without incident for years. The CMA's analysis has acknowledged that there are low levels of switching across the industry, resulting in many customers remaining with more expensive and below average quality accounts rather than moving to cheaper and better alternatives. Therefore, we believe that these 'triggers' should go further to include all, rather than just dissatisfied customers.

Suggested considerations: Introduction of an annual 'trigger' to prompt customers to remind and consider whether their current banking arrangements deliver value for money. We hope that this would deliver similar levels of competition as in the insurance industry where customers are invited to consider their arrangements on an at least annual basis. We also consider that this would be of greatest benefit to those customers who have limited financial skills and experience, and may find it more difficult to access switching information.

Remedy 2: Increase public awareness of the potential savings or rewards that could be obtained by changing one's current account provider and of the benefits of using the Current Account Switch Service to do so in terms of security and convenience

Baringa viewpoint: Whilst we welcome improvements to the awareness of the Current Account Switch Service (CASS), we believe that any further activities should be informed by the outcome of the current BACs review of the current service and campaigns. This would maximise the value of any new funding and deliver maximum benefit to customers.

Suggested considerations:

- Informed by the outcomes of the current review, focus on delivering high-impact campaigns with particular consideration for improving awareness and accessibility for vulnerable customer groups
- Consider how positive switching messages can become embedded on a longer-term basis, without the need for continued campaigns, and create a more competitive market. For example, including within 'financial education' sessions at schools
- Consider how customers might be provided with a holistic view of their banks performance, not only associated with the costs to maintain an account, but also performance in terms of resilience of core banking systems, strength of the balance sheet, ethical investments etc.

Remedy 3: Facilitate price comparisons between providers by making customer specific transaction data more easily available and usable, including by PCWs

Baringa viewpoint: We recognise the value in customers being able to see and compare the actual cost of their bank accounts, however, experience from the Insurance industry points to this type of approach creating a 'race to the bottom' on price, at the expense of proposition features and service quality. In addition, past transactions are not always a predictor of future behaviour and the implications for potential detriment to vulnerable customers would also need to be considered. We also believe that the CMA and MiData should consider customer needs and feelings towards using this service. From our experience, customers are often wary of using any new service that requires access to a large volume of customer data. With concerns around data security reaching an all-time high, the service should understand and act on the demands of customers to ensure any concerns are effectively addressed.

Suggested considerations:

- Encourage the development of more effective comparison tools that focus on value for money, including price, but also service and product. We suggest that this should be developed holistically to allow customers to make comparisons between current accounts on the basis of their service quality.
- Explore feedback on the MiData service from both users and non-users to understand any barriers preventing access from across the customer base.

Remedy 4: Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality

Baringa viewpoint: We welcome this recommendation as the first step in providing SME customers with access to an effective comparison tool. Supporting SME customers to access banking services that deliver greater value for money should support the growth of this sector and feed into the success of the UK economy as a whole. However, as per our feedback on Remedy 3, pricing should only feature as a part of the overall picture, which should also include service quality and the proposition offered. This is particularly important across the diverse SME market where the business benefit from different banking propositions will vary by business type.

Suggested considerations: Encourage the development of more holistic comparison tools that focus on value for money outcomes, rather than just price (as per *Remedy 3*)

Remedy 5: Enable consumers and SMEs to make comparisons between current account providers on the basis of their service quality

Baringa viewpoint: As per our feedback on remedies 3 and 4, we recommend that price and service be considered holistically, rather than each in isolation. This will enable customers considering switching to be fully informed about the different propositions across the market. We recommend that the CMA considers introducing service metrics along key stages of the customer journey, particularly focusing on 'moments of truth' that have the greatest impact on customer experience. In addition, the CMA should consider how new entrants would report their data and what volumes of customers / responses are sufficient to enable effective comparison.

Suggested considerations:

- Include service metrics alongside price and proposition as part of any SME and personal current account comparison soon
- Introduce standardised service quality metrics that measure customer experience at key ‘moments of truth’ along the customer journey
- Consider how service quality data from smaller institutions or new entrants could be used to enable effective and fair comparison across the market

Remedy 7: Make it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider

Baringa viewpoint: We recognise the CMA’s findings that a major barrier to switching can be the ability of customers to gain up-front assurance that they will be able to continue with their current overdraft facilities. In principle, giving customers earlier confidence of continuity in their banking services should be an important step to improving switching rates and competition within the market. However, consideration should be made to the timing of this step and the potential impact on customers’ credit reports. To enable effective whole market comparison, this assurance should be provided to customers early in the process, but this may result in multiple searches being made on customers’ credit files. However, delaying this until after the customer has selected their preferred option may mean the customer does not qualify for continuity of their lending facilities, necessitating further searching. Our key recommendation is to work with the banks and credit reference agencies to develop an effective solution, and ensure that no customer is disadvantaged through the switching process.

Suggested considerations: Develop this solution in conjunction with the banks and credit reference agencies to enable customers to understand the different service propositions across the market, and what it means to them on an individual basis, without negative impacting customers’ credit scores.