

THE BEHAVIOURAL INSIGHTS TEAM ♦

This is the response from the Behavioural Insights Team to the *CMA's Retail banking market investigation, notice of possible remedies*. For ease of reading we have written our responses below the relevant remedies in blue. |

The behavioural literature provides a number of possible explanations for the low switching rates of PCAs/BCAs. We have included this introductory section to provide a very short summary of the key behavioural biases that are likely to affect consumer and SME behaviour in relation to financial products/banking. This section is not intended to provide an exhaustive list of the possible biases at play but instead to serve as a backdrop to our answers to the questions about the proposed remedies. It is important to note that in real life it is often difficult to identify which bias is driving behaviour, and in many circumstances it is likely that a combination of factors lie behind a decision or action.

Commitment bias is where individuals make decisions in the present to justify decisions they have made in the past.¹ It has been used to describe how people make increasing investments (of time, money, social capital, etc.) in a decision based on prior cumulative investment – even though new information shows that further investment is not an optimal decision. Fear of regret is where a person anticipates regret if they make a bad choice, and take this anticipation into consideration when making decisions.² Fear of regret can make people risk averse and can lead to/reinforce status quo bias because they worry about making the wrong decision.

Overchoice, often called choice overload, and status quo bias are two closely related concepts.³ Overchoice is where an individual is paralysed by the number of choices available. Status quo bias occurs when doing nothing is preferred over the result of taking some other course of action, even though a specific course of action might lead to a more optimal outcome. Overchoice can often lead to status quo bias.

The availability heuristic (or recall bias) is a mental shortcut used in decision making whereby recent events are over-weighted due to their ease of recall.⁴ As such, people tend to base judgements about uncertain future events more heavily through the prism of *recent* similar events rather than *distant* similar events. Availability bias also shows how we utilise average expectations of a product (based on prior cumulative experience of it) to make future decisions regarding that product. Mere

¹ Staw, B.M. (1976). Knee-deep in the big muddy: A study of escalating commitment to a chosen course of action. *Organizational Behavior and Human Performance*, 16(1): 27-44.

² Loomes, G., and Sugden, R. (1982). Regret theory: An alternative theory of rational choice under uncertainty. *The Economic Journal*, 92(4): 805–824.

³ Ren, Y. (2014). Status quo bias and choice overload: An experimental approach. Paper presented at the Tenth Annual Indiana University Department of Economics' Jordan River Economics Conference, *Indiana University*, May 2, 2014.

⁴ Tversky, A., and Kahneman, D. (1973). Availability: A heuristic for judging frequency and probability. *Cognitive Psychology*, 5(2): 207–232.

exposure effect means we are more likely to have a favourable opinion about something we are merely exposed to (not for a substantial period of time, or in average, but just once).⁵

Time inconsistency is where a decision that is preferred in the present is not the most preferred option in the future. For example, if people are asked to choose between receiving £10 today or waiting and receiving £12 tomorrow, most have been shown to choose the £10 today.⁶ However, if people are asked to choose between £10 in a year's time and £12 in a year and one day's time, most are happy to wait the extra day for an extra £2. This shows the time inconsistency of preferences (also known as hyperbolic discounting), which violates standard economic assumptions.

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

Issues for comment – remedy 1

(a) Is the general approach of this remedy (making use of ‘trigger points’) likely to be effective in prompting customers to consider changes in current account provider?

The behavioural literature provides support for the suggested use of ‘trigger points’ as an effective way to prompt customers/SMEs to consider changing their current account providers. We have summarised the findings as follows:

- First, people have limited ‘bandwidth’ which means they are unable to pay attention to all the different decisions they could, or should, be making at a given time,⁷ and therefore react positively to reminders. Reminders have been shown to be effective at encouraging people to perform a wide range of actions that are beneficial for them from increasing savings⁸ to increasing attendance at doctors appointments.⁹ The medium of the reminder is also important; for example, a text message reminder was more effective than a letter at encouraging people to pay their court fines.¹⁰
- Second, people are more likely to make big changes (such as changing consumption and travel behaviour) at key changes in their life (e.g. moving house, starting a new job, or having a child).^{11,12}

⁵ Mere exposure effect can be seen in how SMEs are more likely to switch to another bank if they receive business-targeted communication from them. Regan, L., Burton, S., and Lo, H. (2009). Customer tradeoffs between key determinants of SME banking loyalty. *International Journal of Bank Marketing*, 27(6): 428 – 445.

⁶ Thaler, R.H. (1981). Some empirical evidence on dynamic inconsistency. *Economic Letters*, 8(3): 201–207.

⁷ Mullainathan, S., & Shafir, E. (2013). *Scarcity: Why having too little means so much*. Macmillan.

⁸ Karlan, D., McConnell, M., Mullainathan, S., & Zinman, J. (2010). *Getting to the top of mind: How reminders increase saving* (No. w16205). National Bureau of Economic Research.

⁹ Grover, S., Gagnon, G., Flegel, K. M., & Hoey, J. R. (1983). Improving appointment-keeping by patients new to a hospital medical clinic with telephone or mailed reminders. *Canadian Medical Association Journal*, 129(10), 1101.

¹⁰ BIT, 2014, *EAST: Four Simple Ways to Apply Behavioural Insights* Available at:

www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/

¹¹ Clark, B., Chatterjee, K., Melia, S., Knies, G., & Laurie, H. (2014). Life Events and Travel Behavior: Exploring the Interrelationship Using UK Household Longitudinal Study Data. *Transportation Research Record: Journal of the Transportation Research Board*, (2413), 54–64.

(b) Is there, nonetheless, merit in requiring periodic reminders or messages in respect of particular patterns of account usage, for example to bring to customers' attention the cumulative costs to them of unarranged overdrafts?

Providing people with (timely) feedback is an effective way to encourage behaviour change.¹³ Feedback can also be coupled with behaviourally-informed messaging to have an even more powerful effect. For example, providing people with information about their energy consumption and information about others' consumption patterns is effective at reducing energy usage.¹⁴ As stated in the CMA provisional findings report, the FCA found that signing up to text alerts and mobile banking reduced the amount of unarranged overdraft charges incurred by customers by 24%. While reminders may become less effective over time it seems reasonable to expect that having a programme of testing and refining letters will provide an opportunity to measure the efficacy of the reminders and change their content to minimise the reduction in impact. The tax authority in the Netherlands used Post-It notes to draw attention to their tax letters and to stimulate a quick response, which has had a positive effect on tax payments. Although the impact of the Post-It notes slowly wore off, simply changing the colour of the notes increased effectiveness again.¹⁵

(c) Do the occasions or situations identified in paragraph 34 represent points at which BCA and PCA customers are likely to be receptive to messages prompting them to consider changing their banking arrangements?

BIT thinks that the list provided in paragraph 34 looks sensible. In addition BIT would suggest that CMA should consider whether any administrative dates such as the end of the tax year may provide opportunities for the CMA/FCA/government to contact people to prompt them to consider changing their bank account.

Despite this support we would urge some caution about using all of the trigger points mentioned because there is a danger that customers habituate to the constant prompting and might end up tuning those messages out.

(d) Are there any other trigger points at which customers would be especially disposed to consider changing their current account provider?

As discussed above, people are more likely to make big changes at key moments in their life (e.g. moving house, starting a new job, or having a child).¹⁶ Therefore we suggest adding moving house (identified by a change of address) and starting a new

¹³ BIT, 2014, *EAST: Four Simple Ways to Apply Behavioural Insights* Available at:

www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/

¹⁴ Schultz, P. W., Nolan, J. M., Cialdini, R. B., Goldstein, N. J., & Griskevicius, V. (2007). The constructive, destructive, and reconstructive power of social norms. *Psychological science*, 18(5), 429-434.

¹⁵ Available in Dutch <http://duwtje.com/in-nrc-over-het-oprichten-van-een-nudge-team-bij-de-belastingdienst> and mentioned in conversation between the Dutch tax collector and BIT in April 2015.

¹⁶ Thompson, S., Michaelson, J., Abdallah, S., Johnson, V., Morris, D., Riley, K., & Simms, A. (2011). 'Moments of change' as opportunities for influencing behaviour: A report to the Department for Environment, Food and Rural Affairs, Defra, London

job (which can be identified looking at a consumer's transaction history) to the list of possible trigger points.

The behavioural literature has also documented a 'fresh start effect' in which people are more likely to make commitments to pursue goals following temporal landmarks (e.g. the outset of a new week, month, year, term, birthday, or holiday).¹⁷ We therefore think that prompting people at the beginning of the new year, new month, or even contacting people immediately after their birthday may be points at which people are especially disposed to consider changing their current account provider; however, we cannot be certain unless we test it empirically, which would be easy to do using a randomised controlled trial.

(e) To what extent should messages advise customers to actively consider an alternative provider? Should they, for example, draw attention to specific better-value accounts available from other providers? Should they link to sources of comparative information such as price comparison websites (PCWs)?

BIT strongly believes that any messages must contain clear information about what the recipient needs to do as a result of the communication, in many cases this will be to visit a website where people can take direct action. As far as possible any message should also provide all the information required to take action. The behavioural literature regularly demonstrates the disproportionate impact of seemingly small 'friction costs'. For example, removing one click of a mouse caused 20% more people to fill out a tax form.¹⁸

BIT would highlight the importance of testing the different approaches suggested. For example, it might be that even if a bank does provide information about the best offer available in the whole market that consumers do not trust this information so ignore the prompt. Some banks may manipulate the definition of 'best' leading to poor consumer outcomes and undermining confidence in the value of the reminders. An alternative outcome could be that the products highlighted in the letter might be withdrawn so even if a consumer does take action they are then discouraged from future action because of the negative experience.

(f) What types or combinations of customer communication, for example letters, texts, emails, are most likely to be effective in prompting customers to consider changing their banking arrangements? Is this likely to vary with the nature of the event or the type of customer?

Context matters so BIT cannot say with what the most effective types or combinations of customer communications will be. Only through rigorous testing can

¹⁷ Dai, H., Milkman, K. L., & Riis, J. (2014). The fresh start effect: Temporal landmarks motivate aspirational behavior. *Management Science*, 60(10), 2563-2582.

¹⁸ BIT, 2014, *EAST: Four Simple Ways to Apply Behavioural Insights* Available at: www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/

we be sure that communications are effective and having the intended effect, and it is possible to run randomised controlled trials in a policy setting.¹⁹ BIT has seen dramatic results trialling variations of tax letters to encourage people to pay their taxes, emails to small and medium enterprises to take up government schemes to help their businesses grow, and the effect of text messages versus other forms of communication.²⁰ Intuitively it would seem that different customers should be engaged in different ways, e.g. those who use mobile banking should be contacted via text message, but we suggest trialling different media to see which is most effective for different customer segments.

(g) Who should determine when a ‘serious or widespread loss of service’ had taken place?

N/A

(h) In situations where the provider is responsible for sending the message/prompt, should the content and presentation of the messages concerned be standardised, specified or approved by a regulator?

Developing effective wording for any communication is a very difficult task and effective approaches are likely to change over time, as such BIT would not recommend that CMA/FCA take responsibility for developing the wording. Instead we suggest that FCA and banks work together to test different approaches with clearly defined measures of a ‘successful’ communication. As well as testing different messages this might also include testing the impact of different messengers which has been shown to affect the consumer responses.²¹ These outcome measures should be objective and measure real behavioural effects. The most obvious and appealing outcome measure would be switching rates. However, there is also scope for testing the level of customer understanding of notifications; for example a notification might be deemed ‘successful’ if 75% of customers understand the information included and are able to demonstrate a clear understanding of what steps they need to take to compare current accounts. These metrics could easily be tested through laboratory trials which are often cheaper and quicker to run than field trials. We strongly suggest conducting randomised control trials in the field to test appropriate wording, and not just relying on focus groups or internal testing.

(i) Alternatively, would it be practicable and proportionate to require providers to facilitate access to relevant customers by the regulator(s), intermediaries or others?

N/A

¹⁹ BIT, 2012, *Test, Learn. Adapt*. Available at: www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/TLA-1906126.pdf

²⁰ BIT, 2015, *Update Report 2013 -15*. Available at: www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT_Update-Report-Final-2013-2015.pdf

²¹ Dolan et al., (2010) *MindSPACE*. Available at: www.instituteforgovernment.org.uk/sites/default/files/publications/MINDSPACE.pdf

(j) What obligations should be placed on firms to support, including financially, compliance monitoring, for example through mystery shopping or the procurement of third party compliance auditing? Would the FCA or the CMA be the most appropriate body to do so? If not, who? Who should monitor compliance?

BIT does not have a strong view on which body is best placed to carry out compliance monitoring. What we would highlight however is the large effect that information can have on the functioning of markets, for example increased customer feedback for restaurants has been shown to increase in revenue, increase the number of independent providers and reduce the market share of chain restaurants.

²² As such we would urge the CMA/FCA to make the outcome of this monitoring publicly available. Crucially this information must be provided in a format and at a time when it can be used by individuals making decisions, for example it may be sensible to provide it directly to PCWs to be displayed with search results.

(k) What, if any, are the practical, technical or regulatory barriers (given the potential overlap with, for example, the PAD and PSD to the implementation of this remedy?

N/A

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

Issues for comment – remedy 2

(a) On what scale and over what period would it be necessary to conduct promotional activity to sufficiently increase awareness of the potential benefits of switching and confidence in the switching process?

N/A

(b) What indicators should be used to evaluate the effectiveness of CASS promotional activity?

The level of consumer awareness is the most obvious way of evaluating any promotional activity however BIT would caution against using that as the sole measure. The behavioural literature shows that raising awareness does not automatically lead to changes in behaviour²³ so we would also suggest measuring

²² Luca, Michael. *Reviews, Reputation, and Revenue: The Case of Yelp.com*. Harvard Business School Working Paper, No. 12-016, September 2011. (Revise and resubmit at the *American Economic Journal - Applied Economics*.) Available at: www.hbs.edu/faculty/Publication%20Files/12-016_0464f20e-35b2-492e-a328-fb14a325f718.pdf

²³ For example, health-related messaging promoted through television and radio advertising raised awareness of the risks of household air pollution from 43% to 69% according to a post-campaign survey and 83% of respondents said they would buy an “improved” stove, but only 2% actually did. In this case, traditional mass marketing raised awareness, but it did not drive new cookstove purchases. From: Shankar, A., et al, (2014). Maximizing the benefits of improved cookstoves: moving from acquisition to correct and consistent use. *Global Health: Science and Practice*, 2(3), 268-274

whether consumers know what steps they need to take to use the CASS. For example, this might involve asking a representative sample of people to explain what steps they would need to take to use the CASS. The literature shows that getting people to plan out the exact steps they need to take to perform an action makes them more likely to follow through.²⁴

(c) What specific obligations should be placed on current account providers in terms of including references to CASS in their marketing communications to customers?

N/A

(d) Are there lessons we can learn from other sectors where switching rates have been low and where generic advertising has been undertaken to try to increase customer engagement?

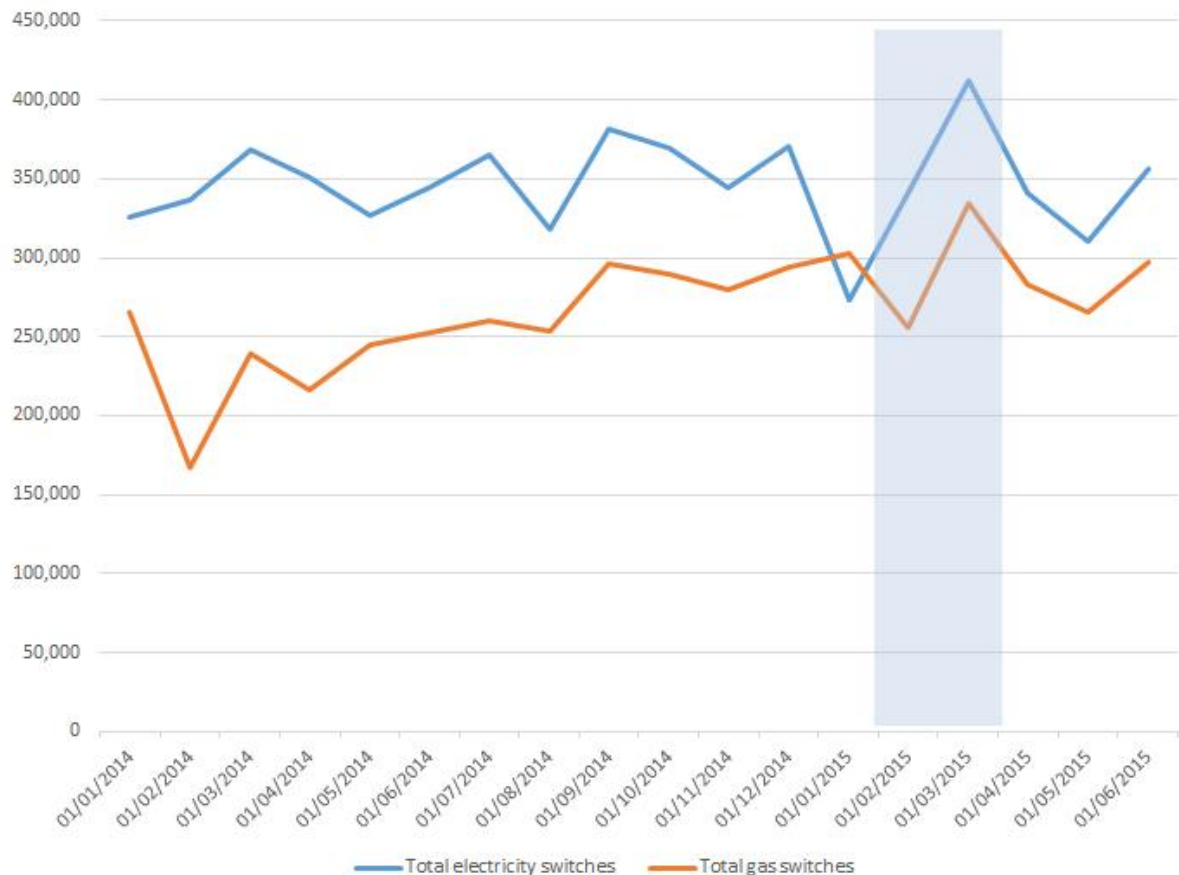
While advertising/information campaigns are likely to play a role in informing customers BIT would caution against focusing too heavily on the impact of such campaigns. We urge caution mainly because it is not always easy to evaluate the impact of such approaches and we have not seen any good evidence about the sustained impact of such campaigns. It is also worth noting they are often very expensive. As an example BIT would draw the CMA's attention to the 'Power to Switch' campaign the Government ran to encourage people to switch their energy provider. During the campaign the Department of Energy and Climate Change (DECC) reported that more than £38 million was saved by 130,000 households switching energy supplier and that there was an 80% increase in the number of households who switched compared with the same period in the previous year.²⁵

Despite this reported success Figure 1 below shows when you look at the switching rates for the period of the campaign it is not clear that they are substantially higher than normal and in fact switching rates dropped in the following months suggesting the effect of the campaign was not sustained.

²⁴ Gollwitzer, P. M. (1999). Implementation intentions: strong effects of simple plans. *American psychologist*, 54(7), 493.

²⁵ www.gov.uk/government/news/millions-saved-in-one-month-as-switching-energy-supplier-rockets

Figure 1: Number of customers switching gas and electricity supplier, January 2014 - June 2015



Source: Ofgem

(e) Are there particular customer segments or trigger points that should be targeted by such campaigns, in addition to those mentioned here?

N/A

(f) How should an increase in promotion be funded? If from current account providers, on what basis should they be expected to contribute? Should, for example, contributions be based upon current market shares of PCAs and BCAs or the net gains by each bank through CASS or a mixture of the two?

N/A

(g) Who should undertake such campaigns and who should be responsible for ensuring that they were effective, targeting appropriate customer groups, at relevant times with effective communications?

N/A

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

Issues for comment – remedy 3

(a) How quickly could the proposed enhancements for Midata, including agreement on a common API standard, be implemented? To what extent, if at all, would this be constrained by other legislation, in particular the payment services directives?

N/A

(b) Are the proposed improvements to the features and functionality of Midata set out here those most likely to be helpful to potential users? Are there other improvements which would be as or more helpful and if so, what are they? Could, for example, Midata be used to highlight aspects of an account holder's usage which are likely to vary significantly between providers but which are particularly difficult to compare, such as overdraft charges?

BIT has long been a strong supporter of the Midata initiative, as is one of our academic advisors Richard Thaler.²⁶ However we think that the current execution misses some of the elegant simplicity of the approach which is about making it easier for people to access information about their consumption habits. As such we strongly support the proposed extensions of the Midata approach especially in relation to more complete information and extending the approach to SMEs who arguably stand to benefit most due to the complexity of their account usage and charges. BIT would also suggest the CMA consider extending Midata to other information such as the terms and conditions relating to accounts, for example if there are services which incur a fee for certain usage levels these could be flagged by intermediaries.

(c) What technical or regulatory obstacles, if any, are likely to be faced by PCWs wishing to host the Midata service? Are, for example, banks' terms for SMEs sufficiently transparent for PCWs to be able to populate their systems? Are there improvements to the current format and content of Midata files that would facilitate more effective use by intermediaries such as PCWs?

N/A

(d) For the remedy to be effective, would it be necessary to adopt supporting measures to ensure that the benefits of using Midata on PCWs were promoted? Who should be responsible for raising awareness of the benefits of using Midata for account comparisons?

²⁶ www.behaviouralinsights.co.uk/uncategorized/guest-blog-post-from-richard-thaler/

There are two features of effective communication that can increase the likelihood that action is taken: the timing of the delivery and the messenger.²⁷ Our response to Remedy 1 sets out the importance of timing (e.g. using appropriate ‘trigger points’) and here we deal with the issue of the messenger.

People are more likely to act on information if the person delivering the message is considered an expert, especially if people have demographic and behavioural traits in common with the expert;²⁸ conversely, people are less likely to act on information delivered by someone they dislike.²⁹ BIT therefore suggests trialling different, trusted messengers to see who people are most likely to listen to.

(e) Is it necessary to require providers to make customers’ Midata files easier to locate on their online and mobile banking websites or would this be unnecessary if banks adopted common API standards?

As it currently stands any customer wanting to make use of Midata has to undertake a series of steps to download their usage file before uploading it to a price comparison website to compare products. In some cases, the Midata files are very difficult to locate on a bank’s website. While the introduction of APIs will remove this friction in the interim BIT would suggest that new requirements are introduced to make it easier for consumers to find their Midata files. For example, we suggest requiring that a representative sample of consumers should be able to find and download their files within 2 mouse clicks or within 1 minute of logging into their online banking. The ‘Midata button’ should be required to be prominently displayed on all personal banking log-in pages.

(f) What technical difficulties, if any, would arise from adopting the Midata data standards for BCA transaction histories? In what respect do they differ from those associated with PCA information? Does this differ between SMEs?

N/A

(g) Should Midata be available for all SMEs? Should there be an upper turnover limit for SMEs with access to Midata? If so, where should this be set?

BIT is a strong supporter of extending Midata to cover SMEs because, as noted by the CMA, BCAs are often more complicated to compare because of differing terms and conditions relating to charges and overdraft facilities.

(h) Are there other approaches to facilitating price comparisons between BCA and PCA providers that would address our concerns but be implementable sooner?

²⁷ BIT, 2014, *EAST: Four Simple Ways to Apply Behavioural Insights* Available at:

www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/

²⁸ Durantini, Albarracín, Mitchell, Earl and Gillette (2006) Conceptualizing the influence of social agents of behavior change: A meta-analysis of the effectiveness of HIV-prevention interventionists for different groups. *Psychological Bulletin* 132: 212–248

²⁹ Cialdini (2007) *Influence: The psychology of persuasion*. New York: HarperBusiness, Revised Edition

Could existing measures to address some of these concerns, for example the use by the larger banks of standard scenarios to present unarranged PCA overdraft charges be improved or extended and if so how? Are there other elements of bank charges that should be made easier to understand through the introduction of new, or the enhancement of existing, measures?

N/A

(i) How could it be made easier for customers who lack internet access or IT skills to make price comparisons between providers?

BIT believes that for markets to function well it is important that consumers are able to navigate the products and services on offer easily and quickly. In many cases this suggests a role for some kind of support for consumers, whether that is provision of data or a through a vibrant intermediary market. However it is very important to make sure all consumers are supported, including those without the internet or IT skills to make use of the tools mentioned. In energy markets large energy suppliers are required to print QR codes on bills containing the Midata information which can then be scanned using a QR code reader and used to compare energy tariffs.³⁰ While QR codes do have limitations BIT believes they provide a nice example of how a tool can be designed to be used by people directly but they can also be used by others. For example, someone without access to a QR code reader can take a copy of their energy bill to a friend or family member who can then help them compare tariffs. BIT would suggest the CMA/FCA consider similar approaches for personal current accounts in particular.

Remedy 4 – A PCW for SMEs

Issues for comment 4

BIT does not have strong views on the particular points highlighted by the CMA. BIT has largely focused to date on interventions aiming to change consumer behaviour rather than the behaviour of businesses. We have done some work involving prompting businesses to apply for Government schemes, the approaches we tested seemed to operate in the same way we would expect for individuals so we have no reason to think that the broad principles of behavioural science would not apply to SMEs. It cannot be assumed that the behavioural biases that individuals often exhibit would be the same as for groups of individuals, but there is likely to be considerable overlap, at least for micro businesses. As such we would support the creation of a PCW for SMEs as long as the principles outlined in the result of this document are followed: namely that any PCW allows meaningful, accurate comparisons that can

³⁰ www.uswitch.com/gas-electricity/guides/energy-bills-qr-codes/

be easily used by SMEs to compare and switch BCA. Interventions aiming to change the behaviour of micro businesses would have to be appropriately tailored.

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

Issues for comment – remedy 5

(a) What are the key facets of service quality for consumers and SMEs? Are these likely to differ between subsets of these groups and if so in what way?

BIT does not have a strong view on key components of service quality however we would make the point that the principle of simplification will apply to information about quality in the way it does to many other contexts.³¹ This may mean providing a headline quality rating even if the underlying information is quite complicated will be more useful for consumers. The NCAP safety rating for different cars is a good example of where the results of some quite complicated testing is presented in an easy to understand way to help consumers choose between products.³² It is also important to note that it has been widely demonstrated that presenting information in absolute or relative terms has a significant impact on subsequent decisions.^{33,34} As a result we would say that it is important that information about service quality is given in a way which helps show relative performance across a number of providers to help consumers and SME's choose between banks.

(b) How should performance in respect of these facets be measured? Are these facets currently measured by or for most providers and, where they are, do they employ common or standard measures?

BIT would note that it is important that any measures of quality are comparable across providers and are objective. This might mean that banks are required to start collecting certain feedback metrics to allow comparison, for example the NHS Friends and Family test is designed to be a simple to collect metric which allows easy comparison between different health services.³⁵

(c) Is the demographic and geographic scope of current commercially available satisfaction surveys adequate? Are sample sizes sufficient to adequately reflect

³¹ BIT, 2014, *EAST: Four Simple Ways to Apply Behavioural Insights* Available at:

www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/

³² www.euroncap.com/en/about-euro-ncap/how-to-read-the-stars/

³³ Howard Garland, Stephanie Newport, Effects of absolute and relative sunk costs on the decision to persist with a course of action, *Organizational Behavior and Human Decision Processes*, Volume 48, Issue 1, 1991, Pages 55-69, ISSN 0749-5978,

³⁴ Malenka, D. J., Baron, J. A., Johansen, S., Wahrenberger, J. W., & Ross, J. M. (1993). The framing effect of relative and absolute risk. *Journal of general internal medicine*, 8(10), 543-548.

³⁵ www.nhs.uk/NHSEngland/AboutNHSservices/Pages/nhs-friends-and-family-test.aspx

satisfaction with newer or smaller banks, for example, or in particular parts of the UK?

N/A

(d) How should quality information be disseminated? For example, by providers publishing service quality data on their websites, within communications to customers and/or at branches? To what extent would such requirements overlap or be in conflict with PSD2?

It is of key importance that information about quality should be available to consumers at a point when they will be able to use it. This suggests that quality information should be made available directly to PCWs as well as other websites/sources that consumers are known to use when they are comparing banking products. Customers using the PCW could then not only search by price, but could also filter by satisfaction levels.

In addition BIT would suggest the CMA/FCA consider the best ways to make quality information available directly to consumers. This might include through the prompts suggested in Remedy 1.

(e) In addition, or alternatively, would there be merit in providers' funding and procuring a third party to undertake and disseminate comparative service quality data? What are the relative merits of these different approaches?

N/A

(f) What monitoring and oversight arrangements would be necessary in order to ensure that service quality data provided by banks was accurate, up to date and not misleading? Who should provide this oversight and how should it be funded?

N/A

Remedy 6 – Standardise and simplify BCA opening procedures

Issues for comment – remedy 6

As with Remedy 4 BIT does not have strong views on the particular points raised by the CMA. However we would remind the CMA the importance of making processes easy in order to encourage behaviour change. As such any steps (including the creation of a CDD data pack) which make carrying out a process simpler for consumers or SMEs are to be welcomed. Part of our focus on the need for simplicity is that the easier something is to do not only means individuals are more likely to undertake a behaviour but also that they are more likely to repeat that behaviour. It is fair to assume that, in most cases 'practice makes perfect'. A study on choices

surrounding healthcare provision and insurance show that people make significantly better decisions on only a second attempt.³⁶

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

Issues for comment – remedy 7

(a) Is it practicable to require banks to provide a definitive answer on overdraft applications early on in the account-opening process? Would doing so be likely to extend the length of the process?

N/A

(b) Would a tool such as we describe, while not providing customers with a definitive answer, nonetheless be useful in identifying possible lenders?

The proposed remedy has a number of appealing features in terms of making it easier for consumers to compare products in a more accurate manner. However BIT would highlight a number of behavioural factors which may mean that a tool which gives a likely, but not definitive, indication of a customer's overdraft coverage is less beneficial than hoped. The behavioural literature identifies a phenomenon known as the 'endowment effect' whereby it becomes more painful to give something up once you possess it than to never have it at all.³⁷ Such a tool may 'endow' certain individuals with a certain type of overdraft coverage as an estimate, anchoring them with a certain reference point, but when their actual coverage falls short, it feels like a material loss, and is worse than if they were never given such an estimate at all. In addition commitment bias³⁸ may mean that people stick with the option that initially looked best even when the offer is no longer so attractive. We would also worry about the possibility that banks will make attractive indicative offers to attract consumers but then subsequently add additional fees/worsen terms leading to consumer detriment.³⁹

(c) Are there other approaches to making the application process easier or more transparent for customers who require overdraft facilities?

³⁶ The King's Fund. (2010). Choosing a High Quality Hospital (the Role of Nudges, Scorecard Design, and Information).

³⁷ Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1991). Anomalies: The endowment effect, loss aversion, and status quo bias. *The journal of economic perspectives*, 193-206.

³⁸ Staw, B.M. (1976). Knee-deep in the big muddy: A study of escalating commitment to a chosen course of action. *Organizational Behavior and Human Performance*, 16(1): 27-44.

³⁹ This practice of offering attractive headline offers is widespread in certain markets, including airline ticket prices. Indeed the OFT took action to prevent misleading pricing practices by airlines.

<http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.offt.gov.uk/OFTwork/consumer-enforcement/consumer-enforcement-completed/card-surcharges/>

Improving/extending Midata has the potential to help make the application process easier for those customers requiring overdrafts.

(d) Would partial switching (see remedy 11) lessen the problem by at least permitting customers to retain their existing overdraft facilities in the event that the new provider did not grant them the required facilities? Alternatively, if a customer made a partial switch, would this affect the overdraft facilities available to them?

Partial switching may help reduce the impact of 'fear of regret'⁴⁰ which may prevent those individuals who don't want to switch providers because either a fear of missing payments or a fear of losing their overdraft facilities.

(e) What technical or regulatory obstacles, if any, would arise from this remedy? How could they be overcome?

N/A

Remedy 9 – Require banks to retain and provide ex-customers, on demand, with details of their BCA and PCA transactions over the five years prior to their account closure

Issues for comment – remedy 9

BIT supports this proposal but we would again point out how important it is to pay attention to what steps customers will be required to recover that information. When BIT was involved in developing the Midata programme we were regularly told that the information covered by Midata was already available to consumers through bills and bank statements. While this was technically true it would be extremely difficult and time consuming for a consumer to transform that information into a dataset which would be any use in helping choose between different products. For this remedy to work the key is that the information should be available easily and quickly when required. BIT would suggest a good way to approach this would be to create a central data storage facility and require all banks to provide transaction data in a common format. This information should be provided for free but only be able to be accessed by the consumers/SMEs it relates to.

Remedy 11 – Require all banks to support the partial switching service and to provide an equivalent guarantee to that offered as part of CASS

Issues for comment – remedy 11

There are two behavioural biases which are particularly likely to be at play in terms of current account switching: fear of regret⁴¹ and the endowment effect.⁴² Offering a

⁴⁰ Loomes, G., and Sugden, R. (1982). Regret theory: An alternative theory of rational choice under uncertainty. *The Economic Journal*, 92(4): 805–824.

⁴¹ Loomes, G., and Sugden, R. (1982). Regret theory: An alternative theory of rational choice under uncertainty. *The Economic Journal*, 92(4): 805–824.

partial switching service might be expected to help overcome each of these to some effect.

The PCA and BCA switching package as a whole

Issues for comment

We invite views on the likely effectiveness of this package of measures overall, on additional measures that might be included or if there are particular remedies currently contemplated as part of the package that should be removed or modified.

Overall, BIT thinks the proposals are likely to be effective as long as close attention is paid to the manner in which the recommendations concerning messages/communications are introduced. As might be expected we recommend trialling targeted behaviourally-informed messaging and approaches that are likely to increase consumer engagement, instead of investing in an expensive awareness-raising campaign that is hard to evaluate and may not be effective. The behavioural science literature highlights how the messenger, the framing of a message (e.g. highlighting a social norm or making a loss salient), and the timing of a message or an intervention are key factors that can contribute to the success or the failure of an intervention.⁴³ Prospect theory states that people will be risk-seeking in the domain of losses, while risk-averse in the domain of gains;⁴⁴ therefore, people may be more likely to avoid the risk and uncertainty of switching current accounts when told that they could save money/receive more money, compared to be willing to take the perceived 'risk' of switching in order to avoid a loss. The best way to determine which messages are most effective at increasing engagement is to run a randomised controlled trial, testing different messages against each other, potentially delivered at different times (to test the effectiveness of different 'trigger points') and then tracking actual switching rates for each message at each time.

Remedy 15 – Require banks to provide a loans price and eligibility indicator

Issues for comment – remedy 15

(a) Are there any technical or regulatory obstacles to the adoption of this remedy and, if so, how could they be addressed? How quickly could this measure be implemented?

N/A

(b) To which lending products should the remedy apply?

⁴² Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1991). Anomalies: The endowment effect, loss aversion, and status quo bias. *The journal of economic perspectives*, 193-206.

⁴³ Dolan et al., (2010) Mindspace. Available at: www.instituteforgovernment.org.uk/sites/default/files/publications/MINDSPACE.pdf

⁴⁴ Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 263-291.

N/A

(c) Should the format of such a tool be standardised or should banks be free to develop their own with, for example, certain minimum requirements?

In principle BIT believes that the format of such a tool should be standardised such that SMEs can make meaningful comparisons across banks. Even if there were certain minimum requirements, if the same information is presented in different ways, it increases the friction cost of the search and is less likely to be useful for SMEs making comparisons. It is important that the standardisation remains relevant for potential users of the loans indicator. We would draw the CMA's attention to the current tariff comparison rate (TCR)⁴⁵ in energy markets which tries to allow easy comparison between different standing/unit charges but is not particularly useful because it is so heavily caveated due to the assumptions used in its calculation. Midata and QR codes can help overcome these problems by allowing individuals to provide information about the type of customer they are and allow suppliers to make offers to those customers they want to attract.

(d) How valuable would an 'indicative' offer be to SMEs? Would it be necessary to impose any obligations on providers as to the circumstances in which an indicative offer could be varied or withdrawn if the SME went forward with a loan application?

As set out above in our response to remedy 7(b), BIT would caution against giving 'indicative' offers that turn out to be different from the actual deal SMEs will receive (especially when the actual offer turns out to be worse) because of anchoring and the endowment effect. If there are sufficiently good reasons for varying/withdrawing 'indicative' offers later in the loan process, those conditions should be made clear from the outset (i.e. not in fine print at the bottom of a page).

(e) Should banks also be required to set out, in standard form, the terms on which they are willing to make loans, including arrangements for early repayment?

BIT strongly believes in the power of 'making it easy' and reducing friction costs to prompt action. If there were to be a standard form in which the terms of a loan were set out, which was the same across banks, then it would be easy for SMEs to compare offers and choose the best offer for them. It would also mean that banks would not be able to obfuscate their terms and hide important information in the fine print.

(f) What incentives would SMEs have to use such services? Would it be necessary or desirable to promote them to SMEs and intermediaries and, if so, who should be responsible for doing so and how should this be funded?

⁴⁵ www.ofgem.gov.uk/information-consumers/domestic-consumers/understanding-energy-bills

N/A

(g) What monitoring and enforcement arrangements would be needed for this remedy? Who should be responsible for overseeing it?

N/A